

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 on the basis of the accounting policies set out in the 2005 Spirax-Sarco Engineering plc Annual Report.

The comparative figures for the year ended 31st December 2005 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 2005 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 2006 were authorised for issue by the Board on 7th September 2006.

2 SEGMENTAL REPORTING

Primary segment

	Six months to 30th June 2006 £000	Six months to 30th June 2005 £000	Year ended 31st December 2005 £000	Six months to 30th June 2006 £000	Six months to 30th June 2005 £000	Year ended 31st December 2005 £000
Analysis by operation						
		Revenue		Profit from operations		
UK & Republic of Ireland	53,484	51,754	102,479	5,721	6,728	10,881
Continental Europe	85,197	77,503	156,050	10,179	8,550	18,733
North America	37,743	32,990	73,220	3,578	2,599	7,938
Asia	34,198	27,518	61,263	6,496	4,234	11,430
Rest of the world	24,228	20,775	45,949	2,238	2,920	6,188
Intra-Group sales	(48,995)	(43,929)	(89,861)	-	-	-
	185,855	166,611	349,100	28,212	25,031	55,170

Profit from operations figures reflect the allocation of UK incurred central support costs to the segments to which the expenses relate. Segmental profits for the six months to June 2005 were prepared on a different basis and have now been restated to reflect this change.

	Six months to 30th June 2006 £000	Six months to 30th June 2005 £000	Year ended 31st December 2005 £000
Revenue by geographical location of customers			
UK & Republic of Ireland	20,468	21,040	40,084
Continental Europe	68,529	62,356	125,343
North America	37,647	32,583	73,056
Asia	36,305	30,146	65,841
Rest of the world	22,906	20,486	44,776
	185,855	166,611	349,100

Secondary segment

	Six months to 30th June 2006 £000	Six months to 30th June 2005 £000	Year ended 31st December 2005 £000
Revenue by business operation			
Spirax Sarco	161,225	144,219	302,627
Watson-Marlow Bredel	24,630	22,392	46,473
Group revenue	185,855	166,611	349,100

NOTES TO THE ACCOUNTS *(continued)*

3 NET FINANCING INCOME

	Six months to 30th June 2006 £000	Six months to 30th June 2005 £000	Year ended 31st December 2005 £000
Financial expenses			
Bank and other borrowing interest payable	(398)	(787)	(1,704)
Interest on pension scheme liabilities	(5,400)	(4,826)	(9,746)
	(5,798)	(5,613)	(11,450)
Financial income			
Bank interest receivable	635	899	1,869
Expected return on pension scheme assets	6,332	5,281	10,509
	6,967	6,180	12,378
Net financing income	1,169	567	928
Net pension scheme financial income	932	455	763
Net bank interest	237	112	165
Net financing income	1,169	567	928

4 TAXATION

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

	Six months to 30th June 2006 £000	Six months to 30th June 2005 £000	Year ended 31st December 2005 £000
United Kingdom corporation tax	1,196	1,304	2,947
Overseas taxation	7,959	6,601	15,565
Deferred taxation	669	576	575
Prior year adjustment	(20)	7	(315)
	9,804	8,488	18,772

5 EARNINGS PER SHARE

	Six months to 30th June 2006 £000	Six months to 30th June 2005 £000	Year ended 31st December 2005 £000
Earnings	20,099	17,392	38,036
Weighted average shares in issue	76,669,026	75,619,180	76,119,005
Dilution	772,879	638,139	577,169
Diluted weighted average shares in issue	77,441,905	76,257,319	76,696,174
Basic earnings per share	26.2p	23.0p	50.0p
Diluted earnings per share	26.0p	22.8p	49.6p

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

6 ANALYSIS OF CHANGES IN NET CASH

	At 1st January 2006 £000	Cash flow £000	Exchange movement £000	At 30th June 2006 £000
Current portion of long term borrowings	(25,010)			(6,688)
Non-current portion of long term borrowings	(7,540)			(2,374)
Short term borrowing	(1,498)			(1,881)
Total borrowings	(34,048)			(10,943)
Comprising:				
Borrowings	(33,600)	22,814	184	(10,602)
Finance Leases	(448)	110	(3)	(341)
	(34,048)	22,924	181	(10,943)
Cash and cash equivalents	56,929	(34,930)	(501)	21,498
Bank overdrafts	(3,836)	(4,952)	422	(8,366)
Net cash and cash equivalents	53,093	(39,882)	(79)	13,132
Net cash	19,045	(16,958)	102	2,189

7 GROUP STATEMENT OF CHANGES IN EQUITY

	Six months to 30th June 2006 £000	Six months to 30th June 2005 £000	Year ended 31st December 2005 £000
Shareholders' funds at beginning of period as previously reported	-	163,913	-
IFRS adjustment to deferred tax	-	1,509	-
Shareholders' funds at beginning of period as adjusted	197,618	165,422	165,422
Total recognised income and expense for the period	23,975	11,618	38,917
Dividends paid	(13,047)	(11,459)	(16,684)
Net proceeds of issue of shares	1,611	4,518	8,568
Treasury shares purchased	(13,721)	-	-
Equity settled share plans	664	262	1,395
Equity attributable to equity holders of parent at end of period	197,100	170,361	197,618

NOTES TO THE ACCOUNTS *(continued)*

8 CAPITAL EMPLOYED

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

	30th June 2006 £000	30th June 2005 £000	31st December 2005 £000
Property, plant and equipment	85,349	84,306	85,752
Prepayments	443	356	396
Inventories	68,512	61,186	64,216
Trade receivables	81,623	78,978	83,303
Other current assets	11,081	10,376	8,688
Trade and other payables	(45,050)	(44,157)	(46,843)
Current tax payable	(6,423)	(5,063)	(7,326)
Non-current tax payable	-	(60)	-
	195,535	185,922	188,186