

Notes to the accounts

1 ACCOUNTING POLICIES

Basis of preparation

The parent company and 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).

The preparation of 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 most significant effect on the financial statements from accounting policies requiring judgement are in the areas of research and development and revenue.

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 provisions, impairment testing of goodwill and in assessing the defined benefit pension scheme liabilities.

The Group has considerable financial resources together with a diverse range of products and customers across wide geographic areas and industries. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

Further information on the Group's business activities, performance and position, together with the financial position of the Group, its capital structure and cash flow are included in the Business Review on pages 10 to 27. In addition, note 33 to the financial statements discloses details of the Group's financial risk management and credit facilities.

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

- IFRS 8, Operating Segments
This standard introduces a management approach to segment reporting and will require a change in the presentation and disclosure of segmental information to be consistent with management reporting.
- Amendment to IFRS 3, Business Combinations and IAS 27, Consolidated and Separate Financial Statements
The revised standards introduce changes to acquisition accounting, notably in respect of treatment of acquisition costs, step and partial acquisitions, minority interests and contingent consideration. The Group is currently assessing the impact of these revised standards.
- Amendment to IAS 23, Borrowing Costs
The amendment eliminates the option to expense borrowing costs attributable to acquisition, construction or production of a qualifying asset, and instead requires such costs to be capitalised as part of the specific assets. The Group is assessing the impact of the amendment but it is not expected to be significant.
- IFRIC 14, IAS 19, Defined Benefit Pensions
The IFRIC makes it generally more difficult to recognise defined benefit surpluses on the balance sheet and may result in the recognition of additional liabilities where a minimum funding requirement creates an onerous obligation. The impact of this interpretation is not expected to be significant.

The consolidated accounts are presented in pounds sterling, which is the company's functional currency.

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.

Exchange differences arising from the translation of the net investment in foreign operations are taken to a separate 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 to the respective currencies of the Group entities 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 date 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% |

The depreciation rates are reassessed annually.

Intangible assets

(i) Goodwill

All business combinations after 1st January 2004 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 and direct labour. 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 less accumulated amortisation (see below) and any impairment losses.

(iv) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date they are available for use. Goodwill and intangible assets 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% | | |

Notes to the accounts continued

1 ACCOUNTING POLICIES *(continued)*

Inventories

Inventories 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 that have maturity dates approximating the terms of the Group's obligations 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 with a corresponding increase in equity. 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, but is adjusted for non-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 comprises current and deferred tax. Income tax expense is recognised in the Income Statement unless it relates to items recognised directly in equity, when it is also recognised in equity. Current tax is the expected tax payable on the profit for the year and any adjustments in respect of previous years using tax rates enacted or substantively enacted at the reporting date. Deferred tax is recognised 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 or the date that the temporary differences are expected to reverse. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

Share options granted to subsidiary employees

The Parent company grants share options over its own ordinary shares directly to employees of subsidiary companies. These employees provide services to the subsidiary companies. The cost of these shares is not recharged and therefore the fair value of the share options granted is recognised as a capital contribution to the subsidiary companies. This is accounted for as an increase in investments with a corresponding increase in a non-distributable component of equity.

2 SEGMENTAL REPORTING

Primary segment

Analysis by location of operation 2008

| | Net revenue £000 | Intra- divisional £000 | Inter- divisional £000 | Gross revenue £000 | Total operating profit £000 | Before adjustment operating profit £000 | Before adjustment operating margin % |
|---------------------------|------------------------|------------------------------|------------------------------|--------------------------|--------------------------------------|--|---|
| UK & Republic of Ireland | 64,777 | 73 | 60,590 | 125,440 | 13,270 | 13,316 | 10.6% |
| Continental Europe | 192,380 | 21,239 | 27,372 | 240,991 | 35,512 | 36,682 | 15.2% |
| North America | 94,348 | 1,475 | 1,891 | 97,714 | 5,632 | 8,911 | 9.1% |
| Asia | 88,531 | 619 | 3,946 | 93,096 | 18,707 | 18,707 | 20.1% |
| Rest of the world | 62,280 | 249 | 5,474 | 68,003 | 7,907 | 8,053 | 11.8% |
| | 502,316 | 23,655 | 99,273 | 625,244 | 81,028 | 85,669 | 13.7% |
| Total intra-Group revenue | | (23,655) | (99,273) | (122,928) | | | |
| Net revenue | 502,316 | - | - | 502,316 | 81,028 | 85,669 | 17.1% |

2007

| | Net revenue £000 | Intra- divisional £000 | Inter- divisional £000 | Gross revenue £000 | Total operating profit £000 | Before adjustment operating profit £000 | Before adjustment operating margin % |
|---------------------------|------------------------|------------------------------|------------------------------|--------------------------|--------------------------------------|--|---|
| UK & Republic of Ireland | 58,542 | 48 | 58,630 | 117,220 | 13,314 | 13,370 | 11.4% |
| Continental Europe | 153,028 | 16,631 | 20,217 | 189,876 | 26,223 | 26,263 | 13.8% |
| North America | 79,915 | 881 | 753 | 81,549 | 7,138 | 7,326 | 9.0% |
| Asia | 76,933 | 620 | 2,267 | 79,820 | 16,641 | 16,643 | 20.9% |
| Rest of the world | 48,899 | 846 | 4,341 | 54,086 | 5,020 | 5,118 | 9.5% |
| | 417,317 | 19,026 | 86,208 | 522,551 | 68,336 | 68,720 | 13.2% |
| Total intra-Group revenue | | (19,026) | (86,208) | (105,234) | | | |
| Net revenue | 417,317 | - | - | 417,317 | 68,336 | 68,720 | 16.5% |

Revenue by location of customers

| | 2008 £000 | 2007 £000 |
|--------------------------|----------------|--------------|
| UK & Republic of Ireland | 49,185 | 43,993 |
| Continental Europe | 190,583 | 153,661 |
| North America | 95,931 | 80,800 |
| Asia | 96,958 | 85,252 |
| Rest of the world | 69,659 | 53,611 |
| | 502,316 | 417,317 |

Notes to the accounts continued

2 SEGMENTAL REPORTING (continued)

Share of profit of associates

| | 2008 | 2008 | 2007 | 2007 |
|--------------------------|-------------------|--------------|------------|-------|
| | Before | Total | Before | Total |
| | adjustment | | adjustment | |
| | £000 | £000 | £000 | £000 |
| UK & Republic of Ireland | - | - | - | - |
| Continental Europe | - | - | - | - |
| North America | 851 | 851 | 668 | 668 |
| Asia | 1,890 | 1,547 | 968 | 719 |
| Rest of the world | - | - | - | - |
| | 2,741 | 2,398 | 1,636 | 1,387 |

Net assets

| | 2008 | 2008 | 2007 | 2007 |
|--|------------------|--------------------|----------|-------------|
| | Assets | Liabilities | Assets | Liabilities |
| | £000 | £000 | £000 | £000 |
| UK & Republic of Ireland | 88,140 | (64,878) | 78,721 | (24,318) |
| Continental Europe | 163,396 | (50,162) | 105,655 | (35,052) |
| North America | 57,143 | (21,219) | 42,750 | (8,055) |
| Asia | 73,899 | (10,390) | 51,937 | (7,375) |
| Rest of the world | 43,295 | (9,260) | 34,894 | (8,003) |
| | 425,873 | (155,909) | 313,957 | (82,803) |
| Liabilities | (155,909) | | (82,803) | |
| Deferred tax | 19,466 | | 3,352 | |
| Current tax payable net of tax recoverable | (10,814) | | (7,372) | |
| Net cash / (borrowings) | 17,390 | | 15,831 | |
| Net assets | 296,006 | | 242,965 | |

Capital additions and depreciation and amortisation

| | 2008 | 2008 | 2007 | 2007 |
|--------------------------|--------------------------|--|-------------------|-----------------------------|
| | Capital additions | Depreciation & amortisation | Capital additions | Depreciation & amortisation |
| | £000 | £000 | £000 | £000 |
| UK & Republic of Ireland | 11,593 | 5,782 | 6,502 | 5,664 |
| Continental Europe | 18,547 | 6,099 | 5,231 | 4,101 |
| North America | 2,226 | 5,209 | 1,390 | 1,948 |
| Asia | 8,337 | 1,418 | 1,883 | 1,182 |
| Rest of the world | 3,266 | 1,351 | 2,814 | 1,336 |
| | 43,969 | 19,859 | 17,820 | 14,231 |

Capital additions include Property, plant and equipment and Other intangible assets.

Secondary segment

Revenue by business operation

| | 2008 | 2007 |
|---------------|----------------|---------|
| | £000 | £000 |
| Spirax Sarco | 426,935 | 361,611 |
| Watson-Marlow | 75,381 | 55,706 |
| | 502,316 | 417,317 |

Capital additions

| | 2008 | 2007 |
|---------------|---------------|--------|
| | £000 | £000 |
| Spirax Sarco | 28,429 | 15,870 |
| Watson-Marlow | 15,540 | 1,950 |
| | 43,969 | 17,820 |

3 OPERATING COSTS

| | 2008 | 2007 |
|---|----------------|---------|
| | £000 | £000 |
| Change in stocks of finished goods and work in progress | (6,341) | (1,638) |
| Raw materials and consumables | 153,939 | 122,363 |
| Staff costs (note 4) | 173,792 | 147,815 |
| Depreciation and amortisation | 19,859 | 14,231 |
| Other operating charges | 80,039 | 66,210 |
| | 421,288 | 348,981 |

Depreciation and amortisation includes amortisation of acquisition-related intangible assets of £1,541,000 (2007: £384,000), goodwill and intangible asset impairment of £3,100,000 (2007: nil) and amortisation of capitalised development costs of £1,104,000 (2007: £1,086,000).

4 STAFF COSTS AND NUMBERS

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

| | 2008 | 2007 |
|-----------------------|----------------|---------|
| | £000 | £000 |
| Wages and salaries | 138,094 | 117,938 |
| Social security costs | 23,495 | 19,269 |
| Other pension costs | 12,203 | 10,608 |
| | 173,792 | 147,815 |

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

| | 2008 | 2007 |
|----------------|---------------|--------|
| | Number | Number |
| United Kingdom | 1,205 | 1,172 |
| Overseas | 3,213 | 2,997 |
| | 4,418 | 4,169 |

5 NET FINANCING INCOME

| | 2008 | 2007 |
|---|-----------------|----------|
| | £000 | £000 |
| Financial expenses | | |
| Bank and other borrowing interest payable | (1,480) | (1,699) |
| Interest on pension scheme liabilities | (13,325) | (11,549) |
| | (14,805) | (13,248) |

| | | |
|--|---------------|--------|
| Financial income | | |
| Bank interest receivable | 1,291 | 906 |
| Expected return on pension scheme assets | 15,250 | 14,782 |
| | 16,541 | 15,688 |
| Net financing income | 1,736 | 2,440 |

| | | |
|-------------------------------------|--------------|-------|
| Net pension scheme financial income | 1,925 | 3,233 |
| Net bank interest | (189) | (793) |
| Net financing income | 1,736 | 2,440 |

6 PROFIT BEFORE TAXATION

Profit before taxation is shown after charging:

| | 2008 | 2007 |
|--|--------------|-------|
| | £000 | £000 |
| Depreciation of tangible fixed assets held under finance leases | 175 | 138 |
| Hire of plant and machinery | 598 | 423 |
| Other operating leases | 3,762 | 2,806 |
| Research and development | 4,889 | 4,662 |
| Auditor's remuneration | 2008 | 2007 |
| | £000 | £000 |
| Fees payable to the company's auditor for the audit of the company's annual accounts | 149 | 164 |
| Fees payable to the company's auditor and its associates for other services: | | |
| The audit of the company's subsidiaries, pursuant to legislation | 903 | 838 |
| Tax services | 363 | 421 |
| Other services | 97 | 107 |
| | 1,512 | 1,530 |

Notes to the accounts continued

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 42 to 49. Directors represent the key management personnel of the Group under the terms of IAS 24: Related Party Disclosures.

8 TAXATION

| | 2008 £000 | 2007 £000 |
|---|-----------------|--------------|
| Analysis of charge in period | | |
| UK corporation tax | | |
| Current tax on income for the period | 20,350 | 13,850 |
| Adjustments in respect of prior periods | (434) | (1,057) |
| | 19,916 | 12,793 |
| Double taxation relief | (16,493) | (11,871) |
| | 3,423 | 922 |
| Foreign tax | | |
| Current tax on income for the period | 20,730 | 18,291 |
| Adjustments in respect of prior periods | - | 40 |
| | 20,730 | 18,331 |
| Total current tax charge | 24,153 | 19,253 |
| Deferred tax - UK | (536) | 2,775 |
| Deferred tax - Foreign | 1,757 | 945 |
| Tax on profit on ordinary activities | 25,374 | 22,973 |

Reconciliation of effective tax rate

| | 2008 £000 | 2007 £000 |
|--|----------------|--------------|
| Profit before tax | 85,162 | 72,163 |
| Tax using the UK corporation tax rate of 28.5% (2007: 30%) | 24,271 | 21,649 |
| Effect of (lower)/higher overseas tax rates | (184) | 320 |
| Associated companies | (683) | (416) |
| Non-deductible expenditure | 918 | 1,475 |
| Overprovided in prior years | (1,151) | (834) |
| Other reconciling items | 2,203 | 779 |
| Total tax in income statement | 25,374 | 22,973 |

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

| | 2008 £000 | 2007 £000 |
|-------------------------------|---------------|--------------|
| Relating to: | | |
| Equity settled transactions | (460) | 401 |
| On actuarial gains and losses | 17,708 | 279 |
| | 17,248 | 680 |

9 PROFIT FOR THE FINANCIAL YEAR ATTRIBUTABLE TO SHAREHOLDERS

Profit dealt with in the accounts of Spirax-Sarco Engineering plc was £61,464,296 (2007: £4,935,000). Included in this amount are dividends from subsidiary undertakings of £62,900,000 (2007: £6,500,000).

10 EARNINGS PER SHARE

| | 2008 | 2007 |
|--|-------------------|------------|
| | £000 | £000 |
| Profit attributable to equity holders of the parent | 59,547 | 49,101 |
| Weighted average shares in issue | 76,359,740 | 75,889,850 |
| Dilution | 303,354 | 365,911 |
| Diluted weighted average shares in issue | 76,663,094 | 76,255,761 |
| Basic earnings per share | 78.0p | 64.7p |
| Diluted earnings per share | 77.7p | 64.4p |
| Adjusted profit attributable to equity holders of the parent | 63,648 | 49,734 |
| Basic adjusted earnings per share | 83.4p | 65.5p |

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

11 DIVIDENDS

| | 2008 | 2007 |
|---|---------------|--------|
| | £000 | £000 |
| Amounts paid in the year | | |
| Final dividend for the year ended 31st December 2007 of 21.6p (2006: 19.0p) per share | 16,452 | 14,413 |
| Interim dividend for the year ended 31st December 2008 of 10.0p (2007: 8.3p) per share | 7,674 | 6,315 |
| | 24,126 | 20,728 |
| Amounts arising in respect of the year | | |
| Interim dividend for the year ended 31st December 2008 of 10.0p (2007: 8.3p) per share | 7,674 | 6,315 |
| Proposed final dividend for the year ended 31st December 2008 of 23.3p (2007: 21.6p) per share | 17,994 | 16,439 |
| | 25,668 | 22,754 |

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 | | Plant and machinery £000 | Fixtures, fittings, tools and equipment £000 | Total £000 |
|-----------------------|--------------------|-------------------|-----------------------------|---|----------------|
| | Freehold £000 | Leasehold £000 | | | |
| Cost or deemed cost: | | | | | |
| At 1st January 2007 | 55,165 | 972 | 95,165 | 46,730 | 198,032 |
| Exchange adjustments | 2,190 | 47 | 2,580 | 1,102 | 5,919 |
| | 57,355 | 1,019 | 97,745 | 47,832 | 203,951 |
| Additions | 3,305 | 236 | 7,491 | 3,250 | 14,282 |
| Disposals | (93) | (89) | (2,392) | (2,416) | (4,990) |
| At 31st December 2007 | 60,567 | 1,166 | 102,844 | 48,666 | 213,243 |
| Depreciation: | | | | | |
| At 1st January 2007 | 10,320 | 276 | 61,242 | 37,392 | 109,230 |
| Exchange adjustments | 450 | 12 | 1,443 | 881 | 2,786 |
| | 10,770 | 288 | 62,685 | 38,273 | 112,016 |
| Charged in year | 1,103 | 39 | 7,687 | 2,919 | 11,748 |
| Disposals | (40) | (80) | (2,028) | (2,306) | (4,454) |
| At 31st December 2007 | 11,833 | 247 | 68,344 | 38,886 | 119,310 |
| Net book value: | | | | | |
| At 31st December 2007 | 48,734 | 919 | 34,500 | 9,780 | 93,933 |
| At 1st January 2007 | 44,845 | 696 | 33,923 | 9,338 | 88,802 |
| Cost or deemed cost: | | | | | |
| At 1st January 2008 | 60,567 | 1,166 | 102,844 | 48,666 | 213,243 |
| Exchange adjustments | 11,303 | 507 | 15,271 | 7,013 | 34,094 |
| | 71,870 | 1,673 | 118,115 | 55,679 | 247,337 |
| Additions | 6,916 | 3,739 | 12,388 | 4,253 | 27,296 |
| Disposals | (46) | (37) | (4,260) | (4,720) | (9,063) |
| At 31st December 2008 | 78,740 | 5,375 | 126,243 | 55,212 | 265,570 |
| Depreciation: | | | | | |
| At 1st January 2008 | 11,833 | 247 | 68,344 | 38,886 | 119,310 |
| Exchange adjustments | 2,597 | 83 | 8,709 | 5,451 | 16,840 |
| | 14,430 | 330 | 77,053 | 44,337 | 136,150 |
| Charged in year | 1,385 | 64 | 9,506 | 3,850 | 14,805 |
| Disposals | (46) | (25) | (3,549) | (4,662) | (8,282) |
| At 31st December 2008 | 15,769 | 369 | 83,010 | 43,525 | 142,673 |
| Net book value: | | | | | |
| At 31st December 2008 | 62,971 | 5,006 | 43,233 | 11,687 | 122,897 |

Included in the above are finance leases with a net book value of £590,542 (2007: £1,413,000).

13 GOODWILL AND OTHER INTANGIBLE ASSETS

THE GROUP

| | Acquired intangibles | Development | Software and other intangibles | Total intangibles | Goodwill |
|-----------------------|----------------------|--------------|--------------------------------|-------------------|---------------|
| | £000 | £000 | £000 | £000 | £000 |
| Cost or valuation: | | | | | |
| At 1st January 2007 | 2,729 | 5,758 | 13,669 | 22,156 | 17,541 |
| Exchange adjustments | 46 | 80 | 473 | 599 | 709 |
| | 2,775 | 5,838 | 14,142 | 22,755 | 18,250 |
| Additions | 160 | 1,608 | 1,770 | 3,538 | 447 |
| Disposals | - | (6) | (202) | (208) | - |
| At 31st December 2007 | 2,935 | 7,440 | 15,710 | 26,085 | 18,697 |
| Amortisation: | | | | | |
| At 1st January 2007 | 490 | 3,065 | 9,735 | 13,290 | - |
| Exchange adjustments | 19 | 46 | 376 | 441 | - |
| | 509 | 3,111 | 10,111 | 13,731 | - |
| Charged in year | 394 | 1,101 | 1,399 | 2,894 | - |
| Disposals | - | (3) | (200) | (203) | - |
| At 31st December 2007 | 903 | 4,209 | 11,310 | 16,422 | - |
| Net book value: | | | | | |
| At 31st December 2007 | 2,032 | 3,231 | 4,400 | 9,663 | 18,697 |

THE GROUP

| | Acquired intangibles £000 | Development £000 | Software and other intangibles £000 | Total intangibles £000 | Goodwill £000 |
|-----------------------|---------------------------------|---------------------|---|------------------------------|------------------|
| Cost or valuation: | | | | | |
| At 1st January 2008 | 2,935 | 7,440 | 15,710 | 26,085 | 18,697 |
| Exchange adjustments | 774 | 695 | 2,464 | 3,933 | 4,862 |
| | 3,709 | 8,135 | 18,174 | 30,018 | 23,559 |
| Additions | 11,853 | 1,640 | 3,180 | 16,673 | 10,002 |
| Disposals/Impairment | - | - | (44) | (44) | (3,653) |
| At 31st December 2008 | 15,562 | 9,775 | 21,310 | 46,647 | 29,908 |
| Amortisation: | | | | | |
| At 1st January 2008 | 903 | 4,209 | 11,310 | 16,422 | - |
| Exchange adjustments | 210 | 311 | 1,887 | 2,408 | - |
| | 1,113 | 4,520 | 13,197 | 18,830 | - |
| Charged in year | 1,889 | 1,166 | 1,884 | 4,939 | - |
| Disposals | - | - | (43) | (43) | - |
| At 31st December 2008 | 3,002 | 5,686 | 15,038 | 23,726 | - |
| Net book value: | | | | | |
| At 31st December 2008 | 12,560 | 4,089 | 6,272 | 22,921 | 29,908 |

Impairment

In accordance with the requirements of IAS 36, Impairment of Assets, goodwill is allocated to the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the business combination that gave rise to the goodwill as analysed in the table below.

| | 2008 £000 | 2007 £000 |
|-----------------------------|---------------|--------------|
| Flexicon A/S, Denmark | 8,913 | - |
| Spirax UltraPure, LLC, USA | - | 2,746 |
| M & M product unit | 3,558 | 2,696 |
| Spirax Sarco, Inc. USA | 3,515 | 2,526 |
| Alitea product unit | 2,607 | 2,281 |
| UK Supply product unit | 2,304 | 1,745 |
| Spirax-Sarco S.A.S. France | 1,551 | 1,174 |
| Watson-Marlow, South Africa | 1,130 | 1,104 |
| Mitech product unit | 1,016 | 968 |
| Other cash-generating units | 5,314 | 3,457 |
| | 29,908 | 18,697 |

The carrying amount of goodwill relating to Spirax UltraPure, LLC, USA was written off in 2008 as a result of a decision to close the Florida operation. Although Ultrapure's operating performance was marginally better than in 2007, the development of sales had been much slower than expected in part due to the downturn in pharmaceutical investment in the USA. Ultrapure's intellectual property and manufacturing know-how have been transferred to our Italian and USA operations.

The remaining goodwill balance has been tested for annual impairment on the following basis:

- The carrying values of goodwill have been assessed by reference to value in use. These have been estimated using cash flows based on an average of actual data for the current and preceding years and forecast information for the following years.
- The key assumptions on which the cash flow projections for the most recent forecast are based are the discount and growth rates.
- The cash flows have been discounted at a range of 10-16% based on the Group's weighted average cost of capital.
- Growth rates vary depending on detailed forecasts.
- Net present values are considered over a 20 year period and in perpetuity. No impairments were identified under either case.

The principal value in use assumptions for the Flexicon A/S Denmark goodwill balance were as follows:

- Annual monetary growth in a range of 5-10%
- A discount rate of 10%.

14 LOANS TO SUBSIDIARIES

| | PARENT COMPANY | |
|----------------------------------|-----------------------|--------------|
| | 2008 £000 | 2007 £000 |
| Cost: | | |
| At 1st January | 17,055 | 36,434 |
| Exchange adjustments | 79 | 109 |
| | 17,134 | 36,543 |
| Loans | 11,582 | (19,488) |
| At 31st December | 28,716 | 17,055 |
| Amounts written off: | | |
| At 1st January and 31st December | (1,042) | (1,042) |
| Net book value: | | |
| At 31st December | 27,674 | 16,013 |

Notes to the accounts continued

15 INVESTMENT IN SUBSIDIARIES

| | PARENT COMPANY | |
|--|----------------|--------------|
| | 2008 £000 | 2007 £000 |
| Cost: | | |
| At 1st January | 48,049 | 47,383 |
| Share options issued to subsidiary company employees | 791 | 666 |
| At 31st December | 48,840 | 48,049 |
| Amounts written off: | | |
| At 1st January and 31st December | (994) | (994) |
| Net book value: | | |
| At 31st December | 47,846 | 47,055 |

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 2008. 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 the Republic of Ireland. 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 | |
|-----------------------|--------------|--------------|
| | 2008 £000 | 2007 £000 |
| Cost of investment | 5,212 | 5,212 |
| Share of total equity | 4,184 | 2,725 |
| | 9,396 | 7,937 |

Summarised aggregated financial information (total business)

| | | |
|-----------------------|---------------|--------|
| Revenue | 25,281 | 17,816 |
| Profit for the period | 5,574 | 3,194 |
| Assets | 16,346 | 11,792 |
| Liabilities | 4,750 | 4,403 |

Details of the Group's associates at 31st December 2008 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 | 49.3% | Manufacturing and Selling |
| Spirax-Sarco Mexicana S.A. | Mexico | 49.0% | 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 | |
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Accelerated capital allowances | 214 | 142 | (4,137) | (2,853) | (3,923) | (2,711) |
| Provisions | 5,827 | 4,651 | (33) | (44) | 5,794 | 4,607 |
| Losses | 2,221 | 810 | - | - | 2,221 | 810 |
| Inventory | 611 | 359 | (1,984) | (1,567) | (1,373) | (1,208) |
| Pensions | 24,297 | 7,109 | (3,826) | (4,311) | 20,471 | 2,798 |
| Other temporary differences | 6,762 | 6,418 | (10,486) | (7,362) | (3,724) | (944) |
| Tax assets/(liabilities) | 39,932 | 19,489 | (20,466) | (16,137) | 19,466 | 3,352 |
| Net off (liabilities)/assets | (6,752) | (7,830) | 6,752 | 7,830 | - | - |
| Net tax assets/(liabilities) | 33,180 | 11,659 | (13,714) | (8,307) | 19,466 | 3,352 |

Movement in deferred tax during the year

2007

| | THE GROUP | | | |
|--------------------------------|------------------|------------|------------|--------------------|
| | 1 January | Recognised | Recognised | 31 December |
| | 2007 | in income | in equity | 2007 |
| | £000 | £000 | £000 | £000 |
| Accelerated capital allowances | (3,684) | 1,528 | (555) | (2,711) |
| Provisions | 3,016 | 1,443 | 148 | 4,607 |
| Losses | 474 | (551) | 887 | 810 |
| Inventory | (1,041) | (104) | (63) | (1,208) |
| Pensions | 7,296 | (4,520) | 22 | 2,798 |
| Other temporary differences | 1,291 | (1,516) | (719) | (944) |
| | 7,352 | (3,720) | (280) | 3,352 |

2008

| | THE GROUP | | | |
|--------------------------------|------------------|------------|------------|--------------------|
| | 1 January | Recognised | Recognised | 31 December |
| | 2008 | in income | in equity | 2008 |
| | £000 | £000 | £000 | £000 |
| Accelerated capital allowances | (2,711) | (269) | (943) | (3,923) |
| Provisions | 4,607 | 721 | 466 | 5,794 |
| Losses | 810 | 1,348 | 63 | 2,221 |
| Inventory | (1,208) | 265 | (430) | (1,373) |
| Pensions | 2,798 | (923) | 18,596 | 20,471 |
| Other temporary differences | (944) | 79 | (2,859) | (3,724) |
| | 3,352 | 1,221 | 14,893 | 19,466 |

Amounts recognised in equity include items arising from acquisitions.

Movement in deferred tax during the year

2007

| | PARENT COMPANY | | | |
|-----------------------------|-----------------------|------------|------------|--------------------|
| | 1 January | Recognised | Recognised | 31 December |
| | 2007 | in income | in equity | 2007 |
| | £000 | £000 | £000 | £000 |
| Pensions | - | - | - | - |
| Other temporary differences | 763 | (131) | (199) | 433 |
| | 763 | (131) | (199) | 433 |

2008

| | PARENT COMPANY | | | |
|-----------------------------|-----------------------|------------|------------|--------------------|
| | 1 January | Recognised | Recognised | 31 December |
| | 2008 | in income | in equity | 2008 |
| | £000 | £000 | £000 | £000 |
| Pensions | - | - | - | - |
| Other temporary differences | 433 | (42) | (235) | 156 |
| | 433 | (42) | (235) | 156 |

Notes to the accounts continued

18 INVENTORIES

| | THE GROUP | |
|-------------------------------------|----------------|--------------|
| | 2008 £000 | 2007 £000 |
| Raw materials and consumables | 38,321 | 27,680 |
| Work in progress | 16,213 | 12,179 |
| Finished goods and goods for resale | 47,848 | 33,965 |
| | 102,382 | 73,824 |

19 OTHER CURRENT ASSETS

| | THE GROUP | | PARENT COMPANY | |
|--------------------------------|---------------|--------------|----------------|--------------|
| | 2008 £000 | 2007 £000 | 2008 £000 | 2007 £000 |
| Other receivables | 7,334 | 5,873 | - | 148 |
| Prepayments and accrued income | 5,540 | 3,882 | 97 | 44 |
| | 12,874 | 9,755 | 97 | 192 |

20 TRADE AND OTHER PAYABLES

| | THE GROUP | | PARENT COMPANY | |
|---------------------------|---------------|--------------|----------------|--------------|
| | 2008 £000 | 2007 £000 | 2008 £000 | 2007 £000 |
| Trade payables | 28,686 | 22,255 | - | - |
| Bills of exchange payable | 2,364 | 1,207 | - | - |
| Social security | 4,051 | 3,255 | - | - |
| Other payables | 21,035 | 13,554 | 256 | 432 |
| Accruals | 24,874 | 18,561 | 1,736 | 1,294 |
| | 81,010 | 58,832 | 1,992 | 1,726 |

21 CURRENT TAX PAYABLE

| | THE GROUP | | PARENT COMPANY | |
|---------------------|---------------|--------------|----------------|--------------|
| | 2008 £000 | 2007 £000 | 2008 £000 | 2007 £000 |
| UK Corporation tax | 1,136 | 2,284 | 615 | 1,120 |
| Foreign tax payable | 10,796 | 6,037 | - | - |
| | 11,932 | 8,321 | 615 | 1,120 |

22 OBLIGATIONS UNDER FINANCE LEASES

| | THE GROUP | | | |
|-------------------------------------|------------------------|--------------|------------------------------|--------------|
| | Minimum lease payments | | Present value lease payments | |
| | 2008 £000 | 2007 £000 | 2008 £000 | 2007 £000 |
| Amount payable | | | | |
| Within 1 year | 98 | 73 | 67 | 54 |
| 1-5 years inclusive | 269 | 220 | 221 | 178 |
| After 5 years | 19 | 68 | 19 | 66 |
| | 386 | 361 | 307 | 298 |
| Add future finance charges | | | 79 | 63 |
| Minimum lease payments | 386 | 361 | 386 | 361 |
| Less: Due for settlement in <1 year | | | 67 | 54 |
| Due for settlement in >1 year | | | 319 | 307 |

23 PROVISIONS

| | THE GROUP | |
|-----------------------------|-------------------------------|-------|
| | Warranty and other provisions | |
| | 2008 | 2007 |
| | £000 | £000 |
| Provisions at 1st January | 1,343 | 876 |
| Exchange adjustments | 147 | 32 |
| | 1,490 | 908 |
| Net charge for the year | - | 435 |
| Utilised in the year | (308) | - |
| Provisions at 31st December | 1,182 | 1,343 |

24 CALLED UP SHARE CAPITAL

| | THE GROUP | | PARENT COMPANY | |
|---|------------------|--------|-----------------------|--------|
| | 2008 | 2007 | 2008 | 2007 |
| | £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 77,227,516 | 19,307 | 19,299 | 19,307 | 19,299 |

32,612 ordinary shares, having an aggregate nominal value of £8,153, were issued during the year, 9,500 shares were issued pursuant to the Spirax-Sarco Engineering Share Option Schemes for a consideration of £61,567 received by the Company and 23,112 shares were issued at a value of £238,513 to settle deferred consideration on an acquisition.

At 31st December 1,255,542 treasury shares were available for use in connection with the Group's Employee Share Schemes.

Directors and 116 other senior employees and former employees of the Group have been granted options to purchase 1,396,202 ordinary shares with an aggregate nominal value of £349,051 (Note 29).

25 SHARE CAPITAL AND RESERVES

| | THE GROUP | | | | | | |
|--|------------------|---------------|---------------------|-------------------------|----------------------------|-------------------|----------------|
| | Share capital | Share premium | Translation reserve | Cash flow hedge reserve | Capital redemption reserve | Retained earnings | Total equity |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Balance at 1st January 2007 | 19,296 | 47,228 | (3,800) | 118 | 1,832 | 133,835 | 198,509 |
| Total recognised income and expense | - | - | 7,650 | (81) | - | 48,503 | 56,072 |
| Dividends paid | - | - | - | - | - | (20,728) | (20,728) |
| Increased investment in associated company | - | - | - | - | - | 2,946 | 2,946 |
| Equity settled share plans net of tax | - | - | - | - | - | 2,195 | 2,195 |
| Issue of new share capital | 3 | 39 | - | - | - | - | 42 |
| Treasury shares reissued | - | - | - | - | - | 5,457 | 5,457 |
| Loss on the reissue of treasury shares | - | - | - | - | - | (2,342) | (2,342) |
| Balance at 31st December 2007 | 19,299 | 47,267 | 3,850 | 37 | 1,832 | 169,866 | 242,151 |

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 equity £000 |
|--|--------------------------|-------------------------------------|--------------------------------|---------------------------------------|--|------------------------------|-------------------------|
| Balance at 1st January 2008 | 19,299 | 47,267 | 3,850 | 37 | 1,832 | 169,866 | 242,151 |
| Total recognised income and expense | - | - | 51,521 | (438) | - | 27,167 | 78,250 |
| Dividends paid | - | - | - | - | - | (24,159) | (24,159) |
| Equity settled share plans net of tax | - | - | - | - | - | 1,645 | 1,645 |
| Issue of new share capital | 8 | 292 | - | - | - | - | 300 |
| Treasury shares purchased | - | - | - | - | - | (6,762) | (6,762) |
| Treasury shares reissued | - | - | - | - | - | 7,679 | 7,679 |
| Loss on the reissue of treasury shares | - | - | - | - | - | (3,791) | (3,791) |
| Balance at 31st December 2008 | 19,307 | 47,559 | 55,371 | (401) | 1,832 | 171,645 | 295,313 |

PARENT COMPANY

| | Share capital £000 | Share premium account £000 | Share based payments £000 | Cash flow hedge reserve £000 | Capital redemption reserve £000 | Retained earnings £000 | Total equity £000 |
|--|--------------------------|-------------------------------------|------------------------------------|---------------------------------------|--|------------------------------|-------------------------|
| Balance at 1st January 2007 | 19,296 | 47,228 | 917 | - | 1,832 | 34,582 | 103,855 |
| Total recognised income and expense | - | - | - | - | - | 4,668 | 4,668 |
| Dividends paid | - | - | - | - | - | (20,728) | (20,728) |
| Equity settled share plans net of tax | - | - | - | - | - | 421 | 421 |
| Issue of new share capital | 3 | 39 | - | - | - | - | 42 |
| Treasury shares reissued | - | - | - | - | - | 5,457 | 5,457 |
| Loss on the reissue of treasury shares | - | - | - | - | - | (2,342) | (2,342) |
| Investment in subsidiaries in relation to share options granted | - | - | 666 | - | - | - | 666 |
| Balance at 31st December 2007 | 19,299 | 47,267 | 1,583 | - | 1,832 | 22,058 | 92,039 |

| | Share capital £000 | Share premium account £000 | Share based payments £000 | Cash flow hedge reserve £000 | Capital redemption reserve £000 | Retained earnings £000 | Total equity £000 |
|--|--------------------------|-------------------------------------|------------------------------------|---------------------------------------|--|------------------------------|-------------------------|
| Balance at 1st January 2008 | 19,299 | 47,267 | 1,583 | - | 1,832 | 22,058 | 92,039 |
| Total recognised income and expense | - | - | - | - | - | 48,882 | 48,882 |
| Dividends paid | - | - | - | - | - | (24,159) | (24,159) |
| Equity settled share plans net of tax | - | - | - | - | - | - | - |
| Issue of new share capital | 8 | 292 | - | - | - | - | 300 |
| Treasury shares purchased | - | - | - | - | - | (6,762) | (6,762) |
| Treasury shares reissued | - | - | - | - | - | 7,679 | 7,679 |
| Loss on the reissue of treasury shares | - | - | - | - | - | (3,791) | (3,791) |
| Investment in subsidiaries in relation to share options granted | - | - | 791 | - | - | - | 791 |
| Balance at 31st December 2008 | 19,307 | 47,559 | 2,374 | - | 1,832 | 43,907 | 114,979 |

26 RETURN ON CAPITAL EMPLOYED

| | THE GROUP | |
|--|------------------|----------|
| | 2008 | 2007 |
| | £000 | £000 |
| Capital employed | | |
| Property, plant and equipment | 122,897 | 93,933 |
| Prepayments | 900 | 986 |
| Inventories | 102,382 | 73,824 |
| Trade receivables | 124,595 | 98,067 |
| Other current assets | 12,874 | 9,755 |
| Tax recoverable | 1,118 | 949 |
| Trade and other payables | (81,010) | (58,832) |
| Current tax payable | (11,932) | (8,321) |
| Capital employed | 271,824 | 210,361 |
| Average capital employed | 241,093 | 204,778 |
| Operating profit | 81,028 | 68,336 |
| Amortisation and impairment of acquisition-related intangibles | 4,641 | 384 |
| | 85,669 | 68,720 |
| Return on capital employed | 35.5% | 33.6% |

27 CAPITAL COMMITMENTS

| | THE GROUP | | PARENT COMPANY | |
|---|------------------|-------|-----------------------|------|
| | 2008 | 2007 | 2008 | 2007 |
| | £000 | £000 | £000 | £000 |
| Capital expenditure contracted for but not provided | 3,615 | 2,997 | - | - |

28 OPERATING LEASE OBLIGATIONS

| | THE GROUP | |
|--|------------------|-------|
| | 2008 | 2007 |
| | £000 | £000 |
| Commitments under non-cancellable leases due as follows: | | |
| Within 1 year | 2,846 | 2,098 |
| 1-5 years inclusive | 4,673 | 3,122 |
| After 5 years | 884 | 10 |
| | 8,403 | 5,230 |

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 £4,485,000 (2007: £2,850,000).

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 PA00 series tables, with medium cohort improvements subject to minimum improvements of 1% per annum, and depending on a member's year of birth. An adjustment is then made for each plan to reflect the profile of membership. This basis gives a life expectancy of 20 years and 22 years respectively for a male and female currently aged 65. These figures reflect a change from the mortality assumptions used at the last formal actuarial valuation following the generally recognised trend of increased longevity. The USA schemes use the RP-2000 mortality table with AA scale projected through 2008. Life expectancy under this table is 19 years and 21 years respectively for a male and female currently aged 65. These assumptions are regularly reviewed in light of scheme specific experience and more widely available statistics.

Notes to the accounts continued

29 EMPLOYEE BENEFITS *(continued)*

The financial assumptions used at 31st December were:

| | Assumptions weighted by value of liabilities % per annum | | | |
|------------------------------|---|------|----------------------------------|------|
| | UK pensions | | Overseas pensions and medical | |
| | 2008 | 2007 | 2008 | 2007 |
| Rate of increase in salaries | 4.1 | 4.4 | 3.7 | 3.6 |
| Rate of increase in pensions | 3.1 | 3.3 | 2.0 | 1.8 |
| Rate of price inflation | 3.0 | 3.3 | 2.7 | 2.6 |
| Discount rate | 6.3 | 5.9 | 6.2 | 5.9 |
| 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 | |
| | 2008 | 2007 | 2008 | 2007 |
| Expected rate of return on assets (weighted average) | 7.6 | 7.3 | 7.5 | 6.7 |
| Equities | 8.4 | 8.1 | 8.2 | 8.0 |
| Bonds | 5.1 | 4.5 | 5.1 | 4.3 |
| Other | 6.5 | 5.2 | 4.9 | 4.7 |

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 2008 were:

| | UK pensions | | Overseas pensions and medical | | Total | |
|---------------------------------|----------------|---------|----------------------------------|--------|----------------|---------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Equities | 112,461 | 138,805 | 12,616 | 14,142 | 125,077 | 152,947 |
| Bonds | 28,702 | 31,173 | 6,555 | 6,569 | 35,257 | 37,742 |
| Other | 6,653 | 14,610 | 3,455 | 3,221 | 10,108 | 17,831 |
| Total market value in aggregate | 147,816 | 184,588 | 22,626 | 23,932 | 170,442 | 208,520 |

The actual loss on plan assets was £45.1 million (2007 £3.7 million return).

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:

| | 1% increase | | Overseas 1% decrease | | 1% increase | | Total 1% decrease | |
|---|-------------|--|-------------------------|--|-------------|--|----------------------|--|
| | £000 | | £000 | | £000 | | £000 | |
| | | | | | | | | |
| Aggregate of service cost & interest cost components of post-retirement medical plans | 4 | | (3) | | 4 | | (3) | |
| Accumulated post-employment benefit obligation for medical costs | 22 | | (19) | | 22 | | (19) | |

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

| | UK pensions | | Overseas pensions and medical | | Total |
|--|----------------------------|--------------|----------------------------------|--------------|------------------|
| | 2008 £000 | 2007 £000 | 2008 £000 | 2007 £000 | 2007 £000 |
| Fair value of schemes' assets | 147,816 | 184,588 | 22,626 | 23,932 | 170,442 |
| Present value of funded schemes' liabilities | (194,890) | (192,612) | (33,447) | (25,591) | (228,337) |
| (Deficit) in the funded schemes | (47,074) | (8,024) | (10,821) | (1,659) | (57,895) |
| Present value of unfunded schemes' liabilities | - | - | (15,822) | (11,850) | (15,822) |
| Retirement benefit liability recognised in the balance sheet | (47,074) | (8,024) | (26,643) | (13,509) | (73,717) |
| Related deferred tax asset | 13,181 | 2,247 | 11,347 | 4,573 | 24,528 |
| Net pension liability | (33,893) | (5,777) | (15,296) | (8,936) | (49,189) |

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

| | UK pensions | | Overseas pensions and medical | | Total |
|---|----------------------------|--------------|----------------------------------|--------------|------------------|
| | 2008 £000 | 2007 £000 | 2008 £000 | 2007 £000 | 2007 £000 |
| Defined benefit obligation at beginning of year | (192,612) | (191,980) | (37,441) | (36,294) | (230,053) |
| Current service cost | (6,422) | (6,540) | (1,579) | (1,377) | (8,001) |
| Past service cost | - | - | - | - | - |
| Interest cost | (11,189) | (9,660) | (2,642) | (1,952) | (13,831) |
| Contributions by members | (102) | (98) | - | (69) | (102) |
| Actuarial gain/(loss) | 18,978 | 16,708 | 702 | 1,362 | 19,680 |
| Actual benefit payments | 6,605 | 5,871 | 2,675 | 1,905 | 9,280 |
| Settlement, curtailment | - | - | 1,508 | 115 | 1,508 |
| Experience gain/(loss) | (10,148) | (6,913) | (992) | - | (11,140) |
| Currency gain/(loss) | - | - | (11,500) | (1,131) | (11,500) |
| Defined benefit obligation at end of year | (194,890) | (192,612) | (49,269) | (37,441) | (244,159) |

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

| | UK pensions | | Overseas pensions and medical | | Total |
|--------------------------------------|----------------------------|--------------|----------------------------------|--------------|-----------------|
| | 2008 £000 | 2007 £000 | 2008 £000 | 2007 £000 | 2007 £000 |
| Value of assets at beginning of year | 184,588 | 176,326 | 23,932 | 22,356 | 208,520 |
| Expected return on assets | 13,438 | 13,087 | 2,272 | 1,726 | 15,710 |
| Actuarial gain/(loss) | (51,249) | (10,257) | (9,522) | (838) | (60,771) |
| Contributions paid by employer | 7,542 | 11,205 | 2,971 | 2,279 | 10,513 |
| Contributions paid by members | 102 | 98 | - | 69 | 102 |
| Actual benefit payments | (6,605) | (5,871) | (2,675) | (1,905) | (9,280) |
| Settlement, curtailment | - | - | (1,616) | - | (1,616) |
| Currency gain/(loss) | - | - | 7,264 | 245 | 7,264 |
| Value of assets at end of year | 147,816 | 184,588 | 22,626 | 23,932 | 170,442 |

The estimated employer contributions to be made in 2009 are £12,995,000.

Notes to the accounts continued

29 EMPLOYEE BENEFITS *(continued)*

The history of experience adjustments is as follows:

| | 2008 £000 | 2007 £000 | 2006 £000 | 2005 £000 |
|--|----------------------------|--------------|--------------|--------------|
| Defined benefit obligation at end of year | (244,159) | (230,053) | (228,274) | (217,155) |
| Fair value of schemes' assets | 170,442 | 208,520 | 198,682 | 171,348 |
| Retirement benefit liability recognised in the balance sheet | (73,717) | (21,533) | (29,592) | (45,807) |
| Experience adjustment on schemes' liabilities | (11,140) | (6,913) | 481 | 411 |
| As a percentage of schemes' liabilities | 4.6% | 3.0% | 0.2% | 0.2% |
| Experience adjustment on schemes' assets | (60,771) | (11,095) | 2,663 | 14,330 |
| As a percentage of schemes' assets | 35.7% | 5.3% | 1.3% | 8.4% |

The expense recognised in the income statement was as follows:

| | UK pensions | | Overseas pensions and medical | | Total |
|--|----------------------------|--------------|----------------------------------|--------------|----------------------------|
| | 2008 £000 | 2007 £000 | 2008 £000 | 2007 £000 | 2008 £000 |
| Current service cost | (6,422) | (6,540) | (1,296) | (1,333) | (7,718) |
| Past service cost | - | - | - | - | - |
| Settlement curtailment and termination benefits | - | - | - | 115 | - |
| Interest on schemes' liabilities | (11,189) | (9,660) | (2,136) | (1,889) | (13,325) |
| Expected return on schemes' assets | 13,438 | 13,087 | 1,812 | 1,695 | 15,250 |
| Total expense recognised in income statement | (4,173) | (3,113) | (1,620) | (1,412) | (5,793) |

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

| | 2008 £000 | 2007 £000 |
|--|----------------------------|--------------|
| Operating costs | (7,718) | (7,758) |
| Financial expenses | (13,325) | (11,549) |
| Financial income | 15,250 | 14,782 |
| Total expense recognised in income statement | (5,793) | (4,525) |

Statement of recognised income and expense (SORIE)

| | UK pensions | | Overseas pensions and medical | | Total |
|---|----------------------------|--------------|----------------------------------|--------------|----------------------------|
| | 2008 £000 | 2007 £000 | 2008 £000 | 2007 £000 | 2008 £000 |
| Actuarial loss recognised in SORIE | (42,419) | (462) | (7,669) | (415) | (50,088) |
| Deferred tax on actuarial amount recognised in SORIE | 11,565 | 129 | 6,143 | 150 | 17,708 |
| Cumulative loss recognised in SORIE at beginning of year | (3,766) | (3,433) | (1,732) | (1,467) | (5,498) |
| Cumulative loss recognised in SORIE at end of year | (34,620) | (3,766) | (3,258) | (1,732) | (37,878) |

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 £23,643 (2007: £3,070).

The post-retirement mortality assumptions in respect of the parent company Defined Benefit Scheme follows the PA00 series tables, with medium cohort improvements subject to minimum improvements of 1% per annum, and depending on a member's year of birth. This basis gives a life expectancy of 20 years and 22 years respectively for a male and female currently aged 65. These figures reflect a change from the mortality assumptions used at the last formal actuarial valuation following the generally recognised trend of increased longevity. These assumptions are 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 | |
|------------------------------|---|---------------------|
| | 2008 | UK pensions 2007 |
| Rate of increase in salaries | 4.5 | 4.8 |
| Rate of increase in pensions | 3.1 | 3.3 |
| Rate of price inflation | 3.0 | 3.3 |
| Discount rate | 6.3 | 5.9 |

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 | |
|--|---|---------------------|
| | 2008 | UK pensions 2007 |
| Expected rate of return on assets (weighted average) | 7.6 | 7.3 |
| Equities | 8.4 | 8.1 |
| Bonds | 5.1 | 4.5 |
| Other | 6.5 | 5.2 |

The market value of the scheme's 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 2008 were:

| | UK pensions | |
|---------------------------------|---------------|--------------|
| | 2008 £000 | 2007 £000 |
| Equities | 24,001 | 30,683 |
| Bonds | 6,439 | 6,931 |
| Other | 1,494 | 3,624 |
| Total market value in aggregate | 31,934 | 41,238 |

The actual loss on plan assets was £8.1 million (2007: £0.6 million return).

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

| | UK pensions | |
|--|-----------------|--------------|
| | 2008 £000 | 2007 £000 |
| Fair value of scheme's assets | 31,934 | 41,238 |
| Present value of funded scheme's liabilities | (43,200) | (40,700) |
| Retirement benefit (liability)/asset recognised in the balance sheet | (11,266) | 538 |
| Related deferred tax | - | - |
| Net pension (liability)/asset | (11,266) | 538 |

Notes to the accounts continued

29 EMPLOYEE BENEFITS *(continued)*

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

| | 2008 | UK pensions |
|---|-----------------|-------------|
| | £000 | 2007 |
| | | £000 |
| Defined benefit obligation at beginning of year | (40,700) | (41,319) |
| Current service cost | (949) | (1,100) |
| Past service costs | - | - |
| Interest cost | (2,323) | (2,069) |
| Change in assumptions on DBO | 2,300 | 2,300 |
| Actual benefit payments | 2,656 | 1,520 |
| Experience (loss)/gain | (4,184) | (32) |
| Defined benefit obligation at end of year | (43,200) | (40,700) |

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

| | 2008 | UK pensions |
|--------------------------------------|-----------------|-------------|
| | £000 | 2007 |
| | | £000 |
| Value of assets at beginning of year | 41,238 | 38,223 |
| Expected return on assets | 2,942 | 2,956 |
| Actuarial (loss)/gain | (11,031) | (2,366) |
| Contributions paid by employer | 1,441 | 3,945 |
| Actual benefit payments | (2,656) | (1,520) |
| Value of assets at end of year | 31,934 | 41,238 |

The estimated employer contributions to be made in 2009 are £2,207,000.

The history of experience adjustments is as follows:

| | 2008 | 2007 | 2006 | 2005 |
|--|-----------------|----------|----------|----------|
| | £000 | £000 | £000 | £000 |
| Defined benefit obligation at end of year | (43,200) | (40,700) | (41,319) | (40,300) |
| Fair value of scheme's assets | 31,934 | 41,238 | 38,223 | 34,500 |
| Retirement benefit asset/(liability) recognised in the balance sheet | (11,266) | 538 | (3,096) | (5,800) |
| Experience adjustment on scheme's liabilities | (4,184) | (32) | 115 | (1,400) |
| As a percentage of scheme's liabilities | 9.7% | 0.1% | 0.3% | 3.5% |
| Experience adjustment on scheme's assets | (11,031) | (2,366) | 459 | 3,100 |
| As a percentage of scheme's assets | 34.5% | 5.7% | 1.2% | 9.0% |

The expense recognised in the income statement was as follows:

| | 2008 | UK pensions |
|--|----------------|-------------|
| | £000 | 2007 |
| | | £000 |
| Current service cost | (949) | (1,100) |
| Past service cost | - | - |
| Interest on schemes' liabilities | (2,323) | (2,069) |
| Expected return on schemes' assets | 2,942 | 2,956 |
| Total expense recognised in income statement | (330) | (213) |

Statement of recognised income and expense (SORIE)

| | 2008 | UK pensions |
|--|-----------------|-------------|
| | £000 | 2007 |
| | | £000 |
| Actuarial loss recognised in SORIE | (12,915) | (98) |
| Deferred tax on actuarial amount recognised in SORIE | - | - |
| Cumulative loss recognised in SORIE at beginning of year | (1,914) | (1,816) |
| Cumulative loss recognised in SORIE at end of year | (14,829) | (1,914) |

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 42 to 49. The charge to the income statement in respect of share-based payments is made up as follows.

| | 2008 | 2007 |
|---|--------------|-------|
| | £000 | £000 |
| Share Option Scheme | 809 | 695 |
| Performance Share Plan | 605 | 468 |
| Employee Share Ownership Plan | 691 | 631 |
| Total expense recognised in income statement | 2,105 | 1,794 |

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 2007 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.

The share options granted 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 share option scheme grants are set out below.

| | 2004 | 2005 | 2006 | 2007 | 2008 |
|-------------------------|------------|------------|------------|------------|-------------------|
| | Grant | Grant | Grant | Grant | Grant |
| Grant date | 25th March | 21st April | 24th March | 26th March | 12th March |
| Exercise price | 541.9p | 686.0p | 960.0p | 1019.6p | 959.0p |
| Number of employees | 74 | 66 | 67 | 67 | 71 |
| Shares under option | 410,500 | 359,600 | 340,600 | 337,400 | 311,700 |
| Vesting period | 3 years | 3 years | 3 years | 3 years | 3 years |
| Expected volatility | 25% | 20% | 20% | 20% | 20% |
| Risk-free interest rate | 4.6% | 4.6% | 4.4% | 5.1% | 4.3% |
| Expected dividend yield | 4.5% | 4.0% | 2.5% | 2.5% | 3.0% |
| Fair value | 88.4p | 121.5p | 209.3p | 236.8p | 211.7p |

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 |
|---|---------------------------------|------------------------|--------------------------|-----------------------|-------------------------------|
| 1998 grant (420p) | 6,500 | | (4,000) | (2,500) | - |
| 1999 grant (525p) | 55,000 | | (30,000) | | 25,000 |
| 2000 grant (319.2p) | 46,500 | | (32,500) | | 14,000 |
| 2001 grant (397.7p) | 67,500 | | (53,500) | | 14,000 |
| 2002 grant (436p) | 76,000 | | (40,000) | (3,500) | 32,500 |
| 2003 grant (394.5p) | 150,224 | | (71,000) | | 79,224 |
| 2004 grant (541.9p) | 191,283 | | (90,160) | (3,500) | 97,623 |
| 2005 grant (686p) | 337,900 | | (142,145) | (3,500) | 192,255 |
| 2006 grant (960p) | 325,900 | | | (18,500) | 307,400 |
| 2007 grant (1019.6p) | 337,400 | | | (14,900) | 322,500 |
| 2008 grant (959.0p) | | 311,700 | | | 311,700 |
| | 1,594,207 | 311,700 | (463,305) | (46,400) | 1,396,202 |
| Weighted average exercise price | £7.26 | £9.59 | £5.20 | £8.58 | £8.42 |
| Weighted average contractual life remaining | | | | | 7.14 years |

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

Notes to the accounts continued

29 EMPLOYEE BENEFITS *(continued)*

b) Performance Share Plan

Awards under the Performance Share Plan are made to executive directors and 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, in shares or an option over shares. For awards granted up to 2007 the performance target is based on the Company's total shareholder return ("TSR") relative to the TSR of other companies included in the FTSE All-Share Industrial Engineering 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. The performance criteria for the 2008 award is split into two separate parts. The vesting of the first part, amounting to 60% of the award, is based on the existing TSR measure. The vesting of the second part, amounting to 40% of the award, is subject to achievement of a target based on cumulative growth in EPS over a three year performance period. 25% will vest if the compound growth in EPS is equal to 5% and 100% will vest if the compound growth in EPS is equal to or exceeds 11%, there is pro-rata vesting for actual growth between these two rates.

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

| | 2006 Grant | 2007 Grant | 2007 Grant | 2008 Grant |
|--|---------------|---------------|----------------|-------------------|
| Grant date | 24th March | 26th March | 10th September | 12th March |
| Mid market share price at grant date | 960.0p | 1019.6p | 975.0p | 959.0p |
| Number of employees | 7 | 7 | 1 | 5 |
| Shares under scheme | 92,567 | 93,200 | 17,538 | 131,540 |
| Vesting period | 3 years | 3 years | 3 years | 3 years |
| Probability of vesting | 51% | 48% | 47% | 65.4% |
| Probability of ceasing employment before vesting | zero | zero | zero | zero |
| Fair value | 489.6p | 489.4p | 458.3p | 627.2p |

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 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 Employee Share Ownership Plans are set out below.

| | 2004 ESOP | 2005 ESOP | 2006 ESOP | 2007 ESOP | 2008 ESOP |
|-------------------------|--------------|--------------|--------------|--------------|--------------------|
| Grant date | 1st October | 1st October | 1st October | 1st October | 1st October |
| Exercise price | 599.0p | 785.7p | 923.3p | 1019.3p | 908.8p |
| Number of employees | 810 | 847 | 910 | 946 | 985 |
| Shares under scheme | 86,241 | 70,227 | 67,380 | 66,525 | 80,087 |
| Vesting period | 3 years | 3 years | 3 years | 3 years | 3 years |
| Expected volatility | 20.0% | 20.0% | 20.0% | 20.0% | 20.0% |
| Risk free interest rate | 4.6% | 4.3% | 5.0% | 5.2% | 3.8% |
| Expected dividend yield | 4.0% | 3.0% | 2.5% | 2.5% | 3.0% |
| Fair value | 622.0p | 827.3p | 982.4p | 1086.6p | 953.3p |

The accumulation period for the 2008 ESOP ends in September 2009, therefore some figures are projections

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 share option scheme grants are set out below.

| | 2004 Grant | 2005 Grant | 2006 Grant | 2007 Grant | 2008 Grant |
|-------------------------|---------------|---------------|---------------|---------------|-------------------|
| Grant date | 25th March | 21st April | 24th March | 26th March | 12th March |
| Exercise price | 541.9p | 686.0p | 960.0p | 1019.6p | 959.0p |
| Number of employees | 8 | 2 | 2 | 2 | 1 |
| Shares under option | 137,753 | 8,400 | 9,500 | 8,500 | 3,500 |
| Vesting period | 3 years | 3 years | 3 years | 3 years | 3 years |
| Expected volatility | 25% | 20% | 20% | 20% | 20% |
| Risk-free interest rate | 4.6% | 4.6% | 4.4% | 5.1% | 4.3% |
| Expected dividend yield | 4.5% | 4.0% | 2.5% | 2.5% | 3.0% |
| Fair value | 88.4p | 121.5p | 209.3p | 236.8p | 211.7p |

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 |
|---|------------------------------|---------------------|-----------------------|--------------------|----------------------------|
| 1999 grant (525p) | 40,000 | | (25,000) | | 15,000 |
| 2000 grant (319.2p) | 25,000 | | (25,000) | | - |
| 2001 grant (397.7p) | 35,000 | | (35,000) | | - |
| 2002 grant (436p) | 47,500 | | (30,000) | | 17,500 |
| 2003 grant (394.5p) | 90,000 | | (55,000) | | 35,000 |
| 2004 grant (541.9p) | 94,253 | | (55,000) | | 39,253 |
| 2005 grant (686p) | 8,400 | | (2,338) | | 6,062 |
| 2006 grant (960p) | 6,000 | | | | 6,000 |
| 2007 grant (1019.6p) | 8,500 | | | | 8,500 |
| 2008 grant (959.0p) | | 3,500 | | | 3,500 |
| | 354,653 | 3,500 | (227,338) | - | 130,815 |
| Weighted average exercise price | £4.80 | £9.59 | £4.45 | - | £5.54 |
| Weighted average contractual life remaining | | | | | 4.62 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 grants are set out below.

| | 2006 Grant | 2007 Grant | 2007 Grant | 2008 Grant |
|--|---------------|---------------|----------------|-------------------|
| Grant date | 24th March | 26th March | 10th September | 12th March |
| Mid market share price at grant date | 960.0p | 1019.6p | 975.0p | 959.0p |
| Number of employees | 7 | 7 | 1 | 5 |
| Shares under scheme | 92,567 | 93,200 | 17,538 | 131,540 |
| Vesting period | 3 years | 3 years | 3 years | 3 years |
| Probability of vesting | 51% | 48% | 47% | 65.4% |
| Probability of ceasing employment before vesting | zero | zero | zero | zero |
| Fair value | 489.6p | 489.4p | 458.3p | 627.2p |

30 ANALYSIS OF CHANGES IN NET CASH

| | THE GROUP | | | At 31st December 2008 £000 |
|---|--------------------------------|-------------------|------------------------------|----------------------------------|
| | At 1st January 2008 £000 | Cash flow £000 | Exchange movement £000 | |
| Current portion of long term borrowings | (78) | | | (176) |
| Non-current portion of long term borrowings | (20,231) | | | (25,521) |
| Short term borrowings | (1,717) | | | (9,008) |
| Total borrowings | (22,026) | | | (34,705) |
| Comprising: | | | | |
| Borrowings | (21,665) | (9,396) | (3,258) | (34,319) |
| Finance Leases | (361) | 66 | (91) | (386) |
| | (22,026) | (9,330) | (3,349) | (34,705) |
| Cash and cash equivalents | 38,844 | 8,940 | 6,356 | 54,140 |
| Bank overdrafts | (987) | (552) | (506) | (2,045) |
| Net cash and cash equivalents | 37,857 | 8,388 | 5,850 | 52,095 |
| Net cash | 15,831 | (942) | 2,501 | 17,390 |

31 RELATED PARTY TRANSACTIONS

| THE GROUP | 2008 £000 | 2007 £000 |
|--|--------------|--------------|
| Sales to associated companies | 1,266 | 768 |
| Dividends from associated companies | 1,063 | 557 |
| Amounts due from associated companies at 31st December | 310 | 321 |

Notes to the accounts continued

31 RELATED PARTY TRANSACTIONS *(continued)*

| PARENT COMPANY | 2008 | 2007 |
|--|---------------|--------|
| | £000 | £000 |
| Dividends received from subsidiaries | 62,900 | 6,500 |
| Loans and amounts due from subsidiaries at 31st December | 73,490 | 36,695 |
| Amounts due to subsidiaries at 31st December | 941 | 941 |

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

32 PURCHASE OF BUSINESSES

2008

| | Flexicon A/S | | | Other acquisitions | | | Total |
|-------------------------------|--------------------|----------------|--------------------|--------------------|----------------|--------------------|--------------------|
| | Book value £000 | FV adj £000 | Fair value £000 | Book value £000 | FV adj £000 | Fair value £000 | Fair value £000 |
| Fixed assets | | | | | | | |
| Property, plant and equipment | 100 | - | 100 | 154 | 20 | 174 | 274 |
| Intangibles | - | 8,437 | 8,437 | 177 | 773 | 950 | 9,387 |
| | 100 | 8,437 | 8,537 | 331 | 793 | 1,124 | 9,661 |
| Current assets | | | | | | | |
| Inventories | 744 | - | 744 | 265 | (26) | 239 | 983 |
| Trade receivables | 1,518 | - | 1,518 | 1,036 | (4) | 1,032 | 2,550 |
| Other receivables | - | - | - | 24 | - | 24 | 24 |
| Cash | 55 | - | 55 | 100 | - | 100 | 155 |
| | 2,317 | - | 2,317 | 1,425 | (30) | 1,395 | 3,712 |
| Total assets | 2,417 | 8,437 | 10,854 | 1,756 | 763 | 2,519 | 13,373 |
| Current liabilities | | | | | | | |
| Trade payables | - | - | - | 538 | - | 538 | 538 |
| Other payables and accruals | 45 | - | 45 | 184 | 60 | 244 | 289 |
| Deferred tax | - | 2,109 | 2,109 | - | - | - | 2,109 |
| Short term borrowing | 849 | - | 849 | 215 | - | 215 | 1,064 |
| | 894 | 2,109 | 3,003 | 937 | 60 | 997 | 4,000 |
| Long term liabilities | 125 | - | 125 | - | - | - | 125 |
| Total liabilities | 1,019 | 2,109 | 3,128 | 937 | 60 | 997 | 4,125 |
| Total net assets | 1,398 | 6,328 | 7,726 | 819 | 703 | 1,522 | 9,248 |
| Goodwill | | | 6,856 | | | 1,010 | 7,866 |
| Purchase consideration | | | 14,582 | | | 2,532 | 17,114 |
| Satisfied by | | | | | | | |
| Cash paid | | | 11,422 | | | 2,110 | 13,532 |
| Deferred consideration | | | 2,817 | | | 223 | 3,040 |
| Expenses | | | 343 | | | 199 | 542 |
| | | | 14,582 | | | 2,532 | 17,114 |

Analysis of net flow of cash and cash equivalents in respect of purchase of subsidiaries

| | |
|-------------------------|---------------|
| Cash consideration | 13,398 |
| Expenses | 541 |
| Net cash outflow | 13,939 |

1 The acquisition of Flexicon A/S, based in Denmark was completed on 11th February 2008. The transaction also resulted in the Group obtaining full ownership of Flexicon's distribution company for the USA, Flexicon America Inc. The acquisition method of accounting has been used. Consideration of £11,422,000 was paid on completion. Separately identifiable intangibles are recorded as part of the fair value adjustment. Goodwill reflects the significant synergies in market coverage and cost savings that can be achieved by being part of a larger group.

2 The acquisition of Colima S.r.l., based in Italy was completed on 31st March 2008. The acquisition method of accounting has been used. Consideration of £480,000 was paid on completion. Intangibles, inventory, trade receivables and other payables and accruals has been adjusted to reflect Spirax Sarco's accounting policies in order to arrive at fair value.

3 The acquisition of the assets and business of Distant Star CC based in South Africa was completed on 30th June 2008. The acquisition method of accounting has been used. Consideration of £90,000 was paid on completion. Separately identifiable intangibles are recorded as part of the fair value adjustment.

4 The acquisition of PAK Machinery Limited based in the UK was completed on 3rd November 2008. The acquisition method of accounting has been used. Consideration of £450,000 was paid on completion. Separately identifiable intangibles are recorded as part of the fair value adjustment.

5 The acquisition of the 4.89% minority share of Spirax Sarco S.A. based in Spain was completed on 19th December 2008. The acquisition method of accounting has been used. Consideration of £777,000 was paid on completion.

Had the acquisitions all taken place on 1st January 2008, rather than the actual acquisition dates, the effect on Group revenue and profit after tax would not have been significant.

2007

1 The acquisition of the Watson-Marlow business in Denmark from A/S Christian Berner was completed on 30th January 2007. The acquisition method of accounting was used. Consideration of £292,000 was paid on completion. To reflect Spirax Sarco's accounting policies the consideration has been split between intangibles £160,000, goodwill £126,000 and expenses £6,000 to arrive at fair value.

2 The acquisition of the minority owned 20% of Spirax UltraPure LLC of Florida, USA was completed on 9th August 2007. Consideration of £612,000 was paid on completion, which included goodwill of £321,000.

33 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Group does not enter into significant derivative transactions. The Group's principal financial instruments comprise bank loans, 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 credit risk, 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.

Credit risk

The Group sells products and services to customers around the world and it's customer base is varied in size and industry sector. The Group operates credit control policies to assess customers credit rating and provides for any debt that is identified as non collectable. Historically losses from trade receivables have been low.

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.

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:

2007

| | THE GROUP | | | |
|-----------|------------------|--|---|--|
| | Total £000 | Fixed rate financial liabilities £000 | Floating rate financial liabilities £000 | Financial liabilities on which no interest is paid £000 |
| Euro | 14,920 | 1,041 | 172 | 13,707 |
| US dollar | 11,535 | - | 10,050 | 1,485 |
| Other | 32,367 | 4,460 | 7,290 | 20,617 |
| | 58,822 | 5,501 | 17,512 | 35,809 |

2008

| | THE GROUP | | | |
|-----------|------------------|--|---|--|
| | Total £000 | Fixed rate financial liabilities £000 | Floating rate financial liabilities £000 | Financial liabilities on which no interest is paid £000 |
| Euro | 21,696 | 1,003 | - | 20,693 |
| US dollar | 17,261 | - | 15,267 | 1,994 |
| Other | 47,514 | 1,133 | 19,347 | 27,034 |
| | 86,471 | 2,136 | 34,614 | 49,721 |

Notes to the accounts continued

33 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS *(continued)*

In respect of fixed rate financial liabilities the interest rate for euro financial liabilities is 2.9% fixed for 0.1 years. The interest rate for Korean Won financial liabilities is 6.7% fixed for 0.4 years.

2007

| | THE PARENT | | | |
|------------------|-------------------|--|---|--|
| | Total £000 | Fixed rate financial liabilities £000 | Floating rate financial liabilities £000 | Financial liabilities on which no interest is paid £000 |
| Euro | - | - | - | - |
| US dollar | - | - | - | - |
| Other (Sterling) | 432 | - | - | 432 |
| | 432 | - | - | 432 |

2008

| | THE PARENT | | | |
|------------------|-------------------|--|---|--|
| | Total £000 | Fixed rate financial liabilities £000 | Floating rate financial liabilities £000 | Financial liabilities on which no interest is paid £000 |
| Euro | - | - | - | - |
| US dollar | - | - | - | - |
| Other (Sterling) | 256 | - | - | 256 |
| | 256 | - | - | 256 |

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

| | | |
|-----------|---|---------------|
| US dollar | } | LIBOR |
| Euro | | LIBOR/EURIBOR |

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

| | Currency | Nominal interest rate | Year of maturity | 2008 Carrying value £000 | 2007 Carrying value £000 |
|-------------------------|----------|--------------------------|---------------------|-----------------------------------|-----------------------------------|
| Unsecured Bank Facility | € | 2.90% | 2009 | 659 | 747 |
| Unsecured Bank Facility | \$ | 3.89% | 2011 | 13,889 | 10,050 |
| Unsecured Bank Facility | CZK | 3.65% | 2012 | 828 | 635 |
| Unsecured Bank Facility | WON | 5.38% | 2012 | 4,749 | 2,737 |
| Unsecured Bank Facility | Yen | 1.47% | 2013 | 5,755 | 3,373 |
| Unsecured Bank Facility | Ringgit | 2.58% | 2011 | - | 5 |
| Unsecured Bank Facility | Rand | Prime | 2009 | 3,100 | 3,148 |
| Unsecured Bank Facility | WON | 7.04% | 2009 | 5,323 | 1,717 |
| Unsecured Bank Facility | DKK | 8.24% | 2009 | 166 | - |
| Unsecured Bank Facility | \$ | 1.19% | 2009 | 1,378 | - |
| Unsecured Bank Facility | RMB | 6.87% | 2009 | 510 | - |
| Unsecured Bank Facility | € | 3.05% | 2009 | 7 | 172 |
| Unsecured Bank Facility | NZ \$ | 8.50% | 2008 | - | 68 |
| Finance Leases | € | 4.10% | 2009-2013+ | 336 | 296 |
| Finance Leases | Roubles | | 2009-2013+ | 50 | 65 |
| | | | | 36,750 | 23,013 |

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:

| 2007 | THE GROUP | | |
|----------|----------------|--|---|
| | Total £000 | Floating rate financial assets £000 | Financial assets on which no interest is earned £000 |
| Sterling | 23,853 | 6,601 | 17,252 |
| Other | 118,737 | 21,758 | 96,979 |
| | 142,590 | 28,359 | 114,231 |

| 2008 | THE GROUP | | |
|----------|----------------|--|---|
| | Total £000 | Floating rate financial assets £000 | Financial assets on which no interest is earned £000 |
| Sterling | 20,211 | 6,193 | 14,018 |
| Other | 165,858 | 30,754 | 135,104 |
| | 186,069 | 36,947 | 149,122 |

| 2007 | THE PARENT | | |
|----------|---------------|--|---|
| | Total £000 | Floating rate financial assets £000 | Financial assets on which no interest is earned £000 |
| Sterling | 10,841 | 6,500 | 4,341 |
| Other | - | - | - |
| | 10,841 | 6,500 | 4,341 |

| 2008 | THE PARENT | | |
|----------|---------------|--|---|
| | Total £000 | Floating rate financial assets £000 | Financial assets on which no interest is earned £000 |
| Sterling | 7,984 | 6,092 | 1,892 |
| Other | - | - | - |
| | 7,984 | 6,092 | 1,892 |

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 3.7% (2007: 5.2%).

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 liability of £3,000 (2007 net monetary asset: £173,000) and in respect of the US dollar a net monetary asset of £1,015,000 (2007: £1,392,000).

At 31st December the percentage of debt to net assets, excluding debt was 1% (2007: 3%) for the euro and 38% (2007: 31%) for the US dollar.

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 £370,000 (2007: £283,000).

At the year end borrowings totalled £36,750,000 consequently, in respect of financial liabilities, the Group is not significantly at risk from increases in interest rates.

For the year ended 31st December 2008, it is estimated that a decrease of one percentage point in the value of sterling weighted in relation to the Group's profit and trading flows has increased the Group's profit before tax by approximately £1,000,000 (2007: £1,500,000 decrease). The effect can be very different between years due to the weighting of different currency movements. Forward exchange contracts have been included in this calculation.

The Credit risk profile of trade receivables

The aging of trade receivables at the reporting date was:

| | Gross 2008 | Impairment 2008 | Gross 2007 | Impairment 2007 |
|------------------------------|-----------------------|----------------------------|----------------|--------------------|
| Not past due date | 97,608 | (310) | 67,852 | (5) |
| 0-30 days past due date | 15,588 | (390) | 20,823 | (115) |
| 30 days-1 year past due date | 14,704 | (2,605) | 11,561 | (2,049) |
| More than one year | 2,778 | (2,778) | 637 | (637) |
| | 130,678 | (6,083) | 100,873 | (2,806) |

Based on past experience the Group believes no further impairment allowance is required for receivables that are past their due date.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

| | 2008 | 2007 |
|------------------------------------|--------------|--------------|
| Balance at 1 January 2008 | 2,806 | 2,034 |
| Movement in Impairment | 3,277 | 772 |
| Balance at 31 December 2008 | 6,083 | 2,806 |