

notes to the accounts

1 ACCOUNTING POLICIES

Basis of preparation

The consolidated accounts are prepared under the historical cost convention, supplemented by the revaluation of certain assets in prior years, and in accordance with applicable accounting standards. The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's accounts.

Basis of consolidation

The Group accounts include the accounts of the company and its subsidiary undertakings made up to 31st December 2004. Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

Goodwill

Purchased goodwill arising on consolidation in respect of acquisitions before 1st January 1998, when FRS 10 - Goodwill and Intangible Assets was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill (representing the excess of the fair value of the consideration given and associated costs over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions since 1st January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life, normally 20 years. Should the value of this goodwill become recognised as impaired, an impairment charge would be made against operating profit.

On the subsequent disposal or termination of a business acquired since 1st January 1998, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill.

In the company's financial statements investment in subsidiary undertakings is stated at cost less any impairment in value.

Turnover

Turnover comprises net sales to external customers.

Turnover is recorded when the risks and rewards of ownership have passed to the purchaser.

Depreciation

Depreciation is calculated on cost or valuation on a straight line basis at rates which write down the value of the assets to their residual values over their estimated useful lives. The principal rates are as follows:

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

Leasehold properties are amortised over the life of the lease.

Stocks

Stocks and work in progress are valued at the lower of cost, including overheads where appropriate, and estimated net realisable value.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market.

Research and development expenditure

Research and development expenditure is charged against profits as incurred.

1 ACCOUNTING POLICIES (continued)

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 - Deferred Tax.

Foreign currency translation

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.

Differences arising from the changes in rates of exchange are treated as part of the trading profit where they relate to items of a trading nature. Exchange differences arising from the retranslation of the opening net investment in overseas subsidiary undertakings, borrowings to hedge those net investments and between the profits for the year translated at average and closing rates, are disclosed as movements on reserves.

Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease.

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors.

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Pensions and other post-retirement benefits

Pension schemes are operated by the Company and subsidiary undertakings which employ the majority of Group employees. Contributions to the schemes are charged to the consolidated profit and loss account such that the cost is spread over the estimated working lives of employees of the Group. The Group has adopted the transitional requirements of FRS 17 - Retirement Benefits as reported in note 28.

The costs of providing post-retirement benefits other than pensions, principally healthcare, are charged to the profit and loss account on a consistent basis over the average service lives of employees. Such costs are assessed in accordance with the advice of independent qualified actuaries.

2 TURNOVER

The analysis of turnover by reference to the geographical location of customers is as follows:

	2004 £000	2003 £000
United Kingdom	39,922	39,215
Continental Europe	121,164	117,390
The Americas	84,568	84,207
Asia, Australasia and Africa	80,179	73,275
	325,833	314,087

The analysis of turnover by reference to the geographical location of the Group's operations is as follows:

	2004 £000	2003 £000
United Kingdom	97,419	92,370
Continental Europe	149,334	146,408
The Americas	88,578	87,962
Asia, Australasia and Africa	73,161	67,145
	408,492	393,885
Intra-group sales	(82,659)	(79,798)
Sales to third parties	325,833	314,087

There were no discontinued operations in 2004 or 2003.

The Group operates in one business segment which is the control of fluids.

notes to the accounts *(continued)*

3 OPERATING COSTS

	2004	2003
	£000	£000
Change in stocks of finished goods and work in progress	(107)	(1,764)
Raw materials and consumables	88,134	84,070
Staff costs (<i>note 4</i>)	119,267	118,968
Depreciation	12,627	13,155
Amortisation of goodwill	675	669
Other operating charges	54,137	53,239
	274,733	268,337

4 STAFF COSTS AND NUMBERS

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

	2004	2003
	£000	£000
Wages and salaries	94,989	94,884
Social security costs	15,605	15,715
Other pension costs	8,673	8,369
	119,267	118,968

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

	Number	Number
United Kingdom	1,106	1,098
Overseas	2,998	2,957
	4,104	4,055

5 OPERATING PROFIT

The analysis of operating profit by reference to the geographical location of the Group's operations is as follows:

	2004	2003
	£000	£000
United Kingdom	8,732	8,021
Continental Europe	18,866	16,439
The Americas	11,301	10,335
Asia, Australasia and Africa	12,201	10,955
	51,100	45,750

6 NET INTEREST PAYABLE

		2004	2003
		£000	£000
Interest payable:	Bank loans and overdrafts	1,461	1,653
	Other loans	387	644
		1,848	2,297
Interest receivable		(1,584)	(1,111)
		264	1,186

7 PROFIT BEFORE TAXATION

Profit before taxation is shown after charging:

		2004	2003
		£000	£000
Depreciation of tangible fixed assets held under finance leases		176	178
Audit fees (Spirax-Sarco Engineering plc £104,000 (2003: £100,000))		721	696
Hire of plant and machinery		286	288
Other operating leases		2,447	2,667
Research and development		5,047	4,878
Share Ownership Plan contributions		445	413

Fees paid to the auditors of the parent company and their associates for services other than statutory audits supplied to the Company and the rest of the Group worldwide amounted to £501,000 (2003: £313,000), including amounts paid to the auditors of overseas companies of £225,000 (2003: £212,000). Fees were paid in respect of taxation services (£366,000 (2003: £239,000)) and further assurance services (£135,000 (2003: £74,000)).

8 DIRECTORS' EMOLUMENTS

Details of directors' emoluments, share options and pension benefits are shown in the Directors' Remuneration Report on pages 30 to 37.

9 TAXATION

		2004	2003
		£000	£000
Analysis of charge in period			
UK corporation tax			
Current tax on income for the period		12,164	10,152
Adjustments in respect of prior periods		(148)	(137)
		12,016	10,015
Double taxation relief		(8,851)	(7,393)
		3,165	2,622
Foreign tax			
Current tax on income for the period		13,680	12,810
Adjustments in respect of prior periods		62	(360)
		13,742	12,450
Total current tax charge		16,907	15,072
Deferred tax		247	66
Tax on profit on ordinary activities		17,154	15,138

notes to the accounts *(continued)*

9 TAXATION *(continued)*

Current tax reconciliation

	2004 £000	2003 £000
Profit on ordinary activities before tax	50,836	44,564
Current tax at 30% (2003: 30%)	15,251	13,369
Higher tax rates on overseas earnings	1,643	1,883
Non-deductible expenses, provisions and accruals	797	826
Pension prepayment	(406)	(356)
Accelerated capital allowances	89	183
Adjustment to tax in respect of previous periods	(158)	(409)
Other	(309)	(424)
Total current tax charge (see above)	16,907	15,072

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. No provision has been made for deferred tax on property revaluations: the total amount unprovided is £451,000 (2003: £448,000) and it is not envisaged that the tax will become payable in the foreseeable future.

10 PROFIT FOR THE FINANCIAL YEAR ATTRIBUTABLE TO SHAREHOLDERS

Profit dealt with in the accounts of Spirax-Sarco Engineering plc was £23,997,000 (2003: £19,274,000). Included in this amount are dividends from subsidiary undertakings of £23,616,000 (2003: £19,457,000).

11 DIVIDENDS

		2004 £000	2003 £000
Interim paid	6.3p (2003: 6.0p) per share	4,747	4,487
Final proposed	15.1p (2003: 14.1p) per share	11,355	10,541
	21.4p (2003: 20.1p) per share	16,102	15,028

12 EARNINGS PER SHARE

The calculation of earnings per share (basic) is based on earnings of £32,547,000 (2003: £28,638,000) as shown in the Group profit and loss account, divided by the weighted average number of shares in issue during the year of 74,931,130 (2003: 74,432,975). The calculation of earnings per share (diluted) is based on the earnings shown above and the weighted average number of shares in issue diluted by 781,558 (2003: 521,701) to 75,712,688 (2003: 74,954,676). The dilution is in respect of unexercised share options.

13 FIXED ASSETS: INTANGIBLE ASSETS

	THE GROUP
	Goodwill £000
Cost:	
At 1st January 2004	13,623
Exchange adjustments	107
	13,730
Additions (<i>note 31</i>)	1,177
At 31st December 2004	14,907
Amortisation:	
At 1st January 2004	2,500
Exchange adjustments	7
	2,507
Charged in year	687
At 31st December 2004	3,194
Net book value:	
At 31st December 2004	11,713
At 31st December 2003	11,123

14 FIXED ASSETS: TANGIBLE ASSETS

	THE GROUP				
	Land and buildings			Fixtures, fittings, tools and equipment	
	Freehold £000	Short leasehold £000	Plant and machinery £000	£000	Total £000
Cost or valuation:					
At 1st January 2004	49,878	1,445	81,784	51,984	185,091
Exchange adjustments	(161)	(81)	(754)	(311)	(1,307)
	49,717	1,364	81,030	51,673	183,784
Additions	1,348	-	9,054	4,608	15,010
Disposals	(110)	(27)	(2,084)	(895)	(3,116)
At 31st December 2004	50,955	1,337	88,000	55,386	195,678
Depreciation:					
At 1st January 2004	7,357	296	51,266	38,083	97,002
Exchange adjustments	(66)	(13)	(408)	(241)	(728)
	7,291	283	50,858	37,842	96,274
Charged in year	1,275	34	6,904	4,845	13,058
Disposals	(44)	(3)	(1,857)	(844)	(2,748)
At 31st December 2004	8,522	314	55,905	41,843	106,584
Net book value:					
At 31st December 2004	42,433	1,023	32,095	13,543	89,094
At 31st December 2003	42,521	1,149	30,518	13,901	88,089

notes to the accounts *(continued)*

14 FIXED ASSETS: TANGIBLE ASSETS *(continued)*

Freehold land and buildings at cost or valuation on the basis of open market values for existing use comprises:

		2004	2003
		£000	£000
Valuation	1976	73	76
	1986	7,105	7,090
	1991	1,841	1,974
Cost		41,936	40,738
		50,955	49,878

The historical cost net book value of freehold land and buildings at 31st December 2004 was £46,540,000. Freehold land of £7,933,000 is not depreciated.

Included in the above are finance leases with net book value of £1,801,000 (2003: £1,950,000).

Fixed assets are stated at cost, except that as permitted under the provisions of FRS 15 - Tangible Fixed Assets, on adoption of that standard in 2000 the then book amounts of revalued land and buildings were retained. These book values are based on the previous revaluations shown above and have not subsequently been revalued.

15 FIXED ASSETS: INVESTMENTS

	PARENT COMPANY		
	Shares in subsidiary undertakings £000	Loans to subsidiary undertakings £000	Total £000
Cost:			
At 1st January 2004	46,354	11,380	57,734
Exchange adjustments	-	166	166
	46,354	11,546	57,900
Acquisition	1,558	-	1,558
Loan	-	745	745
Repayments	-	(84)	(84)
At 31st December 2004	47,912	12,207	60,119
Amounts written off:			
At 1st January 2004 and 31st December 2004	994	1,042	2,036
Net book value:			
At 31st December 2004	46,918	11,165	58,083
At 31st December 2003	45,360	10,338	55,698

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 2004. 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 Eire. 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.

Spirax-Marshall Limited, in which the Group has a 40% interest, and Spirax-Sarco Mexicana S.A., in which the Group has a 49% interest, have been consolidated as subsidiaries because the Group has participating interests in them and exercises a dominant influence over them. The dominant influence is on the basis that the operating and financial policies of these companies are set in accordance with the wishes of the Group and for the Group's benefit.

16 STOCKS

	THE GROUP	
	2004 £000	2003 £000
Raw materials and consumables	18,848	20,194
Work in progress	11,672	11,163
Finished goods and goods for resale	29,236	29,338
	59,756	60,695

17 DEBTORS

	THE GROUP		PARENT COMPANY	
	2004 £000	2003 £000	2004 £000	2003 £000
Trade debtors	78,426	71,064	-	-
Amounts owed by subsidiary undertakings	-	-	23,431	19,584
Other debtors	12,036	10,570	174	116
Prepayments and accrued income	3,799	3,147	227	261
Taxation recoverable	1,305	1,635	-	27
Deferred tax	5,010	4,099	-	-
	100,576	90,515	23,832	19,988

Other debtors in the Group balance sheet include prepaid pension costs of £8,485,000 (2003: £7,221,000) chargeable to the profit and loss account after more than one year.

18 CASH DEPOSITS AND SHORT-TERM INVESTMENTS

Cash deposits and short-term investments in the Group balance sheet comprise investments and money market deposits of £45,500,000 (2003: £38,197,000) and £28,042,000 (2003: £20,000,000) in the parent company, all with major banks, all of which have a maturity of three months or less from inception.

19 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	THE GROUP		PARENT COMPANY	
	2004 £000	2003 £000	2004 £000	2003 £000
Bank loans and overdrafts				
Overdrafts	4,871	12,602	1,092	-
Other loans	7,799	19,714	-	-
Trade creditors	17,830	14,220	-	-
Bills of exchange payable	988	993	-	-
Obligations under finance leases (<i>note 21</i>)	396	380	-	-
Amount owing to subsidiary undertakings	-	-	643	69
Corporation tax	1,963	1,587	355	54
Overseas tax	4,935	5,589	-	-
Social security	2,704	2,437	-	-
Other creditors	9,352	7,696	976	1
Accruals	13,754	10,968	673	609
Proposed dividend	11,356	10,541	11,356	10,541
	75,948	86,727	15,095	11,274

Bank loans and overdrafts amounting to £757,000 (2003: £1,000) are secured on fixed assets of certain Group companies.

notes to the accounts *(continued)*

20 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	THE GROUP		PARENT COMPANY	
	2004 £000	2003 £000	2004 £000	2003 £000
Bank and other loans - Repayable between 1 and 2 years	11,371	3,280	-	-
- Repayable between 2 and 5 years	22,553	20,706	-	-
- Repayable in more than 5 years	45	-	-	-
Obligations under finance leases (<i>note 21</i>)	478	849	-	-
Amount owed to subsidiary undertakings	-	-	298	941
Tax payable	14	-	-	-
Accruals	196	541	-	-
	34,657	25,376	298	941

The Company together with other Group companies has jointly and severally guaranteed loans granted to subsidiary undertakings amounting to £43,819,000 at 31st December 2004 (2003: £54,637,000).

21 OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP	
	2004 £000	2003 £000
Aggregate amounts repayable:		
Over 5 years	245	282
between 2 and 5 years	82	183
between 1 and 2 years	151	384
	478	849
in 1 year or less	396	380
	874	1,229

22 PROVISIONS FOR LIABILITIES AND CHARGES

	THE GROUP			
	Deferred taxation provisions £000	Post retirement benefits £000	Warranty and other provisions £000	Total £000
Provisions at 1st January 2004	6,517	10,712	448	17,677
Exchange adjustments	(79)	38	-	(41)
	6,438	10,750	448	17,636
Charge for the year	1,085	1,840	-	2,925
Utilised during the year	-	(1,654)	-	(1,654)
Provisions at 31st December 2004	7,523	10,936	448	18,907

An analysis of deferred taxation is set out below.

22 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

	THE GROUP	
	Provided	
	2004	2003
	£000	£000
Accelerated capital allowances	3,575	3,821
Provisions disallowed	(3,827)	(3,575)
Other timing differences	2,765	2,172
	2,513	2,418
Deferred tax liabilities	7,523	6,517
Deferred tax asset (note 17)	(5,010)	(4,099)
	2,513	2,418

23 NET ASSETS

The analysis of net assets by reference to the geographical location of the Group's operations is as follows:

	THE GROUP	
	2004	2003
	£000	£000
United Kingdom	44,983	47,575
Continental Europe	60,698	60,901
The Americas	36,452	35,868
Asia, Australasia and Africa	41,893	38,806
	184,026	183,150
Cash at bank and in hand	(4,886)	(4,977)
	179,140	178,173
Net cash	2,873	(14,357)
Net assets	182,013	163,816

24 CALLED UP SHARE CAPITAL

	THE GROUP		PARENT COMPANY	
	2004	2003	2004	2003
	£000	£000	£000	£000
Ordinary shares of 25p each:				
Authorised 120,000,000	30,000	30,000	30,000	30,000
Allotted, called up and fully paid 75,201,211	18,800	18,690	18,800	18,690

166,209 ordinary shares, having an aggregate nominal value of £41,552, were issued pursuant to the Spirax-Sarco Engineering plc Employee Share Ownership Plan on 6th October 2004 for a consideration of £911,158 received by the Company. 18,061 ordinary shares, having an aggregate nominal value of £4,515, were issued pursuant to the Spirax-Sarco Engineering plc Employee Share Ownership Plan in lieu of dividends of £102,855. 257,000 ordinary shares, having an aggregate nominal value of £64,250, were issued during the year pursuant to the Spirax-Sarco Engineering Share Option Schemes for a consideration of £1,123,116 received by the Company.

notes to the accounts *(continued)*

24 CALLED UP SHARE CAPITAL *(continued)*

Directors and 107 other senior employees and former employees of the Group have been granted options to purchase 3,019,500 ordinary shares with an aggregate nominal value of £754,875. Options are exercisable as follows:

	Number of shares	Price to be paid per share
Between 1998 and 2005	190,000	611.0p
Between 1999 and 2006	241,500	739.0p
Between 2000 and 2007	225,500	669.0p
Between 2001 and 2008	211,000	420.0p
Between 2002 and 2009	242,500	525.0p
Between 2003 and 2010	328,000	319.2p
Between 2004 and 2011	413,500	397.7p
Between 2005 and 2012	346,000	436.0p
Between 2006 and 2013	411,000	394.5p
Between 2007 and 2014	410,500	541.9p
	3,019,500	

The performance condition applicable to directors' share options set out on page 31 also apply to these options.

25 RESERVES

	THE GROUP				
	Share premium account £000	Revaluation reserve £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
Balance at 1st January 2004	35,996	4,350	1,832	99,782	141,960
Effect of exchange rate adjustments	-	29	-	(1,221)	(1,192)
	35,996	4,379	1,832	98,561	140,768
Retained profit for the financial year	-	-	-	16,445	16,445
Sale of property	-	(72)	-	72	-
Premium on the issue of shares	2,028	-	-	-	2,028
Balance at 31st December 2004	38,024	4,307	1,832	115,078	159,241

The cumulative amount of goodwill resulting from acquisitions prior to 1998 (less goodwill on disposals) deducted from reserves amounted to £67,322,000 (2003: £67,322,000).

	PARENT COMPANY				
	Share premium account £000	Revaluation reserve £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
Balance at 1st January 2004	35,996	-	1,832	28,013	65,841
Retained profit for the financial year	-	-	-	7,895	7,895
Premium on the issue of shares	2,028	-	-	-	2,028
Balance at 31st December 2004	38,024	-	1,832	35,908	75,764

26 CAPITAL COMMITMENTS

	THE GROUP		PARENT COMPANY	
	2004 £000	2003 £000	2004 £000	2003 £000
Capital expenditure contracted for but not provided	2,438	1,028	-	-

27 LEASE OBLIGATIONS

	THE GROUP			
	Buildings		Other operating leases	
	2004 £000	2003 £000	2004 £000	2003 £000
Rental payments due in 2005 are under current operating leases terminating in the following years:				
2005	498	274	437	271
2006 to 2009	365	608	566	532
2010 onwards	348	299	19	5
	1,211	1,181	1,022	808

28 PENSIONS AND OTHER POST-RETIREMENT BENEFITS

The total pension charge for the Group this year was £8,673,000 (2003: £8,369,000) of which £4,033,000 (2003: £4,238,000) relates to the overseas schemes. £5,266,000 (2003: £5,347,000) of the total pension charge was in respect of defined benefit schemes and £3,407,000 (2003: £3,022,000) for defined contribution schemes.

The Group operates three defined benefit schemes in the UK and two defined contribution schemes. Two of the defined benefit schemes were closed to new entrants during 2001, the other during 2004. The defined contribution schemes were established to provide pension benefits to new employees. The cost of the UK defined benefit pension schemes was determined using the projected unit and attained age methods following the advice of a qualified actuary. The cost of the defined contribution schemes is equal to the contributions paid.

The most recent actuarial valuations of the UK schemes were carried out at either 31st December 2001 or 5th April 2002. The valuations show that the market value of the assets was £109,700,000 and was sufficient to cover 98 per cent of the benefits that had accrued to members, after allowing for expected future increases in earnings. This shortfall should be eliminated within the average working lifetime of the employees in the UK.

The most important assumptions used in the valuations for accounting purposes concern the rate of return on investments and the rates of increases in salary and pensions. It was assumed that investment returns would exceed salary increases by an average of 2.9 per cent per annum and pension increases by an average of 3.9 per cent per annum.

Included in other debtors in the Group balance sheet are prepaid pension costs of £8,485,000 (2003: £7,221,000).

In respect of certain overseas schemes the excess of £10,341,000 (2003: £10,132,000) of the accumulated pension cost over the amount funded is provided in the accounts (note 22). Part of this provision relates to the unfunded German defined benefit scheme.

The charge for post-retirement benefits other than pensions for the Group in 2004 was £100,000 (2003: £90,000) and related to health care. Provisions for the benefit obligations at 31st December 2004 amounted to £595,000 (2003: £580,000) and are included in provisions for post retirement benefits (note 22). The future costs of benefits are assessed in accordance with the advice of independent qualified actuaries and are based on assumed discount rates of 5.75%.

Financial Reporting Standard 17 disclosures

Whilst the Group continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 - Accounting for Pension Costs, under FRS 17 - Retirement Benefits the following transitional disclosures are required:

The actuarial valuations of the Group's principal defined benefit schemes were carried out at various dates between 31st December 2001 and 31st December 2004. The results produced at earlier valuation dates were updated to the 31st December 2004 by independent qualified actuaries.

notes to the accounts *(continued)*

28 PENSIONS AND OTHER POST-RETIREMENT BENEFITS *(continued)*

The financial assumptions used at 31st December were:

Assumptions weighted by value of liabilities % per annum

	UK pensions			Overseas pensions and medical		
	2004	2003	2002	2004	2003	2002
Rate of increase in salaries	3.6	3.5	3.3	3.2	3.4	3.4
Rate of increase in pensions	2.6	2.5	2.3	1.8	1.8	1.8
Discount rate	5.4	5.5	5.6	5.4	5.8	6.2
Rate of price inflation	2.6	2.5	2.3	2.2	2.2	2.2
Medical trend rate				5.0	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 market value of assets % per annum

	UK pensions			Overseas pensions and medical		
	2004	2003	2002	2004	2003	2002
Expected rate of return on assets (aggregate)	7.5	7.5	7.5	7.5	7.8	7.6
Bonds	5.0	4.9	5.0	5.4	5.9	6.0
Equities	8.1	8.2	8.2	8.5	9.0	9.0
Other	5.9	5.5	5.9	3.9	3.9	2.7

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 and the present value of the schemes' liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, at 31st December 2004 were:

	UK pensions			Overseas pensions and medical			Total		
	2004 £000	2003 £000	2002 £000	2004 £000	2003 £000	2002 £000	2004 £000	2003 £000	2002 £000
Total market value in aggregate	124,000	110,700	91,100	14,100	14,700	11,900	138,100	125,400	103,000
Bonds	19,200	17,800	15,900	3,800	4,000	3,800	23,000	21,800	19,700
Equities	97,300	86,200	70,100	9,600	9,800	7,300	106,900	96,000	77,400
Other	7,500	6,700	5,100	700	900	800	8,200	7,600	5,900

	UK pensions			Overseas pensions and medical			Total		
	2004 £000	2003 £000	2002 £000	2004 £000	2003 £000	2002 £000	2004 £000	2003 £000	2002 £000
Total market value of schemes' assets	124,000	110,700	91,100	14,100	14,700	11,900	138,100	125,400	103,000
Present value of the schemes' liabilities	(148,500)	(140,000)	(124,400)	(26,400)	(27,500)	(27,300)	(174,900)	(167,500)	(151,700)
Deficit in the schemes	(24,500)	(29,300)	(33,300)	(12,300)	(12,800)	(15,400)	(36,800)	(42,100)	(48,700)
Related deferred tax asset	7,400	8,800	10,000	2,000	2,200	3,300	9,400	11,000	13,300
Net pension liability	(17,100)	(20,500)	(23,300)	(10,300)	(10,600)	(12,100)	(27,400)	(31,100)	(35,400)

28 PENSIONS AND OTHER POST-RETIREMENT BENEFITS (continued)

The movement in deficits in the schemes during the year were:

	UK pensions		Overseas pensions and medical		Total	
	2004	2003	2004	2003	2004	2003
	£000	£000	£000	£000	£000	£000
Net pension liability at beginning of year	(20,500)	(23,300)	(10,600)	(12,100)	(31,100)	(35,400)
Contributions paid	5,500	5,300	1,900	1,300	7,400	6,600
Current service cost	(5,800)	(5,000)	(1,000)	(900)	(6,800)	(5,900)
Settlement gain	-	-	200	-	200	-
Curtailment gain	-	-	100	-	100	-
Other finance income/(charge)	700	-	(400)	(700)	300	(700)
Actuarial gain/(loss)	4,400	3,700	(300)	2,900	4,100	6,600
Adjustment to deferred tax asset	(1,400)	(1,200)	(200)	(1,100)	(1,600)	(2,300)
Net pension liability at end of year	(17,100)	(20,500)	(10,300)	(10,600)	(27,400)	(31,100)

The components for the defined benefit cost for the year ended 31st December 2004 under FRS 17 were:

	UK pensions		Overseas pensions and medical		Total	
	2004	2003	2004	2003	2004	2003
	£000	£000	£000	£000	£000	£000
Current service cost	(5,800)	(5,000)	(1,000)	(900)	(6,800)	(5,900)
Past service cost	-	-	-	-	-	-
Total charge to operating profit	(5,800)	(5,000)	(1,000)	(900)	(6,800)	(5,900)
Settlement gain	-	-	200	-	200	-
Curtailment gain	-	-	100	-	100	-
Net gain to profit and loss account	-	-	300	-	300	-
Interest on pension scheme liabilities	(7,600)	(6,900)	(1,500)	(1,500)	(9,100)	(8,400)
Expected return on assets in the pension scheme	8,300	6,900	1,100	800	9,400	7,700
Net (charge)/credit to other finance income	700	-	(400)	(700)	300	(700)
Total charge before tax	(5,100)	(5,000)	(1,100)	(1,600)	(6,200)	(6,600)

The amounts to be recognised in the Group statement of total recognised gains and losses (STRGL) were:

	UK pensions		Overseas pensions and medical		Total	
	2004	2003	2004	2003	2004	2003
	£000	£000	£000	£000	£000	£000
Gain on assets	3,600	10,800	100	1,800	3,700	12,600
Experience gain on liabilities	6,300	1,500	1,100	1,400	7,400	2,900
Loss on change of assumptions (financial and demographic)	(5,500)	(8,600)	(2,000)	(300)	(7,500)	(8,900)
Currency gain	-	-	500	-	500	-
Total gain/(loss) recognised in STRGL before adjustment for tax	4,400	3,700	(300)	2,900	4,100	6,600

The history of experience gains and losses was:

	UK pensions			Overseas pensions and medical			Total		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gain/(loss) on assets	3,600	10,800	(27,700)	100	1,800	(1,700)	3,700	12,600	(29,400)
% of schemes' assets at end of year	2.9%	9.8%	(30.4%)	0.7%	12.3%	(14.3%)	2.7%	10.1%	(28.5%)
Experience gain/(loss) on liabilities	6,300	1,500	500	1,100	1,400	(1,500)	7,400	2,900	(1,000)
% of schemes' liabilities at end of year	4.2%	1.1%	0.4%	4.2%	4.9%	(5.5%)	4.2%	1.7%	(0.7%)
Total gain/(loss) recognised in STRGL	4,400	3,700	(26,700)	(300)	2,900	(3,600)	4,100	6,600	(30,300)
% of schemes' liabilities at end of year	3.0%	2.6%	(21.5%)	(1.1%)	10.5%	(13.2%)	2.3%	3.9%	(20.0%)

notes to the accounts *(continued)*

28 PENSIONS AND OTHER POST-RETIREMENT BENEFITS *(continued)*

If the above amounts had been recognised in the accounts, the Group's net assets and profit and loss account reserve at 31st December 2004 would be as follows:

	2004 £000	2003 £000
Net assets (page 41)	182,013	163,816
Unprovided pension liability*	(27,400)	(29,900)
Adjusted net assets including pension liability	154,613	133,916
Profit and loss account reserve (page 41)	115,078	99,782
Unprovided pension liability*	(27,400)	(29,900)
Adjusted profit and loss account reserve	87,678	69,882

* The net pension liability of £27,400,000 (2003: £31,100,000) calculated in accordance with FRS 17 compares with the net pension provision currently recorded of £nil (2003: £1,200,000).

29 ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	THE GROUP	
	2004 £000	2003 £000
Returns on investments and servicing of finance		
Interest received	1,584	1,110
Interest paid	(1,782)	(2,185)
Interest element of finance lease rental payments	(64)	(106)
Dividends paid by subsidiary undertakings to minority interests	(432)	(312)
Net cash outflow for returns on investments and servicing of finance	(694)	(1,493)
Capital expenditure		
Purchase of tangible fixed assets	(14,787)	(12,571)
Sales of tangible fixed assets	653	659
Net cash outflow for capital expenditure	(14,134)	(11,912)
Acquisitions and disposals		
Purchase of subsidiary undertakings	(1,052)	(1,909)
Net cash and overdrafts acquired with subsidiary	249	-
Net cash outflow for acquisitions	(803)	(1,909)
Management of liquid resources*		
Net cash placed on deposit	(7,745)	(6,012)
Net cash outflow from management of liquid resources	(7,745)	(6,012)
Financing		
Issue of ordinary share capital	2,138	1,731
Debt due within a year: net decrease in short term borrowings	(11,857)	7,119
Debt due beyond a year: net increase in long term borrowings	9,527	(15,481)
Capital element of finance lease rental payments	(347)	(397)
Decrease in debt	(2,677)	(8,759)
Net cash outflow from financing	(539)	(7,028)

* Spirax-Sarco Engineering plc includes as liquid resources term deposits of less than a year.

30 ANALYSIS OF CHANGES IN NET CASH

	At 1st Jan 2004	Cash flow	Exchange movement	At 31st Dec 2004
	£000	£000	£000	£000
Cash in hand and at bank	4,977	(116)	25	4,886
Overdrafts	(12,602)	7,344	387	(4,871)
		<u>7,228</u>		
Debt due within a year	(19,714)	11,857	58	(7,799)
Debt due beyond a year	(23,986)	(9,527)	(456)	(33,969)
Finance leases	(1,229)	347	8	(874)
		<u>2,677</u>		
Current asset investments	38,197	7,745	(442)	45,500
Total	(14,357)	17,650	(420)	2,873

31 PURCHASE OF SUBSIDIARY UNDERTAKINGS

		Eirdata Environmental Services Limited Eire		
		Book value	Accounting policy adjustments	Fair value
		£000	£000	£000
Fixed assets		49	-	49
Current assets	Stock	29	-	29
	Trade debtors	212	(11)	201
	Other debtors	34	-	34
	Cash	208	-	208
		<u>483</u>	<u>(11)</u>	<u>472</u>
Total assets		532	(11)	521
Current liabilities	Trade creditors	50	-	50
	Tax	22	-	22
	Other creditors	68	-	68
		<u>140</u>	<u>-</u>	<u>140</u>
Total net assets		392	(11)	381
Goodwill				1,177
Purchase consideration				1,558
Satisfied by	Cash paid			446
	Deferred consideration			976
	Expenses			136
				1,558

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

Cash consideration	446
Expenses	136
Cash acquired	(249)
Deferred consideration on Ampe S.r.l. and M&M International S.r.l. acquisitions	470
Net cash outflow	803

The acquisition of 80% of Eirdata Environmental Services Limited in Eire from its shareholders was completed on 1st October 2004. The acquisition was accounted for by the acquisition method of accounting. Consideration of £446,000 was paid on completion. The book value of trade debtors has been adjusted to reflect Spirax Sarco's accounting policies in order to arrive at their fair value.

The total profits after tax of the business acquired for its financial year ended 29th February 2004 was £145,000. The total profits after tax of the business acquired in the seven months in 2004 prior to acquisition on 1st October 2004 was £143,000.

notes to the accounts *(continued)*

32 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Group does not enter into significant derivative transactions. The Group's principal financial instruments comprise bank loans, guaranteed senior notes, 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 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.

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. At the year-end 15% of the Group's debts were at fixed rates.

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. At 31st December 2004 the percentage of debt to net assets, excluding debt, was 50% (2003: 57%) for the euro and 28% (2003: 45%) for the US dollar.

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.

The disclosures below exclude short-term debtors and creditors.

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:

	Total	Fixed rate financial liabilities	Floating rate financial liabilities	Financial liabilities on which no interest is paid
	£000	£000	£000	£000
2004				
Euro	29,420	1,117	28,303	-
US dollar	5,994	4,162	1,832	-
Other	12,099	1,779	10,320	-
	47,513	7,058	40,455	-
2003				
	£000	£000	£000	£000
Euro	36,639	1,095	35,003	541
US dollar	10,017	6,690	3,327	-
Other	11,416	56	11,360	-
	58,072	7,841	49,690	541

In respect of fixed rate financial liabilities the interest rate for euro financial liabilities is 4.4% (2003: 4.4%) fixed for 1.5 years (2003: 2.5 years). The interest rate for US dollar financial liabilities is 6.7% (2003: 6.7%) fixed for 1.1 years (2003: 2.1 years).

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

Canadian dollar	}	LIBOR
Japanese yen		
US dollar		
Euro		LIBOR/EURIBOR

32 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS *(continued)*

Interest rate risk profile of financial assets

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

	Total £000	Floating rate financial assets £000	Financial assets on which no interest is earned £000
2004			
Sterling	28,182	28,042	140
Other	22,204	17,458	4,746
	50,386	45,500	4,886
2003			
Sterling	21,301	20,166	1,135
Other	21,873	18,031	3,842
	43,174	38,197	4,977

Financial assets on which no interest is earned comprise cash at bank and in hand.

Floating rate financial assets comprise cash placed on money market deposit mainly at call and one month rates.

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 gains and losses.

Transactional (or non-structural) exposures give rise to net currency gains and losses that are recognised in the profit and loss account. Such exposures include the monetary assets and monetary liabilities in the Group balance sheet that are not denominated in the operating (or 'functional') currency of the operating unit involved. At 31st December the currency exposures in respect of the euro was a net monetary asset of £32,000 (2003: £81,000) and in respect of the US dollar a net monetary asset of £811,000 (2003: £744,000).

Foreign exchange contracts

There were no significant forward exchange contracts outstanding at 31st December 2004.

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 31st December was as follows:

	2004 £000	2003 £000
In one year or less, or on demand	13,066	32,696
In more than one year but no more than two	11,522	4,204
In more than two years but no more than five	22,635	20,890
In more than five years	290	282
	47,513	58,072

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:

	2004 £000	2003 £000
Expiring in one year or less	16,079	16,343

Fair values of financial assets and financial liabilities

A US dollar loan with a book value of £4,162,000 (2003: £6,690,000) had a fair value at 31st December of £4,271,000 (2003: £7,014,000). Apart from this loan, fair values of financial assets and liabilities at that date were not considered to be materially different from book values due to their size or the fact that they were at short term rates of interest.