



● INTERIM REPORT
2005

spirax
/sarco

Spirax Sarco provides knowledge, service and products for the control and efficient use of steam and other industrial fluids worldwide. Spirax Sarco's position as the world leader is founded on its long held strategy of investing for growth.

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

Spirax-Sarco Engineering plc Interim Results

| 30th June | 2005 | 2004 | Change |
|-------------------------|----------------|----------|--------|
| Revenue | £166.6m | £152.9m | +9% |
| Operating profit | £25.0m | £22.1m | +13% |
| Operating profit margin | 15.0% | 14.4% | |
| Profit before taxation | £26.0m | £22.2m | +17% |
| Earnings per share | 23.0p | 19.7p | +17% |
| Dividends per share | 6.8p | 6.3p | +8% |
| Net cash/(debt) | £1.5m | £(14.0)m | |

- Good sales growth
- Progress particularly in Asia and Americas
- Improved operating margin of 15.0%
- Strong cash position
- Earnings per share up 17%

CHAIRMAN'S STATEMENT

I am pleased to report good progress in the first half of 2005 with further increases in sales and profits together with a strong cash position.

The implementation of our plans for continued growth in our industrial steam and peristaltic pumping businesses enabled us to increase sales strongly in Asia and the Rest of the World; we also saw good growth in North America. The markets in Continental Europe and the UK remained difficult but, despite this, we increased our sales in these territories.

These results have been prepared under International Financial Reporting Standards (IFRS) and all comparisons are with 2004 results restated to comply with IFRS.

Worldwide sales increased by 9% during the first half of 2005 to £166.6 million from £152.9 million. This comprises organic growth of 7%, an exchange gain of 1% and a contribution from acquisitions of 1%.

Operating profit increased by 13% to £25.0 million (2004: £22.1m) and the operating profit margin improved to 15.0% from 14.4%, mainly due to the sales increase. Demand on our factories increased and higher material and energy costs were offset by our continuing programme of resourcing materials in Asia and productivity improvements.

Net finance income was £0.6 million in 2005 compared with a net charge of £0.2 million in the first half of 2004. This results partly from the strong cash flow over the last twelve months and partly from an improved net finance income in respect of pension funds. The Group's share of profits of Associates increased to £0.4 million (2004: £0.3 million).

The tax charge of 33% was similar to 2004 and the profit attributable to equity shareholders increased by 18% to £17.4 million. Earnings per share increased by 17% to 23.0p from 19.7p in the corresponding period last year.

TRADING

Our two niche businesses - the Spirax Sarco industrial steam business and the Watson-Marlow Bredel peristaltic pump business - are world leaders in their focused markets. They have achieved this position by

supplying knowledge, service and products which provide customers with benefits such as energy saving, cost reduction, improved product quality or higher output. This is possible because we have over 1,000 sales and service engineers worldwide who are specialists in the application of our products and so able to solve customers' pumping or process heating problems.

The UK market showed no sign of improvement; industrial production and investment were subdued and the manufacturing base continues to decline. Nevertheless, we increased sales in the UK and Republic of Ireland by 4% (including Eirdata, the small environmental services company acquired in October 2004) with higher sales to the petrochemical and pharmaceutical sectors. The operating profit, at £3.4 million, was marginally ahead after increases in pension costs and share-based payments.

The Continental European economies remained weak and our industrial markets were flat although our sales increased by 3%, including a small exchange benefit. In Germany, sales grew, helped by extra business in Watson-Marlow Bredel and the Hygromatik humidifier businesses. The economies in France and Italy were weak. Sales in France were lower, while sales in Italy were flat overall despite increases in sales to shipyards and of peristaltic pumps. In Spain, although sales were lower, the mix of business was better and profits were up. In Finland, Poland and Norway, we grew sales well but in the Czech and Slovak Republics, Portugal and Sweden the sales were down, although for Sweden the comparison is with a very strong performance in 2004. Operating profit in the region increased by 4% to £10.0 million, most of the increase being due to exchange rate movements.

Business in Asia has grown well with sales up 17%. The Korean Won strengthened significantly and the underlying increase at constant exchange was therefore 13%. Our company in China continued to increase sales and profits, and in Korea the growth was strong with good sales to the electronics, oil and petrochemical industries. Our Thai and Taiwanese companies also grew sales well but in Japan business was flat and the market continues to be subdued. The operating profit in Asia increased by 29% to £5.0 million including an exchange gain.

In North America, there was a good increase in sales of 9% and, excluding adverse exchange movements, the underlying increase was 12%. The US economy is still growing and there has been a better than expected level of customer confidence. Watson-Marlow Bredel has grown shipments to sanitary, OEM and water treatment applications, and Spirax Sarco Inc. also achieved a good increase in sales levels, notably of packaged systems and energy services. Operating profit in North America, at £3.2 million, was 29% ahead of 2004 despite adverse exchange movements.

We also made good progress in the Rest of the World (mainly South America, Africa and Australasia) with a sales increase of 23% which, after allowing for an exchange benefit, gives an underlying increase of 17%. Our operations in Brazil and Argentina performed well with higher sales and profits. In Australia, business levels were quiet and in South Africa, while sales were up, margins were under pressure and profits were down. The operating profit in the Rest of the World increased by 20% to £3.4 million including an exchange gain.

The results from India and Mexico, in accordance with IFRS, are now disclosed separately under "Associates" and their results were well ahead of 2004.

BALANCE SHEET AND CASH FLOW

Capital employed (property, plant and equipment, inventories, debtors and creditors) increased by 5% to £186 million compared with a year earlier. Excluding exchange movements the underlying increase was 3% as we maintained our controls on working capital. Capital expenditure was £6.0 million and, although this was below the long-term trend, we continue to invest in capital projects to improve productivity and expand our global sales presence. Dividend payments were £11.5m during the half year. We also spent a total of £4.9 million on the acquisition in June of the Mitech group of controls companies in South Africa and the EMCO metering business in the USA. The exercise of options, which are granted to a relatively large pool of senior managers across the world, brought in £4.5 million of cash during the period. There was a small net cash position at 30th June 2005 of £1.5 million compared with net cash of £1.3 million at the beginning of the year and net debt of £14.0 million at 30th June 2004.

Post-retirement benefits net of related deferred tax increased during the period by £8 million to £36 million due to lower bond yields, mitigated by improved stock market performance.

DIVIDEND

The Board has declared an interim dividend of 6.8p (2004: 6.3p) per ordinary share, an increase of 8%, which will be paid on 11th November 2005 to shareholders on the register at the close of business on 14th October 2005. No scrip alternative to the cash dividend is being offered in respect of the 2005 interim dividend.

BOARD CHANGES

During the first half of 2005, both Tim Fortune and Chris Ball retired from the Board after long and distinguished careers with Spirax. They contributed a great deal to the Group's success over the years through their energy and enthusiasm and we owe them both a debt of gratitude, which I am pleased to acknowledge.

We welcome Tony Scrivin to the Board as director responsible for most of the sales operations in Europe. We also welcome Gareth Bullock, a director of Standard Chartered Bank, as a non-executive director, both appointments taking effect from 2nd May 2005.

PROSPECTS

The Group achieved a good performance in the first half against a mixed but relatively benign economic background. The economies in the Americas appear to be continuing to grow and, assuming no deterioration here or in our major markets elsewhere, we expect to continue to make progress, although the comparison in the second half will be with the relatively strong second half of 2004.



Mike Townsend, **Chairman**
6th September 2005

GROUP INCOME STATEMENT

for the half year ended 30th June 2005

| | | Six months to 30th June 2005 £000 | Six months to 30th June 2004 £000 | Year ended 31st December 2004 £000 |
|-------------------------------|---|--|--|---|
| Revenue | 2 | 166,611 | 152,946 | 315,991 |
| Operating costs | | (141,580) | (130,858) | (268,035) |
| Operating profit | 2 | 25,031 | 22,088 | 47,956 |
| Financial expenses | | (5,613) | (5,490) | (10,920) |
| Financial income | | 6,180 | 5,333 | 10,933 |
| Net financing income | 3 | 567 | (157) | 13 |
| Share of profit of associates | | 384 | 306 | 735 |
| Profit before taxation | | 25,982 | 22,237 | 48,704 |
| Taxation | 4 | (8,488) | (7,315) | (16,262) |
| Profit for the period | | 17,494 | 14,922 | 32,442 |
| Attributable to: | | | | |
| Equity holders of the parent | | 17,392 | 14,748 | 32,314 |
| Minority interest | | 102 | 174 | 128 |
| Profit for the period | | 17,494 | 14,922 | 32,442 |
| Earnings per share | | | | |
| Basic earnings per share | 5 | 23.0p | 19.7p | 43.1p |
| Diluted earnings per share | 5 | 22.8p | 19.6p | 42.7p |
| Dividends | | | | |
| Dividend paid per share | | 15.1p | 14.1p | 20.4p |
| Dividend proposed per share | | 6.8p | 6.3p | 15.1p |
| | | £000 | £000 | £000 |
| Dividend paid | | 11,459 | 10,552 | 15,289 |
| Dividend proposed | | 5,188 | 4,747 | 11,355 |

GROUP BALANCE SHEET

as at 30th June 2005

| | <i>notes</i> | 30th June 2005 £000 | 30th June 2004 £000 | 31st December 2004 £000 |
|---|--------------|------------------------------------|---------------------------|-------------------------------|
| ASSETS | | | | |
| Non-current assets | | | | |
| Property, plant and equipment | | 84,306 | 79,740 | 83,514 |
| Goodwill | | 14,122 | 11,008 | 11,862 |
| Other intangible assets | | 8,411 | 6,934 | 6,988 |
| Prepayments | | 356 | 365 | 345 |
| Investment in associates | | 3,061 | 2,233 | 2,494 |
| Deferred tax | | 22,225 | 18,463 | 17,868 |
| | | 132,481 | 118,743 | 123,071 |
| Current assets | | | | |
| Inventories | | 61,186 | 57,352 | 58,229 |
| Trade receivables | | 78,978 | 72,234 | 76,021 |
| Other current assets | | 10,376 | 9,892 | 8,388 |
| Cash and cash equivalents | 6 | 46,799 | 41,697 | 48,756 |
| | | 197,339 | 181,175 | 191,394 |
| Total assets | | 329,820 | 299,918 | 314,465 |
| EQUITY AND LIABILITIES | | | | |
| Current liabilities | | | | |
| Trade and other payables | | 44,157 | 38,075 | 43,429 |
| Bank overdrafts | 6 | 7,953 | 13,529 | 4,842 |
| Current portion of long term borrowings | 6 | 7,605 | 6,521 | 8,183 |
| Current tax payable | | 5,063 | 5,134 | 6,788 |
| | | 64,778 | 63,259 | 63,242 |
| Net current assets | | 132,561 | 117,916 | 128,152 |
| Non-current liabilities | | | | |
| Long term borrowings | 6 | 29,765 | 35,663 | 34,432 |
| Tax payable | | 60 | 74 | - |
| Deferred tax | | 10,728 | 9,192 | 10,035 |
| Post retirement benefits | | 54,059 | 46,841 | 41,335 |
| Provisions | | 715 | 799 | 644 |
| | | 95,327 | 92,569 | 86,446 |
| Total liabilities | | 160,105 | 155,828 | 149,688 |
| Net assets | | 169,715 | 144,090 | 164,777 |
| Equity | | | | |
| Share capital | | 19,053 | 18,725 | 18,800 |
| Share premium account | | 42,289 | 36,588 | 38,024 |
| Other reserves | | 6,139 | 6,091 | 6,139 |
| Retained earnings | | 101,371 | 82,062 | 101,008 |
| Equity attributable to equity holders of the parent | | 168,852 | 143,466 | 163,971 |
| Minority interest | | 863 | 624 | 806 |
| Total equity | | 169,715 | 144,090 | 164,777 |
| Total equity and liabilities | | 329,820 | 299,918 | 314,465 |

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the half year ended 30th June 2005

| | Six months to 30th June 2005 £000 | Six months to 30th June 2004 £000 | Year ended 31st December 2004 £000 |
|---|--|--|---|
| Actuarial loss on post retirement benefits | (8,403) | (1,671) | 2,929 |
| Foreign exchange translation differences | 2,652 | (1,991) | (1,018) |
| Losses on cash flow hedges | (23) | - | - |
| Income and expense recognised directly in equity | (5,774) | (3,662) | 1,911 |
| Profit for the period | 17,494 | 14,922 | 32,442 |
| Total recognised income and expense for the period | 11,720 | 11,260 | 34,353 |
| Attributable to | | | |
| Equity holders of the parent | 11,618 | 11,086 | 34,225 |
| Minority interest | 102 | 174 | 128 |
| Total recognised income and expense for the period | 11,720 | 11,260 | 34,353 |

GROUP STATEMENT OF CHANGES IN EQUITY

for the half year ended 30th June 2005

| | Six months to 30th June 2005 £000 | Six months to 30th June 2004 £000 | Year ended 31st December 2004 £000 |
|--|--|--|---|
| Shareholders' funds at beginning of period as previously reported under UK GAAP | 178,041 | 160,650 | 160,650 |
| IFRS adjustments | 8 (14,070) | (18,464) | (18,464) |
| Equity attributable to equity holders of parent at beginning of period | 163,971 | 142,186 | 142,186 |
| Implementation of IAS 32 and IAS 39 | 1 (58) | - | - |
| As adjusted at beginning of period | 163,913 | 142,186 | 142,186 |
| Total recognised income and expense for the period | 11,618 | 11,086 | 34,225 |
| Dividends paid | (11,459) | (10,552) | (15,289) |
| Net proceeds of issue of shares | 4,518 | 627 | 2,138 |
| Equity settled share plans | 262 | 119 | 711 |
| Equity attributable to equity holders of parent at end of period | 168,852 | 143,466 | 163,971 |

GROUP CASH FLOW

for the half year ended 30th June 2005

| | Six months to 30th June | Six months to 30th June | Year ended 31st December |
|---|----------------------------|----------------------------|-----------------------------|
| <i>notes</i> | 2005 | 2004 | 2004 |
| | £000 | £000 | £000 |
| Cash flows from operating activities | | | |
| Profit before taxation | 25,982 | 22,237 | 48,704 |
| Depreciation and amortisation | 6,142 | 6,227 | 13,030 |
| Share of profit of associates | (384) | (306) | (735) |
| Equity settled share plans | 436 | 85 | 357 |
| Net finance income | (567) | 157 | (13) |
| Operating profit before changes in working capital and provisions | 31,609 | 28,400 | 61,343 |
| Increase in trade and other receivables | (3,701) | (6,897) | (6,875) |
| Increase in inventories | (1,899) | 500 | 619 |
| Increase in provisions and post-retirement benefits | 436 | (376) | (23) |
| Increase in trade and other payables | 242 | 4,390 | 7,139 |
| Cash generated from operations | 26,687 | 26,017 | 62,203 |
| Interest paid | (759) | (942) | (1,829) |
| Income taxes paid | (9,529) | (8,775) | (16,071) |
| Net cash from operating activities | 16,399 | 16,300 | 44,303 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | (5,972) | (5,977) | (14,395) |
| Proceeds from sale of property, plant and equipment | 492 | 322 | 641 |
| Development expenditure capitalised | (600) | (296) | (674) |
| Acquisition of subsidiaries | (4,943) | - | (803) |
| Interest received | 896 | 622 | 1,517 |
| Dividends received | 47 | 24 | 71 |
| Net cash used in investing activities | (10,080) | (5,305) | (13,643) |
| Cash flows from financing activities | | | |
| Proceeds from issue of share capital | 4,518 | 627 | 2,138 |
| Repayment of borrowings | (3,917) | (1,390) | (2,330) |
| Payment of finance lease liabilities | (187) | (182) | (360) |
| Dividends paid | (11,537) | (10,635) | (15,322) |
| Net cash used in financing activities | (11,123) | (11,580) | (15,874) |
| Net decrease in cash and cash equivalents | (4,804) | (585) | 14,786 |
| Cash and cash equivalents at beginning of period | 43,914 | 29,120 | 29,120 |
| Exchange movement | (264) | (367) | 8 |
| Cash and cash equivalents at end of period | 38,846 | 28,168 | 43,914 |
| Long term borrowings and finance leases | (37,370) | (42,184) | (42,615) |
| Net cash | 1,476 | (14,016) | 1,299 |

NOTES TO THE ACCOUNTS

1 BASIS OF PREPARATION

The interim consolidated financial statements of Spirax-Sarco Engineering plc and its subsidiaries (the 'Group') have been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS) in issue that are endorsed, or are expected to be endorsed by the EU and effective (or available for early adoption) at 31st December 2005, the Group's first annual reporting date at which it is required to use adopted IFRS. Based on these IFRS the directors have made assumptions about the accounting policies expected to be applied when the first annual IFRS financial statements are prepared for the year ending 31st December 2005. In particular, the directors have assumed that IAS 19 (revised) issued by the International Accounting Standards Board (IASB) will be adopted by the EU in sufficient time that it will be available for use in the annual IFRS financial statements for the year ending 31st December 2005.

The adopted IFRS that will be effective (or available for early adoption) in the financial statements for the year ending 31st December 2005 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for the annual period will only be determined finally when the financial statements are prepared.

On 12th July 2005, the Group announced a restatement of its 2004 results under IFRS. This included details of the accounting policies applied in restating its financial statements and reconciliations from UK GAAP to IFRS at transition (1st January 2004) and for both the 2004 half year and full year. 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 income statements, balance sheets and cash flows for the period 30th June 2004 and 31st December 2004 are set out on pages 11 to 16.

Under IFRS 1 'First-time adoption of IFRS' the Group is required to determine its IFRS accounting policies at 31st December 2005 and apply these retrospectively. However, the standard allows a number of exceptions to this general principle to assist companies as they change to report under IFRS. Detailed explanations of the areas where the Group has taken advantage of these exemptions are included in the 12th July 2005 IFRS restatement. One of these exemptions is that 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. Consequently, until 31st December 2004, the Group continued to hedge account under UK GAAP for forward exchange contracts. The effect of the implementation of IAS 32 and IAS 39 is shown in the Group Statement of Changes in Equity on page 5.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and income and expenses. The estimates and associated assumptions are based on historical experience 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 comparative figures for the year ended 31st December 2004 do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The consolidated statutory accounts for Spirax-Sarco Engineering plc in respect of the year ended 31st December 2004, which were presented under UK GAAP, have been reported on by the company's auditors and delivered to the registrar of companies. The report of the auditors was unqualified and did not contain statements under section 237 (2) or (3) of the Companies Act 1985. The interim financial statements for the six months ended 30th June 2005 were authorised for issue by the Board on 6th September 2005.

NOTES TO THE ACCOUNTS *(continued)*

2 SEGMENTAL REPORTING

| Primary segment | Six months to 30th June 2005 £000 | Six months to 30th June 2004 £000 | Year ended 31st December 2004 £000 | Six months to 30th June 2005 £000 | Six months to 30th June 2004 £000 | Year ended 31st December 2004 £000 |
|------------------------------|--|--|---|--|--|---|
| Analysis by operation | Revenue | | | Profit from operations | | |
| UK & Republic of Ireland | 51,754 | 49,082 | 97,419 | 3,400 | 3,262 | 6,852 |
| Continental Europe | 77,503 | 74,190 | 149,334 | 10,045 | 9,675 | 19,523 |
| North America | 32,990 | 30,237 | 64,950 | 3,229 | 2,503 | 7,195 |
| Asia | 27,518 | 23,316 | 50,465 | 5,007 | 3,867 | 9,067 |
| Rest of the world | 20,775 | 17,251 | 36,482 | 3,350 | 2,781 | 5,319 |
| Intra-Group sales | (43,929) | (41,130) | (82,659) | - | - | - |
| | 166,611 | 152,946 | 315,991 | 25,031 | 22,088 | 47,956 |

| | Six months to 30th June 2005 £000 | Six months to 30th June 2004 £000 | Year ended 31st December 2004 £000 |
|--|--|--|---|
| Revenue by geographical location of customers | | | |
| UK & Republic of Ireland | 21,040 | 20,183 | 39,922 |
| Continental Europe | 62,356 | 60,532 | 121,164 |
| North America | 32,583 | 29,824 | 64,119 |
| Asia | 30,146 | 25,785 | 55,327 |
| Rest of the world | 20,486 | 16,622 | 35,459 |
| | 166,611 | 152,946 | 315,991 |

| Secondary segment | Six months to 30th June 2005 £000 | Six months to 30th June 2004 £000 | Year ended 31st December 2004 £000 |
|--------------------------------------|--|--|---|
| Revenue by business operation | | | |

| | | | |
|----------------------|----------------|----------------|----------------|
| Spirax Sarco | 144,219 | 133,015 | 273,065 |
| Watson-Marlow Bredel | 22,392 | 19,931 | 42,926 |
| Group revenue | 166,611 | 152,946 | 315,991 |

3 NET FINANCING INCOME

| | Six months to 30th June 2005 £000 | Six months to 30th June 2004 £000 | Year ended 31st December 2004 £000 |
|---|--|--|---|
| Post-retirement benefits | | | |
| Expected return on pension scheme assets | 5,281 | 4,709 | 9,415 |
| Interest on pension scheme liabilities | (4,826) | (4,544) | (9,088) |
| | 455 | 165 | 327 |
| Bank interest receivable | 899 | 624 | 1,518 |
| Bank and other borrowing interest payable | (787) | (946) | (1,832) |
| | 112 | (322) | (314) |
| | 567 | (157) | 13 |

4 TAXATION

Taxation has been estimated at the rate expected to be incurred in the full year.

| | Six months to 30th June 2005 £000 | Six months to 30th June 2004 £000 | Year ended 31st December 2004 £000 |
|--------------------------------|--|--|---|
| United Kingdom corporation tax | 1,304 | 1,491 | 3,313 |
| Overseas taxation | 6,601 | 5,842 | 12,750 |
| Deferred taxation | 576 | 35 | 299 |
| Prior year adjustment | 7 | (53) | (100) |
| | 8,488 | 7,315 | 16,262 |

5 EARNINGS PER SHARE

| | Six months to 30th June 2005 £000 | Six months to 30th June 2004 £000 | Year ended 31st December 2004 £000 |
|--|--|--|---|
| Earnings | 17,392 | 14,748 | 32,314 |
| Weighted average shares in issue | 75,619,180 | 74,817,348 | 74,931,130 |
| Dilution | 638,139 | 566,612 | 781,558 |
| Diluted weighted average shares in issue | 76,257,319 | 75,383,960 | 75,712,688 |
| Basic earnings per share | 23.0p | 19.7p | 43.1p |
| Diluted earnings per share | 22.8p | 19.6p | 42.7p |

6 ANALYSIS OF CHANGES IN NET CASH

| | At 1st January 2005 £000 | Cash flow £000 | Exchange movement £000 | At 30th June 2005 £000 |
|---|--------------------------------|-------------------|------------------------------|------------------------------|
| Current portion of long term borrowings | (8,183) | | | (7,605) |
| Non-current portion of long term borrowings | (34,432) | | | (29,765) |
| Total long term borrowings | (42,615) | | | (37,370) |
| Comprising: | | | | |
| Borrowings | (41,768) | 3,917 | 1,104 | (36,747) |
| Finance Leases | (847) | 187 | 37 | (623) |
| | (42,615) | 4,104 | 1,141 | (37,370) |
| Cash and cash equivalents | 48,756 | (2,003) | 46 | 46,799 |
| Bank overdrafts | (4,842) | (2,801) | (310) | (7,953) |
| Net cash and cash equivalents | 43,914 | (4,804) | (264) | 38,846 |
| Net cash | 1,299 | (700) | 877 | 1,476 |

NOTES TO THE ACCOUNTS *(continued)*

7 CAPITAL EMPLOYED

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

| | 30th June 2005 £000 | 30th June 2004 £000 | 31st December 2004 £000 |
|-------------------------------|------------------------------------|---------------------------|-------------------------------|
| Property, plant and equipment | 84,306 | 79,740 | 83,514 |
| Prepayments | 356 | 365 | 345 |
| Inventories | 61,186 | 57,352 | 58,229 |
| Trade receivables | 78,978 | 72,234 | 76,021 |
| Other current assets | 10,376 | 9,892 | 8,388 |
| Trade and other payables | (44,157) | (38,075) | (43,429) |
| Current tax payable | (5,063) | (5,134) | (6,788) |
| Non-current tax payable | (60) | (74) | - |
| | 185,922 | 176,300 | 176,280 |

8 EXPLANATION OF TRANSITION TO IFRS

As described in note 1, the interim 2005 financial statements 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 interim and full year results under IFRS, details of how to obtain copies of the announcement are outlined in note 1. Reconciliations of the Group's Income statements, Balance sheets and Cash flows showing the effects of both reformat and restatement between UK GAAP and IFRS for both interim and full year 2004 figures are set out on the following pages. The principle restatement changes from the transition to IFRS are described below along with the effects on the interim 2004 figures. The effects on the full year 2004 figures are detailed in the July announcement.

Change in minorities

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. Although there is a reduction in interim 2004 sales of £4.8 million and in pre-tax profit of £0.9 million, there is no change in EPS or net assets attributable to shareholders.

Change in pensions

Recognising the deficit on defined benefit pension schemes on the balance sheet and the higher income statement charge for pensions under IAS 19. At 30th June 2004 £30.7 million of additional balance sheet net liabilities have been recognised and the income statement charge (before tax) increases by £0.3 million.

Other IFRS changes

Recording the cost of share options awarded to employees on a fair value basis. The interim 2004 income statement charge (before tax) increases by £0.1 million

Ceasing goodwill amortisation (subject to annual impairment testing). The interim 2004 income statement reflects the reversal of the £0.3 million charge under UK GAAP.

Not accruing a liability for dividends that have not been declared or approved at the balance sheet date. Shareholders funds increase by £4.7 million at 30th June 2004.

Capitalisation of the development element of R&D expenditure under certain circumstances. Net intangible assets increased by £2.4 million (before tax effects) at 30th June 2004. Changes to the income statement are immaterial.

Providing deferred tax on property revaluations. This results in the creation of a £1.8 million deferred tax liability at 30th June 2004.

REFORMAT AND RESTATEMENT OF GROUP INCOME STATEMENT

For the half year ended 30th June 2004

| UK GAAP | UK GAAP as previously reported £000 | Reformat | Restatement | IFRS | IFRS |
|-------------------------------|--|----------|----------------|---------------|--|
| | | £000 | £000 | £000 | |
| Turnover | 157,740 | | (4,794) | 152,946 | Revenue |
| Operating costs | (134,313) | | 3,455 | (130,858) | Operating costs |
| Operating profit | <u>23,427</u> | | <u>(1,339)</u> | <u>22,088</u> | Operating profit |
| | | (958) | (4,532) | (5,490) | Financial expenses |
| | | 654 | 4,679 | 5,333 | Financial income |
| Net interest payable | (304) | | <u>147</u> | <u>(157)</u> | Net financing costs |
| | | | 306 | 306 | Share of profit of associates |
| Profit before taxation | <u>23,123</u> | | <u>(886)</u> | <u>22,237</u> | Profit before taxation |
| Taxation | (7,887) | | 572 | (7,315) | Taxation |
| Profit after taxation | <u>15,236</u> | | <u>(314)</u> | <u>14,922</u> | Profit for the period |
| Minority interests - equity | (608) | 608 | | | |
| Attributable profit | <u>14,628</u> | (14,628) | | | |
| | | 14,628 | 120 | 14,748 | Attributable to: Equity holders of parent |
| | | 608 | (434) | 174 | Minority interest |
| | | | <u>(314)</u> | <u>14,922</u> | |
| Basic EPS | 19.6p | | 0.1p | 19.7p | Basic EPS |

NOTES TO THE ACCOUNTS *(continued)*

REFORMAT AND RESTATEMENT OF GROUP BALANCE SHEET

As at 30th June 2004

| UK GAAP | UK GAAP as previously reported £000 | Reformat £000 | Restatement £000 | IFRS £000 | IFRS |
|---|--|------------------|---------------------|--------------|---|
| | | | | | ASSETS |
| Fixed assets | | | | | Non-current assets |
| Tangible assets | 86,010 | | (6,270) | 79,740 | Property, plant and equipment |
| Intangible assets | 10,671 | | 337 | 11,008 | Goodwill |
| | | | 6,934 | 6,934 | Other intangible assets |
| | | | 365 | 365 | Prepayments |
| | | | 2,233 | 2,233 | Investment in associates |
| | | 4,323 | 14,140 | 18,463 | Deferred tax |
| | 96,681 | 4,323 | 17,739 | 118,743 | |
| Current assets | | | | | Current assets |
| Stocks | 58,868 | | (1,516) | 57,352 | Inventories |
| Debtors | 96,449 | (22,496) | (1,719) | 72,234 | Trade receivables |
| | | 18,173 | (8,281) | 9,892 | Other current assets |
| Cash deposits | 39,434 | (39,434) | | | |
| Cash at bank and in hand | 3,662 | 39,434 | (1,399) | 41,697 | Cash and cash equivalents |
| | 198,413 | (4,323) | (12,915) | 181,175 | |
| | | | 4,824 | 299,918 | Total assets |
| Creditors due within one year | | | | | EQUITY AND LIABILITIES |
| | 68,984 | (25,317) | (5,592) | 38,075 | Current liabilities |
| | | 13,529 | - | 13,529 | Trade and other payables |
| | | 6,527 | (6) | 6,521 | Bank overdrafts |
| | | 5,261 | (127) | 5,134 | Current portion of long term borrowings |
| | 68,984 | - | (5,725) | 63,259 | Current tax payable |
| Net current assets | 129,429 | (4,323) | (7,190) | 117,916 | Net current assets |
| Creditors due after one year | | | | | Non-current liabilities |
| | 36,112 | (426) | (23) | 35,663 | Long term borrowings |
| | | 74 | - | 74 | Tax payable |
| | | 6,898 | 2,294 | 9,192 | Deferred tax |
| Provisions for liabilities and charges | | | | | |
| | 17,871 | (7,345) | 36,315 | 46,841 | Post retirement benefits |
| | | 799 | - | 799 | Provisions |
| | 53,983 | - | 38,586 | 92,569 | |
| | | | 32,861 | 155,828 | Total liabilities |
| Net assets | 172,127 | | (28,037) | 144,090 | Net assets |
| Equity | | | | | Equity |
| Share capital | 18,725 | | | 18,725 | Share capital |
| Share premium account | 36,588 | | | 36,588 | Share premium account |
| Other reserves | 6,091 | | | 6,091 | Other reserves |
| Profit and loss account | 107,141 | | (25,079) | 82,062 | Retained earnings |
| | 168,545 | | (25,079) | 143,466 | |
| Minority interest | 3,582 | | (2,958) | 624 | Minority interest |
| Total equity | 172,127 | | (28,037) | 144,090 | Total equity |
| | | | 4,824 | 299,918 | Total equity and liabilities |

REFORMAT AND RESTATEMENT OF GROUP CASH FLOW

For the half year ended 30th June 2004

| UK GAAP | UK GAAP as previously reported £000 | Reformat £000 | Restatement £000 | IFRS £000 | IFRS |
|---|--|------------------|---------------------|---------------|---|
| | | | | | Cash flows from operating activities |
| Operating profit | 23,427 | (304) | (886) | 22,237 | Profit before taxation |
| Depreciation and amortisation | 6,371 | | (144) | 6,227 | Depreciation and amortisation |
| | | | (306) | (306) | Share of profit of associates |
| | | | 85 | 85 | Equity settled share plans |
| | | 304 | (147) | 157 | Net finance costs |
| | | | (1,398) | 28,400 | Operating profit before changes in working capital and provisions |
| Increase in debtors | (8,074) | | 1,177 | (6,897) | Increase in trade and other receivables |
| Decrease in stocks | 246 | | 254 | 500 | Decrease in inventories |
| | | (186) | (190) | (376) | Decrease in provisions and post retirement benefits |
| Increase in creditors and provisions | 4,268 | 186 | (64) | 4,390 | Increase in trade and other payables |
| Cash inflow from operating activities | 26,238 | - | (221) | 26,017 | Cash generated from operations |
| Interest received | 652 | (652) | | | |
| Interest paid | (955) | | 13 | (942) | Interest paid |
| Dividends paid to minority interests | (108) | 108 | | | |
| Taxation | (9,052) | | 277 | (8,775) | Income taxes paid |
| | | | 69 | 16,300 | Net cash from operating activities |
| | | | | | Cash flows from investing activities |
| Capital expenditure | | | 248 | (5,977) | Purchase of property, plant and equipment |
| Purchase of tangible fixed assets | (6,225) | | (3) | 322 | Proceeds from sales of equipment |
| Sales of tangible fixed assets | 325 | | (296) | (296) | Development expenditure capitalised |
| | | 652 | (30) | 622 | Interest received |
| Equity dividends paid | (10,552) | 10,552 | 24 | 24 | Dividends received |
| | | | (57) | (5,305) | Net cash used in investing activities |
| | | | | | Cash flows from financing activities |
| Financing | | | | 627 | Proceeds from issue of share capital |
| Issue of shares | 627 | | | (1,390) | Repayment of borrowings |
| Decrease in debt | (1,555) | 165 | (17) | (182) | Payment of finance lease liabilities |
| | | (165) | 25 | (10,635) | Dividends paid |
| | | (10,660) | | 8 | Net cash used in financing activities |
| | | | | | |
| Net decrease in cash in the period before investments in liquid resources | (605) | - | 20 | (585) | Net decrease in cash and cash equivalents |
| Current asset investments not included in cash | (1,917) | | | | |
| Decrease in cash in the period | (2,522) | | | | |

NOTES TO THE ACCOUNTS *(continued)*

REFORMAT AND RESTATEMENT OF GROUP INCOME STATEMENT

For the year ended 31st December 2004

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

REFORMAT AND RESTATEMENT OF GROUP BALANCE SHEET

As at 31st December 2004

| 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 | 12,858 | 17,868 | Deferred tax |
| | 100,807 | 5,010 | 17,254 | 123,071 | |
| 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 | |
| | | | 2,940 | 314,465 | Total assets |
| Creditors due within one year | | | | | EQUITY AND LIABILITIES |
| | 75,948 | (19,964) | (12,555) | 43,429 | Current liabilities |
| | | 4,871 | (29) | 4,842 | Trade and other payables |
| | | 8,195 | (12) | 8,183 | Bank overdrafts |
| | | 6,898 | (110) | 6,788 | Current portion of long term borrowings |
| | 75,948 | - | (12,706) | 63,242 | Current tax payable |
| 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 | 2,512 | 10,035 | Deferred tax |
| Provisions for liabilities and charges | | | | | |
| | 18,907 | (7,971) | 30,399 | 41,335 | Post retirement benefits |
| | | 644 | - | 644 | Provisions |
| | 53,564 | - | 32,882 | 86,446 | |
| | | | 20,176 | 149,688 | Total liabilities |
| Net assets | 182,013 | | (17,236) | 164,777 | Net assets |
| Equity | | | | | Equity |
| Share capital | 18,800 | | | 18,800 | Share capital |
| Share premium account | 38,024 | | | 38,024 | Share premium account |
| Other reserves | 6,139 | | | 6,139 | Other reserves |
| Profit and loss account | 115,078 | | (14,070) | 101,008 | Retained earnings |
| | 178,041 | | (14,070) | 163,971 | |
| Minority interest | 3,972 | | (3,166) | 806 | Minority interest |
| Total equity | 182,013 | | (17,236) | 164,777 | Total equity |
| | | | 2,940 | 314,465 | Total equity and liabilities |

NOTES TO THE ACCOUNTS *(continued)*

REFORMAT AND RESTATEMENT OF GROUP CASH FLOW

For the year ended 31st December 2004

| 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 amortisation | 13,302 | | (272) | 13,030 | Depreciation and amortisation | |
| | | | (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 | |
| | | | | | Cash flows from investing activities | |
| Capital expenditure | | | 392 | (14,395) | Purchase from property, plant and equipment | |
| Purchase of tangible fixed assets | (14,787) | | (12) | 641 | Proceeds of sales of equipment | |
| Sales of tangible fixed assets | 653 | | (674) | (674) | Development expenditure capitalised | |
| Acquisitions and disposals | (803) | | (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 | |
| | | | | | Cash flows from financing activities | |
| Financing | | | | 2,138 | Proceeds from issue of share capital | |
| Issue of shares | 2,138 | | | (2,330) | Repayment of borrowings | |
| Decrease in debt | (2,677) | 347 | (13) | (360) | Payment of finance lease liabilities | |
| | | (347) | 399 | (15,322) | Dividends paid | |
| | | (15,721) | | 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 | | | | | |

SPIRAX SARCO WORLDWIDE

UNITED KINGDOM AND REPUBLIC OF IRELAND

Spirax-Sarco Ltd.

Spirax-Sarco Investments Ltd.

Spirax-Sarco Overseas Ltd.

Watson-Marlow Ltd.

Eirdata Environmental Services Ltd. (80%)

NORTH AMERICA

Canada

Spirax Sarco Canada Ltd.

Mexico

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

USA

Spirax Sarco, Inc.

Sarco International, Corp.

Watson-Marlow, Inc.

ASIA

China

Spirax Sarco Engineering (China) Ltd.

India

Spirax-Marshall Ltd. (40%)

Japan

Spirax-Sarco Ltd. (Branch)

Malaysia

Spirax-Sarco Sdn. Bhd.

Singapore

Spirax-Sarco (Private) Ltd.

South Korea

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

Taiwan

Spirax Sarco Co. Ltd.

Thailand

Spirax Sarco (Thailand) Ltd.

REST OF THE WORLD

Argentina

Spirax Sarco S.A.

Australia

Spirax-Sarco Pty. Ltd.

Brazil

Spirax Sarco Ind. e Com. Ltda.

New Zealand

Spirax Sarco Ltd.

South Africa

Spirax-Sarco South Africa (Pty.) Ltd.

Watson Marlow Bredel S.A. (Pty.) Ltd.

Actuators and Controls (Pty) Limited

CONTINENTAL EUROPE

Austria

Spirax Sarco Ges. mbH

Belgium

Spirax-Sarco N.V.

Watson-Marlow N.V.

Czech Republic

Spirax Sarco spol. s r.o.

Denmark

Spirax-Sarco Ltd. (Branch)

Finland

Spirax Oy

France

Spirax-Sarco S.A.S.

Watson-Marlow S.A.

Germany

Spirax-Sarco GmbH

Hygromatik Lt. A. GmbH

Watson-Marlow GmbH

Italy

Spirax-Sarco S.r.l.

Watson-Marlow S.r.l.

M&M International S.r.l.

Ampe S.r.l.

Netherlands

Spirax-Sarco Engineering B.V.

Spirax-Sarco Investments B.V.

Bredel Hose Pumps B.V.

Watson-Marlow Bredel Holdings B.V.

Watson-Marlow B.V.

Norway

Spirax-Sarco Ltd. (Branch)

Poland

Spirax Sarco Sp. z o.o.

Portugal

Spirax Sarco Equip. Ind. Lda.

Russia

Spirax-Sarco Engineering LLC

Spain

Spirax Sarco S.A. (95.1%)

Spirax-Sarco Engineering S.L.

M&M Iberica S.L. (67%)

Sweden

Spirax-Sarco A.B.

WM Alitea A.B.

Switzerland

Spirax-Sarco A.G.