

Notes to the accounts

1 SEGMENTAL REPORTING

Primary segment

Analysis by location of operation

Six months to 30th June 2008

	Net revenue £000	Intra- divisional £000	Inter- divisional £000	Gross revenue £000	Operating profit £000	Adjusted operating profit £000	Adjusted operating margin %
UK & Republic of Ireland	33,594	12	31,337	64,943	8,191	8,226	12.7%
Continental Europe	93,690	10,529	13,267	117,486	17,382	17,850	15.2%
North America	42,103	515	1,231	43,849	3,296	3,384	7.7%
Asia	40,192	296	1,543	42,031	7,781	7,781	18.5%
Rest of the world	29,128	134	2,418	31,680	3,498	3,544	11.2%
	238,707	11,486	49,796	299,989	40,148	40,785	13.6%
Total intra-Group revenue		(11,486)	(49,796)	(61,282)			
	238,707	-	-	238,707	40,148	40,785	17.1%

Six months to 30th June 2007

	Net revenue £000	Intra- divisional £000	Inter- divisional £000	Gross revenue £000	Operating profit £000	Adjusted operating profit £000	Adjusted operating margin %
UK & Republic of Ireland	29,437	21	29,116	58,574	7,546	7,577	12.9%
Continental Europe	75,595	8,477	9,544	93,616	12,093	12,092	12.9%
North America	37,925	504	337	38,766	2,680	2,774	7.2%
Asia	34,929	311	988	36,228	6,669	6,669	18.4%
Rest of the world	22,234	79	2,006	24,319	2,421	2,470	10.2%
	200,120	9,392	41,991	251,503	31,409	31,582	12.6%
Total intra-Group revenue		(9,392)	(41,991)	(51,383)			
	200,120	-	-	200,120	31,409	31,582	15.8%

Year ended 31st December 2007

	Net revenue £000	Intra- divisional £000	Inter- divisional £000	Gross revenue £000	Operating profit £000	Adjusted operating profit £000	Adjusted 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)			
	417,317	-	-	417,317	68,336	68,720	16.5%

Revenue by location of customer

	Six months to 30th June 2008 £000	Six months to 30th June 2007 £000	Year ended 31st December 2007 £000
UK & Republic of Ireland	25,113	22,414	43,993
Continental Europe	93,336	75,703	153,661
North America	42,983	38,393	80,800
Asia	45,231	39,345	85,252
Rest of the world	32,044	24,265	53,611
	238,707	200,120	417,317

Share of profit of associates

	Six months to 30th June		Six months to 30th June		Year ended 31st December	
	2008	2008	2007	2007	2007	2007
	Before adjustment	Total	Before adjustment	Total	Before adjustment	Total
	£000	£000	£000	£000	£000	£000
UK & Republic of Ireland	-	-	-	-	-	-
Continental Europe	-	-	-	-	-	-
North America	414	414	311	311	668	668
Asia	786	616	309	309	968	719
Rest of the world	-	-	-	-	-	-
	1,200	1,030	620	620	1,636	1,387

Net assets

	30th June 2008		30th June 2007		31st December 2007	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	£000	£000	£000	£000	£000	£000
UK & Republic of Ireland	82,340	(50,014)	84,281	(11,926)	78,721	(24,318)
Continental Europe	135,134	(41,489)	97,955	(33,302)	105,655	(35,052)
North America	42,885	(9,575)	40,194	(4,207)	42,750	(8,055)
Asia	53,120	(6,631)	46,671	(6,214)	51,937	(7,375)
Rest of the world	38,648	(10,237)	32,772	(6,721)	34,894	(8,003)
	352,127	(117,946)	301,873	(62,370)	313,957	(82,803)
Liabilities	(117,946)		(62,370)		(82,803)	
Deferred tax	10,821		(1,215)		3,352	
Current tax payable net of tax recoverable	(9,783)		(5,202)		(7,372)	
Net cash / (borrowings)	12,225		(7,226)		15,831	
Net assets	247,444		225,860		242,965	

Capital additions and Depreciation and amortisation

	30th June 2008		30th June 2007		31st December 2007	
	Capital additions	Depreciation and amortisation	Capital additions	Depreciation and amortisation	Capital additions	Depreciation and amortisation
	£000	£000	£000	£000	£000	£000
UK & Republic of Ireland	3,276	2,904	2,546	2,783	6,502	5,664
Continental Europe	11,671	2,895	1,747	2,070	5,231	4,101
North America	859	1,004	705	959	1,390	1,948
Asia	1,531	676	686	579	1,883	1,182
Rest of the world	990	719	1,501	567	2,814	1,336
	18,327	8,198	7,185	6,958	17,820	14,231

Secondary segment Revenue by business operation

	Six months to 30th June	Six months to 30th June	Year ended 31st December
	2008	2007	2007
	£000	£000	£000
Spirax Sarco	203,767	174,056	361,611
Watson-Marlow Bredel	34,940	26,064	55,706
	238,707	200,120	417,317

Capital additions

	Six months to 30th June	Six months to 30th June	Year ended 31st December
	2008	2007	2007
	£000	£000	£000
Spirax Sarco	8,295	6,290	15,870
Watson-Marlow Bredel	10,032	895	1,950
	18,327	7,185	17,820

Notes to the accounts continued

2 NET FINANCING INCOME

	Six months to 30th June 2008 £000	Six months to 30th June 2007 £000	Year ended 31st December 2007 £000
Financial expenses			
Bank and other borrowing interest payable	(737)	(880)	(1,699)
Interest on pension scheme liabilities	(6,617)	(5,842)	(11,549)
	(7,354)	(6,722)	(13,248)
Financial income			
Bank interest receivable	561	264	906
Expected return on pension scheme assets	7,552	7,403	14,782
	8,113	7,667	15,688
Net financing income	759	945	2,440
Net pension scheme financial income	935	1,561	3,233
Net bank interest	(176)	(616)	(793)
Net financing income	759	945	2,440

3 TAXATION

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

	Six months to 30th June 2008 £000	Six months to 30th June 2007 £000	Year ended 31st December 2007 £000
United Kingdom corporation tax	2,272	-	922
Overseas taxation	11,136	8,884	18,331
Deferred taxation	233	2,205	3,720
	13,641	11,089	22,973

4 EARNINGS PER SHARE

	Six months to 30th June 2008 £000	Six months to 30th June 2007 £000	Year ended 31st December 2007 £000
Profit attributable to equity holders of the parent	28,164	21,837	49,101
Weighted average shares in issue	76,230,122	75,760,224	75,889,850
Dilution	386,999	687,007	365,911
Diluted weighted average shares in issue	76,617,121	76,447,231	76,255,761
Basic earnings per share	36.9p	28.8p	64.7p
Diluted earnings per share	36.8p	28.6p	64.4p
Adjusted profit attributable to equity holders of the parent	28,971	22,010	49,734
Basic adjusted earnings per share	38.0p	29.1p	65.5p

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

5 DIVIDENDS

	Six months to 30th June 2008 £000	Six months to 30th June 2007 £000	Year ended 31st December 2007 £000
Amounts paid in the period			
Final dividend for the year ended 31st December 2007 of 21.6p (2006: 19.0p) per share	16,452	14,413	14,413
Interim dividend for the year ended 31st December 2007 of 8.3p per share	-	-	6,315
	16,452	14,413	20,728

	Six months to 30th June 2008 £000	Six months to 30th June 2007 £000	Year ended 31st December 2007 £000
Amounts arising in respect of the period			
Interim dividend for the year ended 31st December 2008 of 10.0p (2007: 8.3p) per share	7,653	6,315	6,315
Final dividend for the year ended 31st December 2007 of 21.6p per share	-	-	16,439
	7,653	6,315	22,754

6 EMPLOYEE BENEFITS

Pension plans

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. Full IAS 19 disclosure for the year ended 31st December 2007 is included in the Group's Annual Report.

The defined benefit plan expense is recognised in the income statement as follows:

	UK pensions		Overseas pensions and medical		Total		
	Six months to 30th June 2008 £000	Six months to 30th June 2007 £000	Six months to 30th June 2008 £000	Six months to 30th June 2007 £000	Six months to 30th June 2008 £000	Six months to 30th June 2007 £000	Year ended 31st Dec 2007 £'000
Current service cost	(2,900)	(3,300)	(642)	(653)	(3,542)	(3,953)	(7,873)
Settlement, curtailment	-	-	-	126	-	126	115
Interest on schemes' liabilities	(5,600)	(4,900)	(1,017)	(942)	(6,617)	(5,842)	(11,549)
Expected return on schemes' assets	6,700	6,550	852	853	7,552	7,403	14,782
Total expense recognised in income statement	(1,800)	(1,650)	(807)	(616)	(2,607)	(2,266)	(4,525)

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

	Six months to 30th June 2008 £000	Six months to 30th June 2007 £000	Year ended 31st Dec 2007 £'000
Operating costs	(3,542)	(3,827)	(7,758)
Financial expenses	(6,617)	(5,842)	(11,549)
Financial income	7,552	7,403	14,782
Total expense recognised in income statement	(2,607)	(2,266)	(4,525)

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

	UK pensions		Overseas pensions and medical		Total		
	30th June 2008 £000	30th June 2007 £000	30th June 2008 £000	30th June 2007 £000	30th June 2008 £000	30th June 2007 £000	31st Dec 2007 £'000
Fair value of schemes' assets	167,887	188,756	23,207	23,260	191,094	212,016	208,520
Present value of schemes' liabilities	(200,211)	(180,300)	(37,918)	(34,262)	(238,129)	(214,562)	(230,053)
Retirement benefit liability recognised in the balance sheet	(32,324)	8,456	(14,711)	(11,002)	(47,035)	(2,546)	(21,533)
Related deferred tax	9,050	(2,500)	4,650	3,300	13,700	800	6,820
Net pension liability	(23,274)	5,956	(10,061)	(7,702)	(33,335)	(1,746)	(14,713)

Notes to the accounts continued

Share based payments

The charge to the income statement in respect of share based payments is made up as follows:

	Six months to 30th June 2008 £000	Six months to 30th June 2007 £000	Year ended 31st Dec 2007 £'000
Share Option Scheme	458	300	695
Performance Share Plan	266	225	468
Employee Share Ownership Plan	351	319	631
	1,075	844	1,794

7 ANALYSIS OF CHANGES IN NET BORROWINGS

	At 1st January 2008 £000	Cash flow £000	Exchange movement £000	At 30th June 2008 £000
Current portion of long term borrowings	(78)			(86)
Non-current portion of long term borrowings	(20,231)			(17,178)
Short term borrowing	(1,717)			(2,143)
Total borrowings	(22,026)			(19,407)
Comprising:				
Borrowings	(21,665)	1,936	709	(19,020)
Finance Leases	(361)	-	(26)	(387)
	(22,026)	1,936	683	(19,407)
Cash and cash equivalents	38,844	(4,905)	1,811	35,750
Bank overdrafts	(987)	(2,937)	(194)	(4,118)
Net cash and cash equivalents	37,857	(7,842)	1,617	31,632
Net borrowings	15,831	(5,906)	2,300	12,225

8 GROUP STATEMENT OF CHANGES IN EQUITY

	Six months to 30th June 2008 £000	Six months to 30th June 2007 £000	Year ended 31st December 2007 £000
Shareholders' funds at beginning of period	242,151	198,509	198,509
Total recognised income and expense for the period	17,699	35,479	56,072
Dividends paid	(16,452)	(14,413)	(20,728)
Increased investment in associated company	-	2,705	2,946
Equity settled share plans net of tax	925	711	2,195
Proceeds of issue of share capital	13	42	42
Treasury shares reissued	5,283	2,852	5,457
Loss on the reissue of treasury shares	(3,075)	(1,157)	(2,342)
Equity attributable to equity holders of parent at end of period	246,544	224,728	242,151

9 CAPITAL EMPLOYED

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

	30th June 2008 £000	30th June 2007 £000	31st December 2007 £000
Property, plant and equipment	96,425	88,185	93,933
Prepayments	2,682	316	986
Inventories	84,071	71,823	73,824
Trade receivables	103,190	87,394	98,067
Other current assets	13,649	11,477	9,755
Tax recoverable	874	1,363	949
Trade and other payables	(67,644)	(50,192)	(58,832)
Current tax payable	(10,657)	(6,565)	(8,321)
	222,590	203,801	210,361

10 PURCHASE OF BUSINESSES

2008

	Flexicon A/S			Colima S.r.l. & Distant Star CC			Total value £000
	Book value £000	FV adj £000	Fair value £000	Book value £000	FV adj £000	Fair value £000	
Fixed assets							
Property, plant and equipment	100	-	100	66	-	66	166
Intangibles	-	8,437	8,437	177	422	599	9,036
	100	8,437	8,537	243	422	665	9,202
Current assets							
Inventories	744	-	744	143	(26)	117	861
Trade receivables	1,518	-	1,518	572	(4)	568	2,086
Other receivables	-	-	-	8	-	8	8
Cash	55	-	55	-	-	-	55
	2,317	-	2,317	723	(30)	693	3,010
Total assets	2,417	8,437	10,854	966	392	1,358	12,212
Current liabilities							
Trade payables	-	-	-	303	-	303	303
Other payables and accruals	45	-	45	107	14	121	166
Short term borrowing	849	-	849	182	-	182	1,031
	894	-	894	592	14	606	1,500
Long term liabilities	125	-	125	-	-	-	125
Total liabilities	1,019	-	1,019	592	14	606	1,625
Total net assets	1,398	8,437	9,835	374	378	752	10,587
Goodwill			4,881			526	5,407
Purchase consideration			14,716			1,278	15,994
Satisfied by							
Cash paid			11,422			570	11,992
Deferred consideration			2,994			481	3,475
Expenses			300			227	527
			14,716			1,278	15,994

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

Cash consideration	11,992
Expenses	174
Net cash outflow	12,166

- 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. The book value of intangibles has been adjusted to reflect Spirax Sarco's accounting policies in order to arrive at fair value.
- 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. The book value of 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.
- 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. The book value of intangibles has been adjusted to reflect Spirax Sarco's accounting policies in order to arrive at fair value.

2007

- 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.
- 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.

Notes to the accounts continued

11 RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Full details of the Group's other related party relationships, transactions and balances are given in the Group's financial statements for the year ended 31st December 2007. There have been no material changes in these relationships in the period up to the end of this report.

No related party transactions have taken place in the first half of 2008 that have materially affected the financial position or the performance of the Group during that period.

12 BASIS OF PREPARATION

The half year consolidated financial statements of Spirax-Sarco Engineering plc and its subsidiaries (the 'Group') have been prepared on the basis of the accounting policies set out in the 2007 Sprax-Sarco Engineering plc Annual Report, and in accordance with International Accounting Standard 34 Interim Financial Reporting, as adopted by the EU.

The comparative figures for the year ended 31st December 2007 do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The consolidated statutory accounts for Spirax-Sarco Engineering plc in respect of the year ended 31st December 2007 have been reported on by the company's auditors and delivered to the registrar of companies. The report of the auditors was unqualified and did not contain statements under section 237 (2) or (3) of the Companies Act 1985. The financial statements for the six months ended 30th June 2008, which have not been audited or reviewed by the auditors, were authorised for issue by the Board on 27th August 2008.

The interim report has been prepared solely to provide additional information to shareholders as a body to assess the Group's strategies and the potential for those strategies to succeed. This interim report should not be relied upon by any other party or for any other purpose. Notice is given of the intention to issue next year's interim report, for the six months ended 30th June 2009, only via the Group web site: www.SpiraxSarcoEngineering.com

CAUTIONARY STATEMENTS

This interim report contains forward-looking statements. These have been made by the directors in good faith based on the information available to them up to the time of their approval of this report. The directors can give no assurance that these expectations will prove to have been correct. Due to the inherent uncertainties, including both economic and business risk factors underlying such forward-looking information, actual results may differ materially from those expressed or implied by these forward-looking statements. The directors undertake no obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise.

PRINCIPAL RISKS AND UNCERTAINTIES

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remainder of the financial year and could cause actual results to differ materially from expected and historical results. The principal risks and uncertainties are strategic, commercial, operational and financial. Ultimately these affect our ability to deliver our prime financial objective, which is to provide enhanced value to shareholders through consistent growth in earnings per share and dividends per share as a result of maintaining our world leading position and investing in our businesses for growth. More details of the key risks facing the Group's businesses are included on page 22 and page 30 of the Group's statutory financial statements for the year ended 31st December 2007. Details of further potential risks and uncertainties arising since the issue of the previous statutory financial statements are included within the Review of Operations as appropriate.

RESPONSIBILITY STATEMENT

The directors confirm that to the best of their knowledge:

- this financial information has been prepared in accordance with IAS 34, as adopted by the EU;
- this interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first half and description of principal risks and uncertainties for the remaining half of the year); and
- this interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

M E Vernon

Chief Executive

27th August 2008

D J Meredith

Director Finance

27th August 2008

on behalf of the Board