

CORPORATE SOCIAL RESPONSIBILITY

For some years the Board has been reporting on Corporate Social Responsibility ("CSR") which embraces a wide range of issues and in particular focuses on social, ethical and environmental ("SEE") matters. The Board has continued to embrace and apply the general CSR principles in conducting its business in a socially acceptable way with due regard to the relationship of the Company to its employees, customers, investors, suppliers and society generally.

This report follows the practice in recent years of illustrating the Board's commitment to meeting the requirements laid down by the ABI and the reporting procedures and actions taken within the Group in this connection. The Group has developed further its awareness of CSR issues and has continued to make improvements, particularly in the areas of health and safety.

The Board achieves compliance with the principles of CSR by the management of the risks concerned. The Board seeks to achieve such management within the normal operations of the Group such that the necessary policies, systems and procedures are embedded in Group practice. The importance of involvement of employees and suppliers in meeting the standards required by the Board is inherent in our business operations in the provision of products and services to our customers. Meeting the standards required in the operation of our business as it affects communities and customers is also a specific objective reflected in our annual plans and strategic planning.

The Group's operations are carried out under the Group's long standing Business Code. 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 standards required in the practical management of the Group are set out in a separate Management Code, which is an internal practical document issued by the Chief Executive with which general managers and the finance managers in each subsidiary confirm compliance for each year.

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 and are reflected in the Group's performance.

The responsibility held by Board members for the entirety of 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. The Group's decentralised structure provides for detailed local management of SEE matters by the general manager in each subsidiary, who reports to and is monitored by an appropriate executive director. 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. SEE training is part of the training provided for newly appointed directors appropriate to their experience, knowledge and previous training.

In the risk management process explained in paragraph (i) of Internal Controls, see page 22, 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.

The Group considers and applies appropriate policies through the Group's Business Code in the following areas:-

(i) Employee Rights

The Group supports and applies the principles of Human Rights in its operations including equal opportunities for employees regardless of sex, race, religion, age or disability. 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. The Group operates personnel policies designed to meet the needs of its subsidiaries and employees around the world. Channels of communication appropriate to the local operation have been established to allow employees to be properly informed and voice their views and concerns. 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. Employees are encouraged to apply their skills, knowledge and energy. The Group's management philosophy recognises employees as its most important asset.

A summary of the Group's annual accounts is made available to its employees. The Group's newsletter, with a Foreword from the Chief Executive, is distributed to all Group companies each month and is made available to employees. Individual subsidiaries have either a local newsletter or a regular communication informing employees on the progress of their company. The Group encourages the growth of employee share ownership.

(ii) Community Involvement

The Group has a Charitable Trust which donates to registered charities and additional donations are made to appropriate requests for support from bodies which are not registered charities both in the UK and in the overseas operating subsidiaries. In the latter case the decision to donate is made by the local general manager. In total the Group donates approximately £65,000 per annum to registered charities and other good causes.

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. By way of example, Spirax Sarco Ind. e. Com. Ltda. in Brazil recently donated some wheelchairs locally in Cotia in Sao Paulo.

Another example applies in India where with our partners the local company continues to support a hospital it established many years ago making provision for both company employees and the local community. Both benefit from an established welfare programme based in company provided premises supporting community initiatives, particularly for women.

(iii) Supplier Relations

The Company policy is to use suppliers of goods and services which maintain appropriate standards in their operations. Suppliers must consistently achieve the standards required by ISO 9000.

(iv) Product Stewardship

Information and support is given through appropriate technical advice to provide a solution to customers' needs with installation and after sales service being 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.

(v) Corruption

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

(vi) 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. Each major manufacturing site has its own Health and Safety Committee which is advised by a safety officer.
- The general managers report in a standard form the health and safety record of each subsidiary to the responsible executive director in an exercise co-ordinated and monitored by the Director - Supply. The Director - Supply is responsible for overseeing all health and safety matters in each of the Group's subsidiaries. A separate Safety Audit Committee composed of UK based directors and senior managers meets every six months to verify the performance of the UK operating companies on health and safety and environmental issues.
- The Group ensures that the necessary resources are available for health and safety training and companies within the Group seek, as necessary, professional advice regarding the implementation of safety programmes. For example, at Spirax Sarco UK an established training programme applies to new shop floor employees and is provided as a refresher to all shop floor employees every three years.
- Regular reviews are conducted to ensure that employee knowledge of health and safety matters relevant to them is up to date.
- In the UK Spirax Sarco has carried out various reviews and in particular has extended the measures for the welfare of employees by providing:
 - a) Automatic External Defibrillators for use in heart attack situations. All first aiders have been trained in their use.
 - b) training for all managers in the recognition and prevention of work related stress.

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- c) training for managers and first aiders in the recognition of the symptoms of abuse of alcohol and drugs.
- d) significant investment in safety equipment and new procedures for working at height.
- Further investment in noise attenuation in the UK machine shops has realised significant decibel level reduction.
- In both the UK and in France water-based paints have now completely replaced solvent-based paints and in the UK two automated and enclosed component cleaning machines have replaced the use of open-top tanks, each of which reduce emissions to the environment and reduce employees' personal exposure.
- All Group manufacturing companies have recently implemented a 5S programme to improve the work environment, focusing on safety, cleaning and organisational aspects.

(vii) Environmental

a) 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.

b) Policy Statement and Performance

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 ensuring 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 or ideas for improvement.

• Implementation

The Director - Supply has 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 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. Agreed actions are implemented by the operating company overseen by the relevant executive director for that division.

• Review

The Group also operates a regular system of review, under which every operating company reports on environmental issues and compliance with local legislation.

The review in 2005 revealed no major problems but identified two local issues which were dealt with. 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 executive 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.

- **Audit Process**

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 relevant executive director who informs the Director - Supply appropriately and is distinct from the process identified above.

- **Results**

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. To comply with local regulations as to its efficiency, Spirax Sarco Ind. e. Com. Ltda. in Brazil has installed a waste water system to treat water before discharging it and an audit is carried out each six months. Also to comply with local regulations the company has developed methodologies and documentation to discharge industrial residues. A selective waste programme, practising recycling concepts, has been implemented, together with an environmental audit to ensure continuous improvement.