

Directors' Report

The directors of Spirax-Sarco Engineering plc have pleasure in presenting their report and the audited accounts for the year ended 31st December 2000.

PROFIT

The profit of the Group, after charging the loss of £990,000 on disposal of fixed assets (1999: nil) and taxation and after deducting the amount attributable to minority interests in subsidiary undertakings, amounted to £26,367,000 (1999: £28,115,000). This represents earnings per share of 35.4p compared with 36.1p for 1999. Earnings per share before the loss on disposal of fixed assets was 37.4p. If all outstanding share options were exercised the diluted earnings per share would be 35.3p compared with the unadjusted 35.4p.

DIVIDEND

An interim cash dividend of 5.4p per share (1999: 5.2p) was paid in November 2000. The directors now recommend the payment of a final dividend of 12.6p per share (1999: 12.1p). If approved at the annual general meeting the final dividend will be paid on 15th May 2001 to shareholders on the register at 17th April 2001. The total distribution for the year will be 18.0p per share (1999: 17.3p).

A scrip dividend alternative will not be offered.

TURNOVER

Total turnover to external customers amounted to £278,148,000 in 2000 (1999: £258,942,000). 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 12.

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. Expenditure in 2000 on research and development amounted to £4,571,000 (1999: £4,585,000).

MARKET VALUE OF LAND AND BUILDINGS

In the opinion of the directors, the market value of the land and buildings of the Group exceeds the book value of those assets at 31st December 2000 by approximately £9,000,000.

BOARD OF DIRECTORS

The directors of the Company during the year 2000 are those listed on page 16.

In accordance with the articles of association Messrs. G. P. Marchand, D. J. Meredith, P. A. Smith and M. Townsend retire and, being eligible, offer themselves for re-election.

Messrs. G. P. Marchand, D. J. Meredith and P. A. Smith have service contracts with the Company determinable on two years' notice. Mr. M. Townsend, as a non-executive and Senior Independent 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 set out 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	
	31.12.00	31.12.99	31.12.00	31.12.99
T.B. Fortune	87,668	87,668	424,288	424,288
M.J.D. Steel	57,494	53,758	326,646	-
C.J. Ball	51,580	50,761	-	-
A.D.H. Black	15,792	13,550	-	-
G.P. Marchand	66,558	64,120	-	-
D.J. Meredith	17,236	15,326	750,934	701,599
P.A. Smith	22,399	14,589	750,934	701,599
P.M. Smith	36,413	34,217	-	-
R.L. Dodsworth [®]	-	1,127	-	277,311
E. Lindh	-	-	-	-
C.G. Sneath	2,185	2,185	-	-
M. Townsend	2,879	1,529	-	-

[®] Mr. R.L. Dodsworth retired from the Board on 31st December 1999.

At 31st December 2000, the United Kingdom Group pension funds held 424,288 shares in the Company. Messrs. T.B. Fortune, D.J. Meredith and P.A. Smith are trustees of those funds. Messrs. D.J. Meredith and P.A. Smith, together with Mr. M.J.D. Steel, are trustees of the Spirax-Sarco Engineering 1992 Share Ownership Scheme, which holds 326,646 shares in the Company at 31st December 2000.

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CORPORATE GOVERNANCE

Compliance

Corporate governance has been and remains the responsibility of the whole Board. The Combined Code - Principles of Good Governance and Code of Best Practice ("the Combined Code") was published by the London Stock Exchange in June 1998. This statement describes how the Company applies the principles and complies with the provisions of the Combined Code.

The Board considers that it was throughout the year and continues to be in full compliance with the provisions set out in Section 1 of the Combined Code.

Board Composition and Procedures

The Board meets formally six times per year to consider strategic developments and to review trading results and operational and business issues. In particular it deals with those matters reserved to it for decision, including the acquisition and disposal of businesses and major capital expenditure. All directors receive detailed progress reports one week prior to each Board meeting.

The Board comprises a balance of seven executive directors, three independent non-executive directors and the non-executive Chairman. The positions of Chairman, Chief Executive and Senior Independent Director are held by separate individuals. The non-executive directors have all had senior executive experience and offer independent judgement on board matters. Non-executive directors do not participate in bonus, share option or pension schemes.

There are procedures for individual Board members to receive induction and training as appropriate and to solicit independent professional advice where specific expertise is required in the course of exercising their duties. All directors have access to the Company Secretary, who is responsible for ensuring compliance with appropriate statutes and regulations.

All directors are subject to re-election by shareholders at the first opportunity after their appointment and thereafter at intervals of no more than three years.

The Board delegates specific responsibility to Board committees, notably the Remuneration, Nomination, Audit and Finance Committees. The membership of these committees is detailed on page 16. Additionally the executive directors comprise the Risk Management Committee.

Shareholder Relations

The Group conducts regular dialogue with institutional shareholders and divulges such information as is permitted within the guidelines of the Listing Rules. The preliminary results announcement may be accessed by individual investors on the Group web site.

All shareholders are invited to participate in the Annual General Meeting, where the chairmen of the Audit, Remuneration and Nomination Committees will be available to answer questions. The results of proxy votes were declared at the 1999 and 2000 Annual General Meetings after each resolution had been dealt with on a show of hands and this practice will be continued at future General Meetings.

Internal Controls

The Board has overall responsibility for the system of internal control and for reviewing its effectiveness whilst the role of management is to implement Board policies on risk and control. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve the business objectives. In pursuing these objectives, internal controls can only provide reasonable and not absolute assurance against material mis-statement or loss.

As required by the UK Listing Authority, the Company has complied with the Combined Code provisions on internal control having established the procedures necessary to implement the guidance issued in September 1999 (the Turnbull committee report) and by reporting in accordance with that guidance.

(i) Risk Management

The Group has operated 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 in 1999 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". As a result of this review, the identified risks and the countermeasures implemented form the basis for the reporting and monitoring system established throughout the Group.

As part of the on-going process the Group 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 are assessed by a Risk Management Committee comprising the executive directors. Quarterly reports are made to the Board as a whole, by the Chief Executive, for review of the risks and measures taken. Annually the executive directors carry out a reappraisal of the business risks. The Audit Committee, comprising the non-executive directors, Mr. T. B. Fortune, Mr. E. Lindh, Mr. C. G. Sneath and Mr. M. Townsend (Chairman), review the system of reporting and monitoring as a whole.

(ii) Financial

The Finance Committee of the Board considers financing and investment decisions concerning the Group, including the giving of guarantees and indemnities, and monitors policy and control mechanisms for managing treasury risk within the limits laid down by the Board.

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.

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(iii) Operational

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 control.

(iv) Audit Committee

The Audit Committee consists of the non-executive directors. It is chaired by Mr. M. Townsend and meets at least twice a year to consider the effectiveness of the Group's internal controls, policies and procedures and the outcome of the external audit for the year. Its meetings are normally attended by the Director - Finance and the external auditors. There is provision for the committee to confer with the auditors without the attendance of executive directors.

Internal Audit

The Board assessed the requirement for an internal audit function and concluded that the current internal controls remain satisfactory.

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.

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 the non-executive directors and the Chief Executive.

ANNUAL GENERAL MEETING

The Notice of Meeting and an explanation of Resolutions 8 to 15 to be proposed at the AGM are set out in the enclosed Circular.

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 meeting in 2000, the Company purchased 1,665,000 shares (nominal value 25p) for a consideration of £5,810,500 before commission and stamp duty. These purchases, representing 2.2% of the share capital at 1st January 2000, were in accordance with the Company's strategy of maximising shareholder value.

The prices ranged from 335p to 370p. The 1,665,000 shares purchased have been cancelled. At 31st December 2000 the remaining number of shares in issue which may be purchased under the authority was 5,835,000 and the number of shares in issue was 73,592,036.

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 19th February 2001 the Company had received notice of material interests in 3% 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	%
M & G Investment Management Limited	3,715,713	5.0
Newton Investment Management	3,708,949	5.0
Britannic Asset Management	3,501,477	4.8
Groupe Mutuel MAAF Assurances	3,152,000	4.3
NFU Mutual	2,864,924	3.9
Co-operative Insurance Society Limited	2,616,650	3.6

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.

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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 REPORT

The Group regularly reviews its written environmental policy statement and performance with regard to environmental matters to ensure compliance with good practices and statutory regulations in all its operations and to meet corporate objectives. The Group operates its businesses with a proper concern for the impact on the environment generally and, particularly, with concern for the local communities where the Group's operations are located.

The Group also recognises that the achievement of good quality, the maintenance of Health and Safety, and the achievement of good environmental practices, are an integral part of running the business and require consideration as part of the day to day operations. In each subsidiary there is a nominated person who is responsible for monitoring compliance with the Group's policy.

The Group, through its Board of Directors, ensures that its managers and staff are aware of the risks and actions required to meet environmental considerations in each of the Group's plants. Managers are required to take environmental considerations into account in running the business, in its energy efficiency, its use of appropriate materials and the design and manufacture of its products generally and in the investment in new equipment, new processes and new buildings and services.

There is a detailed procedure that lays down responsibility for seeing that the Group's policy is carried out. Employees are expected in their daily job to be aware of environmental considerations and draw to the attention of management any matters of possible concern.

Implementation

To implement the above policy the Board has appointed the Director - Supply with specific environmental responsibility in relation to the Group's operations. The environmental policy set out above is appropriately circulated to management and to all employees and, through executive directors, general managers of operating companies within the Group are responsible for local compliance with the Group's policy and with local legislation. Previously the Group has utilised external environmental consultants to audit a number of manufacturing facilities and has established an internal environmental audit process under which a senior manager assesses the environmental position in each of the major manufacturing units and reports for action to the local management. This process is overseen by the Director - Supply. The Group also operates a regular system of review, under which every operating company reports on environmental issues and compliance with local legislation; any identified problems are actioned as a result. Investment has been made in component cleaning equipment which minimises the use of solvents and therefore the amount of effluent produced. Some chemicals and fluxes have been replaced by new developments which have also contributed to a cleaner operating environment. Significant investment has been made in noise attenuation benefiting employees and also local residents adjacent to the factories.

Environmental Benefits from the use of Group Products

The use by customers of Group products has a significant environmental benefit which outweighs the environmental issues associated with the production of the products. Certainly the environmental impact arising from the manufacture of the Group's range of steam system products and peristaltic pumps is significantly less than the energy saving benefits enjoyed by customers in the application of those products. The name Spirax Sarco is synonymous with steam and its efficient use worldwide. The majority of sales are the result of helping customers to improve the efficiency of their plant and processes, reduce energy consumption and emissions and meet local safety regulations. The Group's technical advice on the application of its products and in relation to steam systems, which is freely given, is the key to maximising the benefit of the products we supply. There are numerous individual examples of benefits enjoyed by customers which include improved overall boiler efficiency, improved energy efficiency of process plant, and reduced consumption of water, water treatment chemicals and lower production of effluent.

Watson-Marlow Bredel peristaltic pumps are used throughout the world in installations whose main purpose is to improve the environment. They are particularly suited to applications like waste water treatment where difficult fluids have to be handled safely and reliably.

GROUP CHARITABLE AND POLITICAL DONATIONS

Charitable donations amounted to £41,585 (1999: £39,458). There were no political donations (1999: nil).

AUDITORS

A resolution to re-appoint the auditors, 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.

COMPANY INFORMATION

Further information on the Company is available on our Web Site: www.SpiraxSarcoEngineering.com

By order of the Board
P. A. Smith Secretary

Charlton House, Cirencester Road,
Cheltenham.

12th March 2001