

Directors' report

The directors of Spirax-Sarco Engineering plc have pleasure in presenting their report and the audited accounts for the year ended 31st December 2008.

Results

The results of the Group for the year, which have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU ('IFRS'), are explained in the Chairman's Statement and the Business Review on pages 8 to 27 and are set out in the Group income statement on page 52.

Dividend

An interim cash dividend of 10.0p per share (2007: 8.3p) was paid in November 2008. The directors now recommend the payment of a final dividend of 23.3p per share (2007: 21.6p). If approved at the annual general meeting the final dividend will be paid on 18th May 2009 to shareholders on the register on 17th April 2009. The total distribution for the year will be 33.3p per share (2007: 29.9p).

Business review

A review of the development and performance of the business of the Group, including the financial performance during the year, the position at the end of year, key performance indicators and a description of the principal risks and uncertainties facing the Group, are set out on pages 10 to 27.

The following cautionary statement applies to the Business Review which is set out on pages 10 to 27 and which is incorporated in this Directors' Report by reference.

This Annual Report and Accounts has been prepared for, and only for, the members of the Company, as a body, and no other persons. The Company, its directors, employees, agents or advisers do not accept or assume responsibility for any other purpose or to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. By their nature, the statements concerning the risks and uncertainties facing the Group involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.

Principal activities

Spirax Sarco is a UK-based multi-national engineering group tightly focused on its two niche businesses of steam system specialties and peristaltic pumping.

With specialist knowledge, technical expertise, range of products, prefabricated engineered packages and site services, as well as a global spread in local markets, Spirax Sarco is uniquely positioned to provide a broad range of engineering solutions to the many industries using steam. Customers are assisted to improve the efficiency of their process heating, increase the output of the process, reduce running costs (most notably energy consumption) and lower their emissions.

Watson Marlow is the global leader in peristaltic pumping and supplies products and systems to cover a wide range of flow rates and applications. The unique properties of peristaltic pumps make them ideal for difficult pumping applications. They are highly accurate and controllable, and virtually maintenance-free making them a very cost-effective solution.

A more detailed description of the Group's activities is set out on pages 10 to 27.

Board of directors

The directors of the Company are those listed on pages 28 to 30. Dr. K. Rajagopal was appointed to the Board on 10th February 2009 as a non-executive director. As previously announced Mr. M. E. Gibbin will be appointed to the Board with effect from 1st May 2009. In addition Mr. M. J. D. Steel was the Group Chief Executive until 31st March 2008 when he retired. Mr. P. A. Smith was an executive director and Company Secretary until 31st March 2008 when he too retired. Mr. E. Lindh retired as a non-executive director on 31st December 2008. Mr. A. D. H. Black will retire on 30th April 2009.

In accordance with the articles of association:

- (i) Following his appointment since the last meeting, Dr. K. Rajagopal retires at the annual general meeting and, being eligible, offers himself for re-appointment. As a non-executive director, Dr. K. Rajagopal has a letter of appointment.
- (ii) Following his appointment since the last meeting, Mr. M. E. Gibbin retires at the annual general meeting and, being eligible, offers himself for re-appointment. It is intended that at the date of his appointment Mr. M. E. Gibbin will have a service contract in substantially the same form as other executive directors.
- (iii) Mr. W. H. Whiteley retires and, being eligible, offers himself for re-appointment. Mr. W. H. Whiteley, as Senior Independent Director, has a letter of appointment.

Biographical details of each of the directors retiring at the forthcoming annual general meeting are set out on pages 28 to 30.

Directors' interests and remuneration

The beneficial interests of the directors in the share capital of Spirax-Sarco Engineering plc as at 31st December 2008 are set out below. The number of shares over which directors hold options, together with their remuneration, is detailed in the Directors' Remuneration Report on pages 42 to 49.

	01.01.08	Ordinary Shares of 25p each		09.03.09 ⁽³⁾
		31.12.08		
		(or date of retirement if earlier ⁽¹⁾ ⁽²⁾)	(or date of retirement if earlier ⁽¹⁾ ⁽²⁾)	
M. Townsend	2,879	2,879		2,879
M.E. Vernon	10,084	14,890		27,457
A.D.H. Black	46,346	46,794		59,294
N.H. Daws	7,455	7,906		19,281
D.J. Meredith	43,382	43,833		57,833
A.J. Scrivin	19,367	22,736		32,986
P.A. Smith ⁽¹⁾	67,322	67,322		67,322
M.J.D. Steel ⁽¹⁾	84,342	84,342		84,342
G. Bullock	1,250	1,250		1,250
E. Lindh ⁽²⁾	-	1,000		1,000
W.H. Whiteley	4,934	7,434		7,434

(1) Messrs. M. J. D Steel and P. A. Smith retired from the Board on 31st March 2008.

(2) Mr. E. Lindh retired from the Board on 31st December 2008.

(3) The increase in the executive directors' shareholding is as a result of the vesting of the 2006 Performance Share Plan award as set out on page 47.

Mr. M. J. D. Steel purchased a motor car from the Company at the then current market value of £20,000. Mr. P. A. Smith purchased a motor car from the Company at the then current market value of £13,625.

Employment policies

Details of the Group's Employment Policies are set out on pages 38 and 39.

Annual general meeting

The notice of meeting and an explanation of resolutions 8 to 12 to be proposed at the annual general meeting are set out in the enclosed circular.

Share capital

Details of shares issued during the year are set out in Note 24 on page 69.

As at 31st December 2008 the Company's share capital was made up of ordinary shares each carrying one vote at general meetings of the Company. Save as set out in the articles of association or in applicable legislation there are no restrictions on the transfer of shares in the Company. There are no restrictions on the voting rights in the Company's shares.

The Company is not aware of any agreements entered into between any shareholders in the Company which restrict the transfer of shares or the exercise of any voting rights attached to the shares.

The Company is not party to any significant agreements that might terminate upon a change of control of the Company.

Purchase of own shares

784,264 shares of 25p each were purchased by the Company during the year representing approximately 1% of the total issued share capital of the Company as at 31st December 2008. The aggregate consideration paid for the shares was £6,762,262. At 31st December 2008, the number of shares which may be purchased under the shareholders' authority given at the annual general meeting in 2008 was 6,815,736 and the total number of shares in issue was 77,227,516. The shares were purchased for the purpose of satisfying projected future demands for the issue of shares under the Company's Performance Share Plan and Share Option Schemes.

During the year 32,612 shares were issued to satisfy the exercise of share options and the settlement of deferred consideration pursuant to the terms of an agreement dated 5th September 2005 with Eirdata Environmental Services Ltd.

Shareholdings of 3% or more

As at 27th February 2009, the Company had an issued share capital of 77,227,516 shares of which 1,255,542 shares were held in treasury. Of the 75,971,974 ordinary shares with voting rights in issue, as at this date, the Company received notice of material interests in 3% or more of the voting rights (calculated on the issued share capital less the shares held in treasury).

The information received is set out below.

	Ordinary Shares	%
Schroders Investment Management Ltd	7,119,168	9.37
Blackrock Investment Management	4,537,546	5.97
Sprucegrove Investment Management Ltd	3,707,911	4.88
Baillie Gifford & Co	3,448,080	4.54
Majedie Asset Management Ltd	3,180,863	4.19
Arnhold and S Bleichroeder Advisers LLC	3,054,330	4.02
Legal & General Investment Management	2,974,288	3.91
NFU Mutual Insurance Society	2,783,363	3.66
M & G Investment Management Ltd	2,499,304	3.29

Financial instrument risk management

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. More detail is set out in Note 33 on pages 81 to 85.

Statement of the policy and practice on the payment of suppliers

It is the Group's policy to meet the terms of all individual supply contracts and in the UK to make payment to suppliers at the end of the month following receipt of goods. In view of this, the Group does not follow any particular prescribed code.

Spirax-Sarco Engineering plc had no trade creditors as at 31st December 2008 and consequently creditor days have not been presented.

Research and development

The Group continues to devote significant resources to the updating and expansion of its range of products and engineered packages in order to remain at the forefront of its world markets. Expenditure in 2008 on research and development amounted to £6,529,000 (2007: £6,270,000), of which £1,640,000 (2007: £1,608,000) is capitalised as explained in Note 1 on page 57. During the year the Group has taken steps to increase its research and development capability by the creation of a separate research and development function based in Cheltenham. This function is tasked with improving the Group's pipeline of new products and decreasing the time to launch.

Market value of land and buildings

In the opinion of the directors, the market value of the land and buildings of the Group exceeds the book value of those assets at 31st December 2008 by approximately £12,000,000 (2007: £14,000,000).

Group charitable and political donations

Charitable donations during the year amounted to £81,156 (2007: £72,381). There were no political donations (2007: nil).

Auditors

As at the date of this report, as far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware. Each director has taken all such steps as he should have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information. A resolution to re-appoint the auditors, KPMG Audit Plc, will be proposed at the annual general meeting.

Capital gains tax

For capital gains tax purposes the market value of the Company's ordinary shares at 31st March 1982 was 140.375p.

Important events since 31st December 2008

On 9th March 2009 the Group announced that, in response to current economic uncertainties, it was proposing to reduce its global workforce and will be taking an expected pre-tax charge of £7 million in 2009.

Company information

Further information on the Company is available on the Group web site: www.SpiraxSarcoEngineering.com.

By order of the Board

W.G. Stebbings

Company Secretary and Solicitor
9th March 2009

Charlton House, Cirencester Road,
Cheltenham, Glos. GL53 8ER.