

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 2002.

RESULTS

The results of the Group for the year are set out in the Chairman's Statement and Chief Executive's Review on pages 2 to 12.

DIVIDEND

An interim cash dividend of 5.8p per share (2001: 5.6p) was paid in November 2002. The directors now recommend the payment of a final dividend of 13.5p per share (2001: 13.0p). If approved at the annual general meeting the final dividend will be paid on 20th May 2003 to shareholders on the register at 22nd April 2003. The total distribution for the year will be 19.3p per share (2001: 18.6p).

BUSINESS REVIEW

A review of the operations of the Group in 2002 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 2002 on research and development amounted to £4,411,000 (2001: £4,593,000).

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 2002 by approximately £9,000,000 (2001: £8,000,000).

BOARD OF DIRECTORS

The directors of the Company are those listed on pages 16 and 17. Mr. W. H. Whiteley was appointed to the Board on 26th July 2002 as an independent non-executive director. In addition Mr. C. G. Sneath was a director until 26th July 2002 when he retired.

In accordance with the Company's articles of association:

- i) Mr. Whiteley will retire from office at the annual general meeting and, being eligible, offers himself for appointment. Mr. Whiteley, as an independent non-executive director, has no service contract with the Company.
- ii) Messrs. C. J. Ball and E. Lindh retire and, being eligible, offer themselves for re-appointment. Mr. Ball has a service contract with the Company determinable on two years' notice. Mr. Lindh, as an independent 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 Directors' Remuneration Report on pages 24 to 30.

	Ordinary Shares of 25p each Beneficial Interests		Ordinary Shares of 25p each Non-beneficial Interests	
	31.12.02 or date of retirement*	31.12.01 or date of appointment**	31.12.02 or date of retirement*	31.12.01 or date of appointment**
T.B. Fortune	87,668	87,668	424,288	424,288
M.J.D. Steel	62,087	61,138	257,118	342,401
C.J. Ball	52,679	51,730	-	-
A.D.H. Black	18,915	17,966	-	-
G.P. Marchand	69,753	68,804	-	-
D.J. Meredith	40,417	19,716	681,406	766,689
P.A. Smith	50,286	24,107	681,406	766,689
P.M. Smith	39,496	38,547	-	-
E. Lindh	-	-	-	-
C.G. Sneath *	2,185	2,185	-	-
M. Townsend	2,879	2,879	-	-
W.H. Whiteley **	2,734	-	-	-

At 31st December 2002, 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 257,118 shares in the Company at 31st December 2002.

EMPLOYMENT REPORT AND POLICIES

Details of the Group's Employment Policies are set out on pages 20 and 21.

ANNUAL GENERAL MEETING

The Notice of Meeting and an explanation of Resolutions 7 to 11 to be proposed at the annual general meeting are set out in the enclosed Circular.

SHARE CAPITAL

Details of shares issued during the year are set out in note 25 on page 45.

PURCHASE OF OWN SHARES

There was no purchase of shares by the Company during the year. At 31st December 2002 the number of shares which may be purchased under the shareholders' authority given at the annual general meeting in 2002 was 7,300,000 and the number of shares in issue was 74,300,622.

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 17th February 2003 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	%
The Capital Group Companies Inc.	4,449,891	5.99
Sprucegrove Investment Management Ltd	3,925,277	5.28
JP Morgan Fleming Asset Management	3,574,294	4.81
Arnhold and S Bleichroeder Advisers Inc.	3,350,397	4.51
Newton Investment Management	3,099,566	4.17
NFU Mutual	2,833,853	3.81

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 £51,861 (2001: £41,031). There were no political donations (2001: nil).

AUDITOR

A resolution to re-appoint the auditor, 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.

10th March 2003