

The directors of Spirax-Sarco Engineering plc have pleasure in presenting their report and the audited accounts for the year ended 31st December 1999.

## **PROFIT**

The profit of the Group, after charging taxation and after deducting the amount attributable to minority interests in subsidiary undertakings, amounted to £28,115,000 (1998: £19,223,000 after deducting exceptional items of £11,629,000 (£8,325,000 after tax)). This represents earnings per share of 36.1p compared with 34.5p for 1998 (24.1p after deducting exceptional items).

## **DIVIDEND**

An interim cash dividend of 5.2p per share (1998: 5.0p) was paid in November 1999. The directors now recommend the payment of a final dividend of 12.1p per share (1998: 11.5p). If approved at the annual general meeting the final dividend will be paid on 16th May 2000 to shareholders on the register at 24th March 2000. The total distribution for the year will be 17.3p per share (1998: 16.5p).

A scrip dividend alternative will not be offered.

## **TURNOVER**

Total turnover to external customers amounted to £258,942,000 in 1999 (1998: £249,030,000). The geographical analysis of turnover is given in note 2 to the accounts on page 33.

## **BUSINESS REVIEW**

A review of the operations of the Group together with an indication of future prospects of the business is given on pages 2 to 13.

## **PRINCIPAL ACTIVITIES**

The Group's business is the provision of knowledge, service and products, including peristaltic pumps, worldwide for the control and efficient use of steam and other industrial fluids.

## **RESEARCH AND DEVELOPMENT**

The Group 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 markets.

## **BOARD OF DIRECTORS**

The directors of the Company as at 31st December 1999 are those listed on page 17, together with Mr. R. L. Dodsworth but excluding Mr. E. Lindh. Mr. Dodsworth retired on 31st December 1999.

Mr. Lindh was appointed to the Board on 1st January 2000 as an independent non-executive director. In accordance with the Company's articles of association Mr. Lindh will retire from office at the annual general meeting and, being eligible, offers himself for re-appointment. Mr. Lindh has no service contract with the Company.

In accordance with the articles of association Mr. C. J. Ball and Mr. C. G. Sneath retire and, being eligible, offer themselves for re-election. Mr. Ball has a service contract with the Company determinable on two years' notice. Mr. Sneath, as an independent non-executive director, has no service contract with the Company.

## **DIRECTORS' INTERESTS AND REMUNERATION**

The interests of the directors in the share capital of Spirax-Sarco Engineering plc are set out below and the number of shares over which directors hold options, together with their remuneration, are detailed in the Remuneration Policy and Practice Report on pages 22 to 26.

	Ordinary Shares of 25p each Beneficial Interests		Ordinary Shares of 25p each Non-beneficial Interests	
	31.12.99	31.12.98	31.12.99	31.12.98
T.B. Fortune	87,668	87,668	424,288	424,288
M.J.D. Steel	53,758	28,582	-	-
C.J. Ball	50,761	40,546	-	-
A.D.H. Black	13,550	12,216	-	-
G.P. Marchand	64,120	52,242	-	-
D.J. Meredith	15,326	13,779	701,599	700,324
P.A. Smith	14,589	13,371	701,599	700,324
P.M. Smith	34,217	19,883	-	-
R.L. Dodsworth	1,127	1,127	277,311	276,036
C.G. Sneath	2,185	2,185	-	-
M. Townsend	1,529	1,529	-	-

The non-beneficial interests of Mr. D. J. Meredith and Mr. P. A. Smith are held in respect of their positions as trustees of United Kingdom Group pension funds and as trustees of the Spirax-Sarco Engineering 1992 Share Ownership Scheme. Mr. T. B. Fortune is a trustee of United Kingdom Group pension funds. Mr. R. L. Dodsworth ceased to be a trustee of the Spirax-Sarco Engineering 1992 Share Ownership Scheme on his retirement and Mr. M.J.D. Steel became a trustee from 1st January 2000.

## CORPORATE GOVERNANCE

### Compliance

The Company complied with the requirements of the Combined Code, derived from the Principles of Good Governance and Code of Best Practice, in all respects other than for Internal Controls, as set out below, throughout the year and up to the date of the accounts.

### Internal Controls

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material mis-statement or loss.

The Combined Code introduced a requirement that the directors review the effectiveness of the Group's system of internal controls. This extends the previous requirement in respect of internal financial controls to cover all controls including financial, operational, compliance and risk management.

Guidance for directors is provided in 'Internal Control: Guidance for Directors on the Combined Code (the Turnbull guidance)' which was published in September 1999. The directors, following the London Stock Exchange's transitional rules, have continued to follow existing guidance. They have reviewed the effectiveness of the Group's internal financial control system during the financial year ended 31st December 1999 in relation to the criteria for assessing effectiveness described in Internal Control and Financial Reporting issued by the Working Group on Internal Control in December 1994.

The directors confirm that they have established procedures necessary to implement the Turnbull guidance such that they can fully comply with it for the accounting period ending on 31st December 2000.

The Group has established procedures for considering risks in the normal operations of the Group and with regard to significant transactions. Strategic and annual planning also encompasses considerations of business risks. Additionally the executive directors specifically reviewed, with the help of Marsh UK Limited the Group's insurance brokers, any risks facing the business which could give rise to a "significant loss". The identified risks and the countermeasures taken form the basis for the reporting and monitoring system established throughout the Group.

The associate companies report on a quarterly basis their position with regard to implementing the identified countermeasures to address the Group's significant business risks. The quarterly returns will be assessed by a Risk Management Committee comprising the executive directors. Annually the executive directors will carry out a reappraisal of the business risks. The Audit Committee will review the system of reporting and monitoring as a whole. Quarterly reports will be made to the Board as a whole for review of the risks and measures taken.

The directors are responsible for the Group's system of internal financial control. Such a system can only provide reasonable and not absolute assurance against material mis-statement or loss. In discharging this responsibility the Group has an Audit Committee currently comprising the non-executive directors, Mr. T. B. Fortune, Mr. E. Lindh, Mr. C. G. Sneath and Mr. M. Townsend (Chairman). Mr. R. L. Dodsworth ceased to be Chairman of the Committee on his retirement. Mr. Townsend was appointed Chairman of the Committee and Mr. Lindh became a member of the Committee on 1st January 2000. In addition, all subsidiaries of the Group are required to complete self-certification questionnaires regarding compliance with the policies, procedures and minimum requirements for an effective system of internal financial control.

Financial reporting systems include comprehensive annual plans approved by the directors and monthly reporting of actual results with appropriate comparisons against plan and previous year's results. Forecast operating results for the year are regularly updated. Capital investment is subject to approval under a clear policy. This includes annual plans, appropriate authorisation, detailed investment appraisal and post-investment review and due diligence requirements where businesses are being acquired.

The directors have reviewed the effectiveness of the system of internal financial control.

The Board assessed the requirement for an internal audit function and concluded that the current limited internal audit function remains satisfactory given the internal financial controls in place.

### Going Concern

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

### Senior Independent Director

Mr. M. Townsend was appointed as Senior Independent Director on 1st January 2000 following the retirement of Mr. R. L. Dodsworth.

### Remuneration and Nomination Committees and Directors' Responsibilities

The Remuneration Policy and Practice Report presented by the Board of Directors is set out on pages 22 to 26 and the Statement of Directors' Responsibilities on page 26.

The Board has a Nomination Committee for appointments to the Board which comprises Mr. M. J. D. Steel and the non-executive directors including, with effect from 1st January 2000, Mr. E. Lindh. Mr. R. L. Dodsworth ceased to be a member on his retirement.

### ANNUAL GENERAL MEETING

The Notice of Meeting and an explanation of Resolutions 7 to 10 are set out in the enclosed Circular. Further information on the Company is available on our Web Site: [www.spirax-sarco.com](http://www.spirax-sarco.com).

### SHARE CAPITAL

Details of shares issued during the year are set out in note 25 on page 40.

### PURCHASE OF OWN SHARES

Under the shareholders' authority given at the annual general meetings in 1998 and 1999, the Company purchased in 1999 4,505,032 shares (nominal value 25p) for a consideration of £22,445,917 before commission and stamp duty. These purchases, representing 5.7% of the share capital at 1st January 1999, were in accordance with the Company's strategy of maximising shareholder value.

The prices ranged from 440p to 595p. The 4,505,032 shares purchased have been cancelled. At 31st December 1999 the remaining number of shares in issue which may be purchased under the 1999 authority was 4,119,968 and the number of shares in issue was 75,003,857.

The implementation of the share repurchase programme is achieving a more efficient capital structure for the Company and enhancing the Company's earnings per share for the benefit of all shareholders.

### SHAREHOLDINGS OF 3% OR MORE

At 21st February 2000 the Company had received notice of material interests in 3% or more, and interests in 10% or more, of the issued ordinary share capital of the Company as set out below. So far as is known there is no other notifiable interest of 3% or more in the issued capital.

	Ordinary Shares	%
Prudential Portfolio Managers Limited	11,850,345	15.8
Britannic Asset Management	7,001,124	9.3
Schroder Investment Management Limited	3,942,605	5.3
Newton Investment Management	3,539,223	4.7
Aberdeen Asset Management	3,466,870	4.6
NFU Mutual	2,814,924	3.8
Groupe Mutuel MAAF Assurances	2,722,000	3.6
Co-operative Insurance Society Limited	2,498,383	3.3
Legal & General Investment Management	2,330,347	3.1

**YEAR 2000 COMPLIANCE**

All core IT and business systems proved to be Year 2000 compliant and there were no interruptions to the Company's operations. To date, no material problems have been identified in relation to Company products or suppliers to the Company.

Expenditure, largely of a capital nature, associated with new computer hardware and software, principally involving normal upgrading of facilities, has totalled £3,163,000, including £1,334,000 in 1999.

The approach of utilising existing staff within planned overheads and without external consultancy or other resources meant that compliance was achieved at an economic cost. Necessarily some employees have been involved in investigation, assessment, actions and testing to implement the necessary changes which did prevent them from being deployed on other projects or tasks.

**EMPLOYMENT POLICY**

The Group operates personnel policies and communication structures designed to meet the needs of its subsidiaries around the world. The Group's management philosophy recognises employees as its most important asset. Employees are encouraged to apply their skills, knowledge and energy. Employees have the opportunity to comment on matters of concern to them through established communication channels. A summary of the Group's annual accounts is made available. The Group encourages the growth of employee share ownership. The Group applies the principles of equal opportunity.

There were no major changes to the benefits under the Group's principal pension schemes during the year.

The Group 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 Group maintains employment of those employees who become disabled and offers appropriate training and in the UK meets the requirements of the Disability Discrimination Act 1995.

**STATEMENT OF THE POLICY AND PRACTICE ON THE PAYMENT OF SUPPLIERS**

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

Spirax-Sarco Engineering plc has no trade creditors.

**ENVIRONMENTAL POLICY**

The Group regularly reviews its policy and performance with regard to environmental matters to ensure compliance with good practices and statutory regulations in all its operations.

**CHARITABLE AND POLITICAL DONATIONS**

Charitable donations amounted to £39,458 (1998: £38,095). There were no political donations (1998: nil).

**AUDITOR**

A resolution to re-appoint the auditor, KPMG Audit Plc, will be proposed at the annual general meeting.

**CAPITAL GAINS TAX**

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

By order of the Board  
**P. A. Smith** *Secretary*

Charlton House, Cirencester Road,  
Cheltenham.

*13th March 2000*