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Investing in a sustainable future

Spirax-Sarco Engineering plc

Annual Report and Accounts 2011

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Spirax Sarco

Watson-Marlow

Highlights of the year

Revenue

£250.1m

+9%

Operating profit

£42.5m

+15%

Operating margin

17.0%

Spirax Sarco Asia Pacific

Highlights of the year

Revenue increased by 12% to £147.1m

Operating profit increased by 10% to £37.8m

Operating margin increased to 25.7%

Revenue

£147.1m

+12%

Operating profit

£37.8m

+10%

Operating margin

25.7%

Spirax Sarco Americas

Highlights of the year

Revenue increased by 7% to £134.4m

Operating profit increased by 13% to £27.4m

Operating margin increased to 20.4%

Revenue

£134.4m

+7%

Operating profit

£27.4m

+13%

Operating margin

20.4%

Watson-Marlow

Highlights of the year

Revenue increased by 15% to £118.4m

Operating profit increased by 12% to £34.4m

Operating margin increased to 29.1%

Revenue

£118.4m

+15%

Operating profit

£34.4m

+12%

Operating margin

29.1%

Introduction

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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Financial highlights

Adjusted*			
Year to 31st December	2011	2010	Change
Revenue	£650.0m	£589.7m	10%
Operating profit	£134.0m	£119.1m	12%
Operating profit %	20.6%	20.2%	
Profit before taxation	£137.2m	£121.6m	13%
Earnings per share	124.8p	109.5p	14%
Dividends per share	49.0p	43.0p	14%
Special dividend		25.0p	

* All profit measures exclude certain non-operational items as defined in note 2 on page 63.

Statutory			
Year to 31st December	2011	2010	Change
Revenue	£650.0m	£589.7m	10%
Operating profit	£129.5m	£121.4m	7%
Profit before taxation	£132.3m	£123.5m	7%
Earnings per share	120.0p	112.5p	7%
Dividends per share	49.0p	43.0p	14%
Special dividend		25.0p	

Revenue

£650.0m

+10%

Operating profit

£134.0m

+12%

Dividend

49.0p

+14%

Chairman's statement

I am pleased to report a good result for 2011, another year of record sales, profit and margin.

Sales increased from £589.7 million to £650.0 million, an increase of over 10%. Organic sales growth was nearly 10%, led by Watson-Marlow and Asia Pacific but with all segments contributing to the strong performance, there was a very small contribution from favourable currency movements and acquisitions.

Operating profit rose by 12% from £119.1 million to £134.0 million, with all segments benefiting from the increased sales. The operating profit margin improved from 20.2% to 20.6%, the tenth consecutive year of improvement. The operating profit margin was 20.8% excluding the impact of the manufacturing reorganisation and disposal gain in Cheltenham.

Net finance income was £1.1 million compared with net finance charges of £0.6 million in 2010, largely due to an improvement in respect of the defined benefit pension schemes. The Group's share of the after-tax profits of Associates reduced from £3.1 million to £2.1 million.

Pre-tax profit increased 13% from £121.6 million to £137.2 million and earnings per share rose by 14% from 109.5p to 124.8p.

The statutory pre-tax profit, after charging the amortisation of acquisition-related intangible assets and acquisition and disposal costs, was £132.3 million. This compares with £123.5 million in 2010, which also included an exceptional revaluation gain in Mexico and the impairment of acquisition-related intangible assets.

The Board is recommending a 14% increase in the final dividend to 34.2p per share payable on 18th May 2012 to shareholders on the register at the close of business on 20th April 2012.

'Dividends were increased by 14%, extending our dividend growth record to 44 years'

Bill Whiteley
Chairman

This, together with the interim dividend of 14.8p per share paid in November 2011, makes a total dividend of 49.0p per share. This represents an increase of 14% on the ordinary dividends of 43.0p per share for 2010, additionally, a special dividend of 25.0p per share in respect of 2010 was paid in July 2011. The cost of the interim and final dividends is £38.1 million, which is covered 2.5 times by earnings.

We continue to operate with a strong balance sheet and finished the year with net cash of £12.3 million.

Tony Scrvin retired from the Board on 31st July 2011. The Board extends its deep gratitude to Tony for his valuable contributions to the Group over 48 years of distinguished service, most recently as Director for the Group's Europe, Middle East and Africa segment. Michael Gibbin, Executive Director for Supply and North America, resigned from the Board in October 2011 and the Board thanks Mike for his contributions.

On behalf of the Chief Executive and other members of the Board, I wish to thank all our employees for their hard work and dedication in achieving the good progress in 2011. It has been a particularly challenging time for our Cheltenham-based employees as we completed the major site consolidation project, and the Board wishes to express its gratitude for the extra effort that has been necessary over the past two years to accomplish this important task.

Corporate governance

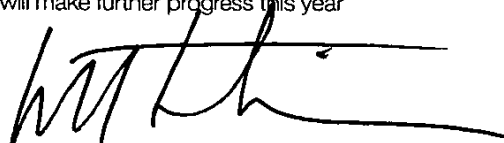
The Board is responsible for the long-term sustainable growth of shareholder value, believing that this goal is closely connected to good governance and the maintenance of the highest ethical standards. The Board supports the principle of greater gender balance and overall diversity both on the Board and amongst senior staff. The important work of the Board Committees is set out in an expanded section in the Annual Report, together with a more comprehensive presentation of the principal risks and uncertainties of the business, all of which I hope you find helpful.

Prospects

The global economy and rates of industrial production growth slowed in the second half of 2011 due in part to the underlying uncertainty created by the European debt crisis. Market conditions for our business broadly reflect changes in global economic activity and, more particularly, movements in industrial production. We see continued challenging market conditions broadly across Europe but opportunities in most of our emerging markets.

Against this backdrop, our robust business model has resilient characteristics that help to insulate the Group's performance against economic headwinds and we have continued to invest in market penetration, geographic expansion and new product development to enhance our mid and long-term growth prospects.

Our fundamental strengths give the Board confidence that the Group will make further progress this year.



Bill Whiteley BSc, FCMA
Chairman

Unless otherwise stated, all profit measures exclude certain non-operational items as defined in note 2 on page 63.

Business overview

Spirax Sarco's world leading steam specialties and niche pump businesses provide our customers with a wide range of engineered solutions for the effective design, maintenance and operation of efficient industrial steam systems and manufacturing processes.

Our business benefits our customers by increasing their process efficiency, generating meaningful energy and water savings, improving end-use product quality and enhancing their ability to comply with increasingly stringent regulatory requirements.

'It is not our products alone that provide value to our customers; it is the application of our extensive knowledge in systems design, operations and maintenance.'

**Mark Vernon
Chief Executive**

Business model

Consistent organic growth

The Group seeks to deliver consistent annual organic sales growth and has a long history of steady, profitable growth with excellent prospects for future growth – organic sales revenues over the past 30 years have increased by more than 9% per annum and total sales growth has averaged about 10% per annum over the period. We have successfully developed a resilient and robust business model and remain focused on the long-term development of our niche businesses through geographic market penetration, new products, acquisitions and widening our range of products and service solutions.

High trading margins

The Group seeks to generate high trading margins. Over the past 20 years, trading margins have ranged between 14% and 18% through many business cycles and in the last two years have climbed above 20%. Operational leverage, productivity, material and labour costs, pricing, product mix and foreign exchange rates are key components of our trading margins. Current management expectations are that margins should be sustainably higher than 20% given normal currency exchange rates.

Customer intimacy

Our business model is anchored on the philosophy of understanding the detail of our customers' processes and the ability to apply properly engineered solutions. We form strong, long-term relationships with our customers who rely increasingly on our expertise to assist them in achieving energy and water savings, process improvement and health, safety and environmental regulatory compliance. We do this through applying our extensive knowledge in proper steam system design and maintenance, temperature control, heat transfer, steam boiler efficiency and niche pumping of hygienic, corrosive or abrasive fluids.

High value-added solutions provider

Over the years, many customers have significantly reduced their maintenance and operations staff and have lost much of their steam systems expertise in plant operations and maintenance. 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, our total solutions approach to problem solving is simply unmatched by any of our competitors.

Diverse revenue streams

We serve a comprehensive range of industrial and commercial markets and therefore are not subject to the spending cycles of a single industry. Our engineered solutions are used in foods, brewing & distilling, dairies, oil refining & petrochemicals, chemicals, pharmaceuticals, textiles, fine chemicals, mining, printing, water & wastewater treatment and many other general process industries. We also supply solutions to hospitals and commercial buildings for sterilisation, space heating, hot water generation and laundering. No single industry represents more than about 10% of sales and no single customer accounts for more than 1% of sales.

High percentage of recurring revenues

A key element of the business model is a high percentage of replacement products and spares. At elevated temperatures and pressures, steam can be quite erosive and no matter how well designed products are, they simply wear out over time. As a result of this and given our large installed base of equipment around the world, about 50% of our revenues are recurring as a result of normal maintenance that is performed to maintain production output and end-use product quality.

Complementary acquisitions

We make complementary bolt-on acquisitions to build our product portfolio, gain access to new customers and markets, introduce new technologies and speed geographic market development. Our acquisitions tend to be smaller in size and easier to integrate. Acquisitions have added about 1% per annum to sales growth over the past two decades.

Business strategies

Direct sales approach with strong technical expertise

It is not our products alone that provide value to our customers it is the application of our extensive knowledge in systems design, operations and maintenance. Our direct sales approach 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 around the world apply our deep applications and systems knowledge, breadth of products and experience in offering the most extensive range of engineered solutions. Our customers 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.

The heart of our business is our ability to improve the operating and energy efficiency of existing steam systems, to increase the throughput of our customers' processes, improve their product quality and assist them in meeting increasingly tough environmental legislation. This demands that our sales and service people are intimate with the operating issues of individual customers' manufacturing plants and facilities.

We train our sales engineers in our 38 training centres located around the world, most of which are equipped with live steam and pumping installations that facilitate hands-on training. These centres are also used to train our customers' technical and maintenance staff. We have developed internet-based tools to improve the technical training of our sales engineers around the world and to speed the process of their development. Additionally, we have implemented information collection and sharing software to improve our ability to diffuse application knowledge and provide a common platform to share application knowledge amongst work groups across our global sales network.

Broad product portfolio

The Group considers its commitment to new product development as critical to its long-term success. Our technically-expert direct sales force allows us to leverage our brands into new products and applications. This increases the amount of plant spend that we can capture in small-scale capital projects and maintenance activities from our extensive customer base.

'Our business model is anchored on the philosophy of understanding the detail of our customers' processes and the ability to apply properly engineered solutions.'

In the last four years, the Group has nearly doubled its R&D investments to accelerate the flow of new products that extends our current range of products and applications and opens new markets. We operate R&D development and test centres at many of our manufacturing plants around the world, although the bulk of the activity is centred in the UK. We recently built a new world class steam technology centre at our Cheltenham location that has significantly increased our testing capability and capacity to much higher steam temperatures, pressures and flow rates.

New products have contributed meaningfully to the organic sales growth. For the steam business, new products in areas such as automatic control valves, pre-fabricated heat transfer and heat 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 has been

progressively widened and developed, making use of improved electronics and tubing materials to broaden the addressable markets. In the past five years, new products at Watson-Marlow also contributed about 20% to the overall organic growth of this business segment.

Strong market presence and higher sales contribution from emerging markets

A large majority of our revenues are derived from annual maintenance and operating expenditure budgets, which requires that we make steady long-term investments in developing our sales people 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. Much of our organic growth is derived from addressing design and maintenance issues of the enormous installed base of industrial steam systems and solving challenging pumping problems.

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 serve our customers through 51 operating companies around the world and we maintain a direct sales presence in over 50 countries. 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.

Performance culture and talent management

People lie at the core of our business and we have high expectations of performance from our people. We have taken steps to upgrade the quality of professional human resource leadership in guiding our progression to a more performance-based work culture throughout the organisation. We invest in our facilities to create a positive work environment that stimulates team building and builds organisational pride.

The culture of the Group is underpinned by our key values of respect, accountability, passion, integrity and delivery. These values encompass the underlying principles upon which the business operates. By understanding and engaging these

'Our strong and resilient business model has been developed and strengthened over many years. Our business benefits from the great diversity of our end user industries and customers, our geographic spread and significant presence in emerging markets, high replacement product content and a large base of industrial steam systems installed around the world that require continual upkeep and improvement. As a result, the Group is able to generate steady revenue growth and consistently high trading margins and good cash flow.'

principles, our employees enjoy a higher standard of working environment and are more involved in the success of the Company. We take care to provide a culture of openness and honesty. The Group is committed to equality of opportunity for all its employees regardless of gender, race, age, disability, religion or sexual orientation. We value our employees for their diverse talents and viewpoints and recognise that developing the skills and abilities of our people is essential to ensure we are able to provide our customers a unique, high standard of expertise, solutions and service.

Regional manufacturing capability

Our major manufacturing plants are strategically located in all key market regions including the United Kingdom, France, Italy, the United States, Brazil, Argentina and China. We also manufacture in Denmark, Germany, the Netherlands, Sweden, Mexico, India and Korea. The Group operates on very short order books and we believe that top-line revenue growth is enhanced through off-the-shelf availability of our wide range of steam system and pump products.

We generally employ demand flow processes in our manufacturing plants. This type of lean manufacturing system is built upon the concept of manufacturing today what was sold yesterday and is centred on providing maximum flexibility and scalability of daily manufacture. We have recently invested over £50 million to expand our manufacturing footprint closer to the point of sale in emerging markets.

Operational excellence

The Group focuses on organisational efficiency, productivity improvements and better management of its balance sheet to generate higher profits and increase cash flows. We operate our manufacturing plants on principles of lean manufacturing and continuous improvement and our people are actively engaged in these activities. Major investments have been made in the past three years to consolidate the European manufacturing footprint of the steam business in order to improve product availability, reduce delivery times, lower manufacturing costs and stocks and simplify supply chain logistics. We take advantage of the rapid improvements in machine tool efficiencies through a regular replacement programme of these sophisticated and complex machine tools that are deemed critical in controlling product quality and delivery.

As nearly one-third of our employees are engaged in customer-facing sales and service activities, effective time utilisation is of paramount importance. We continuously work to develop effective training programmes to accelerate technical knowledge transfer, to share knowledge globally, to automate equipment sizing and selection, to simplify paperwork – all of this in an effort to allow our sales and service people to spend more time directly with our customers.

Infrastructure utilisation

The Group is very international for its size, with trading companies established in 35 countries around the world. The Group acquired its Watson-Marlow peristaltic pump business in 1990 and at that time, the Watson-Marlow business represented about 4% of Group revenues and was based largely in western Europe. The sales growth of Watson-Marlow has been accelerated through the effective use of the steam business infrastructure to economically and quickly develop other important markets. Today, Watson-Marlow represents 18% of Group revenues and good growth prospects remain as less than 20% of its revenues are derived from emerging markets.



Mark Vernon
Chief Executive Officer

Investing in R&D

Research and new product development is critical to our long-term success. Since 2007, we have nearly doubled investments in our R&D activities across the Group. In doing so, we have restructured our product development processes, acquired new tools to simplify product development, significantly increased our live-steam testing capability and added new technical engineering skills in microelectronics, software, materials and advanced sensing technologies – key skills needed for future product developments. Our aim is to increase the flow of innovative new products into our markets, reduce the time to launch and provide value-enhancing features in existing products.

‘We have created a unique steam test capability in our new Steam Technology Centre in Cheltenham, which enables a reduction in product development lead times.’

**Simon Sprackling
Group Research and
Development Manager**

Investing in people

The Group continues to build and manage a performance culture and is committed to investing in people to support sustainable future growth. Over the last several years we have significantly improved succession planning and talent management activities on a global basis – succession plans are reviewed by the Executive twice a year and annually by the Board. Our planning is reinforced by a programme of individual Personal Development Plan discussions designed to identify emerging talent, aspirations and development requirements.

Also, the Group has initiated a leadership academy to support personal development in a more formal setting and to embed the leadership competencies we are striving to build throughout the organisation.

'I enjoy the challenge and opportunity that working in such a large organisation gives me. I am really proud to be part of this Group.'

**Bruno Pregolato Freitas
Application Engineer**

Investing in sales development

The Group has accelerated its development of new markets across the globe and we view technical skills training as critical to our success. Our technical direct sales approach lies at the heart of our customer value proposition. A key element of this is the continued development of new sales people coming into the business and a furthering of skills of our existing sales personnel. We have stepped up our investments in simple online skills training, local classroom and hands-on training and in advanced technologies to better prepare our global network of direct and local sales staff.

B.

Financial

Company's social and environmental

Governance

Future Outlook

'With the largest sales team in the Group, we feel a keen responsibility to grow our business in China and share our ideas and best practice'

**Charles Song
Sales Director China**

Investing in manufacturing

We are demonstrating our commitment to future growth by investing well over £50 million to expand our global manufacturing capability – through the consolidation of sites within the UK and expansion of our capacity and capabilities regionally throughout the world. We firmly believe that local product availability on quick deliveries enhances our opportunities to grow the business and develop closer relationships with our customers. We have major manufacturing plants strategically located in all key market regions including Europe, North America, South America and Asia.

‘Our work teams meet regularly to review process improvements that will result in increased customer satisfaction.’

**Philip Jones
Runnings Road North
Stores Manager**

Business review

We achieved another year of good organic sales growth underpinned by our continued investment in sales development, particularly in emerging markets, and in R&D.

Industrial peristaltic filling machines from Flexicon Liquid Filling, part of the Watson-Marlow Pumps Group.

Current environment

In the early part of 2011, the global economy looked to be returning to a more normal growth pattern as the pace of global industrial production growth moderated following the steep rebound from recession. However, increased uncertainty from the sovereign debt issues in Europe, which escalated through the autumn of 2011, has weighed on the global economy, resulting in slowing industrial production growth, especially in Europe, where a number of economies are now back in recession. In the second half of the year, our markets generally reflected these trends and overall demand growth slowed but with continued relative strength in most of our emerging markets contrasting with difficult market conditions broadly across Europe.

During the year, maintenance spending increased in our developed markets but remains at comparatively low levels, with maintenance spending in many markets not yet recovered from the sharp falls accompanying the 2008-09 recession. Large-scale project orders, although a relatively small percentage of our total revenues, were up significantly from 2010 levels and particularly benefited our Watson-Marlow USA business in the fourth quarter.

Our customers are spread across a wide range of industries and institutions, and market conditions for our businesses tend to reflect the general level of economic activity and, in particular, movements in industrial production. However, we have a resilient business model and we continue to work to create our own opportunities based on increasing customer preferences for our wide range of engineering solutions and to further invest in market penetration, particularly in emerging markets that are expected to exhibit relatively stronger economic growth, and in new product development.

Group operating profit was a record £134.0 million (2010: £119.1 million), an increase of 12%, as we benefited from good operational gearing on the higher sales.

Emerging markets contributed 38% of Group revenues and 47% of operating profit in 2011.

Trading

Group sales increased by over 10% to £650.0 million (2010: £589.7 million). Organic sales growth was nearly 10%, well spread across all segments with a very small contribution from favourable currency movements and acquisitions.

Sales increased by 9% in the Spirax Sarco steam specialties business to £531.6 million and by 8% at constant exchange rates. The full-year benefit from our Mexican business (previously a 49% owned Associate until May 2010) was largely offset by a reduction in sales resulting from two small business disposals. In the steam specialties business, sales were ahead in all three geographic segments and across nearly all product lines as customers increased overall spending on maintenance and small capital improvement projects. We achieved significantly higher sales of flow metering products as a result of a large non-repeating project related to the US Federal Government's energy management programme, and higher sales of energy services. Watson-Marlow Pumps sales grew strongly, rising by 15% to £118.4 million (+15% at constant currency) with all regions contributing well and growth in all product ranges.

Group operating profit was a record £134.0 million (2010: £119.1 million), an increase of 12%, as we benefited from good operational gearing on the higher sales. We increased our investment in the development of emerging markets with additional sales resource and also stepped up our investments in R&D, with a focus on increased innovation and on strategically important growth areas in flow metering, controls, heat transfer, wireless communications and advanced pumping technologies. Material costs for the year rose by more than inflation but were largely offset by our own price increases and continued material cost mitigation actions. The reorganisation of our manufacturing operations in the UK and France took longer than expected to complete and disruption costs of £2.7 million were incurred, mostly in the second half. The results for the year include a net benefit of £1.5 million largely reflecting a gain on disposal of property in Cheltenham. The effects of currency movements on operating profit were overall immaterial. The operating profit margin improved from 20.2% to 20.6%.

Europe, Middle East and Africa (EMEA)

	2011	2010	Change	Constant currency
Revenue	£250.1m	£230.0m	+9%	+7%
Operating profit	£42.5m	£36.8m	+15%	+13%
Operating margin	17.0%	16.0%	+100 bps	+80 bps

Sales

Sales increased by 9% to £250.1 million (2010: £230.0 million) and by 7% at constant currency. Organic sales increased by 8% adjusting for a reduction in sales following the disposal of the Mitech control valve business in South Africa and the M&M solenoid valve distribution business in Spain. Sales growth continued at a similar pace throughout the year, although underlying demand slowed in the second half and second half sales benefited from the shipment of backlog carried forward from the first half.

Our core European businesses in France, Italy, Spain and the UK saw overall slower growth, with low levels of project activity and maintenance spending by customers. Our markets in these countries remain difficult, although we saw higher levels of OEM sales during the year. After an exceptional year in 2010, sales growth in Germany moderated in 2011 and profits were a little lower but we achieved strong growth in Scandinavia, Eastern Europe, the Middle East and Africa. Our emerging markets in EMEA (over 20% of segment sales) performed very well, delivering more than 60% of the profit growth for the segment in 2011.

We have continued to increase sales resources to support future growth, particularly in the Middle East and also in Russia, which had an outstanding year in 2011 and is now one of our largest businesses within EMEA.

We saw a decline in demand in our small, emerging markets in Africa in the second half of the year and a slower rate of growth in our Middle East markets but we see good long-term growth prospects in that part of the world.

Operating profit

Operating profit rose by 15% to £42.5 million (2010: £36.8 million). The good sales growth in most emerging markets in EMEA was reflected in profit improvements in these operations as we benefited from operational gearing on the higher sales.

The profit increase in our core European companies was more muted with a focus on efficiency and cost control, and also reflective of the slower sales growth. The segment results include a one-off benefit of £1.5 million, comprising a gain of £1.7 million on the disposal of property in Cheltenham (net of relocation costs) and a charge of £0.2 million in respect of an inventory write-down on disposal of the Mitech products business in South Africa. The 2010 results included a tangible asset write-down of £1.2 million in respect of the reorganisation of the Mitech business. Shipments increased from our manufacturing operations but profits were lower. The physical reorganisation of our manufacturing plants in Cheltenham, UK and Châtelleraut, France was largely completed by mid-year 2011. However, the new manufacturing layouts and process flow changes took longer than expected to bed down and disruption costs of £2.7 million for sub-contracting and implementation costs were incurred, mostly in the second half.

The operating profit margin in EMEA increased from 16.0% to 17.0%, reflecting an underlying improvement in our sales operations driven by the sales growth and cost control.

Northumbrian Water / UK / Biofuels

Spirax Sarco helps cut Northumbrian Water's energy bill by 10%

Steam systems from Spirax Sarco are playing an essential role in a new green energy project that is set to cut Northumbrian Water's annual energy bill by 10%. 'A reliable supply of high quality steam was a top priority on this project', says Frank Errington, Works Co-Ordination Manager for Northumbrian Water. 'Without steam we couldn't do what we do.'

In addition to hardware, Spirax Sarco also provided both on-site and off-site training, and is still visiting the site regularly as part of an ongoing water treatment and chemical dosing contract. The £33 million advanced anaerobic digestion (AAD) scheme at Bran Sands Teesport converts sewage sludge into energy and is currently the biggest plant of its kind in the UK.

The plant uses thermal hydrolysis – injections of live steam to kill the pathogens in the sludge. Raw sludge is loaded into stainless steel vessels and the steam injected to hold the contents at 165°C and 6 Bar. The sludge is then cooled and fed into concrete tanks, where methane-generating microbes digest it anaerobically. The methane collected is used to fuel gas engines, providing a renewable source of electrical energy.

Following commissioning, the sludge treatment process is entirely self-sufficient and additional power provides electricity to meet half of the wider Bran Sands site's entire energy requirements.

Asia Pacific

	2011	2010	Change	Constant currency
Revenue	£147.1m	£131.5m	+12%	+9%
Operating profit	£37.8m	£34.3m	+10%	+7%
Operating margin	25.7%	26.0%	-30 bps	-50 bps

Sales

Sales increased by 12% to £147.1 million (2010: £131.5 million). Sterling was generally weaker against the regional currencies and at constant currency the sales increase was 9%. Sales growth was widespread, with the exception of Japan and Korea, and good sales growth was achieved in all major product lines, with particularly strong growth in our core product range due to increased project activity. The pace of overall sales growth was lower in the second half of 2011 against a tougher comparable period (+10% in the second half versus +15% in the first half), especially in Korea where, as expected, sales and profits were marginally lower as the exceptional projects in 2010 were not wholly replicated in 2011.

Underlying demand in Asia Pacific has been reasonably consistent through the year, although the floods in Thailand slowed the growth in orders there in the second half and our markets in Japan have not yet recovered from the effects of the devastating earthquake and tsunami early in 2011. Our Chinese business, our largest operation in the region and together with our Watson-Marlow China business now representing 9% of total Group sales, continued to make excellent progress and we had another record year of sales and profits. The factory in Shanghai that opened in June 2010 is performing well and the ramp-up in production was accelerated to support both domestic and regional growth in Southeast Asia. We have continued to invest in additional sales resource in the region to support future growth and expand our geographic presence.

Current market conditions are varied throughout the region but we see broad strength across Southeast Asia and we remain confident about our prospects in China due to our high percentage of sales to industries supporting domestic consumption. Quote logs across the region are healthy.

Operating profit

Operating profit increased 10% to £37.8 million (2010: £34.3 million). Currency movements were favourable in 2011 and at constant currency the rise was 7%, although the underlying profit increase was 13%, excluding the £2.0 million gain in 2010 on the disposal of our former premises in China.

All our businesses, with the exception of Korea, achieved double-digit profit increases. We were especially pleased with the improvement in our small Japanese business under a new management team, against the background of the natural disasters in March and lower year-on-year sales.

The operating profit margin in Asia Pacific declined slightly from 26.0% in 2010 to 25.7%, although there was an underlying improvement and a small currency benefit, offset by the one-off gain adding to the 2010 margin.

Asia / Food and Beverage Flash steam recovery contributes to 30% per meal saving

Flash steam recovery not only solved a serious cosmetic issue for an Asian-based airline caterer, but it also contributed to a wider overhaul that knocked 30% off the company's steam consumption per meal.

An Asian airline caterer supplies some 80,000 meals per day for airlines and other caterers from its factory next to a major airport. Unfortunately, the site was also greeting arriving passengers with a huge plume of steam, released during routine production. This created a poor impression and was completely out of step with the company's ambition to play a full role in its country's five-year green plan to raise environmental standards and reduce emissions.

The company asked us to help install a system that would eliminate the plume of steam and enable recovery of the water and energy being lost.

Installation was challenging as the site operates 24 hours per day and the company needed to shut down the steam supply to almost all of its machines during installation.

The amount of energy per meal has dropped by 30% thanks to the improvements made by Spirax Sarco as the gas consumption fell by 160,000 kilowatt hours per month. That equates to around \$200,000 US dollars. Water consumption also fell by 240 cubic metres per month.

Americas

	2011	2010	Change	Constant currency
Revenue	£134.4m	£125.2m	+7%	+10%
Operating profit	£27.4m	£24.3m	+13%	+17%
Operating margin	20.4%	19.4%	+100 bps	+130 bps

Sales

Sales increased by 7% to £134.4 million (2010: £125.2 million). Overall currency movements were unfavourable, particularly the weaker dollar and Argentinean peso, and sales increased 10% at constant currency. This includes the benefit from the inclusion of our Mexican business, which continues to perform well and which became a full subsidiary from May 2010, and the organic sales growth was 7%.

In North America, growth continued from significantly higher sales of flow metering products and installation services for a large non-repeating project as part of the energy management programme of the US Federal Government, the return of project activity in the oil sands developments of Western Canada and higher energy services sales from a modest recovery in steam system maintenance spending at US refineries. The combined steam specialties and Watson-Marlow businesses in the United States now represent 17% of total Group sales. We see generally stable market conditions in North America with the US economy improving and we remain encouraged by our near-term prospects in Canada due to the resurgence of investment in the oil sands developments in Western Canada.

In Latin America, industrial production growth slowed sharply in the second half, turning negative in Brazil and overall market conditions have become tougher, consistent with the global slowdown. Against a tough comparative year in 2010, underlying sales growth in Latin America was more muted, our Brazilian company did very well to sustain its strong sales and profit performance achieved in 2010 with tight cost controls and higher operating efficiencies. In Argentina, our company increased sales but profit was reduced, reflecting increased costs as inflation remains very high amidst a fragile economic environment.

Operating profit

Operating profit in the Americas increased by 13% to £27.4 million (2010: £24.3 million), driven by the US, although all operations contributed to the profit increase except Argentina. Currency movements were overall unfavourable and increased the landed cost of products imported for sale in the region, at constant currency, operating profit was ahead 17%, including the full-year contribution from Mexico, which accounted for a quarter of this increase. The operating profit margin improved from 19.4% to 20.4%.

Gilead / Canada / Pharmaceuticals Modular heat exchanger solutions cut Gilead's implementation costs

When Gilead Alberta ULC needed an ethylene glycol heating system to service a new air-handling unit, we were able to locally support Gilead in a complete appraisal of the problem and offer a turnkey approach. Using an extensive engineering and application knowledge, we demonstrated our value and provided a compact and efficient solution to deliver energy savings. Having a local team to work with Gilead was critical to ensuring the unit would fit in the restricted space and ultimately define the success of the project.

We provided biopharmaceutical company Gilead with a complete modular heat exchange system centred on the Spirax Sarco

'Quick Heat' technology. We cut purchasing costs while delivering a more efficient and easier to install solution than market alternatives for its HVAC applications. The packaged approach allowed Gilead to fully inspect and test off-site, thus reducing valuable on-site installation and commissioning phases.

A Gilead engineering manager said 'Spirax Sarco's modular heat exchanger systems cut our implementation costs and gave us the compact, high efficiency solution we needed'. And in endorsement of the success of the first installation, Gilead has since placed an order for a third heat exchanger package.

Watson-Marlow Pumps

	2011	2010	Change	Constant currency
Revenue	£118.4m	£103.0m	+15%	+15%
Operating profit	£34.4m	£30.8m	+12%	+15%
Operating margin	29.1%	29.9%	-80 bps	-10 bps

Sales

Sales growth of 15% was achieved, including a very small impact on translation from overall negative currency movements, in particular the US dollar. Growth continued at a strong pace throughout the year (+14% in the second half at constant currency versus +17% in the first half) and was widespread with good sales increases in all operations and across all product lines, including good progress being made in the development of acquisitions made in recent years. Investment in sales resources was significantly increased to fuel future growth and drive our important industry sector-focused sales approach, with direct sales people added in all regions and strongly focused on emerging markets.

In EMEA, there was good growth in tubing, Bredel products and across most industry segments, and we continued to convert recently acquired product lines from distribution to direct sales, positioning ourselves for future growth.

In Asia Pacific, our business in China continued to grow strongly and the prior year acquisitions of the distributorships in Australia and New Zealand performed well. In addition, we established a new direct sales company in India.

In the Americas, the USA saw exceptional project activity in the fourth quarter, Brazil did well in the year and there was good growth from our fledgling operations in Mexico and Argentina.

Market conditions remain relatively robust in the precious metals processing industries and we see continued strength in our biopharmaceuticals markets. However, the US water & wastewater markets are much more challenging due to tightened state and municipal budgets and US construction markets have not yet recovered. We see good prospects for growth in our small but rapidly growing Asian and Latin American markets but see more challenging market conditions in Europe similar to the steam specialties business.

Operating profit

Operating profit grew by 12% to £34.4 million (2010: £30.8 million) and by 15% at constant currency. Investment in R&D was again significantly increased as we further expand the application capability of peristaltic pumps and develop advanced pumping technologies that we expect to launch in 2012. As a result, we continue to progressively widen our addressable markets and see good long-term growth prospects for our business.

The very strong operating profit margin of 29.1% in 2011 declined slightly from 29.9% in 2010, almost all due to unfavourable currency movements.

Wine Innovators / UK / Food and Beverage Flexicon equipment provides effective solution of Wine Innovations

London-based Wine Innovations Ltd, the inventors, founders and pioneers of 'The Tulip' pre-filled wine goblet, are now using peristaltic filling machines from Flexicon Liquid Filling, part of the Watson-Marlow Pumps Group, on its latest filling lines. Having originally used volumetric filling equipment, the company is enjoying an array of benefits from its switch to Flexicon technology.

The initial system could not cope easily with switching between products, a flush-through and steam clean would heat many of the volumetric filler's intricate parts so they became extremely hot. In some instances residue wine can 'bake' on to components and prove difficult to remove. Furthermore, the parts can take three to four hours to cool down before filling can recommence, which is unacceptable from a productivity perspective.

Working with Watson-Marlow, the company decided to acquire Flexicon industrial peristaltic fillers in combination with separate OEM control units. The fillers transport the wine within the tube ensuring no contamination and facilitate easy and rapid product change-over (less than 60 seconds). There is no potential for cross-contamination between batches, hence providing the perfect solution to the problems faced by Wine Innovations.

Financial review

2011 was another good year with record sales and operating profit, and with an improvement in the operating profit margin.

Investment was again significantly increased and total R&D spending (including Capitalised Development costs) rose by 29% to £11.5 million, adding additional design engineers and enhancing the blend of skills.

'Operating profit margin increased for the tenth consecutive year, benefiting from good operational gearing.'

David Meredith
Finance Director

Spirax Sarco uses adjusted figures as key performance measures in addition to those reported under International Financial Reporting Standards (IFRS), as the directors believe that these are more representative of the underlying performance. Adjusted figures are used unless otherwise stated and in 2011 they exclude the amortisation of acquisition-related intangible assets, acquisition and disposal costs, and contingent consideration fair-value adjustments, together with the associated tax effects on these items. Additionally, adjusted figures in 2010 excluded the impairment of acquisition-related intangible assets and the exceptional non-cash revaluation gain in respect of the acquisition of our former Associate company in Mexico.

Sales increased by just over 10% to £650.0 million (2010 £589.7 million) and were well spread across all segments. The full-year benefit to sales of the prior-year acquisition in Mexico was virtually matched by the reduction in sales following the two small business disposals in South Africa and Spain. Movements in exchange rates benefited sales on translation by less than 1%, giving organic sales growth of nearly 10%.

Operating profit grew by 12% to £134.0 million (2010 £119.1 million). The effect of movements in exchange rates, both on translation and transaction, was a small overall gain to operating profit of just £0.2 million, there were modest gains in EMEA and Asia Pacific, largely offset by an exchange impact in the Americas and Watson-Marlow Pumps. Rises in material costs were largely matched by our own price increases and other actions to mitigate costs. 2011 was the third successive year of significant increase in R&D expenditure, with a more modest increase expected in 2012. In the second half of the year we recognised a £1.5 million benefit in the adjusted operating profit comprising a gain of £1.7 million, net of relocation costs, relating to our two former manufacturing sites in Cheltenham, following the reorganisation of manufacturing on to our expanded main site at Runnings Road, and a charge of £0.2 million in respect of an inventory write-down on disposal of the Mitech products business in South Africa. The second half year also included the impact of further disruption costs of approximately £2 million, primarily for subcontracting, relating to the delay in bedding down the new manufacturing layout and process flow changes in Cheltenham and bringing customer service levels back to normal. The full-year impact of this disruption was £2.7 million. The operating profit in 2010 included a gain of £2.0 million on the disposal of our former 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, for a tenth consecutive year, from 20.2% to 20.6% as we benefited from operational gearing, increasing overheads by less than the increase in sales, and despite the impact of the manufacturing reorganisation costs.

Interest

Net finance income was £1.1 million compared with a net finance charge of £0.6 million in 2010. The turnaround was due to the improvement in the net finance position in respect of the Group's defined benefit pension schemes following the increase in scheme asset values in 2010.

Associates

The Group's share of the after-tax profit of our Associate company in India was £2.1 million. This compares with Associates income of £3.1 million in 2010, which also included the results of our Mexican Associate until May 2010 when it became a wholly-owned subsidiary. Sales in India were moderately ahead but profits were down due to increased investment in sales development and manufacturing improvements.

Pre-tax profit

The profit before tax increased by 13% to £137.2 million (2010 £121.6 million). The statutory profit before tax rose by 7% to £132.3 million (2010 £123.5 million) and includes a charge of £4.4 million (2010 £4.0 million) in respect of the amortisation of acquisition-related intangible assets and acquisition and disposal costs of £0.4 million (2010 £0.2 million). In addition, the statutory profit before tax for 2010 also included the exceptional non-cash revaluation gain of £8.2 million in respect of Mexico and an impairment charge of £2.1 million in respect of acquisition-related intangible assets.

Taxation

The tax charge, on the adjusted pre-tax profit, excluding Associates, was lower at 29.8% compared with 31.5% in the previous year due to declining corporate tax rates, a favourable mix of profits, lower withholding tax and the utilisation of capital losses against the gain on disposal of premises in the UK.

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. The adjusted basic earnings per share increased by 14% to 124.8p (2010 109.5p). The statutory basic earnings per share were 120.0p (2010 112.5p). The fully diluted earnings per share were not materially different in either year.

Dividends

The proposed final dividend is increased by 14% to 34.2p per share (2010 30.0p). Together with the interim dividend of 14.8p per share, this gives a total dividend for the year of 49.0p, which represents an increase of 14% over the total ordinary dividends of 43.0p per share in 2010 and extends the very long history of increasing dividends. Over the last 44 years, dividends have increased by a compound 11% per annum. In addition, a special dividend of 25.0p per share was paid in respect of 2010, returning nearly £20 million to shareholders.

Acquisitions and disposals

There were no material acquisitions during the year, although sales benefited by 0.5% from the full year effect of the consolidation of our Mexican operation, which had been an Associate company until May 2010. This benefit was broadly

Over the last 44 years, dividends have increased by a compound 11% per annum.

matched by reduced sales following the disposal in August 2011 of the Mitech products business in South Africa for a nominal sum and in July 2011 of the very small M&M valve distribution business in Spain. Intangible assets of £0.2 million (2010 £11.6 million) and goodwill of £0.1 million (2010 £7.3 million) were recognised during the year.

R&D

Investment was again significantly increased and total R&D spending (including capitalised Development costs) rose by 29% to £11.5 million, adding additional design engineers and enhancing the blend of skills. A new Steam Technology Centre was created in Cheltenham bringing our UK steam R&D resources together on one site for the first time, fostering improvements in communication, teamwork and innovation. New test facilities were also created with three times the capacity and at significantly elevated temperature, pressure and flow capabilities, which we believe are unmatched by similar facilities anywhere in the world. Watson-Marlow's R&D focus was on innovative new pump designs and tubing materials that have the potential to expand our addressable market.

	2011 £000	2010 £000
Capital employed		
Property, plant and equipment	174,648	155,553
Inventories	116,325	96,115
Trade receivables	142,484	137,350
Prepayments and other current assets/ (liabilities)	(80,906)	(90,275)
Capital employed	352,551	298,743
Intangibles and investment in associate	93,530	95,317
Post-retirement benefits	(71,925)	(63,428)
Deferred tax	19,476	21,524
Provisions and long-term payables	(5,781)	(7,024)
Net cash	12,269	34,392
Net assets	400,120	379,524
Return on capital employed		
Operating profit	129,498	121,396
Adjustments	4,462	(2,271)
Adjusted operating profit	133,960	119,125
Average capital employed	325,647	283,290
Return on capital employed	41.1%	42.1%

Capital employed

Total capital employed rose to £353 million, an increase of 20% at constant currency. Investment in fixed assets was a record £43 million as we completed the manufacturing consolidation from three sites on to one expanded site in Cheltenham and accelerated the installation of new production equipment in China, to ramp-up production in our new factory, and in the Americas. Working capital, comprising inventories, debtors and creditors, increased by 27% at constant currency to £178 million. Inventory levels rose by £20 million or 24% at constant currency reflecting the increase in business activity, the creation of buffer stocks in respect of production transfers as part of our regional manufacturing strategy, in particular to China, and also a temporary increase in response to the second half-year delays in bedding down the reorganised manufacturing layout and processes in Cheltenham. Trade debtors increased by 6% at constant currency, which was less than the growth in sales, as we improved our average debtor day ratios. Creditors overall reduced by £7 million or 5% at constant currency due mainly to reduced capital creditors, timing differences and lower bonus accruals. The improving trend over the last five years in the ratio of working capital to sales was interrupted this year by an increase to 27.4%.

Return on capital employed

The return on capital employed declined marginally from 42.1% to 41.1%. The adjusted operating profit was 12% ahead of the prior year but this was broadly matched by an increase of 15% in average capital employed (using the average of opening and closing sterling balance sheets for the year). Capital expenditure is expected to be at a relatively high level in 2012, although below the exceptional level in 2011, as we build the new warehouse in Cheltenham and continue investments in Asia and the Americas in support of our regional manufacturing strategy to deliver a faster, more flexible supply of products to these markets.

Post-retirement benefits

The net post-retirement benefits liability shown on the balance sheet increased from £63.4 million (£45.5 million net of deferred tax) to £71.9 million (£51.6 million net of deferred tax). Asset values reflect a shortfall in the return on assets, partially offset by deficit reduction cash contributions in the year that added to pension scheme assets. Liability values rose reflecting the

Return on capital employed remains at a very good level of 41% despite the high capital expenditure.

reduction in bond yields which pushed up the discounted value of liabilities.

Most of the asset and liability values relate to the UK defined benefit pension schemes that were closed to new entrants in 2001. During the year, the second stage of changes took effect that was started in 2010, to reduce accrual rates or increase member contributions. Also during the year, a dynamic de-risking strategy was implemented for the management of the assets of the main UK pension schemes under which asset and liability values are monitored on a daily basis by the asset manager and appropriate asset allocation decisions taken as the funding level improves against pre-agreed trigger points.

The triennial valuations of the main UK schemes as at 31st December 2010 were completed during the year. These show a deterioration versus the position at the end of 2007 but an improvement on the interim valuation results at the end of 2008 and 2009. The triennial valuation resulted in a continuation of the previously agreed deficit reduction cash contributions of £7.9 million in respect of 2011, but with a shortening of the contribution periods that now progressively reduce this amount in stages to nil by 2018, three years earlier than previously.

Adjusted cash flow	2011 £000	2010 £000
Operating profit	133,960	119,125
Depreciation and amortisation	16,784	16,859
Adjustments (including share plans)	1,764	2,031
Working capital changes	(32,942)	(13,407)
Cash from operations	119,566	124,608
Net interest paid	(333)	(319)
Income taxes paid	(33,433)	(30,362)
Net capital expenditure (including software and development)	(43,395)	(32,868)
Free cash flow	42,405	61,059
Net dividends paid	(52,705)	(27,988)
Post-retirement deficit reduction payments and provisions	(10,915)	(11,415)
Proceeds from issue of shares	4,363	6,215
Acquisitions	(3,387)	(3,526)
Cash flow for the year	(20,239)	24,315
Exchange movements	(1,884)	2,044
Opening net cash	34,392	8,033
Closing net cash at 31st December	12,269	34,392

Cash flow

Free cash flow (before dividends, acquisitions, pensions deficit payments and share capital changes) generated in the year declined from £61.1 million in 2010 to £42.4 million. This reflected, firstly, the exceptionally high level of capital investment in our manufacturing plants to improve customer service, increase efficiency and reduce costs. Net capital expenditure, including capitalised development costs was £43.4 million (2010: £32.9 million). Secondly, this reflected a cash outflow of £32.9 million in respect of working capital, in particular the increased inventory levels as explained earlier, some of which is expected to reverse to the benefit of cash flows in 2012.

Dividend payments were significantly higher at £52.7 million (2010: £28.0 million) reflecting the double-digit increase in the ordinary dividends paid in the year and the special dividend of 25.0p per share in respect of 2010, rewarding shareholders with an additional £19.4 million in dividend payments in July 2011. There was a cash outflow of £7.9 million in pension deficit reduction contributions and £3.4 million in deferred purchase consideration for acquisitions in prior years, which was partly offset by a cash inflow of £4.4 million in respect of shares issued during the year under the Group's various share schemes. There was therefore a cash outflow of £20.2 million for the year. Exchange movements reduced net cash balances on translation by £1.9 million and we finished the year with a net cash balance of £12.3 million (2010: £34.4 million).

Capital structure

Our policy remains to keep a strong balance sheet to protect the business and facilitate all required resources for future expansion whether capital investment, acquisitions or organic growth. Where cash resources exceed expected future requirements, we will generally seek to return excess cash to shareholders. The Group has operating companies in over 30 countries and the Group Treasury function in the UK centrally manages the various treasury and currency issues that arise from our geographically diverse business. We monitor closely compliance with the Group Treasury Policy and typically use simple forward contracts to appropriately manage exposures to known cash flows. The Group's balance sheet can be affected by currency movements, the most significant of which, from both a translation and transaction perspective, are the euro, US dollar,

Dividend payments were significantly higher at £52.7 million.

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.

Principal risks and uncertainties

The Group has in place a robust risk management process to identify, evaluate and manage the identified risks that could impact on the Group's performance. Risks and uncertainties are reviewed at least annually, and additionally, using external consultants every three years, most recently in 2011. A summary of the key risks, their likely impact and the mitigation is set out below. The Risk Management Committee has additionally implemented a locally based review in each company to identify further risks and determine appropriate counter circumstances.

Key risk	Impact	Mitigation
<p>Risk of product failure The Group provides a wide range of products into many different plants and industries many of which are in critical parts of our customers' processes. A risk exists that products are wrongly specified or installed or fail or contain design or manufacturing faults.</p>	<ul style="list-style-type: none"> • Damage to customer relationships • Reduced profit due to increased costs to correct the problems caused at customers' plants • Litigation following product liability claim 	<ul style="list-style-type: none"> • Products designed and tested to international standards and strict quality procedures • Training of sales/installation staff • Appropriate conditions of sale and contractual restrictions on liability • Insurance cover
<p>Loss of manufacturing output at any Group factory The Group manufactures most of the products we sell in nine main factory units which supply our sales operations worldwide. Loss of manufacturing output at any important plant risks serious disruption to sales operations.</p>	<ul style="list-style-type: none"> • Reduced sales and profit due to inability to meet customer orders • Loss of market share • Damage to reputation 	<ul style="list-style-type: none"> • Group manufacturing strategy to regionalise manufacturing base and increase resilience • Business continuity planning and disaster recovery plans • Stocks of components and finished product in sales companies • Regular and comprehensive back-ups of IT systems • Use of insurance audits/inspections and business interruption insurance
<p>Non-compliance with health, safety and environmental legislation The Group places great emphasis on health, safety and environmental issues in relation to our employees and operations and those of our customers, suppliers and communities so as to avoid the risk of a major health, safety or environmental problem.</p>	<ul style="list-style-type: none"> • Damage to reputation • Reduced profit due to fines, compensation and clean-up costs • Enforcement action by regulatory authorities 	<ul style="list-style-type: none"> • Compliance with legislation and codes of best practice • Regular audits and checks and reporting to management and the Board on health, safety and environmental issues • Ongoing training
<p>Failure to respond to technological developments or customer needs The Group has significantly increased R&D resources and risks this being ineffective if we fail to respond to development and customer needs or if we fail to manage and protect our intellectual property.</p>	<ul style="list-style-type: none"> • Failure to achieve expected return on the R&D investment • Reduced profit • Loss of market share • Loss of intellectual property 	<ul style="list-style-type: none"> • Maintain market knowledge and monitor competitor developments, making effective use of our direct field sales force • Maintain investment in R&D programmes • Maintain appropriate intellectual property registrations, taking enforcement action where appropriate

Key risk	Impact	Mitigation
<p>Breach of regulatory requirements The Group operates in a large number of countries across the world and is subject to many different laws and regulations, including the UK Bribery Act, health and safety, competition regulations and local quality regulations with potentially serious consequences for breach of these laws and regulations</p>	<ul style="list-style-type: none"> • Fines and regulatory action and resultant reduced profit • Damage to reputation • Diversion of management time 	<ul style="list-style-type: none"> • Robust internal controls, policies and procedures and Group Management Code • Establish strong ethical culture supported by communication and training • Review of commercial arrangements and regulatory requirements with appropriate professional advice • Maintain local quality accreditations
<p>Defined benefit pension deficit Defined Benefit pension schemes carry risks in relation to investment performance, security of assets longevity and inflation. Total defined benefit pension liabilities represent approximately 50% of total Group assets</p>	<ul style="list-style-type: none"> • Increase in liabilities • Increase in pension costs and cash contributions • Fluctuations in pension fund asset and liability values 	<ul style="list-style-type: none"> • Use of independent professional advisers and custodians for Defined Benefit pension schemes • Pension scheme de-risking strategy to automatically reduce equity exposure and increase matching assets at pre-agreed trigger points
<p>Failure to realise acquisition objectives The Group's strategy is focused on organic growth complemented by bolt-on acquisitions (as explained in the Business Overview on page 5). We risk failing to achieve the expected return on investment if acquisitions are not properly identified, executed and integrated.</p>	<ul style="list-style-type: none"> • Failure to achieve expected return on investment • Assumption of unexpected liabilities 	<ul style="list-style-type: none"> • Evaluation of potential targets against Strategic Plan and acquisition criteria • Project management disciplines • Appropriate due diligence by Group personnel and external advisers covering commercial, legal, accounting and environmental issues
<p>Economic and political instability The Group operates worldwide. Economic and political instability creates risks for our locally based direct operations. The Group has reviewed the country, credit, liquidity and currency risks, and in particular those arising from European debt issues.</p>	<ul style="list-style-type: none"> • Fluctuations in profit from significant currency movements • Reduced profit due to impact on customers from economic problems • Potential redenomination of local currency, devaluation and high inflation 	<ul style="list-style-type: none"> • Compliance with Group Treasury Policy • Strong internal controls with internal audit and appropriate insurance • Resilient business model (as explained in the Business Overview on page 5) • Well spread business – approximately 10% of Group sales originate in the higher risk countries of Greece, Ireland, Italy, Portugal and Spain. Sales in Greece are immaterial.

Corporate social responsibility

The Group takes seriously its corporate social responsibility (CSR) to all of its stakeholders in safeguarding the performance of the business in an environmentally friendly way.

Highlights

- In Mexico we were voted a 'Great Place to Work'
- Progress with employee grading and increased focus on training and development strengthens our performance culture and aids employee recruitment and retention
- Our energy saving products continue to reduce our customers' CO₂ emissions
- Progress made towards achieving ISO 14001 status in more of our operating companies
- Social support provided to benefit local communities
- Factory consolidations and increased local manufacturing reduce environmental impact
- Strengthened policies relating to the 2010 UK Bribery Act and provided increased training

The Group comprises two world-leading niche businesses Spirax Sarco providing steam specialties and Watson-Marlow providing peristaltic and niche pumps. We assist our customers to achieve environmentally friendly solutions for energy savings, process efficiency and plant health, safety and regulatory compliance. Our highly skilled direct sales engineers provide solutions to an extremely wide range of customers, across most industrial sectors, to help address customers' sustainability issues related to energy use, emissions and water usage. We build close working relationships with our customers and are well placed to identify new product development opportunities to save energy, reduce waste and improve product quality.

The Board continues to strongly support and apply CSR principles in conducting the Group's business in a socially acceptable and sustainable way, having regard to all its stakeholders. The Group operates under a detailed Group Management Code (a copy of which is posted on the Group's website), which is regularly reviewed and with which general managers are required to certify compliance. The Board focuses on social, ethical and environmental (SEE) matters and takes very seriously health and safety issues. The Group achieves compliance with the principles and requirements of CSR through the risk management process, such that the necessary policies, procedures and systems are embedded in daily operations. The Group's decentralised structure provides for detailed local management of SEE matters by General Managers in each Company, who report to, and are monitored by, regional management and Divisional Directors.

Women's day centre in India

In India, our Associate company gives priority to improving education and women's health.

The Group demonstrates its commitment to CSR by engaging our employees in specific initiatives and community activities around the world. This section of our Annual Report demonstrates what we are doing to embed CSR into our daily work.

Our people

People are at the heart of our business and we are committed to providing equal opportunities in our employment practices. We uphold the principles of human rights and ensure that all our employees are treated fairly and with integrity, regardless of age, gender, race, disability, religion or sexual orientation. This applies equally to promotion, development and training, and to recruitment of new employees. 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 prohibit the employment of underage staff.

The Group has five 'Core Values' which define the culture of the business and the behaviours we expect of our people. The Core Values have been communicated to all employees and are integrated into our people management activities and daily work. The Core Values are Respect, Accountability, Passion, Integrity and Delivery. They define our desired behaviours and the qualities that all our employees are expected to live and work by.

We are determined to build a performance culture in which people are valued for what they do and the behaviours they exhibit. All our employees deserve the opportunity to achieve their full, individual potential through training and personal development. We ensure that job positions are advertised internally and roles are filled based on skills and abilities. We continue to invest in the development of important technical and commercial skills of our sales people – we have appointed a global training director to lead our new Knowledge Sustainability programme.

One of the advantages of being a multi-national employer with over 4,700 employees in more than 50 different countries is that our employees bring very diverse, local perspectives to the business. The Group benefits by having a more expansive view of its growth opportunities and requirements to be successful.

'Over 4,700 employees in more than 50 different countries.'

To support our performance culture and ensure consistency of our approach to compensation, in 2011 we completed a comprehensive review of local compensation practices and benchmarked industry compensation norms. With the support of an external consultant, we evaluated most of our job positions and developed a grading structure to match equivalent external roles worldwide. This provides our employees with a clear structure for career progression and enables our executive team to more easily consider geographic employment relocations that benefit the development of the employee and the business.

We are concerned for the health and wellbeing of all our employees. As an example, our US operating company has led the way in encouraging employees to take their health and safety more seriously and have organised 5km walks and sponsored runs, in which about 200 employees have taken part with their families.

Talent, learning and development

Developing our employees and helping them to achieve their maximum potential is critical to our success and to the productivity and happiness of our employees. This is why we encourage and support all employees to pursue their education and complete academic coursework in order to obtain higher, relevant professional qualifications.

Our Brazilian company launched a graduate trainee programme in the autumn of 2010. Nineteen graduate engineers were hired for a 6-month training programme aimed at bringing into the business the calibre of people and skills required to further develop our Brazilian business. The graduate engineers went through a rigorous selection process for the programme and were selected from more than 3,000 applicants amongst Brazil's top universities. Because this programme was such a success, we have decided to launch a similar programme in the UK in 2012.

At Watson-Marlow UK, 23 employees attended the BIT NVO programme to learn important skills in order to work more independently and to identify further opportunities for their own personal development.

We want to ensure that the best people join our Company but we also have an obligation to our existing employees in helping them learn new skills and preparing them to assume increasing responsibility. The launch of the Sprax Sarco Leadership Academy, in association with the Ashridge Business School in the UK, will take our future leaders through a challenging programme as part of their individual development.

Mexico – 'Great place to work'

In 2011, our Mexican company was for the third year in a row, awarded the title of a 'Great Place to Work' by the global Great Place to Work Institute. This award backs up our long-standing reputation in Mexico. The Great Place to Work survey ranks companies on credibility, respect, fairness, pride and camaraderie – the Mexican competition included employee surveys from more than 500 companies.

Health and safety management

Health and safety is fundamental to the overall success of the organisation, especially in our manufacturing operations and must be our number one priority. Each of our major manufacturing operations has a Health and Safety Committee, advised by a safety officer, and a programme is in place for appropriate employee training. We have developed policies that carefully outline our expectations to employee health and personal safety and we expect all visitors to abide by the same rules and policies. General managers provide regular reports in a process controlled by Neil Daws, Executive Director Asia Pacific and Supply, who has been given overall responsibility for health, safety and environmental matters for the Group.

'We constantly seek ways to improve our health and safety performance; we review our policies regularly and ensure our local health and safety teams update their procedures appropriately.'

Environment

The Group is cognisant of its impact on the environment in conducting its business around the world and in the manufacture of our products. We are committed to reducing our overall carbon footprint, conserving water in our manufacturing processes and reducing the amount of per unit energy consumption. In short, we are committed to managing and improving our environmental impact at all our sites.

Environmental achievements

Since 2008, the Group has reported its carbon footprint to the Carbon Disclosure Project in the UK. In 2011, we were awarded a carbon disclosure index of 65 demonstrating a year-on-year improvement. The chart below shows a breakdown of our Scope 1 and Scope 2 carbon emissions.

We have continued to assess how much our energy-saving products reduce customers' CO₂ emissions. Our calculations use externally-verified methodology and indicate customer savings of four million tonnes in 2011. This is significantly greater than the amount of CO₂ we generate in the manufacture of our products.

Our US operating company has implemented a system to measure water consumption, which resulted in a 10% decrease in consumption.

At Watson-Marlow's main manufacturing plant in Falmouth, UK, we invested in voltage optimisation equipment that reduced power consumption by 17%.

Unity Project – UK manufacturing consolidation

As we consolidated our UK steam business manufacturing to one site, we investigated ways of harnessing the latest technology to make our Cheltenham site more environmentally friendly. Some of the initiatives we implemented included a water-harvesting facility that collects rainwater for recycling in our Energy Technology Centre, increasing the thickness of the factory roof insulation above recommended standards to save additional energy, and increasing the number of roof skylights, raising the amount of natural light and reducing lighting costs.

Environmental improvements at Runnings Road

Newly insulated roof at Runnings Road saves energy and reduces lighting costs.

ISO 14001 accreditation

ISO 14001 is a well-established environmental management system and one we are progressively adopting throughout the Group. About 60% of our manufacturing output now comes from operations with an ISO 14001 management system in place. Our companies in Korea and Mexico joined seven other company operations in 2011 in being awarded ISO 14001 accreditation. We prefer working with suppliers who have obtained ISO 14001 accreditation and this forms part of our supplier approval process.

Recycling

We are working to reduce our manufacturing waste and recycle as much as possible. Our Cheltenham manufacturing site recycled 94% of all its waste in 2011.

Local responsibility

As a worldwide business, we work in local communities all over the world. We have nine main manufacturing plants located on nearly every continent and continue to implement our global manufacturing strategy that is increasing the amount of local manufacture. A big benefit of this strategy is that we are able to streamline transportation logistics in our supply chain, in turn lowering the impacts on the environment from manufacturing our products. In 2011, we completed the consolidation of three Cheltenham manufacturing sites onto a single site, thereby reducing local vehicle traffic and the transport of components from one site to another. In the nearly £30 million of construction and renovation projects, we guided our outside contractors and suppliers to use local companies and subcontractors wherever possible.

We have a wide range of customers and suppliers. We generally source key raw materials from at least two separate suppliers to reduce the risk of disruption in our supply chain. We have developed comprehensive supplier selection criteria around the world and only work with suppliers that can adhere to our quality standards, ethical business practices and that follow our principles regarding health and safety. Suppliers must consistently achieve the standards required by ISO 9001.

Communities

Our contribution to local communities is not just about providing jobs and contributing to the local economy. We know it is important to give something back, so our long-established Group Charitable Trust donated £132,400 in support of registered charities and other worthy causes. We encourage our local operating companies to support local charities and organise their own activities.

During 2011, the Group Charitable Trust donated to the relief efforts following the devastating Japanese earthquake and tsunami and to the Australian Flood Appeal. In Japan, our staff assisted in the relief efforts following the tsunami. In Queensland, Australia, we also provided the use of our vehicle fleet to a member of our team involved with the State Emergency Team to help in the rescue effort.

In India, our Associate company gives priority to improving education and women's health. One of our initiatives teaches English and life skills to children at three after-school centres.

In the UK, we support The National Star College, a Cheltenham-based charity whose mission is to 'enable people with disabilities to realise their potential through a personalised learning, transition and lifestyle service'.

London to Paris bike ride in aid of the National Star College

'In July 2011 a team of ten cyclists from Spirax Sarco completed a challenging ride from London to Paris in just three days. They trained extremely hard for the occasion and worked tirelessly to fundraise for National Star College. In total they raised more than £15,000 and completed the ride in one of the fastest times the tour group has seen. The money from their efforts is being used to improve facilities for disabled students at National Star College and is hugely appreciated.'

Laura Brookes Fundraising Partnerships Manager

Spirax Sarco stand at the Cheltenham Science Festival

Our research engineers developed a highly successful and interactive stand.

Four world-class arts and science festivals are held throughout the year in Cheltenham, England, the site of our worldwide headquarters. We are delighted to be actively involved in the promotion of science to all ages through our sponsorship of the Science Festival, which encourages people to view science as fun. It also provides young people with more information about career opportunities in engineering. In 2011, our research engineers developed a hugely successful 'Learning Zone' experiment to teach children about how steam is used in today's technologically advanced world. We are already planning another interactive stand for 2012.

In September 2011, we hosted an Open Day in Cheltenham, where more than 900 current and retired employees saw first-hand how our refurbished sites will help us achieve our growth targets. Employees from one part of the business could see the investments made in other parts of the business. It also allowed employees to share our progress and commitment with their families.

Anti-bribery

The Group is absolutely clear that we do not permit bribery and corruption. This has long been included in the Group's Management Code, which we review annually and is issued to all subsidiaries and business units worldwide. With the introduction of the 2010 UK Bribery Act, the Group has strengthened its Management Code and has issued additional guidance to all personnel. The guidance is available on our intranet in 15 different languages and is accessible to all employees. We provided detailed local briefings to management teams and made a further presentation on the subject to our senior leadership team at a conference. Our operating companies have written to all distributors and agents worldwide to make clear our policy on anti-bribery and corruption. We have strengthened and expanded our internal audit process to confirm compliance with the policy. We have also made compliance with the Bribery Act a standalone risk in the Group's risk management programme and require our business leaders to report regularly on compliance. We are developing further briefings and training on these issues and will roll them out in 2012.

Board of directors

Chairman's introduction to governance

The Board is responsible for long-term delivery of sustainable growth for the shareholders. To achieve this good governance is key and we are very fortunate to have Non-Executive Directors with both wide industry and international experience who are able to contribute effectively to the management of the Group.

Bill Whiteley BSc, FCMA (63)
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. He has been awarded an honorary Doctorate of Engineering at the University of Bath.

Mark E Vernon BSc (Hons) (59)
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. In May 2011 Mr Vernon joined the Senior plc Board as Non-Executive Director. 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.

David Meredith FCMA (52)
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. 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.

Gareth Bullock MA (58)
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, having retired from the Board of Standard Chartered plc in 2010 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.

Krishnamurthy Rajagopal FEng, CEng, FIET, FIMechE, FIE, FCMI, PhD (58)
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 e2v technologies plc. He also serves as Chairman of UMI³ 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 Operations Director. Dr Rajagopal was later appointed Managing Director of the Vacuum Technology Division prior to being named Chief Executive of BOC Edwards in 1998 and Executive Director of the BOC Group plc in 2000. He retired from BOC Group plc in 2006.

Neil Daws CEng, FIMechE (49)
Executive Director Asia Pacific and Supply

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 in 2003 and is now responsible for Asia Pacific and Supply, including the Company's Supply operations in the UK and France, together with the Group's health, safety and environmental matters.

Clive Watson B Comm (Acc), ACA, CTA (54)
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.

Directors' report

The Directors are pleased to present their Report and the audited accounts for the year ended 31st December 2011

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

At the heart of the Group's robust and resilient business model is our worldwide direct selling approach. Working directly with customers, our sales engineers apply our application and systems knowledge, breadth of products and services, experience and global presence to enable the Group to offer the most extensive range of engineered solutions that generate cost savings and process improvements. The business benefits from the great diversity of our end user industries and customers, geographic spread and significant exposure to emerging markets, the high level of replacement content in our revenue stream and a large base of industrial steam systems installed around the world that need continual upkeep and improvement.

The 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, stentility and efficiency as a heat transfer fluid. Spirax Sarco's engineered solutions are

used in a wide variety of process industries including foods, beverages and brewing, pharmaceuticals, oil and petrochemicals, fine chemicals, mining and metals processing, plastics and textiles. The Group also provides a wide range of products, engineered packages and services for space heating, humidification, sterilisation, steam and hot water generation for hospitals, public buildings, academic institutions and commercial buildings.

The Watson-Marlow business is the world's leading specialist and largest manufacturer of peristaltic pumps, the fastest-growing pump type, and other niche pumps. Peristaltic pumps are ideal for difficult pumping applications for hygienic, abrasive or corrosive fluids that must be pumped safely, accurately and without contamination in applications ranging from high purity biopharmaceuticals to wastewater treatment to precious metals processing.

A more detailed description of the Group's activities is set out on pages 8 to 21.

Business Review and Financial Review

On pages 16 to 27 you will find a review of the development and performance of the Group during the year including details of its financial performance, key performance indicators and a description of the principal risks and uncertainties facing the business.

Results

The Group's results for the year have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union. They are explained in the Chairman's Statement on page 3 and the Business Review and Financial Review on pages 16 to 27 and are also set out in the Group Income Statement which is to be found on page 55.

Dividend

An interim cash dividend of 14.8p per share (2010: 13.0p) was paid to shareholders in November 2011. The Directors are now recommending the payment of a final dividend of 34.2p per share (2010: 30.0p) which, if approved at the Annual General Meeting, will be paid on 18th May 2012 to shareholders on the Register of Members on 20th April 2012. The total distribution for the year will thus be 49.0p per share (2010: 43.0p).

Special dividend

The Directors also recommended the payment of a special final dividend of 25.0p per share in respect of 2010 which was approved at the Annual General Meeting in May 2011 and was paid on 8th July 2011 to shareholders on the Register of Members on 10th June 2011.

Corporate governance

The Board's assessment of corporate governance is set out on pages 36 to 42 and all information contained in that assessment is to be treated as having been incorporated into this Report.

Directors

Biographical details of the Directors who served throughout the year are set out on pages 32 and 33. In addition, Mr A J Scrvin was an Executive Director until 31st July 2011 when he retired and Mr M E Gibbin was an Executive Director until 19th October 2011 when he resigned from the Board.

In accordance with the UK Corporate Governance Code all the Directors will retire and, being eligible, will offer themselves for re-election at the Annual General Meeting. Mr M E Vernon, Mr N H Daws and Mr D J Meredith each have a service contract which is 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.

The Directors' interests in the shares of the Company at 7th March 2012 are set out in the Directors' Remuneration Report on pages 43 to 51.

Employment policies

Details of the Group's employment policies are set out on pages 28 to 31. 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 Annual General Meeting of the Company is to be held on Tuesday 15th May 2012 at Charlton House, Cheltenham and the Notice of Meeting and an explanation of the resolutions to be put to the Meeting are set out in the enclosed Circular.

Share capital

As at 30th March 2011 there were no treasury shares held by the Company. Details of shares issued during the year are set out in note 24 on page 75.

As at 31st December 2011 the Company's share capital was made up of Ordinary shares which each carry one vote at General Meetings of the Company. Except as set out in the Articles of Association or in applicable legislation there are no restrictions on the transfer of shares in the Company.

and there are no restrictions on the voting rights in the Company's shares

Corporate governance continued

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 a party to any significant agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid

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

Subject to the provisions of the Company's Articles of Association, the Directors may exercise all the powers of the Company. No purchases of shares were made by the Company during the year and therefore, as at 31st December 2011, the number of shares which may be purchased in accordance with the authority given by shareholders at the 2011 Annual General Meeting was 7,718,059 and the total number of shares in issue was 77,674,152

Major shareholdings

As at 31st December 2011 the Company had received notice of material interests in 3% or more of the issued share capital of the Company as follows

	As at 31 12 11	
	Number of Ordinary shares	% of issued share capital
BlackRock Investment Management (UK) Ltd	12,370,013	15.93
Schroder Investment Management Ltd	5,312,710	6.84
Sprucegrove Investment Management Ltd	3,777,499	4.86
Baillie Gifford & Co	3,555,900	4.58
Legal & General Investment Management	2,388,538	3.07

Between 31st December 2011 and 29th February 2012, the Company had received notice of material interests in 3% or more of the issued share capital of the Company as follows

	As at date	Number of Ordinary shares	% of issued share capital
BlackRock Investment Management (UK) Ltd	20 02 12	12,487,706	16.07
Schroder Investment Management Ltd	29 02 12	5,254,074	6.76
Sprucegrove Investment Management Ltd	31 12 11	3,777,499	4.86
Baillie Gifford & Co	29 02 12	3,251,151	4.18
Legal & General Investment Management	29 02 12	2,409,389	3.10

Financial instrument risk

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 88 to 93

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 view of this, the Group does not follow any particular prescribed code on the payment of suppliers

The Company had no trade creditors as at 31st December 2011 and consequently creditor days have not been presented in the Report

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 2011 on research and development (R&D) amounted to £11,453,000 (2010 £8,909,000), of which £2,727,000 (2010 £1,795,000) is capitalised, as explained in note 1 on page 60. During the year the Group has continued to increase its R&D capability in the separate R&D function based in Cheltenham. This function is tasked with improving the Group's pipeline of new products, decreasing the time to launch, expanding the Group's addressable market and realising additional sales

Fixed assets

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 2011 by approximately £12,000,000 (2010 £12,000,000)

Donations

During the year, the Spirax-Sarco Group Charitable Trust made charitable donations amounting to £132,400 divided amongst 58 organisations (2010 £111,500)

There were no political donations made in the year or the prior year

Disclosure of information to auditor

As at the date of this Annual Report, as far as each Director is aware, there is no relevant audit information of which the Company's auditor is 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 auditor is aware of that information. For these purposes, relevant audit information means information needed by the Company's auditor in connection with preparing their report set out on page 53

Auditor

A resolution to reappoint KPMG Audit Plc as the Company's auditor 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 42

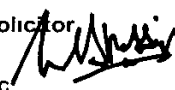
By order of the Board

W G Stebbings

Company Secretary and Solicitor

7th March 2012

Spirax-Sarco Engineering plc
Registered no 596337



Corporate governance

Introduction

Corporate governance has always been, and remains, the responsibility of the whole Board which is committed to the principle of good governance. The Board aims for best practice since this will enable the Board to discharge its obligation to promote the success of the Company for the benefit of the shareholders and other stakeholders in the Company.

Compliance

As required by the Listing Rules of the Financial Services Authority this Report explains how the Company applies the principles and complies with the provisions of the Financial Reporting Council UK Corporate Governance Code (the Governance Code) published in June 2010 which applied to the Company throughout the year ended 31st December 2011.

Subject to the ratio of Executive and Non-Executive Directors (which is explained below) the Board is of the opinion that the Company met the requirements of the Governance Code throughout the year under review. The Board reviews, on an ongoing basis, its practices so as to ensure compliance with the Governance Code and responsibility for day to day compliance is, where appropriate, delegated to individual Directors or officers of the Company.

The Board maintains contact with major shareholders to ensure that there are opportunities for discussion of the Company's governance policies and strategy. Three major shareholders availed themselves of the opportunity to meet the Chairman during the year.

Disclosures required under DTR 7.2.6 can be found on pages 34 and 35.

The Board of Directors

During the year the Board comprised the Chairman, three independent Non-Executive Directors and between three and five Executive Directors. Current Directors' details are set out on pages 32 and 33. The positions of Chairman, Chief Executive and Senior Independent Director were held by separate individuals and there is a clear division of responsibility between the Chairman and the Chief Executive.

For the period from 1st January 2011 to 31st July 2011, the Company did not comply with Governance Code provision B.1.2 as the number of Executive Directors exceeded the number of independent Non-Executive Directors. From 31st July 2011 until 19th October 2011 there were equal numbers of Executive Directors and independent Non-Executive Directors and from 19th October 2011 there have been more independent Non-Executive Directors than Executive Directors. The Board is responsible for the Group's business operations and the Executive Directors are present on the Board in order to provide first-hand information and contributions to the running of the business. The Group has a 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 independent Non-Executive Directors with regular direct access to the Executive management team. The divisional structure will be retained with Regional General Managers providing

support to Executive Directors in each of the divisions.

The Board met eight times during the year, the majority of the meetings were held at the Company's head office in Cheltenham, with one meeting being held in the USA (to coincide with a visit to Spirax Sarco Inc.) and one meeting being held at the Company's premises at Runnings Road in Cheltenham so as to allow the Directors to visit the newly reorganised manufacturing facilities and the new Technology Centre. There was regular contact outside the formal meetings between the Chairman, the Chief Executive and the other Directors.

All Directors are expected to attend all Board meetings and relevant Committee meetings unless prevented by other prior commitments or illness. Directors unable to attend specific Board or Committee meetings are sent the relevant papers in advance of the meetings and asked to provide comments in advance of the meetings to the Chairman of the Board or Committee as appropriate. In addition, all Board or Committee members receive copies of the minutes of meetings as a matter of course.

The following table identifies the attendance of individual Directors at the eight Board meetings held in 2011.

	Attendance
W H Whiteley	8
M E Vernon	8
G Bullock	7
N H Daws	8
M E Gibbin ¹	5
D J Meredith	8
K Rajagopal	8
A J Scrvin ²	4
C G Watson	8

¹ Mr M E Gibbin resigned from the Board on 19th October 2011.

² Mr A J Scrvin retired from the Board on 31st July 2011.

Chairman's commitments

The Chairman's other significant commitments are set out in his biography on page 33. During the year the Chairman retired from his position as Chairman of the British Valve and Actuator Association.

Senior Independent Director

Throughout the year, Mr G Bullock was the Senior Independent Director.

Re-election of Directors

Although the Company's Articles of Association require that all Directors appointed to the Board other than at an Annual General Meeting of the Company are required to offer themselves for re-election at the next following Annual General Meeting and thereafter at three yearly intervals, the Board resolved in 2010 that, in order to comply with the provisions of the Governance Code, all Directors should stand annually for re-election by the shareholders at the Annual General Meeting.

Corporate governance continued

Appointment of Directors

The Board and the Nomination Committee (the Committee) are responsible for the selection and appointment of new Directors to the Board and a formal and rigorous process is followed during the selection and appointment of Directors, including the use of external consultants to advise the Committee in arriving at nominations for appointment to the Board

The recommendations of the 'Women on Boards' report produced by Lord Davies of Abersoch have been carefully considered by the Board and a statement on the Board's position on the issue was made available on the Group's website www.SpiraxSarcoEngineering.com in September 2011 and a copy was sent to Cranfield University who are assisting Lord Davies in his work

It is the Board's considered view that its overriding duty to the Company and the shareholders is to appoint the best possible candidates to the Board regardless of gender, race or disability

However, in making recommendations for appointment to the Board, the Committee recognises the need to access the widest pool of candidates for consideration and the Committee will therefore ensure that any consultants engaged by the Committee to assist it in finding suitable candidates will be required to observe the recommendations of Lord Davies

Conflicts

Under the Companies Act 2006 and the provisions of the Company's Articles of Association, the Board is required to consider potential conflicts of interest. 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. To this end the Board considers and, if appropriate, authorises any conflicts, or potential conflicts, of interest as they arise and reviews any such authorisation annually. New Directors are required to declare any conflict, or potential conflict, of interest to the Board at the first Board meeting after his or her appointment. The Board believes that the procedures established to deal with conflicts of interest are operating effectively.

Board procedures

The Board continuously assesses and reviews key priorities and business issues for the Company and its operating companies over the short and longer term. Detailed papers are submitted to the Board, together with the agenda for meetings, a week in advance of each meeting. At each scheduled meeting of the Board (except the meeting held in June of each year) the Board considers key issues affecting the Company and its performance. This includes reports from the Chief Executive and the Group Finance Director. The Board meeting held in June of each year is a two day meeting and is held for the purpose of considering the Group's business strategy and goals and assessing progress against these goals. This meeting is normally held at one of the operating companies' sites so as to allow the full Board the opportunity to visit operations around the world.

The Board deals with those matters reserved to it for decision, details of which are posted on the Group's website, and include the following matters

(i) Accounts and audit Approval and acceptance 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
- Any proposed audit qualification of the accounts
- The Audit Committee's recommendations for appointment or removal of the external auditor

(ii) Strategic and policy considerations Review and/or approval of

- 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
- 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
- Appointment of, or changes to, principal professional advisers
- Environmental policy
- Health and safety policy
- Any matter which could reasonably be expected to have a material effect on the reputation or standing of the Group

(iii) Risk management

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

(iv) Transactions Approval of the following

- 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 operating companies
- 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
- 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 and Board succession issues
- 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

Agreement to

- 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

Board evaluation

The Board recognises the value of a formal process whereby there is a comprehensive and honest assessment of the Board's performance. Accordingly the Board undertakes

a formal evaluation of its performance each year using a methodology devised by Towers Watson

The 2011 review adopted the same format as that used in 2010 in order to allow a constant basis for measuring the outputs of the evaluation. The review concluded that the Board continues to perform well. In particular, the following points were noted

- The Board continues to have increased exposure to various departments in the Group and the objective of Directors to have Board meetings at locations around the Group continues to be met
- The performance of the Chairman and the Chairmen of Board Committees continues to be highly rated

In accordance with the provisions of the Governance Code, the Board intends that Board evaluations will be externally facilitated at least every three years

Board training and development

All new Directors appointed to the Board receive a comprehensive induction to the Company and its business, including

- A detailed briefing pack from the Company Secretary including copies of the Company's Articles of Association, the terms of reference of the Board and Board Committees and details of the Group's risk management process
- Briefings on key areas of the business and its products and services
- Visits to key sites to enable the new Director to familiarise himself/herself with the business
- The provision of formal training on the duties of a public company director from a recognised external training provider (such as the Institute of Directors)

The Directors have full access to the advice and services of the Company Secretary and, if necessary, the Directors may seek independent legal advice at the Company's expense in respect of their duties

The Directors receive regular presentations from heads of departments and senior members of staff so as to enhance and deepen the Directors' understanding of the business. In addition, it is the Board's intention for at least one Board meeting each year to be held at a location outside of Cheltenham so as to increase the exposure of the Directors to different operations within the business. During the year the Directors have also received briefings on the UK Bribery Act

The Company provides Directors' and Officers' insurance for Board members, directors of the Group's operating companies and senior officers of the Company

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, Mr M E Vernon and Mr D J Meredith. As required by major shareholders, Mr G Bullock, the Senior

Corporate governance continued

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

During the year, the Directors have conducted briefings with major shareholders and analysts, including visits to North America and Europe. The Company also hosts visits from shareholders and analysts and a well attended Investor Day was held in Cheltenham in September 2011

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

Board Committees

The Board delegates specific responsibility in carrying out some of its functions to Board Committees in accordance with terms of reference set by the Board. Currently these Committees are the Audit, Nomination, Remuneration and Risk Management Committees. The detailed terms of reference for each of these Committees are set out on the Group's website and a summary of these terms of reference is set out below in the reports of the Committees' work during the year

(i) Audit Committee

'The Group aims to maintain high standards of corporate governance and reporting and the Committee has worked hard to support this'

Clive Watson, Chairman, Audit Committee

During the year under review, the members of the Committee and the attendance at the three meetings of the Committee were as follows

	Attendance
C G Watson (Chairman)	3
G Bullock	3
K Rajagopal	3

All the above are adjudged to be independent Non-Executive Directors. In addition, Mr W H Whiteley and Mr D J Meredith attend meetings of the Committee in order to assist with its deliberations. The Company Secretary is the

Secretary to the Committee

In accordance with the Governance Code, Mr C G Watson is identified as having recent and relevant financial experience

The key responsibility of the Committee is to review the effectiveness of the Company's financial reporting and controls. Accordingly the Committee is authorised by the Board to

- Monitor and review the integrity and the audit of the Company's financial statements
- Review the Company's internal financial controls
- Monitor and review the work and effectiveness of the Company's internal audit function
- Oversee the Company's relationship with its external auditor including reviewing their independence

During the year the Committee received detailed reports from senior management and KPMG Audit plc as the Company's external auditor. In particular the Committee considered audit strategy and fees, received various updates on tax and internal audit and reviewed the interim and year-end financial statements and press release. The Committee also met privately with the external auditor in the absence of management. KPMG Audit plc has been the external auditor of the Group since the 1950s. The Committee makes a recommendation, through the Board, to shareholders for the appointment, reappointment or removal of the external auditor. There are no contractual restrictions on the Group's choice of external auditor.

The Committee requires operating companies to complete a quality of service questionnaire annually which enables the Committee to assess the performance of the auditor.

After due consideration, the Committee has recommended to the Board that a resolution to reappoint KPMG Audit plc be proposed at the 2012 Annual General Meeting and the Board has approved this recommendation.

The Committee, with the approval of the Board, has put in place policies that restrict the types and the amount of non-audit work that can be carried out by the external auditor. The Committee is provided with a report of all non-audit work carried out by the external auditor and a full breakdown of fees related to non-audit work. A summary of these fees is contained in note 6 on page 65. These policies, restrictions and reporting requirements allow the Committee to ensure that auditor objectivity and independence is maintained.

In accordance with the International Standard on Auditing (UK and Ireland) 260 and the Ethical Statement issued by the Accounting Practices Board, the external auditor has confirmed, in writing to the Directors, its independence as auditor of the Company.

(ii) Nomination Committee

'The Committee is actively considering the issues of Board diversity as well as continuing to progress robust succession plans'

Bill Whiteley, Chairman, Nomination Committee

A majority of the Committee's membership is comprised of independent Non-Executive Directors, and its members, together with their attendance at the four meetings held during the year, were

	Attendance
W H Whiteley (Chairman)	4
G Bullock	4
K Rajagopal	3
M E Vernon	4
C G Watson	3

The Company Secretary is the Secretary to the Committee

The primary responsibilities of the Committee are to

- Make appropriate recommendations to the Board for the appointment, reappointment or replacement of Directors
- Keep under review the structure and composition of the Board and to recommend any proposed changes to the Board
- Consider succession planning arrangements for Directors

In making recommendations for appointments to the Board, the Committee has regard to the overall balance of the skills, knowledge and experience of Board members against the current and perceived future requirements of the Company and to the benefits of diversity, including gender

During the year under review the Committee considered

- The overall management succession strategy for the Group and its operating companies
- A review of the senior management structure of the Group
- The composition of the Board of Directors in relation to both gender diversity and background experience. The Committee is actively committed to seeking female representation on the Board
- The Committee has also discussed the need to better prepare female managers for more senior roles in the Group and to ensure that female candidates are considered for senior level recruitments into the Group (recognising with concern the relative shortage of qualified female senior managers in the industrial engineering industry)
- The reappointment of Dr K Rajagopal as an independent Non-Executive Director upon the expiry of his current appointment on 9th February 2012

With regard to Dr K Rajagopal's reappointment, the Chairman and the Committee confirmed that, following formal performance evaluation, Dr K Rajagopal's performance continues to be effective and to demonstrate commitment to the role. As this was a reappointment of an existing independent Non-Executive Director, no external search consultancy or open advertising was used

(iii) Remuneration Committee

A detailed report on the membership and the work of the Committee is included in the Directors' Remuneration Report on pages 43 to 51

Corporate governance continued

(iv) Risk Management Committee

'At the start of 2011 the Committee completed its formal review of the Group Register of Risks and began to implement an additional 'bottom up' review process to strengthen the Group's risk management process'

Mark Vernon, Chairman, Risk Management Committee

The Committee's membership, and attendance at the three meetings held during the year, was as follows

	Attendance
M E Vernon (Chairman)	3
N H Daws	2
D J Meredith	3
W G Stebbings	3
N J Anderson (from 1st September 2011)	1
A Grandi (from 12th December 2011)	1
A J Scrivin (from 1st January to 31st July 2011)	2
M E Gibbin (from 1st January to 19th October 2011)	2

The Committee completed the review of the Group's Register of Risks which began, with the assistance of Willis the Group's insurance broker, in 2010 when a meeting was held with Willis and the Risk Management Committee, at which a number of the Non-Executive Directors participated, to review the then current Register of Risks. As a result of this review a new Register of Risks was established in February 2011 and now forms the basis of the Group's management and review of risks and informs the content of the risk returns which are sent to all Group operating companies. The Group's Register of Risks sets out the risks to which the Committee believes the Group may be exposed and the principal risks are set out on pages 26 and 27 in the Financial Review.

The Company Secretary is responsible for sending a questionnaire to each Group operating company twice per year (at the half year and full year end) which requires assurance from the General Manager of the relevant operating company that each operating company has effectively implemented all material controls, including financial, operational and compliance controls required by the Committee, and is taking appropriate steps to guard against the risks identified by the Committee. Each General Manager is required to explain what steps have been taken to guard against or mitigate the risks. The output from these questionnaires is then reviewed by the Committee and the results reported to the Board. Any issues arising from the replies to the questionnaires are followed up by the appropriate Director or the Company Secretary to ensure any necessary corrective action is taken.

The Committee also decided that, with effect from 1st January 2012, operating companies would additionally be required to complete a 'bottom up' risk review so as to allow operating companies to consider in detail any separate risks to which each operating company might be subject and what steps they propose to take to eliminate or mitigate such risks.

In addition, the Risk Management questionnaires are utilised to follow up outstanding actions from internal audit reports so as to ensure that issues identified by internal audits are closed off in an appropriate manner.

Financial controls

The Finance Committee 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 from time to time by the Board

The Committee comprises

- Mr W H Whiteley (Chairman)
- Mr M E Vernon
- Mr D J Meredith

Financial reporting systems include comprehensive annual plans approved by the Board and monthly notifying of actual financial results with appropriate comparisons made against plan and the 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

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 Governance 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).

All Group operating 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.

Whistleblowing

If any employee in the Group has reasonable grounds for believing that the Group Management Code or any Group Policies are 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 or Group HR Director in Cheltenham with full details. The Company Secretary or Group HR Director will ensure that (a) the circumstances are properly investigated and (b) the employment of the person contacting the Company Secretary or Group HR Director will be protected appropriately.

Internal audit

The Board has an established internal audit function which allows each of the Group operating companies to be audited at least every three years and those judged to be in higher risk territories will be audited more frequently. 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 operating 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 16 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 16 to 27. In addition note 32 on pages 88 to 93 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 2012 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 52.

Directors' remuneration report

'We continue to support remuneration practices which fairly reward all our people, not just for meeting near-term business and financial targets but also for strengthening the Group's long-term leadership position in both the steam and the peristaltic pumps businesses'

Gareth Bullock, Chairman, Remuneration Committee

This Report sets out the Company's policy on executive remuneration and includes information on the remuneration of the Directors during the year ended 31st December 2011

The Remuneration Committee (the Committee) is established by the Board and operates under terms of reference agreed by the Board, these can be found on the Group's website

The Committee is responsible for making recommendations, on behalf of the Board, as to the Company's remuneration policy, the employment conditions and remuneration (salary and benefits) of the Executive Directors and the fees for the Chairman. The Committee also determines and administers the grant of awards under the Performance Share Plan (PSP) and the grant of options to senior employees under the Group's shares option schemes

The Committee's Report will be presented at the forthcoming Annual General Meeting of the Company for approval by the shareholders. This Report explains how the Company has applied those principles of the UK Corporate Governance Code (the Governance Code) that relate

to Directors' remuneration during the year under review. No Director is involved in, or votes on, any matter relating to his own remuneration.

Throughout the year the members of the Committee and their attendance at the five meetings were

	Attendance
G Bullock (Chairman)	4
K Rajagopal	5
C G Watson	5

Each of the above is an independent Non-Executive Director and thus brings independence to all consideration of all aspects of Board remuneration and the application of professional advice to matters relating to remuneration.

In addition, during 2011 the Committee sought advice and information from Mr W H Whiteley, the Chairman, Mr M E Vernon, the Group Chief Executive, the Group HR Director and Towers Watson. None of the invitees participated in any discussions regarding their own remuneration. The Company Secretary acts as Secretary to the Committee.

How the Directors' remuneration is arrived at
The Company's remuneration policy is designed to

- Provide a strong alignment between the achievement of strategic objectives and the delivery of value to shareholders
- Ensure that Directors' remuneration packages allow the Group to attract and retain Directors of the calibre required to meet the Group's strategic objectives both in the long and the short-term
- Provide material performance-related rewards through the use of the annual bonus scheme and the Group's PSP

Executive Directors' remuneration

When setting the remuneration of Executive Directors, the Committee considers such information as economic factors, remuneration trends and the general level of salary increases awarded throughout the Group.

The remuneration package

The Executive Directors' remuneration package comprises

- A basic salary arrived at after taking advice from Towers Watson using published information from comparable public companies, base salaries are reviewed annually with effect from 1st January taking into account the experience, responsibility and performance of the individual Executive Director, the overall performance of the Group and the planned salary increases for the broader employee population
- Benefits in the form of a Company car scheme or car allowance, pension benefits, life assurance and private health insurance schemes in which the Executive Directors are entitled to participate, the benefits are reviewed annually to ensure that they remain competitive with comparable benefits provided by other similar public companies
- Eligibility to participate in the Company's PSP and Employee Share Ownership Plan (ESOP)
- Eligibility to participate in a non-pensionable annual bonus scheme for the Executive Directors which is calculated as a percentage of salary. In 2011, the maximum potential bonus was set at 100% of salary as in previous years

Directors' remuneration report continued

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
- (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 was made up as follows

- (i) A component of up to 65% of salary, split so that up to 35% of salary was paid based on Group operating profit and up to 30% of salary was paid based on divisional profit performance
- (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 these formulae for 2011 resulted in a bonus equal to 80.08% of salary being payable to Mr M E Vernon and Mr D J Meredith and 74.01% of salary being payable to Mr N H Daws. The auditor confirmed the calculations were made in line with the rules of the bonus scheme.

Executive Directors' bonus (Short-term)		Long-term incentive plan	
Group operating profit	Divisional operating profit	ROCE	TSR & EPS growth
M E Vernon, D J Meredith Up to 65% of salary		M E Vernon, D J Meredith, N H Daws Up to 35% of salary	Wealth generated for shareholders
N H Daws Up to 35% of salary	N H Daws Up to 30% of salary		Measures quality of revenue and cost management

For 2012, the Committee plans to base the bonus for Executive Directors on the same measures with the same relative weight as in 2011 and the maximum bonus payable will remain a sum equal to 100% of base salary.

The Executive Directors' basic salaries for 2011 and the basic salaries to be paid with effect from 1st January 2012 are as follows:

	2011 salary £000	2012 salary £000	Percentage increase
M E Vernon	470	490	4.3%
D J Meredith	287	298	3.8%
N H Daws	250	274	9.6%

The Committee concluded that Mr N H Daws' salary should be increased by 9.6% to take account of the fact that his responsibilities changed during the year when he became responsible for the UK and French Supply operations, in addition to the Asia Pacific business, and relinquished responsibility for the Latin American business. The UK and French Supply operations are considerably larger than the Latin American business and the revised salary is felt to be appropriate for the increased scope of the role.

In addition, Mr M E Vernon received a salary of £25,333 from Senior plc in relation to his role as a Non-Executive Director.

The Committee has offered each of the 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 has been calculated by Towers Watson so that 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 either of the Executive Directors in any such scheme.

Share options

Historically, the Company operated a number of share option schemes, administered by the Committee, for making grants of options to Executive Directors and senior managers. The intention of the schemes was to align the longer term interests of the participants with those of the shareholders by giving the participants an incentive linked to shareholder value.

Following the introduction of the PSP in 2005, Executive Directors were granted awards under that Plan rather than being granted share options, although share options continued to be granted to senior managers around the Group.

The share option schemes expired on 25th April 2011 and, going forward, no further grants of options will be made. The Committee intends that all future awards of contingent shares, both for Executive Directors and senior management, will be made under the PSP.

Apart from a share option award made to Mr M E Gibbin in 2008, which has vested, in accordance with the rules of the schemes under which the award was made, there are no interests to disclose in relation to any of the other Executive Directors.

The share option granted to Mr M E Gibbin on 12th March 2008 under both the Spirax-Sarco Engineering Approved Share Option Scheme (as to 3,128 shares) and the Spirax-Sarco Global Share Option Scheme (as to 2,872 shares), required the Earnings Per Share (EPS) of the Company to increase by 9% more than the increase in the UK Retail Price Index (UK RPI) over the period of three years from 1st January 2008.

The auditor has confirmed that the performance condition was met and accordingly the option vested on 12th March 2011 and is shown on page 48

The Committee reviews the performance conditions annually

Performance share plan (PSP)

The PSP for Executive Directors and senior management was adopted at the 2005 Annual General Meeting. Currently awards under the PSP have only been made to Executive Directors but, going forward, it is intended that awards will be made both to Executive Directors and senior management.

Award year	Weight	Performance test
2008	60%	Company's Total Shareholder Return (TSR) relative to the TSR of other companies included in the FTSE All-Share Industrial Engineering Index
	40%	Aggregate EPS growth relative to EPS in the year prior to that in which the award was made
2009	60%	Company's TSR relative to the TSR of companies in a bespoke group of 27 companies within the FTSE 350 Industrial Goods and Services Supersector
	40%	Aggregate EPS growth as for 2008
2010	60%	TSR measure as for 2009
	40%	Aggregate EPS growth as for 2008
2011	60%	TSR measure as for 2010 (peer group reduced by 1 to 26 due to a comparator company delisting)
	40%	Compound annual growth in EPS relative to the RPI

In respect of TSR performance, for full vesting the Company's TSR must be at or above the upper quartile, with 25% of 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 basis between median and upper quartile performance.

In respect of EPS performance, for awards made between 2008 and 2010, for full vesting the aggregate EPS over the three-year period must have increased at or above 11% per annum, with 25% vesting for aggregate EPS increasing at 5% per annum. Awards vest on a straight-line basis between compound annual growth of 5% and 11%.

For awards made in 2011, in respect of EPS performance, for full vesting the compound annual growth in EPS must be at or above the increase in the UK RPI plus 9% over the three-year period with 25% vesting for compound annual growth in EPS of an increase in the UK RPI plus 3% over the three-year period. Awards vest on a straight-line basis between these targets.

In respect of awards made in 2008, the Company's TSR ranked second out of 14 companies, and EPS growth was 74% resulting in 100% of the award vesting.

TSR calculations are performed by Towers Watson and the Committee considers that the method of assessment is appropriate to confirm compliance with the condition. The auditor confirms whether the EPS performance condition has been met and, again, this method of assessment is considered appropriate in order to confirm compliance with the condition.

Directors' remuneration report continued

Total shareholder return

The performance graph illustrated shows the Company's total cumulative shareholder return for the five-year period ended 31st December 2011 compared with the total cumulative shareholder return for the FTSE 350 Industrial Goods and Services Supersector. This comparison is selected as being the most appropriate sector for the Company's operations.

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

Participation in the ESOP is open to all eligible UK employees and all the Executive Directors, with the exception of

Mr M E Vernon, participate in the ESOP. Details are set out on page 50.

No employee's entitlement under the ESOP is subject to performance conditions as the aim of the ESOP 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 Executive 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 anticipates 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 any 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 a spouse) will be considered as part of an Executive Director's shareholding.

However, 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 Non-Executive Directors to hold any shares in the Company.

Pensions

Mr N H Daws and Mr D J Meredith are members of an HM Revenue & Customs (HMRC) registered, contributory defined benefit pension scheme based on 1/60th of pensionable salary for each year of pensionable service to 31st March 2011. With effect from 1st April 2011 Mr N H Daws and Mr D J Meredith are building up benefits at a lower rate of 1/80th accrual without having to make contributions. 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.

A lump sum death-in-service benefit of four times pensionable salary is also provided for Mr N H Daws and Mr D J Meredith and spouses' pensions are payable where death occurs in service or in retirement.

Mr A J Scrvin was a member of an HMRC registered, contributory defined benefit pension scheme with an accrual rate of 1/60th until his retirement on 31st July 2011.

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 51. 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 Vernon's normal retirement age is 65.

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 was also provided for Mr M E Gibbin. Mr M E Gibbin had a normal retirement age of 65.

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 PSP. Non-Executive Directors' appointments are non-pensionable.

Service contracts

The Committee applies a policy on Executive Directors' contracts reflecting established practice and reviews the content from time-to-time on professional advice and taking account of corporate governance best practice. 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 ¹	17 04 09	12 months
D J Meredith	30 12 92	12 months
A J Scrvin ²	15 03 05	12 months

¹ Mr M E Gibbin resigned from the Board on 19th October 2011. Mr M E Gibbin received compensation of £500,000 made up of £387,656 in lieu of his notice period and £112,344 as compensation for loss of office. In addition, Mr M E Gibbin received the sum of £500 as consideration for entering into a restrictive covenant with the Company and the Company paid a £1,000 contribution to legal fees incurred by Mr M E Gibbin in connection with his departure arrangements. The Company also agreed to pay £13,000 in respect of tax and outplacement advice.

² Mr A J Scrvin retired from the Board on 31st July 2011. No compensation for loss of office was made on his retirement.

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

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 12 months' basic salary and all benefits to be received during the notice period. Any rights to pensions would be dealt with under the rules of the pension scheme applicable to the Executive Director and any rights under the Company's share plans would be dealt with in accordance with the rules of each scheme.

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.

Executive Directors' contracts do not include provisions under which post-termination earnings are offset against termination payments.

Directors' remuneration report continued

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

The Committee is currently reviewing the Executive Directors' service contracts with a view to addressing mitigation, discretion as to bonus in any termination payment and a claw-back provision

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 reappointment 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	15 12 11	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

Audited information

The auditor is required to report on the information contained in the remaining sections of the Report, with the exception of the Directors' interests

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	
				2011 Total £	2010 Total £
W H Whiteley ²	140,000	–	–	140,000	125,000
M E Vernon	470,000	1,859	376,376	848,235	874,615
N H Daws	250,000	2,308	185,025	437,333	483,913
M E Gibbin ³	183,333	2,829	–	186,162	411,180
D J Meredith	287,000	7,349	229,830	524,179	549,554
A J Scrvin ⁴	142,917	967	114,121	258,005	476,305
G Bullock ²	54,000	–	–	54,000	52,000
K Rajagopal ²	43,500	–	–	43,500	42,000
C G Watson ²	52,000	–	–	52,000	50,000
	1,622,750	15,312	905,352	2,543,414	3,064,567

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 M E Vernon, Mr N H Daws, Mr M E Gibbin and Mr A J Scrvin received a cash allowance of £21,000, £15,000, £12,500 and £8,750 respectively in lieu of a Company car for 2011. Mr D J Meredith received a cash allowance of £11,250 in lieu of a Company car with effect from 1st April 2011. Mr D J Meredith purchased a motor car from the Company at the then current market value of £11,400.

Mr M E Gibbin and Mr A J Scrvin received a cash allowance of £13,750 and £20,417 respectively in lieu of pension contributions.

² Non-Executive Director

³ Emoluments to 31st October 2011, being the date of resignation from the Company. Details of the compensation provided to Mr M E Gibbin are shown on page 46.

⁴ Emoluments to 31st July 2011. No compensation for loss of office was made on Mr A J Scrvin's retirement.

Directors' interests

The interests of the Directors in the share capital of Spirax-Sarco Engineering plc as at 31st December 2011 are set out below

	Ordinary shares of 25p each		
	01 01 11	31 12 11 (or date of resignation/ retirement if earlier ^{2 3})	07 03 12 ¹
W H Whiteley	11,884	11,884	11,884
M E Vernon	57,478	78,316	102,692
N H Daws	14,988	26,238	39,528
M E Gibbin ²	9,377	9,566	–
D J Meredith	52,895	53,143	68,291
A J Scrvin ³	40,428	43,803	–
G Bullock	1,250	1,250	1,250
K Rajagopal	1,000	2,000	2,000
C G Watson	1,000	2,125	2,125

¹ The increase in the Executive Directors' shareholding is as a result of the vesting of the 2009 award under the PSP

² Ordinary shares as at 19th October 2011

³ Ordinary shares as at 31st July 2011

Long-term incentives

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

The interests of Executive Directors are set out below

	01 01 11 No ¹	Exercised in year No	31 12 11 No	Exercise price per share pence ²	Date from which exercisable ³	Normal expiry date ³
M E Gibbin ⁴	6,000	0	6,000	959 0	12 03 11	12 03 18
	6,000	0	6,000			

There are no interests to disclose in relation to Mr M E Vernon, Mr N H Daws, Mr D J Meredith or Mr A J Scrvin

¹ The options were granted to Mr M E Gibbin prior to his appointment to the Board

² This is the exercise price for the Ordinary shares under option at 31st December 2011. The exercise price shown is lower than the mid-market price of the Company's Ordinary shares on 31st December 2011

³ This is the range of dates between which the option may be exercised

⁴ Following his resignation, but in accordance with the rules of the option schemes, Mr M E Gibbin exercised 6,000 options on 9th January 2012 at 959 0p each realising a gain of £55,860. The mid-market price of the shares on 9th January 2012 was 1890 0p. The exercise of the option was subject to the satisfaction of an EPS performance condition, details of which are set out on page 44

No options were granted to Executive Directors during the year and no options held by Executive Directors lapsed during the year

The mid-market price of the Ordinary shares on 31st December 2011 was 1873 0p. During the period from 1st January 2011 to 31st December 2011 the Ordinary mid-market share price ranged between 1649 0p and 2063 0p

Directors' remuneration report continued

(ii) Performance share plan

The interests of Executive Directors are set out below

	Date of award			Total awards as at 01 01 11	Vested 04 03 11 ¹	Awarded 18 03 11 ⁴	Total awards as at 31 12 11 (or date of resignation/retirement if earlier ⁵)
	12 03 08 ¹	11 03 09 ²	26 03 10 ³				
M E Vernon	36,757	41,176	31,332	109,265	36,757	25,093	97,601
N H Daws	22,627	22,450	17,086	62,163	22,627	13,347	52,883
M E Gibbin ⁵	0	16,482	15,007	31,489	0	11,745	43,234
D J Meredith	26,068	25,588	19,472	71,128	26,068	15,323	60,383
A J Scrvin ⁵	22,627	22,450	17,086	62,163	22,627	13,080	52,616

¹ The mid-market price of the shares on 12th March 2008 was 994 5p. 100% of the awards vested as the performance conditions applicable to those awards were met, namely that the EPS performance of the Company was above the maximum target and the TSR performance of the Company during the period 1st January 2008 to 31st December 2010 placed the Company within the upper quartile of the TSR performance of the companies in the FTSE All-Share Industrial Engineering Index over the performance period. The awards vested on 4th March 2011 and the mid-market price of the shares on that date was 1895 9p.

² 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.

³ The mid-market price of the shares on 26th March 2010 was 1390 0p. The period over which performance conditions are measured is 1st January 2010 to 31st December 2012.

⁴ The average mid-market price of the shares on 17th March 2011 was 1873 0p. This was applied in determining the number of shares subject to the awards granted on 18th March 2011. The period over which performance conditions are measured is 1st January 2011 to 31st December 2013. The performance conditions are described on page 45.

⁵ Mr M E Gibbin resigned from the Board on 19th October 2011. Details of the awards which vested are set out below. The awards vested on 31st October 2011 and the mid-market price of the shares on that date was 1918 0p. Mr M E Gibbin requested that the awards be satisfied in cash. A share price of 1934 0p was used to calculate the cash payment of £283,659.78. Higher rate tax and National Insurance were deducted prior to payment being made to Mr M E Gibbin.

Mr A J Scrvin retired from the Board on 31st July 2011. Details of the awards which vested are set out below. The awards vested on 30th August 2011 and the mid-market price of the shares on that date was 1798 0p. The award dated 18th March 2011 did not vest as Mr A J Scrvin's retirement date was less than six months from the date of award. Mr A J Scrvin requested that the awards be satisfied in shares. Mr A J Scrvin sold sufficient shares to cover the basic rate tax and National Insurance liability and retained the remaining 12,416 shares.

	Date of award	Award	Vesting of TSR element	Vesting of EPS element	Reduced performance period (months)	Total award vested	No of shares vested	Total no of shares vested	Cash election %	Shares election %	No of shares sold
Mr M E Gibbin	11 03 09	16,482	0 0%	Full	34/36	40 0%	6,227}				
	26 03 10	15,007	63 0%	Full	22/36	77 8%	7,135}				
	18 03 11	11,745	0 0%	Full	10/36	40 0%	1,305}	14,667	100	0	0
Mr A J Scrvin	11 03 09	22,450	19 2%	Full	31/36	59 2%	11,445}				
	26 03 10	17,086	30 0%	Full	19/36	70 0%	6,312}	17,757	0	100	5,341

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

The Company operates the ESOP 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. Individual Executive Directors are able to purchase a maximum of £1,500 worth of Partnership shares per annum in accordance with HMRC rules. The trustee of the ESOP provides a Matching share for each Partnership share purchased under the ESOP on behalf of the Executive 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 11	Partnership shares purchased ¹	Matching shares awarded ¹	Dividend shares awarded ²	Interest at 31 12 11 (or date of resignation/ retirement if earlier ^{4,5})	Period of qualifying conditions ³
N H Daws	5,248	87	87	74	5,496	3 years
M E Gibbin ⁴	631	86	86	17	820	3 years
D J Meredith	5,248	87	87	74	5,496	3 years
A J Scrvin ⁵	2,356	0	0	64	2,420	3 years

¹ Partnership shares were purchased, at a price of 1734 333p, and Matching shares were awarded on 7th October 2011. The mid-market price of the shares on that date was 1810 0p.

² A total of 192 Dividend shares were awarded on 2nd June 2011, on which date the mid-market price of the shares was 1999 0p, and a total of 37 Dividend shares were awarded on 8th July 2011, on which date the mid-market price of the shares was 2022 0p. No Dividend shares were awarded on 11th November 2011.

³ Partnership shares are not subject to qualifying conditions. In accordance with the rules of the ESOP, Matching shares and Dividend shares were released to Mr A J Scrvin following his retirement. In accordance with the rules of the ESOP, Matching shares and Dividend shares were released to Mr M E Gibbin, however 230 Matching shares were forfeited following Mr M E Gibbin's resignation. No other Matching shares or Dividend shares were released from the ESOP or forfeited during the year.

⁴ The mid-market price of the shares on 19th October 2011 was 1771 0p being the date of Mr M E Gibbin's resignation from the Board.

⁵ The mid-market price of the shares on 29th July 2011 and 1st August 2011 was 1877 0p and 1866 0p respectively. Mr A J Scrvin having retired on 31st July 2011.

Directors' pensions

The Executive Directors, other than Mr M E Vernon, 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. 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 11	Old Pension- able Salary	New Pension- able Salary	Accrued pension at 31 12 10 £pa	Accrued pension at 31 12 11 £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 10 £	Transfer value of accrued pension at 31 12 11 £	Change in total transfer value £
N H Daws	49	233,400	250,000	110,544	122,365	11,821	6,498	102,000	1,398,000	1,853,000	455,000
D J Meredith	52	266,000	287,000	117,577	131,204	13,627	7,964	142,000	1,680,000	2,284,000	604,000
A J Scrvin ^{2,4}	64	233,400	-	158,518	83,158	(75,360)	(82,994)	(1,942,000)	2,874,000	1,759,000	(1,115,000)
A J Scrvin ^{3,4}	64	233,400	-	158,518	161,472	2,954	(4,681)	(110,000)	2,874,000	3,415,000	541,000

¹ Net of inflation at a rate of 4.8% per annum.

² Net of pension sharing order.

³ Gross of pension sharing order.

⁴ Mr A J Scrvin retired on 31st July 2011 and is now receiving pension payments.

The following is additional information relating to the Executive Directors' defined benefit pensions:

(i) Dependant's pension

On the death of an Executive Director in service, a spouse's pension equal to one-half of the Executive Director's pension based on pensionable service to the date of death is payable. On the death of an Executive Director after payment of the pension commences, a spouse's pension of one-half of the Executive Director's pension entitlement at the date of death, ignoring commutation and any early retirement actuarial reduction, is payable, in addition the Executive Director's

Directors' remuneration report continued

pension

is guaranteed to be paid for five years from retirement

(ii) Early retirement rights

After leaving the service of the Company, an Executive Director has the right to draw his accrued pension at any time after his 60th birthday with no reduction

(iii) Pension increases

Pensions are subject to annual increases in line with the annual rise in the Retail Price 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 11	Accrued pension at 31 12 10 £pa	Accrued pension at 31 12 11 £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 10 £	Transfer value of accrued pension at 31 12 11 £	Change in total transfer value £
M E Vernon	58	14,779	17,282	2,503	1,931	15,678	112,870	140,315	27,445

¹ Net of inflation at a rate of 3.9% 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 £107,357

Signed by

G Bullock
Chairman of Remuneration Committee
on behalf of the Board
7th March 2012



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 Group's website www.SpiraxSarcoEngineering.com. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

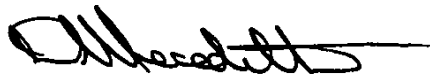
Responsibility statement

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 by

D J Meredith
Finance Director
on behalf of the Board
7th March 2012



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 2011 set out on pages 54 to 93. 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 52, 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 website 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 2011 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
- 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
- Information given in the Corporate Governance Statement set out on pages 36 to 42 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 42, in relation to going concern,
- The part of the Corporate Governance Statement on pages 36 to 42 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code published in June 2010 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

7th March 2012



Balance sheets
at 31st December 2011

	notes	The Group		Parent Company	
		2011 £000	2010 £000	2011 £000	2010 £000
Assets					
Non-current assets					
Property, plant and equipment	12	174,648	155,553	–	–
Goodwill	13	45,347	43,985	–	–
Other intangible assets	13	39,903	42,097	–	–
Prepayments		148	76	–	–
Loans to subsidiaries	14	–	–	74,156	31,151
Investment in subsidiaries	15	–	–	47,889	47,248
Investment in associate	16	8,280	9,235	220	220
Deferred tax assets	17	37,417	37,741	54	424
		305,743	288,687	122,319	79,043
Current assets					
Inventories	18	116,325	96,115	–	–
Trade receivables		142,484	137,350	–	–
Due from subsidiaries		–	–	129,016	103,262
Other current assets	19	17,054	15,227	44	44
Taxation recoverable		1,973	1,627	–	–
Cash and cash equivalents	29	60,172	74,481	–	2,000
		338,008	324,800	129,060	105,306
Total assets		643,751	613,487	251,379	184,349
Equity and liabilities					
Current liabilities					
Trade and other payables	20	88,632	95,544	1,737	2,431
Bank overdrafts	29	4,194	985	2,573	111
Short-term borrowing	29	37,280	1,126	20,000	–
Current portion of long-term borrowings	29	73	12,799	–	–
Current tax payable	21	11,449	11,661	–	73
		141,628	122,115	24,310	2,615
Net current assets		196,380	202,685	104,750	102,691
Non-current liabilities					
Long-term borrowings	29	6,356	25,179	–	–
Deferred tax liabilities	17	17,941	16,217	–	–
Post-retirement benefits	28	71,925	63,428	2,455	7,539
Provisions	23	1,509	912	–	–
Long-term payables		4,272	6,112	–	–
Due to subsidiaries		–	–	1,277	941
		102,003	111,848	3,732	8,480
Total liabilities		243,631	233,963	28,042	11,095
Net assets	2	400,120	379,524	223,337	173,254
Equity					
Share capital	24	19,418	19,329	19,418	19,329
Share premium account		52,262	48,276	52,262	48,276
Other reserves		39,408	50,772	6,201	5,560
Retained earnings		288,243	260,351	145,456	100,089
Equity shareholders' funds		399,331	378,728	223,337	173,254
Non-controlling interest		789	796	–	–
Total equity		400,120	379,524	223,337	173,254
Total equity and liabilities		643,751	613,487	251,379	184,349

These accounts were approved by the Board of Directors on 7th March 2012 and signed on its behalf by

Directors

M E Vernon

D J Meredith




Group income statement
for the year ended 31st December 2011

	notes	Adjusted 2011 £000	Adjustments 2011 £000	Total 2011 £000	Adjusted 2010 £000	Adjustments 2010 £000	Total 2010 £000
Revenue	2	649,991	–	649,991	589,746	–	589,746
Operating costs	3	(516,031)	(4,462)	(520,493)	(470,621)	2,271	(468,350)
Operating profit	2	133,960	(4,462)	129,498	119,125	2,271	121,396
Financial expenses		(17,515)	–	(17,515)	(17,206)	–	(17,206)
Financial income		18,592	–	18,592	16,613	–	16,613
	5	1,077	–	1,077	(593)	–	(593)
Share of profit of associates		2,132	(366)	1,766	3,081	(391)	2,690
Profit before taxation	6	137,169	(4,828)	132,341	121,613	1,880	123,493
Taxation	8	(40,215)	1,112	(39,103)	(37,280)	441	(36,839)
Profit for the period		96,954	(3,716)	93,238	84,333	2,321	86,654
Attributable to							
Equity shareholders		96,765	(3,716)	93,049	84,134	2,321	86,455
Non-controlling interest		189	–	189	199	–	199
Profit for the period		96,954	(3,716)	93,238	84,333	2,321	86,654
Earnings per share	10						
Basic earnings per share		124 8p		120 0p	109 5p		112 5p
Diluted earnings per share		123 2p		118 4p	108 2p		111 2p
Dividends	11						
Dividends per share				49 0p			43 0p
Special dividend per share				–			25 0p
Dividends paid during the year (per share)				69 8p			38 6p

Adjusted figures exclude certain non-operational items as detailed in note 2

All amounts relate to continuing operations

The notes on pages 59 to 93 form an integral part of the accounts

Group statement of comprehensive income
for the year ended 31st December 2011

	The Group	
	2011 £000	2010 £000
Profit for the period	93,238	86,654
Actuarial loss on post-retirement benefits	(18,736)	(230)
Deferred tax on actuarial loss on post-retirement benefits	5,776	220
Foreign exchange translation differences	(11,094)	7,703
Non-controlling interest foreign exchange translation differences	(119)	18
(Loss) on cash flow hedges net of tax	(270)	(258)
Total comprehensive income for the period	68,795	94,107
Attributable to		
Equity shareholders	68,725	93,890
Non-controlling interest	70	217
Total comprehensive income for the period	68,795	94,107

Statements of changes in equity
for the year ended 31st December 2011

Group

	Share capital £000	Share premium account £000	Other reserves £000	Retained earnings £'000	Equity shareholders' funds £'000	Non- controlling interest £'000	Total equity £000
Balance at 1st January 2011	19,329	48,276	50,772	260,351	378,728	796	379,524
Total comprehensive income for the period	–	–	(11,364)	80,089	68,725	70	68,795
Dividends paid	–	–	–	(54,089)	(54,089)	(77)	(54,166)
Equity settled share plans net of tax	–	–	–	1,604	1,604	–	1,604
Issue of share capital	89	3,986	–	–	4,075	–	4,075
Treasury shares reissued	–	–	–	2,260	2,260	–	2,260
Loss on the reissue of treasury shares	–	–	–	(1,972)	(1,972)	–	(1,972)
Balance at 31st December 2011	19,418	52,262	39,408	288,243	399,331	789	400,120

Other reserves represent the Group's Translation, Cash flow hedge and Capital redemption reserves

Statements of changes in equity
for the year ended 31st December 2010

Group

	Share capital £000	Share premium account £000	Other reserves £000	Retained earnings £000	Equity shareholders' funds £000	Non- controlling interest £000	Total equity £000
Balance at 1st January 2010	19,310	47,601	43,327	196,481	306,719	645	307,364
Total comprehensive income for the period	–	–	7,445	86,445	93,890	217	94,107
Dividends paid	–	–	–	(29,701)	(29,701)	(66)	(29,767)
Equity settled share plans net of tax	–	–	–	1,605	1,605	–	1,605
Issue of share capital	19	675	–	–	694	–	694
Treasury shares reissued	–	–	–	10,453	10,453	–	10,453
Loss on the reissue of treasury shares	–	–	–	(4,932)	(4,932)	–	(4,932)
Balance at 31st December 2010	19,329	48,276	50,772	260,351	378,728	796	379,524

Other reserves represent the Group's Translation, Cash flow hedge and Capital redemption reserves

Statements of changes in equity continued
for the year ended 31st December 2011

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 2011	19,329	48,276	3,728	1,832	100,089	173,254
Total comprehensive income for the period				–	98,374	98,374
Dividends paid	–	–	–	–	(54,089)	(54,089)
Equity settled share plans net of tax	–	–	–	–	794	794
Issue of new share capital	89	3,986	–	–	–	4,075
Treasury shares reissued	–	–	–	–	2,260	2,260
Loss on the reissue of treasury shares	–	–	–	–	(1,972)	(1,972)
Investment in subsidiaries in relation to share options granted	–	–	641	–	–	641
Balance at 31st December 2011	19,418	52,262	4,369	1,832	145,456	223,337

Statements of changes in equity
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

Cash flow statements
for the year ended 31st December 2011

	notes	The Group		Parent Company	
		2011 £000	2010 £000	2011 £000	2010 £000
Cash flows from operating activities					
Profit before taxation		132,341	123,493	93,702	52,867
Depreciation, amortisation and impairment		20,828	22,565	-	-
Dividends received		-	-	(100,461)	(57,940)
Share of profit of associates		(1,766)	(2,690)	-	-
Gain on revaluation of investment on acquisition		-	(8,175)	-	-
Equity settled share plans		2,182	2,229	796	781
Net finance (income)/expense		(1,077)	593	(273)	(173)
Exchange adjustments		-	-	221	(160)
Operating cash flow before changes in working capital and provisions		152,508	138,015	(6,015)	(4,625)
Change in trade and other receivables		(10,084)	(14,321)	-	6
Change in amounts due from subsidiaries		-	-	(67,140)	(40,756)
Change in inventories		(22,561)	(7,188)	-	-
Change in provisions and post-retirement benefits		(10,915)	(11,445)	(3,288)	(2,553)
Change in trade and other payables		(297)	8,102	(430)	1,144
Cash generated from operations		108,651	113,163	(76,873)	(46,784)
Interest paid		(1,381)	(1,315)	(267)	-
Income taxes paid		(33,433)	(30,362)	1,864	1,387
Net cash from operating activities		73,837	81,486	(75,276)	(45,397)
Cash flows from investing activities					
Purchase of property, plant and equipment		(42,814)	(33,338)	-	-
Proceeds from sale of property, plant and equipment		5,560	3,423	-	-
Purchase of software and other intangibles		(3,424)	(1,148)	-	-
Development expenditure capitalised		(2,717)	(1,805)	-	-
Acquisition of businesses		(3,387)	(3,526)	-	-
Interest received		1,048	996	79	92
Dividends received		1,461	1,779	100,461	57,940
Net cash used in investing activities		(44,273)	(33,619)	100,540	58,032
Cash flows from financing activities					
Proceeds from issue of share capital		4,075	694	4,075	694
Proceeds from reissue of treasury shares		288	5,521	288	5,521
Change in borrowings	29	5,341	(15,194)	-	-
Payment of finance lease liabilities	29	(76)	(42)	-	-
Dividends paid (including minorities)		(54,166)	(29,767)	(54,089)	(29,701)
Net cash used in financing activities		(44,538)	(38,788)	(49,726)	(23,486)
Net change in cash and cash equivalents	29	(14,974)	9,079	(24,462)	(10,851)
Cash and cash equivalents at beginning of period		73,496	61,635	1,889	12,740
Exchange movement		(2,544)	2,782	-	-
Cash and cash equivalents at end of period	29	55,978	73,496	(22,573)	1,889
Borrowings and finance leases		(43,709)	(39,104)	-	-
Net cash	29	12,269	34,392	(22,573)	1,889

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. As further explained below, the most significant effect on the financial statements from accounting policies requiring judgement are in the areas of research and development (R&D), and revenue.

The major judgements made in respect of R&D are those in assessing whether an intangible asset arises from the development phase of a product development project, ie

- i) The technical feasibility of completing the product so it will be ready for sale
- ii) The market for the product and the future sales that the product will generate
- iii) Assessing the costs directly attributable to the individual product during its development

The Group has a very wide product range and the general nature of product development is that of a number of modest sized projects. The value of capitalised development costs is disclosed in note 13.

The judgements used in respect of revenue are explained in the revenue accounting policy on page 61 below.

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 intangible assets, and in assessing the defined benefit pension scheme liabilities. More details of the estimates used and assumptions applied in relation to impairment testing of goodwill and intangible assets are given in note 13 and those in relation to assessing defined benefit scheme liabilities in note 28.

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 16 to 25. In addition, note 32 to the financial statements discloses details of the Group's financial risk management and credit facilities.

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

There were no revisions to adopted IFRS that became applicable in 2011 which had a significant impact on the Group's financial statements.

Standards and interpretations issued by the IASB are only applicable if endorsed by the EU. If endorsed, amendments to IAS 19 Employee Benefits will require the financing on post-retirement benefits to be calculated on the net surplus or deficit using an 'AA' corporate bond rate. This will increase the net post-retirement scheme financing cost. This will be effective for 2013. The Group does not consider that any other standards, amendments or interpretations issued by the IASB, but not yet applicable, will have a significant impact on the financial statements.

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.

Notes to the accounts continued

(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.

1 Accounting policies continued

(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, expenses and cash flows of foreign operations are translated into sterling at average rates of exchange ruling during the year. Where the notes to the Group accounts include tables reconciling movements between opening and closing balances, assets and liabilities are translated at balance sheet rates and revenue and expenses

are translated at average rates with the exchange differences arising being disclosed separately. This presentation is a change from last year and therefore some minor restatements have been made to comparative tables to achieve consistent disclosure.

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

(ii) Foreign currency transactions

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

of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates fair value was determined.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised in other comprehensive income and presented in the Cash flow hedge 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.

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 acquisition 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 (see note 13 for more detail). 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 Generally Accepted Accounting Practice (GAAP).

(ii) R&D

Expenditure on R&D 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. Annual impairment tests are performed on acquired intangible assets by comparing the carrying value with the recoverable amount, being the higher of the fair value less cost to sell and value in use, discounted at an appropriate discount rate, of future cash flows in respect of intangible assets for the relevant cash generating unit. More detail is given in note 13.

1 Accounting policies continued

(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 measured at the lower of cost and net realisable value. The cost of inventories includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Cost also includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories.

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 42.

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 and share awards 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 and service contracts is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from projects is recognised as income in proportion.

Notes to the accounts continued

to the stage of completion of the transaction at the balance sheet date. Judgements can be required to assess the stage of completion, although in the vast majority of projects the position is relatively easy to identify. Projects where a stage of completion assessment is needed typically involve the sale of products, installation and commissioning, which are usually separately identified elements in the project order.

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.

1 Accounting policies continued

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 and interest 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 or in other comprehensive income, when it is also recognised in equity or other comprehensive income respectively. Current tax is the expected tax payable on the profit for the year and any adjustments

in respect of previous years using tax rates enacted or substantively enacted at the reporting date. Deferred tax is recognised using the balance sheet liability method, providing for temporary differences arising between the tax base of assets and liabilities, and their carrying amounts in the accounts. Deferred tax assets are recognised to the extent that it is probable

that future taxable profits will be available against which the asset can be utilised. Deferred tax is provided using rates of tax that have been enacted or substantively enacted at the balance sheet date or the date that the temporary differences are expected to reverse. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Share capital

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

Share options granted to subsidiary employees

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

2 Segmental reporting

As 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

2011

	Gross Revenue £000	Inter-segment revenue £000	Revenue £000	Total operating profit £000	Adjusted operating profit £000	Adjusted operating margin %
Europe, Middle East & Africa	291,440	41,335	250,105	41,754	42,461	17.0%
Asia Pacific	152,813	5,712	147,101	37,795	37,795	25.7%
Americas	141,661	7,283	134,378	25,686	27,397	20.4%
Steam Specialties business	585,914	54,330	531,584	105,235	107,653	20.3%
Watson-Marlow	119,391	984	118,407	32,379	34,423	29.1%
Corporate expenses				(8,116)	(8,116)	
Intra Group	705,305 (55,314)	55,314 (55,314)	649,991	129,498	133,960	20.6%

Total	649,991	-	649,991	129,498	133,960	20.6%
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Notes to the accounts continued

2 Segmental reporting continued 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)				
Total	589,746	-	589,746	121,396	119,125	20.2%

Net revenue generated by Group companies based in the USA is £109,807,000 (2010 £101,805,000), in the UK £66,091,000 (2010 £58,949,000) and the rest of the world £474,093,000 (2010 £428,992,000)

The total operating profit for the period includes non-operational items, as analysed below

2011

	Amortisation of acquisition- related intangible assets £000	Acquisition and disposal costs £000	Total £000
Europe, Middle East & Africa	(458)	(249)	(707)
Asia Pacific	-	-	-
Americas	(1,711)	-	(1,711)
Steam Specialties business	(2,169)	(249)	(2,418)
Watson-Marlow	(1,875)	(169)	(2,044)
	(4,044)	(418)	(4,462)

2010

	Gain on revaluation of Associate £000	Impairment of acquisition- related intangible assets £000	Amortisation of acquisition- related intangible assets £000	Acquisition and disposal 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

Share of profit of associates

	2011 Adjusted £000	2011 Total £000	2010 Adjusted £000	2010 Total £000
Europe, Middle East & Africa	-	-	-	-
Asia Pacific	2,132	1,766	2,755	2,364
Americas	-	-	326	326
Steam Specialties business	2,132	1,766	3,081	2,690
Watson-Marlow	-	-	-	-
	2,132	1,766	3,081	2,690

2 Segmental reporting continued
Net financing income and expense

	2011 £000	2010 £000
Europe, Middle East & Africa	1,140	(124)
Asia Pacific	(117)	152
Americas	312	(232)
Steam Specialties business	1,335	(204)
Watson-Marlow	(531)	(562)
Corporate	273	173
	1,077	(593)

Net assets

	2011 Assets £000	Liabilities £000	2010 Assets £000	Liabilities £000
Europe, Middle East & Africa	225,513	(99,655)	205,006	(106,154)
Asia Pacific	109,098	(17,282)	102,178	(18,267)
Americas	112,203	(35,082)	99,537	(26,949)
Watson-Marlow	97,376	(14,320)	92,919	(14,628)
	544,190	(166,339)	499,640	(165,998)
Liabilities	(166,339)		(165,998)	
Deferred tax	19,476		21,524	
Current tax payable	(9,476)		(10,034)	
Net Cash	12,269		34,392	
Net assets	400,120		379,524	

Non-current assets in the UK were £78,123,000 (2010 £67,123,000)

Capital additions and depreciation, amortisation and impairment

	2011		2010	
	Capital additions £000	Depreciation, amortisation and impairment £000	Capital additions £000	Depreciation, amortisation and impairment £000
Europe, Middle East & Africa	22,945	6,834	19,249	13,206
Asia Pacific	7,894	3,468	8,938	774
Americas	10,260	5,803	17,968	3,953
Watson-Marlow	5,038	4,723	3,330	4,632
	46,137	20,828	49,485	22,565

Capital additions include property, plant and equipment of £39,662,000 (2010 £34,892,000) and other intangible assets of £6,475,000 (2010 £14,593,000) of which £214,000 (2010 £11,588,000) relates to acquired intangibles from acquisitions in the period. Capital additions split between the UK and rest of the world are, UK £20,031,000 (2010 £15,805,000), rest of the world £26,106,000 (2010 £33,680,000). Depreciation, amortisation and impairment includes the profit on disposal of fixed assets of £2,948,000 (2010 £2,452,000)

3 Operating costs

	2011 £000	2010 £000
Change in stocks of finished goods and work in progress	(12,068)	(6,641)
Raw materials and consumables	193,825	166,404
Staff costs (note 4)	220,113	201,707
Depreciation, amortisation and impairment	20,828	22,565
Other operating charges	97,795	84,315
	520,493	468,350

Depreciation and amortisation includes amortisation of acquisition-related intangible assets of £4,044,000 (2010 £3,562,000), and impairment of acquired goodwill and intangible assets of £nil (2010 £2,144,000). Operating costs include exchange difference costs of £953,000 (2010 £1,861,000 gain). Other operating charges include acquisition and disposal costs of £418,000 (2010 £198,000) and the gain on revaluation of Associate of £nil (2010 £8,175,000)

Notes to the accounts continued

4 Staff costs and numbers

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

	2011 £000	2010 £000
Wages and salaries	175,260	160,880
Social security costs	31,253	28,454
Other pension costs	13,600	12,373
	220,113	201,707

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

	2011 Number	2010 Number
United Kingdom	1,319	1,178
Overseas	3,364	3,252
	4,683	4,430

5 Net financing income and expense

	2011 £000	2010 £000
Financial expenses		
Bank and other borrowing interest payable	(1,381)	(1,315)
Interest on pension scheme liabilities	(16,134)	(15,891)
	(17,515)	(17,206)
Financial income		
Bank interest receivable	1,048	996
Expected return on pension scheme assets	17,544	15,617
	18,592	16,613
Net financing income/(expense)	1,077	(593)
Net pension scheme financial income/(expense)	1,410	(274)
Net bank interest	(333)	(319)
Net financing income/(expense)	1,077	(593)

6 Profit before taxation

Profit before taxation is shown after charging

	2011 £000	2010 £000
Depreciation of tangible fixed assets held under finance leases	42	40
Hire of plant and machinery	660	604
Other operating leases	5,228	4,957
R&D	8,726	7,114
Auditor's remuneration	£000	£000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	124	144
Fees payable to the Company's auditor and its associates for other services		
The audit of the company's subsidiaries, pursuant to legislation	952	1,115
Tax services	649	485
Other services	102	197
	1,827	1,941

7 Directors' emoluments

Directors represent the key management personnel of the Group under the terms of IAS 24 Related Party Disclosures
Total remuneration is shown below

Further details of salaries and short-term benefits, post-retirement benefits and share plans and long-term share incentive plans are shown in the Directors' Remuneration Report on pages 43 to 51. The share-based payments charge comprises a charge in relation to the Performance Share Plan (as described in note 28 on page 83) and the Employee Share Ownership Plan (as described in note 28 on page 83)

	2011 £000	2010 £000
Salaries and short-term benefits	2,543	3,065
Post-retirement benefits	306	377
Share-based payments	769	773
Total	3,618	4,215

8 Taxation

	2011 £000	2010 £000
Analysis of charge in period		
UK corporation tax		
Current tax on income for the period	796	583
Adjustments in respect of prior periods	(231)	(74)
	565	509
Double taxation relief	(796)	(499)
	(231)	10
Foreign tax		
Current tax on income for the period	35,562	33,206
Adjustments in respect of prior periods	2	(18)
	35,564	33,188
Total current tax charge	35,333	33,198
Deferred tax – UK	(491)	2,173
Deferred tax – Foreign	4,261	1,468
Tax on profit on ordinary activities	39,103	36,839

Reconciliation of effective tax rate

	2011 £000	2010 £000
Profit before tax	132,341	123,493
Tax using the UK corporation tax rate of 26.5% (2010: 28%)	35,069	34,578
Effect of higher/(lower) overseas tax rates	4,115	3,005
Associated companies	(468)	(771)
Non-deductible expenditure	785	132
Overprovided in prior years	(229)	(92)
Other reconciling items	(169)	(13)
Total tax in income statement	39,103	36,839

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.

9 Profit for the financial year attributable to shareholders

Profit dealt with in the accounts of Spirax-Sarco Engineering plc was £96,643,000 (2010: £53,131,000). Dividends from subsidiary undertakings of £99,000,000 (2010: £56,500,000) are included in this amount.

Notes to the accounts continued

10 Earnings per share

	2011 £000	2010 £000
Profit attributable to equity shareholders	93,049	86,455
Weighted average shares in issue	77,557,190	76,869,249
Dilution	1,016,946	865,396
Diluted weighted average shares in issue	78,574,136	77,734,645
Basic earnings per share	120.0p	112.5p
Diluted earnings per share	118.4p	111.2p
Adjusted profit attributable to equity shareholders	96,765	84,134
Basic adjusted earnings per share	124.8p	109.5p
Diluted adjusted earnings per share	123.2p	108.2p

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

11 Dividends

	2011 £000	2010 £000
Amounts paid in the year		
Final dividend for the year ended 31st December 2010 of 30.0p (2009 25.6p) per share	23,213	19,673
Special dividend for the year ended 31st December 2010 of 25.0p (2009 nil) per share	19,383	–
Interim dividend for the year ended 31st December 2011 of 14.8p (2010 13.0p) per share	11,493	10,028
	54,089	29,701
Amounts arising in respect of the year		
Interim dividend for the year ended 31st December 2011 of 14.8p (2010 13.0p) per share	11,493	10,028
Proposed final dividend for the year ended 31st December 2011 of 34.2p (2010 30.0p) per share	26,579	23,213
Special dividend for the year ended 31st December 2010 of 25.0p per share	–	19,383
	38,072	52,624

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

12 Property, plant and equipment

	The Group				
	Land and buildings		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	43	44	112	335	534
	16,538	466	85,397	41,640	144,041
Charged in year	1,632	235	10,045	4,257	16,169
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

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 2011	97,810	16,365	133,557	61,546	309,278
Exchange adjustments	(1,539)	839	(1,589)	(628)	(2,917)
	96,271	17,204	131,968	60,918	306,361
Additions	11,836	847	20,238	6,741	39,662
Disposals	(1,574)	(55)	(8,643)	(3,941)	(14,213)
At 31st December 2011	106,533	17,996	143,563	63,718	331,810
Depreciation					
At 1st January 2011	18,170	451	90,739	44,365	153,725
Exchange adjustments	(344)	12	(1,060)	(574)	(1,966)
	17,826	463	89,679	43,791	151,759
Charged in year	1,735	374	9,745	4,878	16,732
Disposals	(374)	(10)	(7,298)	(3,647)	(11,329)
At 31st December 2011	19,187	827	92,126	45,022	157,162
Net book value					
At 31st December 2011	87,346	17,169	51,437	18,696	174,648

Included in the above are finance leases with a net book value of £354,568 (2010 £430,635)

Included in additions are £nil (2010 £1,105,000) 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 2010	29,867	11,579	21,468	62,914	38,150
Exchange adjustments	(569)	21	32	(516)	(332)
	29,298	11,600	21,500	62,398	37,818
Additions	11,588	1,795	1,210	14,593	7,307
Disposals	–	–	(29)	(29)	–
At 31st December 2010	40,886	13,395	22,681	76,962	45,125
Amortisation					
At 1st January 2010	4,883	6,808	15,990	27,681	–
Exchange adjustments	(300)	(60)	(135)	(495)	–
	4,583	6,748	15,855	27,186	–
Charged/impairment in year	4,566	1,551	1,591	7,708	1,140
Disposals	–	–	(29)	(29)	–
At 31st December 2010	9,149	8,299	17,417	34,865	1,140
Net book value					
At 31st December 2010	31,737	5,096	5,264	42,097	43,985

Notes to the accounts continued

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 2011	40,886	13,395	22,681	76,962	45,125
Exchange and other adjustments	(2,168)	(43)	(262)	(2,473)	1,109
	38,718	13,352	22,419	74,489	46,234
Additions	214	2,727	3,534	6,475	140
Disposals/impairment	–	–	(213)	(213)	–
At 31st December 2011	38,932	16,079	25,740	80,751	46,374
Amortisation					
At 1st January 2011	9,149	8,299	17,417	34,865	1,140
Exchange adjustments	(585)	(28)	(252)	(865)	(113)
	8,564	8,271	17,165	34,000	1,027
Amortisation and impairment	4,044	1,523	1,477	7,044	–
Disposals	–	–	(196)	(196)	–
At 31st December 2011	12,608	9,794	18,446	40,848	1,027
Net book value					
At 31st December 2011	26,324	6,285	7,294	39,903	45,347

As described in note 17 goodwill and deferred tax liabilities have been corrected in the current year in respect of acquisitions made in the year ended 31st December 2010. This has resulted in an increase in goodwill of £3,083,000 being shown in exchange and other adjustments.

Development

All capitalised development costs arise from internal product development.

Acquired intangibles

The disclosure by class of acquired intangible assets is shown in the tables below.

	The Group				
	Customer relationships £000	Brand names and trademarks £000	Manufacturing designs and core technology £000	Non-competitive undertakings and other £000	Total acquired intangibles £000
Cost or valuation					
At 1st January 2010	20,173	4,413	4,090	1,191	29,867
Exchange and other adjustments	(366)	(96)	(87)	(20)	(569)
	19,807	4,317	4,003	1,171	29,298
Additions	5,520	2,879	1,978	1,211	11,588
Disposals/impairment	–	–	–	–	–
At 31st December 2010	25,327	7,196	5,981	2,382	40,886
Amortisation					
At 1st January 2010	2,676	734	815	659	4,884
Exchange adjustments	(198)	(52)	(47)	(3)	(300)
	2,478	682	768	656	4,584
Amortisation and impairment	2,354	879	704	628	4,565
Disposals	–	–	–	–	–
At 31st December 2010	4,832	1,561	1,472	1,284	9,149
Net book value					
At 31st December 2010	20,495	5,635	4,509	1,098	31,737

13 Goodwill and other intangible assets continued

	The Group				
	Customer relationships £000	Brand names and trademarks £000	Manufacturing designs and core technology £000	Non-compete undertakings and other £000	Total acquired intangibles £000
Cost or valuation					
At 1st January 2011	25,327	7,196	5,981	2,382	40,886
Exchange and other adjustments	(1,368)	(365)	(325)	(110)	(2,168)
	23,959	6,831	5,656	2,272	38,718
Additions	107	–	–	107	214
Disposals/impairment	–	–	–	–	–
At 31st December 2011	24,066	6,831	5,656	2,379	38,932
Amortisation					
At 1st January 2011	4,832	1,561	1,472	1,284	9,149
Exchange adjustments	(349)	(98)	(96)	(42)	(585)
	4,483	1,463	1,376	1,242	8,564
Amortisation and impairment	1,841	1,089	579	535	4,044
Disposals	–	–	–	–	–
At 31st December 2011	6,324	2,552	1,955	1,777	12,608
Net book value					
At 31st December 2011	17,742	4,279	3,701	602	26,324

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

	2011 Goodwill £000	2010 Goodwill £000
Spirax-Sarco Mexicana	8,636	6,593
Flexicon A/S Denmark	7,955	8,033
MasoSine	7,064	7,202
Spirax Sarco Inc USA	3,325	3,282
M & M product unit	3,047	3,124
Alitea product unit	2,594	2,624
UK Supply product unit	1,977	2,028
Spirax Inter Valf Turkey	1,783	2,095
Spirax-Sarco S A S France	1,334	1,368
Watson-Marlow South Africa	1,206	1,461
Other cash-generating units	6,426	6,175
	45,347	43,985

Notes to the accounts continued

13 Goodwill and other intangible assets continued

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 10-14%
- 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 Spirax-Sarco Mexicana S A goodwill balance were as follows

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

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

- Long-term revenue growth of 4-5%
- Pre-tax discount rate of 13%

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

- Long-term revenue growth of 2.5-3.5%
- Pre-tax discount rate of 14%

14 Loans to subsidiaries

	Parent Company	
	2011 £000	2010 £000
Cost		
At 1st January	32,193	32,410
Exchange adjustments	–	–
Loans	32,193	32,410
At 31st December	75,198	32,193
Amounts written off		
At 1st January and 31st December	(1,042)	(1,042)
Net book value		
At 31st December	74,156	31,151

15 Investment in subsidiaries

	Parent Company	
	2011 £000	2010 £000
Cost		
At 1st January	48,242	47,561
Share options issued to subsidiary company employees	641	681
At 31st December	48,883	48,242
Amounts written off		
At 1st January and 31st December	(994)	(994)
Net book value		
At 31st December	47,889	47,248

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 2011. 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, Spirax-Sarco America 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	
	2011 £000	2010 £000
Cost of investment	3,194	3,194
Share of retained profit	5,086	6,041
	8,280	9,235
Summarised aggregated financial information (total business)		
Revenue	24,063	25,102
Profit for the period	4,327	5,591
Assets	13,945	16,048
Liabilities	2,432	3,264

Details of the Group's associates at 31st December 2011 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

Notes to the accounts continued

17 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following

	The Group					
	Assets		Liabilities		Net	
	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
Accelerated capital allowances	1,258	550	(5,873)	(5,873)	(4,615)	(5,323)
Provisions	4,661	8,850	(91)	(375)	4,570	8,475
Losses	3,275	1,510	–	–	3,275	1,510
Inventory	2,888	908	(1,565)	(1,510)	1,323	(602)
Pensions	21,999	19,947	(1,339)	(2,363)	20,660	17,584
Other temporary differences	3,336	5,976	(9,073)	(6,096)	(5,737)	(120)
Tax assets/(liabilities)	37,417	37,741	(17,941)	(16,217)	19,476	21,524

Movement in deferred tax during the year

2010

	The Group					
	1st January 2010 £000	Recognised in income £000	Recognised in OCI £000	Recognised in equity £000	Acquisitions £000	31st December 2010 £000
	Accelerated capital allowances	(3,944)	(1,542)	163	–	–
Provisions	8,658	(248)	65	–	–	8,475
Losses	1,151	194	165	–	–	1,510
Inventory	(572)	(42)	12	–	–	(602)
Pensions	20,233	(2,869)	220	–	–	17,584
Other temporary differences	(2,004)	866	1642	(624)	–	(120)
	23,522	(3,641)	2,267	(624)	–	21,524

2011

	The Group					
	1st January 2011 £000	Recognised in Income £000	Recognised in OCI £000	Recognised in equity £000	Acquisitions £000	31st December 2011 £000
	Accelerated capital allowances	(5,323)	726	(18)	–	–
Provisions	8,475	(3,606)	(299)	–	–	4,570
Losses	1,510	1,847	(82)	–	–	3,275
Inventory	(602)	1,914	11	–	–	1,323
Pensions	17,584	(2,700)	5,776	–	–	20,660
Other temporary differences	(120)	(1,951)	28	(578)	(3,116)	(5,737)
	21,524	(3,770)	5,416	(578)	(3,116)	19,476

The identifiable assets and liabilities recognised on acquisitions in the year ended 31st December 2010 excluded a deferred tax liability in respect of intangible assets recognised on acquisition. This has been corrected in the current year, the effect

of which is to create a deferred tax liability of £3,083,000 and increase goodwill by the same amount

17 Deferred tax assets and liabilities continued
Movement in deferred tax during the year

2010

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

2011

	Parent Company			
	1st	Recognised	Recognised	31st
	January	in Income	in equity	December
	2011	in	in	2011
	£000	£000	£000	£000
Other temporary differences	424	(371)	1	54
	424	(371)	1	54

18 Inventories

	The Group	
	2011	2010
	£000	£000
Raw materials and consumables	39,657	31,199
Work in progress	23,318	17,523
Finished goods and goods for resale	53,350	47,393
	116,325	96,115

19 Other current assets

	The Group		Parent Company	
	2011	2010	2011	2010
	£000	£000	£000	£000
Other receivables	8,770	8,288	–	–
Prepayments and accrued income	8,284	6,939	44	44
	17,054	15,227	44	44

20 Trade and other payables

	The Group		Parent Company	
	2011	2010	2011	2010
	£000	£000	£000	£000
Trade payables	30,287	31,629	–	–
Bills of exchange payable	580	1,078	–	–
Social security	4,891	4,281	–	–
Other payables	24,459	26,940	176	321
Accruals	28,415	31,616	1,561	2,110
	88,632	95,544	1,737	2,431

21 Current tax payable

	The Group		Parent Company	
	2011	2010	2011	2010
	£000	£000	£000	£000
UK Corporation tax	–	15	–	73
Foreign tax payable	11,449	11,646	–	–
	11,449	11,661	–	73

Notes to the accounts continued

22 Obligations under finance leases

	The Group			
	Minimum lease payments		Present value lease payments	
	2011 £000	2010 £000	2011 £000	2010 £000
Amount payable				
Within 1 year	73	63	65	61
1-5 years inclusive	84	172	81	148
After 5 years	–	–	–	–
	157	235	146	209
Add future finance charges			11	26
Minimum lease payments	157	235	157	235
Less Due for settlement in <1 year			65	59
Due for settlement in >1 year			92	176

23 Provisions

	The Group	
	Warranty and other provisions	
	2011 £000	2010 £000
Provisions at 1st January	912	1,441
Exchange adjustments	27	(183)
	939	1,258
Change in the year	570	(346)
Provisions at 31st December	1,509	912

Provisions include non-current product warranties charged against profit from operations that are expected to be incurred after 2012

24 Called up share capital

	The Group		Parent Company	
	2011 £000	2010 £000	2011 £000	2010 £000
	Ordinary shares of 25p each			
Authorised 120,000,000	30,000	30,000	30,000	30,000
Allotted, called up and fully paid 77,674,152 (2010 77,318,628)	19,418	19,329	19,418	19,329

355,524 shares were issued pursuant to the Spirax-Sarco Engineering Share Schemes for a consideration of £4,075,000 received by the Company

At 31st December no treasury shares were available for use in connection with the Group's Employee Share Schemes

134 senior employees and former employees of the Group have been granted options to purchase 1,168,290 Ordinary shares with an aggregate nominal value of £292,073 (note 28)

25 Return on capital employed

	The Group	
	2011 £000	2010 £000
Capital employed		
Property, plant and equipment	174,648	155,553
Prepayments	148	76
Inventories	116,325	96,115
Trade receivables	142,484	137,350
Other current assets	17,054	15,227
Tax recoverable	1,973	1,627
Trade and other payables	(88,632)	(95,544)
Current tax payable	(11,449)	(11,661)
Capital employed	352,551	298,743
Average capital employed	325,647	283,290
Operating profit	129,498	121,396
Adjustments (note 2)	4,462	(2,271)
	133,960	119,125

Return on capital employed **41 1%** **42 1%**

26 Capital commitments

	The Group		Parent Company	
	2011 £000	2010 £000	2011 £000	2010 £000
Capital expenditure contracted for but not provided	1,709	3,834	–	–

27 Operating lease obligations

	The Group	
	2011 £000	2010 £000
Commitments under non-cancellable leases due as follows		
Within 1 year	3,795	3,656
1-5 years inclusive	6,676	5,735
After 5 years	869	1,159
	11,340	10,550

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

Notes to the accounts continued

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 £6,809,000 (2010 £5,546,000)

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 main UK scheme assumes that post-retirement mortality follows the SAPS standard tables, with improvements based on the 2009 CMI Core Projections with a 1.5% long-term trend. This basis gives a life expectancy of 23 years and 25 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 BC mortality table with AA scale projected for 12 years. Life expectancy under this table is 18 years and 20 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	
	2011	2010	2011	2010
Rate of increase in salaries	3.8	4.1	3.3	3.1
Rate of increase in pensions	2.9	3.4	1.6	1.7
Rate of price inflation	3.1	3.5	2.7	2.0
Discount rate	5.0	5.5	4.4	5.2
Medical trend rate			5.0	5.0

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

	Assumptions weighted by value of assets % per annum			
	UK pensions		Overseas pensions and medical	
	2011	2010	2011	2010
Expected rate of return on assets (weighted average)	7.2	7.6	7.3	7.4
Equities	7.9	8.4	8.3	8.3
Bonds	4.6	4.9	2.9	4.5
Other	6.5	5.7	7.9	3.5

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 2011 were

	UK pensions		Overseas pensions and medical		Total	
	2011	2010	2011	2010	2011	2010
	£000	£000	£000	£000	£000	£000
Equities	150,261	165,746	17,210	17,249	167,471	182,995
Bonds	64,411	41,713	6,616	4,530	71,027	46,243
Other	9,174	5,145	3,730	5,527	12,904	10,672
Total market value in aggregate	223,846	212,604	27,556	27,306	251,402	239,910

The actual return on plan assets was £5.5 million (2010 £26.1 million)

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	23	(19)	23	(19)

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

	UK pensions		Overseas pensions and medical		Total	
	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
Fair value of schemes' assets	223,846	212,604	27,556	27,306	251,402	239,910
Present value of funded schemes' liabilities	(262,590)	(250,918)	(46,448)	(37,811)	(309,038)	(288,729)
(Deficit) in the funded schemes	(38,744)	(38,314)	(18,892)	(10,505)	(57,636)	(48,819)
Present value of unfunded schemes' liabilities	–	–	(14,289)	(14,609)	(14,289)	(14,609)
Retirement benefit liability recognised in the balance sheet	(38,744)	(38,314)	(33,181)	(25,114)	(71,925)	(63,428)
Related deferred tax asset	9,686	10,345	10,646	7,541	20,332	17,886
Net pension liability	(29,058)	(27,969)	(22,535)	(17,573)	(51,593)	(45,542)

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

	UK pensions		Overseas pensions and medical		Total	
	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
Defined benefit obligation at beginning of year	(250,918)	(234,657)	(52,420)	(50,253)	(303,338)	(284,910)
Current service cost	(5,097)	(5,269)	(1,694)	(1,755)	(6,791)	(7,024)
Interest cost	(13,567)	(13,134)	(2,567)	(2,757)	(16,134)	(15,891)
Contributions by members	(603)	(334)	–	–	(603)	(334)
Actuarial gain/(loss)	(12,841)	(6,342)	349	(3,358)	(12,492)	(9,700)
Actual benefit payments	8,529	8,818	2,124	2,936	10,653	11,754
Settlement, curtailment	–	–	–	4,314	–	4,314
Experience gain/(loss)	11,907	–	(6,110)	(984)	5,797	(984)
Currency gain/(loss)	–	–	(419)	(563)	(419)	(563)
Defined benefit obligation at end of year	(262,590)	(250,918)	(60,737)	(52,420)	(323,327)	(303,338)

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

	UK pensions		Overseas pensions and medical		Total	
	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
Value of assets at beginning of year	212,604	185,147	27,306	26,000	239,910	211,147
Expected return on assets	15,575	13,626	1,969	1,991	17,544	15,617
Actuarial gain/(loss)	(8,973)	9,573	(3,068)	881	(12,041)	10,454
Contributions paid by employer	12,566	12,742	3,227	4,825	15,793	17,567
Contributions paid by members	603	334	–	–	603	334
Actual benefit payments	(8,529)	(8,818)	(2,124)	(2,936)	(10,653)	(11,754)
Settlement, curtailment	–	–	–	(4,314)	–	(4,314)
Currency gain/(loss)	–	–	246	859	246	859
Value of assets at end of year	223,846	212,604	27,556	27,306	251,402	239,910

The estimated employer contributions to be made in 2012 are £13,958,000

Notes to the accounts continued

28 Employee benefits continued

The history of experience adjustments is as follows

	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Defined benefit obligation at end of year	(323,327)	(303,338)	(284,910)	(244,159)	(230,053)
Fair value of schemes' assets	251,402	239,910	211,147	170,442	208,520
Retirement benefit liability recognised in the balance sheet	(71,925)	(63,428)	(73,763)	(73,717)	(21,533)
Experience adjustment on schemes' liabilities	5,797	(984)	(1,695)	(11,140)	(6,913)
As a percentage of schemes' liabilities	1.8%	0.3%	0.6%	4.6%	3.0%
Experience adjustment on schemes' assets	(12,041)	10,454	26,012	(60,771)	(11,095)
As a percentage of schemes' assets	4.8%	4.4%	12.3%	35.7%	5.3%

The expense recognised in the income statement was as follows

	UK pensions		Overseas pensions and medical		Total	
	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
Current service cost	(5,097)	(5,269)	(1,694)	(1,755)	(6,791)	(7,024)
Settlement curtailment and termination benefits	–	–	–	(553)	–	(553)
Interest on schemes' liabilities	(13,567)	(13,134)	(2,567)	(2,757)	(16,134)	(15,891)
Expected return on schemes' assets	15,575	13,626	1,969	1,991	17,544	15,617
Total expense recognised in income statement	(3,089)	(4,777)	(2,292)	(3,074)	(5,381)	(7,851)

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

	2011 £000	2010 £000
Operating costs	(6,791)	(7,577)
Financial expenses	(16,134)	(15,891)
Financial income	17,544	15,617
Total expense recognised in income statement	(5,381)	(7,851)

Statement of comprehensive income (OCI)

	UK pensions		Overseas pensions and medical		Total	
	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
Actuarial amount recognised in OCI	(9,907)	3,231	(8,829)	(3,461)	(18,736)	(230)
Deferred tax on actuarial amount recognised in OCI	2,414	(872)	3,362	1,092	5,776	220
Cumulative loss recognised in OCI at beginning of year	(37,818)	(40,177)	(5,764)	(3,395)	(43,582)	(43,572)
Cumulative loss recognised in OCI at end of year	(45,311)	(37,818)	(11,231)	(5,764)	(56,542)	(43,582)

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 £22,066 (2010 £54,315)

The post-retirement mortality assumptions in respect of the Parent Company Defined Benefit Scheme follows the SAPS light tables, with improvements based on the 2009 CMI Core Projections with a 1.5% long-term trend. This basis gives a life expectancy of 24 years and 26 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.

28 Employee benefits continued

The financial assumptions used at 31st December were

	Assumptions weighted by value of liabilities % per annum	
	UK pensions	
	2011	2010
Rate of increase in salaries	4.6	4.5
Rate of increase in pensions	2.9	3.4
Rate of price inflation	3.1	3.5
Discount rate	5.0	5.5

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

	Assumptions weighted by value of assets % per annum	
	UK pensions	
	2011	2010
Expected rate of return on assets (weighted average)	7.2	7.6
Equities	7.9	8.4
Bonds	4.6	4.9
Other	6.5	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 2011 were

	UK pensions	
	2011	2010
	£000	£000
Equities	29,921	35,341
Bonds	12,722	8,682
Other	2,102	1,032
Total market value in aggregate	44,745	45,055

The actual return on plan assets was £0.7 million (2010 £5.2 million)

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

	UK pensions	
	2011	2010
	£000	£000
Fair value of scheme's assets	44,745	45,055
Present value of funded scheme's liabilities	(47,200)	(52,594)
Retirement benefit liability recognised in the balance sheet	(2,455)	(7,539)
Related deferred tax	–	–
Net pension liability	(2,455)	(7,539)

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

	UK pensions	
	2011	2010
	£000	£000
Defined benefit obligation at beginning of year	(52,594)	(51,000)
Current service cost	(397)	(506)
Interest cost	(2,826)	(2,821)
Contributions from members	(28)	(27)
Actuarial gain/(loss)	(2,716)	(1,261)
Actual benefit payments	4,004	3,022
Experience gain/(loss)	7,357	(1)
Defined benefit obligation at end of year	(47,200)	(52,594)

Notes to the accounts continued

28 Employee benefits continued

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

	UK pensions	
	2011 £000	2010 £000
Value of assets at beginning of year	45,055	39,793
Expected return on assets	3,287	2,902
Actuarial gain/(loss)	(2,579)	2,320
Contributions paid by employer	2,958	3,035
Contributions from members	28	27
Actual benefit payments	(4,004)	(3,022)
Value of assets at end of year	44,745	45,055

The estimated employer contributions to be made in 2012 are £1,384,000

The history of experience adjustments is as follows

	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Defined benefit obligation at end of year	(47,200)	(52,594)	(51,000)	(43,200)	(40,700)
Fair value of scheme's assets	44,745	45,055	39,793	31,934	41,238
Retirement benefit asset/(liability) recognised in the balance sheet	(2,455)	(7,539)	(11,207)	(11,266)	538
Experience adjustment on scheme's liabilities	7,357	(1)	32	(4,184)	(32)
As a percentage of scheme's liabilities	15.6%	0.0%	0.1%	9.7%	0.1%
Experience adjustment on scheme's assets	(2,579)	2,320	4,611	(11,031)	(2,366)
As a percentage of scheme's assets	5.8%	5.1%	11.6%	34.5%	5.7%

The expense recognised in the income statement was as follows

	UK pensions	
	2011 £000	2010 £000
Current service cost	(397)	(506)
Interest on scheme's liabilities	(2,826)	(2,821)
Expected return on scheme's assets	3,287	2,902
Total income/(expense) recognised in income statement	64	(425)

Statement of comprehensive income (OCI)

	UK pensions	
	2011 £000	2010 £000
Actuarial gain recognised in OCI	2,062	1,058
Deferred tax on actuarial amount recognised in OCI	-	-
Cumulative loss recognised in OCI at beginning of year	(15,328)	(16,386)
Cumulative loss recognised in OCI at end of year	(13,266)	(15,328)

28 Employee benefits continued

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 43 to 51. The charge to the income statement in respect of share-based payments is made up as follows:

	2011 £000	2010 £000
Share Option Scheme	673	695
Performance Share Plan	764	767
Employee Share Ownership Plan	745	767
Total expense recognised in income statement	2,182	2,229

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.

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:

	2007 Grant	2008 Grant	2009 Grant	2010 Grant	2011 Grant
Grant date	26th March	12th March	11th March	26th March	18th March
Exercise price	1019 6p	959 0p	765 0p	1366 0p	1873 0p
Number of employees	67	71	70	75	87
Shares under option	337,400	311,700	223,500	290,000	350,000
Vesting period	3 years	3 years	3 years	3 years	3 years
Expected volatility	20%	20%	25%	25%	25%
Risk-free interest rate	5.1%	4.3%	2.5%	3.5%	3.1%
Expected dividend yield	2.5%	3.0%	3.5%	2.5%	2.5%
Fair value	236 8p	211 7p	145 5p	341 7p	442 9p

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
2001 grant (397 7p)	6,500		(6,500)		
2002 grant (436p)	3,500		(3,500)		
2003 grant (394 5p)	15,000				15,000
2004 grant (541 9p)	18,783		(783)		18,000
2005 grant (686p)	48,962		(6,529)		42,433
2006 grant (960p)	92,106		(42,631)		49,475
2007 grant (1019 6p)	139,870		(47,388)		92,482
2008 grant (959 0p)	292,300		(154,400)		137,900
2009 grant (765 0p)	207,079		(9,579)	(5,000)	192,500
2010 grant (1366 0p)	288,000		(7,000)	(10,500)	270,500
2011 grant (1873 0p)		350,000			350,000
	1,112,100	350,000	(278,310)	(15,500)	1,168,290
Weighted average exercise price	£10.04	£18.73	£9.46	£11.72	£12.76
Weighted average contractual life remaining					7.4 years

Performance conditions in respect of all exercisable shares have been met. The number of shares exercisable at 31st December 2011 is 355,290 (2010: 324,721). The weighted-average share price during the period was £18.74 (2010: £15.46).

Notes to the accounts continued

28 Employee benefits continued

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. For the 2008 to 2010 awards, 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 rates. For awards made in 2011, 25% will vest if the compound growth in EPS is equal to the growth in the Retail Price Index plus 3% and 100% will vest if the compound growth in EPS is equal to or exceeds the growth in the Retail Price Index plus 9%, there is pro-rata vesting for actual growth between these rates.

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

	2007 Grant	2008 Grant	2009 Grant	2010 Grant	2011 Grant
Grant date	26th March	12th March	11th March	26th March	18th March
Mid market share price at grant date	1019 6p	959 0p	765 0p	1366 0p	1873 0p
Number of employees	7	5	5	5	5
Shares under scheme	93,200	131,540	128,146	99,983	78,588
Vesting period	3 years	3 years	3 years	3 years	3 years
Probability of vesting	48%	65.4%	69.1%	69.5%	69.2%
Probability of ceasing employment before vesting	—	—	—	—	—
Fair value	489 4p	627 2p	528 6p	949 4p	1296 1p

c) Employee Share Ownership Plan

UK employees are eligible to participate in the Employee Share Ownership Plan (ESOP). The aim of the ESOP 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 ESOP 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 ESOP 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.

	2007 Grant	2008 Grant	2009 Grant	2010 Grant	2011 Grant
Grant date	1st October	1st October	1st October	1st October	1st October
Exercise price	1019 3p	908 8p	1039 7p	1808 7p	1832 0p
Number of employees	946	985	944	955	1012
Shares under scheme	66,525	80,087	69,788	41,584	45,327
Vesting period	3 years	3 years	3 years	3 years	3 years
Expected volatility	20.0%	20.0%	25.0%	25.0%	25.0%
Risk free interest rate	5.2%	3.8%	0.6%	0.6%	0.6%
Expected dividend yield	2.5%	3.0%	3.5%	2.5%	2.5%
Fair value	1086 6p	953 3p	1093 7p	1922 6p	1934 6p

The accumulation period for the 2011 ESOP ends in September 2012, therefore some figures are projections.

28 Employee benefits continued

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.

	2007 Grant	2008 Grant	2009 Grant	2010 Grant	2011 Grant
Grant date	26th March	12th March	11th March	26th March	18th March
Exercise price	1019 6p	959 0p	765 0p	1366 0p	1873 0p
Number of employees	2	1	1	1	5
Shares under option	8,500	3,500	2,500	4,000	19,000
Vesting period	3 years	3 years	3 years	3 years	3 years
Expected volatility	20%	20%	25%	25%	25%
Risk-free interest rate	5.1%	4.3%	2.5%	3.5%	3.1%
Expected dividend yield	2.5%	3.0%	3.5%	2.5%	2.5%
Fair value	236 8p	211 7p	145 5p	341 7p	442 9p

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
2005 grant (686p)	1,862				1,862
2007 grant (1019 6p)	2,131				2,131
2008 grant (959p)	3,500				3,500
2009 grant (765 0p)	2,500				2,500
2010 grant (1366 0p)	4,000				4,000
2011 grant (1873 0p)		19,000			19,000
	13,993	19,000			32,993
Weighted average exercise price	£10.14	£18.73			£15.09
Weighted average contractual life remaining					8.1 years

Performance conditions in respect of all exercisable shares have been met. The number of shares exercisable at 31st December is 7,493 (2010: 3,993).

b) Performance Share Plan

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

	2007 Grant	2008 Grant	2009 Grant	2010 Grant	2011 Grant
Grant date	26th March	12th March	11th March	26th March	18th March
Mid market share price at grant date	1019 6p	959 0p	765 0p	1366 0p	1873 0p
Number of employees	7	5	5	5	5
Shares under scheme	93,200	131,540	128,146	99,983	78,588
Vesting period	3 years	3 years	3 years	3 years	3 years
Probability of vesting	48%	65.4%	69.1%	69.5%	69.2%
Probability of ceasing employment before vesting	–	–	–	–	–
Fair value	489 4p	627 2p	528 6p	949 4p	1296 1p

Notes to the accounts continued

29 Analysis of changes in net cash

	The Group			
	At 1st January 2011 £000	Cash flow £000	Exchange movement £000	At 31st December 2011 £000
Current portion of long-term borrowings	(12,799)			(73)
Non-current portion of long-term borrowings	(25,179)			(6,356)
Short-term borrowings	(1,126)			(37,280)
Total borrowings	(39,104)			(43,709)
Comprising				
Borrowings	(38,869)	(5,341)	658	(43,552)
Finance leases	(235)	76	2	(157)
	(39,104)	(5,265)	660	(43,709)
Cash and cash equivalents	74,481	(11,737)	(2,572)	60,172
Bank overdrafts	(985)	(3,237)	28	(4,194)
Net cash and cash equivalents	73,496	(14,974)	(2,544)	55,978
Net cash	34,392	(20,239)	(1,884)	12,269

The present value of finance lease payments are shown in note 22 on page 75

30 Related party transactions

The Group	2011 £000	2010 £000
Sales to associated companies	732	1,164
Dividends from associated companies	1,461	1,779
Amounts due from associated companies at 31st December	21	189
	2011 £000	2010 £000
Parent Company		
Dividends received from subsidiaries	99,000	56,500
Loans and amounts due from subsidiaries at 31st December	203,172	134,413
Amounts due to subsidiaries at 31st December	1,277	941

The transactions above were priced on an arm's length basis and on standard business terms. In 2011 one director purchased a motor car from the Company at market value, which was £11,400

31 Purchase of businesses
2011

	Acquisitions		
	Book value £000	FV adj £000	Fair value £000
Fixed assets			
Intangibles	–	214	214
Total assets	–	214	214
Current liabilities			
Deferred tax	–	33	33
Total liabilities	–	33	33
Total net assets	–	181	181
Goodwill			140
Total			321

Satisfied by

Cash paid	321
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Cash outflow for acquired businesses in the Cash Flow (page 58)

Cash consideration (for the current year and deferred consideration on prior years' acquisitions)	3,387
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Net cash outflow	3,387
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- 1 The acquisition of the distribution rights of Watson-Marlow Flexicon products in the Netherlands was made on 21st March 2011. The acquisition method of accounting has been used. Consideration of £196,000 was paid following completion. Separately identified intangibles are recorded as part of the fair value adjustment. The goodwill recognised represents the opportunity to sell a wider range of the Group's existing products to the acquired customer base and to fully utilise the Group's applications expertise to expand sales.
- 2 The acquisition of the distribution rights of Watson-Marlow MasoSine products in Italy was made on 12th August 2011. The acquisition method of accounting has been used. Consideration of £125,000 was paid following completion. Separately identified intangibles are recorded as part of the fair value adjustment. The goodwill recognised represents the opportunity to sell a wider range of the Group's existing products to the acquired customer base and to fully utilise the Group's applications expertise to expand sales.

Notes to the accounts continued

31 Purchase of businesses continued 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
Deferred tax	–	3,194	3,194	–	272	272	3,466
Total liabilities	1,373	3,194	4,567	210	272	482	5,049
Total net assets	4,119	7,451	11,570	762	487	1,249	12,819
Goodwill			9,970			1,000	10,970
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	23,789

Cash outflow for acquired businesses in the Cash Flow (page 58)

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

The identifiable assets and liabilities recognised on acquisitions in the year ended 31st December 2010 excluded a deferred tax liability in respect of intangible assets recognised on acquisition. This has been corrected in the current year, the effect

of which is to create a deferred tax liability of £3,083,000 and to increase goodwill by the same amount as described in notes 13 and 17. The same amounts translated into sterling at the dates of the transactions amount to £3,466,000 and are reflected in the table above.

- On 25th May 2010 the Group acquired from its local partners the remaining 51% of Spirax-Sarco Mexicana SA, 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 goodwill recognised represents the value of the acquired workforce and the expected synergies from more fully integrating the acquired operation into the Group, including bringing the manufacturing operations within the Americas regional manufacturing strategy.
- 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 goodwill recognised represents the value of the acquired workforce and the expected synergies from integrating the acquired operations into the Group, in particular the opportunity to sell a wider range of the Group's existing products to the acquired customer base and to fully utilise the Group's applications expertise to expand sales.

31 Purchase of businesses continued

3 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. The goodwill recognised represents the value of the expected synergies from more fully integrating the acquired territory.

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.

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 24 months in advance or for more than 90% of the next 12 months and 60% of the following 12 months 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:

2010

	The Group			Financial liabilities on which no interest is paid £000
	Total £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £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

Notes to the accounts continued

32 Derivatives and other financial instruments continued 2011

	The Group			
	Total £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Financial liabilities on which no interest is paid £000
Euro	31,568	135	12,565	18,868
US dollar	2,544	–	323	2,221
Other	68,537	22	34,858	33,657
	102,649	157	47,746	54,746

In respect of fixed rate financial liabilities, the interest rate for euro financial liabilities is 4 1% fixed for 3 years

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

2011

	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)	22,749	–	22,573	176
	22,749	–	22,573	176

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

US dollar	}	LIBOR
Euro		LIBOR/EURIBOR

32 Derivatives and other financial instruments continued
Terms and debt repayment schedule
The terms and conditions of outstanding loans were as follows

	Currency	Nominal interest rate	Year of maturity	2011 Carrying value £000	2010 Carrying value £000
Unsecured bank facility	CZK	LIBOR + 0.5%	2012	753	785
Unsecured bank facility	€	2.5%	2012	773	–
Unsecured bank facility	€	1.85%	2012	297	657
Unsecured bank facility	€	LIBOR + 2%	2012	11,500	13,248
Unsecured bank facility	NOK	6.50%	2012	18	–
Unsecured bank facility	Won	4.88%	2011	–	1,126
Unsecured bank facility	Won	3.51%	2012	5,027	5,065
Unsecured bank facility	\$	1.25%	2012	323	–
Unsecured bank facility	DKK	5.82%	–	210	218
Unsecured bank facility	YEN	0.69%	2013	6,272	5,906
Unsecured bank facility	\$	0.75%	2011	–	12,739
Unsecured bank facility	£	2.00%	2012	2,573	–
Unsecured bank facility	£	2.02%	2012	20,000	–
Unsecured bank facility	£	2.00%	2011	–	111
Finance leases	RMB	–	2011-2016	17	25
Finance leases	€	4.10%	2011-2014	135	194
Finance leases	Roubles	–	2011-2014	5	15
				47,903	40,089

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

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

2011

	The Group		
	Total £000	Floating rate financial assets £000	Financial assets on which no interest is earned £000
Sterling	14,076	212	13,864
Other	197,350	44,618	152,732
	211,426	44,830	166,596

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	–

Notes to the accounts continued

32 Derivatives and other financial instruments continued 2011

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

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 0.75% (2010 0.90%)

Currency exposures

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

Transactional (or non-structural) exposures give rise to net currency gains and losses that are recognised in the income statement. Such exposures include the monetary assets and monetary liabilities in the Group balance sheet that are not denominated in the operating (or 'functional') currency of the operating unit involved. At 31st December the currency exposures in respect of the euro was a net monetary liability of (£1,121,000) (2010 net monetary asset £227,000) and in respect of the US dollar a net monetary asset of £6,533,000 (2010 £9,185,000).

At 31st December the percentage of debt to net assets, excluding debt was 14.6% (2010 6.5%) for the euro and 1.0% (2010 19.3%) for the US dollar.

Maturity of financial liabilities

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

2010

	The Group					
	Trade and other payables £000	Overdrafts £000	Short-term borrowings £000	Finance leases £000	Long-term borrowings £000	Total £000
In six months or less, or on demand	58,569	995	1,153	26	–	60,743
In more than six months but no more than 12	–	–	–	34	12,803	12,837
In more than one year but no more than two	–	–	–	66	20,026	20,092
In more than two years but no more than three	–	–	–	63	6,015	6,078
In more than three years but no more than four	–	–	–	46	–	46
In more than four years but no more than five	–	–	–	–	–	–
In more than five years	–	–	–	–	–	–
Total contractual cash flows	58,569	995	1,153	235	38,844	99,796
Balance sheet values	58,569	985	1,126	235	37,743	98,658

32 Derivatives and other financial instruments continued
2011

	The Group					
	Trade and other payables £000	Overdrafts £000	Short-term borrowings £000	Finance leases £000	Long-term borrowings £000	Total £000
In six months or less, or on demand	54,746	4,241	26,059	36	–	85,082
In more than six months but no more than 12	–	–	11,697	37	–	11,734
In more than one year but no more than two	–	–	–	68	6,345	6,413
In more than two years but no more than three	–	–	–	10	–	10
In more than three years but no more than four	–	–	–	3	–	3
In more than four years but no more than five	–	–	–	3	–	3
In more than five years	–	–	–	–	–	–
Total contractual cash flows	54,746	4,241	37,756	157	6,345	103,245
Balance sheet values	54,746	4,194	37,280	157	6,272	102,649

2010

	The Parent					
	Trade and other payables £000	Overdrafts £000	Short-term borrowings £000	Finance leases £000	Long-term borrowings £000	Total £000
In six months or less, or on demand	321	112	–	–	–	433
Total contractual cash flows	321	112	–	–	–	433
Balance sheet values	321	111	–	–	–	432

2011

	The Parent					
	Trade and other payables £000	Overdrafts £000	Short-term borrowings £000	Finance leases £000	Long-term borrowings £000	Total £000
In six months or less, or on demand	176	2,599	20,202	–	–	22,977
Total contractual cash flows	176	2,599	20,202	–	–	22,977
Balance sheet values	176	2,573	20,000	–	–	22,749

Cash flow hedge

The Group uses forward currency contracts to manage its exposure to movements in foreign exchange rates. The forward contracts are designated as hedging instruments in a cash flow hedging relationship. At 31st December the Group had contracts outstanding to purchase £1,020,000 with Japanese yen, £2,561,000 with euros, €9,222,000 with US dollars, £9,060,000 with US dollars, Swedish SEK19,693,000 with US dollars, Danish DKK7,192,000 with US dollars, £3,518,000 with Chinese RMB, €339,272 with Singapore dollars and £595,002 with Singapore dollars. The fair values at the end of the reporting period were £27,059,000 (2010 £8,250,000). The fair value of cash flow hedges falls into the Level 2 category of the fair value hierarchy in accordance with IFRS 7.

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	
	2011 £000	2010 £000
Expiring in one year or less	15,937	30,605

	The Parent	
	2011 £000	2010 £000
Expiring in one year or less	7,427	19,889

Notes to the accounts continued

32 Derivatives and other financial instruments continued

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 £150,000 (2010: £220,000).

At the year-end borrowings totalled £47,903,000 consequently, in respect of financial liabilities, the Group is not significantly at risk from increases in interest rates.

For the year ended 31st December 2011, 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 £1,600,000 (2010: £1,500,000). 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 2011	Impairment 2011	Gross 2010	Impairment 2010
Not past due date	104,038	(539)	107,219	(280)
0-30 days past due date	20,600	(184)	15,043	(354)
30 days – 1 year past due date	21,795	(3,226)	19,977	(4,255)
More than one year	5,001	(5,001)	5,229	(5,229)
	151,434	(8,950)	147,468	(10,118)

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:

	2011	2010
Balance at 1st January	10,118	8,121
Movement in impairment	(1,168)	1,997
Balance at 31st December	8,950	10,118

Financial summary 2002-2011

	2002	2003	2004	Prepared under IFRS 2004
	£000	£000	£000	£000
Revenue	296,363	314,087	325,833	315,991
Operating profit	42,674	45,750	51,100	47,956
Operating profit (adjusted)	-	-	-	47,956
Operating profit margin (adjusted)	14.4%	14.6%	15.7%	15.2%
Profit before taxation	40,693	44,564	50,836	48,704
Profit before taxation (adjusted)	-	-	-	48,704
Profit after taxation	26,807	29,426	33,682	32,442
Dividends in respect of the year	14,350	15,028	16,102	16,196
Net assets	149,293	163,816	182,013	166,286
Earnings per share (basic)	35.3p	38.5p	43.4p	43.1p
Earnings per share (adjusted)	-	-	-	43.1p
Dividends in respect of the year (per share)	19.3p	20.1p	21.4p	21.4p
Special dividend (per share)	-	-	-	-
Return on capital employed	25.6%	28.3%	31.0%	27.2%

* The results for 2004 to 2011 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 2011 and 2010 see note 2.

Return on capital employed is based on adjusted operating profit and average net assets excluding net goodwill and net debt. For 2011 and 2010 see note 25.

Prepared under IFRS

	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000
Revenue	349,100	344,249	417,317	502,316	518,705	589,746	649,991
Operating profit	55,170	61,941	68,336	81,028	76,522	121,396	129,498
Operating profit (adjusted)	55,345	62,291	68,720	85,669	89,938	119,125	133,960
Operating profit margin (adjusted)	15.9%	16.2%	16.5%	17.1%	17.3%	20.2%	20.6%
Profit before taxation	56,959	65,344	72,163	85,162	76,415	123,493	132,341
Profit before taxation (adjusted)	57,134	65,694	72,796	90,146	90,196	121,613	137,169
Profit after taxation	38,187	44,066	49,190	59,788	53,091	86,654	93,238
Dividends in respect of the year	18,318	20,038	22,754	25,668	27,569	52,624	38,072
Net assets	198,246	199,722	242,965	296,006	307,364	379,524	400,120
Earnings per share (basic)	50.0p	57.7p	64.7p	78.0p	69.6p	112.5p	120.0p
Earnings per share (adjusted)	50.2p	58.1p	65.5p	83.4p	82.2p	109.5p	124.8p
Dividends in respect of the year (per share)	23.8p	26.5p	29.9p	33.3p	36.1p	43.0p	49.0p
Special dividend (per share)	-	-	-	-	-	25.0p	-
Return on capital employed	30.4%	32.2%	33.6%	35.5%	33.3%	42.1%	41.1%

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Willans LLP

Important dates

Annual General Meeting 15th May 2012

Final dividend

Ordinary shares quoted ex-dividend	18th April 2012
Record date for final dividend	20th April 2012
Final dividend payable	18th May 2012

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 Afnca (Pty) Ltd

Spain

Spirax Sarco S A

Spirax-Sarco Engineering S L

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 Arnenca 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 SAPI DE CV

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

India

Watson-Marlow India Private Ltd

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

Russia

Watson-Marlow LLC

South Africa

Watson-Marlow Bredel S A (Pty) Ltd

Sweden

WM Alitea A B

Switzerland

Watson-Marlow Ltd (Branch)

United Kingdom

Watson-Marlow Ltd

USA

Watson-Marlow Inc