

Directors' report

Company No. 596337

The directors of Spirax-Sarco Engineering plc have pleasure in presenting their report and the audited accounts for the year ended 31st December 2009.

Results

The results of the Group for the year, which have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU, are explained in the Chairman's Statement and the Business Review and Financial Review on pages 2, 3 and 10 to 21 and are set out in the Group income statement on page 49.

Dividend

An interim cash dividend of 10.5p per share (2008: 10.0p) was paid in November 2009. The directors now recommend the payment of a final dividend of 25.6p per share (2008: 23.3p). If approved at the annual general meeting the final dividend will be paid on 21st May 2010 to shareholders on the register on 16th April 2010. The total distribution for the year will be 36.1p per share (2008: 33.3p).

Business review

A review of the development and performance of the business of the Group, including the financial performance during the year, the position at the end of year, key performance indicators and a description of the principal risks and uncertainties facing the Group, are set out on pages 10 to 21.

The following cautionary statement applies to the Business Review and Financial Review which are set out on pages 10 to 21 and which are incorporated in this Directors' Report by reference.

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

Principal activities

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

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

The Watson-Marlow Pumps Group and its brands, which also include Bredel, Alitea, Flexicon and MasoSine, is the global leader in peristaltic pumping. It manufactures and markets products and systems for widely differing market sectors. Their unique action, ease of use, controllability and low maintenance make them cost and energy saving solutions to a growing range of applications.

A more detailed description of the Group's activities is set out on pages 10 to 17.

Board of directors

The directors of the Company are those listed on pages 30 and 31. As previously announced, Dr. K. Rajagopal was appointed to the Board as an independent non-executive director on 10th February 2009 and Mr. M. E. Gibbin was appointed to the Board as an executive director on 1st May 2009. Mr. C. G. Watson was appointed to the Board on 17th July 2009 as an independent non-executive director. In addition, Mr. A. D. H. Black was an executive director until 30th April 2009 when he retired. Mr. M. Townsend was the Chairman until 30th June 2009 when he too retired.

In accordance with the articles of association:

- (i) Following his appointment since the last meeting, Mr. C. G. Watson retires at the annual general meeting and, being eligible, offers himself for re-appointment. As an independent non-executive director, Mr. C. G. Watson has a letter of appointment.
- (ii) Mr. N. H. Daws, Mr. D. J. Meredith and Mr. M. E. Vernon retire and, being eligible, offer themselves for re-appointment. Mr. N. H. Daws, Mr. D. J. Meredith and Mr. M. E. Vernon have service contracts determinable on 12 months' notice.

Biographical details of each of the directors retiring at the forthcoming annual general meeting are set out on page 31.

Directors' interests and remuneration

The interests of the directors in the share capital of Spirax-Sarco Engineering plc as at 31st December 2009 are set out below. The number of shares over which directors hold options, together with their remuneration, is detailed in the Directors' Remuneration Report on pages 39 to 45.

	Ordinary Shares of 25p each		
	01.01.09 (or date of appointment if later ⁽¹⁾)	31.12.09 (or date of retirement if earlier ⁽²⁾)	04.03.10 ⁽³⁾ (or date of retirement if earlier ⁽²⁾)
W.H. Whiteley	7,434	10,434	10,434
M.E. Vernon	14,890	34,615	63,441
A.D.H. Black ⁽²⁾	46,794	59,294	59,294
N.H. Daws	7,906	19,776	31,663
M.E. Gibbin ⁽¹⁾	0	4,890	4,890
D.J. Meredith	43,833	52,507	66,394
A.J. Scrivin	22,736	33,380	44,266
M. Townsend ⁽²⁾	2,879	2,879	2,879
G. Bullock	1,250	1,250	1,250
C.G. Watson ⁽¹⁾	0	0	0
K. Rajagopal ⁽¹⁾	0	1,000	1,000

(1) Dr. K. Rajagopal was appointed to the Board on 10th February 2009. Mr. M. E. Gibbin was appointed to the Board on 1st May 2009. Mr. C. G. Watson was appointed to the Board on 17th July 2009.

(2) Mr. A. D. H. Black and Mr. M. Townsend retired from the Board on 30th April 2009 and 30th June 2009 respectively.

(3) The increase in the executive directors' shareholding is as a result of the vesting of the 2007 Performance Share Plan award.

Mr. A. D. H. Black purchased a motor car from the Company at the then current market value of £10,000.

Directors' report continued

Employment policies

Details of the Group's employment policies are set out on pages 25 to 28.

Annual general meeting

The notice of meeting and an explanation of resolutions 9 to 15 to be proposed at the annual general meeting are set out in the enclosed circular.

Share capital

The maximum number of treasury shares held by the Company during the year, with a nominal value of £313,886, was 1,255,542, which represented 1.63% of the called up share capital at that time.

Details of shares issued during the year are set out in Note 24 on page 66.

As at 31st December 2009 the Company's share capital was made up of ordinary shares each carrying one vote at general meetings of the Company. Save as set out in the articles of association or in applicable legislation there are no restrictions on the transfer of shares in the Company. There are no restrictions on the voting rights in the Company's shares.

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

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

Purchase of own shares

There was no purchase of shares by the Company during the year. At 31st December 2009 the number of shares which may be purchased under the shareholders' authority given at the annual general meeting in 2009 was 7,603,267 and the total number of shares in issue was 77,238,516.

Shareholdings of 3% or more

As at 26th February 2010, the Company had an issued share capital of 77,289,941 shares of which 846,847 shares were held in treasury. Of the 76,443,094 ordinary shares with voting rights in issue, as at this date, the Company received notice of material interests in 3% or more of the voting rights (calculated on the issued share capital less the shares held in treasury).

The information received is set out below.

	Ordinary Shares	%
Schroders Investment Management Ltd	7,129,817	9.33
Blackrock Investment Management	6,948,139	9.09
Baillie Gifford & Co	5,122,498	6.70
Sprucegrove Investment Management Ltd	4,604,844	6.02
First Eagle Investment Management LLC	3,128,831	4.09
Majedie Asset Management	2,934,172	3.84
NFU Mutual Insurance Society	2,741,815	3.59
Legal & General Investment Management	2,717,239	3.55

Financial instrument risk management

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. More detail is set out in Note 32 on pages 77 to 81.

Statement of the policy and practice on the payment of suppliers

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

Spirax-Sarco Engineering plc had no trade creditors as at 31st December 2009 and consequently creditor days have not been presented.

Research and development

The Group continues to devote significant resources to the updating and expansion of its range of products and engineered packages in order to remain at the forefront of its world markets. Expenditure in 2009 on research and development amounted to £8,018,000 (2008: £6,529,000), of which £2,082,000 (2008: £1,640,000) is capitalised as explained in Note 1 on page 54. During the year the Group has taken steps to increase its research and development capability by the creation of a separate research and development function based in Cheltenham. This function is tasked with improving the Group's pipeline of new products and decreasing the time to launch.

Market value of land and buildings

In the opinion of the directors, the market value of the land and buildings of the Group exceeds the book value of those assets at 31st December 2009 by approximately £12,000,000 (2008: £12,000,000).

Group charitable and political donations

Charitable donations during the year amounted to £86,250 divided amongst 73 organisations (2008: £81,156). There were no political donations (2008: nil).

Auditors

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

Going concern

The Company continues to adopt the going concern basis in preparing the Annual Report and Accounts. More detail is set out on page 38.

Capital gains tax

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

Company information

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

By order of the Board

W.G. Stebbings

Company Secretary and Solicitor

4th March 2010

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