

Spirax-Sarco Limited

Annual report and financial statements

For the year ended 31 December 2022

Company Registration No. 00509018

Spirax-Sarco Limited

Annual report and financial statements For the year ended 31 December 2022

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Spirax-Sarco Limited

Strategic report

The Directors of Spirax-Sarco Limited ("the Company") present their Strategic report, Directors' report and the financial statements for the year ended 31 December 2022. Spirax-Sarco Limited is a key component of Spirax-Sarco Engineering plc and its consolidated results, the annual report of which includes more information with regard to strategy, risks and uncertainties relevant to the Company.

Business model

Spirax-Sarco Limited is focused on the industrial and commercial steam-using market.

As a heat source, steam is the natural choice in many industrial processes due to its high heat-carrying capacity, controllability, sterility and efficiency as a heat transfer medium. The specialist knowledge within the Spirax-Sarco business enables us to apply our products to improve the efficiency of our customers' process heating, thereby improving the output of the process or reducing running costs, most notably energy consumption, helping to relieve the pressures on the environment.

Our sales engineers are trained to understand applications in a comprehensive range of industries, to analyse customer problems and then to supply the solution through the application of our products. Over many years our business has expanded the range of products through in-house development; we are well placed to be able to address any problems faced by customers in their steam processes.

Spirax-Sarco Limited sells to customers in the UK and overseas markets.

Business review

Turnover has increased by £13,770,000 (10.4%) with an increase in all geographic segments primarily driven by price increases to counteract the increase in our cost base. Operating profit decreased by £4,589,000 (39.4%) from the prior year and margin decreased by 400bps to 4.8%. This decrease in operating profit was largely driven by an increase in staff costs of £10,306,000 and an increase in other operating charges of £18,975,000. The increase in staff costs is indicative of a continued investment in support of future revenue growth with an expansion in sales-related headcount. See note 4 for further details. The increase in operating costs reflects a continued commitment in new product development as well as digital and sustainability initiatives. We have experienced escalating energy costs as well as higher costs for computer licensing, travel and foreign exchange.

Stock weeks of 39.2 have increased from 33.4 in 2021. Debtor days have increased by 1.7 days to 37.9 days (2021:36.2 days)

The results for the year are shown on page 17.

Key performance indicators

Our key performance indicators are turnover growth, operating profit, operating margin, stock weeks and debtor days.

	2022 £'000	2021 £'000	Movement
Turnover	145,758	131,988	10.4%
Operating profit	7,044	11,633	(39.4%)
Operating margin	4.8%	8.8%	(400bps)

	2022	2021	Movement
Stocks weeks	39.2	33.4	5.8
Debtors days	37.9	36.2	1.7

Stock weeks is calculated by dividing total stocks as at 31st December 2022 of £29,200,000 (2021: £22,453,000) over the weekly average cost of stocks recognised in the profit and loss account for the year ended 31 December 2022. The weekly average cost of stocks consists of;

Spirax-Sarco Limited

Strategic report (continued)

	2022 £'000	2021 £'000
Change in the stocks of finished goods and work in progress	(4,059)	(13)
Raw materials and consumables	(34,639)	(34,993)
Total cost of stocks recognised in the profit and loss account	<u>(38,698)</u>	<u>(35,006)</u>
Weekly average cost of stocks recognised in the profit and loss account	(744)	(673)

Stock weeks increased primarily to enable a higher level of customer service by meeting customer requested delivery dates and product mix changes.

Debtor days is calculated by dividing trade debtors as at 31 December 2022 of £15,124,000 (2021: £13,089,000) over turnover for the year-ended 31st December 2022 of £145,758,000 (2021: £131,988,000) and multiplying by 365 days.

Sustainability

2022 was a year where we reduced our impact on the environment, advancing our journey to meet our One Planet: Engineering with Purpose sustainability goals. We combined our capabilities with other group companies, developing new-to-world solutions to decarbonise industrial processes to meet our customers' changing needs, working closely with our suppliers to support our customers' sustainability and efficiency aims, with an unwavering focus on safety.

We are working to reduce our own energy and water use, greenhouse gas emissions and waste production at our facilities. In particular we initiated emission reduction measures which included the decommissioning of our natural gas-powered Combined Heat & Power (CHP) plant at our manufacturing facility and installed a wildlife pond to encourage biodiversity. We also began transitioning our mobile workforce into electric vehicles and launched an electric vehicle salary sacrifice scheme for employees.

For further detail on the Spirax-Sarco Engineering Group's One Planet sustainability strategy and metrics please see the Sustainability report on page 46 of the Spirax-Sarco Engineering plc 2022 Annual Report.

Ukraine and Russia

Following the February 2022 Russian invasion of Ukraine the Spirax-Sarco Engineering Group withdrew all operations with and within Russia. As a result Spirax-Sarco Limited ceased trading with Russia during the year.

The Russian invasion of Ukraine put additional stress on our already challenged supply chains. Our teams responded with agility and care to help suppliers meet the challenges they faced, while also securing our own supply needs. Specific areas where the business has been impacted are in the supply and cost of key raw materials, such as nickel, and energy costs.

COVID-19

In 2020 and 2021 the company was significantly impacted by the COVID-19 pandemic but due to the essential industries we supply we continued to maintain a good level of demand resiliency and manufacturing continued throughout the pandemic.

2022 saw a reduction of the negative impact of Covid-19.

The health, safety and wellbeing of our colleagues remains our highest priority and we evolved our minimum standards in line with government guidance and UK consensus.

During the pandemic our direct sales and service engineers embraced virtual tools to engage customers and to self-generate sales and this has continued in 2022 alongside in-person visits to customers.

More of our workforce has also returned to the office as we continue to adopt a hybrid approach to working. This provides greater flexibility for individuals while still meeting the needs of our customers and continuing to support collaboration.

Principal risks and uncertainties

The Company has well established risk management processes, including insurance cover, which is an integral part of the operation of our business. Whilst risk can never be eliminated, our processes allow us to identify and appropriately

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Strategic report (continued)

manage and mitigate risks and uncertainties. The principal risks and uncertainties are strategic, commercial, operational and financial.

Strategic risks and uncertainties include customer relationships, the competitive environment, political and economic upheaval, technological changes, the regulatory and legal environment, and investment and acquisitions. These relate to maintaining our market and technological leadership including branding and reputation.

Commercial risks and uncertainties include issues such as product design and performance, product liability, competitor activity, relations with customers and suppliers, pricing and profit margins. Our employees are key to managing and mitigating risks and uncertainties and we therefore invest significant resources in the training and development of our people.

Operational risks and uncertainties include health and safety and environmental issues, employee relations, mitigation of, and recovery from, major disasters, product quality and customer service. We have for many years complied with recognised quality, health and safety and environmental standards and regulations and have applied project management disciplines in our business. In addition we have embedded a leading indicator programme at the manufacturing facility and undertake regular health and safety meetings.

Financial risks and uncertainties include exchange rate exposures, interest rate movements, financial irregularities and protection of assets including pension fund assets. The Company is covered by the Group's comprehensive Treasury Policy that deals with many of these issues and defines our approach to minimise and mitigate such risks.

Section 172 Statement

Engaging with our stakeholders and acting in a way that promotes the long-term success of the Company, while taking into account the impacts of our business decisions on our stakeholders, is central to our strategic thinking and our statutory duty in accordance with Section 172(1) of the Companies Act 2006 (s.172).

The Directors of Spirax-Sarco Limited consider, both individually and together, that they have acted in the way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in s.172 (A-F of the Companies Act) in the decisions taken during the year. In particular our plan is designed to have a long-term beneficial impact on the Company and its stakeholders, and contribute to the Company's continued success in delivering reduced carbon emissions and increased efficiency, safety and sustainability for our customers. Our plan is focused on our customers, as exemplified by our customer focused business strategy, but also takes into account other stakeholders, such as our employees and the effective management of our supply chain, with the aim of delivering value to shareholders. As Directors, our intention is to behave responsibly and ethically at all times, in line with our Company values, and to ensure that our management teams operate the business in a responsible manner and to the highest standards of business conduct and good governance.

Our impacts on, and engagement with, five key stakeholder groups are systematically considered as part of our strategy. The stakeholder groups are: our employees, our customers, our suppliers, our communities and our environment. See the Directors' report for further details.

Future developments

The Company will continue to invest in its manufacturing processes and research and development to continue to meet global demand from the Spirax-Sarco Group. In the UK the Company will continue to consolidate its position as the market leader of steam solutions through sales-focused initiatives and acquisition where opportunity arises.

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Strategic report (continued)

Events after the balance sheet date

The trade and assets of the Japanese Branch were transferred to a new legal entity, Spirax-Sarco Godo Kaisha, on 4th January 2023. Spirax-Sarco Godo Kaisha is a 100% owned subsidiary of Spirax-Sarco Limited. The primary purpose of the transaction was reduced administration and the greater financial benefits available locally in Japan of operating as a Japanese legal entity rather than a branch of a UK company. During the year-ending 31 December 2022 the Japanese branch contributed sales of £8.6m (6% of the Spirax-Sarco Limited results for 2022), profit before tax of £0.9m (9%) and profit after tax of £0.4m (5%). As at 31 December 2022 the branch contributed £5.8m (5%) and £3.6m (6%) towards the net assets and net current assets of Spirax-Sarco Limited respectively. The expected contribution from the Japanese Branch has been stripped out of the forecasts considered for going concern purposes and due to the relatively low proportion of sales, profits and assets that the Japanese Branch contributed to Spirax-Sarco Limited it has been determined that the event has no impact on the Going Concern assertion.



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S K Ewe-Cheah

Director

26th May 2023

Registered Office: Charlton House, Cirencester Road, Cheltenham, Gloucestershire, GL53 8ER

Spirax-Sarco Limited

Directors' report

The Directors present their annual report on the affairs of the Company, together with the financial statements and auditor's report, for the year ended 31 December 2022.

Principal activities

The Company's business is the manufacture of products for the control of fluids such as steam, hot water and compressed air for process uses and other industrial and commercial applications.

Dividend

No dividend was paid in the year (2021: no dividend) and no further dividend has been approved or proposed. Profit for the year of £8,009,000 has been transferred to reserves (2021: £7,966,00).

Directors

The following Directors held office during the year and served subsequently to the date of signing the financial statements unless otherwise stated:

G Huxtable

M Preziosa

D Smithson (appointed 3 March 2022)

S K Ewe-Cheah (appointed 1 April 2022)

G Godfrey-Williams (appointed 8 August 2022)

N B Patel (resigned 17 May 2022)

P Oakley (resigned 17 May 2022)

N Frost (resigned 3 March 2022)

R M Pallett (appointed 17 August 2022, resigned 16 December 2022)

Going concern

At the year end the Company had net current assets of £55,218,000 (2021: £53,252,000).

The company has prepared cash flow forecasts which reflect forecast changes in revenue and cash flows based on the current economic environment and also takes into account the transfer of the trade and assets of the Japanese branch to a new legal entity within the Spirax-Sarco Engineering Group on the 4th January 2023. The financial position remains robust.

The Directors, having made appropriate enquiries, consider that the Company has adequate resources to continue in operational existence and that the Directors intend to do so, for at least one year from the date the Financial Statements were signed, and that it is appropriate to adopt the Going Concern basis in preparing the Annual Report and Financial Statements.

Financial risk management objectives and policies

The Company's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk. The Company does not use financial derivatives to manage these risks.

Cash flow risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Company is covered by the Group's comprehensive Treasury Policy that deals with many of these issues and defines the approach to minimise and mitigate such risks. Further details can be found in the Group financial statements.

Spirax-Sarco Limited

Directors' report (continued)

Credit risk

The Company's principal financial assets are cash balances, trade and other debtors, and investments. The Company's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of allowances for doubtful debtors. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company is covered by the Group's Treasury Policy referred to above.

Subsidiary undertakings

No subsidiary undertakings were acquired in the year.

Existence of branches outside the UK

The Company has branches, as defined in section 1046(3) of the Companies Act 2006, outside the UK in Denmark, Japan, The United Arab Emirates, The Republic of Ireland, Ghana, Greece, Pakistan, Saudi Arabia, Tanzania and Uganda. The trade and assets of the Japanese branch were transferred to a new Japanese legal entity, Spirax-Sarco Godo Kaisha, on 4th January 2023.

Research and development

The Company continues to devote significant resources to the updating and expansion of its range of products in order to remain at the forefront of its world market, spending £3,996,000 (2021: £5,920,000) on research and development in the current year.

Future developments and events after the balance sheet date

Details of future developments and events that have occurred after the balance sheet date can be found in the Strategic Report on page 6.

Employees

The Company has a continuing policy of giving disabled people full consideration for all job vacancies for which they offer themselves as suitable applicants.

Wherever practical the Company maintains the employment of those employees who become disabled and offers appropriate training. In the UK, the Company meets the requirements of the Disability Discrimination Act 1995.

Charitable and political donations

During the year the Company made charitable donations of £65,153 (2021: £37,850). The Company did not make political donations in either 2022 or 2021.

Spirax-Sarco Limited

Directors' report (continued)

Employee Engagement

Our employees are our greatest asset and our success relies on the application of their knowledge and skills. We aim to be a responsible employer in our approach to pay and benefits, and the health, safety and well-being of our employees is always a primary consideration. We aim to understand the views of employees, in particular on decisions affecting their interests, and provide employees with information on matters of concern including financial and economic factors affecting the performance of the Company.

How we are engaging:

- We communicate with employees through a variety of channels including briefing groups, meetings, conferences, videos, email and written communications.
- We listen to the views of our employees including through their participation in local focus groups and the employee survey. Survey results are analysed collectively by department with focus groups established and plans to address those areas our employees tell us we could do better. Examples of items raised by employees which have been implemented include flexible working arrangements, three days paid volunteering leave, enhanced maternity and paternity pay, employee assistance programme and employee networks.
- We have actively engaged with employees on how COVID-19 has impacted the company and our employees. This includes regular updates issued by the leadership team, employee surveys and a dedicated internal website. Our primary focus is the safety of our employees and we have, and will continue to take, the correct measures to provide a safe working environment for our employees.

The Company encourages the involvement of employees in the company's performance by offering:

- 1) A performance related bonus scheme based on the results of the company, the consolidated results of the steam division or the consolidated results of its parent company, Spirax-Sarco Engineering plc.
- 2) An Employee Share Ownership Plan for shares of its parent company, Spirax-Sarco Engineering plc.

Engagement with suppliers, customers and others

Customers

We generate value for our stakeholders as we help the end users of our products to improve the efficiency, safety and sustainability of their operations. Meeting the needs of customers now and developing our offering so that we can continue to meet their needs into the future, requires a closeness to, and engagement with, customers.

How we are engaging:

- Our direct sales business model is the key avenue for customer engagement, allowing us to deeply understand their needs and requirements.
- Regular "Voice of the customer" surveys provide valuable feedback from customers who tell us what we are doing well and how we can improve.
- Customer requirements are always taken into consideration during new product development, with customer needs driving the design and development of products.

Spirax-Sarco Limited

Directors' report (continued)

Suppliers

Our purchasing decisions not only impact our suppliers, but their stakeholders too. We expect our suppliers to operate ethically, taking due consideration for the safety and well-being of their workers while minimising their environmental impacts. By setting high standards for our suppliers, we reduce operating and reputational risk and promote the long-term success of the Company.

How we are engaging:

- We purchase from suppliers who adhere to our Supplier Sustainability Code.
- We undertake supplier audits to oversee compliance with our standards.
- We work with suppliers on a continuous improvement basis to raise standards.
- We train employees on business ethics and encourage the use of the whistle-blowing hotline to raise concerns about anything in our end-to-end supply chain.
- We pay our suppliers for properly completed work and it is the company's policy to make payments to suppliers in line with the terms of the supply contract. This policy has continued throughout the COVID-19 pandemic. Payment terms are typically between 30 and 60 days.

Communities

As a financially successful business, we are well-placed to "give something back" to our communities. We strive to be a force for good wherever we operate. While education, particularly in the sciences and engineering, is our priority focus, to maximise our positive impact we always seek to identify and respond to local needs.

How we are engaging:

- We respond to requests for much needed charitable funding, making financial donations to charitable causes.
- Our employees are encouraged to volunteer their time and skills, during working hours, to support a range of worthwhile causes in their local community.
- We work with schools, colleges and universities to raise aspirations, increase awareness of engineering and develop the talent of young engineers.

Environment including energy and carbon

Climate change is a global challenge and an emerging risk to businesses, people and the environment across the world. We have a role to play in limiting warming by improving our energy management, reducing our carbon emissions and helping our customers to do the same. Not only is managing our environmental impacts the right thing to do, it also helps us to manage and mitigate risk.

How we are engaging:

- We actively engage with customers to identify and implement engineered solutions to reduce their energy use, carbon emissions, water and waste.
- We educate our employees and take steps to reduce our own environmental impacts.
- We report transparently on our environmental performance

Disclosure of information to auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

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Directors' report (continued)

Auditor

Deloitte LLP expressed its willingness to continue in office as auditor and a resolution to re-appoint them was proposed and agreed at the Spirax-Sarco Engineering plc AGM in line with section 487 of the Companies Act 2006.

Director's indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.'

Approved by the Board and signed on its behalf by:



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S K Ewe-Cheah

Director

26th May 2023

Registered Office:

Charlton House
Cirencester Road
Cheltenham
Gloucestershire
GL53 8ER

Spirax-Sarco Limited

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland." Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Spirax-Sarco Limited

Independent auditor's report to the members of Spirax-Sarco Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Spirax-Sarco Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the related notes 1 to 24.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included an assessment of the entity's:

- financing facilities including nature of facilities, repayment terms and covenants
- linkage to business model and medium-term risks
- assumptions used in the forecasts

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Spirax-Sarco Limited

Independent auditor's report to the members of Spirax-Sarco Limited

Report on the audit of the financial statements (continued)

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Spirax-Sarco Limited

Independent auditor's report to the members of Spirax-Sarco Limited

Report on the audit of the financial statements (continued)

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are described below:

- **Manual adjustments to revenue:** We have agreed through a sample of manual adjustments and obtained supporting documentation to ensure the revenue has been appropriately recognised in line with FRS 102.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing internal audit reports.

Spirax-Sarco Limited

Independent auditor's report to the members of Spirax-Sarco Limited

Report on the audit of the financial statements (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception


Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



James Hunter, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
Reading, United Kingdom

26th May 2023

Spirax-Sarco Limited

Profit and loss account

For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Turnover	3	145,758	131,988
Change in the stocks of finished goods and work in progress		(4,059)	(13)
Other operating income	3	48,864	34,422
Raw materials and consumables		(34,639)	(34,993)
Staff costs	4	(85,952)	(75,646)
Depreciation of tangible fixed assets	10	(7,542)	(7,714)
Amortisation of intangible assets	11	(64)	(64)
Other operating charges		(55,322)	(36,347)
Operating profit		7,044	11,633
Income from shares in Group undertakings		2,048	-
Profit / (Loss) on sale of fixed assets		725	(175)
Finance costs (net)	7	(227)	(546)
Profit on ordinary activities before taxation	5	9,590	10,912
Tax charge on profit on ordinary activities	9	(1,581)	(2,946)
Profit for the financial year attributable to the equity shareholders of the Company		8,009	7,966

In both the current and preceding year, the Company made no material acquisitions and had no discontinued operations. Turnover and profit on ordinary activities, therefore, derive from continuing operations.

The notes on pages 21 to 42 form part of these financial statements.

Spirax-Sarco Limited

Statement of comprehensive income For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Profit for the financial year		<u>8,009</u>	<u>7,966</u>
Currency translation difference on foreign branches		78	(981)
Actuarial movement on defined benefit pension scheme			
Net actuarial (loss) - experience	21	(13,438)	(3,589)
Net actuarial gain - assumptions	21	172,152	5,169
Return on plan assets (lower) / greater than discount rate	21	(176,787)	24,627
		<u>(18,073)</u>	<u>26,207</u>
Total re-measurement (loss)/gain of net defined benefit liability		(18,073)	26,207
Tax relating to components of other comprehensive income		<u>4,518</u>	<u>(4,127)</u>
Other comprehensive (loss)/income		<u>(13,477)</u>	<u>21,099</u>
Total comprehensive (loss)/income attributable to equity shareholders of the Company		<u><u>(5,468)</u></u>	<u><u>29,065</u></u>

Spirax-Sarco Limited

Balance sheet

As at 31 December 2022

	Note	2022		2021	
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	10	79,052		72,934	
Goodwill	11	137		201	
Investments	12	2,818		2,714	
Deferred Tax	15	7,010		4,083	
			89,017		79,932
Current assets					
Stocks	13	29,200		22,453	
Debtors	14	73,654		58,233	
Cash at bank and in hand		2,912		3,708	
			105,766		84,394
Creditors: amounts falling due within one year					
Creditors	16		(50,548)		(31,142)
Net current assets			55,218		53,252
Total assets less current liabilities			144,235		133,184
Creditors: Amounts falling due after more than one year					
Other creditors			(538)		-
Pensions and provisions for liabilities	17		(29,214)		(14,469)
Net assets			114,483		118,715
Capital and reserves					
Called up share capital	20		5,000		5,000
Share premium account			57,557		57,557
Revaluation reserve			773		773
Profit and loss account			51,153		55,385
Shareholders' funds			114,483		118,715

The notes on pages 21 to 42 form part of these financial statements.

The financial statements of Spirax-Sarco Limited (Registered number: 00509018) were approved by the board of directors and authorised for issue on 26th May 2023. They were signed on its behalf by:



S K Ewe-Cheah

Director

Spirax-Sarco Limited

Statement of changes in equity For the year ended 31 December 2022

	Called up share capital £'000	Share premium £'000	Revaluation reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2021	5,000	57,557	773	24,564	87,894
Profit for the financial year	-	-	-	7,966	7,966
Currency translation difference on foreign branches	-	-	-	(981)	(981)
Actuarial gain on defined benefit pension scheme *	-	-	-	26,207	26,207
Tax relating to items of other comprehensive income	-	-	-	(4,127)	(4,127)
Total comprehensive income	-	-	-	29,065	29,065
Tax for equity-settled share based payment	-	-	-	493	493
Credit to equity for equity-settled share-based payment *	-	-	-	1,263	1,263
At 31 December 2021	5,000	57,557	773	55,385	118,715
Profit for the financial year	-	-	-	8,009	8,009
Currency translation difference on foreign branches	-	-	-	78	78
Actuarial loss on defined benefit pension scheme *	-	-	-	(18,073)	(18,073)
Tax relating to items of other comprehensive income	-	-	-	4,518	4,518
Total comprehensive expense	-	-	-	(5,468)	(5,468)
Tax for equity-settled share based payment	-	-	-	237	237
Credit to equity for equity-settled share-based payment *	-	-	-	999	999
At 31 December 2022	5,000	57,557	773	51,153	114,483

* Further details of the movements on the defined benefit scheme and share-based payments can be found in notes 21 and 22 respectively.

The notes on pages 21 to 42 form part of these financial statements.

Spirax-Sarco Limited

Notes to the financial statements

For the year ended 31 December 2022

1. Accounting policies

The principal accounting policies are summarised below and have been used consistently, throughout the current and preceding year, in dealing with items which are considered material in relation to the Company's financial statements.

General information and basis of accounting

Spirax-Sarco Limited is a private company limited by shares and is incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 6. The nature of the Company's operations and its principal activities are set out in the Strategic report on pages 3 to 6. The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

Spirax-Sarco Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. Spirax-Sarco Limited is consolidated in the financial statements of its parent, Spirax-Sarco Engineering plc, which may be obtained from the Company's registered office. Exemptions have been taken in these separate Company financial statements in relation to share-based payments, financial instruments, related party transactions, presentation of a cash flow statement and remuneration of key management personnel.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements as the Company is a wholly-owned subsidiary of a parent undertaking established under the law of a member State of the European Economic Community. This company is Spirax-Sarco Engineering plc. These financial statements present information about the undertaking as an individual undertaking and not about the Group.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report. The Directors' report further describes the financial position of the Company; its financial risk management objectives and its exposure to credit risk and liquidity risk.

At the year end the Company had net current assets of £55,218,000 (2021: £53,252,000).

The company has prepared cash flow forecasts which reflect forecast changes in revenue and cash flows based on the current economic environment. The financial position remains robust.

The Directors, having made appropriate enquiries, consider that the Company has adequate resources to continue in operational existence and that the Directors intend to do so, for at least one year from the date the Financial Statements were signed, and that it is appropriate to adopt the Going Concern basis in preparing the Annual Report and Financial Statements.

Turnover

Turnover is stated net of VAT and trade discounts and is recognised when the significant risks and rewards are considered to have been transferred to the buyer. Turnover from the sale of goods is recognised when the goods are physically delivered, or dispatched to the customer, in accordance with the contractual terms of sale.

Turnover from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the fair value of the consideration received or receivable. Turnover from projects is recognised by reference to the stage of completion of the contract based on the fair value of goods and services provided at the balance sheet date.

Stocks

Stocks and work in progress are valued at the lower of cost, including factory overheads where appropriate, and estimated net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Provision is made for obsolete, slow-moving or defective items where appropriate.

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

1. Accounting policies (continued)

Research and development

Research and development expenditure is charged against profits as incurred.

Government grants

Grants for research and development cost are recognised when the grant proceeds are received or receivable.

Tangible fixed assets

Fixed assets are included at cost with the exception of freehold land and buildings which are included at professional valuations as at 31 December 1986, with subsequent additions at cost.

Where the Company used its own labour to create a fixed asset such labour is capitalised and subsequently written off over the useful life of the fixed asset created.

Depreciation

Depreciation is calculated on cost or valuation on a straight-line basis at rates which write down the value of the assets to their residual values over their estimated useful lives. The principal rates used are as follows:

Land and buildings

Freehold land	nil
Freehold buildings	1.5% - 4.0%
Leasehold properties	Over life of lease

Plant and machinery

Plant and machinery excluding motor vehicles	4% - 12.5%
Motor vehicles	20%

Fixtures, fittings, tools and equipment

Office furniture and fittings	10%
Office equipment	12.5% - 33.3%
Computers and computer software	20 - 25%
Tooling and patterns	10%

Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Goodwill and intangible assets

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations is capitalised. Positive goodwill is amortised to nil by equal instalments over its estimated useful life, which is 10 years.

Intangible fixed assets purchased as part of an acquisition are non-compete agreements, manufacturing designs and technology and customer relationships. These are capitalised at their fair value and are amortised to nil by equal annual instalments over their useful economic lives, which are three years, three years and two years respectively.

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

1. Accounting policies (continued)

Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

An impairment loss is recognised whenever the carrying amount of an asset or its income-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account unless they arise on a previously revalued fixed asset. An impairment loss on a revalued fixed asset is recognised in the profit and loss account if it is caused by a clear consumption of economic benefits. Otherwise impairments are recognised in the statement of comprehensive income until the carrying amount reaches the asset's depreciated historic cost.

The carrying amounts of the Company's assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated.

Impairment losses recognised in respect of income-generating units are allocated first to reduce the carrying amount of any goodwill allocated to income-generating units, then to any capitalised intangible asset and finally to the carrying amount of the tangible assets in the unit on a pro rata or more appropriate basis. An income-generating unit is the smallest identifiable group of assets that generates income that is largely independent of the income streams from other assets or groups of assets.

The recoverable amount of fixed assets is the greater of their net realisable value and value in use. In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the rate of return expected on an equally risky investment. For an asset that does not generate largely independent income streams, the recoverable amount is determined for the income-generating unit to which the asset belongs.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

1. Accounting policies (continued)

Taxation (continued)

When the amount that can be deducted for tax for an asset that is recognised in a business combination is less (more) than the value at which it is recognised, a deferred tax liability (asset) is recognised for the additional tax that will be paid (avoided) in respect of that difference. Similarly, a deferred tax asset (liability) is recognised for the additional tax that will be avoided (paid) because of a difference between the value at which a liability is recognised and the amount that will be assessed for tax.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax relating to property, plant and equipment measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to sale of the asset.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Foreign currency translation

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Foreign currency assets and liabilities are translated into sterling at rates of exchange ruling at the date of the balance sheet.

The trading results of overseas branches have been translated into sterling at average rates of exchange ruling during the year. Differences arising from changes in exchange rates are treated as part of the trading profit where they relate to items of a trading nature. Exchange differences arising from the re-translation of the opening net investment in the branches and between the profits for the year, translated at average and closing rates, are shown as movements on reserves.

Investments

Investments are held at cost less provisions for any permanent diminutions in value.

Investment properties

Investment properties are held at historical cost less accumulated depreciation, and are assessed for recoverable amount annually.

Leases

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease. Where the Company is a lessee under a finance lease, the leased assets are capitalised and included in fixed assets, with the corresponding liability recognised as a creditor. Finance charges are recognised over the period of the finance lease. Rents receivable under operating leases are recognised in the profit and loss account on a straight-line basis.

Retirement benefits

A defined benefit scheme and defined contribution scheme are operated by the Company in the UK. There are also separate defined contribution pension schemes in place for branches outside of the UK for which all contributions are charged to the profit and loss account.

For the Company's defined benefit scheme the cost of providing pensions is spread over the period during which benefit is expected to be derived from the employees' services and is calculated in accordance with advice of qualified actuaries.

The Company's defined contribution scheme was set up in September 2001 for new employees. All contributions payable to this scheme in the year are charged to the profit and loss account. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

1. Accounting policies (continued)

Share-based payment

The Company grants to its employees' rights to equity instruments of Spirax-Sarco Engineering plc, its parent company. The required disclosures are therefore included in Spirax-Sarco Engineering plc's consolidated financial statements.

Where the Company's parent undertaking grants rights to its equity instruments to the Company's employees, which are accounted for as equity-settled in the consolidated financial statements of the parent, the Company accounts for these share-based payments as equity-settled. Amounts recharged by the parent are recognised as a recharge liability with a corresponding debit to equity.

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 profit and loss account over the relevant vesting periods. The value of the charge is adjusted to reflect expected and actual levels of options vesting.

The fair value of awards made under long-term share incentive plans is measured at the date of grant and the cost spread over the vesting period. The amount recognised is not adjusted to reflect market based performance conditions, but is adjusted for non-market-based performance conditions.

Cash flow statement

The consolidated financial statements of the Company's parent undertaking include a group cash flow statement. The Company, as a qualifying entity, has taken advantage of the disclosure exemptions in FRS 102 paragraph 1.12 and the Company is therefore exempt from preparing its own cash flow statement.

Dividends on shares presented within shareholder's funds

Dividends are only recognised as a liability at that date to the extent that they are declared prior to the year-end and approved by the shareholders. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Cash pooling arrangement

During the prior year the Company entered into zero balancing arrangement cash pools with other Group companies for our GBP, USD and EUR accounts held in the UK. At 31st December 2022 the combined balance on these cash pools was an overdraft of £16.8m. As the Company's legal rights and obligations are with the Group Companies and not with the bank these balances are presented on the balance sheet as amounts owed by/to Group companies rather than cash at bank or an overdraft.

Trade and other debtors

Trade and other debtors are carried at original invoice amount (which is considered a reasonable proxy for fair value) and are subsequently held at amortised cost less provision for impairment. The provision for impairment is based on lifetime expected credit losses. Lifetime expected credit losses are calculated by assessing historic credit loss experience, adjusted for factors specific to the receivable and operating company. The movement in the provision is recognised in the Profit and Loss Account.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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.

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

2. Critical accounting judgements and key sources of estimation uncertainty (continued)

Critical judgements in applying the Company's accounting policies

The Directors have concluded that no critical judgements, apart from those involving estimations (which are dealt with separately below) have been made in the process of applying the Company's accounting policies.

Key source of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are outlined below

Defined benefit pension assumptions

The defined benefit obligation is assessed by selecting key assumptions. The selection of mortality rates, inflation and pay increases are key sources of estimation uncertainty which could lead to material adjustment in the defined benefit obligation within the next financial year. These assumptions are set with close reference to market conditions.

The defined benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate bonds. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded.

The key assumptions selected are disclosed in note 21.

The defined benefit pension scheme was closed to future accrual during 2020. This helps to partially mitigate some of the future uncertainty including the financial impact caused by the uncertainty of these assumption.

Climate change

Climate change is a global challenge and an emerging risk to businesses, people and the environment across the world. We have a role to play in limiting warming by improving our energy management, reducing our carbon emissions and by helping our customers do the same. Growing awareness of climate change and customer sustainability targets will provide impetus for business growth as we provide products, services and solutions that increase efficiency and reduce customers' energy use and carbon emissions. As a result, in our view climate change does not create any further key sources of estimation uncertainty.

3. Turnover and other operating income

The Company sells goods to operating companies within the Group as well as directly to UK-based customers. Turnover by region is as follows:

	2022 £'000	2021 £'000
UK & Republic of Ireland	49,204	43,742
EMEA (excluding UK & Republic of Ireland)	57,883	53,320
Asia Pacific	26,901	25,637
Americas	11,770	9,289
	<u>145,758</u>	<u>131,988</u>

Other operating income of £48,864,000 (2021: £34,422,000) consists of fees for the provision of centralised services to related parties and other Group companies of £45,759,000 (2021: £32,176,000), inter-group royalties of £3,014,000 (2021: £2,160,000) and rental income of £91,000 (2021: £86,000).

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

4. Staff numbers and costs

The monthly average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	2022 Number	2021 Number
UK	1,100	1,069
Overseas	112	97
	<u>1,212</u>	<u>1,166</u>
	2022 Number	2021 Number
Production	552	529
Sales	325	273
Administration	335	364
	<u>1,212</u>	<u>1,166</u>

The aggregate staff costs of these persons were as follows:

	2022 £'000	2021 £'000
Wages and salaries	68,786	59,650
Social security costs	7,678	6,969
Other pension costs (see note 21)	7,495	6,977
Share-based payments (see note 22)	1,993	2,050
	<u>85,952</u>	<u>75,646</u>

Other pension costs includes only those items included within operating costs.

Staff costs disclosed above include £1,541,000 (2021: £1,175,000) of costs that were capitalised within software and development assets rather than expensed to the income statement. The credit to the income statement is included in other operating charges.

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

5. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting) the following:

	2022 £'000	2021 £'000
Research and development expenditure	3,996	5,920
Research and development grant income	(15)	(78)
Other operating leases	286	135
(Profit) / loss on disposal of fixed assets	(725)	175
Depreciation of tangible fixed assets (see note 10)	7,542	7,714
Amortisation of intangible assets (see note 11)	64	64
Foreign exchange loss /(gain)	491	(307)
Staff costs capitalised	(1,541)	(1,175)
Rents receivable (see note 19)	(91)	(86)
	<u> </u>	<u> </u>

6. Auditor's remuneration

Fees payable to Deloitte LLP and their associates for the audit of the company's financial statements were £101,910 (2021: £94,800). No non-audit services were provided to the Company in either year.

7. Finance costs (net)

	2022 £'000	2021 £'000
Interest payable and similar charges		
Bank loans and overdraft	(1)	(4)
Net interest on pension scheme liabilities (see note 21)	(226)	(542)
	<u> </u>	<u> </u>
	(227)	(546)
	<u> </u>	<u> </u>

8. Emoluments of directors

Directors' emoluments received while a Director consist of the following elements:

	2022 £'000	2021 £'000
Emoluments	872	727
Company contributions to defined contribution and defined benefit pension schemes	22	9
	<u> </u>	<u> </u>
	894	736
	<u> </u>	<u> </u>

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

8. Emoluments of directors (continued)

The number of directors who:	2022 Number	2021 Number
Are members of a money purchase pension scheme at 31 st December	2	2
Are members of a defined benefit scheme at 31 st December	3	1
Had awards receivable in the form of shares in the parent company under a long-term incentive scheme	4	3
Exercised options over shares in the parent company	0	0

The defined benefit scheme closed to future accrual during 2020.

Emoluments of the highest paid director were £436,000 (2021: £326,000). The accrued annual pension payable at normal retirement age, assuming no further service as the scheme is closed to future accrual, of the highest paid director at 31 December 2022 was £98,000 (2021: £98,000). There is no accrued lump sum. The highest paid director did not exercise share options in 2022 (2021: did not exercise share options) and received shares under a long-term incentive scheme in both 2022 and 2021. Included within emoluments is £262,000 (2021: £153,000) of performance related payments for which the payment criteria are similar to those of the parent company.

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

9. Tax on profit on ordinary activities

The tax charge comprises:

	2022 £'000	2021 £'000
Current tax on profit on ordinary activities		
UK corporation tax – 19.00% (2021: 19.00%)	(1,992)	(485)
Foreign tax	1,297	991
	<u>(695)</u>	<u>506</u>
Adjustment for prior year:		
UK Corporation tax	685	149
	<u>685</u>	<u>149</u>
Total current tax	(10)	655
Deferred tax		
Impact of changes in tax rates	-	(145)
Difference between accumulated depreciation and amortisation and capital allowances	3,685	1,792
Prior year adjustment	(2,062)	-
Other timing differences	(855)	41
	<u>768</u>	<u>1,688</u>
Total deferred tax (excluding pension liability)	768	1,688
Pension scheme liabilities	823	603
	<u>823</u>	<u>603</u>
Total deferred tax (see note 15)	1,591	2,291
	<u>1,591</u>	<u>2,291</u>
Total tax on profit on ordinary activities	<u>1,581</u>	<u>2,946</u>

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

9. Tax on profit on ordinary activities (continued)

The standard rate of tax applied to reported profit on ordinary activities is 19.00% (2021: 19.00%).

On 29 June 2021 the UK Government enacted an increase to the UK corporation tax rate to 25% with effect from 1 April 2023.

As a result of these changes, the deferred tax asset as at 31 December 2022 was calculated based on the rate of 25%.

The difference between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2022 £'000	2021 £'000
Profit on ordinary activities before tax	9,590	10,912
UK corporation tax – 19.00% (2021: 19.00%)	1,822	2,073
Overseas tax	2,501	1,996
Impact of change in tax rates	874	(145)
Expenses not deductible for tax	(811)	(91)
Research and development tax relief	(231)	(240)
Income not chargeable to tax	(1,182)	(776)
Adjustments to tax in respect of previous periods	(1,392)	129
Total tax charge for the year	1,581	2,946

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

10. Tangible fixed assets

Land and buildings

	Freehold	Freehold	Short leasehold	Total	Plant and machinery	Fixtures fittings tools and equipment	Assets under construction	Total
	At value £'000	At cost £'000	At cost £'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation								
At 1 January 2022	635	40,455	52	41,142	54,952	41,994	102	138,190
Exchange differences	-	29	-	29	4	29	-	62
Transfers	-	(28)	-	(28)	15	285	(272)	-
Additions	-	146	-	146	6,470	8,575	178	15,369
Disposals	-	(420)	-	(420)	(4,446)	(2,580)	-	(7,446)
At 31 December 2022	635	40,182	52	40,869	56,995	48,303	8	146,175
Depreciation								
At 1 January 2022	135	7,511	8	7,654	35,698	21,904	-	65,256
Exchange differences	-	9	-	9	3	23	-	35
Transfers	-	-	-	-	1	(1)	-	-
Charged in year	-	737	-	737	2,677	4,128	-	7,542
Disposals	-	(416)	-	(416)	(2,946)	(2,348)	-	(5,710)
At 31 December 2022	135	7,841	8	7,984	35,433	23,706	-	67,123
Net book values								
At 31 December 2022	500	32,341	44	32,885	21,562	24,597	8	79,052
At 31 December 2021	500	32,944	44	33,488	19,254	20,090	102	72,934

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

10. Tangible fixed assets (continued)

If land and buildings had not been revalued they would have been included at the following amounts:

	2022 £'000	2021 £'000
Cost	40,182	40,455
Depreciation	(7,841)	(7,511)
Net book value	<u>32,341</u>	<u>32,944</u>

11. Intangible assets

	Goodwill £'000	Other intangibles £'000	Total £'000
Cost			
At 1 January 2022	636	1,144	1,780
At 31 December 2022	<u>636</u>	<u>1,144</u>	<u>1,780</u>
Amortisation			
At 1 January 2022	435	1,144	1,579
Charged in year	64	-	64
At 31 December 2022	<u>499</u>	<u>1,144</u>	<u>1,643</u>
Net book value			
At 31 December 2022	<u>137</u>	<u>-</u>	<u>137</u>
At 31 December 2021	<u>201</u>	<u>-</u>	<u>201</u>

Intangible assets, including goodwill, relate to the Company's acquisition of the thermocompressor business from UK-based Transvac Systems in 2012 and the transfer of the valve repair and calibration business from Valve and Control Engineering Ltd ('VCE'), a subsidiary of the Company, in 2015. Separately identified intangibles are recorded as part of the fair value adjustment.

The goodwill recognised on the Transvac acquisition represents the opportunity to accelerate the growth in sales of thermocompressors by capitalising on their expertise in this area and is amortised over 10 years being the period over which the Company anticipates sales growth in this market. The fair value of intangible assets acquired as part of a business are determined by reference to the fair value of future cash flows.

The goodwill recognised on the VCE transfer represents the value of the valve repair and calibration business and is being amortised over 10 years.

Other intangible assets comprise the value attributed to the Transvac manufacturing technology acquired and non-compete agreements and the existing customer relationships taken on in respect of the VCE transfer.

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

12. Investments

	Shares in group undertakings £'000	Participating interests £'000	Total £'000
Cost and net book value			
At 1 January 2022	1,905	809	2,714
Reinstatement	104	-	104
	<u>2,009</u>	<u>809</u>	<u>2,818</u>
At 31 December 2022	<u>2,009</u>	<u>809</u>	<u>2,818</u>

Shares in group undertakings and participating interests comprise the following:

	Country of incorporation	Class and percentage of shares held
Subsidiary undertakings		
Spirax-Sarco AS	Norway	100% of Ordinary Shares
Gestra UK Ltd	UK	100% of Ordinary Shares
Sarco Thermostats Ltd	UK	100% of Ordinary & Preference Shares
Spirax Manufacturing Company Ltd	UK	100% ordinary shares
V.C.E Restored Ltd	UK	100% ordinary shares
Spirax-Sarco Godo Kaisha	Japan	100% ordinary shares
Participating Interest		
Spirax-Sarco SA (Argentina)	Argentina	40.9% of Ordinary Shares
Other shareholdings		
Gervase Instruments Ltd	UK	0.04% of Ordinary Shares
Spirax-Sarco Investments Ltd	UK	1.1% of Ordinary Shares

The addresses of the registered offices of the above entities are as follows:

Spirax-Sarco AS

Vestvollveien 14A, N-2021 Skedsmokorset, Norway

Gestra UK Ltd

Charlton House, Cirencester Road, Cheltenham, Gloucestershire, GL53 8ER

Spirax-Sarco Godo Kaisha

261-0025, 2-37 Hamada, Mihama-ku, Chiba, Japan

Spirax-Sarco SA (Argentina)

Av. del Libertador 498, 12th Floor, Buenos Aires C1001ABR, Argentina

Spirax-Sarco Investments Ltd, Sarco Thermostats Ltd, Spirax Manufacturing Company, Gervase Instruments Ltd

Charlton House, Cirencester Road, Cheltenham, Gloucestershire, GL53 8ER

V.C.E Restored Ltd

Block 2, Unit 5 Threave Court, Castlehill Industrial Estate, Carluke, Lanarkshire, Scotland, ML8 5UF

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

12. Investments (continued)

The principal activity of Spirax-Sarco AS, Spirax-Sarco SA (Argentina) and Spirax-Sarco Godo Kaisha is the sale of products for the control of fluids such as steam, hot water and compressed air for process uses and other industrial and commercial applications and their servicing. Spirax-Sarco SA (Argentina) also manufactures such products.

The principal activity of Gestra UK Ltd is the sale of industrial boiler control systems, valves and control systems for steam and fluid process control.

The principal activity of Spirax-Sarco Investments Ltd is an investment holding company for the Spirax-Sarco Engineering plc Group.

During 2022 V.C.E Ltd, which was dissolved in April 2021, was restored and its name changed to V.C.E Restored Limited. The Company did not trade during 2022.

Subsidiary undertakings have not been consolidated by Spirax-Sarco Limited as permitted by s.400 of the Companies Act 2006 as they are consolidated in the financial statements of Spirax-Sarco Engineering plc.

13. Stocks

	2022 £'000	2021 £'000
Raw materials and consumables	9,998	7,327
Work in progress	7,927	6,355
Finished goods and goods for resale	11,275	8,771
	<u>29,200</u>	<u>22,453</u>

14. Debtors: amounts falling due within one year

	2022 £'000	2021 £'000
Trade debtors [^]	15,124	13,089
Amounts owed by group undertakings:		
Parent undertaking	12,627	18,901
Other group undertakings	34,759	16,247
Other debtors	2,552	1,089
Taxation recoverable	435	2,333
Prepayments	8,107	6,508
Accrued income	50	66
	<u>73,654</u>	<u>58,233</u>

[^] Trade debtors are net of a bad debt provision of £1,398,000 (2021: £1,520,000).

Amounts owed by group undertakings are interest free and repayable on demand.

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

15. Deferred taxation

The deferred taxation asset has been recognised on the basis that the Company anticipates future taxable profits against which these timing differences will be reversed, resulting in a lower liability to corporation tax.

The amounts provided for deferred taxation are set out below:

	2022 £'000	2021 £'000
Difference between accumulated depreciation and amortisation and capital allowances	(5,399)	(3,258)
Deferred tax arising in relation to retirement benefit obligations	7,245	3,551
Tax losses available	4,353	2,646
Other timing differences	811	1,144
Net Deferred tax asset (including pension liability)	<u>7,010</u>	<u>4,083</u>
	2022 £'000	2021 £'000
At 1 January	4,083	10,501
Charged to profit and loss account (see note 9)	(1,591)	(2,291)
Credited/(Charged) to other comprehensive income	4,518	(4,127)
At 31 December	<u>7,010</u>	<u>4,083</u>

16. Creditors: amounts falling due within one year

	2022 £'000	2021 £'000
Trade creditors	5,977	7,533
Amounts owed to group undertakings:		
Parent undertaking	16,882	-
Other group undertakings	6,624	4,619
Corporation tax	350	194
Other taxation and social security	1,903	1,973
Other creditors	2,275	7,457
Deferred Income	451	592
Accruals	16,086	8,774
	<u>50,548</u>	<u>31,142</u>

Amounts owed to group undertakings are interest free and repayable on demand.

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

17. Pensions and provisions for liabilities

	Retirement benefits plan £'000	Provisions £'000	Total £'000
Liability at 1 January 2021	43,585	588	44,173
Charged to profit and loss account	5,716	-	5,716
Credited to profit and loss account	(4,769)	(321)	(5,090)
Credited to other comprehensive income	(26,207)	-	(26,207)
Employer contributions	(4,123)	-	(4,123)
	<u>14,202</u>	<u>267</u>	<u>14,469</u>
Liability at 31 December 2021	14,202	267	14,469
Charged to profit and loss account	7,767	111	7,878
Credited to profit and loss account	(7,061)	(145)	(7,206)
Credited to other comprehensive income	18,073	-	18,073
Employer contributions	(4,000)	-	(4,000)
	<u>28,981</u>	<u>233</u>	<u>29,214</u>
Liability at 31 December 2022	28,981	233	29,214

18. Financial commitments

Capital commitments for which no provision has been made in these financial statements were as follows:

	2022 £'000	2021 £'000
Contracted	<u>2,143</u>	<u>1,432</u>

The contractual commitments relate to the purchase of property, plant and equipment.

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

19. Operating lease arrangements

The Company as lessee:

	2022 £'000	2021 £'000
Annual commitments under non-cancellable operating leases for property, plant and equipment:		
Within one year	735	102
Within two to five years inclusive	1,307	68
Over five years	-	-
	<u>2,042</u>	<u>170</u>

During 2022 the company entered into a sale and lease back transaction for its car fleet and moved from owning to leasing printers. These are the primary reasons for a significant increase in lease commitments as at 31st December 2022.

The Company as lessor:

Operating leases relate to the investment property owned by the Company with a lease term of three years. The lessee does not have an option to purchase the property at the end of the lease.

	Land and buildings	
	2022 £'000	2021 £'000
Annual receivables under non-cancellable operating leases:		
Within one year	52	47
In the second to third years inclusive	-	-
	<u>52</u>	<u>47</u>

20. Capital and reserves

	2022 £'000	2021 £'000
Called up share capital:		
Allotted, called up, and fully paid : 100,000,002 ordinary shares of 5p each (2021: 100,000,002)		
At 1 January	5,000	5,000
Shares issued during the year: Nil (2021: Nil)	-	-
At 31 December	<u>5,000</u>	<u>5,000</u>

The Company has one class of ordinary shares which carry no right to fixed income.

The Company's other reserves are as follows:

The profit and loss reserve represents cumulative profits or losses, net of dividends paid and other adjustments.

The revaluation reserve represents the cumulative effect of revaluations of freehold land and buildings which were revalued to fair value at 31 December 1986.

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

21. Retirement benefit schemes

Qualifying employees of the Company are members of a defined benefit scheme or a defined contributions scheme operated by the Company or parent undertaking for employees of the Company in the UK.

Defined benefit schemes

The assets of the defined benefit schemes are held separately from those of the Company and are administered by trustees. The contributions are determined by a qualified actuary following triennial valuations and based on the projected unit and attained age methods. The most recent actuarial valuation was carried out at 31 December 2019 by Willis Towers Watson. Based on the assumptions agreed for the technical provisions as at 31 December 2019, there was a deficit at the valuation date. Based on the contributions paid under the Schedule of contributions agreed at the 31 December 2019 valuation, the deficit would have been paid off by 31 December 2022 based on conditions at the valuation date but hasn't been due to changes in conditions since 31st December 2019. The funding schedule will be reviewed between the Company and the trustees every three years based on actuarial valuations. The next actuarial valuation is due to be completed as at 31 December 2022.

Defined contribution scheme

The defined contributions scheme is invested with Scottish Widows as determined by the member.

Pension cost

The Company's total pension charge for the year was £7,721,000 (2021: £7,519,000). This is split between a cost for the defined benefit scheme of £706,000 (2021: £947,000) for employees in the UK and defined contribution scheme costs of £7,015,000 (2021: £6,572,000) for employees in the UK, Japan, Denmark, the United Arab Emirates and the Republic of Ireland. Employer contributions outstanding for both the defined benefit scheme and defined contribution scheme at the year ended 31 December 2022 were £1,025,000 (2021: £904,000).

Full details of the funding arrangements of the schemes and the most recent actuarial valuations are contained in the accounts of Spirax-Sarco Engineering plc.

The financial assumptions used for the valuation calculations as at December 2022 were:

	2022	2021
	%	%
Rate of increase in salaries	N/A	N/A
Rate of increase in pensions	2.9	3.2
Discount rate	4.7	1.8
Rate of price inflation	3.2	3.3

Weighted by value of liabilities % per annum

Spirax-Sarco Limited

Notes to the financial statements (continued) For the year ended 31 December 2022

21. Retirement benefit schemes (continued)

The fair value of the assets in the scheme were:

	2022 £'000	2021 £'000
Bonds	99,133	236,040
Equities	38,283	112,457
Other	76,484	43,745
Total in aggregate	<u>213,900</u>	<u>392,242</u>

The following amounts at 31 December were measured in accordance with the valuation.

	2022 £'000	2021 £'000
Total market value of scheme's assets	213,900	392,242
Present value of scheme's liabilities	(242,881)	(406,444)
Related deferred tax asset	(28,981) 7,245	(14,202) 3,551
Net pension liability	<u>(21,736)</u>	<u>(10,651)</u>

Movements in the related deferred tax asset were as follows:

	2022 £'000	2021 £'000
At 1 January	3,551	8,281
Charge to profit and loss	(824)	(603)
Recognised gains/(losses)	4,518	(4,127)
At 31 December	<u>7,245</u>	<u>3,551</u>

The movements in the fair value of the scheme assets were as follows:

	2022 £'000	2021 £'000
At 1 January	392,242	370,808
Interest income on plan assets	7,061	4,769
Return on plan assets greater than discount rate	(176,787)	24,627
Employer contributions	4,000	4,123
Administration costs	(480)	(405)
Disbursements	(12,136)	(11,680)
At 31 December	<u>213,900</u>	<u>392,242</u>

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

21. Retirement benefit schemes (continued)

Movements in the present value of defined benefit obligations were as follows:

	2022 £'000	2021 £'000
At 1 January	(406,444)	(414,393)
Interest cost	(7,287)	(5,311)
Net actuarial loss - experience	(13,438)	(3,589)
Net actuarial gain - assumptions	172,152	5,169
Disbursements from plan assets	12,136	11,680
	<u>(242,881)</u>	<u>(406,444)</u>
At 31 December	<u>(242,881)</u>	<u>(406,444)</u>

The expense recognised in the profit and loss account was as follows:

	2022 £'000	2021 £'000
Current service cost	-	-
Plan amendments – past service cost	-	-
Administration costs	(480)	(405)
	<u>(480)</u>	<u>(405)</u>
Total charge to operating profit	(480)	(405)
Curtailment – past service credit	-	-
Interest on pension schemes liabilities	(7,287)	(5,311)
Expected return on assets in the pension schemes	7,061	4,769
	<u>(226)</u>	<u>(542)</u>
Net charge to Interest Payable	(226)	(542)
Total charge before tax	<u>(706)</u>	<u>(947)</u>

The estimated amounts of contributions expected to be paid to the scheme during 2023 are £4,000,000 (2022: £4,000,000).

Sensitivity analysis

The effect on the defined benefit obligation at 31 December 2022 of an increase or decrease in key assumptions is as follows:

	£'000
Increase/(decrease) in pension deficit:	
Discount rate assumption being 1.00% higher	(32,419)
Discount rate assumption being 1.00% lower	37,799
Inflation assumption being 1.00% higher	24,567
Inflation assumption being 1.00% lower	(22,518)

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2022

21. Retirement benefit schemes (continued)

The average age of active participants in the UK schemes at 31 December 2022 was 54 years (2021: 53 years).

Mortality assumptions

The assumed life expectations on retirement at age 65 as of the period end date are:

	Age	Years
Male / Female	65 now	22.0 / 24.6
Male / Female	65 in 15 years	22.9 / 25.6

22. Share-based payments

The Company grants to its employees rights to equity instruments of Spirax-Sarco Engineering plc, its parent company. The required disclosures are therefore included in Spirax-Sarco Engineering plc's consolidated financial statements. As detailed in the accounting policies note Spirax-Sarco Limited calculates its share-based payment expense based on fair value at the date of grant and spread over the vesting period.

The charge to the profit and loss account in respect of share-based payments is made up as follows:

	2022	2021
	£'000	£'000
Performance Share Plan	1,103	1,095
Employee Share Ownership Plan	890	955
	<hr/>	<hr/>
Total expense recognised in the profit and loss account	1,993	2,050
Contribution paid to Spirax-Sarco Engineering plc	(994)	(787)
	<hr/>	<hr/>
Credited to shareholder's funds	999	1,263
	<hr/> <hr/>	<hr/> <hr/>

23. Related party transactions

The Company is exempt from the requirement to disclose related party transactions with other members of the Spirax-Sarco Engineering Group as it is a wholly-owned subsidiary of Spirax-Sarco Engineering plc, the consolidated financial statements of which are publicly available from the Company's registered address detailed in note 24.

24. Ultimate parent undertaking and ultimate controlling party

The ultimate parent undertaking of Spirax-Sarco Limited and the head of the smallest and largest group in which the results of the Company are consolidated is Spirax-Sarco Engineering plc, a company incorporated in Great Britain, and registered in England and Wales.

Copies of the Group financial statements may be obtained from the registered address of the ultimate parent company at:

Spirax-Sarco Engineering plc
Charlton House
Cirencester Road
Cheltenham
Gloucestershire
GL53 8ER