

The Board presents the following report on the operation of the Remuneration Committee.

## **THE REMUNERATION COMMITTEE**

This Committee, which has been established for many years and operates under terms of reference agreed by the Board, comprises the independent non-executive directors, Mr. C. G. Sneath, Mr. M. Townsend and, with effect from 1st January 2000, Mr. E. Lindh. Mr. M. Townsend was appointed Chairman of the Committee with effect from 1st January 2000 following the retirement of Mr. R. L. Dodsworth.

The Committee is responsible for determining the Company's remuneration policy and for determining the employment conditions and remuneration packages of the Chairman and individual executive directors. The Committee also administers and determines the grant of options under the Group's share option schemes for executive directors and other senior employees.

The Committee obtains independent professional advice to ensure that the Company's remuneration policies are appropriate and competitive. Mr. T. B. Fortune, the Company Chairman, and Mr. M. J. D. Steel, the Chief Executive, attend meetings at the invitation of the Committee to provide information requested by it.

The Company has throughout the year complied with the code of best practice set out under the Combined Code with regard to directors' remuneration. The Committee has given full consideration to the Combined Code in establishing the remuneration policy and packages for directors.

## **POLICY ON EXECUTIVE DIRECTORS' REMUNERATION**

The Company's policy is to reward directors competitively and on the broad principle that their remuneration should be comparable with remuneration in other similar public companies. The total remuneration package is appropriate and necessary to attract, retain and motivate directors of the calibre required to take the Company forward. In order to align the interests of directors and shareholders, the Committee has structured the total remuneration package to include a significant performance-related element. The structure of directors' remuneration packages, which was established in 1989 and confirmed following a specific review in 1995, has been amended for appointments of executive directors after 1st January 1998 to provide normally for a 12 month, rather than for a 24 month, notice period in the service contract. The Remuneration Committee considers that as the length of service contracts complied with normal practice at the time the contracts were entered into it is inappropriate to change existing terms and conditions. The remuneration packages comprise the following:-

### **Basic salary**

The Committee obtains independent professional advice using published information for comparable public companies. Salaries are reviewed annually on 1st January taking into account the experience, responsibility and performance of the individual.

### **Annual bonus**

The Company operates an annual bonus scheme for executive directors. The bonus is paid as a percentage of salary. This percentage is the sum of:-

- i) one-third of the percentage increase in pre-tax profit for the year over the average pre-tax profit for the previous three years, and
- ii) two-thirds of the percentage increase in earnings per share for the year over the average earnings per share for the previous three years.

There is a contractual maximum bonus payment equal to basic salary. The bonus forms an integral and regular part of the executive directors' remuneration and has been and is pensionable. The Chairman does not participate in the bonus scheme.

### **Long term incentives**

(i) Spirax-Sarco Engineering 1992 UK/Global Share Option Schemes

The Company operates share option schemes for executive directors and senior management which are administered by the Committee which determines the grant of options under the schemes usually once per year. These are designed to align the longer term interests of directors and senior management with those of shareholders by giving an incentive linked to added shareholder value. The policy is to phase options over the ten year life of the share option schemes. Options granted to each director are subject to performance criteria which are set out below. The granting of discounted options ceased in 1994.

The following directors hold options over the number of ordinary shares shown against their respective names.

		31.12.98	Granted	Exercised	31.12.99	Average	Date	Expiry
			during	in year		exercise	from	date
			the			price per	which	
			year to			share	exercisable	
	(1)	(2)	31.12.99	(3)	(4)			
		No.	No.	No.	No.	pence		
<b>T.B. Fortune</b>	A	70,184	-	-	70,184	402.5	07.10.96	31.10.01
	B	70,000	-	-	70,000	647.6	18.09.98	31.10.01
		140,184	-	-	140,184			
<b>M.J.D. Steel</b>	A	45,412	-	(45,412)	-	-	-	-
	A	55,000	-	-	55,000	421.9	10.10.97	08.04.08
	B	45,000	25,000	-	70,000	620.1	18.09.98	08.04.08
		145,412	25,000	(45,412)	125,000			
<b>C.J. Ball</b>	A	24,298	-	(24,298)	-	-	-	-
	A	30,000	-	-	30,000	423.5	10.10.97	29.09.05
	B	45,000	15,000	-	60,000	636.0	18.09.98	29.09.05
		99,298	15,000	(24,298)	90,000			
<b>A.D.H. Black</b>	A	30,069	-	-	30,069	385.2	15.07.95	16.09.08
	B	10,000	15,000	-	25,000	596.6	24.09.99	12.10.09
		40,069	15,000	-	55,069			
<b>G.P. Marchand</b>	A	18,922	-	(18,922)	-	-	-	-
	A	45,137	-	-	45,137	396.1	07.10.96	24.12.07
	B	45,000	15,000	-	60,000	636.0	18.09.98	24.12.07
		109,059	15,000	(18,922)	105,137			
<b>D.J. Meredith</b>	A	57,752	-	-	57,752	360.5	15.07.95	16.09.08
	B	55,000	15,000	-	70,000	632.4	18.09.98	12.10.09
		112,752	15,000	-	127,752			
<b>P.A. Smith</b>	A	60,345	-	-	60,345	355.3	15.07.95	16.09.08
	B	35,000	15,000	-	50,000	622.4	18.09.98	12.10.09
		95,345	15,000	-	110,345			
<b>P.M. Smith</b>	A	15,138	-	(15,138)	-	-	-	-
	A	35,068	-	-	35,068	404.2	07.10.96	21.09.05
	B	27,500	15,000	-	42,500	624.4	18.09.98	21.09.05
		77,706	15,000	(15,138)	77,568			

#### Notes

1. Options shown on line A are those where the exercise prices are lower than the middle market price of the Company's ordinary shares on 31st December 1999.

Options shown on line B are those where the exercise prices are higher than the middle market price on that date.

2. Options were granted to directors during the year over 115,000 ordinary shares at 525p per share under the Spirax-Sarco Engineering 1992 Global Share Option Scheme, which is Unapproved.

3.	Options exercised  No.	Option exercise price pence	Market price on the date options exercised pence	1999 Gain arising on exercise £	1998 Gain arising on exercise £
T.B. Fortune				-	109,091
M.J.D. Steel	17,178	233.0	575.0	133,474	-
	13,097	274.2			
	3,784	301.1			
	11,353	355.1			
C.J. Ball	9,161	233.0	568.5	65,081	-
	3,784	301.1			
	11,353	355.1			
G.P. Marchand	18,922	233.0	620.0	73,228	-
P.M. Smith	15,138	233.0	495.0	39,662	-
C.J. Tappin (1)				-	92,778
<b>Aggregate of gains arising on exercise</b>				<b><u>311,445</u></b>	<b><u>201,869</u></b>

1. Mr C.J. Tappin retired from the Board on 22nd April 1998.

4. These are the weighted averages of the exercise prices for ordinary shares under option at 31st December 1999. The market price of the ordinary shares on 30th December 1999 was 443p. During the period from 1st January 1999 to 31st December 1999, the ordinary share price ranged between 443p and 655p.

No options held by directors lapsed during the year.

Options granted are normally exercisable between three and ten years from the date of grant and, for grants from 1995, only if performance criteria are satisfied. These performance criteria require an increase in earnings per share of more than 6% greater than the increase in the UK retail prices index over a period of three consecutive years between grant and exercise.

Prior to 1995 options granted did not have performance criteria attached to them, except for discounted options granted which are exercisable between five and ten years at an alternate exercise price which reflects a 15% discount to the market price at the time of grant. These require an increase in earnings per share of more than 10% greater than the increase in the UK retail prices index over a period of five consecutive years between grant and exercise.

The Register of Directors' Interests (which is open to inspection) contains full details of directors' shareholdings and options to subscribe.

There have been no changes in the number of shares held or share options granted as shown above since 31st December 1999.

Details of total share options issued are set out on page 40. The above performance criteria also apply to other relevant options, granted to participants in the share option schemes.

(ii) Spirax-Sarco Engineering 1992 Share Ownership Scheme

The Company also operates an employee share ownership scheme in which the executive directors may participate on the same basis as all other eligible UK employees.

There are no other long-term incentives provided to directors.

### Pensions

The executive directors are members of an Inland Revenue approved non-contributory defined benefit pension scheme based on 1/60th of pensionable salary, for each year of pensionable service. The maximum pension is two-thirds of pensionable salary. The executive directors accrue pro-rata additional service at a rate which gives a further two and a half years of service at their normal retirement age of 62<sup>1</sup>/<sub>2</sub>. Additionally Mr. G. P. Marchand accrues pro-rata additional service at a rate which gives a further nine years of service at age 60.

The scheme provides lump sum death in service benefit of four times pensionable salary. Spouses' pensions are payable where death occurs in service or in retirement. No executive director is affected by Inland Revenue earnings cap and there are no Unapproved pension arrangements in respect of directors.

Details of the additional deferred pension earned during the year to 31st December 1999, net of statutory deferred pension revaluation, and the change in the transfer value corresponding to this change in deferred pension are set out below individually for each director. This information complies with the requirements of the London Stock Exchange Listing Rules.

	<b>Age attained at 31.12.99</b>	<b>Accrued pension at 31.12.98  £pa</b>	<b>Accrued pension at 31.12.99  £pa</b>	<b>Change in accrued pension during year to 31.12.99, net of deferred pension revaluation  £pa</b>	<b>Transfer value of change in accrued pension  £</b>
M. J. D. Steel	54	84,547	103,548	16,295	230,719
C. J. Ball	56	81,866	83,363	(1,123)	(17,516)
A. D. H. Black	42	34,340	41,662	6,223	54,788
G. P. Marchand	54	57,928	62,413	2,631	38,001
D. J. Meredith	40	32,334	37,045	3,676	29,448
P. A. Smith	51	43,735	46,228	1,093	14,795
P. M. Smith	56	33,701	40,627	5,848	91,356

Note: Accrued pension means pension payable at normal retirement age assuming no further pensionable service.

The following is additional information relating to directors' pensions:

(i) Dependant's pensions

On the death of a director before normal retirement age, a spouse's pension equal to one-half of the director's pension based on pensionable service to the date of death is payable.

On the death of a director after payment of the pension commences, a spouse's pension of one-half of the director's pension entitlement at the date of death, ignoring commutation and any early retirement actuarial reduction, is payable; in addition directors' pensions are guaranteed to be paid for five years from retirement.

(ii) Early retirement rights

After leaving the service of the Company, a director has the right to draw his accrued pension at any time after his 60th birthday with no reduction.

(iii) Pension increases

All pensions are subject to contractual annual increases in line with the annual rise in the RPI subject to a maximum of 5% per annum. The Trustees and the Company have the discretion to apply a greater increase.

(iv) Transfer values

The changes in transfer values stated above do not represent a sum paid or payable to the individual director. Instead they represent a potential liability (or reduction in liability) of the pension scheme.

(v) Other discretionary benefits

There are no discretionary practices which are taken into account in calculating transfer values on leaving service.

### Service Contracts

Mr. M. J. D. Steel, Mr. C. J. Ball, Mr. G. P. Marchand, Mr. D. J. Meredith and Mr. P. A. Smith have service contracts which are subject to two years' notice. The Committee believes it is appropriate to retain this notice period for those directors, being the established practice at the date of their appointment. As a result of a specific review, the Committee, recognising the subsequent change in practice, has determined that in normal circumstances appointments of executive directors after 1st January 1998 would be on a 12 months' notice basis. Mr. A. D. H. Black and Mr. P. M. Smith have service contracts which are subject to 12 months' notice.

The non-executive directors, including the Chairman, Mr. T. B. Fortune, do not have service contracts.

In determining the amount of compensation payable on termination of a service contract, it is the Committee's policy to apply normal principles of mitigation which, in its opinion, confer greater flexibility to deal with

individual circumstances than seeking to include in directors' service contracts a fixed compensation payment. Poor performance will not be rewarded.

#### NON-EXECUTIVE DIRECTORS

The remuneration of non-executive directors is approved by the full Board within the limits set out in the Company's articles of association. Their remuneration reflects the amount of time spent on the Company's business. The non-executive directors do not participate in the bonus, share option or share ownership schemes and their appointments are non-pensionable. Mr. T. B. Fortune retains share options granted during his period as an executive director.

#### DIRECTORS' REMUNERATION

	Basic Salary/ Fees	Benefits (1)	Annual performance related bonus	Other (2)	Total emoluments excluding pension	
	£	£	£	£	1999 Total £	1998 Total £
T. B. Fortune (3)	60,000	316	-	-	60,316	228,961
M. J. D. Steel	210,000	13,404	11,025	5,684	240,113	187,232
C. J. Ball	132,000	12,887	6,930	4,288	156,105	139,548
A. D. H. Black (4)	125,000	10,961	6,563	3,501	146,025	87,406
G. P. Marchand	135,000	8,589	7,088	4,303	154,980	138,102
D. J. Meredith	145,000	11,261	7,613	4,413	168,287	143,310
P. A. Smith	100,000	6,776	5,250	3,199	115,225	101,723
P. M. Smith (4)	125,000	7,734	6,563	3,428	142,725	87,424
R. L. Dodsworth (3) (5)	23,525	-	-	-	23,525	22,750
C. G. Sneath (3)	17,600	-	-	-	17,600	17,000
C. J. Tappin (6)	-	-	-	-	-	23,438
M. Townsend (3)	17,600	-	-	-	17,600	17,000
	1,090,725	71,928	51,032	28,816	1,242,501	1,193,894

1. Benefits arising from employment by the Company, which relate in the main to the provision of a company car.
2. The executive directors participated in the Spirax-Sarco Engineering 1992 Share Ownership Scheme, which is available to all UK employees. The Company contributed shares which broadly matched those deposited by the participant, the cost to the Company of which is shown above.
3. Non-executive director.
4. Messrs. A. D. H. Black and P. M. Smith were appointed to the Board on 23rd April 1998. Total emoluments for the full year 1998 were £123,829 and £116,657 for Mr. Black and Mr. P. M. Smith respectively.
5. Mr. R. L. Dodsworth retired from the Board on 31st December 1999.
6. Mr. C. J. Tappin retired from the Board on 22nd April 1998.

**T. B. Fortune** *Chairman*

## Statement of Directors' Responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss for that period. In preparing those accounts, the directors are required to:

- (i) Select suitable accounting policies and then apply them consistently.
- (ii) Make judgements and estimates that are reasonable and prudent.
- (iii) State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.
- (iv) Prepare the accounts on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the requirements of the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.