



D I R E C T O R S ' R E P O R T

The directors of Spirax-Sarco Engineering plc have pleasure in presenting their report and the audited accounts for the year 1994.

PROFIT

The profit of the Group, after charging taxation and after deducting the amount attributable to minority interests in subsidiary undertakings, amounted to £21,672,000 (1993 £16,380,000). This represents earnings per share of 27.9p compared with 21.6p for 1993. £12,725,000 was transferred to reserves.

DIVIDEND

An interim cash dividend of 3.5p per share was paid in December 1994. In 1993 the interim cash dividend of 6.6p in connection with the Enhanced Scrip Dividend Alternative was paid at the same level as the 1992 final dividend thereby accelerating part of the dividend for that year. The final dividend in 1993 of 3.3p reflected this acceleration. The directors now recommend the payment of a final dividend of 8.0p per share (1993 3.3p). If approved at the annual general meeting the final dividend will be paid on 12th June 1995 to shareholders on the register at 24th April 1995. The total distribution for the year will be 11.5p per share (1993 9.9p).

A scrip dividend alternative will again be offered whereby ordinary shareholders who are eligible to receive the final dividend of 8.0p per ordinary share will be entitled to elect to receive additional ordinary shares in lieu of part or all of that dividend. Full details of the scrip dividend alternative will be set out in a separate letter from the Chairman.

At the annual general meeting held in 1994 shareholders authorised the directors to offer a scrip alternative to any dividend declared or paid in respect of the financial year ended on 31st December 1994. In accordance with the directors' intention to seek annual renewal, resolution 9 will be proposed as an ordinary resolution at the annual general meeting to renew this authority for the financial year ending on 31st December 1995.

TURNOVER

Total turnover to external customers amounted to £217,875,000 in 1994 (1993 £192,507,000). The geographical analysis of turnover is given in note 2 to the accounts on page 25.

BUSINESS REVIEW

A review of the operations of the Group together with an indication of future prospects of the business is given on pages 2 to 11.

PRINCIPAL ACTIVITIES

The Group's business is the provision of knowledge, service and products world-wide for the control and efficient use of steam and other industrial fluids.

BOARD OF DIRECTORS

The directors of the Company are given on pages 14 and 15. In addition Mr J. K. Shepherd retired on 11th May 1994. Mr P.A. Smith has been appointed to the Board on 23rd March 1995 as an executive director. In accordance with the Company's articles of association, Mr Smith will retire from office at the annual general meeting and, being eligible, will offer himself for re-appointment. Mr Smith has a service contract with the Company determinable on two years' notice.

In accordance with the articles of association Mr C. J. Tappin, Mr J. M. T. Cochrane and Mr S.J.D. Gegg will retire by rotation. Mr Tappin and Mr Cochrane, being eligible, offer themselves for re-election. Mr Tappin has been appointed Chairman until the 1997 annual general meeting. Mr Cochrane has no service contract with the Company. Mr Gegg will not be offering himself for re-election and will be retiring at the end of the annual general meeting of the Company on 10th May 1995.

CORPORATE GOVERNANCE AND STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Statement on Corporate Governance and the Statement of Directors' Responsibilities are set out on page 18.

SHARE CAPITAL

Details of shares issued during the year are set out in note 23 on page 33.

At the annual general meeting held in 1994 shareholders authorised the directors, pursuant to section 80 of the Companies Act 1985, to allot relevant securities without the prior consent of shareholders for a period of five years. In accordance with the directors' intention to seek annual renewal, it is proposed to authorise the directors to allot relevant securities for a period of five years from the date of the resolution. The £5,647,732.50 nominal amount of relevant securities to which this authority relates represents 29% of the nominal amount of issued share capital of the Company as at 1st March 1995. The directors have no present intention of exercising this authority. Resolution 7 will be proposed as an ordinary resolution to renew this authority.

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Also at last year's meeting a special resolution was passed, pursuant to section 95 of the Companies Act 1985, empowering the directors to allot equity securities for cash without first being required to offer such shares to existing shareholders. It is proposed that this authority also be renewed. The £972,600 nominal amount of equity securities to which this authority relates represents 5% of the issued share capital of the Company as at 1st March 1995. Resolution 8 will be proposed as a special resolution to renew this authority until the next annual general meeting.

ANNUAL GENERAL MEETING

The Notice of Meeting is set out on page 40.

DIRECTORS' INTERESTS

The interests of the directors in the share capital of Spirax-Sarco Engineering plc are set out in note 23 on pages 33 and 34.

None of the directors has any material interest in any contract of significance entered into by the Company or any subsidiary company, other than in respect of his contract of service.

A motor car was sold, at market value, to Mr J. K. Shepherd following his retirement.

INDEMNITY INSURANCE FOR DIRECTORS AND OFFICERS

Officers of the Group, including directors, are insured by the Company against certain liabilities they may incur for negligence, default, breach of duty or breach of trust.

FIXED ASSETS

Information relating to the movements in fixed assets is set out in note 13 on page 29.

CHARITABLE AND POLITICAL DONATIONS

Charitable donations amounted to £33,550 (1993 £32,453). There were no political donations (1993 nil).

HEALTH, SAFETY AND THE ENVIRONMENT

The Group regularly reviews its policies and performance with regard to health, safety and the environment to ensure compliance with good practices and statutory regulations in all its operations.

SHAREHOLDINGS OF 3% OR MORE

At 1st March 1995 the Company had received notice of material interests in 3% or more, and interests in 10% or more, of the issued ordinary share capital of the Company as set out below. So far as is known there is no other notifiable interest in the issued capital.

	Ordinary Shares	%
Schroder Investment Management Limited	8,665,307	11.1
Britannic Assurance plc	5,937,133	7.6
Prudential Corporation plc	4,854,303	6.2
Sun Alliance Investment Management Limited	3,895,183	5.0
Co-operative Insurance Society Limited	2,616,650	3.4
NFU Mutual & Avon Group	2,344,772	3.0

For information, it is also understood that Prudential Corporation plc additionally had a non-material interest in 2,778,670 shares representing 3.6% of the issued share capital and PDEM Limited had a non-material interest in 2,600,562 shares representing 3.3% of the issued share capital.

AUDITORS

On 6th February 1995 our auditors changed the name under which they practise to KPMG and, accordingly, have signed their report in their new name. In accordance with Section 384 of the Companies Act 1985, a resolution to re-appoint KPMG as auditors of the Company 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.

CLOSE COMPANY STATUS

The Company is not a close company within the meaning of the Income and Corporation Taxes Act 1988.

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.

By order of the Board
P. A. Smith Secretary

Charlton House,
Cirencester Road, Cheltenham.
23rd March 1995

AUDIT REPORT

AUDITORS' REPORT TO THE MEMBERS OF SPIRAX-SARCO ENGINEERING PLC

We have audited the accounts on pages 20 to 37.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 18 the Company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31st December 1994 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
KPMG
Chartered Accountants
Registered Auditors

London
23rd March 1995

GROUP PROFIT AND LOSS ACCOUNT

for the year ended 31st December 1994

	NOTES	1994 £000	1993 £000
Turnover	2	217,875	192,507
Operating costs	3	182,037	164,421
Operating profit	5	35,838	28,086
Interest payable less receivable	6	1,279	1,419
Profit on ordinary activities before taxation	7	34,559	26,667
Taxation on profit on ordinary activities	9	12,095	9,512
Profit on ordinary activities after taxation		22,464	17,155
Minority interests - equity		792	775
Profit for the financial year	10	21,672	16,380
Dividends	11	8,947	7,517
Retained profit for the financial year	24	12,725	8,863
Earnings per share	12	27.9p	21.6p
Dividends per share	11	11.5p	9.9p

The notes on pages 24 to 37 form an integral part of the accounts.

The ~~historic~~ cost profit is not materially different from the reported profit.

historical

BALANCE SHEETS

at 31st December 1994

	notes	THE GROUP		PARENT COMPANY	
		1994 £000	Restated 1993 £000	1994 £000	1993 £000
Fixed assets					
Tangible assets	13	61,655	59,363	6	6
Investments	14	-	-	47,955	47,439
		61,655	59,363	47,961	47,445
Current assets					
Stocks	15	43,711	41,835	-	-
Debtors	16	65,102	57,838	4,500	9,247
Cash deposits	17	24,898	26,790	15,000	16,908
Cash at bank and in hand		3,635	6,561	975	2,477
		137,346	133,024	20,475	28,632
Creditors					
Amounts falling due within one year	18	55,259	56,255	10,267	4,638
Net current assets		82,087	76,769	10,208	23,994
Total assets less current liabilities		143,742	136,132	58,169	71,439
Creditors					
Amounts falling due after more than one year	20	26,381	31,009	643	22,355
Provision for liabilities and charges	21	14,497	15,226	-	-
Net assets	22	102,864	89,897	57,526	49,084
Capital and reserves					
Called up share capital	23	19,446	19,316	19,446	19,316
Share premium account	24	24,786	23,674	24,786	23,674
Revaluation reserve	24	4,371	4,368	-	-
Profit and loss account	24	49,570	37,289	13,294	6,094
Shareholders' funds - equity		98,173	84,647	57,526	49,084
Minority interests - equity		4,691	5,250	-	-
		102,864	89,897	57,526	49,084

The accounts were approved by the board of directors on 23rd March 1995 and signed on its behalf by:

T. B. Fortune

Directors

D. J. Meredith


