

## News Release

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Thursday 4<sup>th</sup> March 2010  
**2009 Preliminary Results**

### HIGHLIGHTS

	2009	2008	Change	Constant FX
Revenue	£518.7m	£502.3m	+3%	-7%
Adjusted operating profit*	£89.9m	£85.7m	+5%	-12%
Adjusted operating profit margin*	17.3%	17.1%		
Adjusted profit before taxation*	£90.2m	£90.1m	-	-16%
Adjusted earnings per share*	82.2p	83.4p	-1%	-17%
Dividend per share	36.1p	33.3p	+8%	+8%

Statutory	2009	2008	Change
Operating profit	£76.5m	£81.0m	-6%
Profit before taxation	£76.4m	£85.2m	-10%
Earnings per share	69.6p	78.0p	-11%

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

- Sales up 3%
- Operating profit margin of 17.3% - eighth consecutive year of improvement
- Early action to reduce costs benefited second half
- Final dividend up 10% - continuing the Group's long history of increasing dividends
- Significant underlying cash generation with net cash of £8m at year-end
- Continued investment in capex, R&D and acquisitions

#### **Mark Vernon, Chief Executive, commenting on the results said:**

"Given the challenging global economic environment, I am pleased to report a good result for 2009, with record sales and profits that demonstrate the quality and resilience of our business, and reflect the investments and improvements we have continued to make. We generated a significant underlying cash inflow and the dividend has again been increased. We have made a positive start to the year. We remain vigilant and given no renewed weakness in our markets or significant negative currency impact, we expect to make further progress in 2010."

#### **For further information, please contact:**

Mark Vernon, Chief Executive  
David Meredith, Finance Director  
Tel: 020 7638 9571 at Citigate Dewe Rogerson until 6.00 p.m.

*(Unless otherwise stated, the profit figures exclude exceptional headcount reduction costs and the amortisation and impairment of acquisition-related intangibles).*

## **OVERVIEW OF PRELIMINARY RESULTS**

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

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

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

Adjusted pre-tax profit increased to £90.2 million (2008: £90.1 million) and earnings per share were 82.2p (2008: 83.4p). Cost reduction actions included reducing the total employee headcount by 7% during the year and, in December, we also announced a reduction in our French factory. As a result the total headcount reduction costs charged in 2009 were £11.4 million with further efficiency gains expected in 2010. The pre-tax profit after charging these costs and including the amortisation of acquisition-related intangible assets was £76.4 million (2008: £85.2 million).

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

The Board is recommending a 10% increase in the final dividend to 25.6p per share payable on 21<sup>st</sup> May 2010 to shareholders on the register at the close of business on 16<sup>th</sup> April 2010. This, together with the interim dividend of 10.5p per share paid in November 2009, makes a total dividend for the year of 36.1p per share. This compares with a total dividend of 33.3p per share last year, an increase of 8%. The cost of the interim and final dividends is £27.6 million which is covered 2.3 times by earnings. No scrip alternative to the cash dividend is being offered.

## **PROSPECTS**

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

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

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

## **BUSINESS REVIEW**

### **Current environment**

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

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

### **Trading**

Total Group sales increased by 3% to £518.7 million (2008: £502.3 million). The Group benefited from favourable movements in exchange rates. Sales at constant currency declined less than 7% for the year, recovering from the 9% decline reported in the 9<sup>th</sup> November 2009 Interim Management Statement covering sales year-to-date through October. The constant currency sales decline was widespread across all geographic regions, indicative of the wide-ranging impacts of the global economic recession. Acquisitions contributed less than 1% to sales growth.

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

The Group's adjusted operating profit was £89.9 million (2008: £85.7 million), giving an increase of 5% in sterling and down 12% at constant currency – a very good overall result against the record operating profit achieved in 2008. The increase in operating profit arose from cost reductions, pricing, limited pay increases, global resourcing of materials and favourable exchange rates, offset by decreased manufacturing efficiency from lower volumes. Higher material prices in the first half-year were matched by falling prices in the second half, leaving material prices broadly flat for the year. All of this resulted in the adjusted operating profit margin improving to 17.3% from 17.1% in 2008.

### **Europe, Middle East & Africa (EMEA)**

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

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

Operating profit of £35.6 million was down 9% from £39.2 million in 2008. At constant currency the operating profit was down 18%, spread across most companies but mitigated by tight cost control and

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

## **Americas**

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

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

## **Asia Pacific**

Sales increased in Asia Pacific by 6% to £104.7 million (2008: £98.9 million). Favourable exchange rates had a positive effect on sales, as the China renminbi strengthened 21% on average against sterling; the Japanese yen was 32% stronger. At constant exchange, Asia Pacific sales were down 5%. Market activity in the region was mixed, although local currency sales increases were achieved in China, Korea and Malaysia. As expected, the second half-year benefited from higher shipments, particularly in Korea, and the backlog was reduced at our Chinese operation. We have continued to increase sales coverage in China by adding a number of new sales people.

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

## **Watson-Marlow**

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

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

### **Interest**

Net finance expense of £2.5 million compares with net finance income of £1.7 million in the prior year. As expected and previously reported, the net finance income in respect of defined benefit pension schemes deteriorated, mainly due to a reduction in the expected return on pension fund assets in 2009 (under IAS 19) following the drop in pension asset values in 2008. Net bank interest deteriorated due to the fall in interest rates on cash deposits and the funding cost of acquisitions.

### **Associates**

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

### **Profit before tax**

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

### **Taxation**

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

### **Earnings and dividends per share**

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

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

### **Acquisitions**

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

£2.4 million (2008: £1.9 million) of which £0.4 million (2008: £0.3 million) related to Associates. In the prior year there was also an impairment of goodwill and intangible assets of £3.1 million.

### **Research & development**

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

### **Capital employed**

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

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

### **Return on capital employed**

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

### **Post-retirement benefits**

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

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

### **Cash flow**

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

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

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

### **Capital structure**

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

### **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 in the Annual Report. 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.

## **BUSINESS OVERVIEW**

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

The Group is very international. Today we have 49 operating companies in 34 countries around the world. Our headquarters are based in the UK and we have sizeable manufacturing and selling operations on nearly every continent. Our manufacturing operations are strategically located in all key market regions with major facilities in the UK, France, Italy, USA, Brazil, Argentina, and China. We also manufacture in South Africa, Mexico, Netherlands, India, Germany, Sweden, Korea and Denmark. Amongst our competitors, we have generally been first to build a direct selling and trading organisation in new markets and, within the past year, we acquired our Turkish distributor, giving us a direct presence in this important country that boasts the world's 16<sup>th</sup> largest economy.

The resilience of our business was readily visible in the past year, as our total sales at constant currency declined less than 7%, as compared to falls of typically 15% - 20% or more for many other international industrial engineering businesses. This resilience stems from a large portion of our revenues being derived from product replacements and spares, the diverse range of industries

served, the breadth of product solutions we bring to our customers and good geographic distribution of sales, well spread between developing and developed markets.

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

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

### **How we create value**

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

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

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

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

### **How we are managing the business through this difficult economic period**

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

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

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

We continued to invest in key growth programs for the future. In China, we selectively added sales people for the steam business. We also invested in our Watson-Marlow business to continue developing new markets, adding sales people in Russia and Mexico. We believe that our sales teams are well positioned to handle the eventual rebound in our end markets. Also, we increased the amount of direct R&D investment, virtually the only area of the business that was allowed increased expenditure. New product development is a key activity that will drive longer-term growth and therefore we have continued to invest through the downturn. We have also sustained capital expenditure at a high level in the year as we invest in delivering our manufacturing strategy.

### **Key business drivers and trends**

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

- Global economic growth
- Industrial production and investment
- Capacity utilisation
- Energy costs
- Increasing customer outsourcing of design and maintenance
- Regulatory legislation (e.g. emissions, hygienic standards, plant safety)

### **LOOKING AHEAD**

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

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

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

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

We continue to make complementary bolt-on acquisitions to build our product portfolio, introduce new technologies and accelerate access to geographic markets. During 2009 we acquired MasoSine, a supplier of unique sinusoidal pumps that extends the application range of our existing line of Watson-

Marlow hygienic pumps. We also acquired the business of our Turkish distributor, InterValf Sanaya ve Ticaret, to build a direct presence in this important and developing market.

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

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

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

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

People lie at the core of every business and we have high expectations of performance from our people. We have taken steps to upgrade the quality of professional human resource leadership in guiding our progression to a more performance-based culture throughout the organisation. We have articulated a concise set of core values and leadership competencies that are being implemented worldwide.

Spirax-Sarco Engineering plc

GROUP BALANCE SHEET AT 31ST DECEMBER 2009

	Note	2009 £'000	2008 £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		135,383	122,897
Goodwill		38,150	29,908
Other intangible assets		35,233	22,921
Prepayments		1,124	900
Investment in associates		9,794	9,396
Deferred tax		38,181	33,180
		<u>257,865</u>	<u>219,202</u>
<b>Current assets</b>			
Inventories		86,479	102,382
Trade receivables		118,835	124,595
Other current assets		11,592	12,874
Taxation recoverable		1,896	1,118
Cash and cash equivalents		62,194	54,140
		<u>280,996</u>	<u>295,109</u>
<b>Total assets</b>		<u>538,861</u>	<u>514,311</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		79,335	81,010
Bank overdrafts		559	2,045
Short term borrowing		9,284	9,008
Current portion of long term borrowings		63	176
Current tax payable		8,138	11,932
		<u>97,379</u>	<u>104,171</u>
<b>Net current assets</b>		<u>183,617</u>	<u>190,938</u>
<b>Non-current liabilities</b>			
Long term borrowings		44,255	25,521
Deferred tax		14,659	13,714
Post-retirement benefits		73,763	73,717
Provisions		1,441	1,182
		<u>134,118</u>	<u>114,134</u>
<b>Total liabilities</b>		<u>231,497</u>	<u>218,305</u>
<b>Net assets</b>	2	<u>307,364</u>	<u>296,006</u>
<b>Equity</b>			
Share capital		19,310	19,307
Share premium account		47,601	47,559
Other reserves		43,327	56,802
Retained earnings		196,481	171,645
Equity attributable to equity holders of the parent		<u>306,719</u>	<u>295,313</u>
Minority interest		645	693
<b>Total equity</b>		<u>307,364</u>	<u>296,006</u>
<b>Total equity and liabilities</b>		<u>538,861</u>	<u>514,311</u>

## GROUP INCOME STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2009

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

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

Spirax-Sarco Engineering plc

**GROUP STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31ST DECEMBER 2009**

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

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2009**

**GROUP**

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

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2008**

**GROUP**

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

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2009

### PARENT COMPANY

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

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2008

### PARENT COMPANY

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

## GROUP CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2009

	Note	2009 £'000	2008 £'000
<b>Cash flows from operating activities</b>			
Profit before taxation		76,415	85,162
Depreciation and amortisation		18,550	19,859
Share of profit of associates		(2,407)	(2,398)
Equity settled share plans		1,929	1,519
Net finance income		2,514	(1,736)
Operating cash flow before changes in working capital and provisions		97,001	102,406
Change in trade and other receivables		(74)	(4,029)
Change in inventories		11,057	(12,143)
Change in provisions and post retirement benefits		(7,072)	(3,236)
Change in trade and other payables		2,008	4,819
Cash generated from operations		102,920	87,817
Interest paid		(1,366)	(1,480)
Income taxes paid		(29,877)	(22,087)
<b>Net cash from operating activities</b>		<u>71,677</u>	<u>64,250</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(33,397)	(22,881)
Proceeds from sale of property, plant and equipment		1,898	879
Purchase of software and other intangibles		(1,056)	(2,999)
Development expenditure capitalised		(2,099)	(1,542)
Acquisition of businesses		(27,192)	(13,939)
Interest received		630	1,291
Dividends received		1,498	1,063
<b>Net cash used in investing activities</b>		<u>(59,718)</u>	<u>(38,128)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital		45	62
Proceeds from reissue of treasury shares		1,921	3,888
Treasury shares purchased		-	(6,762)
Proceeds from borrowings		20,614	9,396
Payment of finance lease liabilities		(67)	(66)
Dividends paid (including minorities)		(25,763)	(24,252)
<b>Net cash used in financing activities</b>		<u>(3,250)</u>	<u>(17,734)</u>
<b>Net increase in cash and cash equivalents</b>		8,709	8,388
<b>Cash and cash equivalents at beginning of period</b>		52,095	37,857
Exchange movement		831	5,850
<b>Cash and cash equivalents at end of period</b>	7	<u>61,635</u>	<u>52,095</u>
Borrowings and finance leases		(53,602)	(34,705)
<b>Net cash</b>	7	<u>8,033</u>	<u>17,390</u>

## NOTES TO THE ACCOUNTS

- Foreign currency assets and liabilities are translated into sterling at rates of exchange ruling at 31st December. Trading results of overseas subsidiary undertakings have been translated into sterling at average rates of exchange ruling during the year.

## 2. SEGMENTAL REPORTING

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

### Analysis by location of operation 2009

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

### 2008

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

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

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

### 2009

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

## 2008

	<b>Impairment of goodwill &amp; intangible assets £'000</b>	<b>Amortisation of acquisition-related intangible assets £'000</b>	<b>Total £'000</b>
Europe, Middle East & Africa	-	300	300
Americas	3,100	179	3,279
Asia Pacific	-	-	0
Steam Specialties business	3,100	479	3,579
Watson-Marlow Pumps business	-	1,062	1,062
	<b>3,100</b>	<b>1,541</b>	<b>4,641</b>

## Share of profit of associates

	<b>2009 Before adjustmen t £'000</b>	<b>2009 Total £'000</b>	<b>2008 Before adjustmen t £'000</b>	<b>2008 Total £'000</b>
Europe, Middle East & Africa	-	-	-	-
Americas	763	763	851	851
Asia Pacific	2,009	1,644	1,890	1,547
Steam Specialties business	2,772	2,407	2,741	2,398
Watson-Marlow Pumps business	-	-	-	-
	<b>2,772</b>	<b>2,407</b>	<b>2,741</b>	<b>2,398</b>

## Net financing income and expense

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

## Net assets

2009

2008

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

### Capital additions and depreciation and amortisation

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

Capital additions include property, plant and equipment of £33,824,000 (2008: £27,296,000) and other intangible assets of £18,292,000 (2008: £16,673,000) of which £15,143,000 (2008: £11,853,000) relates to acquired intangibles from acquisitions in the period. Depreciation and amortisation includes amortisation of acquisition-related intangible assets at 31st December 2009 of £2,022,000 and 31st December 2008 of £1,541,000. Also included at 31st December 2008 is £3,100,000 of impairment of goodwill and intangible assets. Capital additions are split between the UK and rest of the world are UK £13,490,000 (2008: £11,559,000), rest of the world £38,581,000 (2008: £32,371,000).

### 3. NET FINANCING INCOME AND EXPENSE

	<b>2009 £'000</b>	<b>2008 £'000</b>
Financial expenses		
Bank and other borrowing interest payable	(1,369)	(1,480)
Interest on pension scheme liabilities	(14,703)	(13,325)
	<u>(16,072)</u>	<u>(14,805)</u>
Financial income		
Bank interest receivable	631	1,291
Expected return on pension scheme assets	12,927	15,250
	<u>13,558</u>	<u>16,541</u>
Net financing income/(expense)	<u>(2,514)</u>	<u>1,736</u>
Net pension scheme financial income	(1,776)	1,925
Net bank interest	(738)	(189)
Net financing income/(expense)	<u>(2,514)</u>	<u>1,736</u>

### 4. TAXATION

2009                      2008

	£'000	£'000
Analysis of charge in period		
UK corporation tax		
Current tax on income for the period	18,932	20,350
Adjustments in respect of prior years	(102)	(434)
	<u>18,380</u>	<u>19,916</u>
Double taxation relief	(18,593)	(16,493)
	<u>237</u>	<u>3,423</u>
Foreign tax		
Current tax on income for the period	25,796	20,730
Adjustments in respect of prior periods	(7)	0
	<u>25,789</u>	<u>20,730</u>
Total current tax charge	26,026	24,153
Deferred tax – UK	111	(536)
Deferred tax – Foreign	(2,813)	1,757
Tax on profit on ordinary activities	<u>23,324</u>	<u>25,374</u>

## 5. EARNINGS PER SHARE

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

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

## 6. DIVIDENDS

	2009 £'000	2008 £'000
Amounts paid in the period		
Final dividend for the year ended 31st December 2008 of 23.3p (2007: 21.6p) per share	17,720	16,452
Interim dividend for the year ended 31st December 2009 of 10.5p per share (2008: 10.0p) per share	8,013	7,674
	<u>25,733</u>	<u>24,126</u>
Amounts arising in respect of the period		
Interim dividend for the year ended 31st December 2009 of 10.5p per share (2008: 10.0p) per share	8,013	7,674
Proposed final dividend for the year ended 31 <sup>st</sup> December 2009 of 25.6p (2008: 23.3p) per share	19,556	17,994
	<u>27,569</u>	<u>25,668</u>

## 7. ANALYSIS OF CHANGES IN NET CASH

At	Cash flow	Exchange	At
19			

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

## 8. RETURN ON CAPITAL EMPLOYED

An analysis of the components of capital employed is as follows:

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

## 9. EMPLOYEE BENEFITS

### Pension plans

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. Full IAS 19 disclosure for the year ended 31st December 2009 is included in the Group's Annual Report.

The defined benefit plan expense is recognised in the income statement as follows:-

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

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

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

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

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

## Share based payments

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

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Share Option Scheme	686	809
Performance Share Plan	500	605
Employee Share Ownership Plan	743	691
	<u>1,929</u>	<u>2,105</u>

## 10. PURCHASE OF BUSINESSES

### 2009

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

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

Cash consideration	25,710
Expenses	1,482
<b>Net cash outflow</b>	<u><b>27,192</b></u>

1. The acquisition of the Maso and Sine businesses, based in Germany, was completed on 27th August 2009. The acquisition method of accounting has been used. Consideration of £21,930,000 was paid on completion. The book value of intangibles has been adjusted to reflect Spirax Sarco's accounting policies in order to arrive at their fair value.
2. The acquisition of the Intervalf business, based in Turkey, was completed on 1st October 2009. The acquisition method of accounting has been used. Consideration of £2,077,000 was paid on completion. The book value of intangibles has been adjusted to reflect Spirax Sarco's accounting policies in order to arrive at their fair value.
3. The acquisition of the Watson-Marlow Swiss distributor was completed on 31st January 2009. The acquisition method of accounting has been used. Consideration of £331,000 was paid on completion.

## 11. ADJUSTED CASH FLOW

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Adjusted operating profit	89,938	85,669

Adjusted depreciation and amortisation	16,528	15,218
Equity settled share plans	1,929	1,519
Adjusted change in working capital	9,554	(11,353)
Adjusted cash from operations	117,949	91,053
Net interest paid	(736)	(189)
Income taxes paid	(29,877)	(22,087)
Net capital expenditure (including software and development)	(34,654)	(26,543)
Net dividends paid	(24,265)	(23,189)
Underlying cash flow	28,417	19,045
Exceptional headcount reduction costs	(7,957)	-
Post-retirement deficit reduction payments & provisions	(7,072)	(3,236)
Proceeds from issue of shares	1,966	(2,812)
Acquisitions	(27,192)	(13,939)
Cash flow for the period	(11,838)	(942)

## 12. BASIS OF PREPARATION

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31st December 2009 or 31st December 2008. Statutory accounts for 2008, which were prepared under accounting standards adopted by the EU have been delivered to the registrar of companies and those for 2009 will be delivered in due course. The auditors have reported on these accounts; their report was (i) unqualified, (ii) did not include an references to any matters to which the auditors drew attention by way of emphasis without qualifying and (iii) did not contain statements under sections 237(2) or (3) of the Companies Act 1985.

If approved at the annual general meeting on 11th May 2010, the final dividend will be paid on 21st May 2010 to shareholders on the register at 16th April 2010. No scrip alternative to the cash dividend is being offered.

Copies of the Annual Report will be sent on 26th March 2010 to shareholders and can be obtained from our registered office at Charlton House, Cirencester Road, Cheltenham, Gloucestershire GL53 8ER. The report is also available on our website at [www.SpiraxSarcoEngineering.com](http://www.SpiraxSarcoEngineering.com).