

Chairman's statement

The Group achieved excellent results for 2008 capitalising on the steady investments we have made over past years. 2008 sales were a record £502.3 million, up 20% from £417.3 million in 2007 and pre-tax profits were £90.1 million, a 24% increase from last year's £72.8 million.

Results benefited from favourable currency movements, with sterling on average 9% weaker in 2008. At constant exchange rates, the sales increase was a strong 10%, including a small contribution from acquisitions and continuing the trend of the last several years of good growth.

As in the first half of the year, we achieved good sales growth from all geographic regions, with particularly strong results from South America. There was a continuation of the good growth in Asia, Continental Europe, the UK and North America. However, demand weakened in all geographic regions later in the year.

Operating profit increased by 25% to £85.7 million from £68.7 million in 2007. Following a decision to close the Florida operation of our UltraPure business, we have taken a non-recurring charge of £1.1 million in these results in respect of the closure costs. In addition, we have taken a non-cash charge of £3.1 million in the statutory operating profit in respect of the impairment of intangible assets, mostly goodwill. The operating profit increase includes favourable currency movements of over £8 million. At constant currency, the year-on-year operating profit increase was 11%. The operating margin improved to 17.1% from 16.5% in the prior year due to higher volume, favourable pricing dynamics and exchange transaction benefits, partially offset by higher material costs.

Net finance income was £1.7 million, which compares with £2.4 million in 2007. There was a £1.3 million decrease in net finance income relating to the defined benefit pension funds; against this, there was an increase in net bank interest of £0.6 million from good cash flow, despite funding the aggregate consideration of £14 million for acquisitions. The proportion of Associates' post-tax profits attributable to the Group increased to £2.7 million from £1.6 million in 2007.

Pre-tax profit for the Group increased to £90.1 million (after charging £1.1 million of Spirax UltraPure closure costs), up 24% from the 2007 pre-tax profit of £72.8 million. Earnings per share rose by 27% to 83.4p from 65.5p in 2007.

Your Board is recommending a final dividend of 23.3p per share payable on 18th May 2009 to shareholders on the register at the close of business on 17th April 2009.

This, together with the interim dividend of 10.0p per share paid in November, makes a total dividend for the year of 33.3p per share. This compares with a total dividend of 29.9p per share last year, an increase of 11%. The cost of the interim and final dividends is £25.7 million, which is covered 2.5 times by earnings. No scrip alternative to the cash dividend is being offered.

On 11th February 2008, the Group completed the acquisition of Flexicon A/S in Denmark. Flexicon has been integrated into the Watson-Marlow pumps business. Colima, a small Italian level controls business, was acquired on 31st March 2008 and has been integrated into our Italian steam business. We are pleased with the progress of both these acquisitions, noting that they were accretive to earnings in 2008. During the year, the Group also purchased the remaining 4.9% minority shareholding of its Spanish subsidiary and completed the acquisition of PAK Machinery, Flexicon's distributor company in the UK.

At the end of 2008, the Group had net cash of £17.4 million. The year started with net cash of £15.8 million and during the year there was good cash generation helped by the improvements in profits. We ended the year with higher net cash despite acquisitions, share repurchases, additional UK pension contributions and our increased investment in capital expenditure.

The Group has undergone several changes in its Board. Marcus Steel, the Group's previous Chief Executive, retired from the Board on 31st March 2008, having joined the Group in 1972 and the Board in 1992, and we thank him for his many contributions to the success of the company and wish him a very happy and long retirement. Mark Vernon succeeded Marcus as Chief Executive from 1st April 2008. Mark joined the Group as President of Spirax Sarco, Inc. in the USA in 2003 and he then joined the Board of Spirax-Sarco Engineering plc in June 2006 with responsibility for the Americas and Group Marketing, and was subsequently named Chief Operating Officer in June 2007.

Peter Smith retired from the Board as Company Secretary and Director with effect from 31st March 2008 after 33 years with the Group, and we likewise wish him a long and healthy retirement. William Stebbings replaced Peter as Company Secretary with effect from 1st April 2008 having joined Spirax in February 2007. He is a Solicitor with extensive prior industrial experience.

Einar Lindh, a non-executive director, retired from the Board as of 31st December 2008 after serving 9 years. We thank Einar for his contribution to the Group and wish

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him well in his retirement. Dr Krishnamurthy Rajagopal was recently appointed an independent non-executive director with effect from 10th February 2009. Dr Rajagopal was previously a main board director of BOC Group plc and Chief Executive of BOC Edwards, and brings relevant prior experience in product development and international business.

We also recently announced that Alan Black will be leaving the Board on 30th April 2009, realising his long-held intention to retire early. Alan joined the Board in 1998 and we thank him for his valued contribution to the Group in the development of our European and Asian business. We welcome Mike Gibbin to the Board as an executive director with effect from 1st May 2009. Mike started with the company in 2007 as Director of our Cheltenham manufacturing operations, having worked previously as Chief Executive of Comau Sweden.

Prospects

It is clear that we are in a very uncertain and unpredictable economic environment. In the early weeks of 2009, sales were down about 5% at constant currency and days, compared with the relatively strong early period in 2008. We have prepared for tough market conditions to continue and are taking strong actions as a prudent precaution to address the uncertain outlook. As part of our cost containment steps, we are reducing our global

workforce, largely in back office, support functions and manufacturing, and are taking an expected pre-tax charge of around £7 million in 2009. We expect annualised benefits of approximately £8 million, over half of which we anticipate to be realised in 2009, largely in the second half, and to be fully realised in 2010. These steps will allow us to continue to make other necessary investments in new product development and geographic expansion for the long-term growth of our business. If recent exchange rates continue, we would see further exchange benefits within our results in 2009.

The Group's outstanding niche businesses and its fundamental strengths of a very diverse geographical spread, customer base and product range, together with our highly trained direct sales force, clear focus and good cash generation, will serve us well in today's challenging market environment.

M Townsend, Chairman

Unless otherwise stated all profit measures quoted in the text above exclude the amortisation of acquisition-related intangible assets of £1.9 million (2007: £0.6 million) of which £0.3 million (2007: £0.2 million) relates to Associates, and the impairment of goodwill and intangible assets of £3.1 million (2007: nil). The tax effects on these items is £0.9 million (2007: nil).

