

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 judgements, 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 judgements 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 and Finance Review on pages 10 to 21. In addition, note 32 to the financial statements discloses details of the Group's financial risk management and credit facilities.

Amendments to IAS 1, Presentation of financial statements and IFRS 8, Operating segments were adopted in the period. IAS 1 has resulted in format changes to the primary statements and IFRS 8 has resulted in a change in segmental analysis, which is further described in note 2.

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

- 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 consolidated accounts are presented in pounds sterling, which is the Company's functional currency, rounded to the nearest thousand.

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 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own income statement.

Notes to the accounts continued

1 ACCOUNTING POLICIES (continued)

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 dates 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 - 33.3%	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 staff costs and related expenses. 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	
ERP systems and software	12.5 - 20%	core technology	10%
Customer relationships	20%	Non compete undertaking	50%
Brand names and trademarks	10 - 20%		

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 of cash flow statements.

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 Comprehensive Income 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.

Notes to the accounts continued

1 ACCOUNTING POLICIES (continued)

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

As a result of the introduction of IFRS 8, Operating Segments, which introduced a management approach to segment reporting, the Group's segments have been changed to disclose information that is more consistent with management reporting. All 2008 figures previously presented in old segmental format have been restated to reflect the new presentation.

Analysis by location of operation 2009

	Gross Revenue £000	Inter-segment revenue £000	Revenue £000	Total operating profit £000	Before adjustment operating profit £000	Before adjustment operating margin %
Europe, Middle East & Africa	257,736	32,232	225,504	25,848	35,623	15.8%
Americas	109,911	5,301	104,610	11,974	13,854	13.2%
Asia Pacific	107,475	2,733	104,742	22,691	23,099	22.1%
Steam Specialties business	475,122	40,266	434,856	60,513	72,576	16.7%
Watson-Marlow Pumps business	84,008	159	83,849	20,964	22,317	26.6%
Corporate Expenses				(4,955)	(4,955)	
	559,130	40,425	518,705	76,522	89,938	17.3%
Intra Group	(40,425)	(40,425)				
Net Revenue	518,705	–	518,705	76,522	89,938	17.3%

2008

	Gross Revenue £000	Inter-segment revenue £000	Revenue £000	Total operating profit £000	Before adjustment operating profit £000	Before adjustment operating margin %
Europe, Middle East & Africa	260,638	34,547	226,091	38,880	39,180	17.3%
Americas	108,015	6,102	101,913	8,840	12,119	11.9%
Asia Pacific	102,829	3,898	98,931	21,136	21,136	21.4%
Steam Specialties business	471,482	44,547	426,935	68,856	72,435	17.0%
Watson-Marlow Pumps business	75,448	67	75,381	17,347	18,409	24.4%
Corporate Expenses				(5,175)	(5,175)	
	546,930	44,614	502,316	81,028	85,669	17.1%
Intra Group	(44,614)	(44,614)				
Net Revenue	502,316	–	502,316	81,028	85,669	17.1%

Net revenue split between the UK and rest of the world is, UK £59,755,000 (2008: £62,768,000), rest of the world £458,950,000 (2008: £439,548,000).

The total operating profit for each period is after charging the expenses analysed below:

2009

	Exceptional Headcount reduction costs £000	Amortisation of acquisition-related intangible assets £000	Total £000
Europe, Middle East & Africa	9,142	633	9,775
Americas	1,741	138	1,879
Asia Pacific	409	–	409
Steam Specialties business	11,292	771	12,063
Watson-Marlow Pumps business	102	1,251	1,353
	11,394	2,022	13,416

2008

	Impairment of goodwill & intangible assets £000	Amortisation of acquisition-related intangible assets £000	Total £000
Europe, Middle East & Africa	–	300	300
Americas	3,100	179	3,279
Asia Pacific	–	–	–
Steam Specialties business	3,100	479	3,579
Watson-Marlow Pumps business	–	1,062	1,062
	3,100	1,541	4,641

Share of profit of associates

	2009 Before adjustment £000	2009 Total £000	2008 Before adjustment £000	2008 Total £000
Europe, Middle East & Africa	–	–	–	–
Americas	763	763	851	851
Asia Pacific	2,009	1,644	1,890	1,547
Steam Specialties business	2,772	2,407	2,741	2,398
Watson-Marlow Pumps business	–	–	–	–
	2,772	2,407	2,741	2,398

Net financing income and expense

	2009 £000	2008 £000
Europe, Middle East & Africa	(1,452)	525
Americas	(192)	679
Asia Pacific	(475)	(180)
Steam Specialties business	(2,119)	1,024
Watson-Marlow Pumps business	(94)	306
Corporate	(301)	406
	(2,514)	1,736

Net assets

	2009 Assets £000	Liabilities £000	2008 Assets £000	Liabilities £000
Europe, Middle East & Africa	194,394	(105,487)	202,333	(107,634)
Americas	65,703	(21,400)	72,558	(25,600)
Asia Pacific	86,724	(14,373)	81,437	(11,694)
Watson-Marlow Pumps business	89,769	(13,279)	69,545	(10,981)
	436,590	(154,539)	425,873	(155,909)
Liabilities	(154,539)		(155,909)	
Deferred Tax	23,522		19,466	
Current Tax payable	(6,242)		(10,814)	
Net Cash	8,033		17,390	
Net assets	307,364		296,006	

Notes to the accounts continued

2 SEGMENTAL REPORTING (continued)

Capital additions and depreciation and amortisation

	2009	Depreciation	2008	
	Capital	and	Capital	Depreciation and
	Additions	amortisation	Additions	amortisation
	£000	£000	£000	£000
Europe, Middle East & Africa	17,597	9,652	15,283	10,920
Americas	2,879	2,839	4,218	5,594
Asia Pacific	11,595	2,261	8,928	1,960
Watson-Marlow Pumps business	20,045	3,798	15,540	1,385
	52,116	18,550	43,969	19,859

Capital additions include property, plant and equipment of £33,824,000 (2008: £27,296,000) and other intangible assets of £18,292,000 (2008: £16,673,000) of which £15,143,000 (2008: £11,853,000) relates to acquired intangibles from acquisitions in the period. Capital additions split between the UK and rest of the world are, UK £13,490,000 (2008: £11,559,000), rest of the world £38,626,000 (2008: £32,410,000).

3 OPERATING COSTS

	2009	2008
	£000	£000
Change in stocks of finished goods and work in progress	5,491	(6,341)
Raw materials and consumables	144,801	153,939
Staff costs (<i>note 4</i>)	191,393	173,792
Depreciation and amortisation	18,550	19,859
Other operating charges	81,948	80,039
	442,183	421,288

Staff costs include exceptional headcount reduction costs of £11,394,000 (2008: £nil).

Depreciation and amortisation includes amortisation of acquisition-related intangible assets of £2,022,000 (2008: £1,541,000), goodwill and intangible asset impairment of £Nil (2008: £3,100,000) and amortisation of capitalised development costs of £1,274,000 (2008: £1,104,000).

4 STAFF COSTS AND NUMBERS

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

	2009	2008
	£000	£000
Wages and salaries	152,092	138,094
Social security costs	26,058	23,495
Other pension costs	13,243	12,203
	191,393	173,792

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

	2009	2008
	Number	Number
United Kingdom	1,168	1,205
Overseas	3,209	3,213
	4,377	4,418

5 NET FINANCING INCOME AND EXPENSE

	2009	2008
	£000	£000
Financial expenses		
Bank and other borrowing interest payable	(1,369)	(1,480)
Interest on pension scheme liabilities	(14,703)	(13,325)
	(16,072)	(14,805)

Financial income		
Bank interest receivable	631	1,291
Expected return on pension scheme assets	12,927	15,250
	13,558	16,541
Net financing income/(expense)	(2,514)	1,736
Net pension scheme financial income	(1,776)	1,925
Net bank interest	(738)	(189)
Net financing income/(expense)	(2,514)	1,736

6 PROFIT BEFORE TAXATION

Profit before taxation is shown after charging:

	2009	2008
	£000	£000
Depreciation of tangible fixed assets held under finance leases	71	175
Hire of plant and machinery	553	598
Other operating leases	4,472	3,762
Research and development	5,936	4,889
Auditor's remuneration	£000	£000
Fees payable to the company's auditor for the audit of the company's annual accounts	148	144
Fees payable to the company's auditor and its associates for other services:		
The audit of the company's subsidiaries, pursuant to legislation	1,040	903
Tax services	402	363
Other services	173	97
	1,763	1,507

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 39 to 45. Directors represent the key management personnel of the Group under the terms of IAS 24: Related Party Disclosures.

8 TAXATION

	2009	2008
	£000	£000
Analysis of charge in period		
UK corporation tax		
Current tax on income for the period	18,932	20,350
Adjustments in respect of prior periods	(102)	(434)
	18,830	19,916
Double taxation relief	(18,593)	(16,493)
	237	3,423
Foreign tax		
Current tax on income for the period	25,796	20,730
Adjustments in respect of prior periods	(7)	-
	25,789	20,730
Total current tax charge	26,026	24,153
Deferred tax - UK	111	(536)
Deferred tax - Foreign	(2,813)	1,757
Tax on profit on ordinary activities	23,324	25,374

Reconciliation of effective tax rate

	2009	2008
	£000	£000
Profit before tax	76,415	85,162
Tax using the UK corporation tax rate of 28% (2008: 28.5%)	21,396	24,271
Effect of higher/(lower) overseas tax rates	1,451	(184)
Associated companies	(674)	(683)
Non-deductible expenditure	1,248	918
Overprovided in prior years	(109)	(1,151)
Other reconciling items	12	2,203
Total tax in income statement	23,324	25,374

Notes to the accounts continued

8 TAXATION (continued)

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.

Taxation recognised directly in equity

	2009	2008
	£000	£000
Relating to:		
Equity settled transactions	(550)	(460)
On actuarial gains and losses	2,106	17,708
	1,556	17,248

9 PROFIT FOR THE FINANCIAL YEAR ATTRIBUTABLE TO SHAREHOLDERS

Profit dealt with in the accounts of Spirax-Sarco Engineering plc was £48,586,000 (2008: £61,464,296). Included in this amount are dividends from subsidiary undertakings of £49,500,000 (2008: £62,900,000).

10 EARNINGS PER SHARE

	2009	2008
	£000	£000
Profit attributable to equity holders of the parent	52,963	59,547
Weighted average shares in issue	76,132,486	76,359,740
Dilution	242,642	303,354
Diluted weighted average shares in issue	76,375,128	76,663,094
Basic earnings per share	69.6p	78.0p
Diluted earnings per share	69.3p	77.7p
Adjusted profit attributable to equity holders of the parent	62,596	63,648
Basic adjusted earnings per share	82.2p	83.4p

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

11 DIVIDENDS

	2009	2008
	£000	£000
Amounts paid in the year		
Final dividend for the year ended 31st December 2008 of 23.3p (2007: 21.6p) per share	17,720	16,485
Interim dividend for the year ended 31st December 2009 of 10.5p (2008: 10.0p) per share	8,013	7,674
	25,733	24,159
Amounts arising in respect of the year		
Interim dividend for the year ended 31st December 2009 of 10.5p (2008: 10.0p) per share	8,013	7,674
Proposed final dividend for the year ended 31st December 2009 of 25.6p (2008: 23.3p) per share	19,556	17,994
	27,569	25,668

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.

12 PROPERTY, PLANT AND EQUIPMENT

	THE GROUP				
	Land and buildings			Fixtures, fittings, tools and equipment £000	Total £000
	Freehold £000	Leasehold £000	Plant and machinery £000		
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
Cost or deemed cost:					
At 1st January 2009	78,740	5,375	126,243	55,212	265,570
Exchange adjustments	(2,997)	(567)	(5,365)	(2,564)	(11,493)
	75,743	4,808	120,878	52,648	254,077
Additions	11,362	8,692	8,632	5,138	33,824
Disposals	(1,052)	(9)	(4,338)	(3,610)	(9,009)
At 31st December 2009	86,053	13,491	125,172	54,176	278,892
Depreciation:					
At 1st January 2009	15,769	369	83,010	43,525	142,673
Exchange adjustments	(569)	(22)	(3,203)	(2,084)	(5,878)
	15,200	347	79,807	41,441	136,795
Charged in year	1,349	80	9,102	3,328	13,859
Disposals	(54)	(3)	(3,624)	(3,464)	(7,145)
At 31st December 2009	16,495	424	85,285	41,305	143,509
Net book value:					
At 31st December 2009	69,558	13,067	39,887	12,871	135,383

Included in the above are finance leases with a net book value of £465,542 (2008: £590,542).

Included in additions are £703,000 (2008: £274,000) of assets acquired on purchase of businesses.

13 GOODWILL AND OTHER INTANGIBLE ASSETS

	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

Notes to the accounts continued

13 GOODWILL AND OTHER INTANGIBLE ASSETS

	THE GROUP				
	Acquired intangibles £000	Development £000	Software and other intangibles £000	Total intangibles £000	Goodwill £000
Cost or valuation:					
At 1st January 2009	15,562	9,775	21,310	46,647	29,908
Exchange adjustments	(838)	(278)	(864)	(1,980)	(1,615)
	14,724	9,497	20,446	44,667	28,293
Additions	15,143	2,082	1,067	18,292	9,857
Disposals/Impairment	–	–	(45)	(45)	–
At 31st December 2009	29,867	11,579	21,468	62,914	38,150
Amortisation:					
At 1st January 2009	3,002	5,686	15,038	23,726	–
Exchange adjustments	(149)	(147)	(484)	(780)	–
	2,853	5,539	14,554	22,946	–
Charged in year	2,030	1,269	1,481	4,780	–
Disposals	–	–	(45)	(45)	–
At 31st December 2009	4,883	6,808	15,990	27,681	–
Net book value:					
At 31st December 2009	24,984	4,771	5,478	35,233	38,150

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.

	2009 Goodwill £000	2008 Goodwill £000
Flexicon A/S, Denmark	8,222	8,913
MasoSine	7,457	–
M & M product unit	3,243	3,558
Spirax Sarco, Inc. USA	3,168	3,515
Alitea product unit	2,570	2,607
UK Supply product unit	2,100	2,304
Spirax Intervalf, Turkey	2,070	–
Spirax-Sarco S.A.S. France	1,417	1,551
Watson-Marlow, South Africa	1,263	1,130
Mitech product unit	1,135	1,016
Other cash-generating units	5,505	5,314
	38,150	29,908

The 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 forecast information for the next financial year which has been approved by the Board and in the case of recent acquisitions on detailed annual forecasts.
- The key assumptions on which the impairment tests are based are the discount and growth rates and the forecast cash flows.
- Pre-tax discount rates range from 13-25%.
- Growth rates vary between 1-5% depending on detailed forecasts. These rates of growth are conservative when compared to the annualised profit growth of the group over the last few years.
- No impairments were identified as a result of this exercise.

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

- Annual monetary growth of 5%.
- Pre-tax discount rate of 13%.

The principal value in use assumptions for the MasoSine goodwill balance were as follows:

- Long term revenue growth of 2.5-3.5%.
- Pre-tax discount rate of 18%.

As expected there is little headroom in the case of recently acquired businesses, which have not yet had time to develop under the management of the Group. The businesses are performing in accordance with expectations and the key assumptions used above are appropriate at the year-end. As an indication of the headroom limits, the impairment charge that would be required if the discount rate were increased by 1% is £900,000 and that required if long-term revenue growth were decreased by 1% is £700,000.

14 LOANS TO SUBSIDIARIES

	PARENT COMPANY	
	2009 £000	2008 £000
Cost:		
At 1st January	28,716	17,055
Exchange adjustments	595	79
	29,311	17,134
Loans	3,099	11,582
At 31st December	32,410	28,716
Amounts written off:		
At 1st January and 31st December	(1,042)	(1,042)
Net book value:		
At 31st December	31,368	27,674

15 INVESTMENT IN SUBSIDIARIES

	PARENT COMPANY	
	2009 £000	2008 £000
Cost:		
At 1st January	48,840	48,049
Share options issued to subsidiary company employees	673	791
Holding transferred to other Group company	(1,952)	
At 31st December	47,561	48,840
Amounts written off:		
At 1st January and 31st December	(994)	(994)
Net book value:		
At 31st December	46,567	47,846

Investments are stated at cost less provisions for any impairment in value.

Details relating to subsidiary undertakings are given on the inside back cover. Except where stated all classes of shares were 100% owned by the Group at 31st December 2009. 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	
	2009 £000	2008 £000
Cost of investment	5,212	5,212
Share of total equity	4,582	4,184
	9,794	9,396

Summarised aggregated financial information (total business)

Revenue	25,863	25,281
Profit for the period	5,634	5,574
Assets	17,612	16,346
Liabilities	4,469	4,750

Details of the Group's associates at 31st December 2009 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

Notes to the accounts continued

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	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
Accelerated capital allowances	1,561	214	(5,505)	(4,137)	(3,944)	(3,923)
Provisions	9,033	5,827	(375)	(33)	8,658	5,794
Losses	1,151	2,221	-	-	1,151	2,221
Inventory	933	611	(1,505)	(1,984)	(572)	(1,373)
Pensions	22,596	23,269	(2,363)	(2,798)	20,233	20,471
Other temporary differences	2,907	1,038	(4,911)	(4,762)	(2,004)	(3,724)
Tax assets/(liabilities)	38,181	33,180	(14,659)	(13,714)	23,522	19,466

Movement in deferred tax during the year

2008

	THE GROUP			
	1 January 2008 £000	Recognised in income £000	Recognised in equity £000	31 December 2008 £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)	(2,363)	(417)	(3,724)
	3,352	(1,221)	17,335	19,466

2009

	THE GROUP			
	1 January 2009 £000	Recognised in income £000	Recognised in equity £000	31 December 2009 £000
Accelerated capital allowances	(3,923)	(153)	132	(3,944)
Provisions	5,794	3,059	(195)	8,658
Losses	2,221	(1,066)	(4)	1,151
Inventory	(1,373)	546	255	(572)
Pensions	20,471	(2,305)	2,067	20,233
Other temporary differences	(3,724)	2,621	(901)	(2,004)
	19,466	2,702	1,354	23,522

Amounts recognised in equity include items arising from acquisitions.

Movement in deferred tax during the year

2008

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

2009

	PARENT COMPANY			
	1 January 2009 £000	Recognised in income £000	Recognised in equity £000	31 December 2009 £000
Other temporary differences	156	232	62	450
	156	232	62	450

18 INVENTORIES

THE GROUP

	2009 £000	2008 £000		2008 £000
Raw materials and consumables	30,476	38,321		
Work in progress	14,063	16,213		
Finished goods and goods for resale	41,940	47,848		
	86,479	102,382		

19 OTHER CURRENT ASSETS

THE GROUP

PARENT COMPANY

	2009 £000	2008 £000	2009 £000	2008 £000
Other receivables	6,834	7,334	-	-
Prepayments and accrued income	4,758	5,540	50	97
	11,592	12,874	50	97

20 TRADE AND OTHER PAYABLES

THE GROUP

PARENT COMPANY

	2009 £000	2008 £000	2009 £000	2008 £000
Trade payables	25,510	28,686	-	-
Bills of exchange payable	774	2,364	-	-
Social security	3,831	4,051	-	-
Other payables	22,543	21,035	318	256
Accruals	26,677	24,874	969	1,736
	79,335	81,010	1,287	1,992

21 CURRENT TAX PAYABLE

THE GROUP

PARENT COMPANY

	2009 £000	2008 £000	2009 £000	2008 £000
UK Corporation tax	327	1,136	-	615
Foreign tax payable	7,811	10,796	-	-
	8,138	11,932	-	615

22 OBLIGATIONS UNDER FINANCE LEASES

THE GROUP

	Minimum lease payments		Present value lease payments	
	2009 £000	2008 £000	2009 £000	2008 £000
Amount payable				
Within 1 year	69	98	50	67
1-5 years inclusive	215	269	191	221
After 5 years	-	19	-	19
	284	386	241	307
Add future finance charges			43	79
Minimum lease payments	284	386	284	386
Less: Due for settlement in <1 year			50	67
Due for settlement in >1 year			234	319

Notes to the accounts continued

23 PROVISIONS

	THE GROUP	
	2009 £000	Warranty and other provisions 2008 £000
Provisions at 1st January	1,182	1,343
Exchange adjustments	(66)	147
	1,116	1,490
Net charge for the year	-	-
Increase in the year	325	(308)
Provisions at 31st December	1,441	1,182

24 CALLED UP SHARE CAPITAL

	THE GROUP		PARENT COMPANY	
	2009 £000	2008 £000	2009 £000	2008 £000
Ordinary shares of 25p each: Authorised 120,000,000	30,000	30,000	30,000	30,000
Allotted, called up and fully paid 77,238,516 (2008: 77,227,516)	19,310	19,307	19,310	19,307

11,000 shares were issued pursuant to the Spirax-Sarco Engineering Share Option Schemes for a consideration of £44,774 received by the Company.

At 31st December 846,847 treasury shares were available for use in connection with the Group's Employee Share Schemes.

Directors and 125 other senior employees and former employees of the Group have been granted options to purchase 1,419,345 ordinary shares with an aggregate nominal value of £354,836 (Note 28).

25 RETURN ON CAPITAL EMPLOYED

	THE GROUP	
	2009 £000	2008 £000
Capital employed		
Property, plant and equipment	135,383	122,897
Prepayments	1,124	900
Inventories	86,479	102,382
Trade receivables	118,835	124,595
Other current assets	11,592	12,874
Tax recoverable	1,896	1,118
Trade and other payables	(79,335)	(81,010)
Current tax payable	(8,138)	(11,932)
Capital employed	267,836	271,824
Average capital employed	269,830	241,093
Operating profit	76,522	81,028
Exceptional headcount reduction, and amortisation and impairment of acquisition-related intangibles	13,416	4,641
	89,938	85,669
Return on capital employed	33.3%	35.5%

26 CAPITAL COMMITMENTS

	THE GROUP		PARENT COMPANY	
	2009 £000	2008 £000	2009 £000	2008 £000
Capital expenditure contracted for but not provided	3,456	3,615	-	-

27 OPERATING LEASE OBLIGATIONS

	THE GROUP	
	2009 £000	2008 £000
Commitments under non-cancellable leases due as follows:		
Within 1 year	3,168	2,846
1-5 years inclusive	4,851	4,673
After 5 years	1,063	884
	9,082	8,403

Operating leases are primarily in respect of property, plant and equipment.

28 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 £5,215,000 (2008: £4,485,000).

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 the generally recognised trend of increased longevity. The USA schemes use the RP-2000 mortality table with AA scale projected through 2010. 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.

The financial assumptions used at 31st December were:

	Assumptions weighted by value of liabilities % per annum			
	UK pensions		Overseas pensions and medical	
	2009	2008	2009	2008
Rate of increase in salaries	4.0	4.1	3.5	3.7
Rate of increase in pensions	3.4	3.1	1.8	2.0
Rate of price inflation	3.5	3.0	2.6	2.7
Discount rate	5.7	6.3	5.6	6.2
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	
	2009	2008	2009	2008
Expected rate of return on assets (weighted average)	7.6	7.6	7.3	7.5
Equities	8.4	8.4	8.2	8.2
Bonds	4.9	5.1	5.2	5.1
Other	5.7	6.5	3.8	4.9

Notes to the accounts continued

28 EMPLOYEE BENEFITS (continued)

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 2009 were:

	UK pensions		Overseas pensions and medical		Total	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
Equities	144,239	112,461	17,279	12,616	161,518	125,077
Bonds	35,719	28,702	5,231	6,555	40,950	35,257
Other	5,189	6,653	3,490	3,455	8,679	10,108
Total market value in aggregate	185,147	147,816	26,000	22,626	211,147	170,442

The actual return on plan assets was £38.9 million (2008 £45.1 million loss).

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 £000	Overseas 1% decrease £000	1% increase £000	Total 1% decrease £000
	Aggregate of service cost & interest cost components of post-retirement medical plans	4	(3)	4
Accumulated post-employment benefit obligation for medical costs	19	(16)	19	(16)

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

	UK pensions		Overseas pensions and medical		Total	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
Fair value of schemes' assets	185,147	147,816	26,000	22,626	211,147	170,442
Present value of funded schemes' liabilities	(234,657)	(194,890)	(35,592)	(33,447)	(270,249)	(228,337)
(Deficit) in the funded schemes	(49,510)	(47,074)	(9,592)	(10,821)	(59,102)	(57,895)
Present value of unfunded schemes' liabilities	-	-	(14,661)	(15,822)	(14,661)	(15,822)
Retirement benefit liability recognised in the balance sheet	(49,510)	(47,074)	(24,253)	(26,643)	(73,763)	(73,717)
Related deferred tax asset	13,863	13,181	6,653	11,347	20,516	24,528
Net pension liability	(35,647)	(33,893)	(17,600)	(15,296)	(53,247)	(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
	2009 £000	2008 £000	2009 £000	2008 £000	2008 £000
Defined benefit obligation at beginning of year	(194,890)	(192,612)	(49,269)	(37,441)	(230,053)
Current service cost	(5,738)	(6,422)	(2,180)	(1,579)	(8,001)
Interest cost	(11,994)	(11,189)	(2,672)	(2,642)	(13,831)
Contributions by members	(114)	(102)	–	–	(102)
Actuarial gain/(loss)	(29,536)	18,978	(2,196)	702	19,680
Actual benefit payments	8,558	6,605	2,793	2,675	9,280
Settlement, curtailment	–	–	(101)	1,508	1,508
Experience gain/(loss)	(943)	(10,148)	(752)	(992)	(11,140)
Currency gain/(loss)	–	–	4,124	(11,500)	(11,500)
Defined benefit obligation at end of year	(234,657)	(194,890)	(50,253)	(49,269)	(244,159)

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

	UK pensions		Overseas pensions and medical		Total
	2009 £000	2008 £000	2009 £000	2008 £000	2008 £000
Value of assets at beginning of year	147,816	184,588	22,626	23,932	208,520
Expected return on assets	11,361	13,438	1,541	2,272	15,710
Actuarial gain/(loss)	22,761	(51,249)	3,251	(9,522)	(60,771)
Contributions paid by employer	11,653	7,542	3,118	2,971	10,513
Contributions paid by members	114	102	–	–	102
Actual benefit payments	(8,558)	(6,605)	(2,793)	(2,675)	(9,280)
Settlement, curtailment	–	–	–	(1,616)	(1,616)
Currency gain/(loss)	–	–	(1,743)	7,264	7,264
Value of assets at end of year	185,147	147,816	26,000	22,626	170,442

The estimated employer contributions to be made in 2010 are £15,189,000.

The history of experience adjustments is as follows:

	2009 £000	2008 £000	2007 £000	2006 £000
Defined benefit obligation at end of year	(284,910)	(244,159)	(230,053)	(228,274)
Fair value of schemes' assets	211,147	170,442	208,520	198,682
Retirement benefit liability recognised in the balance sheet	(73,763)	(73,717)	(21,533)	(29,592)
Experience adjustment on schemes' liabilities	(1,695)	(11,140)	(6,913)	481
As a percentage of schemes' liabilities	0.6%	4.6%	3.0%	0.2%
Experience adjustment on schemes' assets	26,012	(60,771)	(11,095)	2,663
As a percentage of schemes' assets	12.3%	35.7%	5.3%	1.3%

The expense recognised in the income statement was as follows:

	UK pensions		Overseas pensions and medical		Total
	2009 £000	2008 £000	2009 £000	2008 £000	2008 £000
Current service cost	(5,738)	(6,422)	(2,186)	(1,296)	(7,718)
Settlement curtailment and termination benefits	–	–	(104)	–	–
Interest on schemes' liabilities	(11,994)	(11,189)	(2,709)	(2,136)	(13,325)
Expected return on schemes' assets	11,361	13,438	1,566	1,812	15,250
Total expense recognised in income statement	(6,371)	(4,173)	(3,433)	(1,620)	(5,793)

Notes to the accounts continued

28 EMPLOYEE BENEFITS (continued)

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

	2009	2008
	£000	£000
Operating costs	(8,028)	(7,718)
Financial expenses	(14,703)	(13,325)
Financial income	12,927	15,250
Total expense recognised in income statement	(9,804)	(5,793)

Statement of comprehensive income (OCI)

	UK pensions		Overseas pensions and medical		Total	
	2009	2008	2009	2008	2009	2008
	£000	£000	£000	£000	£000	£000
Actuarial loss recognised in OCI	(7,718)	(42,419)	(82)	(7,669)	(7,800)	(50,088)
Deferred tax on actuarial amount recognised in OCI	2,161	11,565	(55)	6,143	2,106	17,708
Cumulative loss recognised in OCI at beginning of year	(34,620)	(3,766)	(3,258)	(1,732)	(37,878)	(5,498)
Cumulative loss recognised in OCI at end of year	(40,177)	(34,620)	(3,395)	(3,258)	(43,572)	(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 £91,894 (2008: £94,143).

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 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	
	2009	UK pensions 2008
Rate of increase in salaries	4.5	4.5
Rate of increase in pensions	3.4	3.1
Rate of price inflation	3.5	3.0
Discount rate	5.7	6.3

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	
	2009	UK pensions 2008
Expected rate of return on assets (weighted average)	7.6	7.6
Equities	8.4	8.4
Bonds	4.9	5.1
Other	5.7	6.5

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 2009 were:

	2009	UK pensions
	£000	2008
		£000
Equities	30,823	24,001
Bonds	7,748	6,439
Other	1,222	1,494
Total market value in aggregate	39,793	31,934

The actual return on plan assets was £7.1 million (2008: £8.1 million loss).

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

	2009	UK pensions
	£000	2008
		£000
Fair value of scheme's assets	39,793	31,934
Present value of funded scheme's liabilities	(51,000)	(43,200)
Retirement benefit (liability)/asset recognised in the balance sheet	(11,207)	(11,266)
Related deferred tax	-	-
Net pension (liability)/asset	(11,207)	(11,266)

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

	2009	UK pensions
	£000	2008
		£000
Defined benefit obligation at beginning of year	(43,200)	(40,700)
Current service cost	(806)	(949)
Interest cost	(2,641)	(2,323)
Change in assumptions on DBO	(6,200)	2,300
Actual benefit payments	1,815	2,656
Experience (loss)/gain	32	(4,184)
Defined benefit obligation at end of year	(51,000)	(43,200)

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

	2009	UK pensions
	£000	2008
		£000
Value of assets at beginning of year	31,934	41,238
Expected return on assets	2,439	2,942
Actuarial (loss)/gain	4,611	(11,031)
Contributions paid by employer	2,624	1,441
Actual benefit payments	(1,815)	(2,656)
Value of assets at end of year	39,793	31,934

The estimated employer contributions to be made in 2010 are £3,473,000.

The history of experience adjustments is as follows:

	2009	2008	2007	2006
	£000	£000	£000	£000
Defined benefit obligation at end of year	(51,000)	(43,200)	(40,700)	(41,319)
Fair value of scheme's assets	39,793	31,934	41,238	38,223
Retirement benefit asset/(liability) recognised in the balance sheet	(11,207)	(11,266)	538	(3,096)
Experience adjustment on scheme's liabilities	32	(4,184)	(32)	115
As a percentage of scheme's liabilities	0.1%	9.7%	0.1%	0.3%
Experience adjustment on scheme's assets	4,611	(11,031)	(2,366)	459
As a percentage of scheme's assets	11.6%	34.5%	5.7%	1.2%

Notes to the accounts continued

28 EMPLOYEE BENEFITS (continued)

The expense recognised in the income statement was as follows:

	2009 £000	UK pensions 2008 £000
Current service cost	(806)	(949)
Interest on schemes' liabilities	(2,641)	(2,323)
Expected return on schemes' assets	2,439	2,942
Total expense recognised in income statement	(1,008)	(330)

Statement of comprehensive income (OCI)

	2009 £000	UK pensions 2008 £000
Actuarial loss recognised in OCI	(1,557)	(12,915)
Deferred tax on actuarial amount recognised in OCI	-	-
Cumulative loss recognised in OCI at beginning of year	(14,829)	(1,914)
Cumulative loss recognised in OCI at end of year	(16,386)	(14,829)

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 39 to 45. The charge to the income statement in respect of share-based payments is made up as follows.

	2009 £000	2008 £000
Share Option Scheme	686	809
Performance Share Plan	500	605
Employee Share Ownership Plan	743	691
Total expense recognised in income statement	1,929	2,105

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 ten years from date of grant. 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 Towers Watson 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.

	2005 Grant	2006 Grant	2007 Grant	2008 Grant	2009 Grant
Grant date	21st April	24th March	26th March	12th March	11th March
Exercise price	686.0p	960.0p	1019.6p	959.0p	765.0p
Number of employees	66	67	67	71	70
Shares under option	359,600	340,600	337,400	311,700	223,500
Vesting period	3 years	3 years	3 years	3 years	3 years
Expected volatility	20%	20%	20%	20%	25%
Risk-free interest rate	4.6%	4.4%	5.1%	4.3%	2.5%
Expected dividend yield	4.0%	2.5%	2.5%	3.0%	3.5%
Fair value	121.5p	209.3p	236.8p	211.7p	145.5p

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)	25,000		(25,000)		
2000 grant (319.2p)	14,000		(8,500)		5,500
2001 grant (397.7p)	14,000		(7,500)		6,500
2002 grant (436p)	36,000		(9,500)		26,500
2003 grant (394.5p)	79,224		(19,224)		60,000
2004 grant (541.9p)	101,123		(22,340)		78,783
2005 grant (686p)	192,255		(62,893)		129,362
2006 grant (960p)	307,400		(14,000)	(17,800)	275,600
2007 grant (1019.6p)	322,500			(10,500)	312,000
2008 grant (959.0p)	311,700			(8,600)	303,100
2009 grant (765.0p)		223,500		(1,500)	222,000
	1,403,202	223,500	(168,957)	(38,400)	1,419,345
Weighted average exercise price	£8.41	£7.65	£5.87	£9.68	£8.55
Weighted average contractual life remaining					6.9 years

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

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 awards from 2008 onwards are 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 aggregate 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 Watson using the Monte Carlo simulation valuation methodology. The relevant disclosures in respect of the Performance Share Plan grants are set out below.

	2007 Grant	2007 Grant	2008 Grant	2009 Grant
Grant date	26th March	10th September	12th March	11th March
Mid market share price at grant date	1019.6p	975.0p	959.0p	765.0p
Number of employees	7	1	5	5
Shares under scheme	93,200	17,538	131,540	128,146
Vesting period	3 years	3 years	3 years	3 years
Probability of vesting	48%	47%	65.4%	69.1%
Probability of ceasing employment before vesting	zero	zero	zero	zero
Fair value	489.4p	458.3p	627.2p	528.6p

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 HMRC rules. The Company provides a matching share for each share purchased by the individual.

Shares issued under the Employee Share Ownership Plan have been measured by Towers Watson 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.

	2005 ESOP	2006 ESOP	2007 ESOP	2008 ESOP	2009 ESOP
Grant date	1st October	1st October	1st October	1st October	1st October
Exercise price	785.7p	923.3p	1019.3p	908.8p	1039.7p
Number of employees	847	910	946	985	944
Shares under scheme	70,227	67,380	66,525	80,087	69,788
Vesting period	3 years	3 years	3 years	3 years	3 years
Expected volatility	20.0%	20.0%	20.0%	20.0%	25.0%
Risk free interest rate	4.3%	5.0%	5.2%	3.8%	0.6%
Expected dividend yield	3.0%	2.5%	2.5%	3.0%	3.5%
Fair value	827.3p	982.4p	1086.6p	953.3p	1093.7p

The accumulation period for the 2009 Plan ends in September 2010, 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.

Notes to the accounts continued

28 EMPLOYEE BENEFITS (continued)

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.

	2005 Grant	2006 Grant	2007 Grant	2008 Grant	2009 Grant
Grant date	21st April	24th March	26th March	12th March	11th March
Exercise price	686.0p	960.0p	1019.6p	959.0p	765.0p
Number of employees	2	2	2	1	1
Shares under option	8,400	9,500	8,500	3,500	2,500
Vesting period	3 years	3 years	3 years	3 years	3 years
Expected volatility	20%	20%	20%	20%	25%
Risk-free interest rate	4.6%	4.4%	5.1%	4.3%	2.5%
Expected dividend yield	4.0%	2.5%	2.5%	3.0%	3.5%
Fair value	121.5p	209.3p	236.8p	211.7p	145.5p

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)	15,000		(15,000)		
2002 grant (436p)	17,500				17,500
2003 grant (394.5p)	35,000				35,000
2004 grant (541.9p)	39,253				39,253
2005 grant (686p)	6,062				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
2009 grant (765.0p)		2,500			2,500
	130,815	2,500	(15,000)		118,315
Weighted average exercise price	£5.54	£7.65	£5.25		£5.63
Weighted average contractual life remaining					4.2 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.

	2007 Grant	2007 Grant	2008 Grant	2009 Grant
Grant date	26th March	10th September	12th March	11th March
Mid market share price at grant date	1019.6p	975.0p	959.0p	765.0p
Number of employees	7	1	5	5
Shares under scheme	93,200	17,538	131,540	128,146
Vesting period	3 years	3 years	3 years	3 years
Probability of vesting	48%	47%	65.4%	69.1%
Probability of ceasing employment before vesting	zero	zero	zero	zero
Fair value	489.4p	458.3p	627.2p	528.6p

29 ANALYSIS OF CHANGES IN NET CASH

	THE GROUP			At 31st December 2009 £000
	At 1st January 2009 £000	Cash flow £000	Exchange movement £000	
Current portion of long term borrowings	(176)			(63)
Non-current portion of long term borrowings	(25,521)			(44,255)
Short term borrowings	(9,008)			(9,284)
Total borrowings	(34,705)			(53,602)
Comprising:				
Borrowings	(34,319)	(20,614)	1,615	(53,318)
Finance Leases	(386)	67	35	(284)
	(34,705)	(20,547)	1,650	(53,602)
Cash and cash equivalents	54,140	7,390	664	62,194
Bank overdrafts	(2,045)	1,319	167	(559)
Net cash and cash equivalents	52,095	8,709	831	61,635
Net cash	17,390	(11,838)	2,481	8,033

30 RELATED PARTY TRANSACTIONS

THE GROUP	2009	2008
	£000	£000
Sales to associated companies	1,259	1,266
Dividends from associated companies	1,498	1,063
Amounts due from associated companies at 31st December	237	310

PARENT COMPANY	2009	2008
	£000	£000
Dividends received from subsidiaries	49,500	62,900
Loans and amounts due from subsidiaries at 31st December	93,331	73,490
Amounts due to subsidiaries at 31st December	941	941

The transactions above were priced on an arm's length basis and on standard business terms.

31 PURCHASE OF BUSINESSES

2009

	MasoSine			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	485	–	485	218	–	218	703
Intangibles	–	13,214	13,214	–	1,605	1,605	14,819
	485	13,214	13,699	218	1,605	1,823	15,522
Current assets							
Inventories	283	–	283	473	(105)	368	651
Trade receivables	1,585	–	1,585	–	–	–	1,585
	1,868	–	1,868	473	(105)	368	2,236
Total assets	2,353	13,214	15,567	691	1,500	2,191	17,758
Current liabilities	–	–	–	–	–	–	–
Long term liabilities	–	–	–	–	–	–	–
Total liabilities	–	–	–	–	–	–	–
Total net assets	2,353	13,214	15,567	691	1,500	2,191	17,758
Goodwill			7,392			2,436	9,828
Purchase consideration			22,959			4,627	27,586
Satisfied by							
Cash paid			21,930			2,408	24,338
Deferred consideration			–			1,766	1,766
Expenses			1,029			453	1,482
			22,959			4,627	27,586

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

Cash consideration	25,710
Expenses	1,482

Net cash outflow **27,192**

1 The acquisition of the trade and assets of the Maso and Sine businesses, based in Germany was completed on 27th August 2009. The acquisition method of accounting has been used. Consideration of £21,930,000 was paid on completion. The book value of intangibles has been adjusted to reflect Spirax Sarco's accounting policies in order to arrive at their fair value.

2 The acquisition of the trade and assets of Intervalf business, based in Turkey was completed on 1st October 2009. The acquisition method of accounting has been used. Consideration of £2,077,000 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.

3 The acquisition of the Watson-Marlow Swiss distributor was completed on 31st January 2009. The acquisition method of accounting has been used. Consideration of £331,000 was paid on completion.

Had the acquisitions all taken place on 1st January 2009, rather than the actual acquisition dates, the effect on Group revenue and profit after tax would have been approximately, revenue £8,500,000 and profit after tax £1,500,000.

Notes to the accounts

continued

31 PURCHASE OF BUSINESSES (continued)

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.

32 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 its customer base is varied in size and industry sector. The Group operates credit control policies to assess customers' credit ratings 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:

	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

	THE GROUP			
	Total £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Financial liabilities on which no interest is paid £000
Euro	35,163	748	17,766	16,649
US dollar	14,518	–	12,422	2,096
Other	52,533	3,995	19,230	29,308
	102,214	4,743	49,418	48,053

In respect of fixed rate financial liabilities the interest rate for euro financial liabilities is 1% fixed for 0.1 years. The interest rate for Korean Won financial liabilities is 4.9% fixed for 0.4 years, and the interest rate for Chinese RMB financial liabilities is 4.9% fixed for 0.9 years.

	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

Notes to the accounts

continued

32 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (continued)

2009

	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)	318	–	–	318
	318	–	–	318

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	2009 Carrying value £000	2008 Carrying value £000
Unsecured Bank Facility	CZK	LIBOR + 0.5%	2012	774	828
Unsecured Bank Facility	€	–	2010	67	7
Unsecured Bank Facility	€	1%	2010	493	659
Unsecured Bank Facility	€	LIBOR + 2%	2012	17,699	–
Unsecured Bank Facility	RMB	4.89%	2010	3,630	510
Unsecured Bank Facility	WON	4.93%	2010	337	4,749
Unsecured Bank Facility	WON	4.76 - 6.05%	2010	5,316	5,323
Unsecured Bank Facility	WON	3.64%	2012	4,786	–
Unsecured Bank Facility	ZAR	PRIME - 1.94%	2012	3,364	3,100
Unsecured Bank Facility	\$	–	–	–	1,378
Unsecured Bank Facility	\$	0.79%	2011	12,422	13,889
Unsecured Bank Facility	DKK	–	–	–	166
Unsecured Bank Facility	Yen	1.47%	2013	4,989	5,755
Finance Leases	€	4.10%	2010-2014	255	336
Finance Leases	Roubles	–	2010-2014	29	50
				54,161	36,750

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:

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

2009

	THE GROUP		
	Total £000	Floating rate financial assets £000	Financial assets on which no interest is earned £000
Sterling	23,962	10,830	13,132
Other	163,901	34,380	129,521
	187,863	45,210	142,653

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

2009

	THE PARENT		
	Total £000	Floating rate financial assets £000	Financial assets on which no interest is earned £000
Sterling	12,740	10,514	2,226
Other	–	–	–
	12,740	10,514	2,226

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 0.33% (2008: 3.7%).

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 comprehensive income.

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 £372,000 (2008: £3,000) and in respect of the US dollar a net monetary asset of £2,441,000 (2008: £1,015,000).

At 31st December the percentage of debt to net assets, excluding debt was 22.5% (2008: 1%) for the euro and 34.6% (2008: 38%) for the US dollar.

Maturity of financial liabilities

The Group's financial liabilities at 31st December reprice (or mature if earlier) in the following periods:

2008

	THE GROUP					
	Trade and other payables £000	Overdrafts £000	Short term borrowings £000	Finance leases £000	Long term borrowings £000	Total £000
In six months or less, or on demand	49,721	2,045	8,498	28	25,311	85,603
In more than six months but no more than twelve	–	–	510	58	–	568
In more than one year but no more than two	–	–	–	69	–	69
In more than two years but no more than three	–	–	–	68	–	68
In more than three years but no more than four	–	–	–	71	–	71
In more than four years but no more than five	–	–	–	73	–	73
In more than five years	–	–	–	19	–	19
	49,721	2,045	9,008	386	25,311	86,471

2009

	THE GROUP					
	Trade and other payables £000	Overdrafts £000	Short term borrowings £000	Finance leases £000	Long term borrowings £000	Total £000
In six months or less, or on demand	48,053	559	5,123	9	44,034	97,778
In more than six months but no more than twelve	–	–	4,161	54	–	4,215
In more than one year but no more than two	–	–	–	76	–	76
In more than two years but no more than three	–	–	–	61	–	61
In more than three years but no more than four	–	–	–	65	–	65
In more than four years but no more than five	–	–	–	19	–	19
In more than five years	–	–	–	–	–	–
	48,053	559	9,284	284	44,034	102,214

Notes to the accounts

continued

32 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (continued)

2008

	THE PARENT					
	Trade and other payables £000	Overdrafts £000	Short term borrowings £000	Finance leases £000	Long term borrowings £000	Total £000
In six months or less, or on demand	256	–	–	–	–	256
	256	–	–	–	–	256

2009

	THE PARENT					
	Trade and other payables £000	Overdrafts £000	Short term borrowings £000	Finance leases £000	Long term borrowings £000	Total £000
In six months or less, or on demand	318	–	–	–	–	318
	318	–	–	–	–	318

Cash flow hedge

At 31st December the Group had contracts outstanding to purchase £1,200,000 with South Korean won, £1,080,000 with Japanese yen, €132,000 with US dollars, £183,000 with US dollars, £6,688,000 with Euros, \$63,000 with Swedish SEK, £373,500 with Danish DKK, £617,000 with Norwegian NOK, £694,000 with South African Rand, £600,000 with Chinese RMB, £270,000 with Swedish SEK, £322,100 with Czech CZK, £400,000 Polish PLN and €120,000 with Chinese RMB.

Borrowing Facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available at 31st December in respect of which all conditions precedent had been met at that date were as follows:

	THE GROUP	
	2009 £000	2008 £000
Expiring in one year or less	28,597	32,486

	THE PARENT	
	2009 £000	2008 £000
Expiring in one year or less	20,000	20,000

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 would increase the Group's profit after tax and equity by approximately £50,000 (2008: £120,000).

At the year end borrowings totalled £54,161,000 consequently, in respect of financial liabilities, the Group is not significantly at risk from increases in interest rates.

For the year ended 31st December 2009, 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 £1,200,000 (2008: £1,000,000). 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 2009	Impairment 2009	Gross 2008	Impairment 2008
Not past due date	97,447	(271)	97,608	(310)
0-30 days past due date	10,904	(239)	15,588	(390)
30 days-1 year past due date	15,434	(4,440)	14,704	(2,605)
More than one year	3,171	(3,171)	2,778	(2,778)
	126,956	(8,121)	130,678	(6,083)

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:

	2009	2008
Balance at 1 January	6,083	2,806
Movement in Impairment	2,038	3,277
Balance at 31 December	8,121	6,083