

1 ACCOUNTING POLICIES

Basis of consolidation

The consolidated accounts, which are prepared under the historical cost convention, supplemented by the revaluation of certain assets, and which have been prepared in accordance with applicable accounting standards, comprise the accounts of the parent company and its subsidiary undertakings.

Purchased goodwill arising on consolidation in respect of acquisitions since 1st January 1998 has been capitalised and is being amortised over 20 years.

Prior to 1998, goodwill arising on the acquisition of subsidiary undertakings was written off to reserves in the year of acquisition. On the subsequent disposal or termination of a business acquired prior to 1998, the profit or loss on disposal or termination is calculated after charging the gross amount of any related goodwill previously taken to reserves.

Turnover

Turnover comprises net sales to external customers.

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 in the United Kingdom and the United States of America are as follows:

Freehold land	nil	Office furniture and fittings	10%
Freehold buildings	1.5%	Office equipment	20%
Leasehold properties	10%	Motor vehicles	20%
Plant and machinery	10%	Tooling and patterns	20%

The rates used in other overseas companies are not materially different from those shown above but they vary according to local statutory and fiscal requirements.

Stocks

Stocks and work in progress are valued at the lower of cost, including factory overheads where appropriate, and estimated net realisable value.

Research and development expenditure

Research and development expenditure is charged against profits as incurred.

Deferred taxation

Deferred taxation is recognised at current rates of tax on short and long term timing differences where the directors consider that an asset or liability will crystallise. In the case of timing differences relating to pension contributions deferred tax is recognised on a full provision basis.

Foreign currency translation

Foreign currency assets and liabilities are translated into sterling at rates of exchange ruling at 31st December. Trading results of overseas subsidiary undertakings have been translated into sterling at average rates of exchange ruling during the year.

Differences arising from the changes in rates of exchange are treated as part of the trading profit where they relate to items of a trading nature. Exchange differences arising from the retranslation of the opening net investment in overseas subsidiary undertakings, borrowings to hedge those net investments and between the profits for the year translated at average and closing rates, are disclosed as movements on reserves. The results, assets and liabilities of operations in hyper-inflationary economies are translated using an appropriate relatively stable currency as the functional currency. The exchange translation movement arising from this process is taken to the profit and loss account.

Leases

Assets held under finance leases are recorded in the balance sheet as fixed assets and depreciated over the shorter of the lease term and useful economic lives. The obligations relating to finance leases, net of finance charges in respect of future periods, are included as appropriate under creditors due within, or creditors due after more than, one year. The interest element of the rental obligation is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the obligation for each accounting period. Rentals under operating leases are charged to the profit and loss account on an accruals basis.

Pensions and other post-retirement benefits

Pension schemes are operated by the company and subsidiary undertakings which employ the majority of Group employees. Contributions to the schemes are charged to the consolidated profit and loss account such that the cost is spread over the estimated working lives of employees of the Group.

The costs of providing post-retirement benefits other than pensions, principally healthcare, are charged to the profit and loss account on a consistent basis over the average service lives of employees. Such costs are assessed in accordance with the advice of independent qualified actuaries.

2 TURNOVER

The analysis of turnover by reference to the geographical location of customers is as follows:

	1999	1998
	£000	£000
United Kingdom	38,242	37,812
Continental Europe	94,332	96,473
The Americas	72,755	70,794
Asia, Australasia and Africa	53,613	43,951
	258,942	249,030

The analysis of turnover by reference to the geographical location of the Group's operations is as follows:

	1999	1998
	£000	£000
United Kingdom	81,540	78,666
Continental Europe	110,162	111,208
The Americas	77,721	76,217
Asia, Australasia and Africa	47,605	38,447
	317,028	304,538
Inter-segment sales	(58,086)	(55,508)
Sales to third parties	258,942	249,030

There were no discontinued operations in 1999 or 1998.

The Group operates in one business segment which is the control of fluids.

3 OPERATING COSTS

	1999	1998
	£000	£000
Change in stocks of finished goods and work in progress	(2,609)	(26)
Raw materials and consumables	66,060	63,276
Staff costs (note 5)	92,054	92,841
Depreciation	10,571	10,498
Other operating charges	50,145	50,158
	216,221	216,747

4 EXCEPTIONAL ITEM

The exceptional item charged in 1998 was in respect of the closure of the Group's facility in Pennsylvania, USA and the relocation and start-up of a new facility in South Carolina.

5 STAFF COSTS AND NUMBERS

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

	1999	1998
	£000	£000
Wages and salaries	75,081	75,454
Social security costs	12,421	12,660
Other pension costs	4,552	4,727
	92,054	92,841

5 STAFF COSTS AND NUMBERS (continued)

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

	Number	Number
United Kingdom	1,090	1,153
Overseas	2,704	2,691
	3,794	3,844

6 OPERATING PROFIT

The analysis of operating profit by reference to the geographical location of the Group's operations is as follows:

	1999 £000	1998 £000 Before exceptional item	1998 £000 After exceptional item
United Kingdom	12,464	12,657	12,657
Continental Europe	14,986	16,182	16,182
The Americas	7,326	8,947	(1,203)
Asia, Australasia and Africa	7,945	4,647	4,647
	42,721	42,433	32,283

7 NET INTEREST PAYABLE

	1999 £000	1998 £000
Interest payable: Bank loans and overdrafts	2,159	2,487
Other loans	916	865
	3,075	3,352
Interest receivable	(2,105)	(3,189)
	970	163

8 PROFIT BEFORE TAXATION

Profit before taxation is shown after charging:

	1999 £000	1998 £000
Depreciation of tangible fixed assets held under finance leases	21	124
Audit fees (Spirax-Sarco Engineering plc £81,000 (1998: £78,000))	526	512
Hire of plant and machinery	761	665
Other operating leases	2,017	1,905
Research and development	4,585	4,100
Share Ownership Scheme contributions	445	592

Fees paid to the auditors of the parent company and their associates for services other than statutory audits supplied to the company and the rest of the Group worldwide amounted to £665,000 (1998: £298,000), including amounts paid to the auditors of overseas companies of £244,000 (1998: £180,000). Fees were paid mainly in respect of taxation services. In addition a non-recurring fee of £299,000 was paid in the UK in respect of computer consultancy.

9 DIRECTORS' EMOLUMENTS

Details of directors' emoluments are shown in the statement of Remuneration Policy and Practice on pages 22 to 26.

10 TAXATION

	1999	1998
	£000	£000
United Kingdom corporation tax at 30.25% (1998: 31%)	7,162	8,529
Deduct double taxation relief	(4,020)	(4,541)
	3,142	3,988
Overseas taxation	9,126	6,809
Deferred taxation	445	(274)
	12,713	10,523
Adjustment in respect of previous years	(20)	(22)
	12,693	10,501

The provision for taxation includes taxation on dividends receivable out of the profits of overseas subsidiary undertakings for the year.

11 PROFIT FOR THE FINANCIAL YEAR

Profit dealt with in the accounts of Spirax-Sarco Engineering plc was £26,815,000 (1998: £25,738,000). Included in this amount are dividends from subsidiary undertakings of £25,671,000 (1998: £25,703,000). As permitted under section 230(4) of the Companies Act 1985 a separate profit and loss account has not been presented.

12 DIVIDENDS

	1999	1998
	£000	£000
Interim paid 5.2p (1998: 5.0p) per share	4,026	4,012
Final proposed 12.1p (1998: 11.5p) per share	9,076	9,104
17.3p (1998: 16.5p) per share	13,102	13,116

13 EARNINGS PER SHARE

The calculation of earnings per share before the exceptional item is based on earnings of £28,115,000 (1998: £27,548,000) and the calculation of earnings per share after the exceptional item is based on earnings of £28,115,000 (1998: £19,223,000), as shown in the Group profit and loss account, divided by the weighted average number of shares in issue during the year of 77,934,804 (1998: 79,854,550). The calculation of earnings per share (diluted) before and after the exceptional item is based on the earnings shown above and the weighted average number of shares in issue diluted by 126,196 (1998: 319,032) to 78,061,000 (1998: 80,173,582).

14 FIXED ASSETS: INTANGIBLE ASSETS

	THE GROUP
	Goodwill
	£000
Cost:	
At 1st January 1999	4,498
Exchange adjustments	(350)
	4,148
Additions	659
At 31st December 1999	4,807
Amortisation:	
At 1st January 1999	94
Exchange adjustments	(4)
	90
Charged in year	233
At 31st December 1999	323
Net book value:	
At 31st December 1999	4,484
At 31st December 1998	4,404

15 FIXED ASSETS: TANGIBLE ASSETS

	THE GROUP				PARENT COMPANY	
	Land and buildings		Plant and machinery	Fixtures, fittings, tools and equipment	Total	Freehold land and buildings
	Freehold	Short leasehold				
	£000	£000	£000	£000	£000	£000
Cost or valuation:						
At 1st January 1999	47,281	1,690	60,210	39,843	149,024	233
Exchange adjustments	(464)	94	(1,001)	(824)	(2,195)	-
	46,817	1,784	59,209	39,019	146,829	233
Additions	2,551	23	6,759	6,317	15,650	-
Disposals	(974)	(36)	(1,155)	(2,042)	(4,207)	-
At 31st December 1999	48,394	1,771	64,813	43,294	158,272	233
Depreciation:						
At 1st January 1999	6,154	257	34,113	27,433	67,957	-
Exchange adjustments	(331)	20	(983)	(500)	(1,794)	-
	5,823	277	33,130	26,933	66,163	-
Charged in year	817	36	5,684	3,979	10,516	-
Disposals	(246)	(27)	(900)	(1,902)	(3,075)	-
At 31st December 1999	6,394	286	37,914	29,010	73,604	-
Net book value:						
At 31st December 1999	42,000	1,485	26,899	14,284	84,668	233
At 31st December 1998	41,127	1,433	26,097	12,410	81,067	233

Freehold land and buildings at cost or valuation on the basis of open market for existing use comprises:

		1999	1998
		£000	£000
Valuation	1976	73	66
	1986	9,391	9,565
	1991	2,195	2,129
Cost		36,735	35,521
		48,394	47,281

The historic cost net book value of freehold land and buildings at 31st December 1999 was £37,243,000. Freehold land of £7,915,000 is not depreciated.

Included in the above are finance leases with net book value of £102,000.

The directors believe that the freehold land and buildings held by the parent company will retain their value and, therefore, no depreciation has been charged.

16 FIXED ASSETS: INVESTMENTS

	PARENT COMPANY		
	Shares in subsidiary undertakings	Loans to subsidiary undertakings	Total
	£000	£000	£000
Cost:			
At 1st January 1999	43,995	8,713	52,708
Exchange adjustments	-	(6)	(6)
	43,995	8,707	52,702
Advances	-	6,569	6,569
Repayments	-	(3,400)	(3,400)
Acquisitions	520	-	520
At 31st December 1999	44,515	11,876	56,391
Amounts written off:			
At 1st January 1999 and 31st December 1999	474	1,042	1,516
Net book value:			
At 31st December 1999	44,041	10,834	54,875
At 31st December 1998	43,521	7,671	51,192

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

Details relating to principal subsidiary undertakings are given on pages 14 and 15. Except where stated on those pages all classes of shares were 100% owned by the Group at 31st December 1999. The country of incorporation of the principal Group companies is the same as the country of operation with the exception of companies operating in the United Kingdom which are incorporated in Great Britain and registered in England and Wales. All are in the fluid control business except Spirax-Sarco Investments Ltd., Spirax-Sarco Overseas Ltd., Sarco International Corp., Spirax-Sarco Engineering B.V. and Spirax-Sarco Investments B.V. which are investment holding companies.

Spirax-Marshall Limited, in which the Group has a 40% interest, and Spirax-Sarco Mexicana S.A., in which the Group has a 49% interest, have been consolidated as subsidiaries because the Group has participating interests in them and exercises a dominant influence over them. The dominant influence is on the basis that the operating and financial policies of these companies are set in accordance with the wishes of the Group and for the Group's benefit.

17 STOCKS

	THE GROUP	
	1999 £000	1998 £000
Raw materials and consumables	17,170	15,393
Work in progress	10,971	10,003
Finished goods and goods for resale	29,658	28,165
	57,799	53,561

18 DEBTORS

	THE GROUP		PARENT COMPANY	
	1999 £000	1998 £000	1999 £000	1998 £000
Trade debtors	65,224	60,941	-	-
Amounts owed by subsidiary undertakings	-	-	10,933	4,239
Other debtors	5,664	4,957	63	72
Prepayments and accrued income	3,464	3,429	11	133
Taxation recoverable	1,650	6,001	1,160	2,113
Deferred tax	882	858	-	-
	76,884	76,186	12,167	6,557

Taxation recoverable in the Group balance sheet represents advance corporation tax of £1,187,000 (1998: £3,685,000) and other amounts recoverable of £463,000 (1998: £2,316,000).

Taxation recoverable in the parent company balance sheet represents advance corporation tax of £1,160,000 (1998: £2,113,000).

19 CASH DEPOSITS AND SHORT-TERM INVESTMENTS

Cash deposits and short-term investments comprise money market deposits of £22,863,000 (1998: £36,441,000) with major banks, all of which have a maturity of three months or less from inception.

20 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	THE GROUP		PARENT COMPANY	
	1999 £000	1998 £000	1999 £000	1998 £000
Bank loans and overdrafts				
Overdrafts	20,117	14,324	700	-
Other loans	-	2,278	-	-
Trade creditors	13,866	11,295	-	-
Bills of exchange payable	1,095	1,282	-	-
Obligations under finance leases (note 22)	35	139	-	-
Amount owing to subsidiary undertakings	-	-	2,532	4,808
Corporation tax	2,247	3,948	425	741
Advance corporation tax	-	2,354	-	917
Overseas tax	5,410	4,011	-	-
Social security	1,781	1,876	-	-
Other creditors	6,880	8,413	-	-
Accruals	9,621	10,719	177	126
Proposed dividend	9,076	9,104	9,076	9,104
	70,128	69,743	12,910	15,696

Bank loans and overdrafts amounting to £1,748,000 (1998: £473,000) are secured on freehold property and current assets of certain Group companies.

21 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	THE GROUP		PARENT COMPANY	
	1999 £000	1998 £000	1999 £000	1998 £000
Bank loans				
Repayable in part in more than five years	6,608	13,272	-	-
Other loans repayable between two and five years	33,227	27,597	-	-
Obligations under finance leases (note 22)	24	31	-	-
Amount owed to subsidiary undertakings	-	-	643	643
Accruals	101	95	-	-
	39,960	40,995	643	643

The bank loans repayable in part in more than five years are represented by a £12,326,000 (1998: £11,932,000) loan expressed in US dollars at a fixed interest rate of 6.7% repayable in five equal annual instalments beginning in 2002, a £1,027,000 (1998: Nil) loan expressed in Japanese yen at an interest rate of LIBOR plus 50 basis points repayable in full in 2006 and a £2,370,000 (1998: Nil) loan expressed in French francs at an interest rate of 4.4% repayable in quarterly instalments terminating in 2006.

Bank loans amounting to £320,000 (1998: £384,000) are secured on freehold property of certain Group companies.

The Company together with other Group companies has jointly and severally guaranteed loans granted to subsidiary undertakings amounting to £56,955,000 at 31st December 1999 (1998: £56,546,000).

22 OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP	
	1999 £000	1998 £000
Aggregate amounts repayable:		
between 2 and 5 years	7	5
between 1 and 2 years	17	26
	24	31
in 1 year or less	35	139
	59	170

23 PROVISIONS FOR LIABILITIES AND CHARGES

	THE GROUP			
	Deferred taxation	Post retirement benefits	Reorganisation and other provisions	Total
	£000	£000	£000	£000
Provisions at 1st January 1999	532	8,631	664	9,827
Exchange adjustments	(23)	(643)	(16)	(682)
	509	7,988	648	9,145
Charge for the year	593	2,061	-	2,654
Utilised during the year	-	(1,258)	(323)	(1,581)
Provisions at 31st December 1999	1,102	8,791	325	10,218

An analysis of deferred taxation is set out below.

	THE GROUP			
	Provided		Unprovided	
	1999 £000	1998 £000	1999 £000	1998 £000
Accelerated capital allowances	305	257	4,552	3,666
Property revaluations	(7)	-	396	449
Other timing differences	(78)	(583)	(307)	(2,087)
	220	(326)	4,641	2,028

The amount of deferred tax unprovided in respect of property revaluations excludes tax on revaluations where rollover relief would be available.

Provision has not been made for taxation which would be payable if full distributions within the Group were made out of post acquisition revenue reserves of overseas subsidiary undertakings at 31st December 1999.

24 NET ASSETS

The analysis of net assets by reference to the geographical location of the Group's operations is as follows:

	THE GROUP	
	1999 £000	1998 £000
United Kingdom	45,182	40,982
Continental Europe	39,956	42,806
The Americas	48,555	45,596
Asia, Australasia and Africa	32,192	28,012
	165,885	157,396
Cash at bank and in hand	(2,345)	(5,102)
Capital employed	163,540	152,294
Net debt	(34,803)	(16,098)
Net assets	128,737	136,196

25 CALLED UP SHARE CAPITAL

	THE GROUP		PARENT COMPANY	
	1999 £000	1998 £000	1999 £000	1998 £000
Ordinary shares of 25p each:				
Authorised 120,000,000	30,000	30,000	30,000	30,000
Allotted, called up and fully paid 75,003,857	18,751	19,791	18,751	19,791

152,770 ordinary shares, having an aggregate nominal value of £38,000 were issued pursuant to the Spirax-Sarco Engineering 1992 Share Ownership Scheme on 23rd April 1999 for a consideration of £795,000 received by the Company. 190,634 ordinary shares, having an aggregate nominal value of £48,000 were issued during the year pursuant to the Spirax-Sarco Engineering Share Option Schemes for a consideration of £572,000 received by the Company.

4,505,032 ordinary shares having an aggregate nominal value of £1,126,000 were purchased by the Company for cancellation during the year at a cost of £22,604,000 including commission and stamp duty. A capital redemption reserve has been created for £1,126,000.

Directors and 108 other senior employees and former employees of the Group have been granted options to purchase 2,221,373 ordinary shares with an aggregate nominal value of £555,000. Options are exercisable as follows:

	Number of shares	Price to be paid per share
Between 1995 and 2002	77,323	233.0p or 274.2p
Between 1995 and 2002	38,064	274.2p
Between 1995 and 2002	9,500	233.3p or 274.5p
Between 1996 and 2003	46,895	301.8p or 355.1p
Between 1996 and 2003	117,091	355.1p
Between 1997 and 2004	7,873	363.0p or 427.0p
Between 1997 and 2004	282,127	427.0p
Between 1998 and 2005	320,000	611.0p
Between 1999 and 2006	346,000	739.0p
Between 2000 and 2007	316,000	669.0p
Between 2001 and 2008	347,500	420.0p
Between 2002 and 2009	313,000	525.0p
	2,221,373	

Where relevant these figures reflect adjustments made to the options as a result of the Company's bonus issue.

The performance criteria applicable to directors' share options set out on page 24 also apply to these options.

26 RESERVES

	THE GROUP				
	Capital redemption reserve	Share premium account	Revaluation reserve	Profit and loss account	Total
	£000	£000	£000	£000	£000
Balance at 1st January 1999	290	29,982	4,520	79,261	114,053
Effect of exchange rate adjustments	-	-	38	(1,895)	(1,857)
	290	29,982	4,558	77,366	112,196
Retained profit for the financial year	-	-	-	15,013	15,013
Share buy-back	1,126	-	-	(22,604)	(21,478)
Premium on the issue of shares	-	1,281	-	-	1,281
Balance at 31st December 1999	1,416	31,263	4,558	69,775	107,012

The cumulative amount of goodwill resulting from acquisitions prior to 1998 (less goodwill on disposals) deducted from reserves amounted to £67,322,000 (1998: £67,322,000).

	PARENT COMPANY				
	Capital redemption reserve	Share premium account	Revaluation reserve	Profit and loss account	Total
	£000	£000	£000	£000	£000
Balance at 1st January 1999	290	29,982	-	17,683	47,955
Profit for the year	-	-	-	13,713	13,713
Share buy-back	1,126	-	-	(22,604)	(21,478)
Premium on the issue of shares	-	1,281	-	-	1,281
Balance at 31st December 1999	1,416	31,263	-	8,792	41,471

27 CAPITAL COMMITMENTS

	THE GROUP		PARENT COMPANY	
	1999	1998	1999	1998
	£000	£000	£000	£000
Capital expenditure contracted for but not provided	1,613	1,352	-	-

28 LEASE OBLIGATIONS

	THE GROUP			
	Buildings	Other operating leases	Buildings	Other operating leases
	1999	1998	1999	1998
	£000	£000	£000	£000
Rental payments due in 1999 are under current operating leases terminating in the following years:				
2000	647	446	156	112
2001 to 2004	357	738	468	439
2005 onwards	159	69	2	6
	1,163	1,253	626	557

29 PENSIONS AND OTHER POST-RETIREMENT BENEFITS

The Group operates various pensions schemes around the world. The main schemes are of the defined benefit type. The assets of the main schemes are held in separate trustee administered funds.

29 PENSIONS AND OTHER POST-RETIREMENT BENEFITS (continued)

The total pension charge for the Group this year was £4,552,000 (1998: £4,727,000) of which £2,567,000 (1998: £3,270,000) relates to the overseas schemes. The cost of the UK pension schemes is determined using the projected unit and attained age methods following the advice of a qualified actuary. The most recent actuarial valuations of those schemes were at 31st December 1998. The most important assumptions used in the valuations concern the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that investment return would exceed salary increases by an average of 2.6 per cent per annum and pension increases by an average of 4.1 per cent per annum.

Included in other creditors in the Group balance sheet are accrued pension costs of £Nil (1998: £1,272,000) and in other debtors prepaid pension costs of £1,762,000 (1998: £1,267,000).

At the date of the most recent actuarial valuations in the UK the market value of the assets of the schemes was £95,600,000 and the actuarial value of the assets was sufficient to cover 97 per cent of the benefits that had accrued to members, after allowing for expected future increases in earnings. This shortfall should be eliminated within the average working lifetime of the employees in the UK.

In respect of certain overseas schemes the excess of £8,156,000 (1998: £8,099,000) of the accumulated pension cost over the amount funded is provided in the accounts (note 23). Most of this provision relates to the unfunded German scheme.

The charge for post-retirement benefits other than pensions for the Group in 1999 was £86,000 (1998: £48,000). Provisions for the benefit obligations at 31st December 1999 amounted to £635,000 (1998: £532,000) and are included in provisions for post retirement benefits (note 23). The future costs of benefits are assessed in accordance with the advice of independent qualified actuaries and are based on assumed discount rates of 7.75% and investment return rates of 8.5%. No deferred tax asset has been provided for this obligation.

30 ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	THE GROUP	
	1999	1998
	£000	£000
Returns on investments and servicing of finance		
Interest received	2,104	3,177
Interest paid	(2,954)	(3,235)
Interest element of finance lease rentals payments	(25)	(39)
Dividends paid by subsidiary undertakings to minority interests	(500)	(571)
Net cash outflow for returns on investments and servicing of finance	(1,375)	(668)
Capital expenditure		
Purchase of tangible fixed assets	(15,750)	(17,296)
Sales of plant and machinery	1,368	904
Net cash outflow for capital expenditure	(14,382)	(16,392)
Acquisitions		
Purchase of subsidiary undertakings	(1,519)	(5,015)
Net cash and overdrafts acquired with subsidiary	-	(417)
Net cash outflow for acquisitions	(1,519)	(5,432)
Management of liquid resources*		
Net cash taken off deposit	12,772	(2,562)
Sale of government securities	-	2,922
Net cash inflow from management of liquid resources	12,772	360
Financing		
Issue of ordinary share capital	1,367	1,322
Share buy-back	(22,604)	(6,142)
	(21,237)	(4,820)
Debt due within a year: net increase in short term borrowings	3,818	2,163
Debt due beyond a year: net increase in long term borrowings	1,418	1,711
Capital element of finance lease rentals payments	(117)	(117)
Increase in debt	5,119	3,757
Net cash outflow from financing	(16,118)	(1,063)

* Spirax-Sarco Engineering plc includes as liquid resources term deposits of less than a year.

31 ANALYSIS OF CHANGES IN NET DEBT

	At 1 Jan 1999	Cash flow	Other non-cash changes	Exchange movement	At 31 Dec 1999
	£000	£000	£000	£000	£000
Cash in hand and at bank	5,102	(2,619)	-	(138)	2,345
Overdrafts	(14,324)	(6,096)	-	303	(20,117)
		(8,715)			
Debt due within a year	(2,278)	2,278	-	-	-
Debt due beyond a year	(40,869)	(1,418)	(23)	2,475	(39,835)
Finance leases	(170)	117	-	(6)	(59)
		977			
Current asset investments	36,441	(12,772)	-	(806)	22,863
Total	(16,098)	(20,510)	(23)	1,828	(34,803)

32 PURCHASE OF SUBSIDIARY UNDERTAKINGS

	Byvap		Other acquisitions		Total
	Book value	Accounting policy adjustments	Fair value	Fair value	
	£000	£000	£000	£000	£000
Intangible fixed assets	482	(482)	-	-	-
Tangible fixed assets	100	-	100	-	100
Current assets – Stock	480	(50)	430	4	434
Total net assets	1,062	(532)	530	4	534
Goodwill			694	15	709
Purchase consideration			1,224	19	1,243
Satisfied by		Cash paid	1,062	19	1,081
		Acquisition expenses	162	-	162
			1,224	19	1,243

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

Cash consideration	1,174	345	1,519
Net cash outflow	1,174	345	1,519

The acquisition of Byvap Technology S.A.S. from Byvap S.A. was completed on 8th April 1999. The acquisition was accounted for by the acquisition method of accounting. Consideration of FF10,578,000 (£1,062,000) was paid on completion.

The profits after tax of Byvap in the period in 1999 prior to acquisition were £Nil and for 1998 were £23,000.

The accounting policy adjustment of £482,000 relates to goodwill held in local books at the time of acquisition. The adjustment of £50,000 is required to value stock in accordance with policies adopted by the Group.

Included in cash consideration for other acquisitions is £326,000 deferred from 1998 paid as part of the acquisition of the Normandy agent of our French company.

Goodwill has been capitalised and is being written off over a 20 year period.

33 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Group does not enter into significant derivative transactions. The Group's principal financial instruments comprise bank loans, guaranteed senior notes, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged since the beginning of 1999.

Interest rate risk

The Group borrows in desired currencies at both fixed and floating rates of interest as appropriate to the purposes of the borrowing depending on which gives best value. At the year-end 25% of the Group's debts were at fixed rates.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, loans and finance leases as appropriate.

Foreign currency risk

The Group has operations around the world and therefore its balance sheet can be significantly affected by movements in the rate of exchange between sterling and various other currencies particularly the US dollar and Euro. The Group seeks to mitigate the effect of this structural currency exposure by borrowing in these currencies where appropriate while maintaining a low cost of debt. At 31st December 1999 the percentage of debt to net assets, excluding debt, was 67% (1998: 73%) for Euro based currencies and 67% (1998: 79%) for the US dollar.

The Group also has transactional currency exposures principally as a result of trading between Group companies. Such exposures arise from sales or purchases by an operating unit in currencies other than the unit's functional currency. Net cash flows between any two currencies of less than £1m per annum would not usually be considered sufficiently material to warrant forward cover. Forward cover is not taken out more than twelve months in advance or for more than 80% of the forecast exposure.

The disclosures below exclude short-term debtors and creditors.

Interest rate risk profile of financial liabilities

The interest rate profile of the financial liabilities of the Group as at 31st December was as follows:

	Total	Fixed rate financial liabilities	Floating rate financial liabilities
	£000	£000	£000
1999			
Euro currencies	28,864	2,223	26,641
US dollar	22,898	12,326	10,572
Other	8,249	431	7,818
	60,011	14,980	45,031
1998			
	£000	£000	£000
Euro currencies	33,356	-	33,356
US dollar	20,755	12,035	8,720
Other	3,530	754	2,776
	57,641	12,789	44,852

All financial liabilities are interest bearing.

In respect of fixed rate financial liabilities the interest rate for Euro currency financial liabilities is 4.4% fixed for 6.5 years (1998: Nil). The interest rate for US dollar financial liabilities is 6.7% fixed for 6.1 years (1998: 7.1 years).

The benchmark rates for the floating rate financial liabilities are as follows:

Canadian dollar	}	LIBOR
Dutch guilder		
Japanese yen		
US dollar		
French franc		EURIBOR/T4m
Italian lire		EURIBOR
Spanish peseta		MIBOR

Interest rate risk profile of financial assets

The interest rate profile of the financial assets of the Group as at 31st December was as follows:

	Total £000	Floating rate financial assets £000	Financial assets on which no interest is earned £000
1999			
Sterling	11,601	11,551	50
Other	13,607	11,312	2,295
	25,208	22,863	2,345
1998			
Sterling	29,103	28,500	603
Other	12,440	7,941	4,499
	41,543	36,441	5,102

Floating rate financial assets comprise cash placed on money market deposit mainly at call and three month rates.

Currency exposures

As explained above, the Group's objectives in managing the currency exposures arising from its net investment overseas (in other words, its structural currency exposures) are to maintain a low cost of debt while partially hedging against currency depreciation. All gains and losses arising from these structural currency exposures are dealt with in the statement of total recognised gains and losses.

Transactional (or non-structural) exposures give rise to net currency gains and losses that are recognised in the profit and loss account. Such exposures include the monetary assets and monetary liabilities in the Group balance sheet that are not denominated in the operating (or 'functional') currency of the operating unit involved. At 31st December the currency exposures in respect of the Euro currencies was a net monetary liability of £627,000 (1998: £672,000) and in respect of the US dollar a net monetary asset of £1,122,000 (1998: £256,000).

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 31st December was as follows:

	1999 £000	1998 £000
In one year or less, on demand	20,152	16,741
In more than one year but no more than two	7,206	10,552
In more than two years but no more than five	26,045	17,076
In more than five years	6,608	13,272
	60,011	57,641

Borrowing Facilities

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

	1999 £000	1998 £000
Expiring in one year or less	16,129	9,615
Expiring in more than one year but no more than two	-	977
	16,129	10,592

Fair values of financial assets and financial liabilities

A US dollar loan with a book value of £12,326,000 (1998: £11,932,000) had a fair value at 31st December of £12,047,000 (1998: £12,522,000). Apart from this loan, fair values of financial assets and liabilities at that date were not considered to be materially different from book values due to their size or the fact that they were at short term rates of interest.