NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES

Basis of preparation
The consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) that have been adopted by the European Union (EU). In accordance with IFRS 1 'First-time Adoption of International Financial Reporting Standards' an explanation of how the transition to IFRS has affected the previously reported financial results was provided in a 2004 restatement issued on 12th July 2005.

IFRS 1 grants certain exemptions to assist companies as they change to report under IFRS. The following exemptions have been taken by the Group in preparation of its consolidated accounts for the year ended 31st December 2005:
- Financial Instruments - The Group has elected to adopt IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' prospectively from 1st January 2005.
- Post-retirement benefits - The Group has chosen to recognise all cumulative actuarial gains and losses on defined benefit plans in equity at 1st January 2004. In preparing 2004 and 2005 financial information the directors have elected to adopt the endorsed December 2004 amendment to IAS 19 - Employee Benefits that allows actuarial gains and losses to be recognised immediately in the Statement of Recognised Income and Expense.
- Share Schemes - The transitional requirements of IFRS 2 require all share-based payment awards made after 7th November 2002 to be restated. The restatement of awards made before that date is optional but we have chosen to adopt IFRS 2 from 1st July 2001 to give greater clarity and comparibility between accounting periods.
- Business Combinations - The Group has elected to apply IFRS 3 prospectively from the date of transition to IFRS. Therefore business combinations that took place prior to 1st January 2004 have not been restated.
- Cumulative translation differences - Under IAS 21, cumulative foreign exchange movements on translation of foreign entities on consolidation should be disclosed as a seperate reserve within equity. However, for simplicity, the Group has adopted the election to reset the foreign currency translation reserve to zero as at 1st January 2004.
- Property, plant and equipment (IAS 16) - The Group has elected to cease revaluing freehold premises and to use the carrying amounts as at 1st January 2004 as 'deemed cost'.

The preparation of consolidated accounts in conformity with IFRS requires the directors to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

- Amendment to IAS 1 Capital Disclosures
- Amendment to IAS 39, Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- Amendment to IAS 39, Fair Value Option
- Amendment to IAS 39 and IFRS 4, Financial Guarantee Contracts
- IFRS 7, Financial Instruments Disclosures
- IFRIC 4 determining whether an Arrangement contains a lease.

The company does not expect the above amendments to have any significant impact on the accounts for the period commencing 1st January 2006. With respect to financial guarantee contracts where the company enters into contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements and accounts for them as such. In this respect the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE ACCOUNTS *(continued)*

1 ACCOUNTING POLICIES *(continued)*

(iv) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Goodwill and intangible assets with an indefinite useful life are tested for impairment annually. The principal amortisation rates are as follows;

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

Stocks

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

Cash and cash equivalents

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

Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

(ii) Defined benefit plans

The costs of providing pensions under defined benefit schemes are calculated in accordance with the advice of qualified actuaries and spread over the period during which benefit is expected to be derived from the employees' services. The Group's net obligation in respect of defined benefit pensions is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted at rates reflecting the yields on AA credit rated corporate bonds to determine its present value. Pension scheme assets are measured at fair value at the balance sheet date. Actuarial gains and losses, differences between the expected and actual returns, and the effect of changes in actuarial assumptions are recognised in the Statement of Recognised Income and Expense in the year they arise. Any scheme surplus (to the extent it is considered recoverable) or deficit is recognised in full in the balance sheet.

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

(iii) Employee share plans

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

(iv) Long term share incentive plans

The fair value of awards is measured at the date of grant and the cost spread over the vesting period. The amount recognised as an expense is not adjusted to reflect market based performance conditions.

Revenue

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

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

Leases

(i) Operating leases

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

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

Taxation
The tax charge shown in the income statement comprises current and deferred tax. Current tax is the expected tax payable on the profit for the year and any adjustments in respect of previous years. Deferred tax is provided in full using the balance sheet liability method, providing for temporary differences arising between the tax base of assets and liabilities, and their carrying amounts in the accounts. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax is provided using rates of tax that have been enacted or substantively enacted at the balance sheet date.

2 SEGMENTAL REPORTING

2005
Primary Segment

Revenue by geographical location of operation	UK & Republic of Ireland £000	Continental Europe £000	North America £000	Asia £000	Rest of the world £000	Total £000
Total revenue of operation	102,479	156,050	73,220	61,263	45,949	438,961
Intra-divisional revenue	(105)	(14,095)	(603)	(565)	(894)	(16,262)
Inter-divisional revenue	(50,178)	(17,654)	(369)	(1,852)	(3,546)	(73,599)
Sales to customers	52,196	124,301	72,248	58,846	41,509	349,100
Profit from operations	**10,881**	**18,733**	**7,938**	**11,430**	**6,188**	**55,170**
Operating profit margin (based on total revenue of operation)	10.6%	12.0%	10.8%	18.7%	13.5%	12.6%
Total operating profit margin (based on total net revenue)						15.8%
Share of profit of associates	-	-	282	579	-	861
Revenue by geographical location of customers	**40,084**	**125,343**	**73,056**	**65,841**	**44,776**	**349,100**
Segment assets	64,393	90,241	40,191	41,523	31,241	267,589
Segment liabilities	(36,557)	(31,523)	(12,997)	(6,096)	(6,224)	(93,397)
						174,192
Deferred tax						10,808
Current tax payable net of tax recoverable						(5,799)
Net cash						19,045
Net assets						198,246
Capital additions, tangible and intangible, by segment	5,032	4,431	2,600	1,279	2,222	15,564
Depreciation and amortisation by segment	5,644	3,915	1,734	895	963	13,151

Secondary segment

	Spirax Sarco £000	Watson-Marlow Bredel £000	Total £000
Revenue by business operation	302,627	46,473	349,100
Segment assets	233,912	33,677	267,589
Capital additions, tangible and intangible, by segment	12,204	3,360	15,564

NOTES TO THE ACCOUNTS *(continued)*

2 SEGMENTAL REPORTING *(continued)*
2004
Primary Segment

Revenue by geographical location of operation	UK & Republic of Ireland £000	Continental Europe £000	North America £000	Asia £000	Rest of the world £000	Total £000
Analysis by operation						
Total revenue of operation	97,419	149,334	64,950	50,465	36,482	398,650
Intra-divisional revenue	-	(13,361)	(564)	(555)	(234)	(14,714)
Inter-divisional revenue	(45,843)	(16,957)	(512)	(1,234)	(3,399)	(67,945)
Sales to customers	51,576	119,016	63,874	48,676	32,849	315,991
Profit from operations	10,533	17,752	6,601	8,184	4,886	47,956
Operating profit margin (based on total revenue of operation)	10.8%	11.9%	10.2%	16.2%	13.4%	12.0%
Total operating profit margin (based on total net revenue)						15.2%
Share of profit of associates	-	-	202	533	-	735
Revenue by geographical location of customers	39,922	121,164	64,119	55,327	35,459	315,991
Segment assets	66,960	89,855	33,140	34,829	21,749	246,533
Segment liabilities	(34,830)	(30,962)	(10,721)	(4,639)	(4,253)	(85,405)
						161,128
Deferred tax						9,342
Current tax payable net of tax recoverable						(5,483)
Net cash						1,299
Net assets						166,286
Capital additions, tangible and intangible, by segment	6,920	4,312	2,475	1,033	1,204	15,944
Depreciation and amortisation by segment	5,620	4,070	1,537	1,026	778	13,031

Secondary segment

	Spirax Sarco £000	Watson-Marlow Bredel £000	Total £000
Revenue by business operation	273,065	42,926	315,991
Segment assets	215,245	31,288	246,533
Capital additions, tangible and intangible, by segment	12,427	3,517	15,944

Profit from operations figures reflect the allocation of UK incurred central support costs to the segments to which the expenses relate. This is a change from the July 2005 IFRS restatement and so 2004 segmental profit figures reflect the changes.

3 OPERATING COSTS

	2005 £000	2004 £000
Change in stocks of finished goods and work in progress	**(772)**	19
Raw materials and consumables	**93,049**	84,902
Staff costs *(note 4)*	**130,309**	118,629
Depreciation and amortisation	**13,151**	13,031
Other operating charges	**58,193**	51,454
	293,930	268,035

Amortisation of intangible assets acquired was £175,000 (2004 £nil) and amortisation of capitalised development costs was £834,000 (2004: £632,000).

4 STAFF COSTS AND NUMBERS

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

	2005 £000	2004 £000
Wages and salaries	**102,966**	93,671
Social security costs	**17,657**	15,470
Other pension costs	**9,686**	9,488
	130,309	118,629

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

	2005 Number	2004 Number
United Kingdom	**1,133**	1,106
Overseas	**2,766**	2,661
	3,899	3,767

5 NET FINANCING INCOME

	2005 £000	2004 £000
Financial expenses		
Bank and other borrowing interest payable	**(1,704)**	(1,832)
Interest on pension scheme liabilities	**(9,746)**	(9,088)
	(11,450)	(10,920)
Financial income		
Bank interest receivable	**1,869**	1,518
Expected return on pension scheme assets	**10,509**	9,415
	12,378	10,933
Net financing income	**928**	13
Net pension scheme financial income	**763**	327
Net bank interest	**165**	(314)
Net financing income	**928**	13

6 PROFIT BEFORE TAXATION

Profit before taxation is shown after charging:

	2005 £000	2004 £000
Depreciation of tangible fixed assets held under finance leases	**145**	176
Audit fees (Spirax-Sarco Engineering plc £130,000 (2004: £104,000))	**818**	707
Hire of plant and machinery	**300**	286
Other operating leases	**2,706**	2,421
Research and development	**4,288**	4,365

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 £581,000 (2004: £501,000), including amounts paid to the auditors of overseas companies of £261,000 (2004: £225,000). Fees were paid in respect of taxation services (£343,000 (2004: £366,000)) and further assurance services (£238,000 (2004: £135,000)).

7 DIRECTORS' EMOLUMENTS

Details of directors' emoluments, share plans and long term share incentive plan and pension benefits are shown in the Directors' Remuneration Report on pages 28 to 35. Directors represent the key management personnel of the Group under the terms of IAS 24: Related Party Disclosures.

NOTES TO THE ACCOUNTS *(continued)*

8 TAXATION

	2005 £000	2004 £000
Analysis of charge in period		
UK corporation tax		
Current tax on income for the period	**12,702**	12,164
Adjustments in respect of prior periods	**(268)**	(148)
	12,434	12,016
Double taxation relief	**(9,755)**	(8,851)
	2,679	3,165
Foreign tax		
Current tax on income for the period	**15,565**	12,752
Adjustments in respect of prior periods	**(47)**	48
	15,518	12,800
Total current tax charge	**18,197**	15,965
Deferred tax	**575**	297
Tax on profit on ordinary activities	**18,772**	16,262

Reconciliation of effective tax rate

	2005 £000	2004 £000
Profit before tax	**56,959**	48,704
Tax using the UK corporation tax rate of 30% (2004: 30%)	**17,088**	14,611
Effect of higher overseas tax rates	**889**	1,643
Associated companies	**(258)**	(221)
Non-deductible expenditure	**827**	797
Overprovided in prior years	**(362)**	(158)
Contingencies	**300**	-
Other reconciling items	**288**	(410)
Total tax in income statement	**18,772**	16,262

Factors that may affect the future tax charges:
The Group's tax charge in future years is likely to be affected by the proportion of profits arising and the effective tax rates in the various territories in which the Group operates. No UK tax (after double tax relief for underlying tax) is expected to be payable on the future remittance of the retained earnings of overseas subsidiaries. The impact of higher tax rates on overseas earnings has reduced due to a change in the profit mix and partly due to a decrease in global tax rates.

Taxation recognised directly in equity

	2005 £000	2004 £000
Relating to:		
Equity settled transactions	**110**	(353)
On actuarial gains and losses	**2,942**	886
	3,052	533

9 PROFIT FOR THE FINANCIAL YEAR ATTRIBUTABLE TO SHAREHOLDERS

Profit dealt with in the accounts of Spirax-Sarco Engineering plc was £24,788,000 (2004: £23,613,000). Included in this amount are dividends from subsidiary undertakings of £25,309,000 (2004: £23,616,000).

10 EARNINGS PER SHARE

	2005 £000	2004 £000
Earnings	**38,036**	32,314
Weighted average shares in issue	**76,119,005**	74,931,130
Dilution	**577,169**	781,558
Diluted weighted average shares in issue	**76,696,174**	75,712,688
Basic earnings per share	**50.0p**	43.1p
Diluted earnings per share	**49.6p**	42.7p

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

11 DIVIDENDS

	2005 £000	2004 £000
Amounts paid in the year		
Final dividend for the year ended 31st December 2004 of 15.1p (2003: 14.1p) per share	**11,459**	10,552
Interim dividend for the year ended 31st December 2005 of 6.8p (2004: 6.3p) per share	**5,225**	4,737
	16,684	15,289

Amounts arising in respect of the year		
Interim dividend for the year ended 31st December 2005 of 6.8p (2004: 6.3p) per share	**5,225**	4,737
Proposed final dividend for the year ended 31st December 2005 of 17.0p (2004: 15.1p) per share	**13,093**	11,459
	18,318	16,196

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

NOTES TO THE ACCOUNTS *(continued)*

12 PROPERTY, PLANT AND EQUIPMENT

	THE GROUP				
	Land and buildings				
	Freehold £000	Short leasehold £000	Plant and machinery £000	Fixtures, fittings, tools and equipment £000	Total £000
Cost or deemed cost:					
At 1st January 2004	49,268	1,000	79,947	41,370	171,585
Exchange adjustments	(125)	(51)	(682)	(265)	(1,123)
	49,143	949	79,265	41,105	170,462
Additions	1,323	(3)	8,734	3,627	13,681
Disposals	(110)	(24)	(2,050)	(889)	(3,073)
At 31st December 2004	50,356	922	85,949	43,843	181,070
Depreciation:					
At 1st January 2004	7,261	237	50,126	32,281	89,905
Exchange adjustments	(58)	(9)	(367)	(197)	(631)
	7,203	228	49,759	32,084	89,274
Charged in year	1,262	26	6,756	2,955	10,999
Disposals	(44)	(3)	(1,828)	(842)	(2,717)
At 31st December 2004	8,421	251	54,687	34,197	97,556
Net book value:					
At 31st December 2004	41,935	671	31,262	9,646	83,514
At 31st December 2003	42,007	763	29,821	9,089	81,680
Cost or deemed cost:					
At 1st January 2005	50,356	922	85,949	43,843	181,070
Exchange adjustments	1,205	110	1,670	1,289	4,274
	51,561	1,032	87,619	45,132	185,344
Additions	422	48	8,585	2,677	11,732
Disposals	(65)	(4)	(3,637)	(1,523)	(5,229)
At 31st December 2005	**51,918**	**1,076**	**92,567**	**46,286**	**191,847**
Depreciation:					
At 1st January 2005	8,421	251	54,687	34,197	97,556
Exchange adjustments	255	27	962	987	2,231
	8,676	278	55,649	35,184	99,787
Charged in year	1,060	31	6,885	3,222	11,198
Disposals	(17)	-	(3,222)	(1,651)	(4,890)
At 31st December 2005	**9,719**	**309**	**59,312**	**36,755**	**106,095**
Net book value:					
At 31st December 2005	**42,199**	**767**	**33,255**	**9,531**	**85,752**

Land and buildings with a book value of £3,123,000 (2004: £2,799,000) have been provided as security for a mortgage loan.

Included in the above are finance leases with a net book value of £1,517,000 (2004: £1,801,000).

13 GOODWILL AND OTHER INTANGIBLE ASSETS

	THE GROUP				
	Acquired intangibles £000	Development £000	Computer software £000	Total other intangibles £000	Goodwill £000
Cost or valuation:					
At 1st January 2004	-	3,075	10,244	13,319	11,123
Exchange adjustments	-	5	(23)	(18)	100
	-	3,080	10,221	13,301	11,223
Additions	672	682	909	2,263	639
At 31st December 2004	672	3,762	11,130	15,564	11,862
Amortisation:					
At 1st January 2004	-	615	5,517	6,132	-
Exchange adjustments	-	1	(25)	(24)	-
	-	616	5,492	6,108	-
Charged in year	-	636	1,832	2,468	-
At 31st December 2004	-	1,252	7,324	8,576	-
Net book value:					
At 31st December 2004	672	2,510	3,806	6,988	11,862
At 31st December 2003	-	2,460	4,727	7,187	11,123

	THE GROUP				
	Acquired intangibles £000	Development £000	Computer software £000	Total other intangibles £000	Goodwill £000
Cost or valuation:					
At 1st January 2005	672	3,762	11,130	15,564	11,862
Exchange adjustments	(23)	(28)	28	(23)	(68)
	649	3,734	11,158	15,541	11,794
Additions	1,601	1,078	1,153	3,832	3,239
At 31st December 2005	**2,250**	**4,812**	**12,311**	**19,373**	**15,033**
Amortisation:					
At 1st January 2005	-	1,252	7,324	8,576	-
Exchange adjustments	-	(6)	7	1	-
	-	1,246	7,331	8,577	-
Charged in year	182	838	1,419	2,439	-
At 31st December 2005	**182**	**2,084**	**8,750**	**11,016**	**-**
Net book value:					
At 31st December 2005	**2,068**	**2,728**	**3,561**	**8,357**	**15,033**

Impairment

There was no impairment of goodwill during 2005 or 2004.

For the purposes of impairment testing of goodwill, goodwill values have been compared against discounted forecast cash flows of the relevant cash-generating unit on a value in use basis. The forecasts include post tax profit increases and the corresponding cash flows. A discount rate of 10% has been applied to the calculations.

The carrying amounts of goodwill allocated to cash-generating units are as follows:

	2005 £000	2004 £000
M & M product unit	**2,511**	2,463
Alitea product unit	**2,153**	2,162
Spirax Sarco, Inc. USA	**1,869**	-
UK Supply product unit	**1,625**	1,683
Watson-Marlow Bredel, South Africa	**1,377**	1,384
Mitech product unit	**1,175**	-
Spirax-Sarco S.A.S. France	**1,096**	1,135
Other cash-generating units	**3,227**	3,035
	15,033	11,862

14 LOANS TO SUBSIDIARIES

	PARENT COMPANY	
	2005 £000	2004 £000
Cost:		
At 1st January	**12,207**	11,380
Exchange adjustments	**(14)**	166
	12,193	11,546
Loans	**2,678**	745
Repayments	**-**	(84)
At 31st December	**14,871**	12,207
Amounts written off:		
At 1st January and 31st December	**1,042**	1,042
Net book value:		
At 31st December	**13,829**	11,165

NOTES TO THE ACCOUNTS *(continued)*

15 INVESTMENT IN SUBSIDIARIES

	PARENT COMPANY	
	2005 £000	2004 £000
Cost:		
At 1st January	**47,912**	46,354
Acquisition	**393**	1,558
At 31st December	**48,305**	47,912
Amounts written off:		
At 1st January and 31st December	**994**	994
Net book value:		
At 31st December	**47,311**	46,918

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 2005. 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.

16 INVESTMENT IN ASSOCIATES

	THE GROUP	
	2005 £000	2004 £000
Cost of investment	**645**	645
Share of post-acquisition profit, net of dividends received	**2,726**	1,849
	3,371	2,494

Summarised aggregated financial information		
Revenue	**12,216**	9,842
Profit for the period	**2,023**	1,745
Assets	**10,609**	7,446
Liabilities	**2,768**	1,643

Details of the Group's associates at 31st December 2005 are as follows:

Name of associate	Country of incorporation and operation	Proportion of ownership interest and voting power held	Principal activity
Spirax-Marshall Ltd.	India	40%	Manufacturing and Selling
Spirax-Sarco Mexicana S.A.	Mexico	49%	Manufacturing and Selling

17 DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	THE GROUP					
	Assets		Liabilities		Net	
	2005 £000	2004 £000	**2005 £000**	2004 £000	**2005 £000**	2004 £000
Accelerated capital allowances	**(12)**	(15)	**3,710**	3,496	**3,698**	3,481
Provisions	**(4,103)**	(4,571)	**102**	169	**(4,001)**	(4,402)
Losses	**(359)**	(205)	**5**	1	**(354)**	(204)
Stock	**(189)**	(178)	**1,276**	1,032	**1,087**	854
Pensions	**(14,027)**	(11,931)	**2,538**	2,542	**(11,489)**	(9,389)
Other timing differences	**(3,079)**	(2,834)	**3,330**	3,152	**251**	318
Tax (assets)/liabilities	**(21,769)**	(19,734)	**10,961**	10,392	**(10,808)**	(9,342)
Net off liabilities/(assets)	**3,233**	3,119	**(3,233)**	(3,119)	**-**	-
Net tax (assets)/liabilities	**(18,536)**	(16,615)	**7,728**	7,273	**(10,808)**	(9,342)

Movement in deferred tax during the year

	THE GROUP			
	1 January 2005 £000	Recognised in income £000	Recognised in equity £000	**31 December 2005 £000**
Accelerated capital allowances	3,481	78	139	**3,698**
Provisions	(4,402)	508	(107)	**(4,001)**
Losses	(204)	(140)	(10)	**(354)**
Stock	854	124	109	**1,087**
Pensions	(9,389)	210	(2,310)	**(11,489)**
Other timing differences	318	(202)	135	**251**
	(9,342)	578	(2,044)	**(10,808)**

	THE GROUP			
	1 January 2004 £000	Recognised in income £000	Recognised in equity £000	31 December 2004 £000
Accelerated capital allowances	3,433	105	(57)	3,481
Provisions	(3,919)	(444)	(39)	(4,402)
Losses	(206)	-	2	(204)
Stock	726	189	(61)	854
Pensions	(10,358)	875	94	(9,389)
Other timing differences	75	110	133	318
	(10,249)	835	72	(9,342)

Movement in deferred tax during the year

	PARENT COMPANY			
	1 January 2005 £000	Recognised in income £000	Recognised in equity £000	**31 December 2005 £000**
Pensions	1,905	119	600	**2,624**
Other timing differences	521	72	39	**632**
	2,426	191	639	**3,256**

	PARENT COMPANY			
	1 January 2004 £000	Recognised in income £000	Recognised in equity £000	31 December 2004 £000
Pensions	2,040	135	(270)	1,905
Other timing differences	248	30	243	521
	2,288	165	(27)	2,426

18 INVENTORIES

	THE GROUP	
	2005 £000	2004 £000
Raw materials and consumables	**21,902**	18,725
Work in progress	**11,049**	10,739
Finished goods and goods for resale	**31,265**	28,765
	64,216	58,229

19 OTHER CURRENT ASSETS

	THE GROUP		PARENT COMPANY	
	2005 £000	2004 £000	**2005 £000**	2004 £000
Other receivables	**3,678**	3,448	**145**	174
Prepayments and accrued income	**3,483**	3,635	**341**	227
Taxation recoverable	**1,527**	1,305	**-**	-
	8,688	8,388	**486**	401

NOTES TO THE ACCOUNTS *(continued)*

20 TRADE AND OTHER PAYABLES

	THE GROUP		PARENT COMPANY	
	2005 £000	2004 £000	**2005 £000**	2004 £000
Trade payables	**17,295**	17,105	**-**	-
Amounts owed to subsidiaries	**-**	-	**312**	298
Bills of exchange payable	**1,043**	988	**-**	-
Social security	**2,789**	2,689	**-**	-
Other creditors	**10,230**	8,925	**734**	976
Accruals	**15,486**	13,722	**862**	673
	46,843	43,429	**1,908**	1,947

21 CURRENT TAX PAYABLE

	THE GROUP		PARENT COMPANY	
	2005 £000	2004 £000	**2005 £000**	2004 £000
UK Corporation tax	**1,523**	1,963	**689**	355
Non UK tax payable	**5,803**	4,825	**-**	-
	7,326	6,788	**689**	355

22 OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		Present value lease payments	
	2005 £000	2004 £000	**2005 £000**	2004 £000
Amount payable				
Within 1 year	**136**	384	**126**	356
1-5 years inclusive	**115**	219	**106**	203
After 5 years	**197**	244	**182**	226
	448	847	**414**	785
Add future finance charges			**34**	62
Minimum lease payments	**448**	847	**448**	847
Less: Due for settlement in <1 year			**126**	356
Due for settlement in >1 year			**322**	491

23 PROVISIONS

	THE GROUP	
	Warranty and other provisions	
	2005 £000	2004 £000
Provisions at 1st January	**644**	989
Exchange adjustments	**(11)**	-
	633	989
Charge for the year	**114**	-
Utilised during the year	**-**	(345)
Provisions at 31st December	**747**	644

24 CALLED UP SHARE CAPITAL

	THE GROUP		PARENT COMPANY	
	2005	2004	**2005**	2004
	£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 76,951,907	**19,238**	18,800	**19,238**	18,800

164,854 ordinary shares, having an aggregate nominal value of £41,214, were issued pursuant to the Spirax-Sarco Engineering plc Employee Share Ownership Plan on 6th October 2005 for a consideration of £987,475 received by the Company. 19,197 ordinary shares, having an aggregate nominal value of £4,799, were issued pursuant to the Spirax-Sarco Engineering plc Employee Share Ownership Plan in lieu of dividends of £143,589. 1,566,645 ordinary shares, having an aggregate nominal value of £391,661, were issued during the year pursuant to the Spirax-Sarco Engineering Share Option Schemes for a consideration of £7,437,018 received by the Company.

Directors and 110 other senior employees and former employees of the Group have been granted options to purchase 1,787,455 ordinary shares with an aggregate nominal value of £446,864. (Note 29).

25 SHARE CAPITAL AND RESERVES

THE GROUP

	Share capital £000	Share premium account £000	Translation reserve £000	Cash flow hedge reserve £000	Capital redemption reserve £000	Retained earnings £000	Total parent equity £000
Balance at 1st January 2004	18,690	35,996	-	-	1,832	87,292	143,810
Total recognised income and expense	-	-	(1,133)	-	-	35,243	34,110
Dividends paid	-	-	-	-	-	(15,289)	(15,289)
Equity settled share plans net of tax	-	-	-	-	-	711	711
Proceeds from issue of share capital	110	2,028	-	-	-	-	2,138
Balance at 31st December 2004	18,800	38,024	(1,133)	-	1,832	107,957	165,480

	Share capital £000	Share premium account £000	Translation reserve £000	Cash flow hedge reserve £000	Capital redemption reserve £000	Retained earnings £000	Total parent equity £000
Balance at 1st January 2005	18,800	38,024	(1,133)	-	1,832	107,957	165,480
Adjustment in respect of adoption of IAS32 and IAS39 on 1st January 2005	-	-	-	(58)	-	-	(58)
Total recognised income and expense	-	-	6,907	6	-	32,004	38,917
Dividends paid	-	-	-	-	-	(16,684)	(16,684)
Equity settled share plans net of tax	-	-	-	-	-	1,395	1,395
Proceeds from issue of share capital	438	8,130	-	-	-	-	8,568
Balance at 31st December 2005	**19,238**	**46,154**	**5,774**	**(52)**	**1,832**	**124,672**	**197,618**

PARENT COMPANY

	Share capital £000	Share premium account £000	Translation reserve £000	Cash flow hedge reserve £000	Capital redemption reserve £000	Retained earnings £000	Total parent equity £000
Balance at 1st January 2004	18,690	35,996	-	-	1,832	34,043	90,561
Total recognised income and expense	-	-	-	-	-	24,262	24,262
Dividends paid	-	-	-	-	-	(15,289)	(15,289)
Equity settled share plans net of tax	-	-	-	-	-	343	343
Proceeds from issue of share capital	110	2,028	-	-	-	-	2,138
Balance at 31st December 2004	18,800	38,024	-	-	1,832	43,359	102,015

NOTES TO THE ACCOUNTS *(continued)*

25 SHARE CAPITAL AND RESERVES *(continued)*

	Share capital £000	Share premium account £000	Translation reserve £000	Cash flow hedge reserve £000	Capital redemption reserve £000	Retained earnings £000	Total parent equity £000
Balance at 1st January 2005	18,800	38,024	-	-	1,832	43,359	102,015
Total recognised income and expense	-	-	-	-	-	23,453	23,453
Dividends paid	-	-	-	-	-	(16,684)	(16,684)
Equity settled share plans net of tax	-	-	-	-	-	276	276
Proceeds from issue of share capital	438	8,130	-	-	-	-	8,568
Balance at 31st December 2005	**19,238**	**46,154**	**-**	**-**	**1,832**	**50,404**	**117,628**

26 RETURN ON CAPITAL EMPLOYED

	THE GROUP	
	2005 £000	2004 £000
Capital employed		
Property, plant and equipment	**85,752**	83,514
Prepayments	**396**	345
Inventories	**64,216**	58,229
Trade receivables	**83,303**	76,021
Other current assets	**8,688**	8,388
Trade and other payables	**(46,843)**	(43,429)
Current tax payable	**(7,326)**	(6,788)
Capital employed	**188,186**	176,280
Average capital employed	**182,233**	176,303
Operating profit	**55,170**	47,956
Acquisition intangibles amortisation	**175**	-
	55,345	47,956
Return on capital employed	**30.4%**	27.2%

27 CAPITAL COMMITMENTS

	THE GROUP		PARENT COMPANY	
	2005 £000	2004 £000	**2005 £000**	2004 £000
Capital expenditure contracted for but not provided	**2,004**	2,438	**-**	-

28 OPERATING LEASE OBLIGATIONS

	THE GROUP	
	2005 £000	2004 £000
Commitments under non-cancellable leases due as follows:		
Within 1 year	**1,207**	1,322
1-5 years inclusive	**2,440**	2,363
After 5 years	**529**	652
	4,176	4,337

29 EMPLOYEE BENEFITS
Pension plans - The Group

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

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

The total expense relating to the Group's Defined Contribution pension plans in the current year was £2,636,000 (2004 £2,396,000).

Of the Defined Benefit plans, the plans in the UK and USA hold most of the liability. The post-retirement mortality assumptions in respect of these plans may therefore be considered material. The UK schemes assume that post-retirement mortality follows the PMA80C00 table with a two year setback. The figures disclosed assume that a male member will survive 18 years from age 65 and a female member for 22 years. These figures reflect a detailed review of recent mortality experience amongst the membership carried out by the Actuary at the last valuation of the UK schemes. The USA schemes use the 1979 George B. Buck mortality table. These assumptions will be regularly reviewed in light of scheme specific experience and more widely available statistics.

The financial assumptions used at 31st December were:

	Assumptions weighted by value of liabilities % per annum			
	UK pensions		Overseas pensions and medical	
	2005	2004	**2005**	2004
Rate of increase in salaries	**3.7**	3.6	**3.1**	3.2
Rate of increase in pensions	**2.7**	2.6	**1.8**	1.8
Rate of price inflation	**2.7**	2.6	**2.3**	2.2
Discount rate	**4.9**	5.4	**5.1**	5.4
Medical trend rate	**-**	-	**5.0**	5.0

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

	Assumptions weighted by value of assets % per annum			
	UK pensions		Overseas pensions and medical	
	2005	2004	**2005**	2004
Expected rate of return on assets (weighted average)	**7.2**	7.5	**7.0**	7.5
Equities	**7.9**	8.1	**8.3**	8.5
Bonds	**4.5**	5.0	**5.1**	5.4
Other	**5.4**	5.9	**4.7**	3.9

The market value of the schemes' assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, at 31st December 2005 were:

	UK pensions		Overseas pensions and medical		Total	
	2005 £000	2004 £000	**2005 £000**	2004 £000	**2005 £000**	2004 £000
Equities	**115,700**	97,300	**11,997**	9,633	**127,697**	106,933
Bonds	**24,800**	19,200	**4,583**	3,827	**29,383**	23,027
Other	**11,800**	7,500	**2,468**	1,907	**14,268**	9,407
Total market value in aggregate	**152,300**	124,000	**19,048**	15,367	**171,348**	139,367

The actual return on plan assets was £24.9 million (2004 £13.0 million).

NOTES TO THE ACCOUNTS *(continued)*

29 EMPLOYEE BENEFITS *(continued)*

The effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical trend rates is as follows:

	Overseas 1% increase £000	Overseas 1% decrease £000	Total 1% increase £000	Total 1% decrease £000
Aggregate of service cost & interest cost components of post-retirement medical plans	3	(3)	3	(3)
Accumulated post-employment benefit obligation for medical costs	21	(18)	21	(18)

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

	UK pensions		Overseas pensions and medical		Total	
	2005 £000	2004 £000	**2005 £000**	2004 £000	**2005 £000**	2004 £000
Fair value of schemes' assets	**152,300**	124,000	**19,048**	15,367	**171,348**	139,367
Present value of funded schemes' liabilities	**(178,600)**	(148,611)	**(25,640)**	(20,001)	**(204,240)**	(168,612)
(Deficit) in the funded schemes	**(26,300)**	(24,611)	**(6,592)**	(4,634)	**(32,892)**	(29,245)
Present value of unfunded schemes' liabilities	**-**	-	**(12,915)**	(12,090)	**(12,915)**	(12,090)
Retirement benefit liability recognised in the balance sheet	**(26,300)**	(24,611)	**(19,507)**	(16,724)	**(45,807)**	(41,335)
Related deferred tax asset	**7,890**	7,350	**6,523**	5,973	**14,413**	13,323
Net pension liability	**(18,410)**	(17,261)	**(12,984)**	(10,751)	**(31,394)**	(28,012)

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

	UK pensions		Overseas pensions and medical		Total	
	2005 £000	2004 £000	**2005 £000**	2004 £000	**2005 £000**	2004 £000
Defined benefit obligation at beginning of year	**(148,611)**	(140,000)	**(32,091)**	(31,194)	**(180,702)**	(171,194)
Current service cost	**(5,700)**	(6,000)	**(1,527)**	(1,383)	**(7,227)**	(7,383)
Past service cost	**-**	-	**124**	(30)	**124**	(30)
Interest cost	**(8,000)**	(7,400)	**(1,827)**	(1,675)	**(9,827)**	(9,075)
Contributions by members	**(100)**	-	**(39)**	-	**(139)**	-
Change in assumptions on DBO	**(20,700)**	(6,000)	**(2,789)**	(1,118)	**(23,489)**	(7,118)
Actual benefit payments	**4,100**	4,200	**1,846**	1,652	**5,946**	5,852
Settlement, curtailment	**-**	-	**-**	792	**-**	792
Experience gain	**411**	6,589	**-**	-	**411**	6,589
Currency (loss)/gain	**-**	-	**(2,252)**	865	**(2,252)**	865
Defined benefit obligation at end of year	**(178,600)**	(148,611)	**(38,555)**	(32,091)	**(217,155)**	(180,702)

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

	UK pensions		Overseas pensions and medical		Total	
	2005	2004	**2005**	2004	**2005**	2004
	£000	£000	**£000**	£000	**£000**	£000
Value of assets at beginning of year	**124,000**	110,700	**15,367**	14,716	**139,367**	125,416
Expected return on assets	**9,300**	8,300	**1,284**	1,074	**10,584**	9,374
Actuarial gain/(loss)	**14,100**	3,700	**230**	(59)	**14,330**	3,641
Contributions paid by employer	**8,900**	5,500	**2,134**	2,424	**11,034**	7,924
Contributions paid by members	**100**	-	**39**	30	**139**	30
Actual benefit payments	**(4,100)**	(4,200)	**(1,846)**	(1,652)	**(5,946)**	(5,852)
Settlement, curtailment	**-**	-	**-**	(493)	**-**	(493)
Currency gain/(loss)	**-**	-	**1,840**	(673)	**1,840**	(673)
Value of assets at end of year	**152,300**	124,000	**19,048**	15,367	**171,348**	139,367

The expense recognised in the income statement was as follows:

	UK pensions		Overseas pensions and medical		Total	
	2005	2004	**2005**	2004	**2005**	2004
	£000	£000	**£000**	£000	**£000**	£000
Current service cost	**(5,700)**	(6,000)	**(1,468)**	(1,372)	**(7,168)**	(7,372)
Past service cost	**-**	-	**117**	-	**117**	-
Settlement, curtailment	**-**	-	**-**	279	**-**	279
Interest on schemes' liabilities	**(8,000)**	(7,400)	**(1,746)**	(1,688)	**(9,746)**	(9,088)
Expected return on schemes' assets	**9,300**	8,300	**1,209**	1,115	**10,509**	9,415
Total expense recognised in income statement	**(4,400)**	(5,100)	**(1,888)**	(1,666)	**(6,288)**	(6,766)

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

	2005	2004
	£000	£000
Operating costs	**(7,051)**	(7,093)
Financial expenses	**(9,746)**	(9,088)
Financial income	**10,509**	9,415
Total expense recognised in income statement	**(6,288)**	(6,766)

Statement of recognised income and expense (SORIE)

	UK pensions		Overseas pensions and medical		Total	
	2005	2004	**2005**	2004	**2005**	2004
	£000	£000	**£000**	£000	**£000**	£000
Actuarial loss recognised in SORIE	**(6,300)**	4,400	**(2,674)**	(585)	**(8,974)**	3,815
Deferred tax on actuarial amount recognised in SORIE	**1,790**	(1,320)	**1,152**	434	**2,942**	(886)
Cumulative loss recognised in SORIE at beginning of year	**3,080**	-	**(151)**	-	**2,929**	-
Cumulative loss recognised in SORIE at end of year	**(1,430)**	3,080	**(1,673)**	(151)	**(3,103)**	2,929

Pension plans - Parent company

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

The disclosures shown here are in respect of the parent company's Defined Benefit Obligations. Other plans operated by the parent company were Defined Contribution plans.

The total expense relating to the parent company's Defined Contribution pension plans in the current year was £2,850 (2004 £2,742).

29 EMPLOYEE BENEFITS ***(continued)***

The post-retirement mortality assumptions in respect of the parent company Defined Benefit Scheme follows the PMA80C00 table with a two year setback. The figures disclosed assume that a male member will survive 18 years from age 65 and a female member for 22 years. These figures reflect a detailed review of recent mortality experience amongst the membership carried out by the Actuary at the last valuation of the UK Scheme. These assumptions will be regularly reviewed in light of scheme specific experience and more widely available statistics.

The financial assumptions used at 31st December were:

	Assumptions weighted by value of liabilities % per annum	
		UK pensions
	2005	2004
Rate of increase in salaries	**3.7**	3.6
Rate of increase in pensions	**2.7**	2.6
Rate of price inflation	**2.7**	2.6
Discount rate	**4.9**	5.4

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

	Assumptions weighted by value of liabilities % per annum	
		UK pensions
	2005	2004
Expected rate of return on assets (weighted average)	**7.2**	7.5
Equities	**7.9**	8.1
Bonds	**4.5**	5.0
Other	**5.4**	5.9

The market value of the schemes' assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, at 31st December 2005 were:

		UK pensions
	2005	2004
	£000	£000
Equities	**26,200**	22,200
Bonds	**5,700**	4,500
Other	**2,600**	1,600
Total market value in aggregate	**34,500**	28,300

The actual return on plan assets was £5.2 million (2004 £2.7 million).

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

		UK pensions
	2005	2004
	£000	£000
Fair value of schemes' assets	**34,500**	28,300
Present value of funded schemes' liabilities	**(40,300)**	(33,700)
Retirement benefit liability recognised in the balance sheet	**(5,800)**	(5,400)
Related deferred tax asset	**1,740**	1,620
Net pension liability	**(4,060)**	(3,780)

The movements in liability recognised in the balance sheet during the year were:

	UK pensions	
	2005	2004
	£000	£000
Defined benefit obligation at beginning of year	**(33,700)**	(32,200)
Current service cost	**(900)**	(900)
Interest cost	**(1,800)**	(1,700)
Change in assumptions on DBO	**(3,700)**	(900)
Actual benefit payments	**1,200**	1,000
Experience gain	**(1,400)**	1,000
Defined benefit obligation at end of year	**(40,300)**	(33,700)

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

	UK pensions	
	2005	2004
	£000	£000
Value of assets at beginning of year	**28,300**	25,400
Expected return on assets	**2,100**	1,900
Actuarial gain	**3,100**	800
Contributions paid by employer	**2,200**	1,200
Actual benefit payments	**(1,200)**	(1,000)
Value of assets at end of year	**34,500**	28,300

The expense recognised in the income statement was as follows:

	UK pensions	
	2005	2004
	£000	£000
Current service cost	**(900)**	(900)
Interest on schemes' liabilities	**(1,800)**	(1,700)
Expected return on schemes' assets	**2,100**	1,900
Total expense recognised in income statement	**(600)**	(700)

Statement of recognised income and expense (SORIE)

	UK pensions	
	2005	2004
	£000	£000
Actuarial loss recognised in SORIE	**(1,935)**	919
Deferred tax on actuarial amount recognised in SORIE	**600**	(270)
Cumulative loss recognised in SORIE at beginning of year	**649**	-
Cumulative loss recognised in SORIE at end of year	**(686)**	649

Share-based payments - The Group

Disclosures of the share-based payments offered to employees are set out below. More detail on each scheme is given in the directors' remuneration report on pages 28 to 35. The charge to the income statement in respect of share-based payments is made up as follows.

	2005	2004
	£000	£000
Share Option Scheme	**374**	301
Performance Share Plan	**139**	-
Employee Share Ownership Plan	**525**	502
Total expense recognised in income statement	**1,038**	803

NOTES TO THE ACCOUNTS *(continued)*

29 EMPLOYEE BENEFITS *(continued)*

a) Share Option Scheme

The Group operates equity settled share option schemes for employees. Awards are determined by the Remuneration Committee whose objective is to align the interests of employees with those of shareholders by giving an incentive linked to added shareholder value. Options are subject to performance conditions, which if met make the options exercisable between the third and tenth anniversary of the date of grant. For options granted from 1995 to 2001 the performance condition is an increase in EPS of more than 6% greater than the increase in the UK retail prices index over a consecutive three year period between grant and exercise. From and including the 2002 options the increase in EPS was revised to 9% greater than the increase in the UK retail price index over a three year consecutive period and from 2005 the performance condition needs to be met over the three year period from 1st January prior to the date of the grant. If the condition is not met at the end of the three year period the option will lapse.

Under the transitional requirements of IFRS 2 all awards made after 7th November 2002 need to be subject to the recognition and measurement principles in IFRS 2. Applying IFRS 2 to earlier awards is optional, but we have chosen to adopt IFRS 2 from 1st July 2001 to give greater clarity and comparability between accounting periods. The share options granted during 2005 have been measured by Watson Wyatt LLP, Actuaries and Consultants, using the Present Economic Value ("PEV") valuation methodology. The relevant disclosures in respect of the 2005 share option scheme grants and for the other grants made after 1st July 2001 are set out below.

	2002 Grant	2003 Grant	2004 Grant	**2005 Grant**
Grant date	22nd March	14th March	25th March	**21st April**
Exercise price / share price at grant date	436.0p	394.5p	541.9p	**686.0p**
Number of employees	74	70	74	**66**
Shares under option	363,500	411,000	410,500	**359,600**
Vesting period	3 years	3 years	3 years	**3 years**
Expected volatility	25%	25%	25%	**20%**
Risk-free interest rate	4.2%	4.2%	4.6%	**4.6%**
Expected dividend yield	4.5%	4.5%	4.5%	**4.0%**
Fair value	80.0p	65.0p	88.4p	**121.5p**

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

Option (exercise price)	Outstanding at start of year	Granted during year	Exercised during year	Lapsed during year	Outstanding at end of year
1996 grant (739p)	241,500		(96,000)	(10,000)	135,500
1997 grant (669p)	225,500		(122,000)		103,500
1998 grant (420p)	211,000		(191,500)		19,500
1999 grant (525p)	242,500		(161,595)		80,905
2000 grant (319.2p)	328,000		(249,050)		78,950
2001 grant (397.7p)	413,500		(316,500)		97,000
2002 grant (436p)	346,000		(235,000)		111,000
2003 grant (394.5p)	411,000		(5,000)	(9,000)	397,000
2004 grant (541.9p)	410,500			(6,000)	404,500
2005 grant (686p)		359,600			359,600
	2,829,500	**359,600**	**(1,376,645)**	**(25,000)**	**1,787,455**
Weighted average exercise price	£4.77	£6.86	£4.56	£5.68	£5.34
Weighted average contractual life remaining					6.54 years

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

b) Performance Share Plan

Following shareholder approval of the Performance Share Plan at the annual general meeting on 12th May 2005 awards over shares were made to executive directors.

Awards under the Performance Share Plan take the form of contingent rights to acquire shares, subject to the satisfaction of a performance target. To the extent that they vest, awards may be satisfied in cash or in shares. The performance target in 2005 is based on the Company's total shareholder return ("TSR") relative to the TSR of other companies included in the FTSE All-Share Engineering and Machinery Sector over a three year performance period where awards will vest on a sliding scale. All shares within an award will vest if the Company's TSR is at or above the upper quartile. 25% will vest if the TSR is at the median and the number of shares that will vest will be calculated pro-rata on a straight line basis between 25% and 100% if the Company's TSR falls between the median and the upper quartile. No shares will vest if the Company's TSR is below the median.

Shares awarded under the Performance Share Plan in 2005 have been valued by Towers Perrin using the Monte Carlo simulation valuation methodology. The relevant disclosures in respect of the Performance Share Plan grant in 2005 are set out below.

	2005 Grant
Grant date	**20th May**
Share price at grant date	**708.5p**
Number of employees	**7**
Shares under scheme	**115,168**
Vesting period	**3 years**
Probability of vesting	**51%**
Probability of ceasing employment before vesting	**zero**
Fair value	**361.3p**

c) Employee Share Ownership Plan

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

Shares issued under the Employee Share Ownership Scheme in 2005 have been measured by Watson Wyatt LLP, Actuaries and Consultants, using the Present Economic Value ("PEV") valuation methodology. The relevant disclosures in respect of the 2005 Employee Share Ownership Plan and the other Plans granted since the early adoption of IFRS 2 on 1st July 2001 are set out below.

	2001 ESOP	2002 ESOP	2003 ESOP	2004 ESOP	**2005* ESOP**
Grant date	1st October	1st October	1st October	1st October	**1st October**
Exercise price	320.5p	358.3p	548.2p	599.0p	**785.7p**
Number of employees	783	724	761	810	**869**
Shares under scheme	122,497	119,038	84,993	86,241	**73,169**
Vesting period	3 years	3 years	3 years	3 years	**3 years**
Expected volatility	25.0%	25.0%	25.0%	20.0%	**20.0%**
Risk free interest rate	4.0%	4.0%	4.0%	4.6%	**4.3%**
Expected dividend yield	4.5%	4.5%	4.5%	4.0%	**3.0%**
Fair value	352.0p	391.0p	574.0p	622.0p	**828.0p**

* The accumulation period for the 2005 ESOP ends in September 2006, therefore some figures are projections

29 EMPLOYEE BENEFITS *(continued)*

Share-based payments - Parent Company

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

a) Share Option Scheme

The equity settled share options issued to employees of the parent company are charged in the parent company's income statement. The relevant disclosures in respect of the 2005 share option scheme grants and for the other grants made after 1st July 2001 are set out below.

	2002 Grant	2003 Grant	2004 Grant	**2005 Grant**
Grant date	22nd March	14th March	25th March	**21st April**
Exercise price / share price at grant date	436.0p	394.5p	541.9p	**686.0p**
Number of employees	7	7	8	**2**
Shares under option	139,000	133,000	137,753	**8,400**
Vesting period	3 years	3 years	3 years	**3 years**
Expected volatility	25%	25%	25%	**20%**
Risk-free interest rate	4.2%	4.2%	4.6%	**4.6%**
Expected dividend yield	4.5%	4.5%	4.5%	**4.0%**
Fair value	80.0p	65.0p	88.4p	**121.5p**

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

Option (exercise price)	Outstanding at start of year	Granted during year	Exercised during year	Lapsed during year	Outstanding at end of year
1996 grant (739p)	72,500		(42,500)		30,000
1997 grant (669p)	75,000		(45,000)		30,000
1998 grant (420p)	117,500		(117,500)		-
1999 grant (525p)	102,500		(62,500)		40,000
2000 grant (319.2p)	107,500		(82,500)		25,000
2001 grant (397.7p)	143,500		(108,500)		35,000
2002 grant (436p)	121,500		(74,000)		47,500
2003 grant (394.5p)	133,000				133,000
2004 grant (541.9p)	137,753				137,753
2005 grant (686p)		8,400			8,400
	1,010,753	**8,400**	**(532,500)**	**-**	**486,653**
Weighted average exercise price	£4.73	£6.86	£4.61		£4.91
Weighted average contractual life remaining					6.12 years

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

b) Performance Share Plan

The relevant disclosures in respect of the Performance Share Plan grant in 2005 are set out below.

	2005 Grant
Grant date	**20th May**
Share price at grant date	**708.5p**
Number of employees	**7**
Shares under scheme	**115,168**
Vesting period	**3 years**
Probability of vesting	**51%**
Probability of ceasing employment before vesting	**zero**
Fair value	**361.3p**

30 ANALYSIS OF CHANGES IN NET CASH

	THE GROUP			
	At 1st January 2005 £000	Cash flow £000	Exchange movement £000	**At 31st December 2005 £000**
Current portion of long term borrowings	(8,183)			**(25,010)**
Non-current portion of long term borrowings	(34,432)			**(7,540)**
Short term borrowings	-			**(1,498)**
Total borrowings	(42,615)			**(34,048)**
Comprising:				
Borrowings	(41,768)	7,728	440	**(33,600)**
Finance Leases	(847)	372	27	**(448)**
	(42,615)	8,100	467	**(34,048)**
Cash and cash equivalents	48,756	7,407	766	**56,929**
Bank overdrafts	(4,842)	1,278	(272)	**(3,836)**
Net cash and cash equivalents	43,914	8,685	494	**53,093**
Net cash	1,299	16,785	961	**19,045**

31 RELATED PARTY TRANSACTIONS

THE GROUP	**2005 £000**	2004 £000
Sales to associated companies	**915**	881
Dividends from associated companies	**351**	71
Amounts due from associated companies at 31st December	**248**	182

PARENT COMPANY		
Dividends received from subsidiaries	**25,309**	23,616
Loans and amounts due from subsidiaries at 31st December	**36,247**	33,665
Amounts due to subsidiaries at 31st December	**955**	941

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

NOTES TO THE ACCOUNTS *(continued)*

32 PURCHASE OF BUSINESSES

2005

	Mitech South Africa [1]			EMCO Flow Systems USA [2]			Other including Eirdata [3]	Total
	Book value £000	Fair value adjustments £000	Fair value £000	Book value £000	Fair value adjustments £000	Fair value £000	Fair value £000	Fair value £000
Fixed assets								
Property, plant and equipment	57	-	57	28	-	28	11	96
Intangibles	-	904	904	-	693	693	130	1,727
	57	904	961	28	693	721	141	1,823
Current assets								
Inventories	288	(43)	245	11	-	11	-	256
Trade receivables	820	(41)	779	355	-	355	50	1,184
Other receivables	563	-	563	-	-	-	-	563
Cash	210	-	210	-	-	-	64	274
	1,881	(84)	1,797	366	-	366	114	2,277
Total assets	1,938	820	2,758	394	693	1,087	255	4,100
Deferred tax liabilities	-	271	271	-	-	-	-	271
Current liabilities								
Trade payables	475	-	475	26	-	26	5	506
Tax	322	-	322	-	-	-	2	324
Other payables	-	-	-	109	-	109	12	121
	797	-	797	135	-	135	19	951
Total liabilities	797	271	1,068	135	-	135	19	1,222
Total net assets	1,141	549	1,690	259	693	952	236	2,878
Goodwill			1,175			1,869	195	3,239
Purchase consideration			**2,865**			**2,821**	**431**	**6,117**

Satisfied by	Cash paid	2,636	2,616	153	5,405
	Deferred consideration	100	-	236	336
	Expenses	129	205	42	376
		2,865	**2,821**	**431**	**6,117**

Analysis of net flow of cash and cash equivalents in respect of purchase of subsidiaries	
Cash consideration	5,223
Expenses	182
Cash acquired	(199)
Deferred consideration on Eirdata Environmental Services Ltd acquisition	660
Net cash outflow	**5,866**

1 The acquisition of Mitech, comprising Actuators and Controls (Pty) Limited and Proportional Control Technology (Pty) Limited, in South Africa from their common shareholders was completed on 1st June 2005. The acquisition was accounted for by the acquisition method of accounting. Consideration of £2,636,000 was paid on completion. The book value of intangibles net of tax, inventories and trade receivables has been adjusted to reflect Spirax Sarco's accounting policies in order to arrive at their fair value.

The revenue and profits after tax of the business acquired included in these accounts are £2,481,000 and £223,000 respectively which equate to £4,253,000 and £382,000 respectively on an annualised basis.

2 The acquisition of the assets and business of EMCO Flow Systems of Longmont, Colorado, USA from Advanced Energy Industries, Inc., USA was completed on 24th June 2005. The acquisition was accounted for by the acquisition method of accounting. Consideration of £2,616,000 was paid on completion. The book value of intangibles has been adjusted to reflect Spirax Sarco's accounting policies in order to arrive at their fair value.

The business acquired has been absorbed into the business of Spirax Sarco, Inc. and therefore its results since acquisition are not available.

3 Following the acquisition of 80% of Eirdata Environmental Services Limited in Eire in 2004, the remaining 20% was acquired on 1st October 2005. Consideration of £153,000 was paid on completion. No fair value adjustments are required other than for intangible assets with a fair value of £130,000.

2004

		Eirdata Environmental Services Limited Eire			
		Book value	Accounting policy adjustments	Fair value adjustments	Fair value
		£000	£000	£000	£000
Fixed assets					
	Property, plant and equipment	49	-	-	49
	Intangibles	-	-	538	538
		49	-	538	587
Current assets	Stock	29	-	-	29
	Trade debtors	212	(11)	-	201
	Other debtors	34	-	-	34
	Cash	208	-	-	208
		483	(11)	-	472
Total assets		532	(11)	538	1,059
Current liabilities	Trade creditors	50	-	-	50
	Tax	22	-	-	22
	Other creditors	68	-	-	68
		140	-	-	140
Total net assets		392	(11)	538	919
Goodwill					639
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.

33 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.

Liquidity risk

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

Foreign currency risk

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

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

2005

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 £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Financial liabilities on which no interest is paid £000
Euro	37,593	214	25,525	11,854
US dollar	5,968	2,325	1,837	1,806
Other	21,848	1,888	6,095	13,865
	65,409	**4,427**	**33,457**	**27,525**

In respect of fixed rate financial liabilities the interest rate for euro financial liabilities is 4.4% fixed for 0.5 years. The interest rate for US dollar financial liabilities is 6.7% fixed for 0.1 years.

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

Japanese yen US dollar	LIBOR
Euro	LIBOR/EURIBOR

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
Sterling	50,797	39,625	11,172
Other	93,113	12,303	80,810
	143,910	**51,928**	**91,982**

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

Floating rate financial assets comprise cash placed on money market deposit mainly at call and three month rates. The average rate of interest received on sterling deposits during the year was 4.7%.

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

Transactional (or non-structural) exposures give rise to net currency gains and losses that are recognised in the income statement. Such exposures include the monetary assets and monetary liabilities in the Group balance sheet that are not denominated in the operating (or 'functional') currency of the operating unit involved. At 31st December the currency exposures in respect of the euro was a net monetary asset of £206,000 and in respect of the US dollar a net monetary asset of £783,000.

At 31st December the percentage of debt to net assets, excluding debt was 50% for the euro and 19% for the US dollar.

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

	Trade and other payables £000	Overdrafts £000	Short term borrowings £000	Finance leases £000	Long term borrowings £000	Total £000
In six months or less, or on demand	27,525	-	-	68	30,621	58,214
In more than six months but no more than twelve	-	3,836	1,498	68	1,481	6,883
In more than one year but no more than two	-	-	-	37	-	37
In more than two years but no more than three	-	-	-	39	-	39
In more than three years but no more than four	-	-	-	39	-	39
In more than four years but no more than five	-	-	-	42	-	42
In more than five years	-	-	-	155	-	155
	27,525	3,836	1,498	448	32,102	65,409

Cash flow hedge
At 31st December the Group had contracts outstanding to purchase £1,050,000 with South Korean Won.

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:

	£000
Expiring in one year or less	**19,241**

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

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

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

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

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

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

At 31st December, it is estimated that a general increase of one percentage point in interest rates in respect of financial assets would increase the Group's profit before tax by approximately £500,000.

Since the year end loans totalling £17,736,000 have been repaid. Consequently, in respect of financial liabilities, the Group is not significantly at risk from increases in interest rates.

It is estimated that a general increase of one percentage point in the value of sterling against other foreign currencies would have decreased the Group's profit before tax by approximately £500,000 for the year ended 31st December. The forward exchange contracts have been included in this calculation.

NOTES TO THE ACCOUNTS *(continued)*

33 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS *(continued)*
2004
The disclosures below, which are under UK GAAP 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 £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £000
Euro	29,420	1,117	28,303
US dollar	5,994	4,162	1,832
Other	12,043	1,750	10,293
	47,457	7,029	40,428

In respect of fixed rate financial liabilities the interest rate for euro financial liabilities is 4.4% fixed for 1.5 years. The interest rate for US dollar financial liabilities is 6.7% fixed for 1.1 years.

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

Japanese yen } US dollar	LIBOR
Euro	LIBOR/EURIBOR

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
Sterling	28,182	28,042	140
Other	20,574	16,026	4,548
	48,756	44,068	4,688

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 three 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 income and expenditure.

Transactional (or non-structural) exposures give rise to net currency gains and losses that are recognised in the income statement. Such exposures include the monetary assets and monetary liabilities in the Group balance sheet that are not denominated in the operating (or 'functional') currency of the operating unit involved. At 31st December the currency exposures in respect of the euro was a net monetary asset of £32,000 and in respect of the US dollar a net monetary asset of £730,000.

At 31st December the percentage of debt to net assets, excluding debt was 50% for the euro and 28% for the US dollar.

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

	£000
In one year or less, or on demand	13,025
In more than one year but no more than two	11,511
In more than two years but no more than five	22,631
In more than five years	290
	47,457

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:

	£000
Expiring in one year or less	16,079

Fair values of financial assets and financial liabilities

Fair values of financial assets and liabilities at 31st December are 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.

34 EXPLANATION OF TRANSITION TO IFRS

The Group

As described in note 1, the 2005 accounts have been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS). On 12th July 2005, the Group announced a comprehensive restatement of its 2004 results under IFRS. This announcement is available from the Company's web site at www.SpiraxSarcoEngineering.com or copies can be requested from the Company Secretary. Reconciliations of the Group's Income Statement, Balance Sheet and Cash Flow showing the effects of both reformat and restatement between UK GAAP and IFRS for 2004 figures are set out on the following pages. Details of the changes on transition (1st January 2004) are also shown. The principle restatement changes from the transition to IFRS are described below along with the effects on the 2004 figures.

Minorities (IAS 27 Consolidated financial statements)

Reassessing control in minority interests resulting in a change in the treatment of the Group's investments in India and Mexico on consolidation from subsidiary companies to associate companies. More detail on associated companies is given in Note 1 on page 42 and Note 16 on page 52. Although there is a reduction in 2004 sales of £9.8 million and in pre-tax profit of £1.8 million, there is no change in EPS or net assets attributable to shareholders.

Pensions (IAS 19 Employee benefits)

Recognising the deficit on defined benefit pension schemes on the balance sheet and the higher income statement charge for pensions under IAS 19. More detail on defined benefit pension plans is given in Note 1 on page 44 and in Note 29 on pages 57 to 61. For the 2004 year £28.0 million of additional balance sheet net liabilities have been recognised and the income statement charge (before tax) increases by £0.7 million.

Share Schemes (IFRS 2 Share-based payments)

Recording the cost of share-based payments awarded to employees on a fair value basis. More detail on employee share plans and long term incentive plans is given in Note 1 on page 44 and in Note 29 on pages 61 to 63. The 2004 income statement charge (before tax) increases by £0.4 million.

Goodwill (IFRS 3 Business combinations)

Ceasing goodwill amortisation (subject to annual impairment testing). More detail on goodwill and annual impairment testing is given in Note 1 on pages 43 and 44 and in Note 13 on pages 50 and 51. The 2004 income statement reflects the reversal of the £0.7 million charge under UK GAAP.

Dividends (IAS 10 Events after the balance sheet date)

Not accruing a liability for dividends that have not been declared or approved at the balance sheet date. More detail on dividends paid in the year and arising in respect of the year is given in Note 11 on page 49. Shareholders funds increase by £11.4 million at 31st December 2004.

Research and development (IAS 38 Intangible assets)

Capitalisation of the development element of R&D expenditure under certain circumstances. More detail on research and development is given in Note 1 on page 43 and in Note 13 on pages 50 and 51. Net intangible assets increased by £2.5 million (before tax effects) at 31st December 2004. Changes to the income statement are immaterial.

Tax (IAS 12 Income taxes)

Providing deferred tax on property revaluations. More detail on taxation is given in Note 1 on page 45 and in Note 8 on page 48. This results in the creation of a £1.8 million deferred tax liability at 31st December 2004.

Parent company

As described in Note 1, the 2005 accounts have been prepared in accordance with the recognition and measurement criteria of IFRS. Reconciliations of the parent company's Balance Sheet showing the effects of both reformat and restatement between UK GAAP and IFRS for 2004 figures are set out on the following pages. Details of the changes on transition (1st January 2004) are also shown. The principle restatement changes from the transition to IFRS are described below.

Pensions (IAS 19 Employee benefits)

Recognising the deficit for defined benefit pension schemes on the balance sheet and the higher income statement charge for pensions under IAS 19. More detail on defined benefit pension plans is given in Note 1 on page 44 and in Note 29 on pages 59 to 61. For the 2004 year £3.8 million of additional balance sheet net liabilities have been recognised.

Share schemes (IFRS 2 Share-based payments)

Recording the cost of share-based payments awarded to employees on a fair value basis. More detail on employee share plans and long term incentive plans is given in Note 1 on page 44 and in Note 29 on pages 63 and 64.

NOTES TO THE ACCOUNTS *(continued)*

34 EXPLANATION OF TRANSITION TO IFRS *(continued)*

REFORMAT AND RESTATEMENT OF GROUP BALANCE SHEET
As at 1st January 2004

THE GROUP

UK GAAP	UK GAAP as previously reported £000	Reformat £000	Restatement £000	IFRS £000	IFRS
					ASSETS
Fixed assets					**Non-current assets**
Tangible assets	88,089		(6,409)	81,680	Property, plant and equipment
Intangible assets	11,123			11,123	Goodwill
			7,187	7,187	Other intangible assets
			379	379	Prepayments
			2,013	2,013	Investment in associates
		4,099	13,381	17,480	Deferred tax
	99,212	4,099	16,551	119,862	
Current assets					**Current assets**
Stocks	60,695		(1,304)	59,391	Inventories
Debtors	90,515	(19,451)	(1,388)	69,676	Trade receivables
		15,352	(7,470)	7,882	Other current assets
Cash deposits	38,197	(38,197)			
Cash at bank and in hand	4,977	38,197	(1,453)	41,721	Cash and cash equivalents
	194,384	(4,099)	(11,615)	178,670	
			4,936	298,532	**Total assets**
					EQUITY AND LIABILITIES
Creditors due within one year					**Current liabilities**
	86,727	(39,872)	(11,375)	35,480	Trade and other payables
		12,602	(1)	12,601	Bank overdrafts
		20,094	(6)	20,088	Current portion of long term borrowings
		7,176	27	7,203	Current tax payable
	86,727	-	(11,355)	75,372	
Net current assets	107,657	(4,099)	(260)	103,298	**Net current assets**
Creditors due after one year					**Non-current liabilities**
	25,376	(541)	(7)	24,828	Long term borrowings
		6,517	714	7,231	Deferred tax
Provisions for liabilities and charges					
	17,677	(6,965)	35,049	45,761	Post-retirement benefits
		989	-	989	Provisions
	43,053	-	35,756	78,809	
	129,780		24,401	154,181	**Total liabilities**
Net assets	163,816		(19,465)	144,351	**Net assets**
Equity					**Equity**
Share capital	18,690			18,690	Share capital
Share premum account	35,996			35,996	Share premium account
Other reserves	6,182	(4,350)		1,832	Other reserves
Profit and loss account	99,782	4,350	(16,840)	87,292	Retained earnings
	160,650		(16,840)	143,810	
Minority interest	3,166		(2,625)	541	Minority interest
Total equity	163,816		(19,465)	144,351	**Total equity**
			4,936	298,532	**Total equity and liabilities**

REFORMAT AND RESTATEMENT OF GROUP INCOME STATEMENT

For the year ended 31st December 2004

THE GROUP

UK GAAP	UK GAAP as previously reported £000	Reformat £000	Restatement £000	IFRS £000	IFRS
Turnover	325,833		(9,842)	315,991	**Revenue**
Operating costs	(274,733)		6,698	(268,035)	Operating costs
Operating profit	51,100		(3,144)	47,956	**Operating profit**
		(1,848)	(9,072)	(10,920)	Financial expenses
		1,584	9,349	10,933	Financial income
Net interest payable	(264)		277	13	**Net financing income**
			735	735	Share of profit of associates
Profit before taxation	50,836		(2,132)	48,704	**Profit before taxation**
Taxation	(17,154)		892	(16,262)	Taxation
Profit after taxation	33,682		(1,240)	32,442	**Profit for the period**
Minority interests - equity	(1,135)	1,135			
Attributable profit	32,547	(32,547)			
					Attributable to:
		32,547	(233)	32,314	Equity holders of parent
		1,135	(1,007)	128	Minority interest
			(1,240)	32,442	
Basic EPS	43.4p		-0.3p	43.1p	Basic EPS

NOTES TO THE ACCOUNTS *(continued)*

34 EXPLANATION OF TRANSITION TO IFRS *(continued)*

REFORMAT AND RESTATEMENT OF GROUP BALANCE SHEET
As at 31st December 2004

THE GROUP

UK GAAP	UK GAAP as previously reported £000	Reformat £000	Restatement £000	IFRS £000	IFRS
					ASSETS
Fixed assets					**Non-current assets**
Tangible assets	89,094		(5,580)	83,514	Property, plant and equipment
Intangible assets	11,713		149	11,862	Goodwill
			6,988	6,988	Other intangible assets
			345	345	Prepayments
			2,494	2,494	Investment in associates
		5,010	11,605	16,615	Deferred tax
	100,807	5,010	16,001	121,818	
Current assets					**Current assets**
Stocks	59,756		(1,527)	58,229	Inventories
Debtors	100,576	(22,150)	(2,405)	76,021	Trade receivables
		17,140	(8,752)	8,388	Other current assets
Cash deposits	45,500	(45,500)			
Cash at bank and in hand	4,886	45,500	(1,630)	48,756	Cash and cash equivalents
	210,718	(5,010)	(14,314)	191,394	
			1,687	313,212	**Total assets**
					EQUITY AND LIABILITIES
Creditors due within one year					**Current liabilities**
	75,948	(19,964)	(12,555)	43,429	Trade and other payables
		4,871	(29)	4,842	Bank overdrafts
		8,195	(12)	8,183	Current portion of long term borrowings
		6,898	(110)	6,788	Current tax payable
	75,948	-	(12,706)	63,242	
Net current assets	134,770	(5,010)	(1,608)	128,152	**Net current assets**
Creditors due after one year					**Non-current liabilities**
	34,657	(210)	(15)	34,432	Long term borrowings
		14	(14)	-	Tax payable
		7,523	(250)	7,273	Deferred tax
Provisions for liabilities and charges					
	18,907	(7,971)	30,399	41,335	Post-retirement benefits
		644	-	644	Provisions
	53,564	-	30,120	83,684	
			17,414	146,926	**Total liabilities**
Net assets	182,013		(15,727)	166,286	**Net assets**
Equity					**Equity**
Share capital	18,800			18,800	Share capital
Share premum account	38,024			38,024	Share premium account
Other reserves	6,139	(5,440)		699	Other reserves
Profit and loss account	115,078	5,440	(12,561)	107,957	Retained earnings
	178,041		(12,561)	165,480	
Minority interest	3,972		(3,166)	806	Minority interest
Total equity	182,013		(15,727)	166,286	**Total equity**
			1,687	313,212	**Total equity and liabilities**

REFORMAT AND RESTATEMENT OF GROUP CASH FLOW

For the year ended 31st December 2004

THE GROUP

UK GAAP	UK GAAP as previously reported £000	Reformat £000	Restatement £000	IFRS £000	IFRS
					Cash flows from operating activities
Operating profit	51,100	(264)	(2,132)	48,704	Profit before taxation
Depreciation and amortisaton	13,302		(272)	13,030	Depreciation and amortisaton
			(735)	(735)	Share of profit of associates
			357	357	Equity settled share plans
		264	(277)	(13)	Net finance income
			(3,059)	61,343	Operating profit before changes in working capital and provisions
Increase in debtors	(9,094)		2,219	(6,875)	Increase in trade and other receivables
Decrease in stocks	342		277	619	Decrease in inventories
		224	(247)	(23)	Decrease in provisions and post retirement benefits
Increase in creditors and provisions	7,562	(224)	(199)	7,139	Increase in trade and other payables
Cash inflow from operating activities	63,212	-	(1,009)	62,203	Cash generated from operations
Interest received	1,584	(1,584)			
Interest paid	(1,846)		17	(1,829)	Interest paid
Dividends paid to minority interests	(432)	432			
Taxation	(16,780)		709	(16,071)	Income taxes paid
			(283)	44,303	**Net cash from operating activities**
Capital expenditure					**Cash flows from investing activities**
Purchase of tangible fixed assets	(14,787)		392	(14,395)	Purchase of property, plant and equipment
Sales of tangible fixed assets	653		(12)	641	Proceeds of sales of equipment
			(674)	(674)	Developmement expenditure capitalised
Acquisitions and disposals	(803)			(803)	Acquisition of subsidiaries
		1,584	(67)	1,517	Interest received
Equity dividends paid	(15,289)	15,289	71	71	Dividends received
			(290)	(13,643)	**Net cash used in investing activities**
Financing					**Cash flows from financing activities**
Issue of shares	2,138			2,138	Proceeds from issue of share capital
Decrease in debt	(2,677)	347		(2,330)	Repayment of borrowings
		(347)	(13)	(360)	Payment of finance lease liabilities
		(15,721)	399	(15,322)	Dividends paid
			386	(15,874)	**Net cash used in financing activities**
Net increase in cash in the period before investments in liquid resources	14,973	-	(187)	14,786	**Net increase in cash and cash equivalents**
Current asset investments not included in cash	(7,745)				
Increase in cash in the period	7,228				

34 EXPLANATION OF TRANSITION TO IFRS *(continued)*

REFORMAT AND RESTATEMENT OF PARENT COMPANY BALANCE SHEET

As at 1st January 2004

PARENT COMPANY

UK GAAP	UK GAAP as previously reported £000	Reformat £000	Restatement £000	IFRS £000	IFRS
					ASSETS
Fixed assets					**Non-current assets**
Investments	55,698	(10,338)		45,360	Investments in subsidiaries
		10,338		10,338	Loans to subsidiaries
			2,288	2,288	Deferred tax
	55,698	-	2,288	57,986	
Current assets					**Current assets**
Debtors	19,988	(404)		19,584	Due from subsidiaries
		404		404	Other current assets
Cash deposits	20,000	(20,000)			
Cash at bank and in hand	1,060	20,000		21,060	Cash and cash equivalents
	41,048	-	-	41,048	
			2,288	99,034	**Total assets**
					EQUITY AND LIABILITIES
Creditors due within one year					**Current liabilities**
	11,274	(54)	(10,542)	678	Trade and other payables
		54		54	Current tax payable
	11,274	-	(10,542)	732	
Net current assets	29,774		10,542	40,316	**Net current assets**
Creditors due after one year					**Non-current liabilities**
			6,800	6,800	Post-retirement benefits
	941			941	Due to subsidiaries
	941		6,800	7,741	
	12,215		(3,742)	8,473	**Total liabilities**
Net assets	84,531		6,030	90,561	**Net assets**
Equity					**Equity**
Share capital	18,690			18,690	Share capital
Share premum account	35,996			35,996	Share premum account
Other reserves	1,832			1,832	Other reserves
Profit and loss account	28,013		6,030	34,043	Retained earnings
Total equity	84,531		6,030	90,561	**Total equity**
			2,288	99,034	**Total equity and liabilities**

REFORMAT AND RESTATEMENT OF PARENT COMPANY BALANCE SHEET

As at 31st December 2004

PARENT COMPANY

UK GAAP	UK GAAP as previously reported £000	Reformat £000	Restatement £000	IFRS £000	IFRS
					ASSETS
Fixed assets					**Non-current assets**
Investments	58,083	(11,165)		46,918	Investments in subsidiaries
		11,165		11,165	Loans to subsidiaries
			2,426	2,426	Deferred tax
	58,083	-	2,426	60,509	
Current assets					**Current assets**
Debtors	23,832	(401)	(931)	22,500	Due from subsidiaries
		401		401	Other current assets
Cash deposits	28,042			28,042	Cash and cash equivalents
	51,874	-	(931)	50,943	
			1,495	111,452	**Total assets**
					EQUITY AND LIABILITIES
Creditors due within one year					**Current liabilities**
	15,095	(1,792)	(11,356)	1,947	Trade and other payables
		1,092		1,092	Bank overdrafts
		355		355	Current tax payable
	15,095	(345)	(11,356)	3,394	
Net current assets	36,779	345	10,425	47,549	**Net current assets**
Creditors due after one year					**Non-current liabilities**
			5,400	5,400	Post-retirement benefits
	298	345		643	Due to subsidiaries
	298	345	5,400	6,043	
	15,393		(5,956)	9,437	**Total liabilities**
Net assets	94,564		7,451	102,015	**Net assets**
Equity					**Equity**
Share capital	18,800			18,800	Share capital
Share premum account	38,024			38,024	Share premum account
Other reserves	1,832			1,832	Other reserves
Profit and loss account	35,908		7,451	43,359	Retained earnings
Total equity	94,564		7,451	102,015	**Total equity**
			1,495	111,452	**Total equity and liabilities**

RECONCILIATION OF COMPANY PROFIT AFTER TAXATION

		Profit after taxation
Year ended 31st December 2004		
UK GAAP as previously reported		23,997
Restatement - Employee benefits:	Pension plans	(314)
	Share based payments	(70)
IFRS		23,613