

# N

# otes to the Accounts

## 1 ACCOUNTING POLICIES

### Basis of preparation

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. FRS 18 Accounting policies has been adopted for the first time in these accounts with no effect on the Group's results or net assets.

### Basis of consolidation

The Group accounts include the accounts of the company and its subsidiary undertakings made up to 31 December 2001. Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

### Goodwill

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 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%

### Stocks

Stocks and work in progress are valued at the lower of cost, including factory overheads where appropriate, and estimated net realisable value.

### Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market.

### Research and development expenditure

Research and development expenditure is charged against profits as incurred.

# Notes to the Accounts

## 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. The Group has adopted the transitional requirements of FRS 17 - Retirement Benefits as reported in note 29.

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:

	<b>2001</b>	2000
	<b>£000</b>	£000
United Kingdom	<b>38,869</b>	37,507
Continental Europe	<b>101,406</b>	94,190
The Americas	<b>87,770</b>	83,079
Asia, Australasia and Africa	<b>63,897</b>	63,372
	<b>291,942</b>	278,148

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

	<b>2001</b>	2000
	<b>£000</b>	£000
United Kingdom	<b>85,733</b>	86,802
Continental Europe	<b>125,589</b>	114,091
The Americas	<b>92,267</b>	88,050
Asia, Australasia and Africa	<b>57,137</b>	57,255
	<b>360,726</b>	346,198
Intra-group sales	<b>(68,784)</b>	(68,050)
Sales to third parties	<b>291,942</b>	278,148

There were no discontinued operations in 2001 or 2000.

The Group operates in one business segment which is the control of fluids.

# N

## otes to the Accounts

### 3 OPERATING COSTS

	<b>2001</b>	2000
	<b>£000</b>	£000
Change in stocks of finished goods and work in progress	<b>656</b>	(3,475)
Raw materials and consumables	<b>79,451</b>	76,145
Staff costs (note 4)	<b>107,621</b>	100,320
Depreciation	<b>11,796</b>	10,853
Amortisation of goodwill	<b>507</b>	363
Other operating charges	<b>51,108</b>	50,572
	<b>251,139</b>	234,778

### 4 STAFF COSTS AND NUMBERS

The aggregate payroll costs of persons employed by the Group were as follows:

	<b>2001</b>	2000
	<b>£000</b>	£000
Wages and salaries	<b>87,456</b>	82,214
Social security costs	<b>15,119</b>	13,424
Other pension costs	<b>5,046</b>	4,682
	<b>107,621</b>	100,320

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

	<b>Number</b>	Number
United Kingdom	<b>1,132</b>	1,108
Overseas	<b>2,927</b>	2,806
	<b>4,059</b>	3,914

### 5 OPERATING PROFIT

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

	<b>2001</b>	2000
	<b>£000</b>	£000
United Kingdom	<b>8,603</b>	11,878
Continental Europe	<b>13,414</b>	13,468
The Americas	<b>9,498</b>	8,139
Asia, Australasia and Africa	<b>9,288</b>	9,885
	<b>40,803</b>	43,370

The profit/(loss) on disposal of fixed assets is split UK £1,134,000 and Americas (£518,000) (2000: Americas (£990,000)).

### 6 NON-OPERATING ITEM

	<b>2001</b>	2000
	<b>£000</b>	£000
Profit/(loss) on sale of freehold land and buildings	<b>616</b>	(990)

No tax is payable on the non-operating item (2000: £488,000 payable).

# Notes to the Accounts

## 7 NET INTEREST PAYABLE

	<b>2001</b>	2000
	<b>£000</b>	£000
Interest payable:		
Bank loans and overdrafts	<b>2,478</b>	2,483
Other loans	<b>1,310</b>	930
	<b>3,788</b>	3,413
Interest receivable	<b>(1,010)</b>	(1,200)
	<b>2,778</b>	2,213

## 8 PROFIT BEFORE TAXATION

Profit before taxation is shown after charging:

	<b>2001</b>	2000
	<b>£000</b>	£000
Depreciation of tangible fixed assets held under finance leases	<b>91</b>	3
Audit fees (Spirax-Sarco Engineering plc £85,000 (2000: £83,000))	<b>633</b>	595
Hire of plant and machinery	<b>369</b>	773
Other operating leases	<b>3,045</b>	2,416
Research and development	<b>4,593</b>	4,571
Share Ownership Scheme contributions	<b>463</b>	499

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 £416,000 (2000: £544,000), including amounts paid to the auditors of overseas companies of £236,000 (2000: £309,000). 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 24 to 28.

## 10 TAXATION

	<b>2001</b>	2000
	<b>£000</b>	£000
United Kingdom corporation tax at 30% (2000: 30%)	<b>6,069</b>	9,024
Deduct double taxation relief	<b>(4,174)</b>	(5,766)
	<b>1,895</b>	3,258
Overseas taxation	<b>9,639</b>	8,734
Deferred taxation	<b>497</b>	1,108
	<b>12,031</b>	13,100
Adjustment in respect of previous years	<b>(105)</b>	(233)
	<b>11,926</b>	12,867

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 £18,440,000 (2000: £18,672,000). Included in this amount are dividends from subsidiary undertakings of £18,026,000 (2000: £19,187,000).

# N

## otes to the Accounts

### 12 DIVIDENDS

			<b>2001</b>	2000
			<b>£000</b>	£000
Interim paid	5.6p	(2000: 5.4p) per share	<b>4,140</b>	4,028
Final proposed	13.0p	(2000: 12.6p) per share	<b>9,612</b>	9,273
	18.6p	(2000: 18.0p) per share	<b>13,752</b>	13,301

### 13 EARNINGS PER SHARE

The calculation of earnings per share before the disposal of fixed assets is based on earnings of £25,514,000 (2000: £27,845,000) and the calculation of earnings per share after the disposal of fixed assets is based on earnings of £26,130,000 (2000: £26,367,000), as shown in the Group profit and loss account, divided by the weighted average number of shares in issue during the year of 73,808,317 (2000: 74,531,906). The calculation of earnings per share (diluted) before and after the disposal of fixed assets is based on the earnings shown above and the weighted average number of shares in issue diluted by 101,481 (2000: 75,374) to 73,909,798 (2000: 74,607,280). The dilution is in respect of unexercised share options.

### 14 FIXED ASSETS: INTANGIBLE ASSETS

	<b>THE GROUP</b>
	Goodwill £000
Cost:	
At 1st January 2001	9,991
Exchange adjustments	(88)
	9,903
Additions (note 32)	246
At 31st December 2001	<b>10,149</b>
Amortisation:	
At 1st January 2001	692
Exchange adjustments	(8)
	684
Charged in year	507
At 31st December 2001	<b>1,191</b>
Net book value:	
At 31st December 2001	<b>8,958</b>
At 31st December 2000	9,299

# Notes to the Accounts

## 15 FIXED ASSETS: TANGIBLE ASSETS

	THE GROUP				PARENT COMPANY	
	Land and buildings Freehold £000	Short leasehold £000	Plant and machinery £000	Fixtures, fittings, tools and equipment £000	Total £000	Freehold land and buildings £000
Cost or valuation:						
At 1st January 2001	48,988	1,508	70,176	46,722	167,394	233
Exchange adjustments	(1,980)	23	(1,969)	(703)	(4,629)	-
	47,008	1,531	68,207	46,019	162,765	233
Additions	2,035	47	9,881	5,547	17,510	-
Disposals	(633)	(14)	(2,346)	(2,446)	(5,439)	(233)
At 31st December 2001	<b>48,410</b>	<b>1,564</b>	<b>75,742</b>	<b>49,120</b>	<b>174,836</b>	-
Depreciation:						
At 1st January 2001	5,738	217	40,998	31,327	78,280	-
Exchange adjustments	(362)	(2)	(1,252)	(441)	(2,057)	-
	5,376	215	39,746	30,886	76,223	-
Charged in year	888	40	6,147	4,593	11,668	-
Disposals	(398)	(3)	(2,209)	(2,351)	(4,961)	-
At 31st December 2001	<b>5,866</b>	<b>252</b>	<b>43,684</b>	<b>33,128</b>	<b>82,930</b>	-
Net book value:						
At 31st December 2001	<b>42,544</b>	<b>1,312</b>	<b>32,058</b>	<b>15,992</b>	<b>91,906</b>	-
At 31st December 2000	43,250	1,291	29,178	15,395	89,114	233

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

		2001 £000	2000 £000
Valuation	1976	63	67
	1986	6,819	6,863
	1991	2,421	2,372
Cost		39,107	39,686
		<b>48,410</b>	48,988

The historic cost net book value of freehold land and buildings at 31st December 2001 was £37,607,000. Freehold land of £8,403,000 is not depreciated.

Included in the above are finance leases with net book value of £1,825,000.

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

# N

## otes to the Accounts

### 16 FIXED ASSETS: INVESTMENTS

	PARENT COMPANY		
	Shares in subsidiary undertakings £000	Loans to subsidiary undertakings £000	Total £000
Cost:			
At 1st January 2001	44,515	13,283	57,798
Exchange adjustments	-	(341)	(341)
	44,515	12,942	57,457
Repayments	-	(798)	(798)
At 31st December 2001	<b>44,515</b>	<b>12,144</b>	<b>56,659</b>
Amounts written off:			
At 1st January 2001	994	1,042	2,036
Charge for year	-	-	-
At 31st December 2001	<b>994</b>	<b>1,042</b>	<b>2,036</b>
Net book value:			
At 31st December 2001	<b>43,521</b>	<b>11,102</b>	<b>54,623</b>
At 31st December 2000	43,521	12,241	55,762

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 2001. 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	
	2001 £000	2000 £000
Raw materials and consumables	<b>20,346</b>	19,343
Work in progress	<b>10,500</b>	11,396
Finished goods and goods for resale	<b>31,994</b>	33,427
	<b>62,840</b>	64,166

# Notes to the Accounts

## 18 DEBTORS

	THE GROUP		PARENT COMPANY	
	2001 £000	2000 £000	2001 £000	2000 £000
Trade debtors	<b>70,435</b>	73,717	-	-
Amounts owed by subsidiary undertakings	-	-	<b>21,793</b>	10,755
Other debtors	<b>9,538</b>	8,648	<b>103</b>	130
Prepayments and accrued income	<b>4,584</b>	4,822	<b>113</b>	50
Taxation recoverable	<b>642</b>	1,061	<b>260</b>	236
Deferred tax	<b>1,000</b>	520	-	-
	<b>86,199</b>	88,768	<b>22,269</b>	11,171

Taxation recoverable in the Group balance sheet represents advance corporation tax of £236,000 (2000: £346,000) and other amounts recoverable of £406,000 (2000: £715,000).

Taxation recoverable in the parent company balance sheet represents advance corporation tax of £236,000 (2000: £236,000) and other amounts recoverable of £24,000 (2000: nil).

## 19 CASH DEPOSITS AND SHORT-TERM INVESTMENTS

Cash deposits and short-term investments in the Group balance sheet comprise money market deposits of £16,147,000 (2000: £18,111,000) and £3,550,000 (2000: £5,250,000) in the parent company, all 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	
	2001 £000	2000 £000	2001 £000	2000 £000
Bank loans and overdrafts				
Overdrafts	<b>4,099</b>	3,990	-	151
Other loans	<b>17,823</b>	21,691	-	-
Trade creditors	<b>15,289</b>	17,529	-	-
Bills of exchange payable	<b>1,093</b>	1,385	-	-
Obligations under finance leases (note 22)	<b>61</b>	32	-	-
Amount owing to subsidiary undertakings	-	-	<b>3,000</b>	1,501
Corporation tax	<b>866</b>	2,394	-	74
Overseas tax	<b>5,395</b>	5,038	-	-
Social security	<b>2,089</b>	2,128	-	-
Other creditors	<b>6,414</b>	7,687	<b>46</b>	-
Accruals	<b>9,272</b>	10,057	<b>200</b>	135
Proposed dividend	<b>9,612</b>	9,273	<b>9,612</b>	9,273
	<b>72,013</b>	81,204	<b>12,858</b>	11,134

Bank loans and overdrafts amounting to £417,000 (2000: £1,227,000) are secured on freehold property and current assets of certain Group companies.

# N

## otes to the Accounts

### 21 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	THE GROUP		PARENT COMPANY	
	2001 £000	2000 £000	2001 £000	2000 £000
Bank loans				
Repayable in part in more than five years	-	5,217	-	-
Other loans repayable between two and five years	<b>37,275</b>	34,353	-	-
Obligations under finance leases (note 22)	<b>1,674</b>	1,397	-	-
Amount owed to subsidiary undertakings	-	-	<b>941</b>	643
Accruals	<b>1,135</b>	1,093	-	-
	<b>40,084</b>	42,060	<b>941</b>	643

The bank loans repayable between two and five years are represented by a £10,905,000 (2000: £13,345,000) loan expressed in US dollars at a fixed interest rate of 6.7% repayable in four equal annual instalments beginning in 2003, a £3,187,000 (2000: £2,392,000) loan expressed in Japanese yen at an interest rate of LIBOR plus 50 basis points repayable in full in 2006 and a £7,002,000 (2000: £1,941,000) loan expressed in euros at a fixed interest rate of 4.4% repayable in quarterly instalments terminating in 2006.

The Company together with other Group companies has jointly and severally guaranteed loans granted to subsidiary undertakings amounting to £55,536,000 at 31st December 2001 (2000: £62,630,000).

### 22 OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP	
	2001 £000	2000 £000
Aggregate amounts repayable:		
between 2 and 5 years	<b>1,415</b>	1,204
between 1 and 2 years	<b>259</b>	193
	<b>1,674</b>	1,397
in 1 year or less	<b>61</b>	32
	<b>1,735</b>	1,429

### 23 PROVISIONS FOR LIABILITIES AND CHARGES

	THE GROUP			
	Deferred taxation £000	Post retirement benefits £000	Warranty and other provisions £000	Total £000
Provisions at 1st January 2001	1,797	8,769	325	10,891
Exchange adjustments	(26)	(158)	-	(184)
	1,771	8,611	325	10,707
Charge for the year	1,011	1,293	-	2,304
Utilised during the year	-	(820)	-	(820)
Provisions at 31st December 2001	<b>2,782</b>	<b>9,084</b>	<b>325</b>	<b>12,191</b>

An analysis of deferred taxation is set out below.

# Notes to the Accounts

## THE GROUP

	Provided		Unprovided	
	2001 £000	2000 £000	2001 £000	2000 £000
Accelerated capital allowances	456	403	2,337	2,612
Property revaluations	-	-	390	400
Other timing differences	1,326	874	(803)	(2,450)
	<b>1,782</b>	1,277	<b>1,924</b>	562

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 2001.

## 24 NET ASSETS

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

	THE GROUP	
	2001 £000	2000 £000
United Kingdom	48,706	43,847
Continental Europe	58,940	53,974
The Americas	47,582	52,322
Asia, Australasia and Africa	35,631	36,690
	<b>190,859</b>	186,833
Cash at bank and in hand	(4,312)	(2,961)
Capital employed	186,547	183,872
Net debt	(40,473)	(45,608)
Net assets	<b>146,074</b>	138,264

## 25 CALLED UP SHARE CAPITAL

	THE GROUP		PARENT COMPANY	
	2001 £000	2000 £000	2001 £000	2000 £000
Ordinary shares of 25p each:				
Authorised 120,000,000	30,000	30,000	30,000	30,000
Allotted, called up and fully paid 73,935,371	18,484	18,398	18,484	18,398

225,261 ordinary shares, having an aggregate nominal value of £56,315 were issued pursuant to the Spirax-Sarco Engineering 1992 Share Ownership Scheme on 20th April 2001 for a consideration of £892,034 received by the Company. 118,074 ordinary shares, having an aggregate nominal value of £29,519, were issued during the year pursuant to the Spirax-Sarco Engineering Share Option Schemes for a consideration of £415,219 received by the Company.

# Notes to the Accounts

## 25 CALLED UP SHARE CAPITAL (continued)

Directors and 101 other senior employees and former employees of the Group have been granted options to purchase ordinary shares with an aggregate nominal value of £679,727. Options are exercisable as follows:

	Number of shares	Price to be paid per share
Between 1995 and 2002	52,265	233.0p or 274.2p
Between 1995 and 2002	25,908	274.2p
Between 1995 and 2002	9,500	233.3p or 274.5p
Between 1996 and 2003	38,060	301.8p or 355.1p
Between 1996 and 2003	98,174	355.1p
Between 1997 and 2004	7,838	363.0p or 427.0p
Between 1997 and 2004	219,662	427.0p
Between 1998 and 2005	245,000	611.0p
Between 1999 and 2006	278,000	739.0p
Between 2000 and 2007	277,000	669.0p
Between 2001 and 2008	322,500	420.0p
Between 2002 and 2009	307,000	525.0p
Between 2003 and 2010	382,000	319.2p
Between 2004 and 2011	456,000	397.7p
	<b>2,718,907</b>	

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 26 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 2001	32,097	4,653	1,832	77,944	116,526
Effect of exchange rate adjustments	-	(35)	-	(5,737)	(5,772)
	32,097	4,618	1,832	72,207	110,754
Retained profit for the financial year	-	-	-	12,378	12,378
Premium on the issue of shares	1,230	-	-	-	1,230
<b>Balance at 31st December 2001</b>	<b>33,327</b>	<b>4,618</b>	<b>1,832</b>	<b>84,585</b>	<b>124,362</b>

The cumulative amount of goodwill resulting from acquisitions prior to 1998 (less goodwill on disposals) deducted from reserves amounted to £67,322,000 (2000: £67,322,000).

	PARENT COMPANY				
	Share premium account £000	Revaluation reserve £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
Balance at 1st January 2001	32,097	-	1,832	8,312	42,241
Retained profit for the financial year	-	-	-	4,688	4,688
Premium on the issue of shares	1,230	-	-	-	1,230
<b>Balance at 31st December 2001</b>	<b>33,327</b>	<b>-</b>	<b>1,832</b>	<b>13,000</b>	<b>48,159</b>

# Notes to the Accounts

## 27 CAPITAL COMMITMENTS

	THE GROUP		PARENT COMPANY	
	2001 £000	2000 £000	2001 £000	2000 £000
Capital expenditure contracted for but not provided	<b>1,356</b>	1,346	-	-

## 28 LEASE OBLIGATIONS

	THE GROUP			
	Buildings		Other operating leases	
	2001 £000	2000 £000	2001 £000	2000 £000
Rental payments due in 2002 are under current operating leases terminating in the following years:				
2002	<b>681</b>	547	<b>745</b>	571
2003 to 2006	<b>1,050</b>	769	<b>1,036</b>	823
2007 onwards	<b>157</b>	94	<b>9</b>	6
	<b>1,888</b>	1,410	<b>1,790</b>	1,400

## 29 PENSIONS AND OTHER POST-RETIREMENT BENEFITS

The total pension charge for the Group this year was £5,046,000 (2000: £4,682,000) of which £2,651,000 (2000: £2,474,000) relates to the overseas schemes.

The Group operates three defined benefit schemes in the UK and one defined contribution scheme. Two of the defined benefit schemes were closed to new entrants in the course of the year. The defined contribution scheme was established to provide pension benefits to new employees. The cost of the UK defined benefit pension schemes was determined using the projected unit and attained age methods following the advice of a qualified actuary. The cost of the defined contribution scheme is equal to the contributions paid.

The most recent actuarial valuations in the UK schemes were at 31 December 1998. At this date the market value of the assets 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.

The most important assumption used in the valuation for accounting purposes concern the rate of return on investments and the rates of increases in salary and pensions. It was assumed that investment returns would exceed salary increases by an average of 3.6 per cent per annum and pension increases by an average of 4.6 per cent per annum.

Included in other debtors in the Group balance sheet are prepaid pension costs of £5,481,000 (2000: £3,615,000).

In respect of certain overseas schemes the excess of £8,474,000 (2000: £8,165,000) 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 2001 was £51,000 (2000: £63,000) and related to health care. Provisions for the benefit obligations at 31st December 2001 amounted to £610,000 (2000: £604,000) 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.

### FRS17 disclosures

Whilst the Group continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension costs', under FRS 17 'Retirement benefits' the following transitional disclosures are required:

The most recent actuarial valuations of the Group's defined benefit schemes were carried out at various dates between 31 December 2000 and 31 December 2001. The results produced at earlier valuation dates were updated to the 31st December 2001 by independent qualified actuaries.

# Notes to the Accounts

## 29 PENSIONS AND OTHER POST-RETIREMENT BENEFITS (continued)

The financial assumptions used at 31 December 2001 were:

	Assumptions weighted by value of liabilities % per annum		
	UK pensions	Overseas pensions	Post retirement medical
Rate of increase in salaries	3.5	4.2	
Rate of increase in pensions	2.5	2.0	
Discount rate	5.8	6.5	7.3
Rate of price inflation	2.5	N/A	
Medical trend rate			6.0

  

	Assumptions weighted by market value of assets % per annum		
	UK pensions	Overseas pensions	Post retirement medical
Expected rate of return on assets (aggregate)	7.0	7.6	
Bonds	5.1	6.4	
Equities	7.8	7.9	
Other	5.3	5.8	

The assets in the schemes at 31 December 2001 were:

	Market value		
	UK pensions £000	Overseas pensions £000	Post retirement medical £000
Total in aggregate	109,600	16,700	
Bonds	22,900	500	
Equities	77,800	14,400	
Other	8,900	1,800	

The following amounts at 31 December 2001 were measured in accordance with the requirements of FRS17.

	UK pensions £000	Overseas pensions £000	Post retirement medical £000
Total market value of schemes' assets	109,600	16,700	-
Present value of the schemes' liabilities	116,600	27,400	800
Deficit in the schemes	(7,000)	(10,700)	(800)
Related deferred tax asset	2,100	1,980	240
Net pension liability	(4,900)	(8,720)	(560)

If the above amounts had been recognised in the accounts, the Group's net assets and profit and loss account reserve at 31 December 2001, would be as follows:

	£000
Net assets excluding pension liability	146,074
Pension liability	(5,096)
Net assets including pension liability	140,978
Profit and loss account reserve excluding pension liability	84,585
Pension liability	(5,096)
Profit and loss account reserve	79,489

The net pension liability of £14,180,000 calculated in accordance with FRS 17 compares with the pension provision currently recorded of £9,084,000 (note 23).

## 30 ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	THE GROUP	
	2001 £000	2000 £000
<b>Returns on investments and servicing of finance</b>		
Interest received	1,012	1,194
Interest paid	(3,654)	(3,317)
Interest element of finance lease rentals payments	(78)	(6)
Dividends paid by subsidiary undertakings to minority interests	(534)	(749)
<b>Net cash outflow for returns on investments and servicing of finance</b>	<b>(3,254)</b>	<b>(2,878)</b>
<b>Capital expenditure</b>		
Purchase of tangible fixed assets	(18,584)	(16,151)
Sales of tangible fixed assets	1,750	5,903
<b>Net cash outflow for capital expenditure</b>	<b>(16,834)</b>	<b>(10,248)</b>
<b>Acquisitions</b>		
Purchase of subsidiary undertakings	(404)	(5,984)
Net cash and overdrafts acquired with subsidiary	-	(1,424)
<b>Net cash outflow for acquisitions</b>	<b>(404)</b>	<b>(7,408)</b>
<b>Management of liquid resources*</b>		
Net cash taken off deposit	1,735	4,877
<b>Net cash inflow from management of liquid resources</b>	<b>1,735</b>	<b>4,877</b>
<b>Financing</b>		
Issue of ordinary share capital	1,316	897
Share buy-back	-	(5,851)
	<b>1,316</b>	<b>(4,954)</b>
Debt due within a year: net decrease in short term borrowings	(3,679)	3,177
Debt due beyond a year: net decrease in long term borrowings	(2,139)	(1,310)
Capital element of finance lease rentals payments	341	(27)
<b>Increase in debt</b>	<b>(5,477)</b>	<b>1,840</b>
<b>Net cash inflow from financing</b>	<b>(4,161)</b>	<b>(3,114)</b>

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

## 31 ANALYSIS OF CHANGES IN NET DEBT

	At 1 Jan 2001 £000	Cash flow £000	Other non-cash changes £000	Exchange movement £000	At 31 Dec 2001 £000
Cash in hand and at bank	2,961	1,446	-	(95)	4,312
Overdrafts	(3,990)	(234)	-	125	(4,099)
		1,212			
Debt due within a year	(21,691)	3,679	-	189	(17,823)
Debt due beyond a year	(39,570)	2,139	(25)	181	(37,275)
Finance leases	(1,429)	(341)	-	35	(1,735)
		5,477			
Current asset investments	18,111	(1,735)	-	(229)	16,147
<b>Total</b>	<b>(45,608)</b>	<b>4,954</b>	<b>(25)</b>	<b>206</b>	<b>(40,473)</b>

# Notes to the Accounts

## 32 PURCHASE OF SUBSIDIARY UNDERTAKINGS

The acquisition of the M & M group of companies was completed on 31st October 2000. The acquisition was accounted for by the acquisition method of accounting. During 2001 additional goodwill of £246,000 arose in respect of stock and provisions.

The cash outflow on acquisitions included £404,000 in respect of the M & M group of companies.

## 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 28% 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 2001 the percentage of debt to net assets, excluding debt, was 68% (2000: 68%) for euro based currencies and 49% (2000: 52%) 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:

	Total £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £000
2001			
Euro currencies	40,257	2,345	37,912
US dollar	13,645	13,645	-
Other	7,030	1,040	5,990
	<b>60,932</b>	<b>17,030</b>	<b>43,902</b>
2000			
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

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 4.5 years (2000: 5.5). The interest rate for US dollar financial liabilities is 6.7% fixed for 4.1 years (2000: 5.1 years).

# Notes to the Accounts

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

Canadian dollar	}	LIBOR
Dutch guilder		
Japanese yen		
US dollar		
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:

	Total	Floating rate financial assets	Financial assets on which no interest is earned
	£000	£000	£000
2001			
Sterling	4,147	4,083	64
Other	16,312	12,064	4,248
	<b>20,459</b>	<b>16,147</b>	<b>4,312</b>
2000			
Sterling	7,018	6,864	154
Other	14,054	11,247	2,807
	<b>21,072</b>	<b>18,111</b>	<b>2,961</b>

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 £105,000 (2000: £388,000) and in respect of the US dollar a net monetary asset of £882,000 (2000: £595,000).

## Foreign exchange contracts

The nominal value of forward contracts at 31st December 2001 is £1,330,000, the fair value is £66,000 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:

	2001 £000	2000 £000
In one year or less, on demand	<b>21,984</b>	25,713
In more than one year but no more than two	<b>4,504</b>	9,308
In more than two years but no more than five	<b>34,444</b>	26,442
In more than five years	-	5,217
	<b>60,932</b>	66,680

## 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:

	2001 £000	2000 £000
Expiring in one year or less	<b>9,495</b>	15,061
Expiring in more than one year but no more than two	-	101
	<b>9,495</b>	15,162

## Fair values of financial assets and financial liabilities

A US dollar loan with a book value of £13,644,000 (2000: £13,344,000) had a fair value at 31st December of £14,107,000 (2000: £13,409,000). 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.