

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 2003.

RESULTS

The results of the Group for the year are explained in the Chairman's Statement and Chief Executive's Review on pages 2 to 12 and are set out in the profit and loss account on page 36.

DIVIDEND

An interim cash dividend of 6.0p per share (2002: 5.8p) was paid in November 2003. The directors now recommend the payment of a final dividend of 14.1p per share (2002: 13.5p). If approved at the annual general meeting the final dividend will be paid on 21st May 2004 to shareholders on the register at 23rd April 2004. The total distribution for the year will be 20.1p per share (2002: 19.3p).

BUSINESS REVIEW

A review of the operations of the Group in 2003 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 2003 on research and development amounted to £4,878,000 (2002: £4,411,000).

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 2003 by approximately £8,000,000 (2002: £9,000,000).

BOARD OF DIRECTORS

The directors of the Company are those listed on pages 16 and 17. Mr. N. H. Daws was appointed to the Board on 1st June 2003 as an executive director. In addition Mr. P. M. Smith was a director until 31st May 2003 when he retired.

In accordance with the Company's articles of association:

- i) Mr. N. H. Daws will retire from office at the annual general meeting and, being eligible, offers himself for appointment. Mr. N. H. Daws has a service contract with the Company determinable on 12 months' notice.
- ii) Messrs. G. P. Marchand, D. J. Meredith, P. A. Smith and M. Townsend retire and, being eligible, offer themselves for re-appointment. Messrs. G. P. Marchand, D. J. Meredith and P. A. Smith have service contracts with the Company determinable on 12 months' notice. Mr. M. Townsend, as a non-executive and Senior Independent Director, has a letter of appointment 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 26 to 33.

	Ordinary Shares of 25p each Beneficial Interests		Ordinary Shares of 25p each Non-beneficial Interests	
	31.12.03 or date of retirement**	31.12.02 or date of appointment*	31.12.03	31.12.02
T. B. Fortune	67,723	87,668	424,288	424,288
M. J. D. Steel	62,970	62,087	115,938	257,118
C. J. Ball	53,516	52,679	-	-
A. D. H. Black	19,770	18,915	-	-
N. H. Daws*	1,968	1,112	-	-
G. P. Marchand	51,905	69,753	-	-
D. J. Meredith	41,300	40,417	540,226	681,406
P. A. Smith	63,784	50,286	540,226	681,406
P. M. Smith**	41,023	39,496	-	-
E. Lindh	-	-	-	-
M. Townsend	2,879	2,879	-	-
W. H. Whiteley	2,734	2,734	-	-

At 31st December 2003, 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 the Spirax Sarco 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 115,938 shares in the Company at 31st December 2003.

Mr. P. M. Smith purchased a motor car from the Company at the current market value of £11,000.

EMPLOYMENT REPORT AND POLICIES

Details of the Group's Employment Policies are set out on page 22.

ANNUAL GENERAL MEETING

The Notice of Meeting and an explanation of Resolutions 10 to 13 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 24 on page 49.

PURCHASE OF OWN SHARES

There was no purchase of shares by the Company during the year. At 31st December 2003 the number of shares which may be purchased under the shareholders' authority given at the annual general meeting in 2003 was 7,400,000 and the number of shares in issue was 74,759,941.

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 24th February 2004 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	%
Arnhold and S Bleichroeder Advisers LLC	4,770,397	6.38
Sprucegrove Investment Management Ltd	4,111,412	5.50
The Capital Group Companies Inc.	4,078,191	5.45
JP Morgan Fleming Asset Management	2,961,983	3.96
NFU Mutual Insurance Society	2,833,853	3.79
Legal & General Group plc	2,439,119	3.26

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 £49,910 (2002: £51,861). There were no political donations (2002: 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.

15th March 2004