Annual Report 2008

spirax sarco

Our principal objective

The Group's prime financial objective is to provide enhanced value to shareholders through consistent growth in earnings per share and dividends per share.

Our purpose

Through lasting customer relationships we assist our customers to achieve environmentally friendly solutions for process efficiency improvements, energy savings and plant safety and regulatory compliance.

About us

The Group maintains its headquarters in Cheltenham, England and has been quoted on the London Stock Exchange since 1959. The Group is a multi-national engineering company and comprises two focused niche businesses in which we are world leaders: Spirax Sarco for steam specialties and Watson-Marlow for peristaltic pumping. Over many years the company has reported a strong financial performance and continues to profitably expand its businesses around the world through organic growth and acquisition.

- We employ 4,400 people around the world including more than 1,300 direct sales, service and technical engineers.
- We have 8 strategically located major manufacturing plants in 7 countries, committed to superior customer service and quick local deliveries on all continents.
- We have trained 1,000,000 students through our 38 learning centres and correspondence courses.
- We have more than 100,000 customers that buy regularly.
- We have established 49 operating companies in 33 countries dedicated to providing engineered solutions including products, prefabricated packages and services.
- We continue to expand our comprehensive product range to provide total solutions.

spirax sarco

" 50th year quoted on the London Stock Exchange "

" we invest heavily in training our people on product applications and system understanding in our 38 training centres worldwide "

" our 1,300 direct sales and service engineers provide local solutions and support "

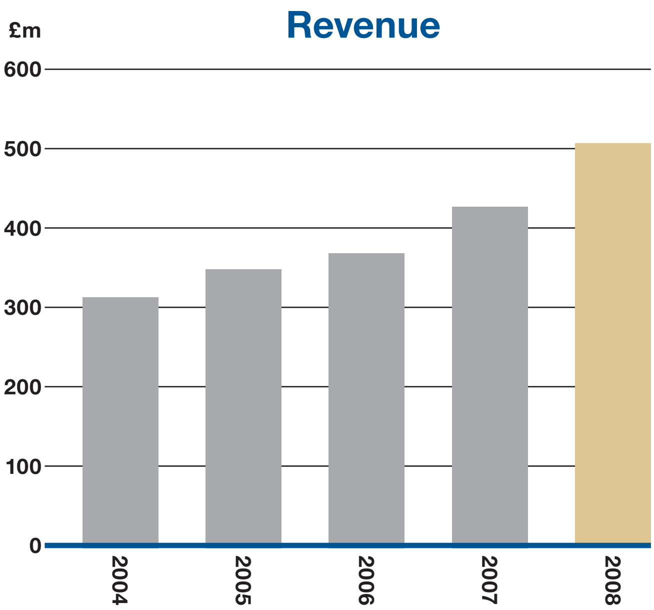
Contents

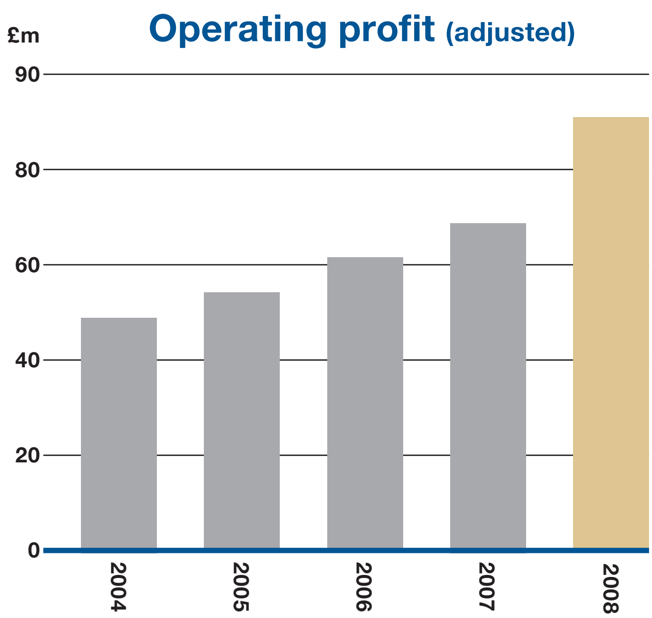
Spirax-Sarco Engineering plc final results 2008

Adjusted*	Year to 31st December		
	2008	2007	Change
Revenue	£502.3m	£417.3m	+20%
Operating profit	£85.7m	£68.7m	+25%
Operating profit margin	17.1%	16.5%	
Profit before taxation	£90.1m	£72.8m	+24%
Earnings per share	83.4p	65.5p	+27%
Dividends per share	33.3p	29.9p	+11%

Total	Year to 31st December		
	2008	2007	Change
Revenue	£502.3m	£417.3m	+20%
Operating profit	£81.0m	£68.3m	+19%
Profit before taxation	£85.2m	£72.2m	+18%
Earnings per share	78.0p	64.7p	+21%
Dividends per share	33.3p	29.9p	+11%

* All profit measures exclude the amortisation of acquisition-related intangible assets of £1.9m (2007:£0.6m) of which £0.3m (2007: £0.2m) relates to Associates, and the impairment of goodwill and intangible assets of £3.1m (2007:nil). The tax effects on these items was £0.9m (2007:nil).





- 20% sales growth well-spread across all geographies (10% at constant currency)
- 25% increase in operating profit (11% at constant currency)
- Significant exchange benefits
- Seventh consecutive year of margin improvement to 17.1%
- Dividends up 11% for the year
- Cash balance increased to £17m

At a glance

Meet Spirax Sarco...

Spirax Sarco is a UK-based multi-national engineering company tightly focused on its two niche businesses of steam system specialties and peristaltic pumping in which we are the world market leaders. We support our customers around the world with sales and manufacturing operations on all continents, and are able to provide same-day delivery in most parts of the world for the products and services our customers demand.

We have a worldwide network of outstanding local direct sales people. They have been trained to provide the knowledge and expertise that enable us to understand the challenges facing steam and pump users better than any of our competitors. Because of our application knowledge, long experience and global presence, we are able to offer the most extensive range of engineered solutions to our customers whilst delivering market-leading service standards.

Our continued focus on developing the business to achieve market share gains, along with geographic expansion, new product developments, acquisitions and an expanded range of products has enabled Spirax Sarco to generate steady, profitable growth for a long period of time, evidenced by our excellent 40+ years dividend record.

The Group continues to operate with a strong balance sheet. The business is highly cash generative and we consistently achieve a high return on capital employed.

" over 40 years of dividend record "

Watson-Marlow peristaltic pump business

The Watson-Marlow pump business comprises 15% of Group revenues.

The unique properties of peristaltic pumps make them ideal for difficult pumping applications. They are highly accurate and controllable, and virtually maintenance-free, making them a very cost-effective solution. Watson-Marlow are specialists not only in the manufacture of the best and most advanced peristaltic pumps, but also in the application of those pumps to customers' processes.

Watson-Marlow is the global leader in peristaltic pumping and supplies products and systems to cover a wide range of flow rates and applications. Operating a "make-to-order" manufacturing system and uniquely extruding our own pump tubing, Watson-Marlow has the leading position in the supply of peristaltic pumps to the bio-technology, pharmaceuticals, waste water treatment, mining and food industries. The peristaltic pumping market is a small part of the global pump market, but it is one of the fastest growing segments.

Spirax Sarco steam business

The steam business comprises 85% of total Group revenues.

As a heat source, steam is the natural choice in most industrial processes due to its high heat-carrying capacity, controllability, sterility and efficiency as a heat transfer medium. With our specialist knowledge, technical expertise, range of products, prefabricated engineered packages and site services, as well as our global spread in local markets, Spirax Sarco is uniquely positioned to provide a broad range of engineering solutions to the many industries using steam.

We assist our customers to improve the efficiency of their process heating, increase the output of the process, reduce running costs (most notably energy consumption) and to lower their emissions. Our direct sales force is trained extensively in product application, system design and troubleshooting. Spirax Sarco can provide complete turnkey bespoke packages including design, fabrication, installation, commissioning and maintenance; creating a one-stop shop approach.

Our customers continue to face high fuel costs, pressure to improve the efficiency of their processes and the need for compliance to new safety, environmental and health legislation. Our products, expertise and experience mean we are uniquely able to focus on providing the most cost-effective solutions to our customers.

" steam is used in a broad range of industries "

Delivering customer value

We go to market using mostly direct sales people. In doing so we form strong, long-term customer relationships. The company employs more than 1,300 direct sales and service people working in more than 33 countries in the world. Our sales and service engineers are trained to understand applications in a comprehensive range of industries, to analyse customer problems and then to supply the solution through the application of our products, prefabricated packages and services. They are highly trained in our 38 training centres around the world, most of which are equipped with live steam that facilitates hands-on training. These centres are used to train both our own people as well as our customers' technical staff. We also provide an extensive range of technical materials available on our websites.

Our sales people are highly skilled in not only product applications but, perhaps even more importantly, also in systems understanding and troubleshooting for unique customer applications and industrial processes. This product and systems application knowledge combined with local availability of products and on-site services enable our customers to achieve meaningful energy savings, comply with increasingly stringent health, environmental and safety regulations, reduce emissions and achieve more efficient processes.

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

Good opportunities for continued sales growth

Our business strategy is focused on achieving long-term, steady and profitable sales growth. The steam industry around the world is very fragmented, with many local or regional competitors. Despite our market-leading positions, we have a relatively small market share of the total available market and good opportunities remain for continued sales growth.

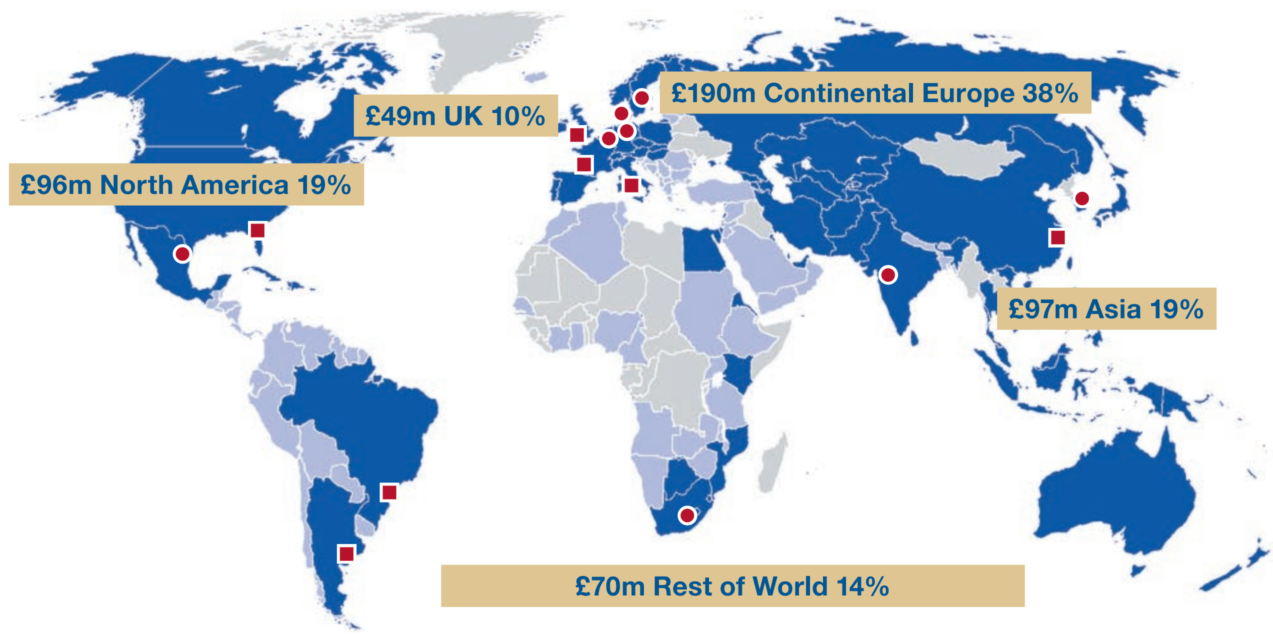
Steam is used in almost all processes, from curing and dying in a textile plant; to thermal cracking of crude oil in a refinery; to the moulding of tyres; to tight temperature control for consistent brewing flavour. We have broadened our range of products, applications, prefabricated engineered packages and site services to address changing customer needs as they outsource more of their design and maintenance activities.

Our traditional product markets such as steam traps, pressure controls and steam piping ancillaries, have always formed the foundation of our steam business and are the building blocks of our solutions approach. This will remain the case for the foreseeable future. However, our prefabricated engineered solutions that typically incorporate heat transfer technology, on-site auditing services and new products in controls and clean steam, are seeing good growth and are increasingly important to our strategic ambitions.

We continue to expand the available pump market for peristaltics by innovations in pump designs and tubing to broaden the range of applications. This creates an expanding market in the application of peristaltic pumping.

Global spread

The Group is surprisingly international for its size and is well spread geographically. Today we have 49 operating companies in 33 countries around the world and maintain operations on all continents. Despite being based in the UK, less than 10% of 2008 sales were destined for UK customers. We have a large presence in Europe (38% of 2008 sales), North America (19% of 2008 sales) and Asia (also 19% of 2008 sales). We also have sizeable operations in South America, Australasia and Africa. Our manufacturing operations are strategically located in all key market regions with major facilities located in the UK, France, Italy, USA, Brazil, Argentina, and China. We also manufacture in South Africa, Mexico, Netherlands, India, Germany, Sweden, Korea and Denmark. We are expanding our manufacturing footprint in Asia to better match the growing sales opportunities.



■ **Group companies and sales offices**

■ **Distributors**

■ **Large manufacturing sites:** UK, USA, France, Italy, China, Brazil and Argentina

● **Other manufacturing sites:** Mexico, Netherlands, Germany, Sweden, South Africa, India, Korea and Denmark

Chairman's statement

The Group achieved excellent results for 2008 capitalising on the steady investments we have made over past years. 2008 sales were a record £502.3 million, up 20% from £417.3 million in 2007 and pre-tax profits were £90.1 million, a 24% increase from last year's £72.8 million.

Results benefited from favourable currency movements, with sterling on average 9% weaker in 2008. At constant exchange rates, the sales increase was a strong 10%, including a small contribution from acquisitions and continuing the trend of the last several years of good growth.

As in the first half of the year, we achieved good sales growth from all geographic regions, with particularly strong results from South America. There was a continuation of the good growth in Asia, Continental Europe, the UK and North America. However, demand weakened in all geographic regions later in the year.

Operating profit increased by 25% to £85.7 million from £68.7 million in 2007. Following a decision to close the Florida operation of our UltraPure business, we have taken a non-recurring charge of £1.1 million in these results in respect of the closure costs. In addition, we have taken a non-cash charge of £3.1 million in the statutory operating profit in respect of the impairment of intangible assets, mostly goodwill. The operating profit increase includes favourable currency movements of over £8 million. At constant currency, the year-on-year operating profit increase was 11%. The operating margin improved to 17.1% from 16.5% in the prior year due to higher volume, favourable pricing dynamics and exchange transaction benefits, partially offset by higher material costs.

Net finance income was £1.7 million, which compares with £2.4 million in 2007. There was a £1.3 million decrease in net finance income relating to the defined benefit pension funds; against this, there was an increase in net bank interest of £0.6 million from good cash flow, despite funding the aggregate consideration of £14 million for acquisitions. The proportion of Associates' post-tax profits attributable to the Group increased to £2.7 million from £1.6 million in 2007.

Pre-tax profit for the Group increased to £90.1 million (after charging £1.1 million of Spirax UltraPure closure costs), up 24% from the 2007 pre-tax profit of £72.8 million. Earnings per share rose by 27% to 83.4p from 65.5p in 2007.

Your Board is recommending a final dividend of 23.3p per share payable on 18th May 2009 to shareholders on the register at the close of business on 17th April 2009. This, together with the interim dividend of 10.0p per share paid in November, makes a total dividend for the year of 33.3p per share. This compares with a total dividend of 29.9p per share last year, an increase of 11%. The cost of the interim and final dividends is £25.7 million, which is covered 2.5 times by earnings. No scrip alternative to the cash dividend is being offered.

On 11th February 2008, the Group completed the acquisition of Flexicon A/S in Denmark. Flexicon has been integrated into the Watson-Marlow pumps business. Colima, a small Italian level controls business, was acquired on 31st March 2008 and has been integrated into our Italian steam business. We are pleased with the progress of both these acquisitions, noting that they were accretive to earnings in 2008. During the year, the Group also purchased the remaining 4.9% minority shareholding of its Spanish subsidiary and completed the acquisition of PAK Machinery, Flexicon's distributor company in the UK.

At the end of 2008, the Group had net cash of £17.4 million. The year started with net cash of £15.8 million and during the year there was good cash generation helped by the improvements in profits. We ended the year with higher net cash despite acquisitions, share repurchases, additional UK pension contributions and our increased investment in capital expenditure.

The Group has undergone several changes in its Board. Marcus Steel, the Group's previous Chief Executive, retired from the Board on 31st March 2008, having joined the Group in 1972 and the Board in 1992, and we thank him for his many contributions to the success of the company and wish him a very happy and long retirement. Mark Vernon succeeded Marcus as Chief Executive from 1st April 2008. Mark joined the Group as President of Spirax Sarco, Inc. in the USA in 2003 and he then joined the Board of Spirax-Sarco Engineering plc in June 2006 with responsibility for the Americas and Group Marketing, and was subsequently named Chief Operating Officer in June 2007.

Peter Smith retired from the Board as Company Secretary and Director with effect from 31st March 2008 after 33 years with the Group, and we likewise wish him a long and healthy retirement. William Stebbings replaced Peter as Company Secretary with effect from 1st April 2008 having joined Spirax in February 2007. He is a Solicitor with extensive prior industrial experience.

Einar Lindh, a non-executive director, retired from the Board as of 31st December 2008 after serving 9 years. We thank Einar for his contribution to the Group and wish

" The Group achieved excellent results for 2008 capitalising on the steady investments we have made over past years. "

"...continue to make other necessary investments in new product development and geographic expansion for the long-term growth of our business."

him well in his retirement. Dr Krishnamurthy Rajagopal was recently appointed an independent non-executive director with effect from 10th February 2009. Dr Rajagopal was previously a main board director of BOC Group plc and Chief Executive of BOC Edwards, and brings relevant prior experience in product development and international business.

We also recently announced that Alan Black will be leaving the Board on 30th April 2009, realising his long-held intention to retire early. Alan joined the Board in 1998 and we thank him for his valued contribution to the Group in the development of our European and Asian business. We welcome Mike Gibbin to the Board as an executive director with effect from 1st May 2009. Mike started with the company in 2007 as Director of our Cheltenham manufacturing operations, having worked previously as Chief Executive of Comau Sweden.

Prospects

It is clear that we are in a very uncertain and unpredictable economic environment. In the early weeks of 2009, sales were down about 5% at constant currency and days, compared with the relatively strong early period in 2008. We have prepared for tough market conditions to continue and are taking strong actions as a prudent precaution to address the uncertain outlook. As part of our cost containment steps, we are reducing our global workforce, largely in back office, support functions and manufacturing, and are taking an expected pre-tax charge of around £7 million in 2009. We expect annualised benefits of approximately £8 million, over half of which we anticipate to be realised in 2009, largely in the second half, and to be fully realised in 2010. These steps will allow us to continue to make other necessary investments in new product development and geographic expansion for the long-term growth of our business. If recent exchange rates continue, we would see further exchange benefits within our results in 2009.

The Group's outstanding niche businesses and its fundamental strengths of a very diverse geographical spread, customer base and product range, together with our highly trained direct sales force, clear focus and good cash generation, will serve us well in today's challenging market environment.

Mike L.

M Townsend, Chairman

Unless otherwise stated all profit measures quoted in the text above exclude the amortisation of acquisition-related intangible assets of £1.9 million (2007: £0.6 million) of which £0.3 million (2007: £0.2 million) relates to Associates, and the impairment of goodwill and intangible assets of £3.1 million (2007: nil). The tax effects on these items is £0.9 million (2007: nil).

Business review

Our strategy of concentrating on our two business segments, investing for growth and improving our customer value proposition has led to another year of good organic sales growth in 2008. This sales growth came from all geographic regions, helped further by the acquisition of Flexicon and favourable exchange rate movements. We have implemented a number of strategic selling initiatives over the past several years and have gained good traction in the marketplace for these products and services. Clearly market conditions will be challenging for the near-term, but despite these headwinds, there remains good long-term growth potential for both the Spirax-Sarco steam business and Watson-Marlow. We will continue to make the necessary investments in new product development, people development, geographic expansion and complementary acquisitions to generate continued profitable growth.

M.E. Vernon, Chief Executive

Market overview

The Company serves a very broad range of industries and this is one of the reasons the Group has a generally resilient business model. We maintain large positions in foods, beverages and brewing, oil refining, pharmaceuticals and fine chemicals process industries. We also maintain a large position in hospitals and commercial buildings in supplying products for sterilisation, space heating, hot water generation and laundering. However, no single industry represents more than 10% of sales, and no single customer accounts for more than 1% of sales – in a word, our industry base is well spread.

" no single industry is greater than 10% of sales...

...and no single customer greater than 1%. "

Business drivers - creating growth

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

- Global economic growth
- Industrial production and investment
- Capacity utilisation
- Energy costs
- Regulatory legislation (e.g. emissions, hygienic standards, plant safety)
- Customer outsourcing (design and maintenance)
- Technology changes
- Expanded peristaltic pump applications
- Capital projects

Strategy

The Group remains focused on the development of its two market-leading businesses. The Spirax Sarco steam business aims to be the steam users' first choice provider of a broad range of products, engineered packages and services for the effective use and control of steam and related industrial fluids. Watson-Marlow aims to strengthen its position as the world's leading manufacturer of innovative peristaltic pumping solutions by providing customers with problem-solving knowledge and superior value for life. The position of our two businesses as world leaders is founded on our long-held strategy of investing for growth both organically and by complementary acquisitions. Both the Spirax Sarco and Watson-Marlow businesses supply a very broad base of customers in a wide range of industries and concentrate on assisting customers achieve process efficiency and energy savings through our highly trained technical sales forces.

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 Spirax Sarco and Watson-Marlow businesses are anchored on the philosophy of understanding the detail of the customers' processes and being able to apply the products, and to design pre-packaged solutions, in order to give process efficiency, energy saving or regulatory compliance benefits. We are clear that by investing in sales and marketing resources, in new product development, in improving manufacturing efficiencies, in training our people and in acquisitions, we expect to continue to grow sales, profits and dividends in the long term.

People

We create customer value through the application of our knowledge and through understanding the challenges facing the customer.

Consequently, we are committed to our people, with training and development being a major element of our success. Staff and our customers are exposed to our training and development tools worldwide - we have 38 training centres around the world and extensive technical training material available on our websites.

'Skilled and Motivated People' is one of our recently redefined key strategic goals. Already, this has led to investment such as a greater human resources capability being employed to raise our people management and development skills, through to an occupational health company being contracted to operate on our Cheltenham sites. There is more we can and will do to continuously improve in this key area.

Case study: Spain

Service and design capabilities lead to increased investment

Delta Compresion S.r.l. who manufacture compression systems for refuelling stations, wanted solutions for the automation of their equipment. Our know-how in gas applications found solutions using our range of standard products.

We also developed and designed new products specifically for their needs and to meet changing requirements as the business expanded. We worked very closely with them to create the right solution for their business, including producing ball valves for high pressure and high temperature gas applications.

The trust in our knowledge, pre and post-service and the performance of our products, met the requirements of Delta Compresion and has contributed to Delta being seen as one of the most reliable suppliers and largest manufacturers of compressed natural gas.

Trends

The industrial and commercial steam-using market is highly fragmented and, although Spirax Sarco is the market leader, we still have significant growth opportunities. Additionally, we are widening our range of products, engineered packages and site services that enables us to expand our market potential. Our technically expert direct sales force also allows us to leverage our brands into new products and applications. This increases the amount of plant spend that we can capture in small-scale capital projects and maintenance activities which are at the heart of our business. During the year, we increased the number of trained sales and service engineers across the world, allowing us to generate revenue growth from our range of products, engineered packages and services that incorporate our specialist technical expertise and our assurance of performance. There remains good growth potential, whether in the emerging economies of Asia and South America or in the large and more mature markets of Western Europe and North America, as we apply tailored market development strategies.

Our Watson-Marlow business is the world leader in providing and applying peristaltic pumps for industrial use. One of our major tasks is to educate customers about the intrinsic advantages of peristaltic pumps so that they will increasingly be used to solve difficult pumping problems. The product range is being progressively widened and developed, making use of improved electronics and materials to broaden the addressable market by taking business from other pump types. All these factors make peristaltics one of the fastest growing sectors of the global pumping market. As we widen the possible applications for our pumps, so we are seeing increasing opportunities, including hygienic applications in pharmaceuticals, biotechnology and the food industries. The acquisition of Flexicon A/S in Denmark in February 2008, augmented our presence in the important pharmaceutical and biotechnology markets, and expanded our ability to deliver a wider range of filling solutions.

Current environment

We achieved record sales and profits in 2008. Conditions in our markets were generally favourable around the world but deteriorated as the year progressed. Sterling weakened during 2008, particularly in the latter months, against nearly all currencies, although it was stronger against the Korean won and South African rand, and we benefited from both translation and net transaction gains.

Like other industrial businesses, we are concerned about the abrupt decline in world economic activity and industrial production and remain vigilant as to its impact on our markets. Whilst conditions vary from market to market, taken as a whole we have seen a weakening in demand starting late summer across virtually all geographic regions, although, as expected, we have seen more difficult conditions in North America and Europe. Early in the year oil prices were very high which resulted in increased customer interest in energy saving investments. Although today's much lower price of oil is dampening some of this demand, we see our energy saving initiatives and, perhaps more importantly, the companion emissions reductions that are achieved through improved system efficiency continuing to be of value to our customers.

We are planning for tough market conditions in 2009 and are taking sensible steps to address an uncertain demand outlook. As part of our cost containment efforts we are reducing our global workforce and are taking an expected pre-tax charge of around £7 million in 2009 to cover severance costs. We expect annualised benefits of approximately £8 million, over half of which we anticipate to be realised in 2009, largely in the second half, and to be fully realised in 2010. The business model and strong technical selling approach has historically enabled the Group to be resilient through the cycles. However, given the nature of the current environment, we are taking stronger actions as a prudent precaution. These cost containment steps will allow us to continue to make other necessary investments in new product development and geographic expansion for the long-term growth of our business.

Mark Vernon, CEO of Spirax-Sarco Engineering plc recieves the keys from Mike Hawtin, Managing Director of ADC Krone.

The 'ADC Krone' site directly opposite our existing Runnings Road site

Major developments

During 2008, we increased our investments in research and development and reorganised our main product development group in Cheltenham to generate a stronger flow of new products and shorten the time to market. We have also increased our investments in new product development at Watson-Marlow. We have a number of exciting new product development programmes underway in both the steam business and Watson-Marlow.

In December 2008 we purchased, for £3 million, a five-acre site and industrial buildings adjacent to our main factory in Cheltenham. We are in the process of starting to consolidate our other two factory sites in Cheltenham onto the new site. Refurbishment of the existing buildings and some new construction, followed by a progressive relocation of production, are expected to be completed within 18 months and yield annual cost savings in excess of £1 million. The two vacated sites will then be sold.

Capital expenditure in 2009 is again expected to be high at around £40 million, due in particular to the investments in China, Falmouth and Cheltenham. The favourable movements in exchange rates, if maintained, will also contribute to higher values of capital investment on translation into sterling.

During the year, we made three small acquisitions in support of our long-term growth strategies and added people into our direct selling organisation to support further geographic expansion in developing markets.

Environmental strategy

The Group recognises its high level of responsibility to the environment.

Clearly, our own decisions and actions have an environmental impact and, like most companies, we are taking steps to both measure and manage this, with the goal of reducing it.

However, the solutions we provide to the many industries we serve most often help them to reduce their energy consumption per unit of manufacture, meaning we can significantly influence the environmental impact of our customers too.

Consequently, our environmental strategy is centred around a promise to; Provide Real Opportunities to Manage, Improve and Sustain our Environment.

This applies to our own processes and actions to ensure we are making best use of all resources to reduce unnecessary waste, whilst maintaining a broad range of quality and environmentally friendly products, services and solutions.

Importantly, it is also about us providing solutions to industry to improve their processes through our global network of outstanding local people and suppliers. This is more than words; we have 80 years of experience in saving our customers' energy and water, thus making us well placed to understand the environmental challenges facing our customers and to advise them accordingly.

" during 2008 we reorganised our main product development efforts to generate a stronger flow of new products "

New products

During 2008 both our steam business and Watson-Marlow launched exciting new products and package systems. These products further support our core competence of enabling our customers to achieve greater levels of safety, energy efficiency, and process control. In addition, our increase in investment in research and development in 2008, and its reorganisation will lead to an even stronger flow of new products, as well as shorten their time to market.

SP200 Positioner

The SP200 is a new generation of non-contact feedback electro-pneumatic valve positioner that provides superb accuracy and easy operation.

Hydra-flow

Hydra-flow draws on over twenty years of experience, creating a new generation of low-cost vortex flow meters specifically designed for commercial HVAC, agriculture, and semiconductor water flow applications.

Flexicon FPC50 (Watson-Marlow)

An automatic liquid filling, plugging and crimp capping system which eliminates the need for human interface in small batch filling operations.

Spirax SafeBloc™

This innovative, patented design incorporates two isolation valves and a bleed port in a compact assembly. It has ANSI or EN standard face to face dimensions enabling it to replace an existing single isolation valve. No other commercially available product provides double block and bleed isolation in such an integrated, compact unit.

BT6-B

The BT6-B is a high specification, hygienic steam trap for use in the pharmaceutical and biotechnology industries. The design has been optimised to ensure that the sterility of critical applications is maintained under varied process conditions.

PSG

The Pure Steam Generator (PSG) employs the vast steam engineering experience of Spirax Sarco and applies it to the demanding bio-pharmaceutical sector. The unit encompasses Spirax Sarco's system engineering development to enable the production of steam at its highest purity.

Performance review

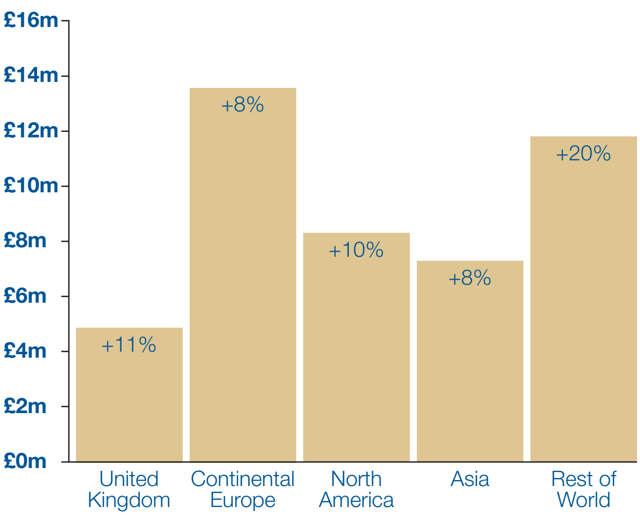
Trading

Total Group sales increased by 20% in 2008 to £502.3 million (2007: £417.3 million). We benefited from favourable movements in exchange rates and the sales increase at constant currency was a strong 10% for the year, carrying on the good growth from the past several years. While some of this growth arose from the largely positive economic conditions, we continued to develop the product range and to implement a series of global and local sales initiatives. Acquisitions contributed approaching 2% to sales growth. There was good organic growth in all regions, with the strongest increase in the rest of the world (South America, Australasia and Africa) and solid growth in Asia, the UK, Continental Europe and North America.

In the Spirax Sarco steam business, sales increases were achieved across the breadth of the product range with the strongest growth in controls, clean steam products and heat exchange packages. In our Watson-Marlow business, there were good sales increases across all geographies including higher sales into the water and waste water markets and from large precious metals mining projects in Brazil and South Africa.

The Group's operating profit was £85.7 million (2007: £68.7 million) which includes the £1.1 million closure cost of UltraPure's Florida operation, giving an increase of 25% in sterling and 11% at constant currency - another strong result. Sales and profit were both the highest ever achieved by the Group. The increase in operating profit arose mainly from the organic sales growth, improved manufacturing efficiency and exchange benefits, partially offset by higher material costs. The operating profit margin improved again from 16.5% in 2007 to 17.1% in 2008.

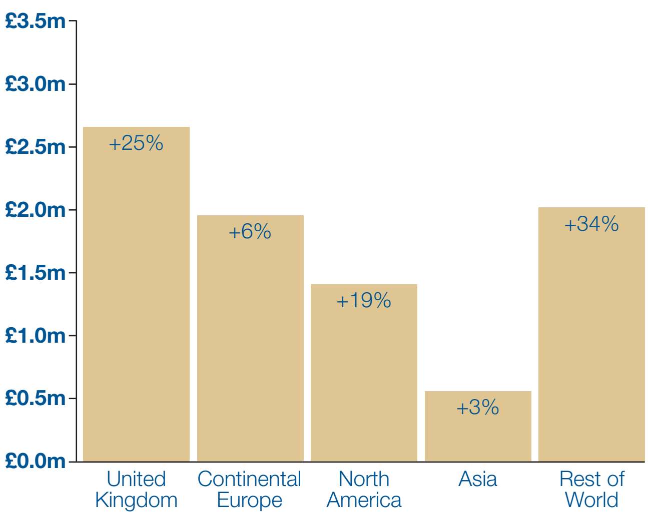
Change in sales
2008 versus 2007 £m



Change in sales is shown at constant exchange rates. Based on sales by location of customer.

Exchange +9%

Change in operating profit
2008 versus 2007 £m



Change in operating profit is shown at constant exchange rates. Based on the location of operations.

Exchange +12%

Geographic review

Area	Share of group sales (by location of customer)	Share of operating profit (by location of operation)
UK and Republic of Ireland 	10%	16%
Continental Europe 	38%	43%
North America 	19%	10%
Asia 	19%	22%
Rest of the world 	14%	9%

United Kingdom and Republic of Ireland

Sales into the domestic market were robust for the second consecutive year, increasing by 12% in 2008 to £49.2 million, up from £44.0 million in 2007. The underlying market became increasingly challenging as the year progressed due to the pressure on our core manufacturing customer base from the contracting UK economy. However, our continued focus on helping to improve plant operations and energy conservation resulted in good growth in sales of steam system services and prefabricated heat exchange packages. Watson-Marlow's sales included a good increase in demand for Bredel pumps and OEM orders for Alitea micro flow pumps.

Our UK factories experienced higher sales due to increased demand from both the domestic and overseas market but suffered from appreciably higher material costs driven by base metal prices, exacerbated by the impact of weaker sterling on imported materials.

Operating profit of £13.3 million was broadly unchanged versus 2007, with good gains in the sales companies but with lower profit from the manufacturing operations due to significant exchange transaction effects on imported materials. At constant currency the operating profit was up 25%. The operating margin (based on total segment revenue by operation) was 10.6% (2007: 11.4%).

Continental Europe

We experienced continued good levels of activity throughout most of 2008, with sales increasing to £190.6 million from £153.7 million in 2007, an increase of 24%. Exchange movements had a considerable positive effect on the sterling figures as the average exchange rate to the euro was 16% weaker than in 2007. Sales were 8% higher at constant exchange, around half of which was contributed by the Flexicon and Colima acquisitions. The higher sales were reflected across both the Spirax Sarco and Watson-Marlow businesses and across the entire range of products, prefabricated packages and services.

Geographically, the growth was also widespread with sales and profit increases from virtually all the Spirax Sarco business operating companies, with particularly good results in France, Italy, Norway and Russia. Similarly, we achieved widespread sales and profit growth in nearly all Watson-Marlow operations.

Overall, regional operating profit increased 40% from £26.3 million in 2007 to £36.7 million in 2008, driven by the organic sales growth, favourable currency movements, higher shipment volume from our French manufacturing plant and profit contributions from the Flexicon and Colima acquisitions. The operating margin was ahead at 15.2% (2007: 13.8%).

North America

Sales in North America increased in sterling by 19% to £95.9 million from £80.8 million in 2007. Sales benefited from an average 8% strengthening of the dollar against sterling, with constant currency sales up 10% from 2007, including a small contribution from Flexicon. The Spirax Sarco steam business grew well with increased sales of heat exchange packages and traditional products. The Watson-Marlow business saw strong overall growth for the year boosted by good sales increases into water/waste water markets and from Bredel pumps.

Towards the end of 2008, we took a decision to close the Florida operation of our UltraPure business. Although UltraPure's operating performance was marginally better than in 2007, the development of sales had been much slower than expected in part due to a downturn in pharmaceutical investment in the USA. We have transferred UltraPure's intellectual property and manufacturing know-how into our Italian and USA operations and intend to launch the first range of UltraPure pure steam generators for Europe from Italy in mid-2009. The 2008 Group operating profit includes a £1.1 million non-recurring charge in respect of the closure. The statutory operating profit includes an additional non-cash £3.1 million charge in respect of the impairment of intangible assets, mostly goodwill, which is excluded from these segmental results.

Including the UltraPure closure charge, the operating profit in North America increased 22% to £8.9 million, which compares with £7.3 million in 2007; at constant currency the operating profit was up 19%. For the year, there was a small exchange transaction disbenefit to profit due to the higher cost of imports from Europe but this began to reverse with the rapid strengthening of the US dollar later in 2008. The operating profit margin improved to 9.1% as against 9.0% in 2007 driven by the sales growth and despite the net unfavourable exchange transaction effects.

Asia

Sales increased in our Asian territories by 14% to £97.0 million (2007: £85.3 million), and at constant exchange were ahead 8%. The markets in nearly all the Asian countries were good through most of the year but we experienced weakening in the important Korean market during the latter part of 2008. Our operations in China and India (reported as an Associate company) achieved significant sales and profit growth, as did most of South-East Asia. We continued to increase sales coverage in the growing markets. The new premises in Korea are nearly completed but additional legal issues delayed the groundbreaking for our new Chinese factory, which is now imminent.

The operating profit was £18.7 million, which compares with £16.6 million in 2007, an increase of 12% and 3% at constant currency. Good profit gains from China, which produced the largest profit in the region, and South-East Asia were held back by lower profit from Korea due to the impact of the weaker won on products purchased from the UK and Europe, and product mix. The overall operating profit margin in Asia was therefore 20.1% in 2008 (2007: 20.9%).

Rest of the world (South America, Africa, Australasia)

Sales increased markedly in the rest of the world to £69.7 million (2007: £53.6 million), an increase of 30%. Exchange rate movements provided an overall benefit and, at constant exchange rates, the sales increased by 20%. We enjoyed strong widespread sales gains, with particularly good results in South America, Australia and the Watson-Marlow operation in South Africa. We restructured the Spirax Sarco South African operation in November 2008 and expect a meaningful profit improvement in 2009.

Operating profits in the rest of the world were £8.1 million, up 57% from £5.1 million in 2007; at constant exchange, the operating profit increase was still a strong 34%. All operations contributed to the profit increase. On the back of the strong profit increase, the margin for the region improved to 11.8% in 2008, up from 9.5% in 2007.

Interest

Net finance income reduced to £1.7 million from £2.4 million in 2007. As expected, the net finance income in respect of defined benefit pension funds deteriorated by £1.3 million in the year mainly as a result of higher interest on liabilities. Net bank interest improved by £0.6 million due to the good underlying cash flow and higher interest rates on cash deposits, and despite the funding costs of acquisitions in the year. For 2009, we anticipate a deterioration in the interest position for two reasons. Firstly, a reduction of around £4 million due to the sharp decline in the expected return on pension fund assets in 2009 following the fall in pension asset values in 2008. Secondly, it is likely that in 2009 interest rates on cash deposits will be much lower than in 2008, impacting bank interest by around £1 million.

Associates

We have minority shareholdings in our operations in India and Mexico which are reported as Associates outside the operating profit. They are nevertheless an integral part of the Group and both produced good results. The Group's share of the profit after tax of Associates increased from £1.6 million to £2.7 million.

Profit before taxation

The Group's pre-tax profit increased by 24% to £90.1 million (2007: £72.8 million).

Taxation

The tax charge, excluding Associates, was 30.0% compared with 32.3% in 2007. The reduction largely reflects a more favourable tax mix of profits and generally lower corporate tax rates. We expect that the tax rate in 2009 will be broadly in line with 2008.

" our extensive application knowledge enables customers to achieve meaningful energy savings and lower emissions "

Case study: UK

Spirax Sarco expertise helps Cova Products slash steam consumption by 35%

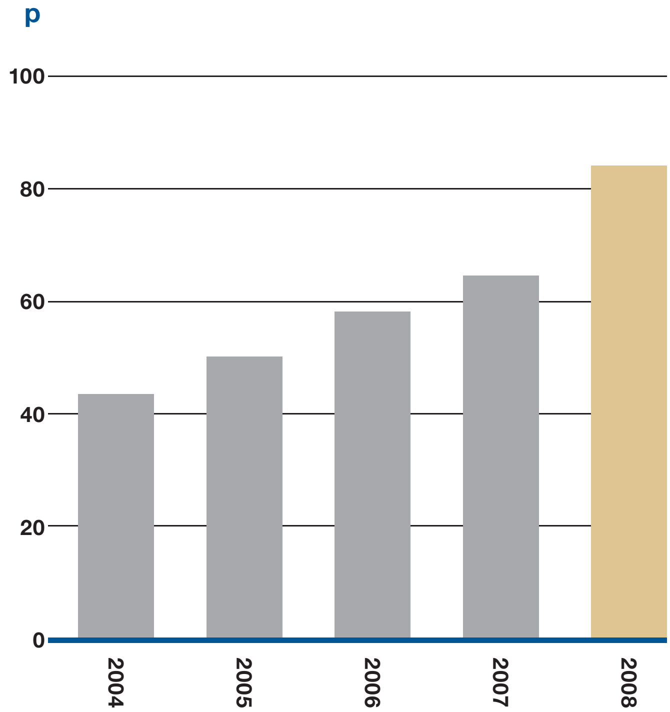
Decorative surface film manufacturer Cova Products has cut its energy consumption by 35% in two years, with a series of energy-saving projects relying on Spirax Sarco expertise. The achievement is even more impressive since production at the site in Cramlington, Northumberland, increased by around 30% over the same period.

“The work we’ve done with Spirax Sarco has reduced our energy bill and the impact on the environment,” says Engineering and Systems Manager Philip Bell. Mr. Bell leads the in-house team responsible for implementing energy saving measures at Cova Products, along with colleagues Bill Milton and Joe Cocker.

“Spirax Sarco has provided valuable advice and highlighted a number of energy-saving opportunities,” says Mr. Bell. “The expertise of the engineer has been of great value to Cova Products.”

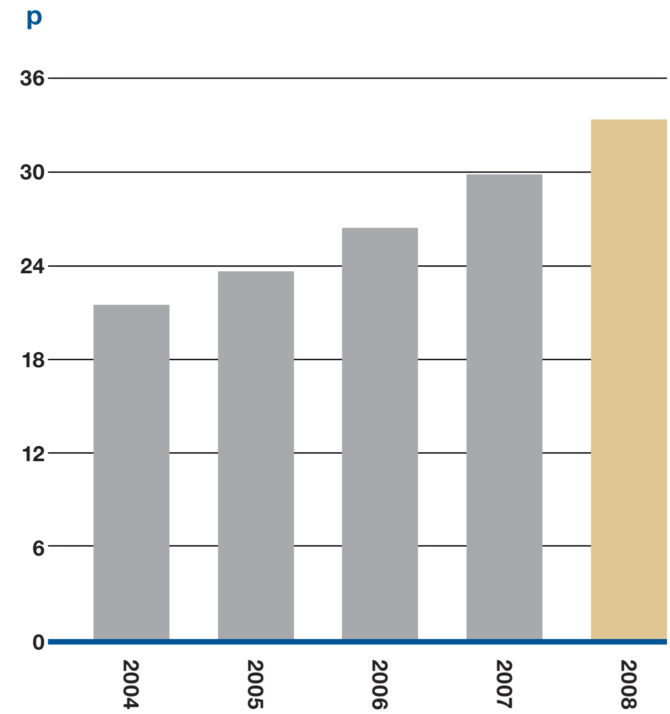
Earnings per share

The Group's prime financial objective is to provide enhanced value to shareholders through consistent growth in earnings per share and dividends per share. Earnings per share were 83.4p compared with 65.5p in 2007; which was an increase of 27%.



Dividends per share

The proposed final dividend is increased by 8% to 23.3p, giving a total dividend for the year of 33.3p. This compares with 29.9p in 2007; which is an increase of 11% continuing our consistent dividend growth record.



Case study: Korea

Providing turnkey engineered solutions

By providing total engineered solutions, Spirax Sarco Korea shortened the period of construction, saved space through the use of a heat exchanger package and achieved a constant temperature of hot water for Dongbu Corporation, a major construction company.

Spirax Sarco Korea provided the engineering, construction and products for the hot water supply system which utilised a shell & plate heat exchanger to provide 10 bar g / 120°C hot water from 30 bar g / 300°C superheated steam. An EasiHeat-ComBi was also used to produce low temperature water for domestic hot water and heating applications.

This meant Dongbu Corporation were able to confidently delegate this element of the project to Spirax Sarco. They relied on us to deliver an engineered system that, not only enabled them to make effective use of the superheated steam, but that also saved them time, space and, above all, risk.

Case study: South Africa (Watson-Marlow)

Leading the way in Peristaltic pumps

Watson-Marlow South Africa is making good progress in the South African water industry by supplying Rand Water with numerous peristaltic pumps.

Watson-Marlow is replacing Rand Water's existing progressive cavity pumps with peristaltic pumps. A major advantage of using peristaltic pumps is that they can run dry without any problems and will easily cope with abrasive chemicals such as silica and lime slurry, used in the treatment process at Rand Water. Both these aspects can very quickly cause problems for progressive cavity pumps that require costly spare parts, labour and long downtime for maintenance.

Capital employed

Increased capital expenditure, growth in business levels, significant movements in exchange rates and a small addition from acquisitions were reflected in a 29% increase in capital employed during the year, to £272 million at 31st December 2008 - at constant exchange rates the increase was 6%. Working capital was up 2% at constant exchange rates largely due to increased stocks but trade debtors were up only 3% reflecting slower sales growth later in the year and an improvement in debtor days. We continue to closely manage working capital levels in the deteriorating economic environment. The three small acquisitions in the year added £1.5 million to capital employed.

	2008	**2007**
	£'000	£'000
Property, plant and equipment	122,897	93,933
Inventories	102,382	73,824
Trade receivables	124,595	98,067
Prepayments and other current assets / (liabilities)	(78,050)	(55,463)
Capital employed	**271,824**	**210,361**
Intangibles and investments in associates	62,225	36,297
Post-retirement benefits	(73,717)	(21,533)
Deferred tax	19,466	3,352
Provisions	(1,182)	(1,343)
Net cash/(borrowings)	17,390	15,831
Net assets	**296,006**	**242,965**
Return on capital employed		
Operating profit	81,028	68,336
Acquisition intangibles amortisation and goodwill impairment	4,641	384
Adjusted operating profit	**85,669**	**68,720**
Average capital employed	**241,093**	**204,778**
Return on capital employed	**35.5%**	**33.6%**

Return on capital employed (ROCE)

ROCE improved again increasing from 33.6% in 2007 to 35.5%. Average capital employed rose by 18%, whereas operating profit increased by 25%.

Capital expenditure

As expected, capital expenditure in 2008 was higher than usual and net fixed assets increased by £12 million at constant exchange rates. We invested in new premises in Korea, construction of which is nearing completion, land in China and commenced building a £6 million expansion to the Watson-Marlow tube and pump production plant in Falmouth which is scheduled to commence operation later in 2009. We continued to invest in plant and machinery and IT systems to improve efficiency.

	2008	2007
	£'000	£'000
Capital expenditure*	30,476	16,052
Depreciation and amortisation*	16,689	13,147
Capital expenditure as a % of depreciation	**183%**	**122%**

* The numbers above exclude acquired intangible assets and capitalised development costs.

Capital expenditure in 2009 is expected to be exceptionally high at around £40 million, due in particular to the investments in China, Falmouth and Cheltenham. The favourable movements in exchange rates, if maintained, will also contribute to higher values of capital investment on translation into sterling.

Intangible assets, investments in Associates and minority interests

Intangible assets include goodwill capitalised prior to 2004 under the UK GAAP, and goodwill and other intangible assets capitalised on acquisition since the transition to IFRS. Intangible assets are amortised over their expected useful life and goodwill is subject to annual impairment testing. Following the decision to close the Florida operation of our UltraPure business, we have written down the value of goodwill and certain of UltraPure's other intangible assets to nil, resulting in a charge against the statutory operating profit of £3.1 million. The intellectual property relating to product design and manufacturing know-how has been transferred to our Italian and USA companies and the related small intangible asset value has therefore not been impaired. There were no impairments in 2007.

Intangible assets amounting to £17.3 million were recognised in respect of acquisitions during the year, largely in respect of Flexicon. Amortisation of acquired intangible assets was £1.9 million (2007: £0.6 million) of which £0.3 million (2007: £0.2 million) related to Associates.

Capitalised product development costs and computer software are also included in intangible assets in accordance with IFRS. The Group balance sheet also includes the cost of investment in our Associate companies in India and Mexico and our share of total equity.

During December we completed the purchase of the remaining 4.9% minority holding in our Spanish company for a consideration of £0.8 million.

Post-retirement benefits

The post-retirement benefit liability shown in the balance sheet increased significantly to £73.7 million (£49.2 million net of deferred tax) at 31st December 2008 compared with £21.5 million (£14.7 million net of deferred tax) a year earlier. Pension fund asset values declined sharply as equity markets fell and underlying liability values were higher reflecting a change to more prudent mortality assumptions. These impacts were mitigated by a rise in corporate bond yields used to value liabilities which consequently declined in this respect.

Most of the asset and liability values relate to the two main UK defined benefit pension schemes. The triennial valuations of these were carried out as at 31st December 2007 and resulted in agreed additional cash contributions of £3.8 million per annum for around five years which commenced in the second half of 2008. The actuarial funding position as at 31st December 2008 will have deteriorated and is likely to result in additional cash contributions starting in 2009.

Case study: Global

Group Manufacturing Strategy

We are continually improving our global manufacturing processes in order to meet changing customer demands, improve efficiency and generate cost savings for re-investment back into the business.

Within the last year, our UK manufacturing sites have introduced 'demand driven' systems in many production areas. This has resulted in significant improvements within the business including:

- Meeting customer demands more reliably
- Raising the efficiency of our output
- Optimising production lines to only make what we sell
- Reducing stock build-up
- Generating real cost savings to the business

We have developed a strategic global manufacturing plan to support faster geographic growth in developing markets, to reduce supply chain logistics costs, to take advantage of lower-cost manufacturing regions and to meet the increasingly challenging demands of our customers.

Cash flow

There was another good cash flow performance for the year. Free cash flow was £39.0 million (2007: £39.0 million) reflecting the strong profit increase but higher than usual net capital expenditure of £26.5 million (2007: £16.5 million). Working capital changes absorbed £14.6 million, including additional pension payments, and taxation payments were £22.1 million.

Out of free cash flow, dividend payments made were up 14% at £23.2 million. There was also an outflow of £13.9 million, largely in respect of the acquisition of Flexicon A/S in February 2008 but also the smaller acquisitions of Colima in March 2008, PAK Machinery, the UK Flexicon distributor, in November 2008 and the remaining 4.9% minority interest in our Spanish company in December 2008.

There was a net outflow of £2.9 million in respect of the purchase of the Company's own shares into Treasury to satisfy the outstanding shares under the Group's share schemes, including an inflow of £3.9 million in respect of Treasury shares reissued mainly to meet share options exercised.

There was therefore a small net cash outflow of £0.9 million due to funding the increased capital expenditure, acquisitions and share buy-backs.

The favourable movements in exchange rates added £2.5 million to net cash balances which, together with the cash outflow for the year, meant that net cash balances were £17.4 million at 31st December 2008 compared with £15.8 million a year earlier.

	2008	**2007**
	£'000	£'000
Operating profit	85,669	68,720
Depreciation and amortisation	15,218	13,847
Equity settled share plans	1,519	1,259
Working capital changes	(11,353)	(3,572)
Additional contributions to defined benefits schemes	(3,236)	(5,726)
Net interest paid	(189)	(793)
Income taxes paid	(22,087)	(18,162)
Net capital expenditure, including development	(26,543)	(16,524)
Free cash flow	**38,998**	**39,049**
Net dividends	(23,189)	(20,271)
Acquisitions	(13,939)	(1,170)
Shares purchased, less proceeds from issues	(2,812)	3,157
Cash flow before exchange	(942)	20,765
Exchange movement	2,501	1,620
Opening net (borrowings) / cash	15,831	(6,554)
Closing net cash at 31st December	**17,390**	**15,831**

Capital structure

Net cash of £17.4 million at 31st December 2008 comprised £52.1 million in cash and cash equivalents, and £34.7 million of debt. The Group has various borrowing facilities available to it and at the year-end undrawn, committed facilities were £32.5 million. The Group's objective is to maintain a balance between continuity of availability of funding and flexibility through the use of overdrafts, loans and finance leases as appropriate. The Group has operations around the globe and therefore its balance sheet can be significantly affected by movements in the rate of exchange between sterling and many other currencies, particularly the euro and US dollar. The Group seeks to mitigate the effect of this structural currency exposure by borrowing in local currency where appropriate, consistent with maintaining a low cost of debt.

Our policy continues to be to maintain an appropriately strong balance sheet. The Group's good cash generation is used to invest in expanding the business both organically and through suitable acquisitions. The Group regularly considers the appropriateness of the structure of its balance sheet. Historically, excess capital has been returned to shareholders through share buy-backs in addition to ordinary dividends.

Case study: UK (Manufacturing)

Leadership for Life

In the UK, the Group has invested in its people through the Leadership for LIFE programme. LIFE is an acronym for 'Little Improvements from Everyone.' This programme started in April 2007, and since then more than 80 leaders have completed the programme. Investment so far is approximately £250,000 and the payback through approximately 400 related improvement projects aimed at removing waste is around £2.5 million. This has been a successful programme for the UK and it is being evaluated for possible future application in other regions.

The primary purpose of the programme is to develop competent and confident leadership at a first-line supervisory level to support the business in achieving its business objectives. This programme includes training our management people in lean manufacturing techniques, leading a winning team, problem solving and continuous improvement.

Case study: UK (Watson-Marlow)

Peristaltic pumps improve process and improve profit margin for apple pie manufacturer

A manufacturer of traditional baked foods is achieving improved process efficiency and better profit margins thanks to the installation of peristaltic technology. The introduction of hose pumps to this food processing plant has made production faster and completely eliminated the need for manual handling of products.

Following consultation with Watson-Marlow's food applications specialists, the company opted for SPX hose pumps. The low-shear design of the SPX range of hose pumps also allows the manufacturer to protect the contents of its pies, in this case apple chunks, thereby safeguarding its reputation for quality foodstuffs.

Case study: USA

Leading the class in emissions reduction and energy savings

The University of Texas at Austin needed to upgrade their steam services, after we demonstrated our capabilities, provided projections and estimates for energy consumption and responded to their concerns.

Impressed with our approach and projected savings, the customer selected us to perform a steam trap survey. We evaluated all steam traps on campus. A total of 2,425 steam traps were found, of which 120 had failed open, wasting 4,380 tons of carbon dioxide per year. An additional 267 traps had failed closed.

Spirax Sarco, Inc then provided a complete turnkey solution and as a result reduced both carbon footprint and energy consumption, saving an estimated $577K annually. Piping upgrades also provided better hot water and hot air temperature control, as well as improving equipment service life and increasing the efficiency of the steam system.

According to UT-Austin's Lewandowski, "Spirax Sarco did it all - they came in, surveyed the trap population, identified the failed traps, supplied and installed replacement traps. They were under budget and on time generating an estimated saving of 27 million pounds of steam per year, equating to a reduction in our fuel bill of $577K a year. We are pleased with the work performed by Spirax Sarco and the energy savings we will achieve through this project."

Risks and uncertainties

The Group has well established risk management processes, including insurance cover, which are an integral part of the operation of our business and which are outlined in the Corporate Governance report on pages 34 to 37 of this Annual Report. Whilst risk can never be eliminated, our processes allow us to identify and appropriately manage and mitigate risks and uncertainties. These mainly arise from the inherent risks of operating a worldwide business largely using our own local sales companies to sell in local currency, direct to end-user customers, distributors, OEMs and contractors, a very wide range of products, mostly designed and manufactured in our own facilities in a number of different countries. The business is well spread geographically, across tens of thousands of customers and across most industrial and commercial sectors. This means that we do not rely excessively on any one customer, product application or industrial sector.

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

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

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

Operational risks and uncertainties include health and safety and environmental issues, employee relations, mitigation of, and recovery from, major disasters, product quality and customer service. We have for many years complied with recognised quality, health and safety and environmental standards and regulations and have applied project management disciplines in our business. The Group's approach to the health and safety of employees is more fully described on page 39. Appropriate measures are implemented locally, particularly in the manufacturing companies, and there were further improvements in health and safety in our operations in the year. The environmental benefits from the use of Group products are more fully described on page 41. General Managers of operating companies are responsible for local compliance with the Group's policy and with local legislation, and are required to report regularly.

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

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

Unless otherwise stated all profit measures quoted in the text above exclude the amortisation of acquisition-related intangible assets of £1.9 million (2007: £0.6 million) of which £0.3 million (2007: £0.2 million) relates to Associates, and the impairment of goodwill and intangible assets of £3.1 million (2007: nil). The tax effects on these items is £0.9 million (2007: nil).

Board of Directors

Michael Townsend MA FCA (67) joined the Group as an independent non-executive director in 1997 and was appointed Chairman in 2005. Until his retirement in 1999 he was the Finance Director of Rolls-Royce plc. He is Chairman of the Nomination Committee and a member of the Finance Committee. He is a non-executive director of Kennel Club Services Limited, Birmingham Dog Show Society Limited and Rolle Barton Limited.

Mark E. Vernon BSc (Hons) (56) joined Spirax Sarco Inc. in 2003 to run the Spirax Sarco business in the USA. He was appointed to the Board in 2006 and became Chief Operating Officer in 2007 responsible for the day-to-day operations of both the Spirax Sarco business and the Watson-Marlow business. He was appointed as Chief Executive in April 2008. He is a member of the Nomination and Finance Committees and Chairman of the Risk Management Committee.

Gareth Bullock MA (55) joined the Group as an independent non-executive director in 2005. He is a director of Standard Chartered PLC. He is a member of the Audit, Nomination and Remuneration Committees. He is a non-executive director of Fleming Family and Partners and Mcashback Limited.

Einar Lindh FCA (64) joined the Group as an independent non-executive director in 2000. As previously announced Mr. Lindh retired from the Board on 31st December 2008 but during the year he was a member of the Audit, Nomination and Remuneration Committees. He is the non-executive Chairman of Volution Group Limited.

Bill Whiteley BSc FCMA (60) joined the Group as an independent non-executive director in 2002. Until his retirement in 2008 he was the Chief Executive of Rotork plc. He is Chairman of the Audit and Remuneration Committees, a member of the Nomination Committee and Senior Independent Director. He is a non-executive director of Dialight plc, Brammer plc, Renishaw plc and Chairman of The British Valve and Actuator Association.

Alan Black BA (Hons) (51) joined Spirax-Sarco Limited in 1981 and has worked in the UK, Austria and Korea and has run the Group's operations in Belgium, Thailand and China. He was appointed to the Board in 1998 and is now responsible for the Spirax Sarco Asian and Australasian operations together with Argentina, Brazil, Mexico and the UK and the Republic of Ireland. He is a member of the Risk Management Committee. As previously announced Mr. Black will be retiring from the Board on 30th April 2009.

Neil Daws CEng FIMechE (46) joined Spirax-Sarco Limited in 1978 and became Product Director in 1996. He was appointed to the Board in 2003 as Supply Director and is responsible for Spirax product marketing, design and manufacture together with Spirax Sarco operations in South Africa and India, Hygromatik Lt A GmbH in Germany and M & M International Srl in Italy. He is also the director responsible for the Group's health and safety and environmental matters. He is a member of the Risk Management Committee.

David Meredith FCMA (49) joined the Group in 1988 as Group Accountant. He was appointed to the Board as Finance Director in 1992. He is also responsible for Watson-Marlow. He is a member of the Finance and Risk Management Committees.

Tony Scrivin (61) joined Spirax-Sarco Limited in 1963. He was appointed a director in 1998 and re-appointed in 2003 on his return to the UK from Spirax Sarco Inc., USA. He was appointed to the Board in 2005 and is now responsible for Continental Europe and North America. He is a member of the Risk Management Committee.

Marcus Steel ACIS FCCA (63) joined Spirax-Sarco Limited in 1972 and was appointed Group Chief Executive in 1998. As previously announced Mr. Steel retired from the Board on 31st March 2008.

Peter Smith ACIS (61) joined Spirax-Sarco Limited in 1974 and was appointed Company Secretary to Spirax-Sarco Engineering plc in 1992 and to the Board in 1995. As previously announced Mr. Smith retired from the Board on 31st March 2008.

Krishnamurthy Rajagopal FREng, CEng, FIET, FIMech E, FIE, FCMI PhD (55) was appointed to the Board as an independent non-executive director on 10th February 2009. He is a member of the Audit, Nomination and Remuneration Committees. He is a non-executive director of Dyson Group plc, W. S. Atkins plc and Bodycote plc. He is also an Audit Commissioner. He was previously an executive director of BOC Group plc.

Michael Gibbin BSc (Eng), CEng, IMechE (46) joined Spirax-Sarco Limited in 2007 as the UK Supply Director responsible for the Cheltenham manufacturing operations. As previously announced Mr. Gibbin will join the Board on 1st May 2009. He will be responsible for the Group's Supply operations in Cheltenham and France and for Spirax Sarco operations in North America, the Group's research and development facility and the Group's health and safety and environmental matters. He will be a member of the Risk Management Committee.

Company secretary

William Stebbings BCL MA (54) joined Spirax-Sarco Limited in February 2007 as Deputy Company Secretary and was appointed Company Secretary of Spirax-Sarco Engineering plc and of Spirax-Sarco Limited on 1st April 2008. He is also a director of Spirax-Sarco Limited. Mr. Stebbings is a Solicitor, having been admitted in 1980. He is a member of the Risk Management Committee.

Directors' report

Directors' report

The directors of Spirax-Sarco Engineering plc have pleasure in presenting their report and the audited accounts for the year ended 31st December 2008.

Results

The results of the Group for the year, which have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU ('IFRS'), are explained in the Chairman's Statement and the Business Review on pages 8 to 27 and are set out in the Group income statement on page 52.

Dividend

An interim cash dividend of 10.0p per share (2007: 8.3p) was paid in November 2008. The directors now recommend the payment of a final dividend of 23.3p per share (2007: 21.6p). If approved at the annual general meeting the final dividend will be paid on 18th May 2009 to shareholders on the register on 17th April 2009. The total distribution for the year will be 33.3p per share (2007: 29.9p).

Business review

A review of the development and performance of the business of the Group, including the financial performance during the year, the position at the end of year, key performance indicators and a description of the principal risks and uncertainties facing the Group, are set out on pages 10 to 27.

The following cautionary statement applies to the Business Review which is set out on pages 10 to 27 and which is incorporated in this Directors' Report by reference.

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

Principal activities

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

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

Watson Marlow is the global leader in peristaltic pumping and supplies products and systems to cover a wide range of flow rates and applications. The unique properties of peristaltic pumps make them ideal for difficult pumping applications. They are highly accurate and controllable, and virtually maintenance-free making them a very cost-effective solution.

A more detailed description of the Group's activities is set out on pages 10 to 27.

Board of directors

The directors of the Company are those listed on pages 28 to 30. Dr. K. Rajagopal was appointed to the Board on 10th February 2009 as a non-executive director. As previously announced Mr. M. E. Gibbin will be appointed to the Board with effect from 1st May 2009. In addition Mr. M. J. D. Steel was the Group Chief Executive until 31st March 2008 when he retired. Mr. P. A. Smith was an executive director and Company Secretary until 31st March 2008 when he too retired. Mr. E. Lindh retired as a non-executive director on 31st December 2008. Mr. A. D. H. Black will retire on 30th April 2009.

In accordance with the articles of association:

(i) Following his appointment since the last meeting, Dr. K. Rajagopal retires at the annual general meeting and, being eligible, offers himself for re-appointment. As a non-executive director, Dr. K. Rajagopal has a letter of appointment.

(ii) Following his appointment since the last meeting, Mr. M. E. Gibbin retires at the annual general meeting and, being eligible, offers himself for re-appointment. It is intended that at the date of his appointment Mr. M. E. Gibbin will have a service contract in substantially the same form as other executive directors.

(iii) Mr. W. H. Whiteley retires and, being eligible, offers himself for re-appointment. Mr. W. H. Whiteley, as Senior Independent Director, has a letter of appointment.

Biographical details of each of the directors retiring at the forthcoming annual general meeting are set out on pages 28 to 30.

Directors' interests and remuneration

The beneficial interests of the directors in the share capital of Spirax-Sarco Engineering plc as at 31st December 2008 are set out below. The number of shares over which directors hold options, together with their remuneration, is detailed in the Directors' Remuneration Report on pages 42 to 49.

	Ordinary Shares of 25p each		
	01.01.08	**31.12.08 (or date of retirement if earlier (1) (2))**	**09.03.09 (3) (or date of retirement if earlier (1) (2))**
M. Townsend	2,879	2,879	2,879
M.E. Vernon	10,084	14,890	27,457
A.D.H. Black	46,346	46,794	59,294
N.H. Daws	7,455	7,906	19,281
D.J. Meredith	43,382	43,833	57,833
A.J. Scrivin	19,367	22,736	32,986
P.A. Smith (1)	67,322	67,322	67,322
M.J.D. Steel (1)	84,342	84,342	84,342
G. Bullock	1,250	1,250	1,250
E. Lindh (2)	-	1,000	1,000
W.H. Whiteley	4,934	7,434	7,434

(1) Messrs. M. J. D Steel and P. A. Smith retired from the Board on 31st March 2008.

(2) Mr. E. Lindh retired from the Board on 31st December 2008.

(3) The increase in the executive directors' shareholding is as a result of the vesting of the 2006 Performance Share Plan award as set out on page 47.

Mr. M. J. D. Steel purchased a motor car from the Company at the then current market value of £20,000. Mr. P. A. Smith purchased a motor car from the Company at the then current market value of £13,625.

Employment policies

Details of the Group's Employment Policies are set out on pages 38 and 39.

Annual general meeting

The notice of meeting and an explanation of resolutions 8 to 12 to be proposed at the annual general meeting are set out in the enclosed circular.

Share capital

Details of shares issued during the year are set out in Note 24 on page 69.

As at 31st December 2008 the Company's share capital was made up of ordinary shares each carrying one vote at general meetings of the Company. Save as set out in the articles of association or in applicable legislation there are no restrictions on the transfer of shares in the Company. There are no restrictions on the voting rights in the Company's shares.

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

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

Purchase of own shares

784,264 shares of 25p each were purchased by the Company during the year representing approximately 1% of the total issued share capital of the Company as at 31st December 2008. The aggregate consideration paid for the shares was £6,762,262. At 31st December 2008, the number of shares which may be purchased under the shareholders' authority given at the annual general meeting in 2008 was 6,815,736 and the total number of shares in issue was 77,227,516. The shares were purchased for the purpose of satisfying projected future demands for the issue of shares under the Company's Performance Share Plan and Share Option Schemes.

During the year 32,612 shares were issued to satisfy the exercise of share options and the settlement of deferred consideration pursuant to the terms of an agreement dated 5th September 2005 with Eirdata Environmental Services Ltd.

Shareholdings of 3% or more

As at 27th February 2009, the Company had an issued share capital of 77,227,516 shares of which 1,255,542 shares were held in treasury. Of the 75,971,974 ordinary shares with voting rights in issue, as at this date, the Company received notice of material interests in 3% or more of the voting rights (calculated on the issued share capital less the shares held in treasury).

The information received is set out below.	**Ordinary Shares**	**%**
Schroders Investment Management Ltd	7,119,168	9.37
Blackrock Investment Management	4,537,546	5.97
Sprucegrove Investment Management Ltd	3,707,911	4.88
Baillie Gifford & Co	3,448,080	4.54
Majedie Asset Management Ltd	3,180,863	4.19
Arnhold and S Bleichroeder Advisers LLC	3,054,330	4.02
Legal & General Investment Management	2,974,288	3.91
NFU Mutual Insurance Society	2,783,363	3.66
M & G Investment Management Ltd	2,499,304	3.29

Financial instrument risk management

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. More detail is set out in Note 33 on pages 81 to 85.

Statement of the policy and practice on the payment of suppliers

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

Spirax-Sarco Engineering plc had no trade creditors as at 31st December 2008 and consequently creditor days have not been presented.

Research and development

The Group continues to devote significant resources to the updating and expansion of its range of products and engineered packages in order to remain at the forefront of its world markets. Expenditure in 2008 on research and development amounted to £6,529,000 (2007: £6,270,000), of which £1,640,000 (2007: £1,608,000) is capitalised as explained in Note 1 on page 57. During the year the Group has taken steps to increase its research and development capability by the creation of a separate research and development function based in Cheltenham. This function is tasked with improving the Group's pipeline of new products and decreasing the time to launch.

Market value of land and buildings

In the opinion of the directors, the market value of the land and buildings of the Group exceeds the book value of those assets at 31st December 2008 by approximately £12,000,000 (2007: £14,000,000).

Group charitable and political donations

Charitable donations during the year amounted to £81,156 (2007: £72,381). There were no political donations (2007: nil).

Auditors

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

Capital gains tax

For capital gains tax purposes the market value of the Company's ordinary shares at 31st March 1982 was 140.375p.

Important events since 31st December 2008

On 9th March 2009 the Group announced that, in response to current economic uncertainties, it was proposing to reduce its global workforce and will be taking an expected pre-tax charge of £7 million in 2009.

Company information

Further information on the Company is available on the Group web site: www.SpiraxSarcoEngineering.com.

By order of the Board
W.G. Stebbings
Company Secretary and Solicitor
9th March 2009

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

Corporate governance

Compliance

Corporate governance has been and remains the responsibility of the whole Board. This statement describes how the Company applies the principles and complies with the provisions of the Combined Code on Corporate Governance published in June 2006, which applied to the Company in respect of the financial year ended 31st December 2008. The Board considers that, subject to the explanation of the ratio of executive and non-executive directors below, the Company met the requirements of the Combined Code throughout the year ended 31st December 2008. The Board assesses on an on-going basis its practices to ensure continued compliance with the Combined Code and has allocated responsibility for compliance to appropriate directors or officers. Contact has been made with major shareholders to allow discussion of the Company's governance policy and strategy with the Chairman and the Senior Independent Director.

Board composition and procedures

During the year the Board comprised the non-executive Chairman, three independent non-executive directors, including a Senior Independent Director, and five executive directors, details of whom are set out on pages 28 to 30. During the year the positions of Chairman, Chief Executive and Senior Independent Director were held by separate individuals. There is a clear written division of responsibility between the Chairman and the Chief Executive. The ratio of executive to non-executive directors is currently considered to be the best structure for the Company. The Board is responsible for the Group's business operations and five executive directors are present on the Board in order to provide first-hand information and contributions to the running of the business. The executive directors control the Group's devolved management structure which requires local management initiative across the Group's global spread of operating companies, its broad product range and wide customer base. Board membership of the executives is key to the overall management of the Group which employs a relatively flat management structure. This also provides the non-executive directors with regular direct access to the full executive management team. The Company views this to be a very appropriate and successful mix; appointing additional non-executive directors would make the Board more cumbersome and would not add to the quality of the Board's performance. The divisional structure will be retained with additional senior managers appointed as regional general managers to provide support in each of the divisions.

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

The Board normally meets six times per year to consider strategic developments and to review trading results and operational and business issues. All directors attended all meetings either in person or by telephone in 2008. In particular the Board deals with those matters reserved to it for decision, details of which are posted on the Group web site: www.SpiraxSarcoEngineering.com and are as follows:

(i) Management

- Approval of Group strategy and annual plans.
- Commitments relating to the acquisition or disposal of any company or business by the Group.
- Material or unusual contracts.
- Capital expenditure items in excess of £500,000 or such other limit agreed by the Board. Items over £250,000 but less than £500,000 are reported to the Board.

(ii) Board membership and board committees

- The formal appointment and dismissal of directors.
- Terms of reference and membership of Board Committees.

(iii) Corporate governance/accounting

- Approval of actions requiring the production of public documents including circulars to shareholders, related documents and press releases.
- Approval of accounting policies or practices, including the Treasury policy.
- Individual borrowings, financial instruments, guarantees or provision of equity capital, beyond the authority of the Finance Committee.
- Approval of the content of the Annual Report and Accounts, the Half Year Report and Interim Management Statements.
- Appointment and dismissal of the Company Secretary.
- Through the Audit Committee, remuneration of auditors and recommendation for appointment and removal of auditors.
- Dividend policy, interim dividends and proposed final dividends.
- Any matter to be dealt with at an annual general meeting or extraordinary general meeting.

(iv) Other

- Significant alterations to existing Group Risk Management policies relating to insurance, environmental and health and safety matters.
- Changes in principal professional advisers.
- Major changes to pension and employee share schemes operated in the Group.
- Prosecution, defence or settlement of any material litigation.

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

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

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

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

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

Conflicts

The Company amended its articles of association in May 2008 to deal with, amongst other things, the provisions on conflicts of interest in the Companies Act 2006 which came into force in October 2008. Following this, the Company has put in place procedures for the disclosure and review of any conflicts, or potential conflicts, of interest which the directors may have and for the authorisation, where considered appropriate, of such conflict matters by the Board. In deciding whether to authorise a conflict or potential conflict the directors must have regard to their general duties under the Companies Act 2006. The authorisation of any conflict matter, and the terms of authorisation, may be reviewed at any time and will be reviewed formally by the Board on an annual basis.

Senior independent director

During the year Mr. W. H. Whiteley was the Senior Independent Director.

Committees

The Board delegates specific responsibility to Board Committees, notably the Audit, Nomination and Remuneration Committees, in line with best practice. The terms of reference for these Committees are posted on the Group web site: www.SpiraxSarcoEngineering.com. In the period from the beginning of the year until 31st March 2008 the Finance Committee comprised Messrs. M. Townsend (Chairman), M. J. D. Steel and D. J. Meredith. With effect from 1st April 2008 the Finance Committee comprised Messrs. M. Townsend (Chairman), M. E. Vernon and D. J. Meredith. The Risk Management Committee is composed of the executive directors and the Company Secretary.

(i) Audit committee

The Audit Committee comprised Messrs. W. H. Whiteley (Chairman), G. Bullock and E. Lindh. All members are independent in accordance with the independence criteria set out in the Combined Code. There were four meetings of the Audit Committee during the year and all members attended all meetings, with the exception of Mr. G. Bullock who was unavailable for one meeting.

A summary of the Audit Committee's duties and responsibilities is set out on page 36.

(ii) Nomination committee

In the period from the beginning of the year until 31st March 2008 the Nomination Committee comprised Messrs. M. Townsend (Chairman), G. Bullock, E. Lindh, M. J. D. Steel and W. H. Whiteley. With effect from 1st April 2008 the Nomination Committee comprised Messrs. M. Townsend (Chairman), G. Bullock, E. Lindh, M. E. Vernon and W. H. Whiteley. There were two meetings of the Nomination Committee and all members attended both meetings.

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

(iii) Remuneration committee

The Remuneration Committee comprised Messrs. W. H. Whiteley (Chairman), G. Bullock and E. Lindh. All members are independent in accordance with the independence criteria set out in the Combined Code. There were four meetings of the Remuneration Committee and all members attended all meetings, with the exception of Mr. G. Bullock who was unavailable for one meeting.

The Directors' Remuneration Report presented by the Board of Directors is set out on pages 42 to 49.

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

Shareholder relations

The Group conducts regular dialogue with institutional shareholders and provides such information as is permitted within the guidelines of the Listing Rules. In particular major shareholders have been approached with a view to discussing the Company's governance and strategy with the Chairman and Mr. W. H. Whiteley, the Senior Independent Director. As required by major shareholders, the Senior Independent Director is available to listen to their views on any areas of concern they may have. There were no requests received from shareholders for meetings with the Chairman or the non-executive directors during 2008. Reports are made to the Board of all meetings with major shareholders and analysts including, in particular, briefings after half year and final results.

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

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

Internal controls

The Board has overall responsibility for the system of internal controls and for reviewing its effectiveness, whilst the role of management is to implement Board policies on risk and control. There is an ongoing process for identifying and managing risks faced by the Group which has been in place for the year under review and up to the date of approval of the Annual Report and Accounts. The reviews cover all material controls, including financial, operational and compliance controls and risk management systems. 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 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.

Corporate governance continued

As required by the UK Listing Authority, the Company has complied throughout the year and up to the date of this report with the Combined Code provisions on internal controls having established the procedures necessary to implement the guidance issued by the Turnbull Committee and by reporting in accordance with that guidance.

(i) Risk management

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

The Risk Management Committee carried out a review with external consultants, Marsh Ltd, of the risk register and risk management process in the context of the current business structure and operations with the aim of validating the risk register and the general risk management process and identifying any additional new risks which could involve a significant risk to the Group's business. This exercise was completed early in 2008 and consisted of a review of the risk magnitude and risk likelihood. Significant potential new risks were assessed and countermeasures established. The Board, on Marsh Ltd's advice, is satisfied that the system of management for significant risks is appropriate for the Group and is properly executed.

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

In the UK the operation of the Incident Management Team, which deals with the situation immediately after any major incident, was reviewed and the Team strengthened. The manufacturing operation in France has completed a business continuity planning exercise and business continuity planning exercises are also being undertaken by a number of Group companies, notably Spirax Sarco Inc. and Spirax-Sarco Srl in Italy.

(ii) Financial

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

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

(iii) Operational

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

(iv) Audit committee

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

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

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

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

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

(v) Non-audit services

A policy on non-audit services provided by the auditors in line with professional practice has been established and approved by the Audit Committee. The external auditors have undertaken non-audit work (in regard to taxation and acquisition due diligence) and the fees paid by the Company for it are set out in Note 6 on page 61. The scope and extent of non-audit work undertaken by the Company's auditors is carefully controlled in line with the written terms provided by the Company to the auditors with the objective of avoiding impact on their independence and objectivity. In particular, the auditors are prohibited from providing services in relation to valuations, recruitment, dispute resolution and accounting services. The Audit Committee monitors the scope of the auditors' work, and specific approval from the Committee Chairman or the full Audit Committee is required for fees over established thresholds.

(vi) Whistle blowing

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

Internal audit

Following a review in 2006, the Board established an enhanced internal audit function which allows each of the Group companies to be audited at least every four years. All businesses acquired by the Group are subject to internal audit within one year from the date of acquisition. Internal audit resource is supplemented by experienced qualified accounting staff from principal Group companies and a professional auditing firm, BDO Stoy Hayward LLP. Reports are made to the Audit Committee and the Board as a whole. The implementation of the internal audit function has been successfully achieved and no significant matters were raised in the reports made in the 16 subsidiaries 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 on pages 10 to 27. In addition Note 33 on pages 81 to 85 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 October 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 50.

Corporate social responsibility

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

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

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

The Group's operations are carried out under the Group's long standing Business Code. A copy of this is posted on the Group web site: www.SpiraxSarcoEngineering.com. This Code formalises policies followed over many years by the Group, the main areas being:

- compliance with all applicable laws and regulations;
- operation of the internal controls established by the Group;
- having proper regard for all stakeholders in the business;
- prohibition of bribery or corrupt practices;
- commitment to fair treatment of all employees; and
- recognition of all health, safety and environmental matters.

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

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

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

As part of the risk management process explained on page 36, the risks involved in not achieving appropriate SEE standards are assessed and any significant risk is monitored by the Board following half yearly reports from all Group companies.

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

(i) Employment policies

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

The Group is committed to equality of opportunity for all regardless of gender, race, age, disability, religion or sexual orientation. This applies equally to recruitment and to the promotion, development and training of people who are already part of the Group. The Group takes seriously its obligations to the disabled and gives full and fair consideration to applications for new positions or employment from current or prospective employees regardless of any disability and having due regard to the individual's particular aptitudes and abilities.

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

A summary of the Group's annual accounts is made available to its employees. The Group's newsletter, with a Foreword from the Chief Executive, is distributed to all Group companies bi-monthly and is made available to employees. Individual Group companies have either a local newsletter, intranet site or a regular communication informing employees on the progress of their company. The Group encourages the growth of employee share ownership.

(ii) Community involvement

The Group has a Charitable Trust which makes donations both to registered charities and in response to appropriate requests for support from bodies which are not registered charities both in the UK and overseas. In the case of overseas donations the decision to donate is made by the local general manager. In total in the UK the Group donated approximately £64,000 in 2008 to registered charities and other good causes, including the National Star College, the Gloucestershire County Air Ambulance, the Alzheimer's Society, Young Enterprise and the Cheltenham Science and Literature festivals.

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

By way of examples, Watson-Marlow Ltd are a sponsor of Falmouth Maritime Museum and a Wildlife Guardian of the Cornwall Wildlife Trust and made charitable donations totalling £6,900 during the year. Watson-Marlow Inc., USA, supports local charities including the Princess House School and The Wilmington Firefighters Association. Bredel Hose Pumps BV supports the annual International Wheelchair Games held in and around Delden.

Spirax Sarco China contributed the sum of RMB 100,000 (£10,256) to the China Earthquake Relief Appeal with the company matching the local employees' donations of RMB 50,000 (£5,128).

In India the local company continues to support a hospital it established many years ago making provision for both company employees and the local community. Both benefit from an established welfare programme based in company provided premises supporting community initiatives, particularly for women and pre-school provision for children. Spirax-Sarco Ltd continues to support the National Star College in Cheltenham.

(iii) Supplier relations

The Company policy is to use suppliers of goods and services which maintain appropriate quality standards in their operations. Suppliers must consistently achieve the standards required by ISO 9000.

(iv) Product stewardship

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

(v) Corruption

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

(vi) Health and safety

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

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

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

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

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

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

- automatic external defibrillators for use in heart attack situations - all first aiders have been trained in their use;
- training for all managers in the recognition and prevention of work related stress;
- training for managers and first aiders in the recognition of the symptoms of abuse of alcohol and drugs;
- significant investment in safety equipment; and
- the appointment of an occupational health service including the regular attendance of an on-site health adviser to support managers and employees on health related matters.

Spirax Sarco Châtellerault (France) achieved OHSAS 18001 registration in 2008 and the resultant improvement actions have resulted in a 50% reduction in reported health and safety incidents. Investments were made in improved fire detectors, air extraction, lifting equipment and noise reduction. Watson-Marlow Ltd in Falmouth has also achieved OHSAS 18001 registration.

(vii) Environmental

a) Policy statement

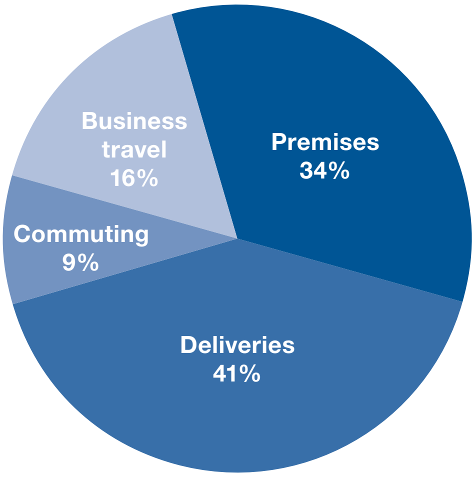
The Group has developed an Environmental Vision entitled 'PROMISE', an acronym for: 'Provide Real Opportunities to Manage, Improve and Sustain our Environment'. The Group will use its expertise in steam system design and maintenance to help protect the environment by:

- developing a global network of outstanding people and suppliers who are committed to improving the environment;
- understanding the environmental challenges and providing cost-effective solutions to its customers;
- building on 80 years' experience in helping customers reduce energy costs and conserve water;
- making best use of all resources to reduce unnecessary waste; and
- maintaining a broad range of quality and environmentally-friendly products, services and solutions.

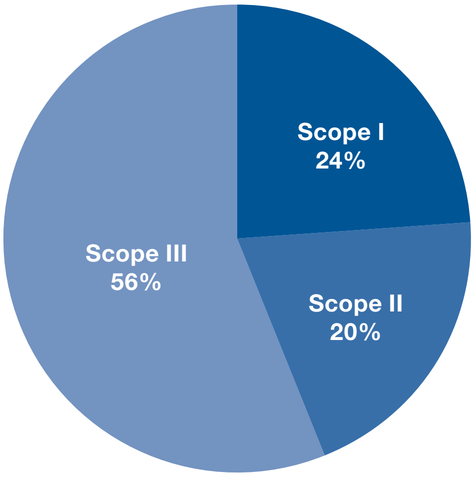
To measure its emissions and climate change impact the Group has committed to annual Carbon Disclosure Project ('CDP') submissions which in 2008 (based on 2007 data) rated the Group with a Carbon Disclosure Leadership Index ('CDLI') score of 43. This was based on detailed data for the UK extrapolated for the rest of the world. During 2008 detailed data has been gathered from all operating companies worldwide showing total carbon equivalent emissions of 55,618 tonnes CO_2e (carbon dioxide equivalent). This more accurate data will be used for the 2009 CDP submission.

Corporate social responsibility continued

The following key statistics resulted from the detailed review:



Breakdown of Group carbon dioxide emissions by emission source (55,618 tonnes CO_2e)



Breakdown of Group carbon dioxide emissions as defined by World Business Council for Sustainable Development ('WBCSD') Scope (55,618 tonnes CO_2e)

Scope I - all direct green house gas ('GHG') emissions from wholly operated premises, processes, vehicles and travel.
Scope II - indirect GHG emissions associated with the generation of electricity, heat or steam purchased for own consumption.
Scope III - other indirect GHG emissions associated with extraction and production of materials purchased and outsourced activities or disposal of waste.

Using this data, the Group is benchmarking its performance both internally and externally as well as setting high-level targets for annual weighted reductions in emissions through:

- an improvement in the annual measure of the Group's carbon footprint;
- continuous improvement in waste reduction, in particular, elimination of avoidable waste, re-use of in-process waste through recycling and environmentally safe disposal of unavoidance waste;
- annual targeted reductions in energy, water and paper consumption;
- implementation of a global freight plan to achieve year-on-year carbon savings;
- progressive adoption of the ISO 14001 environmental management standard;
- innovation in product development to improve plant performance, reduce product size or weight and reduce number of parts and waste in manufacture; and
- improving steam engineering efficiency worldwide.

Measurable targets for improvement are being set with continuous improvement projects being managed by a Multi-National User Group, supported by 'Environmental Champions' around the Group. The Group has also decided to take a long-term view on the incremental cost of environmental improvement to accelerate progress and support the many ideas being generated.

In addition to the annual CDP review, the Supply Director has specific environmental responsibility in relation to the Group's operations and their impact on the environment. The Group's objective is to comply with environmental laws and good practice and where any actual or potential non-compliance is identified to have management systems in place to ensure that any issue is rectified within an appropriate timeframe. The environmental policy set out above is circulated to management and to all employees.

General managers of operating companies within the Group are responsible for local compliance with the Group's policy and with local legislation. Agreed actions are implemented by each operating company overseen by the relevant executive director responsible for that operating company.

In the past the Group has utilised external environmental consultants to audit a number of manufacturing facilities and has, as a result, established an internal environmental audit process under which a senior manager assesses the environmental position in each of the major manufacturing units and reports to the local management. This process is overseen by the relevant executive director who informs the Supply Director appropriately and is distinct from the process identified above.

The following environmental improvements have been actioned in 2008:

- achievement by the French manufacturing unit of ISO 14001 accreditation during the year. Significant progress was also made in the UK for accreditation in 2009;
- a paper and cardboard recycling programme in Argentina, the recovery value of which is donated to a foundation for homeless children. There is a similar recovery programme in the USA;
- a three tonne reduction in product packaging materials in Germany as a result of changing the packaging design to enable re-use from raw material to finished product;
- Watson-Marlow Ltd, Falmouth, implemented a UK Government sponsored 'Cycle to Work Scheme' under which employees are able to purchase bicycles for use in travelling to work;
- a reduction in office paper by 8% for the second year in a row in one of our Watson Marlow operations;
- a reduction in chemical wastage by 550 litres per annum as a result of renewing a product paint plant;
- the introduction of various other schemes to replace compressors and fit low-energy light bulbs to reduce energy usage; and
- improved condensate recovery and return in our USA factory saving $18,000 of water and chemicals per annum.

In addition the new tubing plant and the extension to the peristaltic pump factory in Falmouth which are due for completion in 2009 are being constructed in accordance with the Building Research Establishment Environmental Assessment Method ('BREEAM') guidelines with a view to achieving a BREEAM Excellent rating.

b) Environmental benefits from the use of group products

The use by customers of the Group's products and services has a significant environmental benefit that outweighs the environmental issues associated with the production of the products. The Group's main business is to provide its customers with solutions to manage steam and other related fluids in a safe, environmentally-friendly and cost-effective way.

The name Spirax Sarco is synonymous with steam and its efficient use worldwide. The majority of sales are the result of assisting customers to improve the efficiency of their plant process, reduce energy consumption and emissions and meet local safety regulations. Our analysis shows that the environmental impact arising from the manufacture and distribution of the Group's range of steam system products is conservatively one third of the energy-saving benefits enjoyed by customers in the application of those products.

The Group's technical advice and expertise on the application of its products, services and engineered solutions in relation to steam systems and services is the key to maximising the benefit of the products we supply. There are numerous individual examples of benefits enjoyed by customers which include improved overall boiler efficiency, improved energy efficiency of plant processes, reduced consumption of water and water treatment chemicals and lower production of effluent and emissions.

The implementation of these solutions allows customers to reduce their environmental impact by reducing steam consumption and returning condensate to the boiler, hence saving on energy, CO_2 emissions and water costs. Returning ('recycling') condensate for re-use has the added benefit of reducing chemical treatment and effluent costs.

A key part of the Group's activity is auditing customers' steam systems. These audits identify savings to be gained as a result of simple repairs and the employment of new technologies such as energy-saving solutions or packaged engineered systems. As an example, based on audits and surveys alone carried out for customers globally, the Company calculates average potential CO_2 emissions savings in excess of 180,000 tonnes per year assuming implementation of the recommendations. The full CO_2 benefit of all the services provided is considerably higher.

The knowledge and experience of engineers within the Group help customers to identify and implement cost-effective energy savings and emissions reduction solutions through a combination of correctly applied products, engineered systems and associated services. An example of the Group's ability to offer more than product is the Eirdata Environmental Services operation in the Republic of Ireland which offers a service to clients which includes expertise in many areas of energy management. They were winners of the 2007 Energy Service Company award from Sustainable Energy Ireland.

The Group's Product Research and Development programme has been assisted through collaboration with the UK's Carbon Trust, which aims to bring new and innovative energy-saving solutions to customers globally, enabling their CO_2 emissions to be further reduced. A product charter has also been produced to challenge design engineers to enhance the environmental performance of future products both in manufacture and lifetime use.

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

Watson-Marlow Ltd in the UK and Spirax-Sarco Châtellerault are certified to the Environmental standard ISO 14001. It is the intention for the whole Group to be accredited ISO 14001. In the United States, Watson-Marlow Inc. complies with US OSHA regulations and strives to be environmentally conscious through a paper recycling programme and implementing energy-efficient and green technologies.

The directors' remuneration report

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

The remuneration committee

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

The Committee members throughout the year were Messrs. W. H. Whiteley (Chairman), G. Bullock and E. Lindh. On 10th February 2009 Dr. K. Rajagopal replaced Mr. E. Lindh. Each Committee member is an independent non-executive director. They bring independence to all aspects of Board remuneration and in the application of professional advice to matters of remuneration.

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

The Committee obtains independent professional advice from Towers Perrin to ensure that the Company's remuneration policy is appropriate and competitive. Towers Perrin was appointed by the Committee and has not provided other services to the Company during the year. Mr. M. Townsend, the Company Chairman, and the Chief Executive (Mr. M. J. D. Steel up to 31st March 2008 and Mr. M. E. Vernon since that date) attend meetings at the invitation of the Committee to provide information requested by it. During the year Mr. D. J. Meredith was also invited to attend one meeting. However, the invitees do not participate in any discussions involving their own remuneration. The Company Secretary acts as Secretary to the Committee.

The Committee consulted with Towers Perrin in arriving at the remuneration packages paid to directors during 2008.

The Company has throughout the year complied with the provisions of The Combined Code and Code of Best Practice published in July 2006 with regard to directors' remuneration. The Committee has given full consideration to the Combined Code in establishing the remuneration policy and packages for directors.

Policy on executive directors' remuneration

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

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

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

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

Basic salary

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

Benefits

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

Annual bonus

The Company operates an annual bonus scheme for executive directors. The bonus is determined as a percentage of salary. For 2008, maximum bonus remained at 100% of salary (as in prior years) and it was not pensionable.

The bonus was made up as follows:

(i) a component of up to 65% of salary was determined on a sliding scale by reference to the operating profit of the Group including the Group's associate companies in India and Mexico; and

(ii) a component of up to 35% of salary was determined on a sliding scale by reference to the return on capital employed ('ROCE').

The application of the above formula resulted in a bonus equal to 87.2% of salary being payable to all executive directors in respect of the Group's 2008 performance.

For 2009, the Committee plans to base the bonus on the same two measures with the same relative weight as in 2008 and the maximum bonus payable will remain a sum equal to 100% of base salary.

The Committee offered to executive directors in a UK defined benefit scheme a cash alternative to pension contributions in respect of the directors' pensionable service from 6th April 2006, ie 'A Day' under the HMRC tax regime for pensions. The level of this cash alternative was confirmed by the Company's actuaries. The cost of the alternative to the Company would be no greater than the cost of the pension contributions. The cash alternative has not been adopted by any of the executive directors in the scheme.

Options
Spirax-Sarco Engineering 1992 UK and global share option schemes
Spirax-Sarco Engineering approved and global share option schemes

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

Executive directors, senior executives and management hold options granted in previous years and it is intended that options will continue to be granted to senior executives and management. The policy is to phase options over the ten-year life of the share option schemes. Options granted to each director from 1997 are subject to a performance condition which is described below.

Performance condition for share option schemes

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

Details of total share options outstanding are set out in Note 24 on page 69. The above performance conditions apply to other relevant options granted to all participants in the share option schemes.

Spirax-Sarco performance share plan ('PSP')

The PSP for executive directors, senior executives and management was adopted at the 2005 annual general meeting. Following the introduction of this PSP no further option grants have been made to executive directors. Details of options that were awarded prior to this and which remain outstanding are provided on page 46.

The PSP allows for awards to be made each year with a market value of up to 150% of base salary. The market value of awards made to executive directors in 2008 was generally limited to 100% of base salary. Details are set out on page 47. Awards take the form of contingent rights to acquire shares, subject to the satisfaction of performance targets. To the extent they vest, awards may be satisfied in cash, in shares or an option over shares at the discretion of the Company.

The performance target applied to awards granted in 2006, 2007 and 2008 was based on the Company's Total Shareholder Return ('TSR') relative to the TSR of other companies included in the FTSE All-Share Industrial Engineering Index over the three-year periods commencing with effect from 1st January 2006, 1st January 2007 and 1st January 2008. For awards to be made in 2009, the Committee has decided to amend the comparator group of companies against which the Company's TSR would be measured to encompass a group of 27 companies within the overall Industrial Goods and Services super sector of FT350. TSR was chosen as the measure of performance as the Committee felt that this achieved an appropriate alignment of the interests of the directors with those of the shareholders of the Company. For full vesting, the Company's TSR must be at or above the upper quartile, with 25% of the shares subject to an award vesting if the Company's TSR is at the median relative to the comparator group. Awards vest on a straight line pro-rata basis between median and upper quartile performance. In respect of the awards made in 2006, the Company's relative TSR performance resulted in 100% of the awards vesting.

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

Specifically, for awards made in 2008, the award was split into two separate parts amounting to 60% and 40% of salary respectively.

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

(i) vesting of the first part, amounting to 60% of salary, will be based on the TSR measure as described above; and

(ii) vesting of the second part, amounting to 40% of salary, will be subject to achievement of a target based on aggregate EPS over the whole of the three-year performance period, with growth measured relative to EPS in the year prior to that in which the award is made. For the awards made in 2008, 25% will vest if the compound annual growth in EPS over the three-year period 2008 to 2010 is equal to 5%; and 100% of the award will vest if the compound annual growth in EPS is equal to or exceeds 11%; there will be pro-rata vesting for actual growth between these two rates.

No award will vest if the Company's TSR is below the median.

The Committee reviews the measures annually and is maintaining the same measures and the same performance standards for awards made in 2009.

TSR calculations are performed by Towers Perrin.

The directors' remuneration report continued

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

The executive directors, with the exception of Mr. M. E. Vernon, participate in the plan, as described on pages 47 and 48. Participation in the plan is open to all eligible UK employees. No employee's entitlement under the plan is subject to performance conditions, as the aim of the plan is to encourage increased shareholding in the Company by all eligible UK employees.

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

Share ownership policy

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

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

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

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

Pensions

The UK executive directors, other than Mr. M. E. Vernon, are members of an HMRC registered, non-contributory, defined benefit pension scheme based on 1/60th of pensionable salary, for each year of pensionable service. The maximum pension is two-thirds of pensionable salary. Messrs. A. D. H. Black, N. H. Daws and 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 now 65. The same provision applied to Messrs. M. J. D. Steel and P. A. Smith who retired on 31st March 2008. This additional service provision does not apply to Messrs. M. E. Vernon and A. J. Scrivin who have a normal retirement age of 65.

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

Mr. M. E. Vernon, in addition to membership of the Spirax Sarco Inc. defined benefit scheme, has defined contributions as set out on pages 48 and 49. 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.

Non-executive directors

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

Service contracts

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

	Date of Contract	Notice Period
M.E. Vernon	10.12.08	12 months
A.D.H. Black	18.10.98	12 months
N.H. Daws	28.05.03	12 months
D.J. Meredith	30.12.92	12 months
A.J. Scrivin	15.03.05	12 months
P.A. Smith(1)	24.12.92	12 months
M.J.D. Steel(1)	30.12.92	12 months

(1) Messrs. M. J. D. Steel and P. A. Smith retired from the Board on 31st March 2008. No compensation for loss of office was made on their retirement.

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

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

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

The non-executive directors, including the Chairman, Mr. M. Townsend, do not have service contracts. They have appointment letters, normally for three-year periods, and re-appointment is not automatic.

	Date of Appointment Letter	Notice Period
M. Townsend	11.04.06	1 month
G. Bullock	05.03.08	1 month
E. Lindh (1)	06.04.06	1 month
W.H. Whiteley	04.03.09	1 month

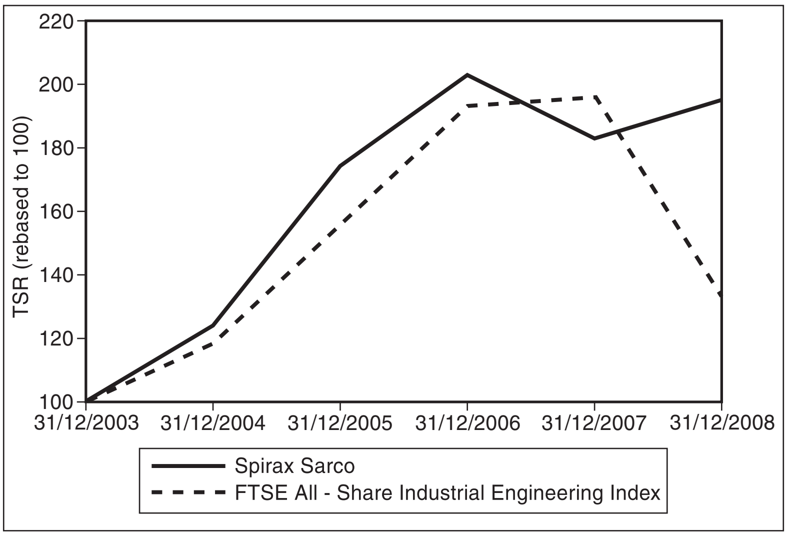
(1) Mr. E. Lindh retired from the Board on 31st December 2008.

Policy on senior executive remuneration

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

Total shareholder return

The performance graph illustrated shows the Company's total cumulative shareholder return for the five-year period ended 31st December 2008 compared with the total cumulative shareholder return for the FTSE All-Share Industrial Engineering Index. This comparison is selected as being the most appropriate sector for the Company's operations as the comparison automatically takes account of the impact on the Company's shares of the market's view of the engineering industry generally.



Information subject to audit

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

Directors' emoluments

	Basic Salary/ Fees £	Benefits (1) £	Annual performance related bonus £	Total emoluments excluding pension 2008 Total £	2007 Total £
M. Townsend (2)	100,000	-	-	100,000	90,000
M.E. Vernon	352,500	16,130	307,380	676,010	427,337
A.D.H. Black	225,000	13,963	196,200	435,163	298,733
N.H. Daws	217,000	13,053	189,224	419,277	285,282
D.J. Meredith	250,000	17,321	218,000	485,321	335,190
A.J. Scrivin	217,000	7,981	189,224	414,205	257,749
P.A. Smith (3)	46,250	2,125	40,330	88,705	244,505
M.J.D. Steel (3)	102,500	5,101	89,380	196,981	537,443
G. Bullock (2)	36,000	-	-	36,000	33,000
E. Lindh (2) (3)	36,000	-	-	36,000	33,000
W.H. Whiteley (2)	52,000	-	-	52,000	46,000
	1,634,250	75,674	1,229,738	2,939,662	2,588,239

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

(2) Non-executive director.

(3) Messrs. M. J. D. Steel and P. A. Smith retired from the Board on 31st March 2008. Mr. E. Lindh retired from the Board on 31st December 2008. No compensation for loss of office was made on their retirements.

The directors' remuneration report continued

Long term incentives

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

The interests of directors are set out below:

	(2)	01.01.08 No.	Exercised in year (3) No.	31.12.08 No.	Exercise price per share (4) pence	Date from which exercisable (5)	Expiry date (5)
M.E. Vernon	B	8,400	8,400	0	-	-	-
		8,400	8,400	0			
A.D.H. Black		-	-	-	-	-	-
		-	-	-			
N.H. Daws	A	20,000	-	20,000	541.9	25.03.07	25.03.14
	B	15,000	-	15,000	394.5	14.03.06	14.03.13
		35,000	-	35,000			
D.J. Meredith	A	15,000	-	15,000	525.0	12.10.02	12.10.09
	A	17,500	-	17,500	436.0	22.03.05	22.03.12
	A	20,000	-	20,000	394.5	14.03.06	14.03.13
	A	20,000	-	20,000	541.9	25.03.07	25.03.14
		72,500	-	72,500			
A.J. Scrivin	B	7,000	-	7,000	394.5	14.03.06	16.06.12
	B	7,000	-	7,000	541.9	25.03.07	16.06.12
		14,000	-	14,000			
P.A. Smith (1)(7)	A	40,000	40,000	0	-	-	-
		40,000	40,000	0			
M.J.D. Steel (1)(6)	A	185,000	185,000	0	-	-	-
		185,000	185,000	0			

(1) Messrs. M. J. D. Steel and P. A. Smith retired from the Board on 31st March 2008. (See notes 6 and 7 respectively.)

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

(3)

	2008 Options exercised No.	Option exercise price pence	Mid market price on the date options exercised pence	2008 Gain arising on exercise £	2007 Gain arising on exercise £
M.E. Vernon	8,400	686.0	905.0	18,396	56,892
M.J.D. Steel	25,000	525.0 }	1038.0	1,111,535	-
	25,000	319.2 }			
	35,000	397.7 }			
	30,000	436.0 }			
	35,000	394.5 }			
	35,000	541.9 }			
A.D.H. Black	-	-	-	-	99,720
D.J. Meredith	-	-	-	-	53,100
A.J. Scrivin	-	-	-	-	8,600
P.A. Smith	20,000	394.5 }	1138.0	267,920	-
	20,000	541.9 }			
Aggregate of gains arising on exercise				1,397,851	218,312

(4) These are the exercise prices for ordinary shares under option at 31st December 2008. The exercise prices for all options shown are lower than the mid-market price of the Company's ordinary shares on 31st December 2008.

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

(6) Mr. M. J. D. Steel retired from the Board on 31st March 2008. Following his retirement, but in accordance with the rules of the option schemes, Mr. M. J. D. Steel exercised 185,000 options realising a gain of £1,111,535.

(7) Mr. P. A. Smith retired from the Board on 31st March 2008. Following his retirement, but in accordance with the rules of the option schemes, Mr. P. A. Smith exercised 40,000 options realising a gain of £267,920.

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

The mid-market price of the ordinary shares on 31st December 2008 was 908.0p. During the period from 1st January 2008 to 31st December 2008 the ordinary mid-market share price ranged between 742.5p and 1199.0p.

The performance conditions are described on page 43.

(ii) Performance share plan
The interests of directors are set out below:

	Date of award 24.03.06 (1)	26.03.07 (2)	10.09.07 (3)	12.03.08 (4)	Total awards as at 31.12.08 (or date of retirement if earlier (5))	09.03.09
M.E. Vernon	12,567	11,288	17,538	36,757	78,150	65,583
A.D.H. Black	12,500	12,416	-	23,461	48,377	35,877
N.H. Daws	11,375	11,887	-	22,627	45,889	34,514
D.J. Meredith	14,000	13,887	-	26,068	53,955	39,955
A.J. Scrivin	10,250	10,886	-	22,627	43,763	33,513
P.A. Smith (5)	10,000	10,298	-	0	20,298	0
M.J.D. Steel (5)	21,875	22,538	-	0	44,413	0

(1) The date of award was 24th March 2006 and the mid-market price of the shares on that date was 972.5p. 100% of the award has vested as the performance conditions applicable to that award were met, namely that the TSR performance of the Company during the period 1st January 2006 to 31st December 2008 placed the Company within the upper quartile of the TSR performance of the companies in the FT250 All-Share Industrial Engineering Index over the performance period. The award vested on 4th March 2009 and the mid-market price of the shares on that date was 808.0p.

(2) The date of award was 26th March 2007 and the mid-market price of the shares on that date was 1020.0p. The period over which performance conditions are measured is 1st January 2007 to 31st December 2009.

(3) The date of award was 10th September 2007 and the mid-market price of the shares on that date was 1013.0p. The period over which performance conditions are measured is 1st January 2007 to 31st December 2009.

(4) The mid-market price on 11th March 2008 was 959.0p. This was applied in determining the number of shares subject to the award granted on 12th March 2008. The mid-market price of the shares on that date was 994.5p. The period over which performance conditions are measured is 1st January 2008 to 31st December 2010.

(5) Messrs. M. J. D. Steel and P. A. Smith retired from the Board on 31st March 2008. The performance conditions at that date were not met and therefore the award made on 24th March 2006 to Messrs. M. J. D. Steel and P. A. Smith did not vest.

However the performance conditions at 31st March 2008 were partially met in relation to the award made on 26th March 2007 such that 51.5% of the maximum award vested. The award was reduced by a factor of 15/36 due to the shortened performance period of 15 months from 1st January 2007 to 31st March 2008. The award vested on 7th April 2008 and the mid-market price of the shares on that date was 1074.0p. Messrs. M. J. D. Steel and P. A. Smith both requested that the award be satisfied in shares. They each sold sufficient shares to cover the basic rate tax and National Insurance liability and each retained the remaining shares as follows.

	Date of award 26.03.07	Shares vested	Shares sold
P.A. Smith	10,298	2,210	798
M.J.D. Steel	22,538	4,836	1,898

The performance conditions are described on page 43.

(iii) Spirax-Sarco Engineering plc employee share ownership plan (‘the plan’)
The Company operates the plan in which all the executive directors, with the exception of Mr. M. E. Vernon, are eligible to participate on the same basis as all other eligible UK employees. For the plan period the individual director’s contributions are limited to a maximum of £1,500 per annum under HMRC rules. The trustee of the plan provides a matching share for each share purchased under the plan on behalf of the director which is the same basis as for other participating employees. Dividends paid on the partnership and matching shares 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 01.01.08	Partnership shares purchased (1)	Matching shares awarded (1)	Dividend shares awarded (2)	Interest at 31.12.08 (or date of retirement if earlier (3))	Period of qualifying conditions (4)
A.D.H. Black	3,805	163	163	122	4,253	3 years
N.H. Daws	3,914	163	163	125	4,365	3 years
D.J. Meredith	3,914	163	163	125	4,365	3 years
A.J. Scrivin	1,252	163	163	43	1,621	3 years
P.A. Smith (3)	3,914	-	-	-	3,914	3 years
M.J.D. Steel (3)	3,914	-	-	-	3,914	3 years

The directors' remuneration report continued

(1) Partnership shares were purchased, at a price of 920.0p, and matching shares were awarded on 6th October 2008. The mid-market price of the shares on that date was 923.5p.
(2) Dividend shares were awarded on 19th May 2008, on which date the mid-market price of the shares was 1199.0p, and on 17th November 2008, on which date the mid-market price of the shares was 814.5p.
(3) Messrs. M. J. D. Steel and P. A. Smith retired from the Board on 31st March 2008. The mid-market price of the shares on that date was 1027.0p.
(4) Partnership shares are not subject to qualifying conditions. In accordance with the rules of the plan matching shares and dividend shares were released to Messrs. M. J. D. Steel and P. A. Smith following their retirement. No other matching shares or dividend shares were released from the plan or forfeited during the year.

Directors' pensions

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

	Age attained at 31.12.08	Accrued pension at 31.12.07	Accrued pension at 31.12.08	Change in accrued pension during the year	Change in accrued pension during the year*	Transfer value of change in accrued pension*	Transfer value of accrued pension at 31.12.07	Transfer value of accrued pension at 31.12.08	Change in total transfer value
		£pa	£pa	£pa	£pa	£	£	£	£
A.D.H. Black (1)	51	79,410	80,388	978	(2,993)	(35,664)	690,000	926,000	236,000
N.H. Daws	46	90,829	94,248	3,419	(1,122)	(7,717)	639,000	883,000	244,000
D.J. Meredith	49	99,405	101,372	1,967	(3,003)	(31,903)	814,000	1,095,000	281,000
A.J. Scrivin	61	121,792	144,667	22,875	16,785	291,548	1,938,000	2,287,000	349,000
P.A. Smith (2)	60	112,466	108,265	(4,201)	(9,824)	(186,463)	1,990,000	1,988,000	(2,000)
M.J.D. Steel (2)	63	262,139	263,338	1,199	(11,908)	(213,794)	5,120,000	4,452,000	(668,000)

* net of deferred revaluation at a rate of 5% per annum

(1) Benefits shown net of pensions sharing order, currently worth £28,897 per annum.
(2) Messrs P. A. Smith and M. J. D. Steel retired on 31st March 2008 and are now receiving pension payments.

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

(i) Dependant's pension

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

(ii) Early retirement rights

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

(iii) Pension increases

Pensions are subject to annual increases in line with the annual rise in the RPI 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 31.12.08	Accrued pension at 31.12.07	Accrued pension at 31.12.08	Change in accrued pension during the year	Change in accrued pension during the year (1)	Transfer value of change in accrued pension (1)	Transfer value of accrued pension at 31.12.07	Transfer value of accrued pension at 31.12.08	Change in total transfer value
		£pa	£pa	£pa	£pa	£	£	£	£
M.E. Vernon	55	6,433	11,049	4,616	4,298	32,048	45,589	82,388	36,799

(1) Net of inflation at a rate of 4.9% 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 contributions made into a UK defined contribution pension scheme. The total contributions made by the Group were £82,375.

Signed by
W.H. Whiteley *Chairman of Remuneration Committee*
on behalf of the Board

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

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

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

The Group and parent company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the Group and the parent company and the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- 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 proper accounting records that 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 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's web site: 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, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the Board

D.J. Meredith
Finance Director
9th March 2009

Financial statements

Report of the independent auditor

To the members of Spirax-Sarco Engineering plc

We have audited the Group and parent company financial statements of Spirax-Sarco Engineering plc for the year ended 31st December 2008 ("the financial statements") which comprise the Group Income Statement, the Group and parent company Balance Sheets, the Group and parent company Cash Flow Statements, the Group and parent company Statements of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 purposes. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 50.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that information presented in the Chairman's Statement and Business Review that is cross referred from the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31st December 2008 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31st December 2008;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants, Registered Auditor

London 9th March 2009

Group income statement
for the year ended 31st December 2008

	notes	**Before Adjustment 2008 £000**	**Adj't* 2008 £000**	**Total 2008 £000**	Before Adjustment 2007 £000	Adj't* 2007 £000	Total 2007 £000
Revenue	2	**502,316**	**-**	**502,316**	417,317	-	417,317
Operating costs	3	**(416,647)**	**(4,641)**	**(421,288)**	(348,597)	(384)	(348,981)
Operating profit	2	**85,669**	**(4,641)**	**81,028**	68,720	(384)	68,336
Financial expenses		**(14,805)**	**-**	**(14,805)**	(13,248)	-	(13,248)
Financial income		**16,541**	**-**	**16,541**	15,688	-	15,688
Net financing income	5	**1,736**	**-**	**1,736**	2,440	-	2,440
Share of profit of associates		**2,741**	**(343)**	**2,398**	1,636	(249)	1,387
Profit before taxation	6	**90,146**	**(4,984)**	**85,162**	72,796	(633)	72,163
Taxation	8	**(26,257)**	**883**	**(25,374)**	(22,973)	-	(22,973)
Profit for the period		**63,889**	**(4,101)**	**59,788**	49,823	(633)	49,190
Attributable to:							
Equity holders of the parent		**63,648**	**(4,101)**	**59,547**	49,734	(633)	49,101
Minority interest		**241**	**-**	**241**	89	-	89
Profit for the period		**63,889**	**(4,101)**	**59,788**	49,823	(633)	49,190
Earnings per share	10						
Basic earnings per share				**78.0p**			64.7p
Diluted earnings per share				**77.7p**			64.4p
Dividends	11						
Dividends per share				**33.3p**			29.9p
Dividends paid during the year (per share)				**31.6p**			27.3p

* Amortisation of acquisition-related intangible assets of £1,884,000 (2007: £633,000) of which £343,000 (2007: £249,000) relates to Associates, and the impairment of goodwill and intangible assets of £3,100,000 (2007: nil). The tax effects on these items was £883,000 (2007: nil). Before these adjustments, the basic earnings per share for 2008 is 83.4p (2007: 65.5p).

All amounts relate to continuing operations.

The notes on pages 56 to 85 form an integral part of the accounts.

Balance sheets
at 31st December 2008

	notes	THE GROUP 2008 £000	2007 £000	PARENT COMPANY 2008 £000	2007 £000
ASSETS					
Non-current assets					
Property, plant and equipment	*12*	**122,897**	93,933	**-**	-
Goodwill	*13*	**29,908**	18,697	**-**	-
Other intangible assets	*13*	**22,921**	9,663	**-**	-
Prepayments		**900**	986	**-**	-
Post-retirement benefits	*29*	**-**	1,095	**-**	538
Loans to subsidiaries	*14*	**-**	-	**27,674**	16,013
Investment in subsidiaries	*15*	**-**	-	**47,846**	47,055
Investment in associates	*16*	**9,396**	7,937	**220**	220
Deferred tax	*17*	**33,180**	11,659	**156**	433
		219,202	143,970	**75,896**	64,259
Current assets					
Inventories	*18*	**102,382**	73,824	**-**	-
Trade receivables		**124,595**	98,067	**-**	-
Due from subsidiaries		**-**	-	**45,816**	20,682
Other current assets	*19*	**12,874**	9,755	**97**	192
Taxation recoverable		**1,118**	949	**-**	-
Cash and cash equivalents	*30*	**54,140**	38,844	**7,984**	10,693
		295,109	221,439	**53,897**	31,567
Total assets		**514,311**	365,409	**129,793**	95,826
EQUITY AND LIABILITIES					
Current liabilities					
Trade and other payables	*20*	**81,010**	58,832	**1,992**	1,726
Bank overdrafts	*30*	**2,045**	987	**-**	-
Short term borrowing	*30*	**9,008**	1,717	**-**	-
Current portion of long term borrowings	*30*	**176**	78	**-**	-
Current tax payable	*21*	**11,932**	8,321	**615**	1,120
		104,171	69,935	**2,607**	2,846
Net current assets		**190,938**	151,504	**51,290**	28,721
Non-current liabilities					
Long term borrowings	*30*	**25,521**	20,231	**-**	-
Deferred tax	*17*	**13,714**	8,307	**-**	-
Post-retirement benefits	*29*	**73,717**	22,628	**11,266**	-
Provisions	*23*	**1,182**	1,343	**-**	-
Due to subsidiaries		**-**	-	**941**	941
		114,134	52,509	**12,207**	941
Total liabilities		**218,305**	122,444	**14,814**	3,787
Net assets	*2*	**296,006**	242,965	**114,979**	92,039
Equity					
Share capital	*24*	**19,307**	19,299	**19,307**	19,299
Share premium account		**47,559**	47,267	**47,559**	47,267
Other reserves		**56,802**	5,719	**4,206**	3,415
Retained earnings		**171,645**	169,866	**43,907**	22,058
Equity attributable to equity holders of the parent	*25*	**295,313**	242,151	**114,979**	92,039
Minority interest		**693**	814	**-**	-
Total equity		**296,006**	242,965	**114,979**	92,039
Total equity and liabilities		**514,311**	365,409	**129,793**	95,826

These accounts were approved by the Board of Directors on 9th March 2009 and signed on its behalf by:

Directors
M.E. Vernon D.J. Meredith

Statements of recognised income and expense for the year ended 31st December 2008

	THE GROUP		PARENT COMPANY	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Actuarial loss on post-retirement benefits	**(50,088)**	(877)	**(12,915)**	(98)
Deferred tax on actuarial loss on post-retirement benefits	**17,708**	279	**-**	-
Foreign exchange translation differences	**51,521**	7,650	**-**	-
(Loss)/Gain on cash flow hedges	**(438)**	(81)	**-**	-
Income and expense recognised directly in equity	**18,703**	6,971	**(12,915)**	(98)
Profit for the period	**59,788**	49,190	**61,797**	4,766
Total recognised income and expense for the period	**78,491**	56,161	**48,882**	4,668
Attributable to:				
Equity holders of the parent	**78,250**	56,072	**48,882**	4,668
Minority interest	**241**	89	**-**	-
Total recognised income and expense for the period	**78,491**	56,161	**48,882**	4,668

Cash flow statements
for the year ended 31st December 2008

	notes	THE GROUP 2008 £000	THE GROUP 2007 £000	PARENT COMPANY 2008 £000	PARENT COMPANY 2007 £000
Cash flows from operating activities					
Profit before taxation		**85,162**	72,163	**61,235**	5,066
Depreciation and amortisation		**19,859**	14,231	**-**	-
Dividends received		**-**	-	**(63,239)**	(6,500)
Share of profit of associates		**(2,398)**	(1,387)	**-**	-
Equity settled share plans		**1,519**	1,259	**624**	497
Net finance income		**(1,736)**	(2,440)	**(1,424)**	(1,133)
Exchange adjustments		**-**	-	**(79)**	(109)
Operating cash flow before changes in working capital and provisions		**102,406**	83,826	**(2,883)**	(2,179)
Change in trade and other receivables		**(4,029)**	(5,244)	**95**	170
Change in amounts due from subsidiaries		**-**	-	**(36,795)**	23,705
Change in inventories		**(12,143)**	(3,999)	**-**	-
Change in provisions and post-retirement benefits		**(3,236)**	(5,726)	**(789)**	(2,781)
Change in trade and other payables		**4,819**	5,671	**491**	449
Cash generated from operations		**87,817**	74,528	**(39,881)**	19,364
Interest paid		**(1,480)**	(1,699)	**(45)**	(219)
Income taxes paid		**(22,087)**	(18,162)	**99**	394
Net cash from operating activities		**64,250**	54,667	**(39,827)**	19,539
Cash flows from investing activities					
Purchase of property, plant and equipment		**(22,881)**	(13,826)	**-**	-
Proceeds from sale of property, plant and equipment		**879**	599	**-**	-
Purchase of software and other intangibles		**(2,999)**	(1,693)	**-**	-
Development expenditure capitalised		**(1,542)**	(1,604)	**-**	-
Acquisition of businesses		**(13,939)**	(1,170)	**-**	(220)
Interest received		**1,291**	906	**850**	464
Dividends received		**1,063**	557	**63,239**	6,500
Net cash used in investing activities		**(38,128)**	(16,231)	**64,089**	6,744
Cash flows from financing activities					
Proceeds from issue of share capital		**62**	42	**62**	42
Proceeds from reissue of treasury shares		**3,888**	3,115	**3,888**	3,115
Treasury shares purchased		**(6,762)**	**-**	**(6,762)**	**-**
Proceeds from borrowings	30	**9,396**	(2,543)	**-**	-
Payment of finance lease liabilities	30	**(66)**	(20)	**-**	-
Dividends paid (including minorities)		**(24,252)**	(20,828)	**(24,159)**	(20,728)
Net cash used in financing activities		**(17,734)**	(20,234)	**(26,971)**	(17,571)
Net increase in cash and cash equivalents	30	**8,388**	18,202	**(2,709)**	8,712
Cash and cash equivalents at beginning of period		**37,857**	18,099	**10,693**	1,981
Exchange movement		**5,850**	1,556	**-**	-
Cash and cash equivalents at end of period	30	**52,095**	37,857	**7,984**	10,693
Borrowings and finance leases		**(34,705)**	(22,026)	**-**	-
Net cash	30	**17,390**	15,831	**7,984**	10,693

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 judgments, 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 judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The most significant effect on the financial statements from accounting policies requiring judgement are in the areas of research and development and revenue.

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

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

Further information on the Group's business activities, performance and position, together with the financial position of the Group, its capital structure and cash flow are included in the Business Review on pages 10 to 27. In addition, note 33 to the financial statements discloses details of the Group's financial risk management and credit facilities.

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

- IFRS 8, Operating Segments
  This standard introduces a management approach to segment reporting and will require a change in the presentation and disclosure of segmental information to be consistent with management reporting.
- Amendment to IFRS 3, Business Combinations and IAS 27, Consolidated and Separate Financial Statements
  The revised standards introduce changes to acquisition accounting, notably in respect of treatment of acquisition costs, step and partial acquisitions, minority interests and contingent consideration. The Group is currently assessing the impact of these revised standards.
- Amendment to IAS 23, Borrowing Costs
  The amendment eliminates the option to expense borrowing costs attributable to acquisition, construction or production of a qualifying asset, and instead requires such costs to be capitalised as part of the specific assets. The Group is assessing the impact of the amendment but it is not expected to be significant.
- IFRIC 14, IAS 19, Defined Benefit Pensions
  The IFRIC makes it generally more difficult to recognise defined benefit surpluses on the balance sheet and may result in the recognition of additional liabilities where a minimum funding requirement creates an onerous obligation. The impact of this interpretation is not expected to be significant.

The consolidated accounts are presented in pounds sterling, which is the company's functional currency.

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

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

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

(iv) Company
Under Section 230 (4) of the Companies Act 1985 the company is exempt from the requirement to present its own income statement.

Foreign currency
(i) On consolidation
The assets and liabilities of foreign operations are translated into sterling at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into sterling at average rates of exchange ruling during the year.

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

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

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

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

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

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

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

Freehold buildings	1.5%	Office furniture and fittings	10%	Motor vehicles	20%
Plant and machinery	10 - 12.5%	Office equipment	12.5-20%	Tooling and patterns	10%

The depreciation rates are reassessed annually.

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

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

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

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

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

Notes to the accounts continued

1 ACCOUNTING POLICIES *(continued)*

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

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

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 Recognised Income and Expense in the year they arise. Any scheme surplus (to the extent it is considered recoverable) or deficit is recognised in full in the balance sheet.

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

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

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

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

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

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

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

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

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

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

2 SEGMENTAL REPORTING

Primary segment
Analysis by location of operation
2008

	Net revenue £000	Intra-divisional £000	Inter-divisional £000	Gross revenue £000	Total operating profit £000	Before adjustment operating profit £000	Before adjustment operating margin %
UK & Republic of Ireland	64,777	73	60,590	125,440	13,270	13,316	10.6%
Continental Europe	192,380	21,239	27,372	240,991	35,512	36,682	15.2%
North America	94,348	1,475	1,891	97,714	5,632	8,911	9.1%
Asia	88,531	619	3,946	93,096	18,707	18,707	20.1%
Rest of the world	62,280	249	5,474	68,003	7,907	8,053	11.8%
	502,316	23,655	99,273	625,244	81,028	85,669	13.7%
Total intra-Group revenue		(23,655)	(99,273)	(122,928)			
Net revenue	**502,316**	**-**	**-**	**502,316**	**81,028**	**85,669**	**17.1%**

2007

	Net revenue £000	Intra-divisional £000	Inter-divisional £000	Gross revenue £000	Total operating profit £000	Before adjustment operating profit £000	Before adjustment operating margin %
UK & Republic of Ireland	58,542	48	58,630	117,220	13,314	13,370	11.4%
Continental Europe	153,028	16,631	20,217	189,876	26,223	26,263	13.8%
North America	79,915	881	753	81,549	7,138	7,326	9.0%
Asia	76,933	620	2,267	79,820	16,641	16,643	20.9%
Rest of the world	48,899	846	4,341	54,086	5,020	5,118	9.5%
	417,317	19,026	86,208	522,551	68,336	68,720	13.2%
Total intra-Group revenue		(19,026)	(86,208)	(105,234)			
Net revenue	**417,317**	**-**	**-**	**417,317**	**68,336**	**68,720**	**16.5%**

Revenue by location of customers

	2008 £000	2007 £000
UK & Republic of Ireland	**49,185**	43,993
Continental Europe	**190,583**	153,661
North America	**95,931**	80,800
Asia	**96,958**	85,252
Rest of the world	**69,659**	53,611
	502,316	417,317

Notes to the accounts continued

2 SEGMENTAL REPORTING (continued)

Share of profit of associates

	2008 Before adjustment £000	2008 Total £000	2007 Before adjustment £000	2007 Total £000
UK & Republic of Ireland	-	-	-	-
Continental Europe	-	-	-	-
North America	851	851	668	668
Asia	1,890	1,547	968	719
Rest of the world	-	-	-	-
	2,741	2,398	1,636	1,387

Net assets

	2008 Assets £000	2008 Liabilities £000	2007 Assets £000	2007 Liabilities £000
UK & Republic of Ireland	88,140	(64,878)	78,721	(24,318)
Continental Europe	163,396	(50,162)	105,655	(35,052)
North America	57,143	(21,219)	42,750	(8,055)
Asia	73,899	(10,390)	51,937	(7,375)
Rest of the world	43,295	(9,260)	34,894	(8,003)
	425,873	(155,909)	313,957	(82,803)
Liabilities	(155,909)		(82,803)	
Deferred tax	19,466		3,352	
Current tax payable net of tax recoverable	(10,814)		(7,372)	
Net cash / (borrowings)	17,390		15,831	
Net assets	296,006		242,965	

Capital additions and depreciation and amortisation

	2008 Capital additions £000	2008 Depreciation & amortisation £000	2007 Capital additions £000	2007 Depreciation & amortisation £000
UK & Republic of Ireland	11,593	5,782	6,502	5,664
Continental Europe	18,547	6,099	5,231	4,101
North America	2,226	5,209	1,390	1,948
Asia	8,337	1,418	1,883	1,182
Rest of the world	3,266	1,351	2,814	1,336
	43,969	19,859	17,820	14,231

Capital additions include Property, plant and equipment and Other intangible assets.

Secondary segment
Revenue by business operation

	2008 £000	2007 £000
Spirax Sarco	426,935	361,611
Watson-Marlow	75,381	55,706
	502,316	417,317

Capital additions

	2008 £000	2007 £000
Spirax Sarco	28,429	15,870
Watson-Marlow	15,540	1,950
	43,969	17,820

3 OPERATING COSTS

	2008 £000	2007 £000
Change in stocks of finished goods and work in progress	(6,341)	(1,638)
Raw materials and consumables	153,939	122,363
Staff costs *(note 4)*	173,792	147,815
Depreciation and amortisation	19,859	14,231
Other operating charges	80,039	66,210
	421,288	348,981

Depreciation and amortisation includes amortisation of acquisition-related intangible assets of £1,541,000 (2007: £384,000), goodwill and intangible asset impairment of £3,100,000 (2007: nil) and amortisation of capitalised development costs of £1,104,000 (2007: £1,086,000).

4 STAFF COSTS AND NUMBERS

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

	2008 £000	2007 £000
Wages and salaries	**138,094**	117,938
Social security costs	**23,495**	19,269
Other pension costs	**12,203**	10,608
	173,792	147,815

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

	2008 Number	2007 Number
United Kingdom	**1,205**	1,172
Overseas	**3,213**	2,997
	4,418	4,169

5 NET FINANCING INCOME

	2008 £000	2007 £000
Financial expenses		
Bank and other borrowing interest payable	**(1,480)**	(1,699)
Interest on pension scheme liabilities	**(13,325)**	(11,549)
	(14,805)	(13,248)
Financial income		
Bank interest receivable	**1,291**	906
Expected return on pension scheme assets	**15,250**	14,782
	16,541	15,688
Net financing income	**1,736**	2,440
Net pension scheme financial income	**1,925**	3,233
Net bank interest	**(189)**	(793)
Net financing income	**1,736**	2,440

6 PROFIT BEFORE TAXATION

Profit before taxation is shown after charging:

	2008 £000	2007 £000
Depreciation of tangible fixed assets held under finance leases	**175**	138
Hire of plant and machinery	**598**	423
Other operating leases	**3,762**	2,806
Research and development	**4,889**	4,662

Auditor's remuneration	**2008 £000**	2007 £000
Fees payable to the company's auditor for the audit of the company's annual accounts	**149**	164
Fees payable to the company's auditor and its associates for other services:		
The audit of the company's subsidiaries, pursuant to legislation	**903**	838
Tax services	**363**	421
Other services	**97**	107
	1,512	1,530

Notes to the accounts continued

7 DIRECTORS' EMOLUMENTS

Details of directors' emoluments, share plans and long term share incentive plan and pension benefits are shown in the Directors' Remuneration Report on pages 42 to 49. Directors represent the key management personnel of the Group under the terms of IAS 24: Related Party Disclosures.

8 TAXATION

	2008 £000	2007 £000
Analysis of charge in period		
UK corporation tax		
Current tax on income for the period	**20,350**	13,850
Adjustments in respect of prior periods	**(434)**	(1,057)
	19,916	12,793
Double taxation relief	**(16,493)**	(11,871)
	3,423	922
Foreign tax		
Current tax on income for the period	**20,730**	18,291
Adjustments in respect of prior periods	**-**	40
	20,730	18,331
Total current tax charge	**24,153**	19,253
Deferred tax - UK	**(536)**	2,775
Deferred tax - Foreign	**1,757**	945
Tax on profit on ordinary activities	**25,374**	22,973

Reconciliation of effective tax rate

	2008 £000	2007 £000
Profit before tax	**85,162**	72,163
Tax using the UK corporation tax rate of 28.5% (2007: 30%)	**24,271**	21,649
Effect of (lower)/higher overseas tax rates	**(184)**	320
Associated companies	**(683)**	(416)
Non-deductible expenditure	**918**	1,475
Overprovided in prior years	**(1,151)**	(834)
Other reconciling items	**2,203**	779
Total tax in income statement	**25,374**	22,973

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. The impact of higher tax rates on overseas earnings has reduced due to a change in the profit mix and partly due to a decrease in global tax rates.

Taxation recognised directly in equity

	2008 £000	2007 £000
Relating to:		
Equity settled transactions	**(460)**	401
On actuarial gains and losses	**17,708**	279
	17,248	680

9 PROFIT FOR THE FINANCIAL YEAR ATTRIBUTABLE TO SHAREHOLDERS

Profit dealt with in the accounts of Spirax-Sarco Engineering plc was £61,464,296 (2007: £4,935,000). Included in this amount are dividends from subsidiary undertakings of £62,900,000 (2007: £6,500,000).

10 EARNINGS PER SHARE

	2008 £000	2007 £000
Profit attributable to equity holders of the parent	**59,547**	49,101
Weighted average shares in issue	**76,359,740**	75,889,850
Dilution	**303,354**	365,911
Diluted weighted average shares in issue	**76,663,094**	76,255,761
Basic earnings per share	**78.0p**	64.7p
Diluted earnings per share	**77.7p**	64.4p
Adjusted profit attributable to equity holders of the parent	**63,648**	49,734
Basic adjusted earnings per share	**83.4p**	65.5p

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

11 DIVIDENDS

	2008 £000	2007 £000
Amounts paid in the year		
Final dividend for the year ended 31st December 2007 of 21.6p (2006: 19.0p) per share	**16,452**	14,413
Interim dividend for the year ended 31st December 2008 of 10.0p (2007: 8.3p) per share	**7,674**	6,315
	24,126	20,728

Amounts arising in respect of the year		
Interim dividend for the year ended 31st December 2008 of 10.0p (2007: 8.3p) per share	**7,674**	6,315
Proposed final dividend for the year ended 31st December 2008 of 23.3p (2007: 21.6p) per share	**17,994**	16,439
	25,668	22,754

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.

Notes to the accounts continued

12 PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Land and buildings Freehold £000	Land and buildings Leasehold £000	Plant and machinery £000	Fixtures, fittings, tools and equipment £000	Total £000
Cost or deemed cost:					
At 1st January 2007	55,165	972	95,165	46,730	198,032
Exchange adjustments	2,190	47	2,580	1,102	5,919
	57,355	1,019	97,745	47,832	203,951
Additions	3,305	236	7,491	3,250	14,282
Disposals	(93)	(89)	(2,392)	(2,416)	(4,990)
At 31st December 2007	**60,567**	**1,166**	**102,844**	**48,666**	**213,243**
Depreciation:					
At 1st January 2007	10,320	276	61,242	37,392	109,230
Exchange adjustments	450	12	1,443	881	2,786
	10,770	288	62,685	38,273	112,016
Charged in year	1,103	39	7,687	2,919	11,748
Disposals	(40)	(80)	(2,028)	(2,306)	(4,454)
At 31st December 2007	**11,833**	**247**	**68,344**	**38,886**	**119,310**
Net book value:					
At 31st December 2007	**48,734**	**919**	**34,500**	**9,780**	**93,933**
At 1st January 2007	44,845	696	33,923	9,338	88,802
Cost or deemed cost:					
At 1st January 2008	60,567	1,166	102,844	48,666	213,243
Exchange adjustments	11,303	507	15,271	7,013	34,094
	71,870	1,673	118,115	55,679	247,337
Additions	6,916	3,739	12,388	4,253	27,296
Disposals	(46)	(37)	(4,260)	(4,720)	(9,063)
At 31st December 2008	**78,740**	**5,375**	**126,243**	**55,212**	**265,570**
Depreciation:					
At 1st January 2008	11,833	247	68,344	38,886	119,310
Exchange adjustments	2,597	83	8,709	5,451	16,840
	14,430	330	77,053	44,337	136,150
Charged in year	1,385	64	9,506	3,850	14,805
Disposals	(46)	(25)	(3,549)	(4,662)	(8,282)
At 31st December 2008	**15,769**	**369**	**83,010**	**43,525**	**142,673**
Net book value:					
At 31st December 2008	**62,971**	**5,006**	**43,233**	**11,687**	**122,897**

Included in the above are finance leases with a net book value of £590,542 (2007: £1,413,000).

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 2007	2,729	5,758	13,669	22,156	17,541
Exchange adjustments	46	80	473	599	709
	2,775	5,838	14,142	22,755	18,250
Additions	160	1,608	1,770	3,538	447
Disposals	-	(6)	(202)	(208)	-
At 31st December 2007	**2,935**	**7,440**	**15,710**	**26,085**	**18,697**
Amortisation:					
At 1st January 2007	490	3,065	9,735	13,290	-
Exchange adjustments	19	46	376	441	-
	509	3,111	10,111	13,731	-
Charged in year	394	1,101	1,399	2,894	-
Disposals	-	(3)	(200)	(203)	-
At 31st December 2007	**903**	**4,209**	**11,310**	**16,422**	**-**
Net book value:					
At 31st December 2007	**2,032**	**3,231**	**4,400**	**9,663**	**18,697**

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

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.

	2008 £000	2007 £000
Flexicon A/S, Denmark	**8,913**	-
Spirax UltraPure, LLC, USA	**-**	2,746
M & M product unit	**3,558**	2,696
Spirax Sarco, Inc. USA	**3,515**	2,526
Alitea product unit	**2,607**	2,281
UK Supply product unit	**2,304**	1,745
Spirax-Sarco S.A.S. France	**1,551**	1,174
Watson-Marlow, South Africa	**1,130**	1,104
Mitech product unit	**1,016**	968
Other cash-generating units	**5,314**	3,457
	29,908	18,697

The carrying amount of goodwill relating to Spirax UltraPure, LLC, USA was written off in 2008 as a result of a decision to close the Florida operation. Although Ultrapure's operating performance was marginally better than in 2007, the development of sales had been much slower than expected in part due to the downturn in pharmaceutical investment in the USA. Ultrapure's intellectual property and manufacturing know-how have been transferred to our Italian and USA operations.

The remaining 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 an average of actual data for the current and preceeding years and forecast information for the following years.
- The key assumptions on which the cash flow projections for the most recent forecast are based are the discount and growth rates.
- The cash flows have been discounted at a range of 10-16% based on the Group's weighted average cost of capital.
- Growth rates vary depending on detailed forecasts.
- Net present values are considered over a 20 year period and in perpetuity. No impairments were identified under either case.

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

- Annual monetary growth in a range of 5-10%
- A discount rate of 10%.

14 LOANS TO SUBSIDIARIES

	PARENT COMPANY	
	2008 £000	2007 £000
Cost:		
At 1st January	**17,055**	36,434
Exchange adjustments	**79**	109
	17,134	36,543
Loans	**11,582**	(19,488)
At 31st December	**28,716**	17,055
Amounts written off:		
At 1st January and 31st December	**(1,042)**	(1,042)
Net book value:		
At 31st December	**27,674**	16,013

Notes to the accounts continued

15 INVESTMENT IN SUBSIDIARIES

	PARENT COMPANY 2008 £000	2007 £000
Cost:		
At 1st January	**48,049**	47,383
Share options issued to subsidiary company employees	**791**	666
At 31st December	**48,840**	48,049
Amounts written off:		
At 1st January and 31st December	**(994)**	(994)
Net book value:		
At 31st December	**47,846**	47,055

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

Details relating to subsidiary undertakings are given on the back cover. Except where stated all classes of shares were 100% owned by the Group at 31st December 2008. The country of incorporation of the principal Group companies is the same as the country of operation with the exception of companies operating in the United Kingdom which are incorporated in Great Britain. Eirdata Environmental Services Ltd. is incorporated in the Republic of Ireland. All are in the fluid control business except Spirax-Sarco Investments Ltd., Spirax-Sarco Overseas Ltd., Sarco International Corp., Watson-Marlow Bredel Holdings B.V., Spirax-Sarco Engineering S.L.,
Spirax-Sarco Engineering B.V. and Spirax-Sarco Investments B.V. which are investment holding companies.

16 INVESTMENT IN ASSOCIATES

	THE GROUP 2008 £000	2007 £000
Cost of investment	**5,212**	5,212
Share of total equity	**4,184**	2,725
	9,396	7,937

Summarised aggregated financial information (total business)		
Revenue	**25,281**	17,816
Profit for the period	**5,574**	3,194
Assets	**16,346**	11,792
Liabilities	**4,750**	4,403

Details of the Group's associates at 31st December 2008 are as follows:

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

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	
	2008 £000	2007 £000	**2008 £000**	2007 £000	**2008 £000**	2007 £000
Accelerated capital allowances	**214**	142	**(4,137)**	(2,853)	**(3,923)**	(2,711)
Provisions	**5,827**	4,651	**(33)**	(44)	**5,794**	4,607
Losses	**2,221**	810	**-**	-	**2,221**	810
Inventory	**611**	359	**(1,984)**	(1,567)	**(1,373)**	(1,208)
Pensions	**24,297**	7,109	**(3,826)**	(4,311)	**20,471**	2,798
Other temporary differences	**6,762**	6,418	**(10,486)**	(7,362)	**(3,724)**	(944)
Tax assets/(liabilities)	**39,932**	19,489	**(20,466)**	(16,137)	**19,466**	3,352
Net off (liabilities)/assets	**(6,752)**	(7,830)	**6,752**	7,830	**-**	-
Net tax assets/(liabilities)	**33,180**	11,659	**(13,714)**	(8,307)	**19,466**	3,352

Movement in deferred tax during the year

2007

	THE GROUP			
	1 January 2007 £000	Recognised in income £000	Recognised in equity £000	**31 December 2007 £000**
Accelerated capital allowances	(3,684)	1,528	(555)	**(2,711)**
Provisions	3,016	1,443	148	**4,607**
Losses	474	(551)	887	**810**
Inventory	(1,041)	(104)	(63)	**(1,208)**
Pensions	7,296	(4,520)	22	**2,798**
Other temporary differences	1,291	(1,516)	(719)	**(944)**
	7,352	(3,720)	(280)	**3,352**

2008

	THE GROUP			
	1 January 2008 £000	Recognised in income £000	Recognised in equity £000	**31 December 2008 £000**
Accelerated capital allowances	(2,711)	(269)	(943)	**(3,923)**
Provisions	4,607	721	466	**5,794**
Losses	810	1,348	63	**2,221**
Inventory	(1,208)	265	(430)	**(1,373)**
Pensions	2,798	(923)	18,596	**20,471**
Other temporary differences	(944)	79	(2,859)	**(3,724)**
	3,352	1,221	14,893	**19,466**

Amounts recognised in equity include items arising from acquisitions.

Movement in deferred tax during the year

2007

	PARENT COMPANY			
	1 January 2007 £000	Recognised in income £000	Recognised in equity £000	**31 December 2007 £000**
Pensions	-	-	-	**-**
Other temporary differences	763	(131)	(199)	**433**
	763	(131)	(199)	**433**

2008

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

Notes to the accounts continued

18 INVENTORIES

	THE GROUP	
	2008 £000	2007 £000
Raw materials and consumables	**38,321**	27,680
Work in progress	**16,213**	12,179
Finished goods and goods for resale	**47,848**	33,965
	102,382	73,824

19 OTHER CURRENT ASSETS

	THE GROUP		PARENT COMPANY	
	2008 £000	2007 £000	**2008 £000**	2007 £000
Other receivables	**7,334**	5,873	**-**	148
Prepayments and accrued income	**5,540**	3,882	**97**	44
	12,874	9,755	**97**	192

20 TRADE AND OTHER PAYABLES

	THE GROUP		PARENT COMPANY	
	2008 £000	2007 £000	**2008 £000**	2007 £000
Trade payables	**28,686**	22,255	**-**	-
Bills of exchange payable	**2,364**	1,207	**-**	-
Social security	**4,051**	3,255	**-**	-
Other payables	**21,035**	13,554	**256**	432
Accruals	**24,874**	18,561	**1,736**	1,294
	81,010	58,832	**1,992**	1,726

21 CURRENT TAX PAYABLE

	THE GROUP		PARENT COMPANY	
	2008 £000	2007 £000	**2008 £000**	2007 £000
UK Corporation tax	**1,136**	2,284	**615**	1,120
Foreign tax payable	**10,796**	6,037	**-**	-
	11,932	8,321	**615**	1,120

22 OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		Present value lease payments	
	2008 £000	2007 £000	**2008 £000**	2007 £000
Amount payable				
Within 1 year	**98**	73	**67**	54
1-5 years inclusive	**269**	220	**221**	178
After 5 years	**19**	68	**19**	66
	386	361	**307**	298
Add future finance charges			**79**	63
Minimum lease payments	**386**	361	**386**	361
Less: Due for settlement in <1 year			**67**	54
Due for settlement in >1 year			**319**	307

23 PROVISIONS

	THE GROUP Warranty and other provisions 2008 £000	2007 £000
Provisions at 1st January	**1,343**	876
Exchange adjustments	**147**	32
	1,490	908
Net charge for the year	**-**	435
Utilised in the year	**(308)**	-
Provisions at 31st December	**1,182**	1,343

24 CALLED UP SHARE CAPITAL

	THE GROUP		PARENT COMPANY	
	2008 £000	2007 £000	**2008 £000**	2007 £000
Ordinary shares of 25p each:				
Authorised 120,000,000	**30,000**	30,000	**30,000**	30,000
Allotted, called up and fully paid 77,227,516	**19,307**	19,299	**19,307**	19,299

32,612 ordinary shares, having an aggregate nominal value of £8,153, were issued during the year, 9,500 shares were issued pursuant to the Spirax-Sarco Engineering Share Option Schemes for a consideration of £61,567 received by the Company and 23,112 shares were issued at a value of £238,513 to settle deferred consideration on an acquisition.

At 31st December 1,255,542 treasury shares were available for use in connection with the Group's Employee Share Schemes.

Directors and 116 other senior employees and former employees of the Group have been granted options to purchase 1,396,202 ordinary shares with an aggregate nominal value of £349,051 (Note 29).

25 SHARE CAPITAL AND RESERVES

	THE GROUP						
	Share capital £000	Share premium account £000	Translation reserve £000	Cash flow hedge reserve £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
Balance at 1st January 2007	19,296	47,228	(3,800)	118	1,832	133,835	198,509
Total recognised income and expense	-	-	7,650	(81)	-	48,503	56,072
Dividends paid	-	-	-	-	-	(20,728)	(20,728)
Increased investment in associated company	-	-	-	-	-	2,946	2,946
Equity settled share plans net of tax	-	-	-	-	-	2,195	2,195
Issue of new share capital	3	39	-	-	-	-	42
Treasury shares reissued	-	-	-	-	-	5,457	5,457
Loss on the reissue of treasury shares	-	-	-	-	-	(2,342)	(2,342)
Balance at 31st December 2007	**19,299**	**47,267**	**3,850**	**37**	**1,832**	**169,866**	**242,151**

Notes to the accounts continued

25 SHARE CAPITAL AND RESERVES *(continued)*

	Share capital £000	Share premium account £000	Translation reserve £000	Cash flow hedge reserve £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
Balance at 1st January 2008	19,299	47,267	3,850	37	1,832	169,866	242,151
Total recognised income and expense	-	-	51,521	(438)	-	27,167	78,250
Dividends paid	-	-	-	-	-	(24,159)	(24,159)
Equity settled share plans net of tax	-	-	-	-	-	1,645	1,645
Issue of new share capital	8	292	-	-	-	-	300
Treasury shares purchased	-	-	-	-	-	(6,762)	(6,762)
Treasury shares reissued	-	-	-	-	-	7,679	7,679
Loss on the reissue of treasury shares	-	-	-	-	-	(3,791)	(3,791)
Balance at 31st December 2008	**19,307**	**47,559**	**55,371**	**(401)**	**1,832**	**171,645**	**295,313**

PARENT COMPANY

	Share capital £000	Share premium account £000	Share based payments £000	Cash flow hedge reserve £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
Balance at 1st January 2007	19,296	47,228	917	-	1,832	34,582	103,855
Total recognised income and expense	-	-	-	-	-	4,668	4,668
Dividends paid	-	-	-	-	-	(20,728)	(20,728)
Equity settled share plans net of tax	-	-	-	-	-	421	421
Issue of new share capital	3	39	-	-	-	-	42
Treasury shares reissued	-	-	-	-	-	5,457	5,457
Loss on the reissue of treasury shares	-	-	-	-	-	(2,342)	(2,342)
Investment in subsidiaries in relation to share options granted	-	-	666	-	-	-	666
Balance at 31st December 2007	**19,299**	**47,267**	**1,583**	**-**	**1,832**	**22,058**	**92,039**

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

26 RETURN ON CAPITAL EMPLOYED

	THE GROUP	
	2008	2007
	£000	£000
Capital employed		
Property, plant and equipment	**122,897**	93,933
Prepayments	**900**	986
Inventories	**102,382**	73,824
Trade receivables	**124,595**	98,067
Other current assets	**12,874**	9,755
Tax recoverable	**1,118**	949
Trade and other payables	**(81,010)**	(58,832)
Current tax payable	**(11,932)**	(8,321)
Capital employed	**271,824**	210,361
Average capital employed	**241,093**	204,778
Operating profit	**81,028**	68,336
Amortisation and impairment of acquisition-related intangibles	**4,641**	384
	85,669	68,720
Return on capital employed	**35.5%**	33.6%

27 CAPITAL COMMITMENTS

	THE GROUP		PARENT COMPANY	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Capital expenditure contracted for but not provided	**3,615**	2,997	**-**	-

28 OPERATING LEASE OBLIGATIONS

	THE GROUP	
	2008	2007
	£000	£000
Commitments under non-cancellable leases due as follows:		
Within 1 year	**2,846**	2,098
1-5 years inclusive	**4,673**	3,122
After 5 years	**884**	10
	8,403	5,230

29 EMPLOYEE BENEFITS

Pension plans - The Group

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

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

The total expense relating to the Group’s Defined Contribution pension plans in the current year was £4,485,000 (2007: £2,850,000).

Of the Defined Benefit plans, the plans in the UK and USA hold most of the liability. The post-retirement mortality assumptions in respect of these plans may therefore be considered material. The UK schemes assume that post-retirement mortality follows the PA00 series tables, with medium cohort improvements subject to minimum improvements of 1% per annum, and depending on a member's year of birth. An adjustment is then made for each plan to reflect the profile of membership. This basis gives a life expectancy of 20 years and 22 years respectively for a male and female currently aged 65. These figures reflect a change from the mortality assumptions used at the last formal actuarial valuation following the generally recognised trend of increased longevity. The USA schemes use the RP-2000 mortality table with AA scale projected through 2008. Life expectancy under this table is 19 years and 21 years respectively for a male and female currently aged 65. These assumptions are regularly reviewed in light of scheme specific experience and more widely available statistics.

Notes to the accounts continued

29 EMPLOYEE BENEFITS *(continued)*

The financial assumptions used at 31st December were:

	Assumptions weighted by value of liabilities % per annum			
	UK pensions		Overseas pensions and medical	
	2008	2007	**2008**	2007
Rate of increase in salaries	**4.1**	4.4	**3.7**	3.6
Rate of increase in pensions	**3.1**	3.3	**2.0**	1.8
Rate of price inflation	**3.0**	3.3	**2.7**	2.6
Discount rate	**6.3**	5.9	**6.2**	5.9
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	
	2008	2007	**2008**	2007
Expected rate of return on assets (weighted average)	**7.6**	7.3	**7.5**	6.7
Equities	**8.4**	8.1	**8.2**	8.0
Bonds	**5.1**	4.5	**5.1**	4.3
Other	**6.5**	5.2	**4.9**	4.7

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 2008 were:

	UK pensions		Overseas pensions and medical		Total	
	2008 £000	2007 £000	**2008 £000**	2007 £000	**2008 £000**	2007 £000
Equities	**112,461**	138,805	**12,616**	14,142	**125,077**	152,947
Bonds	**28,702**	31,173	**6,555**	6,569	**35,257**	37,742
Other	**6,653**	14,610	**3,455**	3,221	**10,108**	17,831
Total market value in aggregate	**147,816**	184,588	**22,626**	23,932	**170,442**	208,520

The actual loss on plan assets was £45.1 million (2007 £3.7 million return).

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		Total	
	1% increase £000	1% decrease £000	1% increase £000	1% decrease £000
Aggregate of service cost & interest cost components of post-retirement medical plans	4	(3)	4	(3)
Accumulated post-employment benefit obligation for medical costs	22	(19)	22	(19)

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

	UK pensions		Overseas pensions and medical		Total	
	2008 £000	2007 £000	**2008 £000**	2007 £000	**2008 £000**	2007 £000
Fair value of schemes' assets	**147,816**	184,588	**22,626**	23,932	**170,442**	208,520
Present value of funded schemes' liabilities	**(194,890)**	(192,612)	**(33,447)**	(25,591)	**(228,337)**	(218,203)
(Deficit) in the funded schemes	**(47,074)**	(8,024)	**(10,821)**	(1,659)	**(57,895)**	(9,683)
Present value of unfunded schemes' liabilities	**-**	-	**(15,822)**	(11,850)	**(15,822)**	(11,850)
Retirement benefit liability recognised in the balance sheet	**(47,074)**	(8,024)	**(26,643)**	(13,509)	**(73,717)**	(21,533)
Related deferred tax asset	**13,181**	2,247	**11,347**	4,573	**24,528**	6,820
Net pension liability	**(33,893)**	(5,777)	**(15,296)**	(8,936)	**(49,189)**	(14,713)

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

	UK pensions		Overseas pensions and medical		Total	
	2008 £000	2007 £000	**2008 £000**	2007 £000	**2008 £000**	2007 £000
Defined benefit obligation at beginning of year	**(192,612)**	(191,980)	**(37,441)**	(36,294)	**(230,053)**	(228,274)
Current service cost	**(6,422)**	(6,540)	**(1,579)**	(1,377)	**(8,001)**	(7,917)
Past service cost	**-**	-	**-**	-	**-**	-
Interest cost	**(11,189)**	(9,660)	**(2,642)**	(1,952)	**(13,831)**	(11,612)
Contributions by members	**(102)**	(98)	**-**	(69)	**(102)**	(167)
Actuarial gain/(loss)	**18,978**	16,708	**702**	1,362	**19,680**	18,070
Actual benefit payments	**6,605**	5,871	**2,675**	1,905	**9,280**	7,776
Settlement, curtailment	**-**	-	**1,508**	115	**1,508**	115
Experience gain/(loss)	**(10,148)**	(6,913)	**(992)**	-	**(11,140)**	(6,913)
Currency gain/(loss)	**-**	-	**(11,500)**	(1,131)	**(11,500)**	(1,131)
Defined benefit obligation at end of year	**(194,890)**	(192,612)	**(49,269)**	(37,441)	**(244,159)**	(230,053)

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

	UK pensions		Overseas pensions and medical		Total	
	2008 £000	2007 £000	**2008 £000**	2007 £000	**2008 £000**	2007 £000
Value of assets at beginning of year	**184,588**	176,326	**23,932**	22,356	**208,520**	198,682
Expected return on assets	**13,438**	13,087	**2,272**	1,726	**15,710**	14,813
Actuarial gain/(loss)	**(51,249)**	(10,257)	**(9,522)**	(838)	**(60,771)**	(11,095)
Contributions paid by employer	**7,542**	11,205	**2,971**	2,279	**10,513**	13,484
Contributions paid by members	**102**	98	**-**	69	**102**	167
Actual benefit payments	**(6,605)**	(5,871)	**(2,675)**	(1,905)	**(9,280)**	(7,776)
Settlement, curtailment	**-**	-	**(1,616)**	-	**(1,616)**	-
Currency gain/(loss)	**-**	-	**7,264**	245	**7,264**	245
Value of assets at end of year	**147,816**	184,588	**22,626**	23,932	**170,442**	208,520

The estimated employer contributions to be made in 2009 are £12,995,000.

Notes to the accounts continued

29 EMPLOYEE BENEFITS *(continued)*

The history of experience adjustments is as follows:

	2008 £000	2007 £000	2006 £000	2005 £000
Defined benefit obligation at end of year	**(244,159)**	(230,053)	(228,274)	(217,155)
Fair value of schemes' assets	**170,442**	208,520	198,682	171,348
Retirement benefit liability recognised in the balance sheet	**(73,717)**	(21,533)	(29,592)	(45,807)
Experience adjustment on schemes' liabilities	**(11,140)**	(6,913)	481	411
As a percentage of schemes' liabilities	**4.6%**	3.0%	0.2%	0.2%
Experience adjustment on schemes' assets	**(60,771)**	(11,095)	2,663	14,330
As a percentage of schemes' assets	**35.7%**	5.3%	1.3%	8.4%

The expense recognised in the income statement was as follows:

	UK pensions		Overseas pensions and medical		Total	
	2008 £000	2007 £000	**2008 £000**	2007 £000	**2008 £000**	2007 £000
Current service cost	**(6,422)**	(6,540)	**(1,296)**	(1,333)	**(7,718)**	(7,873)
Past service cost	**-**	-	**-**	-	**-**	-
Settlement curtailment and termination benefits	**-**	-	**-**	115	**-**	115
Interest on schemes' liabilities	**(11,189)**	(9,660)	**(2,136)**	(1,889)	**(13,325)**	(11,549)
Expected return on schemes' assets	**13,438**	13,087	**1,812**	1,695	**15,250**	14,782
Total expense recognised in income statement	**(4,173)**	(3,113)	**(1,620)**	(1,412)	**(5,793)**	(4,525)

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

	2008 £000	2007 £000
Operating costs	**(7,718)**	(7,758)
Financial expenses	**(13,325)**	(11,549)
Financial income	**15,250**	14,782
Total expense recognised in income statement	**(5,793)**	(4,525)

Statement of recognised income and expense (SORIE)

	UK pensions		Overseas pensions and medical		Total	
	2008 £000	2007 £000	**2008 £000**	2007 £000	**2008 £000**	2007 £000
Actuarial loss recognised in SORIE	**(42,419)**	(462)	**(7,669)**	(415)	**(50,088)**	(877)
Deferred tax on actuarial amount recognised in SORIE	**11,565**	129	**6,143**	150	**17,708**	279
Cumulative loss recognised in SORIE at beginning of year	**(3,766)**	(3,433)	**(1,732)**	(1,467)	**(5,498)**	(4,900)
Cumulative loss recognised in SORIE at end of year	**(34,620)**	(3,766)	**(3,258)**	(1,732)	**(37,878)**	(5,498)

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 £23,643 (2007: £3,070).

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

The financial assumptions used at 31st December were:

	Assumptions weighted by value of liabilities % per annum	
		UK pensions
	2008	2007
Rate of increase in salaries	**4.5**	4.8
Rate of increase in pensions	**3.1**	3.3
Rate of price inflation	**3.0**	3.3
Discount rate	**6.3**	5.9

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

	Assumptions weighted by value of liabilities % per annum	
		UK pensions
	2008	2007
Expected rate of return on assets (weighted average)	**7.6**	7.3
Equities	**8.4**	8.1
Bonds	**5.1**	4.5
Other	**6.5**	5.2

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 2008 were:

		UK pensions
	2008 £000	2007 £000
Equities	**24,001**	30,683
Bonds	**6,439**	6,931
Other	**1,494**	3,624
Total market value in aggregate	**31,934**	41,238

The actual loss on plan assets was £8.1 million (2007: £0.6 million return).

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

		UK pensions
	2008 £000	2007 £000
Fair value of scheme's assets	**31,934**	41,238
Present value of funded scheme's liabilities	**(43,200)**	(40,700)
Retirement benefit (liability)/asset recognised in the balance sheet	**(11,266)**	538
Related deferred tax	**-**	-
Net pension (liability)/asset	**(11,266)**	538

Notes to the accounts continued

29 EMPLOYEE BENEFITS *(continued)*

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

	UK pensions 2008 £000	2007 £000
Defined benefit obligation at beginning of year	**(40,700)**	(41,319)
Current service cost	**(949)**	(1,100)
Past service costs	**-**	-
Interest cost	**(2,323)**	(2,069)
Change in assumptions on DBO	**2,300**	2,300
Actual benefit payments	**2,656**	1,520
Experience (loss)/gain	**(4,184)**	(32)
Defined benefit obligation at end of year	**(43,200)**	(40,700)

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

	UK pensions 2008 £000	2007 £000
Value of assets at beginning of year	**41,238**	38,223
Expected return on assets	**2,942**	2,956
Actuarial (loss)/gain	**(11,031)**	(2,366)
Contributions paid by employer	**1,441**	3,945
Actual benefit payments	**(2,656)**	(1,520)
Value of assets at end of year	**31,934**	41,238

The estimated employer contributions to be made in 2009 are £2,207,000.

The history of experience adjustments is as follows:

	2008 £000	2007 £000	2006 £000	2005 £000
Defined benefit obligation at end of year	**(43,200)**	(40,700)	(41,319)	(40,300)
Fair value of scheme's assets	**31,934**	41,238	38,223	34,500
Retirement benefit asset/(liability) recognised in the balance sheet	**(11,266)**	538	(3,096)	(5,800)
Experience adjustment on scheme's liabilities	**(4,184)**	(32)	115	(1,400)
As a percentage of scheme's liabilities	**9.7%**	0.1%	0.3%	3.5%
Experience adjustment on scheme's assets	**(11,031)**	(2,366)	459	3,100
As a percentage of scheme's assets	**34.5%**	5.7%	1.2%	9.0%

The expense recognised in the income statement was as follows:

	UK pensions 2008 £000	2007 £000
Current service cost	**(949)**	(1,100)
Past service cost	**-**	-
Interest on schemes' liabilities	**(2,323)**	(2,069)
Expected return on schemes' assets	**2,942**	2,956
Total expense recognised in income statement	**(330)**	(213)

Statement of recognised income and expense (SORIE)

	UK pensions 2008 £000	2007 £000
Actuarial loss recognised in SORIE	**(12,915)**	(98)
Deferred tax on actuarial amount recognised in SORIE	**-**	-
Cumulative loss recognised in SORIE at beginning of year	**(1,914)**	(1,816)
Cumulative loss recognised in SORIE at end of year	**(14,829)**	(1,914)

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 42 to 49. The charge to the income statement in respect of share-based payments is made up as follows.

	2008 £000	2007 £000
Share Option Scheme	**809**	695
Performance Share Plan	**605**	468
Employee Share Ownership Plan	**691**	631
Total expense recognised in income statement	**2,105**	1,794

a) Share Option Scheme

The Group operates equity settled share option schemes for employees. Awards are determined by the Remuneration Committee whose objective is to align the interests of employees with those of shareholders by giving an incentive linked to added shareholder value. Options are subject to performance conditions, which if met make the options exercisable between the third and tenth anniversary of the date of grant. For options granted from 1995 to 2001 the performance condition is an increase in EPS of more than 6% greater than the increase in the UK retail prices index over a consecutive three year period between grant and exercise. 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 Watson Wyatt LLP, Actuaries and Consultants, using the Present Economic Value ("PEV") valuation methodology. The relevant disclosures in respect of the share option scheme grants are set out below.

	2004 Grant	2005 Grant	2006 Grant	2007 Grant	**2008 Grant**
Grant date	25th March	21st April	24th March	26th March	**12th March**
Exercise price	541.9p	686.0p	960.0p	1019.6p	**959.0p**
Number of employees	74	66	67	67	**71**
Shares under option	410,500	359,600	340,600	337,400	**311,700**
Vesting period	3 years	3 years	3 years	3 years	**3 years**
Expected volatility	25%	20%	20%	20%	**20%**
Risk-free interest rate	4.6%	4.6%	4.4%	5.1%	**4.3%**
Expected dividend yield	4.5%	4.0%	2.5%	2.5%	**3.0%**
Fair value	88.4p	121.5p	209.3p	236.8p	**211.7p**

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

Option (exercise price)	Outstanding at start of year	Granted during year	Exercised during year	Lapsed during year	Outstanding at end of year
1998 grant (420p)	6,500		(4,000)	(2,500)	-
1999 grant (525p)	55,000		(30,000)		25,000
2000 grant (319.2p)	46,500		(32,500)		14,000
2001 grant (397.7p)	67,500		(53,500)		14,000
2002 grant (436p)	76,000		(40,000)	(3,500)	32,500
2003 grant (394.5p)	150,224		(71,000)		79,224
2004 grant (541.9p)	191,283		(90,160)	(3,500)	97,623
2005 grant (686p)	337,900		(142,145)	(3,500)	192,255
2006 grant (960p)	325,900			(18,500)	307,400
2007 grant (1019.6p)	337,400			(14,900)	322,500
2008 grant (959.0p)		311,700			311,700
	1,594,207	**311,700**	**(463,305)**	**(46,400)**	**1,396,202**
Weighted average exercise price	£7.26	£9.59	£5.20	£8.58	£8.42
Weighted average contractual life remaining					7.14 years

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

Notes to the accounts continued

29 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 the 2008 award is 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 cumulative growth in EPS over a three year performance period. 25% will vest if the compound growth in EPS is equal to 5% and 100% will vest if the compound growth in EPS is equal to or exceeds 11%, there is pro-rata vesting for actual growth between these two rates.

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

	2006 Grant	2007 Grant	2007 Grant	**2008 Grant**
Grant date	24th March	26th March	10th September	**12th March**
Mid market share price at grant date	960.0p	1019.6p	975.0p	**959.0p**
Number of employees	7	7	1	**5**
Shares under scheme	92,567	93,200	17,538	**131,540**
Vesting period	3 years	3 years	3 years	**3 years**
Probability of vesting	51%	48%	47%	**65.4%**
Probability of ceasing employment before vesting	zero	zero	zero	**zero**
Fair value	489.6p	489.4p	458.3p	**627.2p**

c) Employee Share Ownership Plan

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

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

	2004 ESOP	2005 ESOP	2006 ESOP	2007 ESOP	**2008 ESOP**
Grant date	1st October	1st October	1st October	1st October	**1st October**
Exercise price	599.0p	785.7p	923.3p	1019.3p	**908.8p**
Number of employees	810	847	910	946	**985**
Shares under scheme	86,241	70,227	67,380	66,525	**80,087**
Vesting period	3 years	3 years	3 years	3 years	**3 years**
Expected volatility	20.0%	20.0%	20.0%	20.0%	**20.0%**
Risk free interest rate	4.6%	4.3%	5.0%	5.2%	**3.8%**
Expected dividend yield	4.0%	3.0%	2.5%	2.5%	**3.0%**
Fair value	622.0p	827.3p	982.4p	1086.6p	**953.3p**

The accumulation period for the 2008 ESOP ends in September 2009, therefore some figures are projections

Share-based payments - Parent Company

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

a) Share Option Scheme

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

	2004 Grant	2005 Grant	2006 Grant	2007 Grant	**2008 Grant**
Grant date	25th March	21st April	24th March	26th March	**12th March**
Exercise price	541.9p	686.0p	960.0p	1019.6p	**959.0p**
Number of employees	8	2	2	2	**1**
Shares under option	137,753	8,400	9,500	8,500	**3,500**
Vesting period	3 years	3 years	3 years	3 years	**3 years**
Expected volatility	25%	20%	20%	20%	**20%**
Risk-free interest rate	4.6%	4.6%	4.4%	5.1%	**4.3%**
Expected dividend yield	4.5%	4.0%	2.5%	2.5%	**3.0%**
Fair value	88.4p	121.5p	209.3p	236.8p	**211.7p**

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

Option (exercise price)	Outstanding at start of year	Granted during year	Exercised during year	Lapsed during year	Outstanding at end of year
1999 grant (525p)	40,000		(25,000)		15,000
2000 grant (319.2p)	25,000		(25,000)		-
2001 grant (397.7p)	35,000		(35,000)		-
2002 grant (436p)	47,500		(30,000)		17,500
2003 grant (394.5p)	90,000		(55,000)		35,000
2004 grant (541.9p)	94,253		(55,000)		39,253
2005 grant (686p)	8,400		(2,338)		6,062
2006 grant (960p)	6,000				6,000
2007 grant (1019.6p)	8,500				8,500
2008 grant (959.0p)		3,500			3,500
	354,653	**3,500**	**(227,338)**	**-**	**130,815**
Weighted average exercise price	£4.80	£9.59	£4.45	-	£5.54
Weighted average contractual life remaining					4.62 years

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

b) Performance Share Plan

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

	2006 Grant	2007 Grant	2007 Grant	**2008 Grant**
Grant date	24th March	26th March	10th September	**12th March**
Mid market share price at grant date	960.0p	1019.6p	975.0p	**959.0p**
Number of employees	7	7	1	**5**
Shares under scheme	92,567	93,200	17,538	**131,540**
Vesting period	3 years	3 years	3 years	**3 years**
Probability of vesting	51%	48%	47%	**65.4%**
Probability of ceasing employment before vesting	zero	zero	zero	**zero**
Fair value	489.6p	489.4p	458.3p	**627.2p**

30 ANALYSIS OF CHANGES IN NET CASH

	THE GROUP			
	At 1st January 2008 £000	Cash flow £000	Exchange movement £000	**At 31st December 2008 £000**
Current portion of long term borrowings	(78)			**(176)**
Non-current portion of long term borrowings	(20,231)			**(25,521)**
Short term borrowings	(1,717)			**(9,008)**
Total borrowings	(22,026)			**(34,705)**
Comprising:				
Borrowings	(21,665)	(9,396)	(3,258)	**(34,319)**
Finance Leases	(361)	66	(91)	**(386)**
	(22,026)	(9,330)	(3,349)	**(34,705)**
Cash and cash equivalents	38,844	8,940	6,356	**54,140**
Bank overdrafts	(987)	(552)	(506)	**(2,045)**
Net cash and cash equivalents	37,857	8,388	5,850	**52,095**
Net cash	15,831	(942)	2,501	**17,390**

31 RELATED PARTY TRANSACTIONS

THE GROUP	**2008 £000**	2007 £000
Sales to associated companies	**1,266**	768
Dividends from associated companies	**1,063**	557
Amounts due from associated companies at 31st December	**310**	321

Notes to the accounts continued

31 RELATED PARTY TRANSACTIONS *(continued)*

PARENT COMPANY	**2008 £000**	2007 £000
Dividends received from subsidiaries	**62,900**	6,500
Loans and amounts due from subsidiaries at 31st December	**73,490**	36,695
Amounts due to subsidiaries at 31st December	**941**	941

The transactions above were priced on an arm's length basis.

32 PURCHASE OF BUSINESSES

2008

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

		Flexicon A/S	Other acquisitions	Total
Satisfied by	Cash paid	11,422	2,110	13,532
	Deferred consideration	2,817	223	3,040
	Expenses	343	199	542
		14,582	**2,532**	**17,114**

Analysis of net flow of cash and cash equivalents in respect of purchase of subsidiaries	
Cash consideration	13,398
Expenses	541
Net cash outflow	**13,939**

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

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

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

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

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

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

2007

1 The acquisition of the Watson-Marlow business in Denmark from A/S Christian Berner was completed on 30th January 2007. The acquisition method of accounting was used. Consideration of £292,000 was paid on completion. To reflect Spirax Sarco's accounting policies the consideration has been split between intangibles £160,000, goodwill £126,000 and expenses £6,000 to arrive at fair value.

2 The acquisition of the minority owned 20% of Spirax UltraPure LLC of Florida, USA was completed on 9th August 2007. Consideration of £612,000 was paid on completion, which included goodwill of £321,000.

33 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 it's customer base is varied in size and industry sector. The Group operates credit control policies to assess customers credit rating and provides for any debt that is identified as non collectable. Historically losses from trade receivables have been low.

Interest rate risk

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

Liquidity risk

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

Foreign currency risk

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

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

Interest rate risk profile of financial liabilities

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

2007	**THE GROUP**			
	Total £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Financial liabilities on which no interest is paid £000
Euro	14,920	1,041	172	13,707
US dollar	11,535	-	10,050	1,485
Other	32,367	4,460	7,290	20,617
	58,822	**5,501**	**17,512**	**35,809**

2008	**THE GROUP**			
	Total £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Financial liabilities on which no interest is paid £000
Euro	21,696	1,003	-	20,693
US dollar	17,261	-	15,267	1,994
Other	47,514	1,133	19,347	27,034
	86,471	**2,136**	**34,614**	**49,721**

Notes to the accounts continued

33 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS *(continued)*

In respect of fixed rate financial liabilities the interest rate for euro financial liabilities is 2.9% fixed for 0.1 years. The interest rate for Korean Won financial liabilities is 6.7% fixed for 0.4 years.

2007	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	-	-	432
	432	**-**	**-**	**432**

2008	THE PARENT			
	Total £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Financial liabilities on which no interest is paid £000
Euro	-	-	-	-
US dollar	-	-	-	-
Other (Sterling)	256	-	-	256
	256	**-**	**-**	**256**

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

US dollar }	LIBOR
Euro	LIBOR/EURIBOR

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	2008 Carrying value £000	2007 Carrying value £000
Unsecured Bank Facility	€	2.90%	2009	659	747
Unsecured Bank Facility	$	3.89%	2011	13,889	10,050
Unsecured Bank Facility	CZK	3.65%	2012	828	635
Unsecured Bank Facility	WON	5.38%	2012	4,749	2,737
Unsecured Bank Facility	Yen	1.47%	2013	5,755	3,373
Unsecured Bank Facility	Ringgit	2.58%	2011	-	5
Unsecured Bank Facility	Rand	Prime	2009	3,100	3,148
Unsecured Bank Facility	WON	7.04%	2009	5,323	1,717
Unsecured Bank Facility	DKK	8.24%	2009	166	-
Unsecured Bank Facility	$	1.19%	2009	1,378	-
Unsecured Bank Facility	RMB	6.87%	2009	510	
Unsecured Bank Facility	€	3.05%	2009	7	172
Unsecured Bank Facility	NZ $	8.50%	2008	-	68
Finance Leases	€	4.10%	2009-2013+	336	296
Finance Leases	Roubles		2009-2013+	50	65
				36,750	**23,013**

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:

2007	**THE GROUP**		
	Total £000	Floating rate financial assets £000	Financial assets on which no interest is earned £000
Sterling	23,853	6,601	17,252
Other	118,737	21,758	96,979
	142,590	**28,359**	**114,231**

2008	**THE GROUP**		
	Total £000	Floating rate financial assets £000	Financial assets on which no interest is earned £000
Sterling	20,211	6,193	14,018
Other	165,858	30,754	135,104
	186,069	**36,947**	**149,122**

2007	**THE PARENT**		
	Total £000	Floating rate financial assets £000	Financial assets on which no interest is earned £000
Sterling	10,841	6,500	4,341
Other	-	-	-
	10,841	**6,500**	**4,341**

2008	**THE PARENT**		
	Total £000	Floating rate financial assets £000	Financial assets on which no interest is earned £000
Sterling	7,984	6,092	1,892
Other	-	-	-
	7,984	**6,092**	**1,892**

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 3.7% (2007: 5.2%).

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 recognised income and expenditure.

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 £3,000 (2007 net monetary asset: £173,000) and in respect of the US dollar a net monetary asset of £1,015,000 (2007: £1,392,000).

At 31st December the percentage of debt to net assets, excluding debt was 1% (2007: 3%) for the euro and 38% (2007: 31%) for the US dollar.

Notes to the accounts continued

33 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS *(continued)*

Maturity of financial liabilities

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

2007	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	35,809	987	-	22	13,425	50,243
In more than six months but no more than twelve	-	-	1,717	51	-	1,768
In more than one year but no more than two	-	-	-	69	206	275
In more than two years but no more than three	-	-	-	51	-	51
In more than three years but no more than four	-	-	-	49	4	53
In more than four years but no more than five	-	-	-	51	3,372	3,423
In more than five years	-	-	-	68	2,941	3,009
	35,809	**987**	**1,717**	**361**	**19,948**	**58,822**

2008	THE GROUP					
	Trade and other payables £000	Overdrafts £000	Short term borrowings £000	Finance leases £000	Long term borrowings £000	Total £000
In six months or less, or on demand	49,721	2,045	8,498	28	25,311	85,603
In more than six months but no more than twelve	-	-	510	58	-	568
In more than one year but no more than two	-	-	-	69	-	69
In more than two years but no more than three	-	-	-	68	-	68
In more than three years but no more than four	-	-	-	71	-	71
In more than four years but no more than five	-	-	-	73	-	73
In more than five years	-	-	-	19	-	19
	49,721	**2,045**	**9,008**	**386**	**25,311**	**86,471**

2007	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	432	-	-	-	-	432
	432	**-**	**-**	**-**	**-**	**432**

2008	THE PARENT					
	Trade and other payables £000	Overdrafts £000	Short term borrowings £000	Finance leases £000	Long term borrowings £000	Total £000
In six months or less, or on demand	256	-	-	-	-	256
	256	**-**	**-**	**-**	**-**	**256**

Cash flow hedge

At 31st December the Group had contracts outstanding to purchase £1,800,000 with South Korean Won, £240,000 with Japanese yen, €354,000 with US dollars, £3,802,000 with US Dollars, £1,560,000 with Euros and $393,063 with Swedish SEK.

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	
	2008 £000	2007 £000
Expiring in one year or less	**32,486**	35,129

	THE PARENT	
	2008 £000	2007 £000
Expiring in one year or less	**20,000**	25,000

Fair values of financial assets and financial liabilities

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

Derivatives
Forward exchange contracts are marked to market using year end exchange rates.

Interest-bearing loans and borrowings
Fair value is calculated based on discounted expected future principal and interest cash flows.

Finance lease liabilities
The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements. The estimated fair values reflect change in interest rates.

Trade and other receivables / payables
For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

Sensitivity analysis

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

At 31st December, it is estimated that a general increase of one percentage point in interest rates in respect of financial assets would increase the Group's profit before tax by approximately £370,000 (2007: £283,000).

At the year end borrowings totalled £36,750,000 consequently, in respect of financial liabilities, the Group is not significantly at risk from increases in interest rates.

For the year ended 31st December 2008, 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 £1,000,000 (2007: £1,500,000 decrease). The effect can be very different between years due to the weighting of different currency movements. Forward exchange contracts have been included in this calculation.

The Credit risk profile of trade receivables

The aging of trade receivables at the reporting date was:

	Gross 2008	**Impairment 2008**	Gross 2007	Impairment 2007
Not past due date	97,608	(310)	67,852	(5)
0-30 days past due date	15,588	(390)	20,823	(115)
30 days-1 year past due date	14,704	(2,605)	11,561	(2,049)
More than one year	2,778	(2,778)	637	(637)
	130,678	**(6,083)**	**100,873**	**(2,806)**

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:

	2008	2007
Balance at 1 January 2008	2,806	2,034
Movement in Impairment	3,277	772
Balance at 31 December 2008	**6,083**	**2,806**

Financial summary 1999 - 2008

	1999 £000	2000 £000	2001 £000	2002 £000
Revenue	258,942	278,148	291,942	296,363
Operating profit †	42,721	43,370	40,803	42,674
Operating profit (adjusted) †	-	-	-	-
Operating profit margin (adjusted)	16.5%	15.6%	14.0%	14.4%
Profit before taxation †	41,751	41,157	38,025	40,693
Profit before taxation (adjusted)	-	-	-	-
Profit before taxation ††	41,751	40,167	38,641	40,693
Profit after taxation	29,068	27,300	26,625	26,807
Dividends in respect of the year	13,102	13,301	13,752	14,350
Net assets	128,737	138,264	145,115	149,293
Earnings per share (basic) †	36.1p	37.4p	34.4p	35.3p
Earnings per share (adjusted) †	-	-	-	-
Earnings per share (basic) ††	36.1p	35.4p	35.3p	35.3p
Dividends in respect of the year (per share)	17.3p	18.0p	18.6p	19.3p
Return on capital employed	28.0%	26.2%	23.6%	25.6%

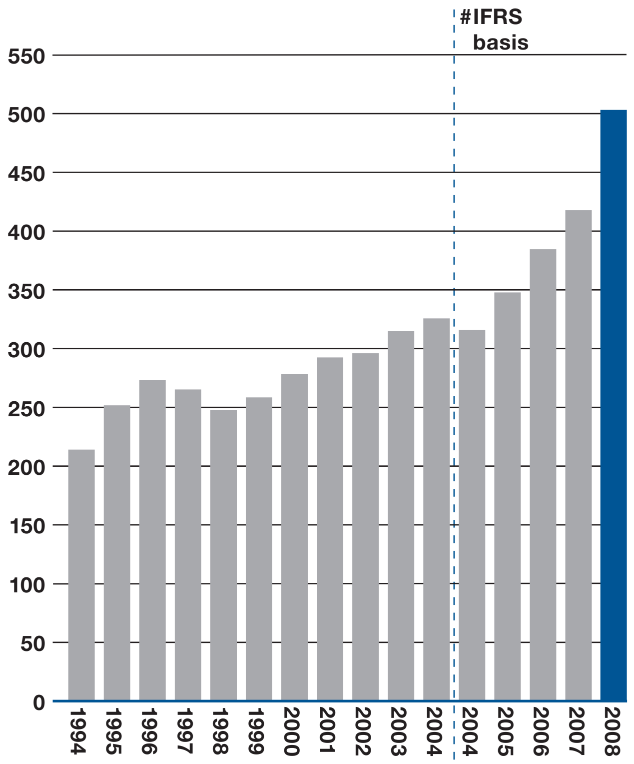
The results for 2004 to 2008 have been prepared under International Financial Reporting Standards, prior year figures are shown as originally reported including 2004 for reference. Adjusted operating profit, profit before tax and earnings per share exclude the amortisation and impairment of aquired intangibles.

† before non-operating items

†† after non-operating items

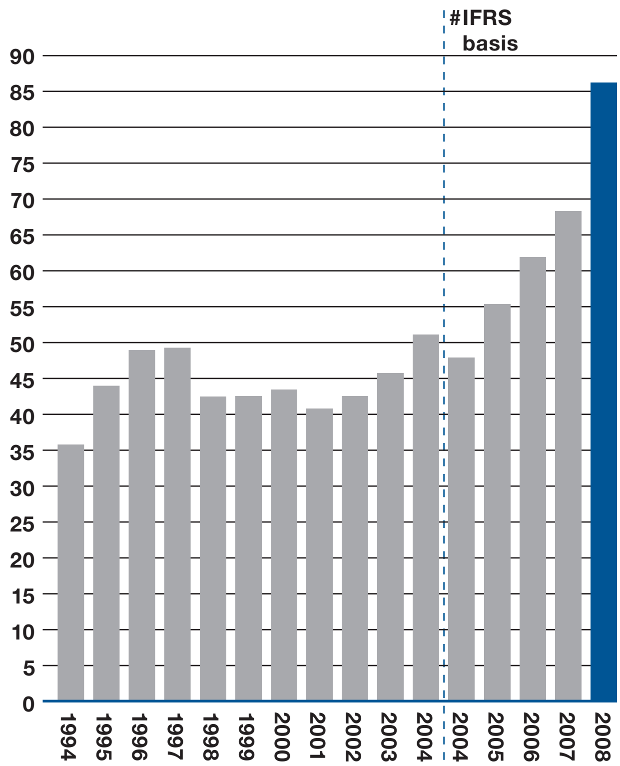
Return on capital employed prior to 2007 is based on operating profit before non-operating items and amortisation and impairment of acquired intangibles and average net assets excluding net goodwill and net debt. For 2008 and 2007 see note 26.

Revenue £m



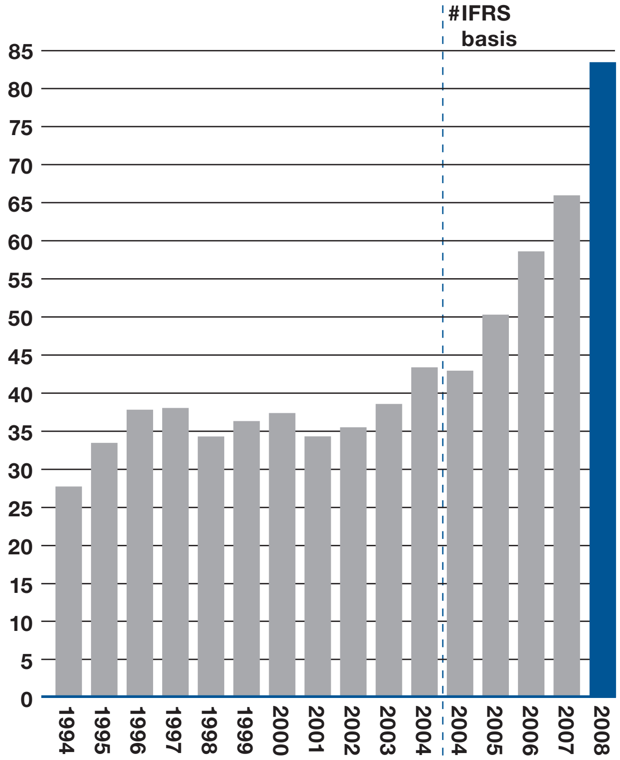
Operating profit (adjusted) £m

(before non-operating items)

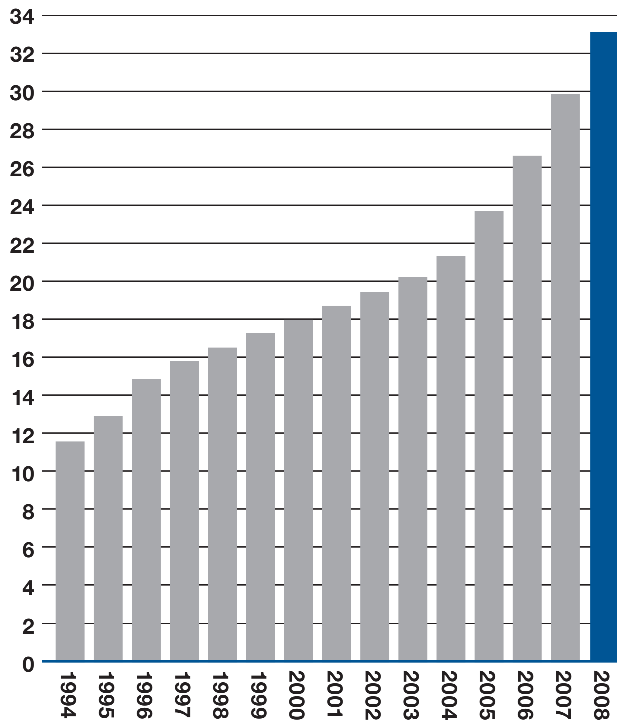


2003 £000	2004 £000	# Prepared under IFRS 2004 £000	2005 £000	2006 £000	2007 £000	**2008 £000**
314,087	325,833	315,991	349,100	384,249	417,317	**502,316**
45,750	51,100	47,956	55,170	61,941	68,336	**81,028**
-	-	47,956	55,345	62,291	68,720	**85,669**
14.6%	15.7%	15.2%	15.9%	16.2%	16.5%	**17.1%**
44,564	50,836	48,704	56,959	65,344	72,163	**85,162**
-	-	48,704	57,134	65,694	72,796	**90,146**
44,564	50,836	48,704	56,959	65,344	72,163	**85,162**
29,426	33,682	32,442	38,187	44,066	49,190	**59,788**
15,028	16,102	16,196	18,318	20,038	22,754	**25,668**
163,816	182,013	166,286	198,246	199,722	242,965	**296,006**
38.5p	43.4p	43.1p	50.0p	57.7p	64.7p	**78.0p**
-	-	43.1p	50.2p	58.1p	65.5p	**83.4p**
38.5p	43.4p	43.1p	50.0p	57.7p	64.7p	**78.0p**
20.1p	21.4p	21.4p	23.8p	26.5p	29.9p	**33.3p**
28.3%	31.0%	27.2%	30.4%	32.2%	33.6%	**35.5%**

Earnings per share (adjusted) p
(before non-operating items)



Dividends per share p



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CORPORATE BROKERS

Merrill Lynch International

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Willans LLP

IMPORTANT DATES

Ordinary shares quoted ex-dividend	15th April 2009
Record date for final dividend	17th April 2009
Annual general meeting	12th May 2009
Final dividend payable	18th May 2009

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Spirax Sarco worldwide

United Kingdom and Republic of Ireland

Spirax-Sarco Ltd.
Spirax-Sarco Investments Ltd.
Spirax-Sarco Overseas Ltd.
Watson-Marlow Ltd.
Eirdata Environmental Services Ltd.

North America

Canada
Spirax Sarco Canada Ltd.

Mexico
Spirax-Sarco Mexicana S.A. (49%)

USA
Spirax Sarco, Inc.
Sarco International, Corp.
Watson-Marlow, Inc.
Spirax UltraPure, LLC
Flexicon America, Inc.

Asia

China
Spirax Sarco Engineering (China) Ltd.

India
Spirax-Marshall Ltd. (49.3%)

Japan
Spirax-Sarco Ltd. (Branch)

Malaysia
Spirax-Sarco Sdn. Bhd.

Singapore
Spirax-Sarco (Private) Ltd.

South Korea
Spirax-Sarco (Korea) Ltd. (97.5%)

Taiwan
Spirax Sarco Co. Ltd.

Thailand
Spirax Sarco (Thailand) Ltd.

Rest Of The World

Argentina
Spirax Sarco S.A.

Australia
Spirax-Sarco Pty. Ltd.

Brazil
Spirax Sarco Ind. e Com. Ltda.
Watson-Marlow Bredel Ind. e Com de Bombas

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Spirax Sarco Ltd.

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Spirax-Sarco South Africa (Pty.) Ltd.
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Spirax Sarco Ges. mbH

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Watson-Marlow N.V.

Czech Republic
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Denmark
Spirax-Sarco Ltd. (Branch)
A/S Watson-Marlow Alitea
Flexicon A/S

Finland
Spirax Oy

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Spirax-Sarco GmbH
Hygromatik Lt. A. GmbH
Watson-Marlow GmbH

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Spirax-Sarco S.r.l.
Watson-Marlow S.r.l.
M & M International S.r.l.
Ampe S.r.l.
Colima S.r.l.

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Spirax-Sarco Investments B.V.
Bredel Hose Pumps B.V.
Watson-Marlow Bredel Holdings B.V.
Watson-Marlow B.V.

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Spirax-Sarco AS

Poland
Spirax Sarco Sp. z o.o.

Portugal
Spirax Sarco Equip. Ind. Lda.

Russia
Spirax-Sarco Engineering LLC

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Spirax Sarco S.A.
Spirax-Sarco Engineering S.L.
M & M Iberica S.L. (67%)

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Spirax-Sarco A.B.
WM Alitea A.B.

Switzerland
Spirax-Sarco A.G.

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