Notes to the Accounts

1 ACCOUNTING POLICIES

Basis of consolidation
The consolidated accounts, which are prepared under the historical cost convention, supplemented by the revaluation of certain assets in prior years, and which have been prepared in accordance with applicable accounting standards, comprise the accounts of the parent company and its subsidiary undertakings. As permitted by FRS 15: Tangible fixed assets, a policy of revaluation has not been adopted.

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.

Notes to the Accounts

1 ACCOUNTING POLICIES (continued)
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:

	2000	1999
	£000	£000
United Kingdom	**37,507**	38,242
Continental Europe	**94,190**	94,332
The Americas	**83,079**	72,755
Asia, Australasia and Africa	**63,372**	53,613
	278,148	258,942

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

	2000	1999
	£000	£000
United Kingdom	**86,802**	81,540
Continental Europe	**114,091**	110,162
The Americas	**88,050**	77,721
Asia, Australasia and Africa	**57,255**	47,605
	346,198	317,028
Intra-group sales	**(68,050)**	(58,086)
Sales to third parties	**278,148**	258,942

There were no discontinued operations in 2000 or 1999.
The Group operates in one business segment which is the control of fluids.

3 OPERATING COSTS

	2000	1999
	£000	£000
Change in stocks of finished goods and work in progress	**(3,475)**	(2,609)
Raw materials and consumables	**76,145**	66,060
Staff costs (note 4)	**100,320**	92,054
Depreciation	**10,853**	10,571
Amortisation of goodwill	**363**	241
Other operating charges	**50,572**	49,904
	234,778	216,221

4 STAFF COSTS AND NUMBERS
The aggregate payroll costs of persons employed by the Group were as follows:

	2000	1999
	£000	£000
Wages and salaries	**82,214**	75,081
Social security costs	**13,424**	12,421
Other pension costs	**4,682**	4,552
	100,320	92,054

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

	Number	Number
United Kingdom	**1,108**	1,090
Overseas	**2,806**	2,704
	3,914	3,794

Notes to the Accounts

5 OPERATING PROFIT

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

	2000	1999
	£000	£000
United Kingdom	**11,878**	12,464
Continental Europe	**13,468**	14,986
The Americas	**8,139**	7,326
Asia, Australasia and Africa	**9,885**	7,945
	43,370	42,721

6 NON-OPERATING ITEM

	2000	1999
	£000	£000
Loss on sale of freehold land and buildings in Allentown, Pennsylvania	**990**	-

Tax payable on the non-operating item amounts to £488,000 due to there being a chargeable gain for tax purposes.

7 NET INTEREST PAYABLE

		2000	1999
		£000	£000
Interest payable:	Bank loans and overdrafts	**2,483**	2,159
	Other loans	**930**	916
		3,413	3,075
Interest receivable		**(1,200)**	(2,105)
		2,213	970

8 PROFIT BEFORE TAXATION

Profit before taxation is shown after charging:

	2000	1999
	£000	£000
Depreciation of tangible fixed assets held under finance leases	**3**	21
Audit fees (Spirax-Sarco Engineering plc £83,000 (1999: £81,000))	**595**	526
Hire of plant and machinery	**773**	761
Other operating leases	**2,416**	2,017
Research and development	**4,571**	4,585
Share Ownership Scheme contributions	**499**	445

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 £544,000 (1999: £665,000), including amounts paid to the auditors of overseas companies of £309,000 (1999: £244,000). Fees were paid mainly in respect of taxation services.

9 DIRECTORS' EMOLUMENTS

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

10 TAXATION

	2000 £000	1999 £000
United Kingdom corporation tax at 30% (1999: 30.25%)	**9,024**	7,162
Deduct double taxation relief	**(5,766)**	(4,020)
	3,258	3,142
Overseas taxation	**8,734**	9,126
Deferred taxation	**1,108**	445
	13,100	12,713
Adjustment in respect of previous years	**(233)**	(20)
	12,867	12,693

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 £18,672,000 (1999: £26,815,000). Included in this amount are dividends from subsidiary undertakings of £19,187,000 (1999: £25,671,000). As permitted under section 230(4) of the Companies Act 1985 a separate profit and loss account has not been presented.

12 DIVIDENDS

			2000 £000	1999 £000
Interim paid	5.4p	(1999: 5.2p) per share	**4,028**	4,026
Final proposed	12.6p	(1999: 12.1p) per share	**9,273**	9,076
	18.0p	(1999: 17.3p) per share	**13,301**	13,102

13 EARNINGS PER SHARE

The calculation of earnings per share before the non-operating item is based on earnings of £27,845,000 (1999: £28,115,000) and the calculation of earnings per share after the non-operating item is based on earnings of £26,367,000 (1999: £28,115,000), as shown in the Group profit and loss account, divided by the weighted average number of shares in issue during the year of 74,531,906 (1999: 77,934,804). The calculation of earnings per share (diluted) before and after the non-operating item is based on the earnings shown above and the weighted average number of shares in issue diluted by 75,374 (1999: 126,196) to 74,607,280 (1999: 78,061,000).

14 FIXED ASSETS: INTANGIBLE ASSETS

	THE GROUP Goodwill £000
Cost:	
At 1st January 2000	4,807
Exchange adjustments	20
	4,827
Additions	5,164
At 31st December 2000	**9,991**
Amortisation:	
At 1st January 2000	323
Exchange adjustments	1
	324
Charged in year	368
At 31st December 2000	**692**
Net book value:	
At 31st December 2000	**9,299**
At 31st December 1999	4,484

15 FIXED ASSETS: TANGIBLE ASSETS

	THE GROUP					PARENT COMPANY
	Land and buildings			Fixtures, fittings, tools and equipment		Freehold land and buildings
	Freehold	Short leasehold	Plant and machinery		Total	
	£000	£000	£000	£000	£000	£000
Cost or valuation:						
At 1st January 2000	48,394	1,771	64,813	43,294	158,272	233
Exchange adjustments	1,084	86	1,140	743	3,053	-
	49,478	1,857	65,953	44,037	161,325	233
Additions	3,568	14	8,622	5,188	17,392	-
Acquisitions	2,969	-	233	219	3,421	-
Disposals	(7,027)	(363)	(4,632)	(2,722)	(14,744)	-
At 31st December 2000	**48,988**	**1,508**	**70,176**	**46,722**	**167,394**	**233**
Depreciation:						
At 1st January 2000	6,394	286	37,914	29,010	73,604	-
Exchange adjustments	208	4	646	504	1,362	-
	6,602	290	38,560	29,514	74,966	-
Charged in year	781	40	5,851	4,400	11,072	-
Disposals	(1,645)	(113)	(3,413)	(2,587)	(7,758)	-
At 31st December 2000	**5,738**	**217**	**40,998**	**31,327**	**78,280**	**-**
Net book value:						
At 31st December 2000	**43,250**	**1,291**	**29,178**	**15,395**	**89,114**	**233**
At 31st December 1999	42,000	1,485	26,899	14,284	84,668	233

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

		2000	1999
		£000	£000
Valuation	1976	**67**	73
	1986	**6,863**	9,391
	1991	**2,372**	2,195
Cost		**39,686**	36,735
		48,988	48,394

The historic cost net book value of freehold land and buildings at 31st December 2000 was £38,083,000.
Freehold land of £8,422,000 is not depreciated.

Included in the above are finance leases with net book value of £1,495,000.

As permitted by FRS15: Tangible fixed assets, it is not currently the intention to update valuations.

Freehold land and buildings held by the parent company have not been depreciated as the directors believe that the amount is not material.

Notes to the Accounts

16 FIXED ASSETS: INVESTMENTS

	PARENT COMPANY		
	Shares in subsidiary undertakings £000	Loans to subsidiary undertakings £000	Total £000
Cost:			
At Ist January 2000	44,515	11,876	56,391
Exchange adjustments	-	(136)	(136)
	44,515	11,740	56,255
Advances	-	1,543	1,543
At 31st December 2000	**44,515**	**13,283**	**57,798**
Amounts written off:			
At Ist January 2000	474	1,042	1,516
Charge for year	520	-	520
At 31st December 2000	**994**	**1,042**	**2,036**
Net book value:			
At 31st December 2000	**43,521**	**12,241**	**55,762**
At 31st December 1999	44,041	10,834	54,875

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

Details relating to subsidiary undertakings are given on page 14. Except where stated on that page all classes of shares were 100% owned by the Group at 31st December 2000. 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	
	2000 £000	1999 £000
Raw materials and consumables	**19,343**	17,170
Work in progress	**11,396**	10,971
Finished goods and goods for resale	**33,427**	29,658
	64,166	57,799

18 DEBTORS

	THE GROUP		PARENT COMPANY	
	2000 £000	1999 £000	**2000 £000**	1999 £000
Trade debtors	**73,717**	65,224	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**10,755**	10,933
Other debtors	**8,648**	5,664	**130**	63
Prepayments and accrued income	**4,822**	3,464	**50**	11
Taxation recoverable	**1,061**	1,650	**236**	1,160
Deferred tax	**520**	882	**-**	-
	88,768	76,884	**11,171**	12,167

Taxation recoverable in the Group balance sheet represents advance corporation tax of £346,000 (1999: £1,187,000) and other amounts recoverable of £715,000 (1999: £463,000).
Taxation recoverable in the parent company balance sheet represents advance corporation tax of £236,000 (1999: £1,160,000).

19 CASH DEPOSITS AND SHORT-TERM INVESTMENTS

Cash deposits and short-term investments comprise money market deposits of £18,111,000 (1999: £22,863,000) 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	
	2000 £000	1999 £000	**2000 £000**	1999 £000
Bank loans and overdrafts				
Overdrafts	**3,990**	2,877	**151**	700
Other loans	**21,691**	17,240	-	-
Trade creditors	**17,529**	13,866	-	-
Bills of exchange payable	**1,385**	1,095	-	-
Obligations under finance leases (note 22)	**32**	35	-	-
Amount owing to subsidiary undertakings	**-**	-	**1,501**	2,532
Corporation tax	**2,394**	2,247	**74**	425
Overseas tax	**5,038**	5,410	**-**	-
Social security	**2,128**	1,781	**-**	-
Other creditors	**7,687**	6,880	**-**	-
Accruals	**10,057**	9,621	**135**	177
Proposed dividend	**9,273**	9,076	**9,273**	9,076
	81,204	70,128	**11,134**	12,910

Bank loans and overdrafts amounting to £1,227,000 (1999: £1,748,000) 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	
	2000 £000	1999 £000	**2000 £000**	1999 £000
Bank loans				
Repayable in part in more than five years	**5,217**	6,608	-	-
Other loans repayable between two and five years	**34,353**	33,227	-	-
Obligations under finance leases (note 22)	**1,397**	24	-	-
Amount owed to subsidiary undertakings	**-**	-	**643**	643
Accruals	**1,093**	101	-	-
	42,060	39,960	**643**	643

The bank loans repayable in part in more than five years are represented by a £13,345,000 (1999: £12,326,000) loan expressed in US dollars at a fixed interest rate of 6.7% repayable in five equal annual instalments beginning in 2002, a £2,392,000 (1999: £1,027,000) loan expressed in Japanese yen at an interest rate of LIBOR plus 50 basis points repayable in full in 2006 and a £1,941,000 (1999: £2,370,000) loan expressed in French francs at a fixed interest rate of 4.4% repayable in quarterly instalments terminating in 2006.

Bank loans amounting to £23,000 (1999: £320,000) 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 £62,630,000 at 31st December 2000 (1999: £56,955,000).

22 OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP	
	Obligations under finance leases	
	2000 £000	1999 £000
Aggregate amounts repayable:		
between 2 and 5 years	**1,204**	7
between 1 and 2 years	**193**	17
	1,397	24
in 1 year or less	**32**	35
	1,429	59

23 PROVISIONS FOR LIABILITIES AND CHARGES

	THE GROUP			
	Deferred taxation £000	Post retirement benefits £000	Reorganisation and other provisions £000	Total £000
Provisions at 1st January 2000	1,102	8,791	325	10,218
Exchange adjustments	(1)	138	-	137
	1,101	8,929	325	10,355
Charge for the year	696	1,641	-	2,337
Utilised during the year	-	(1,801)	-	(1,801)
Provisions at 31st December 2000	**1,797**	**8,769**	**325**	**10,891**

An analysis of deferred taxation is set out below.

	THE GROUP			
	Provided		Unprovided	
	2000 £000	1999 £000	**2000 £000**	1999 £000
Accelerated capital allowances	**403**	305	**5,725**	4,552
Property revaluations	**-**	(7)	**400**	396
Other timing differences	**874**	(78)	**(2,450)**	(307)
	1,277	220	**3,675**	4,641

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 2000.

24 NET ASSETS

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

	THE GROUP	
	2000 £000	1999 £000
United Kingdom	**43,847**	45,182
Continental Europe	**53,974**	39,956
The Americas	**52,322**	48,555
Asia, Australasia and Africa	**36,690**	32,192
	186,833	165,885
Cash at bank and in hand	**(2,961)**	(2,345)
Capital employed	**183,872**	163,540
Net debt	**(45,608)**	(34,803)
Net assets	**138,264**	128,737

25 CALLED UP SHARE CAPITAL

	THE GROUP		PARENT COMPANY	
	2000	1999	**2000**	1999
	£000	£000	**£000**	£000
Ordinary shares of 25p each:				
Authorised 120,000,000	**30,000**	30,000	**30,000**	30,000
Allotted, called up and fully paid 73,592,036	**18,398**	18,751	**18,398**	18,751

251,287 ordinary shares, having an aggregate nominal value of £62,822 were issued pursuant to the Spirax-Sarco Engineering 1992 Share Ownership Scheme on 20th April 2000 for a consideration of £892,069 received by the Company. 1,892 ordinary shares, having an aggregate nominal value of £473 were issued during the year pursuant to the Spirax-Sarco Engineering Share Option Schemes for a consideration of £5,187 received by the Company.

1,665,000 ordinary shares having an aggregate nominal value of £416,250 were purchased by the Company for cancellation during the year at a cost of £5,851,177 including commission and stamp duty. The capital redemption reserve has been increased by £416,250.

Directors and 98 other senior employees and former employees of the Group have been granted options to purchase 2,519,981 ordinary shares with an aggregate nominal value of £629,995. 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	36,172	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	277,127	427.0p
Between 1998 and 2005	307,500	611.0p
Between 1999 and 2006	308,000	739.0p
Between 2000 and 2007	296,500	669.0p
Between 2001 and 2008	335,000	420.0p
Between 2002 and 2009	310,500	525.0p
Between 2003 and 2010	390,500	319.2p
	2,519,981	

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				
	Share premium account £000	Revaluation reserve £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
Balance at 1st January 2000	31,263	4,558	1,416	69,775	107,012
Effect of exchange rate adjustments	-	95	-	954	1,049
	31,263	4,653	1,416	70,729	108,061
Retained profit for the financial year	-	-	-	13,066	13,066
Share buy-back	-	-	416	(5,851)	(5,435)
Premium on the issue of shares	834	-	-	-	834
Balance at 31st December 2000	**32,097**	**4,653**	**1,832**	**77,944**	**116,526**

The cumulative amount of goodwill resulting from acquisitions prior to 1998 (less goodwill on disposals) deducted from reserves amounted to £67,322,000 (1999: £67,322,000).

	PARENT COMPANY				
Balance at 1st January 2000	31,263	-	1,416	8,792	41,471
Retained profit for the financial year	-	-	-	5,371	5,371
Share buy-back	-	-	416	(5,851)	(5,435)
Premium on the issue of shares	834	-	-	-	834
Balance at 31st December 2000	**32,097**	**-**	**1,832**	**8,312**	**42,241**

27 CAPITAL COMMITMENTS

	THE GROUP		PARENT COMPANY	
	2000 £000	1999 £000	**2000 £000**	1999 £000
Capital expenditure contracted for but not provided	**1,346**	1,613	**-**	-

28 LEASE OBLIGATIONS

	THE GROUP			
	Buildings		Other operating leases	
	2000 £000	1999 £000	**2000 £000**	1999 £000
Rental payments due in 2001 are under current operating leases terminating in the following years:				
2001	**547**	647	**571**	156
2002 to 2005	**769**	357	**823**	468
2006 onwards	**94**	159	**6**	2
	1,410	1,163	**1,400**	626

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 £4,682,000 (1999: £4,552,000) of which £2,474,000 (1999: £2,567,000) 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 debtors in the Group balance sheet are prepaid pension costs of £3,615,000 (1999: £1,762,000).

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 £8,165,000 (1999: £8,156,000) 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 2000 was £63,000 (1999: £86,000). Provisions for the benefit obligations at 31st December 2000 amounted to £604,000 (1999: £635,000) 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	
	2000 £000	1999 £000
Returns on investments and servicing of finance		
Interest received	**1,194**	2,104
Interest paid	**(3,317)**	(2,954)
Interest element of finance lease rentals payments	**(6)**	(25)
Dividends paid by subsidiary undertakings to minority interests	**(749)**	(500)
Net cash outflow for returns on investments and servicing of finance	**(2,878)**	(1,375)
Capital expenditure		
Purchase of tangible fixed assets	**(16,151)**	(15,750)
Sales of tangible fixed assets	**5,903**	1,368
Net cash outflow for capital expenditure	**(10,248)**	(14,382)
Acquisitions		
Purchase of subsidiary undertakings	**(5,984)**	(1,519)
Net cash and overdrafts acquired with subsidiary	**(1,424)**	-
Net cash outflow for acquisitions	**(7,408)**	(1,519)
Management of liquid resources*		
Net cash taken off deposit	**4,877**	12,772
Net cash inflow from management of liquid resources	**4,877**	12,772
Financing		
Issue of ordinary share capital	**897**	1,367
Share buy-back	**(5,851)**	(22,604)
	(4,954)	(21,237)
Debt due within a year: net increase in short term borrowings	**3,177**	1,953
Debt due beyond a year: net decrease in long term borrowings	**(1,310)**	1,418
Capital element of finance lease rentals payments	**(27)**	(117)
Increase in debt	**1,840**	3,254
Net cash inflow from financing	**(3,114)**	(17,983)

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

Notes to the Accounts

31 ANALYSIS OF CHANGES IN NET DEBT

	At 1 Jan 2000 £000	Cash flow £000	Other non-cash changes £000	Exchange movement £000	At 31 Dec 2000 £000
Cash in hand and at bank	2,345	565	-	51	2,961
Overdrafts	(2,877)	(1,040)	-	(73)	(3,990)
		(475)			
Debt due within a year	(17,240)	(3,177)	-	(1,274)	(21,691)
Debt due beyond a year	(39,835)	1,310	(25)	(1,020)	(39,570)
Finance leases	(59)	27	(1,351)	(46)	(1,429)
		(1,840)			
Current asset investments	22,863	(4,877)	-	125	18,111
Total	**(34,803)**	**(7,192)**	**(1,376)**	**(2,237)**	**(45,608)**

32 PURCHASE OF SUBSIDIARY UNDERTAKINGS

	M&M				Alitea and other	
	Book value £000	Revaluations £000	Accounting policy adjustments £000	Fair value £000	Fair value £000	Total £000
Tangible fixed assets	2,064	1,082	-	3,146	34	3,180
Current assets						
Stock	1,138	-	(175)	963	85	1,048
Debtors	1,740	-	-	1,740	-	1,740
Cash	1,291	-	-	1,291	-	1,291
	4,169	-	(175)	3,994	85	4,079
Current liabilities						
Bank loans	(2,645)	-	-	(2,645)	-	(2,645)
Finance leases	(593)	-	-	(593)	-	(593)
Other current liabilities	(1,635)	-	(115)	(1,750)	(19)	(1,769)
	(4,873)	-	(115)	(4,988)	(19)	(5,007)
Net current liabilities	(704)	-	(290)	(994)	66	(928)
Pension provision	(193)	-	-	(193)	-	(193)
Total net assets	1,167	1,082	(290)	1,959	100	2,059
Minority	(104)	-	-	(104)	83	(21)
Total net assets after minority	1,063	1,082	(290)	1,855	183	2,038
Goodwill				3,117	2,047	5,164
Purchase consideration				**4,972**	**2,230**	**7,202**
Satisfied by: Cash paid				3,698	1,856	5,554
Deferred consideration				1,055	219	1,274
Acquisition expenses				219	155	374
				4,972	**2,230**	**7,202**

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

Cash consideration	4,018	1,966	5,984
Cash and overdrafts acquired	1,424	-	1,424
Net cash outflow	**5,442**	**1,966**	**7,408**

The acquisition of the M&M group of companies was completed on 31st October 2000. The acquisition was accounted for by the aquisition method of accounting. Consideration of Lire12,265,664,000 (£3,698,000) was paid on completion. The book value of net assets acquired has been adjusted in order to arrive at their fair value. Tangible fixed assets have been revalued based on an independent valuation of freehold land and buildings and the book value of stock has been adjusted to reflect Spirax Sarco's accounting policies.

The acquisition of Alitea Pumps A.B. and the Alitea distributorship in the USA was completed on 10th January 2000. The acquisition was accounted for by the aquisition method of accounting. Consideration of SEK21,000,000 (£1,537,000) and US$150,000 (£99,000) was paid on completion. Goodwill amounted to £1,812,000.

The profits after tax of the total businesses acquired in the period in 2000 prior to acquisition were £618,000. The profits for 1999 of the total businesses acquired were £39,000.

In addition to the above, there was goodwill of £88,000 on the acquisition of the 20% minority shareholding of Spirax Sarco Ltd. (New Zealand) for NZ$575,000 (£165,000) and £147,000 on the acquisition of distribution rights by our French company in Normandy and Toulouse for FF1,527,198 (£147,000).

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 fundamentally unchanged since the beginning of 2000.

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 2000 the percentage of debt to net assets, excluding debt, was 68% (1999: 67%) for euro based currencies and 52% (1999: 67%) 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:

2000	Total £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £000
Euro currencies	38,517	2,915	35,602
US dollar	20,750	13,345	7,405
Other	7,413	122	7,291
	66,680	**16,382**	**50,298**

1999	£000	£000	£000
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**

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 5.5 years (1999: 6.5). The interest rate for US dollar financial liabilities is 6.7% fixed for 5.1 years (1999: 6.1 years).

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

Canadian dollar, Dutch guilder, Japanese yen, US dollar	LIBOR
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:

2000	Total	Floating rate financial assets	Financial assets on which no interest is earned
	£000	£000	£000
Sterling	7,018	6,864	154
Other	14,054	11,247	2,807
	21,072	**18,111**	**2,961**

1999			
	£000	£000	£000
Sterling	11,601	11,551	50
Other	13,607	11,312	2,295
	25,208	**22,863**	**2,345**

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 £388,000 (1999: £627,000) and in respect of the US dollar a net monetary asset of £595,000 (1999: £1,122,000).

Foreign exchange contracts

The nominal value of forward contracts at 31st December 2000 is $4,860,000, the fair value is $242,000 and the book value is $nil.

Maturity of financial liabilities

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

	2000	1999
	£000	£000
In one year or less, on demand	**25,713**	20,152
In more than one year but no more than two	**9,308**	7,206
In more than two years but no more than five	**26,442**	26,045
In more than five years	**5,217**	6,608
	66,680	60,011

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:

	2000	1999
	£000	£000
Expiring in one year or less	**15,061**	16,129
Expiring in more than one year but no more than two	**101**	-
	15,162	16,129

Fair values of financial assets and financial liabilities

A US dollar loan with a book value of £13,344,000 (1999: £12,326,000) had a fair value at 31st December of £13,409,000 (1999: £12,047,000). 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.