

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 2001.

RESULTS

The results of the Group, including the net gain of £616,000 on the disposal of fixed assets (2000: loss of £990,000) and taxation and after deducting the amount attributable to minority interests in subsidiary undertakings, amounted to £26,130,000 (2000: £26,367,000). This represents earnings per share of 35.4p, after the disposal, which equals the 35.4p for 2000. Earnings per share before the disposal of fixed assets was 34.6p (2000: 37.4p). If all outstanding share options were exercised the diluted earnings per share after the disposal would be 35.4p (2000: 35.3p) compared with the undiluted 35.4p (2000: 35.4p).

DIVIDEND

An interim cash dividend of 5.6p per share (2000: 5.4p) was paid in November 2001. The directors now recommend the payment of a final dividend of 13.0p per share (2000: 12.6p). If approved at the annual general meeting the final dividend will be paid on 17th May 2002 to shareholders on the register at 19th April 2002. The total distribution for the year will be 18.6p per share (2000: 18.0p).

TURNOVER

Total turnover to external customers amounted to £291,942,000 in 2001 (2000: £278,148,000). The geographical analysis of turnover is given in note 2 to the accounts on page 35.

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 2001 on research and development amounted to £4,593,000 (2000: £4,571,000).

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 2001 by approximately £8,000,000 (2000: £9,000,000).

BOARD OF DIRECTORS

The directors of the Company during the year 2001 are those listed on page 16.

In accordance with the articles of association Messrs. T. B. Fortune, M. J. D. Steel, A. D. H. Black and P. M. Smith retire and, being eligible, offer themselves for re-election.

Messrs. A. D. H. Black and P. M. Smith have service contracts with the Company determinable on one year's notice. Mr. M. J. D. Steel's service contract is determinable on two years' notice. Mr. T. B. Fortune, as Chairman and a non-executive 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. The number of shares over which directors hold options, together with their remuneration, is detailed in the Remuneration Policy and Practice Report on pages 24 to 28.

	Ordinary Shares of 25p each Beneficial Interests		Ordinary Shares of 25p each Non-beneficial Interests	
	31.12.01	31.12.00	31.12.01	31.12.00
T.B. Fortune	87,668	87,668	424,288	424,288
M.J.D. Steel	61,138	57,494	342,401	326,646
C.J. Ball	51,730	51,580	-	-
A.D.H. Black	17,966	15,792	-	-
G.P. Marchand	68,804	66,558	-	-
D.J. Meredith	19,716	17,236	766,689	750,934
P.A. Smith	24,107	22,399	766,689	750,934
P.M. Smith	38,547	36,413	-	-
E. Lindh	-	-	-	-
C.G. Sneath	2,185	2,185	-	-
M. Townsend	2,879	2,879	-	-

At 31st December 2001, 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 342,401 shares in the Company at 31st December 2001.

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ANNUAL GENERAL MEETING

The Notice of Meeting and an explanation of Resolutions 8 to 11 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 43.

PURCHASE OF OWN SHARES

There was no purchase of shares by the Company during the year. At 31st December 2001 the number of shares which may be purchased under the shareholders' authority given at the annual general meeting in 2001 was 7,300,000 and the number of shares in issue was 73,935,371.

SHAREHOLDINGS OF 3% OR MORE

The Company received notice of material interests in 3% or more of the issued ordinary share capital of the Company as at 18th February 2002 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	%
Threadneedle Investments	4,828,343	6.53
Newton Investment Management	2,952,061	3.99
NFU Mutual	2,833,853	3.83
Royal & Sun Alliance	2,763,270	3.74
Co-operative Insurance Society Limited	2,625,511	3.55
AIB Govett	2,586,000	3.50
Friends Ivory & Sime	2,534,937	3.43

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.

GROUP CHARITABLE AND POLITICAL DONATIONS

Charitable donations amounted to £41,031 (2000: £41,585). There were no political donations (2000: 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 the Group web site: www.SpiraxSarcoEngineering.com

By order of the Board
P. A. Smith *Secretary*

Charlton House, Cirencester Road,
Cheltenham.

11th March 2002