Spirax-Sarco Engineering plc Half year report 2010

A quality business
sharpening our edge

We are a multi-national industrial engineering group with two focused niche businesses that are the world leaders: Spirax Sarco for steam specialties and Watson-Marlow for peristaltic pumps.

Our performance
at a glance

Adjusted* half year 2010	2010	2009	Change
Revenue	£277.0m	£251.6m	+10%
Operating profit	£53.5m	£37.8m	+41%
Operating profit margin	19.3%	15.0%	
Profit before taxation	£54.9m	£38.2m	+44%
Earnings per share	49.8p	34.9p	+43%
Dividends per share	13.0p	10.5p	+24%

*All profit measures exclude the amortisation of acquisition-related intangible assets of £1.6m (2009: £1.0m) of which £0.2m (2009: £0.2m) relates to Associates, and the profit on revaluation of investment arising from the acquisition of a company previously treated as an Associate of £8.0m (2009: £nil) net of acquisition costs. They also exclude headcount reduction costs of £nil (2009: £7.0m). The tax effect on these items was £0.2m (2009: £2.1m).

Summary of results

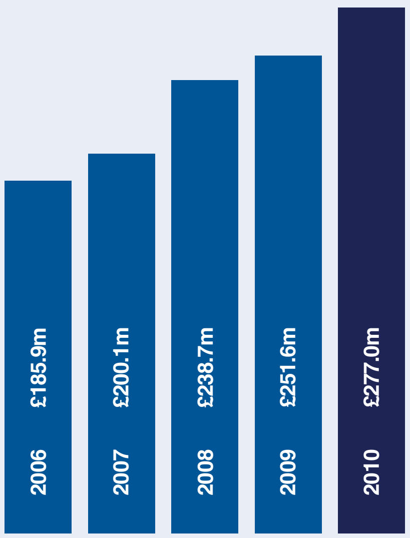
- Revenue up 10% – increase of 8% at constant currency
- Operating profit margin at record 19.3%
- Pre-tax profit up 44%
- Interim dividend increase of 24%
- Strong balance sheet with £20m net cash

Revenue

£277.0m +10%

Highlights
- Revenue up in all segments
- Good growth in Watson-Marlow Pumps – well spread geographically
- Steam specialties – good growth Asia and Latin America
- Acquisitions added 2% to sales growth

5 year record



5 year record highlights
- 10% growth pa over the last five years.

Operating profit*

£53.5m +41%

Highlights
- Operating profit up 41%
- Good growth in all segments mainly due to increased sales, overhead leverage and lower material costs
- Operating profit margin increased to 19.3%

5 year record

5 year record highlights
- 17% growth pa over the last five years.

Geographic sales

EMEA 41%
Asia Pacific 20%
Americas 21%
Watson-Marlow 18%

Group
at a glance

Spirax Sarco

Percentage of Group revenue

82%

Revenue

£228.5m

Operating profit

£42.6m

Operating profit margin

18.6%

Spirax Sarco is a UK-based multi-national engineering company tightly focused on its two niche businesses of steam system specialties and peristaltic pumping in which we are the world market leaders. We support our customers around the world with sales and manufacturing operations on all continents, and are able to provide same-day delivery in most parts of the world for the products and services our customers demand.

We have a worldwide network of outstanding local direct sales people. They have been trained to provide the knowledge and expertise that enable us to understand the challenges facing steam and pump users better than any of our competitors. Because of our application knowledge, long experience and global presence, we are able to offer the most extensive range of engineered solutions to our customers whilst delivering market-leading service standards. Visit Spirax Sarco online at www.SpiraxSarco.com.

EMEA Europe, Middle East and Africa	Americas	Asia Pacific
Revenue	**Revenue**	**Revenue**
£112.8m	£59.0m	£56.7m
Operating profit	**Operating profit**	**Operating profit**
£18.6m	£10.9m	£13.1m
Operating profit margin	**Operating profit margin**	**Operating profit margin**
16.5%	18.5%	23.0%

Watson-Marlow

Percentage of Group revenue

18%

Revenue

£48.5m

Operating profit

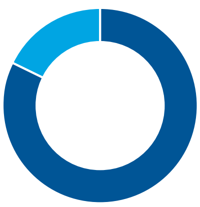
£14.0m

Operating profit margin

28.8%

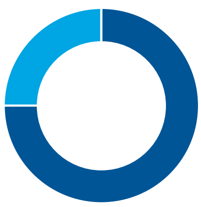
The unique properties of peristaltic pumps make them ideal for difficult pumping applications. They are highly accurate and controllable, and virtually maintenance-free, making them a very cost-effective solution. Watson-Marlow are specialists not only in the manufacture of the best and most advanced peristaltic pumps but also in the application of those pumps to customers' processes. Visit Watson-Marlow Bredel online at www.Watson-Marlow.com.

Group revenue



Spirax Sarco
£228.5m
Watson-Marlow
£48.5m

Group operating profit



Spirax Sarco
£42.6m
Watson-Marlow
£14.0m

Revenue by segment

Spirax Sarco EMEA £112.8m
Spirax Sarco Americas £59.0m
Spirax Sarco Asia Pacific £56.7m
Watson-Marlow £48.5m

Business review

Overview

We are pleased to report record results for the first half of 2010 with profits and trading margins ahead in all segments. We have seen an improvement in trading conditions as our markets recover from the recession in 2009.

Sales in the half year were £277.0 million, up 10% from the £251.6 million achieved in 2009, led by Watson-Marlow Pumps and in the steam business by the Americas and Asia Pacific. Sales were ahead 8% at constant currency, of which acquisitions contributed 2%.

Adjusted operating profit increased by 41% from £37.8 million to £53.5 million (up 38% at constant currency) and the adjusted operating profit margin showed a strong improvement from 15.0% to 19.3% in the first half. We benefited from operational gearing on the higher sales, last year's cost reduction measures, lower material costs, favourable product mix and exchange movements.

Net finance expense reduced from £1.0 million to £0.4 million due to an improvement this year in the net pension schemes financial expense caused by the increase in scheme asset values in 2009. The Group's share of the after tax profits of Associates increased by 30% to £1.8 million.

Adjusted profit before tax increased by 44% from £38.2 million to £54.9 million. In addition, the Group recognised an exceptional non-cash revaluation gain of £8.2 million on the 49% investment in our former Mexican Associate company, following our acquisition on 25th May 2010 of the remaining 51% of the company. The total profit before tax, including this uplift and after deducting the amortisation of acquisition-related intangible assets, was £61.3 million in the first half of 2010 compared with £30.2 million in the comparable period, which was after deducting headcount reduction costs of £7.0 million in the first half of 2009.

Our overall tax rate, based on the adjusted profit before tax excluding Associates, was unchanged at 31.4%. Adjusted basic earnings per share increased by 43% to 49.8p (2009: 34.9p).

Trading

The resilience of our strong business model and diversity of revenue generation was demonstrated in the good results achieved in 2009, and our historic good growth characteristics are being reasserted as our markets recover in 2010. Our teams of direct sales and service engineers, which comprise 30% of our total employees, work closely with customers to identify process and steam system improvements that deliver energy savings, greater process efficiency, better product quality and regulatory compliance. Of even greater importance today, is our ability to assist our customers in responding to the impact of the relatively high cost of energy and increasing regulatory pressures to improve environmental sustainability.

Global economic activity and industrial production output have been recovering this year from the recessionary levels in 2009, although recent indicators suggest a slowing of growth in industrial output from the relatively rapid pace of earlier months. However, the broad recovery remains patchy across most of our markets. We have seen the strongest market conditions in Asia and in Latin America. Our business in North America began recovering in the second half of last year, driven by the USA, but growth has slowed in the past quarter. The economic recovery in Europe appears fragile and mixed, although we have seen some improvement across Europe in the most recent quarter.

Sharpening our edge through CSR initiative

Spirax Sarco Thailand has been working with one of their customers the Thai Oil Group on their project named CSR – Corporate Social Responsibility, which aims to promote responsible practice.

Sharpening our edge through new investment in Asia

We have opened a state of the art plant in PuJiang, China, featuring 14,000 sq m of workshop and warehouse and 2,668 sq m of office and training facilities.

Business review

In our steam specialties business, we have seen good demand for our core traditional products, reflecting a rebound in maintenance spending by customers and an increase in smaller, locally-budgeted process improvement projects. Watson-Marlow pumps have seen general improvements in nearly all market areas and across the product range, especially in tubing which is now being supplied from our new extrusion plant in Falmouth, England that was opened at the end of last year.

The consolidation of manufacturing in Cheltenham, England from three sites down to one has been progressing well. We anticipate completing the relocation of most of our assembly and testing operations by year end, with the balance of the main machinery moves finalised in early 2011. The restructuring of our French manufacturing plant will also be completed in early 2011. In June, we opened our new facility in Shanghai, relocating existing sales, production and warehousing and preparing the way for the planned expansion of production in China. We have therefore made good progress implementing our global manufacturing strategy, which is expected to yield cost savings commencing in 2011 and building to full savings of about £4 million per annum in 2012.

Steam Specialties business

Europe, Middle East and Africa

Sales in Europe, Middle East and Africa (EMEA) at £112.8 million (2009: £113.2 million) were flat in sterling with a small negative currency impact from the weaker euro, offset by incremental sales from the acquisition of our Turkish distributor in October 2009. Market conditions and results were very mixed from country to country. Sales and profits were well ahead in Germany, helped by growth in export-oriented customers. Our Russian business grew strongly, continuing the sharp recovery that started in the second half of last year. Our M&M Italian valve business, saw a much improved performance as OEM activity increased. Sales and profits were marginally lower in our UK sales operation, although we secured several good energy saving projects earlier in the year that will ship in the second half. Trading conditions have been difficult for our sales companies in France, Italy and a number of other smaller operations in Europe, and their sales and profits were lower. Overall sales of controls and heat exchange solutions were lower from reduced project activity, particularly from Italy due primarily to a tough compare, but offset by higher sales of core steam specialties products. The performance of our manufacturing operations in the UK and France improved markedly versus the first half of 2009, which had been impacted by internal destocking by our direct sales operations. As factory throughput increased, we captured good operational efficiencies following the headcount reductions last year and benefited from lower material costs and a favourable product mix. Overall operating profit in EMEA increased by 19% from £15.6 million to £18.6 million; at constant currency the increase was 20%. The operating profit margin rose from 13.8% to 16.5%.

Sharpening our edge through new ranges

We have released the Visco and Viscorol range of magnetic level controls, which expand our controls and instrumentation sensor ranges. The addition of these products ensures we can now offer a comprehensive range of sensors, benefiting a wide variety of industries.

Business review

Americas

Sales in the Americas at £59.0 million (2009: £51.0 million) increased by 16% including a 4% gain from favourable exchange rates, notably Brazil, and a 2% contribution for the first-time consolidation of Mexico from late May. Growth was particularly strong in Latin America and our operations in Argentina and Brazil significantly increased sales and profits, benefiting from the higher business levels and capitalising on the significant cost reduction actions taken last year that reduced the cost base. Sales and profits were well ahead in the USA due to lower material costs and a reduced headcount. Market conditions remained weak in Canada with a lack of project business and profits were down. In the Americas, sales were up across most product lines except heat exchange packages. Services sales grew substantially in the period as customers began to increase their maintenance spend. Overall operating profit in the Americas increased by 82% from £6.0 million to £10.9 million (up 75% at constant currency). The operating profit margin rose sharply from 11.7% to 18.5%.

Asia Pacific

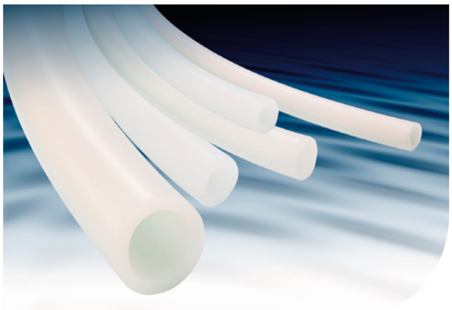
Sales in Asia Pacific at £56.7 million (2009: £49.0 million) increased by 16% (up 9% at constant currency). Market conditions were mixed but overall good. Sales increased across virtually all product lines and we won a number of larger projects, which will benefit the second half year. Our company in China, the biggest in the region, continued to make excellent progress and our new much larger plant in Shanghai was opened in June, including factory, warehouse, offices and superb training facility. Demand increased in Korea, translating into higher sales and profits and with a robust order book heading into the second half, but trading conditions and results in some of our smaller operations were more mixed. Sales and profits in our Indian Associate were well ahead. Overall operating profit in Asia Pacific was up 39% from £9.4 million to £13.1 million. Exchange movements were favourable in the first half and at constant currency, the increase in operating profit was 24%. The operating profit margin improved further from 19.2% to 23.0%.

Watson-Marlow Pumps business

Sales increased by 27% to £48.5 million (2009: £38.3 million). At constant currency and excluding acquisitions, the increase in sales was 15% with good growth across all regions, especially Asia where we have continued to add sales resource. Pharmaceutical markets have generally been slow to recover with lower project activity. The markets in EMEA have been positive with good demand from OEMs, particularly in Germany. There were good results in the Americas, especially in Brazil, with growth in the mining and water and wastewater sectors, and in our new direct sales operations in Mexico and Argentina. MasoSine, which was acquired in August 2009, has seen flat demand but with good profits, and its integration into Watson-Marlow's direct food and beverage sales channel is progressing well. Operating profit increased by 57% from £8.9 million to £14.0 million and at constant currency and excluding acquisitions the increase was 44%. The operating profit margin expanded further from 23.2% to 28.8%, benefiting from the inclusion of MasoSine.

Sharpening our edge through more efficient logistics

Spirax Sarco Korea have opened a new second gate at their Incheon factory in order to achieve more efficient logistics for their large customer orders.



Sharpening our edge through new launches

Watson-Marlow Pumps Group has launched PureWeld XL, a weldable, ADCF free tube for applications in bio-pharmaceutical processes. PureWeld can be securely welded, allowing complete connector-free fluid paths to be assembled in minutes, reducing costs and contamination risks.

Business review

"We operate with a strong balance sheet and the interim dividend has been increased 24%, demonstrating the Board's confidence in the growth prospects of our powerful niche businesses"

Financial review

Balance sheet and cash flow

Total capital employed was £269 million at 30th June 2010. Compared with 31st December 2009, this was an increase of 6% at constant currency and excluding acquisitions. On this basis, net fixed assets rose by £6 million this year reflecting the relatively high level of capital investment. Working capital rose by 7% in the first half largely due to an increase in stocks, although both stock weeks and debtor days showed a small improvement. Compared with a year earlier, total working capital was down 2% on the same basis.

We maintain a strong balance sheet and generated a good cash inflow of £11.9 million in the first half due to the increased profit and an outflow from working capital of only £3.8 million. The net cash balance at 30th June 2010 was £20.2 million (31st December 2009: £8.0 million).

Principal risks and uncertainties

The Group has an established risk management process which operates within the corporate governance framework, details of which are set out in note 11 below which is followed by a Directors' Responsibility Statement.

Dividend

The Board has declared an interim dividend of 13.0p (2009: 10.5p) per ordinary share, an increase of 24%. The dividend will be paid on 12th November 2010 to shareholders on the register at the close of business on 15th October 2010. The 2009 final dividend of 25.6p was paid on 21st May 2010 at a cash cost of £19.7 million.

Prospects

Our business is well spread across diverse geographic regions, industries and customers, and our markets ultimately reflect the general economic trends. Although global economic activity and industrial production growth rates have been rising for many months, more recent indicators suggest a slowdown in growth.

Historically, our organic sales growth has been well ahead of the market growth as we have increased market shares, introduced new products, extended our geographic sales coverage and enlarged our addressable markets. In addition, looking forward we see even more opportunities to assist our customers in improving their environmental performance through a reduction in their use of relatively expensive energy. Also, the continuing trend of customers outsourcing elements of their steam system design, installation and maintenance, provides further growth opportunities, particularly for our services and pre-fabricated engineered packages.

Having largely protected our direct sales and service organisation through the recession, we are well placed to maximise the opportunities in our markets. We acted decisively last year to reduce costs, with benefits flowing through into 2010 as sales have increased and operating efficiencies have been captured. We have increased our investment spend this year in geographic sales development and in R&D. We have also continued to invest in our global manufacturing strategy, the benefits of which will progressively come through in 2011, 2012 and future years.

Material costs were lower in the first half of this year but we anticipate some increase going forward as higher base metal prices work through to our cost of sales in the second half of 2010. Exchange movements have also been favourable but sterling has recently begun to strengthen which, if maintained, would produce a broadly neutral position for the full year versus 2009 average rates.

We operate with a strong balance sheet and the interim dividend has been increased 24%, demonstrating the Board's confidence in the growth prospects of our powerful niche businesses. The second half has started well and current trading comparisons since the half-year are benefiting from the progressive decline of sales until the end of the third quarter last year. Although we remain alert to the uncertain momentum of global economic activity and to unfavourable exchange rate movements, we expect to make good progress for the full year and to see a more normal second-half bias of sales and profits.

Financial statements
Group balance sheets

	notes	30th June 2010 £000	30th June 2009 £000	31st December 2009 £000
Assets				
Non-current assets				
Property, plant and equipment		**139,511**	118,977	135,383
Goodwill		**43,996**	27,272	38,150
Other intangible assets		**44,211**	20,199	35,233
Prepayments		**919**	621	1,124
Investment in associates		**7,789**	9,599	9,794
Deferred tax		**43,139**	37,775	38,181
		279,565	214,443	257,865
Current assets				
Inventories		**93,065**	91,810	86,479
Trade receivables		**116,008**	105,805	118,835
Other current assets		**15,441**	13,668	11,592
Taxation recovered		**1,506**	2,020	1,896
Cash and cash equivalents	7	**65,550**	41,285	62,194
		291,570	254,588	280,996
Total assets		**571,135**	469,031	538,861
Equity and liabilities				
Current liabilities				
Trade and other payables		**88,807**	62,758	79,335
Bank overdrafts	7	**758**	3,953	559
Short-term borrowing	7	**2,626**	7,887	9,284
Current portion of long-term borrowings	7	**57**	63	63
Current tax payable		**8,494**	6,952	8,138
		100,742	81,613	97,379
Net current assets		**190,828**	172,975	183,617
Non-current liabilities				
Long-term borrowings	7	**41,874**	25,281	44,255
Deferred tax		**14,422**	12,272	14,659
Post-retirement benefits		**89,576**	90,652	73,763
Other payables and provisions		**1,427**	1,067	1,441
		147,299	129,272	134,118
Total liabilities		**248,041**	210,885	231,497
Net assets		**323,094**	258,146	307,364
Equity				
Share capital		**19,323**	19,307	19,310
Share premium account		**48,025**	47,559	47,601
Other reserves		**42,524**	29,514	43,327
Retained earnings		**212,488**	161,552	196,481
Equity attributable to equity holders of the parent		**322,360**	257,932	306,719
Minority interest		**734**	214	645
Total equity		**323,094**	258,146	307,364
Total equity and liabilities		**571,135**	469,031	538,861

Financial statements
Group income statement

	notes	**Six months to 30th June Adjusted 2010 £000**	*** Adj 2010 £000**	**Total 2010 £000**	Six months to 30th June Adjusted 2009 £000	* Adj 2009 £000	Total 2009 £000	Year ended 31st December Adjusted 2009 £000	* Adj 2009 £000	Total 2009 £000
Revenue	1	**276,959**	**–**	**276,959**	251,557	–	251,557	518,705	–	518,705
Operating costs		**(223,456)**	**6,627**	**(216,829)**	(213,723)	(7,769)	(221,492)	(428,767)	(13,416)	(442,183)
Operating profit	1	**53,503**	**6,627**	**60,130**	37,834	(7,769)	30,065	89,938	(13,416)	76,522
Financial expenses		**(8,658)**	**–**	**(8,658)**	(7,893)	–	(7,893)	(16,072)	–	(16,072)
Financial income		**8,233**	**–**	**8,233**	6,848	–	6,848	13,558	–	13,558
Net financing expense	2	**(425)**	**–**	**(425)**	(1,045)	–	(1,045)	(2,514)	–	(2,514)
Share of profit of associates		**1,774**	**(195)**	**1,579**	1,366	(187)	1,179	2,772	(365)	2,407
Profit before taxation		**54,852**	**6,432**	**61,284**	38,155	(7,956)	30,199	90,196	(13,781)	76,415
Taxation	3	**(16,674)**	**235**	**(16,439)**	(11,571)	2,112	(9,459)	(27,472)	4,148	(23,324)
Profit for the period		**38,178**	**6,667**	**44,845**	26,584	(5,844)	20,740	62,724	(9,633)	53,091
Attributable to:										
Equity holders of the parent		**38,100**	**6,667**	**44,767**	26,552	(5,844)	20,708	62,596	(9,633)	52,963
Minority interest		**78**	**–**	**78**	32	–	32	128	–	128
Profit for the period		**38,178**	**6,667**	**44,845**	26,584	(5,844)	20,740	62,724	(9,633)	53,091
Earnings per share										
Basic earnings per share	4			**58.5p**			27.2p			69.6p
Diluted earnings per share	4			**57.8p**			27.1p			69.3p
Dividends										
Dividends paid per share	5			**25.6p**			23.3p			36.1p
Dividends proposed per share	5			**13.0p**			10.5p			33.8p

* Adjustments relate to amortisation of acquisition-related intangibles, profit on revaluation of investment arising from the acquisition of a company previously treated as an Associate, acquisition costs and headcount reduction costs (see note 1). The adjusted basic earnings per share for the six months ended 30th June 2010 is 49.8p, for the six months ended 30th June 2009 34.9p and for the year ended 31st December 2009 82.2p.

Financial statements
Group statement of comprehensive income

	Six months to 30th June 2010 £000	Six months to 30th June 2009 £000	Year ended 31st December 2009 £000
Profit for the period	**44,845**	20,740	53,091
Actuarial loss on post-retirement benefits	**(18,721)**	(20,737)	(7,800)
Deferred tax on actuarial loss on post-retirement benefits	**5,461**	6,373	2,106
Foreign exchange translation differences	**(716)**	(28,933)	(14,051)
Profits on cash flow hedges	**(87)**	1,645	576
Total recognised income and expense for the period	**30,782**	(20,912)	33,922
Attributable to:			
Equity holders of the parent	**30,704**	(20,944)	33,794
Minority interest	**78**	32	128
Total recognised income and expense for the period	**30,782**	(20,912)	33,922

Financial statements
Group statement of changes in equity

Six months to 30th June 2010	**Share capital £000**	**Share premium account £000**	**Translation reserve £000**	**Cash flow hedge reserve £000**	**Capital redemption reserve £000**	**Retained earnings £000**	**Total equity £000**
Shareholders' funds at beginning of period	**19,310**	**47,601**	**41,320**	**175**	**1,832**	**196,481**	**306,719**
Total recognised income and expense for the period	**–**	**–**	**(716)**	**(87)**	**–**	**31,507**	**30,704**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(19,673)**	**(19,673)**
Equity settled share plans net of tax	**–**	**–**	**–**	**–**	**–**	**806**	**806**
Proceeds of issue of share capital	**13**	**424**	**–**	**–**	**–**	**–**	**437**
Treasury shares reissued	**–**	**–**	**–**	**–**	**–**	**4,339**	**4,339**
Loss on the reissue of treasury shares	**–**	**–**	**–**	**–**	**–**	**(972)**	**(972)**
Equity attributable to equity holders of parent at end of period	**19,323**	**48,025**	**40,604**	**88**	**1,832**	**212,488**	**322,360**

For the six months to 30th June 2009	Share capital £000	Share premium account £000	Translation reserve £000	Cash flow hedge reserve £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
Shareholders' funds at beginning of period	19,307	47,559	55,371	(401)	1,832	171,645	295,313
Total recognised income and expense for the period	–	–	(28,933)	1,645	–	6,344	(20,944)
Dividends paid	–	–	–	–	–	(17,752)	(17,752)
Equity settled share plans net of tax	–	–	–	–	–	972	972
Proceeds of issue of share capital	–	–	–	–	–	–	–
Treasury shares reissued	–	–	–	–	–	1,124	1,124
Loss on the reissue of treasury shares	–	–	–	–	–	(781)	(781)
Equity attributable to equity holders of parent at end of period	19,307	47,559	26,438	1,244	1,832	161,552	257,932

For the year ended 31st December 2009	Share capital £000	Share premium account £000	Translation reserve £000	Cash flow hedge reserve £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
Shareholders' funds at beginning of period	19,307	47,559	55,371	(401)	1,832	171,645	295,313
Total recognised income and expense for the period	–	–	(14,051)	576	–	47,269	33,794
Dividends paid	–	–	–	–	–	(25,733)	(25,733)
Equity settled share plans net of tax	–	–	–	–	–	1,379	1,379
Proceeds of issue of share capital	3	42	–	–	–	–	45
Treasury shares reissued	–	–	–	–	–	3,711	3,711
Loss on the reissue of treasury shares	–	–	–	–	–	(1,790)	(1,790)
Equity attributable to equity holders of parent at end of period	19,310	47,601	41,320	175	1,832	196,481	306,719

Financial statements
Group cash flow statement

	notes	Six months to 30th June 2010 £000	Six months to 30th June 2009 £000	Year ended 31st December 2009 £000
Cash flows from operating activities				
Profit before taxation		**61,284**	30,199	76,415
Depreciation and amortisation		**10,294**	9,338	18,550
Share of profit of associates		**(1,579)**	(1,179)	(2,407)
Profit on revaluation of investment on acquisition		**(8,204)**	–	–
Equity settled share plans		**1,115**	1,144	1,929
Net finance expense		**425**	1,045	2,514
Operating cash flows before changes in working capital and provisions		**63,335**	40,547	97,001
Change in trade and other receivables		**846**	4,080	(74)
Change in inventories		**(4,261)**	2,437	11,057
Change in trade and other payables		**(425)**	(6,283)	2,008
Change in provisions and post-retirement benefits		**(3,741)**	(4,101)	(7,072)
Cash generated from operations		**55,754**	36,680	102,920
Interest paid		**(735)**	(605)	(1,366)
Income taxes paid		**(14,925)**	(15,424)	(29,877)
Net cash from operating activities		**40,094**	20,651	71,677
Cash flows from investing activities				
Purchase of property, plant and equipment		**(10,870)**	(13,957)	(33,397)
Proceeds from sale of property, plant and equipment		**489**	375	1,898
Purchase of software and other intangibles		**(510)**	(758)	(1,056)
Development expenditure capitalised		**(1,046)**	(819)	(2,099)
Acquisition of businesses		**(2,479)**	(1,288)	(27,192)
Interest received		**418**	341	630
Dividends received		**1,779**	316	1,498
Net cash used in investing activities		**(12,219)**	(15,790)	(59,718)
Cash flows from financing activities				
Proceeds from issue of share capital		**437**	–	45
Proceeds from reissue of treasury shares		**3,367**	343	1,921
Repayment of borrowings	7	**(10,256)**	–	–
Proceeds from borrowings	7	**–**	2,056	20,614
Payment of finance lease liabilities	7	**(7)**	(24)	(67)
Dividends paid (including minorities)		**(19,743)**	(17,739)	(25,763)
Net cash used in financing activities		**(26,202)**	(15,364)	(3,250)
Net increase in cash and cash equivalents	7	**1,673**	(10,503)	8,709
Cash and cash equivalents at beginning of period	7	**61,635**	52,095	52,095
Exchange movement	7	**1,484**	(4,260)	831
Cash and cash equivalents at end of period	7	**64,792**	37,332	61,635
Borrowings and finance leases	7	**(44,557)**	(33,231)	(53,602)
Net cash	7	**20,235**	4,101	8,033

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1 Segmental reporting
Analysis by location of operation

Six months to 30th June 2010	**Gross revenue £000**	**Inter-segment revenue £000**	**Revenue £000**	**Total operating profit £000**	**Adjusted operating profit £000**	**Adjusted operating margin %**
Europe, Middle East and Africa	**130,772**	**17,984**	**112,788**	**18,041**	**18,616**	**16.5%**
Americas	**62,080**	**3,099**	**58,981**	**18,893**	**10,917**	**18.5%**
Asia Pacific	**58,362**	**1,667**	**56,695**	**13,061**	**13,061**	**23.0%**
Steam Specialties business	**251,214**	**22,750**	**228,464**	**49,995**	**42,594**	**18.6%**
Watson-Marlow Pumps business	**48,700**	**205**	**48,495**	**13,177**	**13,951**	**28.8%**
Corporate expenses				**(3,042)**	**(3,042)**	
	299,914	**22,955**	**276,959**	**60,130**	**53,503**	**19.3%**
Intra-Group	**(22,955)**	**(22,955)**				
Net revenue	**276,959**	**–**	**276,959**	**60,130**	**53,503**	**19.3%**

Six months to 30th June 2009	Gross revenue £000	Inter-segment revenue £000	Revenue £000	Total operating profit £000	Adjusted operating profit £000	Adjusted operating margin %
Europe, Middle East and Africa	127,081	13,846	113,235	10,187	15,640	13.8%
Americas	53,026	2,009	51,017	4,513	5,992	11.7%
Asia Pacific	50,351	1,330	49,021	9,116	9,404	19.2%
Steam Specialties business	230,458	17,185	213,273	23,816	31,036	14.6%
Watson-Marlow Pumps business	38,332	48	38,284	8,320	8,869	23.2%
Corporate expenses				(2,071)	(2,071)	
	268,790	17,233	251,557	30,065	37,834	15.0%
Intra-Group	(17,233)	(17,233)				
Net revenue	251,557	–	251,557	30,065	37,834	15.0%

Year ended 31st December 2009	Gross revenue £000	Inter-segment revenue £000	Revenue £000	Total operating profit £000	Adjusted operating profit £000	Adjusted operating margin %
Europe, Middle East and 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%

The total operating profit for each period is after crediting or charging the adjustments analysed below:

	30th June 2010 £000	30th June 2009 £000	31st December 2009 £000
Revaluation of goodwill on acquisition	**(8,204)**	–	–
Amortisation of acquisition-related intangible assets	**1,412**	789	2,022
Acquisition costs	**165**	–	–
Headcount reduction costs	**–**	6,980	11,394
	(6,627)	7,769	13,416

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1 Segmental reporting continued
Net assets

	30th June 2010		30th June 2009		31st December 2009	
	Assets £000	**Liabilities £000**	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Europe, Middle East and Africa	**191,050**	**(124,049)**	193,973	(114,588)	194,394	(105,487)
Americas	**93,032**	**(28,335)**	61,197	(20,304)	65,703	(21,400)
Asia Pacific	**90,436**	**(12,463)**	70,070	(7,429)	86,724	(14,373)
Watson-Marlow Pumps business	**86,422**	**(14,963)**	62,712	(12,157)	89,769	(13,279)
	460,940	**(179,810)**	387,952	(154,478)	436,590	(154,539)
Liabilities	**(179,810)**		(154,478)		(154,539)	
Deferred tax	**28,717**		25,503		23,522	
Current tax payable	**(6,988)**		(4,932)		(6,242)	
Net cash	**20,235**		4,101		8,033	
Net assets	**323,094**		258,146		307,364	

Capital additions and depreciation and amortisation

	30th June 2010		30th June 2009		31st December 2009	
	Capital additions £000	**Depreciation and amortisation £000**	Capital additions £000	Depreciation and amortisation £000	Capital additions £000	Depreciation and amortisation £000
Europe, Middle East and Africa	**5,894**	**5,075**	6,148	4,804	17,597	9,652
Americas	**13,363**	**1,827**	1,399	1,644	2,879	2,839
Asia Pacific	**2,658**	**1,169**	3,771	1,135	11,595	2,261
Watson-Marlow Pumps business	**1,095**	**2,223**	3,257	1,755	20,045	3,798
	23,010	**10,294**	14,575	9,338	52,116	18,550

Capital additions include property, plant and equipment at 30th June 2010 of £10,243k, at 30th June 2009 of £13,055k and at 31st December 2009 of £33,824k, and other intangible assets at 30th June 2010 of £12,767k, at 30th June 2009 of £1,520k and at 31st December 2009 of £18,292k.

Depreciation and amortisation includes amortisation of acquisition-related intangible assets.

2 Net financing expense

	Six months to 30th June 2010 £000	Six months to 30th June 2009 £000	Year ended 31st December 2009 £000
Financial expenses			
Bank and other borrowing interest payable	**(731)**	(605)	(1,369)
Interest on pension scheme liabilities	**(7,927)**	(7,288)	(14,703)
	(8,658)	(7,893)	(16,072)
Financial income			
Bank interest receivable	**418**	341	631
Expected return on pension scheme assets	**7,815**	6,507	12,927
	8,233	6,848	13,558
Net financing expense	**(425)**	(1,045)	(2,514)
Net pension scheme financial expense	**(112)**	(781)	(1,776)
Net bank interest	**(313)**	(264)	(738)
Net financing expense	**(425)**	(1,045)	(2,514)

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

	Six months to 30th June 2010 £000	Six months to 30th June 2009 £000	Year ended 31st December 2009 £000
United Kingdom corporation tax	**647**	879	237
Overseas taxation	**14,995**	8,243	25,789
Deferred taxation	**797**	337	(2,702)
	16,439	9,459	23,324

4 Earnings per share

	Six months to 30th June 2010 £000	Six months to 30th June 2009 £000	Year ended 31st December 2009 £000
Profit attributable to equity holders of the parent	**44,767**	20,708	52,963
Weighted average shares in issue	**76,540,641**	76,006,495	76,132,486
Dilution	**846,775**	254,687	242,642
Diluted weighted average shares in issue	**77,387,416**	76,261,182	76,375,128
Basic earnings per share	**58.5p**	27.2p	69.6p
Diluted earnings per share	**57.8p**	27.1p	69.3p
Adjusted profit attributable to equity holders of the parent	**38,100**	26,552	62,596
Basic adjusted earnings per share	**49.8p**	34.9p	82.2p

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

5 Dividends

	Six months to 30th June 2010 £000	Six months to 30th June 2009 £000	Year ended 31st December 2009 £000
Amounts paid in the period			
Final dividend for the year ended 31st December 2009 of 25.6p (2008: 23.3p) per share	**19,673**	17,720	17,720
Interim dividend for the year ended 31st December 2009 of 10.5p per share	**–**	–	8,013
	19,673	17,720	25,733

	Six months to 30th June 2010 £000	Six months to 30th June 2009 £000	Year ended 31st December 2009 £000
Amounts arising in respect of the period			
Interim dividend for the year ended 31st December 2010 of 13.0p (2009: 10.5p) per share	**10,003**	7,983	8,013
Final dividend for the year ended 31st December 2009 of 25.6p (2008: 23.3p) per share	**–**	–	19,556
	10,003	7,983	27,569

No scrip alternative to the cash dividend is being offered in respect of the 2010 interim dividend.

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6 Employee benefits
Pension plans
The Group is accounting for pension costs in accordance with International Accounting Standard 19.

The disclosures shown here are in respect of the Group's Defined Benefit Obligations. Other plans operated by the Group were either Defined Contribution plans or were deemed immaterial for the purposes of IAS19 reporting. Full IAS 19 disclosure for the year ended 31st December 2009 is include in the Group's Annual Report.

The Defined Benefit plan expense is recognised in the income statement as follows:

	UK Pensions		Overseas pensions and medical		Total		
	Six months to 30th June 2010 £000	Six months to 30th June 2009 £000	**Six months to 30th June 2010 £000**	Six months to 30th June 2009 £000	**Six months to 30th June 2010 £000**	Six months to 30th June 2009 £000	Year ended 31st December 2009 £000
Current service cost	**(3,000)**	(3,100)	**(1,169)**	(732)	**(4,169)**	(3,832)	(7,924)
Settlement, curtailment	**–**	–	**–**	(108)	**–**	(108)	(104)
Interest on schemes' liabilities	**(6,500)**	(5,900)	**(1,427)**	(1,388)	**(7,927)**	(7,288)	(14,703)
Expected return on schemes' assets	**6,800**	5,700	**1,015**	807	**7,815**	6,507	12,927
Total expense recognised in income statement	**(2,700)**	(3,300)	**(1,581)**	(1,421)	**(4,281)**	(4,721)	(9,804)

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

	Six months to 30th June 2010 £000	Six months to 30th June 2009 £000	Year ended 31st December 2009 £000
Operating costs	**(4,169)**	(3,940)	(8,028)
Financial expenses	**(7,927)**	(7,288)	(14,703)
Financial income	**7,815**	6,507	12,927
Total expense recognised in income statement	**(4,281)**	(4,721)	(9,804)

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

	UK Pensions		Overseas pensions and medical		Total		
	30th June 2010 £000	30th June 2009 £000	**30th June 2010 £000**	30th June 2009 £000	**30th June 2010 £000**	30th June 2009 £000	31st December 2009 £000
Fair value of schemes' assets	**181,830**	150,500	**26,594**	21,376	**208,424**	171,876	211,147
Present value of schemes' liabilities	**(241,240)**	(217,200)	**(56,760)**	(45,328)	**(298,000)**	(262,528)	(284,910)
Retirement benefit liability recognised in the balance sheet	**(59,410)**	(66,700)	**(30,166)**	(23,952)	**(89,576)**	(90,652)	(73,763)
Related deferred tax	**16,635**	18,676	**8,308**	6,963	**24,943**	25,639	20,516
Net pension liability	**(42,775)**	(48,024)	**(21,858)**	(16,989)	**(64,633)**	(65,013)	(53,247)

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

	Six months to 30th June 2010 £000	Six months to 30th June 2009 £000	Year ended 31st December 2009 £000
Share Option Schemes	**340**	425	686
Performance Share Plan	**384**	347	500
Employee Share Ownership Plan	**391**	372	743
	1,115	1,144	1,929

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7 Analysis of changes in net cash

	At 1st January 2010 £000	Cash flow £000	Exchange Movement £000	**At 30th June 2010 £000**
Current portion of long-term borrowings	(63)			**(57)**
Non-current portion of long-term borrowings	(44,255)			**(41,874)**
Short-term borrowing	(9,284)			**(2,626)**
Total borrowings	(53,602)			**(44,557)**
Comprising:				
Borrowings	(53,318)	10,256	(1,231)	**(44,293)**
Finance leases	(284)	7	13	**(264)**
	(53,602)	10,263	(1,218)	**(44,557)**
Cash and cash equivalents	62,194	1,928	1,428	**65,550**
Bank overdrafts	(559)	(255)	56	**(758)**
Net cash and cash equivalents	61,635	1,673	1,484	**64,792**
Net cash	8,033	11,936	266	**20,235**

8 Purchase of businesses
2010

	Mexico (Based on 100%)			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	1,081	–	1,081	24	–	24	1,105
Intangibles	–	10,645	10,645	–	1,074	1,074	11,719
	1,081	10,645	11,726	24	1,074	1,098	12,824
Current assets							
Inventories	1,042	–	1,042	948	(315)	633	1,675
Trade receivables	1,492	–	1,492	–	–	–	1,492
Other receivables	193	–	193	–	–	–	193
Cash	1,684	–	1,684	–	–	–	1,684
	4,411	–	4,411	948	(315)	633	5,044
Total assets	5,492	10,645	16,137	972	759	1,731	17,868
Current liabilities							
Trade payables	1,136	–	1,136	210	–	210	1,346
Other payables and accruals	237	–	237	–	–	–	237
	1,373	–	1,373	210	–	210	1,583
Long-term liabilities	–	–	–	–	–	–	–
Total liabilities	1,373	–	1,373	210	–	210	1,583
Total net assets	4,119	10,645	14,764	762	759	1,521	16,285
Goodwill			6,776			728	7,504
Total			**21,540**			**2,249**	**23,789**
Satisfied by							
Cash paid			1,778			1,513	3,291
Deferred consideration			9,207			736	9,943
Accounting adjustments							
Associate investment eliminated			2,018			–	2,018
Gain on revaluation of existing share			8,537			–	8,537
			21,540			**2,249**	**23,789**

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8 Purchase of businesses continued

1 On 25th May 2010 the Group acquired from it's local partners the remaining 51% of Spirax-Sarco Mexicana S.A., which was previously 49% owned by the Group and treated as an Associate company in the Group Accounts. The acquisition method of accounting has been used. Consideration of £1,778k was paid on completion. Separately identified intangibles for the entire business are recorded as part of the fair value adjustment. Goodwill recognised in the Group Accounts is also based on the business as a whole.

2 The acquisition of the distribution rights of Watson-Marlow and Bredel products in Australia and New Zealand was made on 30th June 2010. Inventories, plant and equipment were also purchased as part of the transaction. The acquisition method of accounting has been used. Consideration of £1,254k was paid on completion. Separately identified intangibles are recorded as part of the fair value adjustment.

3 The acquisition of the distribution rights of Watson-Marlow and Bredel products in the Rustenburg area of South Africa was made on 28th April 2010. Inventories were also purchased as part of the transaction. The acquisition method of accounting has been used. Consideration of £259k was paid on completion. Separately identified intangibles are recorded as part of the fair value adjustment.

9 Capital employed

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

	30th June 2010 £000	30th June 2009 £000	31st December 2009 £000
Property, plant and equipment	**139,511**	118,977	135,383
Prepayments	**919**	621	1,124
Inventories	**93,065**	91,810	86,479
Trade receivables	**116,008**	105,805	118,835
Other current assets	**15,441**	13,668	11,592
Tax recoverable	**1,506**	2,020	1,896
Trade and other payables	**(88,807)**	(62,758)	(79,335)
Current tax payable	**(8,494)**	(6,952)	(8,138)
	269,149	263,191	267,836

10 Related party transactions

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

Full details of the Group's other related party relationships, transactions and balances are given in the Group's financial statements for the year ended 31st December 2009. There have been no material changes in these relationships in the period up to the end of this report.

No related party transactions have taken place in the first half of 2010 that have materially affected the financial position or the performance of the Group during that period.

11 Basis of preparation

Spirax-Sarco Engineering plc is a company domiciled in the UK. The half year condensed consolidated financial statements of Spirax-Sarco Engineering plc and its subsidiaries (the 'Group') have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU. The accounting policies applied are the same as those set out in the 2009 Spirax-Sarco Engineering plc Annual Report, with the following exceptions:

- Revised IFRS 3 Business Combinations has been adopted. This standard affects the accounting for acquisitions and transactions with non-controlling interests, in particular the acquisition of the subsidiary in Mexico.

These condensed consolidated half year financial statements do not include all of the information required for full annual statements and should be read in conjunction with the 2009 Annual Report. The comparative figures for the year ended 31st December 2009 do not constitute the Group's statutory accounts for that financial year. The consolidated statutory accounts for Spirax-Sarco Engineering plc in respect of the year ended 31st December 2009 have been reported on by the company's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The consolidated financial statements of the Group in respect of the year ended December 2009 are available upon request from Mr W.G. Stebbings, Company Secretary and Solicitor, Charlton House, Cheltenham, Gloucestershire, GL53 8ER, United Kingdom or on www.spiraxsarcoengineering.com

The financial statements for the six months ended 30th June 2010, which have not been audited or reviewed by the auditors, were authorised by the Board on 24th August 2010.

The interim report has been prepared solely to provide additional information to shareholders as a body to assess the Group's strategies and the potential for those strategies to succeed. This interim report should not be relied upon by any other party or for any other purpose.

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

Principal risks and uncertainties
There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remainder of the financial year and could cause actual results to differ materially from expected and historical results. The principal risks and uncertainties are strategic, commercial, operational and financial. Ultimately these affect our ability to deliver our prime financial objective, which is to provide enhanced value to shareholders through consistent growth in earnings per share and dividends per share as a result of maintaining our world leading position and investing in our businesses for growth. More details of the key risks facing the Group's businesses are included on page 21and page 37 of the Group's statutory financial statements for the year ended 31st December 2009. Details of further potential risks and uncertainties arising since the issue of the previous statutory financial statements are included within the Review of Operations as appropriate.

Going concern
After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the consolidated financial statements.

Responsibility statement
The directors confirm that to the best of their knowledge:

- This financial information has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU
- The interim management report includes a fair review of the information required by:

  a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed financial statements, and a description of the principle risks and uncertainties for the remaining six months of the financial year.

  b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year that have materially affected the financial position or performance of the entity during that period, and any changes in the related party transactions described in the last annual report that could do so.

The directors of Spirax-Sarco engineering plc on 24th August 2010 are listed in the 2009 Annual Report on page 31. There have been no changes to the directors since that report.

M E Vernon
Chief Executive
24th August 2010

D J Meredith
Director Finance
24th August 2010

Spirax Sarco Worldwide

Steam specialties

EMEA

Belgium
Spirax-Sarco N.V.

Czech Republic
Spirax Sarco spol. s r. o.

Denmark
Spirax-Sarco Ltd. (Branch)

Finland
Spirax Oy

France
Spirax-Sarco S.A.S.

Germany
Spirax-Sarco GmbH
Hygromatik GmbH

Ireland
Eirdata Environmental Services Ltd.

Italy
Spirax-Sarco S.r.l.
M & M International S.r.l.
Colima S.r.

Netherlands
Spirax-Sarco Engineering B.V.
Spirax-Sarco Investments B.V.

Norway
Spirax-Sarco AS

Poland
Spirax Sarco Sp. z o. o.

Portugal
Spirax Sarco Equip. Ind. Lda.

Russia
Spirax-Sarco Engineering LLC

South Africa
Spirax-Sarco South Africa (Pty.) Ltd.

Spain
Spirax Sarco S.A.
Spirax-Sarco Engineering S.L.
M & M Iberica S.L. (67%)

Sweden
Spirax-Sarco A.B.

Switzerland
Spirax-Sarco A.G.

Turkey
Spirax Inter Valf Sanayi ve
Ticaret Limited Sirketi

United Kingdom
Spirax-Sarco Ltd.
Spirax-Sarco Investments Ltd.
Spirax-Sarco Overseas Ltd.

Americas

Argentina
Spirax Sarco S.A.

Brazil
Spirax Sarco Ind. e Com. Ltda.

Canada
Spirax Sarco Canada Ltd.

Mexico
Spirax-Sarco Mexicana S.A.

USA
Spirax Sarco, Inc.
Sarco International, Corp.

Asia Pacific

Australia
Spirax-Sarco Pty. Ltd.

China
Spirax Sarco Engineering (China) Ltd.

India
Spirax-Marshall Ltd. (49.3%)

Japan
Spirax-Sarco Ltd. (Branch)

Malaysia
Spirax-Sarco Sdn. Bhd.

New Zealand
Spirax Sarco Ltd.

Singapore
Spirax-Sarco (Private) Ltd.

South Korea
Spirax-Sarco (Korea) Ltd. (97.5%)

Taiwan
Spirax Sarco Co. Ltd.

Thailand
Spirax Sarco (Thailand) Ltd.

Watson-Marlow pumps

Australia
Watson-Marlow Pty. Ltd.

Belgium
Watson-Marlow N.V.

Brazil
Watson-Marlow Bredel Ind.
e Com de Bombas

Denmark
Watson-Marlow Flexicon A/S

France
Watson-Marlow S.A.S.

Germany
Watson-Marlow GmbH

Italy
Watson-Marlow S.r.l.

Mexico
Watson-Marlow S de Rl de CV

Netherlands
Bredel Hose Pumps B.V.
Watson-Marlow Bredel Holdings B.V.
Watson-Marlow B.V.

South Africa
Watson-Marlow Bredel S.A. (Pty.) Ltd.

Sweden
WM Alitea A.B.

Switzerland
Watson-Marlow Ltd. (Branch)

United Kingdom
Watson-Marlow Ltd.

USA
Watson-Marlow, Inc.