

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 ended December 2003 in compliance with the provisions set out in section 1 of The Combined Code.

In July 2003, the Financial Reporting Council published a new Combined Code on Corporate Governance which has replaced the existing version of the Code in respect of reporting years commencing on or after 1st November 2003. The Company has reviewed in detail the provisions of the new Combined Code, with which it has largely been in compliance during the year, and has considered any changes it will need to make to its governance structure to implement the new Code. It is the Company's intention to achieve full compliance with the Combined Code, or justify any exceptions, during 2004.

In this respect, the Board currently comprises the non-executive Chairman, three independent non-executive directors and seven executive directors. This ratio has applied for a number of years. The Board believes that this membership is the appropriate structure for the Company. The Board is responsible for the Group's business operations and the full executive team of seven directors is present on the Board in order to provide first hand information and contributions to the running of the business. The executive directors control the Group's devolved management structure which requires local management initiative across the Group's global spread of operating companies and the broad product range and wide customer base. Board membership of the seven executives is key to the overall management of the Group. This also provides the non-executive directors with regular direct access to the full executive management team. This is a successful mix and appointing a further four non-executive directors would make the Board very cumbersome for a company of our size and would not add to the quality of the Board's performance, which has been good over a long period.

The Board has assessed any additional measures or changes in practice required to comply with the new Combined Code and allocated responsibility for compliance to appropriate directors or officers. Initial contact has been made with major shareholders on discussion of the Company's governance policy and strategy with the Chairman and the Senior Independent Director.

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. The matters reserved to the Board are posted on the Group web site: www.SpiraxSarcoEngineering.com and are as follows:-

(i) Management

- Approval of Group strategy and annual plans.
- Commitments relating to the acquisition or disposal of any company or business by the Group.
- Material or unusual contracts.
- Capital expenditure items in excess of £500,000 or such other limit agreed by the Board. Items over £250,000 but less than £500,000 are reported to each quarterly meeting of the Board.

(ii) Board Membership and Board Committees

- The formal appointment and dismissal of directors.
- Terms of reference and membership of Board committees.

(iii) Corporate Governance/Accounting

- Approval of actions requiring public documents including circulars to shareholders, related documents and press releases.
- Approval of accounting policies or practices, including the Treasury policy.
- Individual borrowings, financial instruments, guarantees or provision of equity capital, beyond the authority of the Finance Committee.
- Approval of the content of the Annual Report and Accounts and the Interim Statement.
- Appointment and dismissal of Company Secretary.
- Through the Audit Committee, remuneration of auditors and recommendation for appointment and removal of auditors.
- Dividend policy, interim dividends and proposed final dividends.
- Any matter to be dealt with at an AGM or EGM.

(iv) Other

- Significant alterations to existing Group Risk Management policies relating to insurance, environmental and health and safety matters.
- Changes in principal professional advisers.
- Major changes to pensions and employee share schemes operated in the Group.
- Prosecution, defence or settlement of any material litigation.

All directors receive detailed progress reports one week prior to each Board meeting.

The non-executive directors have all had senior executive experience and offer independent judgement on Board matters. The Board comprises 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 do not participate in the bonus, share option or share ownership schemes and their appointments are non-pensionable.

There are procedures for individual Board members to receive induction and training as appropriate and provision to solicit independent professional advice at the Company's expense 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-appointment 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 Audit, Nomination and Remuneration Committees. The terms of reference for these committees are posted on the Group web site: www.SpiraxSarcoEngineering.com. The membership of these committees is detailed on page 24. Additionally the executive directors comprise the Risk Management Committee.

SHAREHOLDER RELATIONS

The Group conducts regular dialogue with institutional shareholders and provides 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 Report and Accounts 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, Nomination and Remuneration 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

Corporate Social Responsibility ("CSR") is an emerging concept and embraces a wide range of issues but in particular focuses on social, ethical and environmental matters ("SEE"). CSR implies that a company conducts its business in a socially acceptable way with due regard to relationships with its employees, customers, investors, suppliers and society generally.

During the course of 2001, the ABI issued investment guidelines which encourage disclosure by companies in their annual report and accounts as to how they have taken into account the significance of SEE matters. The Board has reviewed these guidelines within the Group and comments as follows.

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 of the Group. The Group's operations are carried out under the Group's Business Code which was established in 1995. A copy of this is posted on the Group web site: www.SpiraxSarcoEngineering.com. This Code formalised policies followed over many years by the Group. The main areas are as follows:-

- compliance with all applicable laws and regulations
- operation of the internal controls established by the Group
- having proper regard for all stakeholders in the business
- outlawing of bribes
- commitment to fair treatment of all employees
- recognition of all health, safety and environmental matters.

The Group also recognises that the achievement of good quality products and services, 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 of the Group. The responsibility held by Board members for all the Group's operations including the implementation of its policies enables the Group's Business Code and Group policies to be applied on a consistent basis. SEE training is part of the training provided for newly appointed directors appropriate to their experience, knowledge and previous training. For each subsidiary there is a nominated person who is responsible to the Board for monitoring compliance with the Group's policies. These reporting procedures within the Group enable the executive directors, who have direct responsibility for implementing policy, to monitor, report and take any appropriate action.

In the risk management process explained in paragraph (i) of Internal Controls, see page 23, the risks involved in not achieving appropriate SEE standards continue to be assessed and any significant risk is monitored by the Board following half yearly reports from all Group companies.

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In compliance with the ABI Guidelines, the Group considers and applies appropriate policies through the Group's Business Code to the following areas:-

(i) Human Rights

The Group supports and applies the principles of Human Rights in its operations.

(ii) Employee Rights

Board members satisfy themselves that the terms of employment in subsidiaries worldwide are appropriate. The Group has a policy of non-discrimination and does not tolerate harassment in any form. The recruitment procedures throughout the Group avoid employment of underage staff. Care has been taken to provide for a culture of openness and honesty. Channels of communication appropriate to the local operation 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.

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 to its employees. The Group encourages the growth of employee share ownership. The Group applies the principles of equal opportunity.

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.

(iii) Community Involvement

The operating companies in the Group are encouraged to provide support to local communities through Company donations, employee organised charitable activities, donation of equipment no longer required and through provision of information.

In India with our partners the local company supports a hospital it established many years ago making provision for both company employees and the local community who also benefit from an established welfare programme based in company provided premises supporting community initiatives particularly for women.

(iv) Supplier Relations

The Company policy is to use suppliers of goods and services which maintain appropriate standards in their operations.

(v) Product Stewardship

The provision of information and support in providing appropriate technical advice to provide a solution to customers' needs together with installation and after sales service are integral to the Group's business. The proper application of products and environmental and safety considerations are dealt with in detail in the technical literature made freely available by the Group.

(vi) Corruption

The Company's policy outlaws corruption or anti-competitive practices. In addition to provisions within service contracts general managers of the Group subsidiaries are required to certify personally that all laws and regulations have been met in their territory.

(vii) 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.

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 Board reviews the effectiveness of internal controls at least annually. The reviews cover all material controls, including financial, operational and compliance controls and risk management systems. 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 by the Turnbull Committee 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 Risk Management Committee specifically reviews any risks facing the business which could give rise to a significant loss. In November 2003 the Risk Management Committee reviewed the risk register and risk management process first established in 1999 in the context of the current business structure and operations with the aim of validating the risk register and the general risk management process and identifying any additional new risks. This exercise conducted with Marsh Ltd revised the risk register and reviewed risk magnitude and risk likelihood against the current controls and areas for improvement. The Board, on Marsh's advice, is satisfied that the system of management for significant risks is appropriate for the Company and is properly executed.

As part of the on-going process, the Group companies have reported on a six monthly basis their position with regard to implementing the identified countermeasures to address the Group's significant business risks. The six monthly 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 reviews the system of reporting and monitoring and its effectiveness as a whole.

(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. Self certification is given by both the General Manager and the Finance Manager of the operation.

(iv) Audit Committee

The Audit Committee has met 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. The Audit Committee reviews the independence of the external auditors on an annual basis.

The Board has approved revised terms of reference for the Audit Committee meeting the requirements of the Combined Code. The terms of reference are on the Group web site: www.SpiraxSarcoEngineering.com.

(v) Non-Audit Services

A policy on services provided by the auditors in line with professional practice has been established and approved by the Audit Committee.

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(vi) Whistle Blowing

If any employee in the Group has reasonable grounds for believing that the Business Code/Management Code is being breached by any person or group of people and does not feel able to voice the matter with his or her manager, he or she is able to contact directly the Company Secretary in Cheltenham and provide full details. The Company Secretary will ensure that (a) the circumstances are properly investigated and (b) the employment of the person contacting the Company Secretary will be protected appropriately.

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 is the Senior Independent Director.

REMUNERATION AND NOMINATION COMMITTEES AND DIRECTORS' RESPONSIBILITIES

The Directors' Remuneration Report presented by the Board of Directors is set out on pages 26 to 33. The Statement of Directors' Responsibilities is set out on page 34.

The Board has a Nomination Committee for appointments to the Board.

COMMITTEE MEMBERSHIP

(i) Audit Committee

Messrs. T. B. Fortune, E. Lindh, M. Townsend (Chairman) and W. H. Whiteley. There were two meetings of the Audit Committee and all members attended both meetings. Mr. T. B. Fortune resigned from the Audit Committee on 5th December 2003.

(ii) Nomination Committee

Messrs. T. B. Fortune (Chairman), E. Lindh, M. J. D. Steel, M. Townsend and W. H. Whiteley. There were two meetings of the Nomination Committee and all members attended both meetings.

(iii) Remuneration Committee

Messrs. E. Lindh, M. Townsend (Chairman) and W. H. Whiteley. There were four meetings of the Remuneration Committee and all members attended all meetings.

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 their impact on the environment generally and, particularly, with concern for the local communities where the Group's operations are located.

The Group, through its Board of Directors, ensures that its managers and staff are aware of the actions required to consider environmental factors and meet regulations in each of the Group's plants and the risks of failing to do so. Managers are required to take environmental considerations into account in running the business, for example 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 also expected in their daily job to be aware of environmental considerations and draw to the attention of management any matters of possible concern.

Implementation

The Board has given the Director - Supply specific environmental responsibility in relation to the Group's operations and their impact on the environment. The Group's objective is to comply with environmental laws and good practice and where non-compliance is identified to have management systems in place to ensure that this is rectified within an appropriate timeframe. The environmental policy set out above is appropriately circulated to management and to all employees.

General managers of operating companies within the Group are responsible for local compliance with the Group's policy and with local legislation. A manager within each operating company is nominated to ensure compliance with the policy. Agreed actions are implemented by the operating company overseen by the Divisional Director.

The Group also operates a regular system of review, under which every operating company reports on environmental issues and compliance with local legislation. Following a prescribed approach regular reviews of the Group's facilities worldwide are conducted. Following a review the implementation of recommendations, if any, is monitored at Group level. The general manager will report through the Divisional Director on any issues identified as is appropriate in the circumstances.

If recommendations are made then in the first instance the general manager of each company has the responsibility for ensuring that they are effectively considered and implemented where appropriate at the local level.

Where environmental upgrades are made to plant and machinery in any jurisdiction, consideration is given to implementation of such upgrades across the Group's facilities worldwide.

In the past the Group has utilised external environmental consultants to audit a number of manufacturing facilities and has, as a result, established an internal environmental audit process under which a senior manager assesses the environmental position in each of the major manufacturing units and reports to the local management. This process is overseen by the Divisional Director who reports appropriately to the Director - Supply and is distinct from the process identified above.

Partly as a result of these processes there have been improvements in the use of solvents, chemicals and fluxes all of which have contributed to a cleaner operating environment which together with noise attenuation have benefited both employees and local residents.

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 to customers, 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.