

Spirax-Sarco Limited

Annual report and financial statements

For the year ended 31 December 2020

Company Registration No. 00509018

Spirax-Sarco Limited

Annual report and financial statements For the year ended 31 December 2020

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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 2020. 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.

Business review

Turnover has reduced by £17,660,000 (13.0%) with a decrease in all geographic segments due to the impacts of COVID-19. Despite this operating profit only reduced by £11,000 (0.0%) and margin increased by 110bps to 8.6%. This is primarily due to an increase in other operating income (£9,942,000) relating to an increase in services provided to other Group undertakings during the period, a reduction in total pension cost (£1,023,000) driven by closing the defined benefit pension scheme to future accrual, a reduction in other operating charges (£1,278,000) driven by cost containment measures and a reduction in the cost of inventories (£4,633,000) primarily due to the lower Turnover.

Stock weeks of 34.6 is consistent with the prior year (34.2) as stock held has reduced in line with the reduction in the average cost of stocks sold driven by lower sales. Debtor days have reduced by 10.0 days to 41.5 days.

The results for the year are shown on page 16.

Key performance indicators

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

	2020 £'000	2019 £'000	Movement
Turnover	118,086	135,746	(13.0)%
Operating profit	10,195	10,206	(0.0)%
Operating margin	8.6%	7.5%	110 bps

	2020	2019	Movement
Stocks weeks	34.6	34.2	0.4
Debtors days	41.5	51.5	(10.0)

Stock weeks is calculated by dividing total stocks as at 31st December 2020 of £22,005,000 (2019: £24,811,000) over the weekly average cost of stocks recognised in the profit and loss account for the year ended 31st December 2020. The weekly average cost of stocks consists of;

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Strategic report (continued)

	2020 £'000	2019 £'000
Change in the stocks of finished goods and work in progress	(1,484)	1,365
Raw materials and consumables	(31,576)	(39,058)
Total cost of stocks recognised in the profit and loss account	<u>(33,060)</u>	<u>(37,693)</u>
Weekly average cost of stocks recognised in the profit and loss account	(636)	(725)

Debtor days is calculated by dividing trade debtors as at 31st December 2020 of £13,440,000 (2019: £19,156,000) over turnover for the year-ended 31st December 2020 of £118,086,000 (2019: 135,746,000) and multiplying by 365 days.

COVID-19

The Covid-19 situation has been a test of our resilience, creativity and ability to adapt to completely new ways of working while continuing to deliver customer value, efficiency and profitability. At the heart of this is ensuring that we provide a safe and COVID secure working environment to all our employees and we have put in place extensive health and safety measures to achieve this.

Despite this challenging period due to the essential industries we supply, including those on the front line of the global pandemic, such as Hospitals & Healthcare, Pharmaceutical, Food & Beverage and Power Generation, we have seen a good level of demand resiliency and manufacturing has continued throughout the pandemic.

Strong cost containment measures, including the restriction of non-essential spending and a reduction in temporary staff served to reduce the impact on operating profit and margin.

With the outstanding support of our employees, and the health and safety measures introduced, the business has been able to meet our key customers' many emergency needs and offset much of the potential downturn. Although weaker than 2019 we have seen a resilient trading performance during 2020 which has continued into 2021.

Retirement benefit scheme

On 30 June 2020 the defined benefit pension fund was closed to future accrual and from this date the members of the defined benefit pension fund will accrue a pension under the defined contribution scheme. As a result of this change we recognised a one off past service credit to the income statement of £7,704,000. There was also a benefit to operating profit and cash flow due to the lower cost of providing a pension under the defined contribution scheme from 1 July 2020. This is the primary reason for the reduction in the total pension cost charged to operating profit of £1,023,000.

Issue of shares

During the year the Company allotted one Ordinary 5p share to the parent company, Spirax-Sarco Engineering plc, for a total subscription price of £56,000,000. The premium arising on the allotment has been credited to share premium. The subscription price received was largely used to repay the overdraft that existed under the group cash pooling arrangement. As a result no bank overdraft was held at 31st December 2020 (2019: £62,974,000).

Acquisition of Northcroft House

In August 2020 the company completed the acquisition of a third site in Cheltenham when it purchased the Northcroft House office building for a consideration of £4,750,000 excluding fees. The site has been purchased to provide extra office space to support the expansion of our UK business and Group functions.

Brexit

During the year the Company continued to oversee the potential impact of Brexit and developed an appropriate contingency plan to monitor any effects on financial and trading positions, to mitigate the challenges and capitalise on the opportunities that may arise. This included preparing for delays at ports and the application of tariffs for goods moving in and out of Europe. In 2019 the Company also purchased an additional one months of raw materials and components and delivered additional finished goods to key Group customers in anticipation of the UK leaving the EU.

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Strategic report (continued)

The Trade and Cooperation Agreement between the UK and the EU was signed in December 2020 and the UK left the EU on the 31st December 2020. We welcome zero tariffs and zero quotas between the UK and the EU and we have revised our processes to trade under the revised framework including customs controls, proof of origin and VAT. The Trade and Cooperation Agreement along with the planning done in advance meant that Brexit has only had a minor impact on our trade to date with minimal delays at ports occurring.

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 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 stakeholders 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.

Spirax-Sarco Limited

Strategic report (continued)

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.

Events after the balance sheet date

There were no events after the balance sheet date that require disclosure or adjustment in these financial statements.

A handwritten signature in black ink, appearing to read 'N B Patel', with a horizontal line extending to the right. Below the signature is a dotted line.

N B Patel

Director

27 May 2021

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 2020.

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 (2019: £10,456,000) and no further dividend has been approved or proposed. Profit for the year of £14,424,000 has been transferred to reserves (2019: £9,602,000).

Directors

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

P Oakley

G Huxtable

I Farnworth

N B Patel (appointed on the 11th September 2020)

N Frost (appointed on the 20th November 2020)

M Preziosa (appointed on the 31st December 2020)

K J Boyd (resigned on the 11th September 2020)

B J Thomas (resigned on the 20th November 2020)

N H Daws (resigned on the 31st December 2020)

Going concern

At the year end the Company had net current assets of £49,719,000 (2019: net current liabilities of £9,018,000). During 2020 the company issued share capital to Spirax-Sarco Engineering plc for a consideration of £56,000,000. The consideration was largely used to repay the overdraft that existed under the group cash pooling arrangement and is the main reason for the significant change in net current assets/liabilities since the prior year.

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.

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.

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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 and Pakistan.

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 £5,772,000 (2019: £6,682,000) 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 £10,214 (2019: £1,880). The Company did not make political donations in either 2020 or 2019.

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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.

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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.

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Directors' report (continued)

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

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:



N B Patel

Director

27 May 2021

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.

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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 31st December 2020 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.

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.

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

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

Report on the audit of the financial statements (continued)

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.

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 and internal audit about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks 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.

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;

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

Report on the audit of the financial statements (continued)

- 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.

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.



Dawn Harris, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Reading, United Kingdom

27 May 2021

Spirax-Sarco Limited

Profit and loss account

For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Turnover	3	118,086	135,746
Change in the stocks of finished goods and work in progress		(1,484)	1,365
Other operating income	3	34,552	24,610
Raw materials and consumables		(31,576)	(39,058)
Staff costs	4	(69,728)	(71,956)
Depreciation of tangible fixed assets	10	(7,890)	(7,413)
Amortisation of intangible assets	11	(79)	(124)
Other operating charges		<u>(31,686)</u>	<u>(32,964)</u>
Operating profit		10,195	10,206
Income from shares in Group undertakings		335	1,169
Past service credit – defined benefit scheme	21	7,704	-
Profit on sale of fixed assets		89	163
Finance costs (net)	7	<u>(492)</u>	<u>(872)</u>
Profit on ordinary activities before taxation	5	17,831	10,666
Tax charge on profit on ordinary activities	9	<u>(3,407)</u>	<u>(1,064)</u>
Profit for the financial year attributable to the equity shareholders of the Company		<u><u>14,424</u></u>	<u><u>9,602</u></u>

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.

* In the prior year financial statements staff costs were shown net of capitalised staff costs of £1,295,000. In these financial statements the 2019 comparatives have been restated to show staff costs before any capitalised costs with the credit to the income stated included in other operating charges. This is consistent with the 2020 presentation.

The notes on pages 20 to 40 form part of these financial statements.

Spirax-Sarco Limited

Statement of comprehensive income For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Profit for the financial year		<u>14,424</u>	<u>9,602</u>
Currency translation difference on foreign branches		398	(457)
Actuarial movement on defined benefit pension scheme			
Net actuarial gain - experience	21	5,742	-
Net actuarial loss - assumptions	21	(70,118)	(22,452)
Return on plan assets greater than discount rate	21	34,371	35,400
Total re-measurement (loss)/gain of net defined benefit liability		<u>(30,005)</u>	<u>12,948</u>
Tax relating to components of other comprehensive income		<u>6,012</u>	<u>(2,182)</u>
Other comprehensive (loss)/income		<u>(23,595)</u>	<u>10,309</u>
Total comprehensive (loss)/income attributable to equity shareholders of the Company		<u><u>(9,171)</u></u>	<u><u>19,911</u></u>

Spirax-Sarco Limited

Balance sheet

As at 31 December 2020

	Note	2020		2019	
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	10	72,479		65,644	
Goodwill	11	265		329	
Intangible assets	11	-		15	
Investments	12	2,814		2,814	
Deferred Tax*	15	10,501		6,987	
			86,059		75,789
Current assets					
Stocks	13	22,005		24,811	
Debtors	14	39,374		45,938	
Cash at bank and in hand		12,021		4,345	
			73,400		75,094
Creditors : amounts falling due within one year					
Creditors	16	(23,681)		(21,138)	
Bank overdrafts		-		(62,974)	
			(23,681)		(84,112)
Net current assets/(liabilities)			49,719		(9,018)
Total assets less current liabilities			135,778		66,771
Pensions and provisions for liabilities	17		(44,173)		(22,618)
Net assets			91,605		44,153
Capital and reserves					
Called up share capital	20		5,000		5,000
Share premium account			57,557		1,557
Revaluation reserve			773		773
Profit and loss account			28,275		36,823
Shareholders' funds			91,605		44,153

*The 2019 comparatives have been restated to reclassify deferred tax from current assets to fixed assets.

The notes on pages 20 to 40 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 27 May 2021. They were signed on its behalf by:



N B Patel

Director

Spirax-Sarco Limited

Statement of changes in equity For the year ended 31 December 2020

	Called up share capital £'000	Share premium £'000	Revaluation reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2019	5,000	1,557	773	26,920	34,250
Profit for the financial year	-	-	-	9,602	9,602
Currency translation difference on foreign branches	-	-	-	(457)	(457)
Actuarial gain on defined benefit pension scheme *	-	-	-	12,948	12,948
Tax relating to items of other comprehensive income	-	-	-	(2,182)	(2,182)
Total comprehensive income	-	-	-	19,911	19,911
Dividends paid	-	-	-	(10,456)	(10,456)
Credit to equity for equity-settled share-based payment *	-	-	-	448	448
At 31 December 2019	5,000	1,557	773	36,823	44,153
Profit for the financial year	-	-	-	14,424	14,424
Currency translation difference on foreign branches	-	-	-	398	398
Actuarial loss on defined benefit pension scheme *	-	-	-	(30,005)	(30,005)
Tax relating to items of other comprehensive income	-	-	-	6,012	6,012
Total comprehensive loss	-	-	-	(9,171)	(9,171)
Issue of share capital	-	56,000	-	-	56,000
Credit to equity for equity-settled share-based payment *	-	-	-	623	623
At 31 December 2020	5,000	57,557	773	28,275	91,605

* 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 20 to 40 form part of these financial statements.

Spirax-Sarco Limited

Notes to the financial statements

For the year ended 31 December 2020

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 £49,719,000 (2019: net current liabilities of £9,018,000). During 2020 the company issued share capital to Spirax-Sarco Engineering plc for a consideration of £56,000,000. The consideration was largely used to repay the overdraft that existed under the group cash pooling arrangement and is the main reason for the significant change in net current assets/liabilities since the prior year.

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.

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2020

1. Accounting policies (continued)

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.

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.

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2020

1. Accounting policies (continued)

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.

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.

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

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2020

1. Accounting policies (continued)

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 both the Japanese and Irish branches 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.

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

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2020

1. Accounting policies (continued)

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

The company participates in a group cash pooling arrangement. As the Company's legal rights and obligations are with the bank and not with the parent company these balances are presented as cash at bank or an overdraft depending on the balance on the cash pool at the reporting date.

During 2020 the company issued share capital to Spirax-Sarco Engineering plc for a consideration of £56,000,000. The consideration was largely used to repay the overdraft that existed under the group cash pooling arrangement.

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.

COVID-19

The impact that the COVID-19 outbreak has had on our business along with the actions taken to mitigate its impact are discussed in the Strategic Report on page 4. Our view is that we do not believe there is a significant risk of COVID-19 causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, and therefore we have concluded the impacts from COVID-19 do not create any further key sources of estimation uncertainty.

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2020

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

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.

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.

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:

	2020 £'000	2019 £'000
EMEA	86,864	100,043
Asia Pacific	23,069	26,296
Americas	8,153	9,407
	<u>118,086</u>	<u>135,746</u>

Other operating income of £34,552,000 (2019: 24,610,000) consists of fees for the provision of centralised services to related parties and other Group companies of £32,677,000 (2019: £22,935,000), inter-group royalties of £1,762,000 (2019: £1,558,000) and rental income of £113,000 (2019: £117,000).

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2020

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:

	2020 Number	2019 Number
UK	1,011	1,055
Overseas	99	98
	<hr/>	<hr/>
	1,110	1,153
	<hr/>	<hr/>
	2020 Number	2019 Number
Production	462	509
Sales	235	235
Administration	413	409
	<hr/>	<hr/>
	1,110	1,153
	<hr/>	<hr/>

The aggregate staff costs of these persons were as follows:

	2020 £'000	2019* £'000
Wages and salaries	53,877	55,323
Social security costs	6,105	6,116
Other pension costs	8,346	9,419
Share-based payments (see note 22)	1,400	1,098
	<hr/>	<hr/>
	69,728	71,956
	<hr/>	<hr/>

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

It does not include the curtailment past service credit of £7,704,000 or net interest on pension scheme liabilities'.

Staff costs disclosed above include £1,508,000 (2019: £1,295,000) of costs that were capitalised rather than expensed to the income statement.

* In the prior year financial statements staff costs were shown net of capitalised staff costs of £1,295,000. In these financial statements the 2019 comparatives have been restated to show staff costs before any capitalised costs with the credit to the income stated included in other operating charges. This is consistent with the 2020 presentation.

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2020

5. Profit on ordinary activities before taxation

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

	2020 £'000	2019 £'000
Research and development expenditure	5,772	6,682
Research and development grant income	(116)	(87)
Other operating leases	173	241
Profit on disposal of fixed assets	(89)	(163)
Depreciation of tangible fixed assets (see note 10)	7,890	7,413
Amortisation of intangible assets (see note 11)	79	124
Cost of stock recognised as an expense	726	254
Foreign exchange gain	(114)	(29)
Staff costs capitalised	(1,508)	(1,295)
Impairment of investments (see note 12)	-	52
Rents receivable (see note 19)	(113)	(117)
	<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 £90,200 (2019: £88,387). No non-audit fees were provided to the Company in either year.

7. Finance costs (net)

	2020 £'000	2019 £'000
Interest payable and similar charges		
Bank loans and overdraft	(5)	(6)
Net interest on pension scheme liabilities (see note 21)	(487)	(874)
Loans from Group undertakings	-	(2)
	<u> </u>	<u> </u>
	(492)	(882)
	<u> </u>	<u> </u>
Interest receivable and financial income		
Loans to Group undertakings	-	10
	<u> </u>	<u> </u>
	(492)	(872)
	<u> </u>	<u> </u>

8. Emoluments of directors

Directors' emoluments consist of the following elements:

	2020 £'000	2019 £'000
Emoluments	914	971
Company contributions to defined contribution and defined benefit pension schemes	61	125
	<u> </u>	<u> </u>
	975	1,096
	<u> </u>	<u> </u>

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2020

8. Emoluments of directors (continued)

	2020 Number	2019 Number
The number of directors who:		
Are members of a money purchase pension scheme	2	2
Are members of a defined benefit scheme	1	1
Had awards receivable in the form of shares in the parent company under a long term incentive scheme	3	4
Exercised options over shares in the parent company	1	1

The defined benefit scheme closed to future accrual during the year on the 30th June 2020. For further detail please see page 4.

Emoluments of the highest paid director were £358,000 (2019: £355,000). The accrued annual pension payable at normal retirement age, assuming no further service, of the highest paid director at 31 December 2020 was £98,000 (2019: £85,000). There is no accrued lump sum. The highest paid director did exercise share options in 2020 (2019: did exercise options) and received shares under a long-term incentive scheme in both 2020 and 2019. Included within emoluments is £274,000 (2019: £249,000) of performance related payments for which the payment criteria are similar to those of the parent company.

9. Tax on profit on ordinary activities

The tax charge comprises:

	2020 £'000	2019 £'000
Current tax on profit on ordinary activities		
UK corporation tax – 19.00% (2019: 19.00%)	1,271	902
Foreign tax	949	940
	<u>2,220</u>	<u>1,842</u>
Adjustment for prior year:		
UK Corporation tax	(1,311)	(955)
	<u>909</u>	<u>887</u>
Deferred tax		
Impact of changes in tax rates	(336)	18
Difference between accumulated depreciation and amortisation and capital allowances	348	507
Trading losses	1,287	(428)
Other timing differences	(376)	(94)
	<u>923</u>	<u>3</u>
Total deferred tax (excluding pension liability)	923	3
Pension scheme liabilities	1,575	174
	<u>2,498</u>	<u>177</u>
Total deferred tax (see note 15)	2,498	177
	<u>3,407</u>	<u>1,064</u>
Total tax on profit on ordinary activities	<u>3,407</u>	<u>1,064</u>

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2020

9. Tax on profit on ordinary activities (continued)

The standard rate of tax applied to reported profit on ordinary activities is 19.00% (2019: 19.00%).

Reductions in the UK corporation tax rate to 19.00% (effective from 1 April 2018) and then 17.00% (effective from 1 April 2020) were substantively enacted on 15 September 2017. On the 11th March 2020 the UK government announced that the UK corporation tax rate will remain unchanged at 19.00% from 1st April 2020. Therefore the deferred tax asset as at 31 December 2019 was calculated based on the rate of 17.00% and the deferred tax asset as at 31 December 2020 calculated based on the rate of 19.00%.

On 3 March 2021 the UK Government announced an intention to increase the UK corporation tax rate to 25% with effect from 1 April 2023. If enacted this will impact the value of our deferred tax balances, and the tax charged on profits generated in 2023 and subsequently. The impact of this change on deferred tax is expected to be material to the company. If we were to apply a deferred tax rate of 25% at December 2020 this would increase the net deferred tax asset by £3.3m with £0.7m being credited to the income statement and £2.6m credited to reserves.

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:

	2020 £'000	2019 £'000
Profit on ordinary activities before tax	17,831	10,666
UK corporation tax – 19.00% (2019: 19.00%)	3,388	2,026
Overseas tax	2,213	941
Impact of change in tax rates	(336)	18
Expenses not deductible for tax	106	671
Research and development tax relief	(240)	(240)
Income not chargeable to tax	(646)	(1,554)
Adjustments to tax in respect of previous periods	(1,078)	(798)
Total tax charge for the year	3,407	1,064

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2020

10. Tangible fixed assets

	Land and buildings			Total £'000	Plant and machinery £'000	Fixtures fittings tools and equipment £'000	Assets under construction £'000	Total £'000
	Freehold At value £'000	Freehold At cost £'000	Short leasehold At cost £'000					
Cost or valuation								
At 1 January 2020*	635	35,380	262	36,277	48,347	36,337	5,360	126,321
Exchange differences	-	116	5	121	16	46	-	183
Transfers	-	5,025	-	5,025	1,041	5,756	(11,822)	-
Additions	-	-	-	-	2,572	2,878	9,295	14,745
Disposals	-	(11)	-	(11)	(1,882)	(2,983)	-	(4,876)
At 31 December 2020	635	40,510	267	41,412	50,094	42,034	2,833	136,373
Depreciation								
At 1 January 2020	135	6,162	19	6,316	31,810	22,551	-	60,677
Exchange differences	-	28	-	28	10	37	-	75
Charged in year	-	681	10	691	3,443	3,756	-	7,890
Disposals	-	(11)	-	(11)	(1,846)	(2,891)	-	(4,748)
At 31 December 2020	135	6,860	29	7,024	33,417	23,453	-	63,894
Net book values								
At 31 December 2020	500	33,650	238	34,388	16,677	18,581	2,833	72,479
At 31 December 2019	500	29,218	243	29,961	16,537	13,786	5,360	65,644

*In the 2019 Financial Statements assets under construction were not shown as an asset category. Instead they were included within freehold land and buildings (£230,000), plant and machinery (£961,000) and fixtures, fittings, tools and equipment (£4,169,000). In the current year they are disclosed as a separate category and the opening balance at 1st January 2020 has been restated to reflect this.

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2020

10. Tangible fixed assets (continued)

Included in freehold land and buildings is an amount of £4,979,000 (2019: £3,512,000) relating to land at valuation, which is not depreciated, and an investment property with a net book value of £1,580,000 (2019: £1,580,000).

With the exception of Northcroft House which was acquired in 2020 and included at cost freehold properties were professionally valued to fair value at 31 December 1986, on an existing use basis, with subsequent additions at cost. Other tangible fixed assets are included at cost.

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

	2020 £'000	2019 £'000
Cost	40,510	35,613
Depreciation	(6,860)	(6,162)
Net book value	<u>33,650</u>	<u>29,451</u>

11. Intangible assets

	Goodwill £'000	Other intangibles £'000	Total £'000
Cost			
At 1 January 2020	636	1,144	1,780
At 31 December 2020	<u>636</u>	<u>1,144</u>	<u>1,780</u>
Amortisation			
At 1 January 2020	307	1,129	1,436
Charged in year	64	15	79
At 31 December 2020	<u>371</u>	<u>1,144</u>	<u>1,515</u>
Net book value			
At 31 December 2020	<u>265</u>	<u>-</u>	<u>265</u>
At 31 December 2019	<u>329</u>	<u>15</u>	<u>344</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 2019. 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 2020

12. Fixed asset investments

	Shares in group undertakings £'000	Participating interests £'000	Total £'000
Cost and net book value			
At 1 January 2020	2,005	809	2,814
At 31 December 2020	2,005	809	2,814

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
V.C.E Ltd*	Scotland	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% of Ordinary & Preference 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

*V.C.E Ltd was dissolved in April 2021.

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

Spirax-Sarco AS

Vestvollveien 14A, N-2019 Skedsmokorset, Norway

Gestra UK Ltd

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

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

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2020

12. Fixed asset investments (continued)

The principal activity of Spirax-Sarco AS and Spirax-Sarco SA (Argentina) 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 V.C.E was to provide steam users throughout Scotland with a complete service to manage their annual boiler insurance inspections and recertification. During 2019 the valve and calibration business was transferred to Spirax-Sarco Ltd. During 2020 the remaining operations of VCE have ceased and the company was dissolved in April 2021.

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.

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

	2020 £'000	2019 £'000
Raw materials and consumables	6,893	8,236
Work in progress	6,623	7,802
Finished goods and goods for resale	8,489	8,773
	<u>22,005</u>	<u>24,811</u>

14. Debtors: amounts falling due within one year

	2020 £'000	2019 £'000
Trade debtors [^]	13,440	19,156
Amounts owed by group undertakings:		
Parent undertaking	7,122	6,865
Subsidiary undertakings	13,458	14,868
Other debtors	777	1,442
Taxation recoverable	512	237
Prepayments	4,015	3,262
Accrued income	50	108
	<u>39,374</u>	<u>45,938</u>

[^] Trade debtors are net of a bad debt provision of £2,269,000 (2019: £234,000).

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 2020

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:

	2020 £'000	2019 £'000
Difference between accumulated depreciation and amortisation and capital allowances	(684)	(307)
Deferred tax arising in relation to retirement benefit obligations	8,281	3,846
Tax losses available	2,021	3,029
Other timing differences	883	419
	<u>10,501</u>	<u>6,987</u>

	2020 £'000	2019 £'000
At 1 January	6,987	9,344
Exchange movement	-	2
Charged to profit and loss account (see note 9)	(2,498)	(177)
Credited/(charged) to other comprehensive income	6,012	(2,182)
	<u>10,501</u>	<u>6,987</u>

16. Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Trade creditors	5,983	5,417
Amounts owed to subsidiary undertakings	4,332	1,537
Corporation tax	333	479
Other taxation and social security	1,552	1,130
Other creditors	4,796	5,031
Deferred Income	627	418
Accruals	6,058	7,126
	<u>23,681</u>	<u>21,138</u>

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

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2020

17. Pensions and provisions for liabilities

	Retirement benefits plan £'000	Provisions £'000	Total £'000
Liability at 1 January 2019	36,484	-	36,484
Charged to profit and loss account	6,675	-	6,675
Credited to other comprehensive income	(12,948)	-	(12,948)
Employer contributions	(7,593)	-	(7,593)
	<hr/>	<hr/>	<hr/>
Liability at 31 December 2019	22,618	-	22,618
Charged to profit and loss account	4,295	588	4,883
Credited to profit and loss account	(7,700)	-	(7,700)
Credited to other comprehensive income	30,004	-	30,004
Employer contributions	(5,632)	-	(5,632)
	<hr/>	<hr/>	<hr/>
Liability at 31 December 2020	43,585	588	44,173

18. Financial commitments

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

	2020 £'000	2019 £'000
Contracted	1,254	2,415
	<hr/>	<hr/>

19. Operating lease arrangements

The Company as lessee:

Annual commitments under non-cancellable operating leases for property, plant and equipment:	2020 £'000	2019 £'000
Within one year	136	148
Within two to five years inclusive	137	221
Over five years	-	2
	<hr/>	<hr/>
	273	371
	<hr/>	<hr/>

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2020

19. Operating lease arrangements (continued)

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	
	2020	2019
	£'000	£'000
Annual receivables under non-cancellable operating leases:		
Within one year	90	20
In the second to third years inclusive	23	-
	<u>113</u>	<u>20</u>

20. Capital and reserves

	2020	2019
	£'000	£'000
Called up share capital:		
Allotted, called up, and fully paid :		
100,000,002 ordinary shares of 5p each (2019: 100,000,001)		
At 1 January	5,000	5,000
Shares issued during the year: 1 (2019: Nil)	-	-
At 31 December	<u>5,000</u>	<u>5,000</u>

During the year the Company allotted one Ordinary 5p share to the parent company, Spirax-Sarco Engineering plc, for a total subscription price of £56,000,000. The premium arising on the allotment has been credited to share premium. The subscription price received was largely used to repay the overdraft that existed under the group cash pooling arrangement.

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 2020

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

On 30 June 2020 the defined benefit pension fund was closed to future accrual and from this date the members of the defined benefit pension fund will accrue a pension under the defined contribution scheme. As a result of this change we recognised a one off past service credit to the income statement of £7,704,000. There was also a benefit to operating profit and cash flow due to the lower cost of providing a pension under the defined contribution scheme from 1 July 2020. This is the primary reason for the reduction in the total pension cost charged to operating profit of £1,023,000.

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 will be paid off by 31 December 2022 based on conditions at the valuation date. 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 £1,129,000 (2019: £9,367,000). This is split between a net credit for the defined benefit scheme of £3,409,000 (2019: cost of £6,675,000) for employees in the UK and defined contribution scheme costs of £4,538,000 (2019: £2,692,000) 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 2020 were £756,000 (2019: £899,000).

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 2020 were:

	2020	2019
	%	%
Rate of increase in salaries	N/A	2.4
Rate of increase in pensions	2.8	2.8
Discount rate	1.3	2.1
Rate of price inflation	2.9	2.9

Weighted by value of liabilities % per annum

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2020

21. Retirement benefit schemes (continued)

The fair value of the assets in the scheme were:

	2020 £'000	2019 £'000
Bonds	244,361	234,123
Equities	100,236	85,946
Other	26,211	16,865
	<u>370,808</u>	<u>336,934</u>
Total in aggregate	<u>370,808</u>	<u>336,934</u>

The following amounts at 31 December 2020 and 2019 were measured in accordance with the valuation.

	2020 £'000	2019 £'000
Total market value of scheme's assets	370,808	336,934
Present value of scheme's liabilities	(414,393)	(359,552)
	<u>(43,585)</u>	<u>(22,618)</u>
Related deferred tax asset	8,281	3,846
	<u>(35,304)</u>	<u>(18,772)</u>

Movements in the related deferred tax asset were as follows:

	2020 £'000	2019 £'000
At 1 January	3,846	6,202
(Charge) / credit to profit and loss	(1,577)	(174)
Recognised losses and gains	6,012	(2,182)
	<u>8,281</u>	<u>3,846</u>

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

	2020 £'000	2019 £'000
At 1 January	336,934	298,340
Interest income on plan assets	6,270	7,910
Return on plan assets greater than discount rate	34,371	35,400
Employer contributions	5,629	7,593
Contributions by members	37	79
Administration costs	(700)	(524)
Disbursements	(11,733)	(11,864)
	<u>370,808</u>	<u>336,934</u>
At 31 December	<u>370,808</u>	<u>336,934</u>

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2020

21. Retirement benefit schemes (continued)

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

	2020 £'000	2019 £'000
At 1 January	(359,552)	(334,824)
Current service cost	(3,071)	(5,277)
Interest cost	(6,757)	(8,784)
Contributions by members	(37)	(79)
Administration costs	-	-
Net actuarial gain - experience	5,742	-
Net actuarial loss - assumptions	(70,118)	(22,452)
Disbursements from plan assets	11,733	11,864
Curtailments – past service cost	7,704	-
Plan amendments – past service cost	(37)	-
	<u>(414,393)</u>	<u>(359,552)</u>
At 31 December	<u>(414,393)</u>	<u>(359,552)</u>

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

	2020 £'000	2019 £'000
Current service cost	(3,071)	(5,277)
Plan amendments – past service cost	(37)	-
Administration costs	(700)	(524)
	<u>(3,808)</u>	<u>(5,801)</u>
Total charge to operating profit	(3,808)	(5,801)
Curtailement – past service credit	7,704	-
Interest on pension schemes liabilities	(6,757)	(8,784)
Expected return on assets in the pension schemes	6,270	7,910
	<u>(487)</u>	<u>(874)</u>
Net charge to Interest Payable	(487)	(874)
Total charge before tax	<u>3,409</u>	<u>(6,675)</u>

The estimated amounts of contributions expected to be paid to the scheme during 2021 are £4,055,000 (2020: £7,511,000).

Sensitivity analysis

The effect on the defined benefit obligation at 31 December 2020 of an increase or decrease in key assumptions is as follows:

	£'000
Increase/(decrease) in pension deficit:	
Discount rate assumption being 0.25% higher	(19,399)
Discount rate assumption being 0.25% lower	20,404
Inflation assumption being 0.25% higher	14,822
Inflation assumption being 0.25% lower	(14,344)
Mortality assumption life expectancy at age 65 being 1 year higher	18,523

Spirax-Sarco Limited

Notes to the financial statements (continued)

For the year ended 31 December 2020

21. Retirement benefit schemes (continued)

The average age of active participants in the UK schemes at 31 December 2020 was 53 years (2019: 52 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	22.1 / 24.4
Male / Female	65 in 15 years	23.0 / 25.5

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:

	2020 £'000	2019 £'000
Performance Share Plan	593	349
Employee Share Ownership Plan	807	749
	<hr/>	<hr/>
Total expense recognised in the profit and loss account	1,400	1,098
Contribution paid to Spirax-Sarco Engineering plc	(777)	(650)
	<hr/>	<hr/>
Credited to shareholder's funds	623	448
	<hr/>	<hr/>

As the share options are granted by the parent company, they are treated as equity-settled share options and therefore have no effect on retained earnings.

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