

C Corporate Governance

CORPORATE GOVERNANCE

Compliance

Corporate governance has been and remains the responsibility of the whole Board. This statement describes how the Company applies the principles and complies with the provisions of The Combined Code - Principles of Good Governance and Code of Best Practice embodied in the Listing Rules of the UK Listing Authority.

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, www.SpiraxSarcoEngineering.com. The final results will also be on the web site in due course.

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 are declared at Annual General Meetings after each resolution has been dealt with on a show of hands and this practice will continue at future general meetings.

CORPORATE SOCIAL RESPONSIBILITY

The Board has reviewed within the Group the current guidance on Corporate Social Responsibility ("CSR") (as that term is understood and used by such organisations as the Association of British Insurers). Compliance with the principles of CSR, embedded in the guidance, can only be achieved if the management of such risks is incorporated into the policies, systems and procedures in the Group which will be the subject of further review during the course of 2002.

The principles and systems followed in the Group are set out below with a further explanation of employment and environmental practices later in this Report.

(i) Employment Policy

- Board members satisfy themselves that the terms of employment in subsidiaries worldwide are appropriate.
- The Group has a policy of non-discrimination on grounds of race, gender or disability and does not tolerate harassment in any form.
- The recruitment procedures throughout the Group avoid employment of underage staff.
- Care has been taken to ensure that a culture of openness and honesty exists and channels of communication have been established to allow employees to voice their views and concerns.
- The Group encourages development of employee skills through a policy of reward and recognition.
- Recognition is given to individual employees' needs and requirements throughout the Group and, where possible, flexible working arrangements are considered where the circumstances are justified.

(ii) Health and Safety

- The Company has a clear attitude to health and safety, which is that each operation will maintain a healthy and safe environment. In the first instance the general manager of each company has the responsibility for ensuring that this is effectively managed at the local level.
- The Director - Supply is responsible for overseeing all health and safety matters in each of the Group's subsidiaries.
- Funds are allocated for health and safety training.
- Regular reviews are conducted to ensure that employee knowledge of health and safety matters relevant to them is up to date with current practice.
- The health and safety record of all subsidiaries, including actions taken, is reported by Board members and supervised by the Director - Supply.

(iii) Environmental Report

- Regular audits of the Group's facilities worldwide are conducted. Following audit the implementation of any actions is monitored at Group level.
- In the first instance the general manager of each company has the responsibility for ensuring that this is effectively managed at the local level. Within each Group company there is a nominated person responsible for monitoring compliance with the Group's environmental policy.
- Additionally environmental audits are carried out for major Group manufacturing operations and the Divisional Director is responsible for ensuring appropriate action is taken.
- The Group's objective is to comply with environmental laws and good practice and where non-compliance is identified management systems currently in place ensure that this is rectified within an appropriate timeframe.
- Where environmental upgrades are made to plant and machinery, consideration is given to implementation across the Group's facilities worldwide.

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, throughout the year and up to the date of this report, 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. The executive directors specifically review any risks facing the business which could give rise to a "significant loss".

As part of the on-going process, the Group companies have reported 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 the Risk Management Committee. 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, Messrs. T. B. Fortune, E. Lindh, C. G. Sneath and M. Townsend (Chairman), review the system of reporting and monitoring and its effectiveness as a whole.

The Group established its Business Code in 1995.

(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.

(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 meets at least twice a year to consider the appropriateness and 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 with the Statement of Directors' Responsibilities.

The Board has a Nomination Committee for appointments to the Board which comprises the non-executive directors and the Chief Executive.

ENVIRONMENTAL POLICY

The Group regularly reviews its written policy statement and performance with regard to environmental matters to ensure compliance with good practice 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. For 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 which 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 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.

Many applications for Watson-Marlow Bredel peristaltic pumps are those where environmental improvement is the main aim. They are particularly suited to applications like waste water treatment where difficult fluids have to be handled safely and reliably.

EMPLOYMENT REPORT

The Group operates personnel policies and communication structures designed to meet the needs of its subsidiaries and employees 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.

The defined benefit pension schemes for Spirax-Sarco UK employees were closed to new members from 31st August 2001. A defined contributions scheme was established for new employees and stakeholder schemes were also established. 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.