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Spirax-Sarco Engineering plc

Spirax Sarco provides **knowledge, service** and **products** for the control and efficient use of **steam** and other industrial fluids worldwide. Spirax Sarco's position as the world leader is founded on its long held strategy of investing for **growth.**

The Group's prime financial objective is to provide enhanced value to shareholders through **consistent** growth in earnings and dividends per share.

Final Results

	2001	2000	Change
Turnover	**£291.9m**	£278.1m	+5%
Operating profit*	**£40.8m**	£43.4m	-6%
Operating profit margin	**14.0%**	15.6%	
Profit before taxation before the disposal of fixed assets	**£38.0m**	£41.2m	-8%
Earnings per share before the disposal of fixed assets	**34.6p**	37.4p	-7%
Dividends per share	**18.6p**	18.0p	+3%
Return on capital employed	**23.5%**	26.2%	
Net debt	**£40.5m**	£45.6m	-11%
Net gearing	**28.3%**	33.8%	

* After charging goodwill amortisation of £0.5m (2000: £0.4m)

- Sales growth 5%
- Good progress in Americas
- Lower profits in UK manufacturing units
- Strong cash flow
- EPS down 7%, dividend up 3%

spirax sarco

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Chairman's Statement

In 2001, the Group achieved a satisfactory growth in sales despite adverse trading conditions. Operating profit fell by 6%, a creditable performance given the increasingly tough operating environment. After the strong start to the year in sales, the second half, and particularly the final quarter, saw a distinct weakening with a consequent effect on the operating profit.

The weak state of the world's major economies, notably the USA and Japan, had a depressing effect elsewhere and hence on the resilience of the markets in which we operate. Turnover increased by 5% in the year to £292 million, as compared with £278 million in 2000. The full year effect of the acquisition, in October 2000, of M&M International, our Italian based solenoid valve and piston actuated valve manufacturer, added 2% to sales. Organic growth was 3%, which was well spread with increases in the UK and Continental Europe. We made good overall progress in the Americas, helped by more favourable exchange rates, but in Asia, Australasia and Africa good underlying growth was cancelled out by adverse exchange rate movements. The overall sales increase was the result of the technical support that we give to our customers in our niche markets and the implementation of sales plans and product developments, which also have the potential to deliver more growth in the future.

The operating profit for the year (before the net gain on disposal of fixed assets) was down by 6% from £43.4 million to £40.8 million; the effect of movements in exchange rates was broadly neutral. The reduction was mainly in the UK, where demand on the factories was well down in the second half of the year due to the lower than expected business levels and de-stocking in our overseas sales companies and distributors. We also increased our investment in sales, marketing and IT resources to ensure that we maximised sales despite the difficult trading conditions. Profits grew well in the Americas but were flat in Continental Europe, including M&M. In Asia, Australasia and Africa, a 9% underlying profit increase was more than eliminated by unfavourable exchange rate movements. The operating profit margin for the Group, therefore, was lower at 14.0% (2000: 15.6%) and return on capital employed was 23%, a reduction from 26% in 2000.

The net interest charge of £2.8 million increased from £2.2 million in 2000 due to the full year effect of the acquisition of M&M and of the shares bought back in 2000. The net interest expense was covered fifteen times by operating profit. A net gain of £0.6 million on disposal of property has been included as a non-operating item. Profit before tax for the year was £38.6 million, and before the non-operating item was £38.0 million (2000: £41.2 million). Amortisation of goodwill was £0.5 million (2000: £0.4 million).

The tax charge was 30.9% compared with 32.0% in 2000. The underlying tax charge, before the non-operating item, was 31.4% (2000: 30.1%). Minority interests were substantially lower at £0.6 million due to greatly reduced profits in Mexico. Earnings per share, before the non-operating item, were 34.6p compared with 37.4p in 2000, a reduction of 7%. The Board is recommending a final dividend of 13.0p per share which, with the interim dividend of 5.6p per share, gives a total for the year of 18.6p, an increase of 3.3%. The cost of the interim and final dividends is £13.8 million, which is covered 1.9 times by earnings before the non-operating item. No scrip dividend alternative is being offered.

Gross capital expenditure for the year was £18.6 million (2000: £16.2 million). We continue to invest in equipment to improve our sales, marketing and manufacturing activities to support future growth. During the year, there were capital disposals of £1.8 million, including property in the UK; the equivalent figure in 2000 was £5.9 million which included property in the USA.

Operating cash flow remained strong in the year and net debt reduced to £40.5 million from £45.6 million at the end of 2000. Gearing at 31st December 2001 was 28% (2000: 34%).

The strength of the Group comes from its reputation in the market-place and the quality and breadth of the product range, both of which are derived from the knowledge and dedication of the people who work in the Spirax Sarco and Watston-Marlow Bredel businesses. It is the knowledge and hard work of our employees which help our customers and our own Group to grow. On behalf of the Board, I thank them for their dedication and support.

Chairman's Statement

PROSPECTS

In these difficult market conditions, our knowledge, service and products are needed more than ever by our customers to maintain and develop their businesses. It is clear that there is good potential to continue to grow by capitalising on the fundamental strengths of our market leading position. Tight controls and cost reduction actions, which are under way, will bring progressive benefits. We remain cautious on the outlook as it is far from clear whether the global economy will recover during the year; however we have made a solid start to 2002.

T.B. FORTUNE *Chairman*

Chief Executive's Review

In the difficult trading conditions experienced in 2001, we increased the sales of both the Watson-Marlow Bredel pumps and the Spirax Sarco industrial steam products. In these two niche markets, we are the world leader and have specialist knowledge which is not matched by any of our competitors. This knowledge encompasses not only the design and manufacture of the product, but also how the customer can best use the product to gain maximum advantage. Our sales engineers are fully trained so that, when visiting a customer's plant, they can analyse and diagnose problems and provide solutions; this applies both to steam systems when, for instance, a customer's plant is not as efficient as it could be and to specialist pumping requirements when the unique characteristics of peristaltic pumps can solve a problem.

We serve a very wide customer base in such diverse markets as food processing, brewing, sterilising, pulp and paper, rubber and plastics, electronics, pharmaceuticals, petrochemicals, water treatment, printing and many others. This wide spread of applications arises from the special characteristics of steam and peristaltic pumps which provide significant benefits to our customers. As a result, no single industrial sector makes up more than 10% of our sales, and no single customer makes up more than 1% of our sales.

The benefits that our customers derive from the advice of our sales engineers and the purchase of our products are improved process productivity and repeatability, reduced energy consumption and lower life-time costs, all of which frequently provide a very good payback on the investment. An additional benefit for customers with an international presence and for OEMs, whose products may be installed anywhere in the world, is that our technical support is available worldwide through our own subsidiaries in all the largest economies or through distributors in other countries. In all, we are present directly, or indirectly, in 90 countries, and our literature has been translated into 34 languages. When a customer buys from Spirax Sarco or Watson-Marlow Bredel, they are buying more than just a product, they are buying advice and support.

TRADING

After a good first quarter, business levels slowed particularly towards the end of the year. As a result, the sales and profits in the second half of 2001 were only slightly ahead of the first half - this is different from our usual profile where, due to seasonal influences, our second half is normally noticeably better than the first half. The slow-down in the US economy and the further decline in the Japanese economy, which has been in a parlous state for some years, have clearly depressed most of the Asian economies which rely heavily on exports to the USA and Japan. The European economies have also suffered from similar pressures. Industrial production declined sharply in the major economies, which is a good indicator of the state of the markets in which we operate. The Mexican

Chief Executive's Review

economy remains in recession following its severe downturn in the last quarter of 2000. On the other hand, the Chinese market continued to grow and remains a good opportunity for us.

Turnover grew by 5% in 2001 including organic growth of 3% overall, comprising 5% growth in the first half and 1% growth in the second half. In addition, the acquisition, in October 2000, of M&M International, the Italian based solenoid valve and piston actuated valve manufacturer, contributed 2% to the sales growth. Overall exchange rate effects were negligible but included good gains from the strength of the US dollar and some benefit from the slight strengthening of the euro, largely offset by currency weakness in Asia and South America. The increase in sales worldwide came in spite of the difficult trading conditions and was achieved by pushing ahead with a number of specific sales plans and investing in additional sales and marketing resources. We also released a number of new products such as the new intelligent valve positioner and steam traps for the Japanese market and, at the end of the year, Watson-Marlow Bredel released the first phase of the completely redesigned core range of peristaltic pumps which offers improved specification and performance at no extra cost.

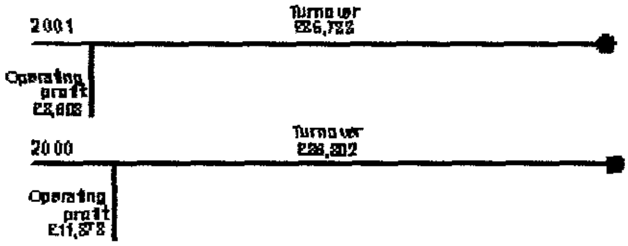
Operating profit fell by 6% from £43.4 million in 2000 to £40.8 million in 2001. This resulted partly from the slowing sales in the second half of the year and from a reduction of stocks in our overseas selling companies. These two factors disproportionately reduced the short term demand on the factories, particularly in the UK, and impacted manufacturing profits. In Mexico, our sales were depressed and profits were down by £1 million (half of which is eliminated in the minority interests). Elsewhere, profits were flat in Continental Europe and an underlying improvement in profits in Asia, Australasia and Africa was more than offset by an exchange rate hit. There was a good profit increase in the Americas, helped by favourable exchange rate movements. The performance of our company in South Carolina continued to improve with good gains in sales and profits.

Chief Executive's Review

The operating profit margin fell to an historically low 14.0% (2000: 15.6%), the biggest contributing factor being the fall in profits in the UK manufacturing units. A number of factors have pushed our margins down over the last few years, but the underlying commercial strength remains. Recovery of the margin will come not only from business growth but also from already identified cost reductions which will take full effect over the next twelve to twenty-four months.

On 18th January 2002 we completed the acquisition of Marford Engineering, in Australia, for £1 million. Marford is a water treatment chemicals specialist and will help us to develop our boiler water treatment business in Australia.

United Kingdom



UK domestic sales were up 4% with both the Spirax Sarco and Watson-Marlow Bredel businesses showing growth, but the market became generally more difficult as the year progressed and the selling companies did well to largely maintain their profits. Watson-Marlow Bredel grew their profits in the UK. As already mentioned, the Spirax Sarco factories suffered from the slow-down in third party sales (worldwide) and the effect of de-stocking in many of our overseas sales companies in the second half of the year, all of which had a disproportionate effect on the overall UK profits. Short term actions were taken to reduce costs in order to minimise the impact. Total UK operating profits fell from £11.9 million to £8.6 million.

The large majority of products sold by the Group worldwide are made outside the UK. Over the years, rising volumes of raw materials have also been sourced from outside the UK, much of which comes from Asia. This is a trend which is well established and will accelerate over the next two years.

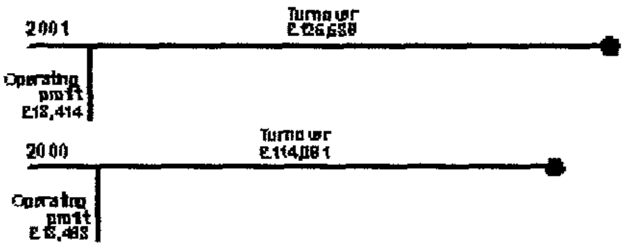
Why invest in steam?

Steam is not only a powerful natural phenomenon it is the lifeblood of industries of all types. It is used to heat, sterilise and humidify hundreds of different processes that are involved in many of the things we eat, drink, wear and use.

- **Food and drink**
- **Pharmaceuticals**
- **Oil and chemicals**
- **Electricity**
- **Textiles**
- **Paper**
- **Electronics**

Spirax Sarco provides knowledge, Service and products for the control and efficient use of steam worldwide.

Continental Europe

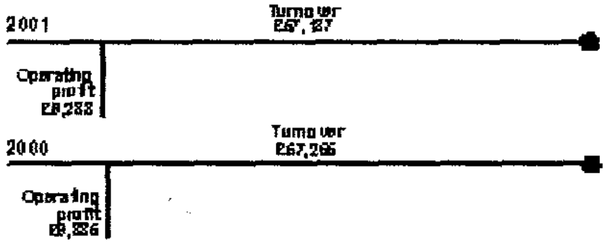


The turnover in Continental Europe increased by 8%, of which 3% was due to the acquisition of M&M. The Watson-Marlow Bredel business grew well across Europe. The Spirax Sarco business also made sales gains overall with strong performances in Germany, Switzerland, most Nordic countries and the Czech Republic. In France, Italy, Portugal and Spain, the trading conditions were tough and sales and profits were down. M&M was integrated into the Group during 2001 and made a good contribution to the result; the sales of piston actuated valves, for which we acquired the company, have been ahead of expectation and offer good future potential. The French factory experienced reasonable demand, in spite of the de-stocking in our selling companies, and maintained profits.

The overall profit in Continental Europe was flat at £13.4 million. The currency conversion of the companies in "euroland" was well prepared and has gone smoothly.

International

(markets outside Americas and Europe)



After starting the year strongly in the International region, business levels slowed steadily and finished with organic growth of 5%, which was matched by negative exchange rate movements, leaving the sterling value of business in the region largely unchanged. In Korea, the economy was weak and market conditions were tough and sales were lower which, with the impact of the weak Won, meant that profits were well down. Australia, Malaysia, South Africa and Thailand also saw little or no growth. Taiwan declined further, however, our company in China made excellent progress, and increased sales and profits. In Japan, we again grew the business in spite of the increasingly depressed market and we increased the investments in our company there. The generally weaker currencies in the region meant that an underlying profit increase of 9% was turned into a 6% reduction in sterling terms, being down to £9.3 million from £9.9 million in 2000.

Peristaltic pumps

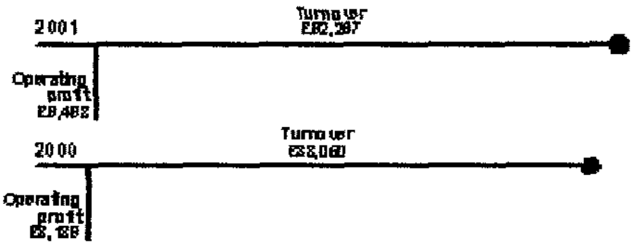
The peristaltic principle, used by humans to swallow, is also used to pump fluids of all types. Basically, a tube is squeezed to push the fluid along to provide:

- **Sampling**
- **Dosing**
- **Metering**
- **Fluid transfer**

The tubing can be sterile and the pumps are a natural choice for food, pharmaceutical and biotechnology applications. The pumps can handle dirty, aggressive or abrasive fluids equally well.

Chief Executive's Review

Americas



Sales in the Americas increased by 6%, including organic growth of 2%. The strength of the US dollar gave good exchange gains which were partly offset by currency weakness in South America. In the USA, the Spirax Sarco company made further good increases in sales and profits. The Watson-Marlow Bredel company in the USA experienced a small downturn in sales and profits as business hesitated after the excellent performance in 2000. Our company in Brazil had a good year, as did the Canadian company. The economy in Mexico remained in recession throughout 2001, sales and profits were well down on the previous year, and action was taken to reduce the cost base to mitigate the impact. The Argentine company also suffered the effects of another year of economic recession. In December, the Argentine government defaulted on its debts and the economy collapsed; here, too, we cut back on our costs and have taken steps to protect our position, which is helped by our company exporting more than 60% of its sales. The overall profit in the Americas increased by 17% from £8.1 million to £9.5 million.

BALANCE SHEET AND CASH FLOW

Capital employed (net assets excluding goodwill and net debt) increased to £177.6 million at 31st December 2001 from £174.6 million a year earlier, at constant exchange an increase of 4%. Fixed asset additions of £17.5 million were similar to the level in 2000 and included new training centres in France and Italy, redevelopment of Watson-Marlow Bredel's facility in the Netherlands and continued investment in our manufacturing plants aimed at increasing efficiency, improving safety and reducing costs. Working capital, comprising stocks plus debtors less creditors, rose by an underlying 3%. Stock levels were reduced in our sales companies, offset by increases in the UK and French manufacturing units. Debtors and creditors were both lower, reflecting the slow-down in business activity, particularly through the second half.

The cash flow for the year was strong. The cash inflow from operating activities improved to £50.0 million from £43.4 million in 2000. Net debt was £40.5 million at 31st December 2001 compared with £45.6 million a year earlier and net gearing reduced to 28% (2000: 34%).

The interim disclosure requirements of FRS17 (Retirement Benefits), which are included in the notes to the accounts, show a small decline in the funding position of the Group's defined benefit pension schemes under the prescribed FRS17 valuation basis.

World Cup football

Major events lead to many projects and opportunities involving Spirax Sarco steam products:

- **Hotels**
- **Stadia**
- **Sports complexes**
- **Shopping facilities**

Steam will also be used to produce the football kit and many of the souvenirs and memorabilia associated with such events.

Chief Executive's Review

LOOKING FORWARD

The Spirax Sarco commercial and industrial steam business and the Watson-Marlow Bredel peristaltic pumping business both operate in niche markets where they are the world leader. Spirax Sarco has a relatively small share of the steam specialty market in spite of being the largest single supplier, and there is a great deal of potential for growth. The Watson-Marlow Bredel peristaltic pumping business is operating in an expanding market where the peristaltic principle, with its many attractions, is used in more and more applications, a trend which should continue.

Both businesses are developing new products to enhance their ranges and are constantly updating their ranges to improve product performance and reduce costs. There are opportunities for geographical growth with the world's biggest economies offering good potential, as do the less developed economies.

In addition to these outward looking opportunities, there are also ways for us to improve our internal performance in order to enhance our competitiveness and profitability, such as raising productivity and resourcing of materials. We can also improve the cross-fertilisation of sales experiences and successes across the world, as we are in a unique position with our global coverage and comprehensive product ranges. All of this offers the prospect of continued steady long-term growth in our well established markets.

Marcus Steel.

M.J.D. STEEL *Chief Executive*

Biotechnology industry

Biotechnology developments continue to bring improvements to healthcare through the introduction of new:

- **Proteins**
- **Genes**
- **Enzymes**
- **Anti-bodies**

Many of the emerging processes involve clean steam with sterile and precise pumping. Spirax Sarco and Watson-Marlow Bredel products are used in many Biotech applications.

Spirax Sarco Worldwide

Steam and Spirax Sarco, synonymous in any language everywhere in the world.

UNITED KINGDOM

Spirax-Sarco Ltd.
Spirax-Sarco Investments Ltd.
Spirax-Sarco Overseas Ltd.
Watson-Marlow Ltd.
M&M International (UK) Ltd. (85%)

CONTINENTAL EUROPE

Austria
Spirax Sarco Ges. mbH
Belgium
Spirax-Sarco N.V.
Watson-Marlow N.V.
Czech Republic
Spirax Sarco spol. s r.o.
Denmark
Spirax-Sarco Ltd. (Branch)
Finland
Spirax Oy
France
Spirax-Sarco S.A.
Byvap Technology S.A.S.
Watson-Marlow S.A.
Germany
Spirax-Sarco GmbH
Hygromatik Lt. A. GmbH
Watson-Marlow GmbH
M&M International GmbH
Italy
Spirax-Sarco S.r.l.
Watson-Marlow S.r.l.
M&M International S.r.l.
Continental Real Estate S.r.l.
Netherlands
Bredel Hose Pumps B.V.
Spirax-Sarco Engineering B.V.
Spirax-Sarco Investments B.V.
Watson-Marlow B.V.
Norway
Spirax-Sarco Ltd. (Branch)
Poland
Spirax Sarco Sp. z o.o.
Portugal
Spirax Sarco Equip. Ind. Lda.
Spain
Spirax Sarco S.A. (95.1%)
Especialidades Hydra S.L.
M&M Iberia S.L. (67%)
Sweden
Spirax-Sarco A.B.
WM Alitea A.B.
Switzerland
Spirax-Sarco A.G.

AMERICAS

Argentina
Spirax Sarco S.A.
Brazil
Spirax Sarco Ind. e Com. Ltda.
Canada
Spirax Sarco Canada Ltd.
Mexico
Spirax-Sarco Mexicana S.A. (49%)
USA
Spirax Sarco, Inc.
Sarco International, Corp.
Watson-Marlow, Inc.
M&M International USA, Inc.

INTERNATIONAL

Australia
Spirax-Sarco Pty. Ltd.
China
Spirax Sarco Engineering (China) Ltd.
India
Spirax-Marshall Ltd. (40%)
Japan
Spirax-Sarco Ltd. (Branch)
Malaysia
Spirax-Sarco Sdn. Bhd.
New Zealand
Spirax Sarco Ltd.
Singapore
Spirax-Sarco (Private) Ltd.
South Africa
Spirax-Sarco South Africa (Pty.) Ltd.
South Korea
Spirax-Sarco (Korea) Ltd. (97.5%)
Taiwan
Spirax Sarco Co. Ltd.
Thailand
Spirax Sarco (Thailand) Ltd.

Spirax Sarco worldwide

Spirax Sarco Directors

Tim Fortune CEng MIMechE (63) joined Spirax-Sarco Limited in 1978 as Production Director and was appointed to the Board in 1983. He was appointed Group Managing Director in 1992 and Group Chief Executive in 1994. He became Executive Chairman in April 1998 and non-executive Chairman in November 1998. He is a member of the Audit Committee and Chairman of the Nomination Committee and the Finance Committee. He is a non-executive director of Renold plc.

Marcus Steel ACIS FCCA (56) joined Spirax Sarco in 1972 and became Finance Director of Spirax-Sarco Limited in 1978. He was appointed to the Board in 1992 as Director - Supply, and subsequently also assumed responsibility for the Americas. He was appointed Group Chief Executive in April 1998. He is a member of the Nomination Committee and the Finance Committee.

Chris Ball (58) joined Spirax Sarco in 1963 and became International Director of Spirax-Sarco Limited in 1988 having successively run the Group's operations in South Korea, Japan, Australia and Canada. He was appointed to the Board in 1992 and is now responsible for the Spirax Sarco International operations in Asia, Australasia and Africa.

Alan Black BA (Hons) (44) joined Spirax-Sarco Limited in 1981 and has worked in the UK, Austria and Korea and has run the Group's operations in Belgium, Thailand and China. He was appointed to the Board in April 1998 with responsibility for Europe, excluding the UK and Italy.

Einar Lindh FCA (57) joined the Group as an independent non-executive director in January 2000. He is a director of Smiths Group plc. He is a member of the Audit, Remuneration and Nomination Committees.

Graham Marchand CEng MIMechE (56) joined Spirax Sarco in 1987 to run the Group's Continental European sales operations and became a director of Spirax-Sarco Limited in 1990. He was appointed to the Board in 1992 and is now responsible for the Americas, the UK and Italian markets and Central Marketing.

David Meredith FCMA (42) joined the Group in 1988 as Group Accountant. He was appointed to the Board as Director - Finance in 1992. He is also responsible for Watson-Marlow Bredel. He is a member of the Finance Committee.

Michael Smith (58) joined Spirax-Sarco Limited in 1986 as Manufacturing Director. He was appointed to the Board in April 1998 as Director - Supply and is responsible for product marketing, design and manufacture.

Peter Smith ACIS (54) joined Spirax-Sarco Limited in 1974, became Company Secretary in 1978 and a director of Spirax-Sarco Limited in 1988. He was appointed Company Secretary to Spirax-Sarco Engineering plc in 1992 and to the Board in 1995.

Chris Sneath FCA (68), an independent non-executive director, joined the Group in April 1994. Until his retirement in 1994 he was a Senior Partner of KPMG. He is a member of the Audit, Remuneration and Nomination Committees. He is also a non-executive director of Millennium & Copthorne Hotels plc.

Michael Townsend MA FCA (60) joined the Group as an independent non-executive director in 1997. Until his retirement in 1999 he was the Finance Director of Rolls-Royce plc. He is a member of the Nomination Committee. He was appointed Chairman of the Audit and Remuneration Committees and Senior Independent Director in January 2000.

Spirax Sarco Directors

Top left: Tim Fortune and Einar Lindh.
Top right: David Meredith and Marcus Steel.
Middle left: Alan Black, Chris Ball and Graham Marchand.
Bottom left: Peter Smith and Michael Smith.
Bottom right: Michael Townsend and Chris Sneath.

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 2001.

RESULTS
The results of the Group, including the net gain of £616,000 on the disposal of fixed assets (2000: loss of £990,000) and taxation and after deducting the amount attributable to minority interests in subsidiary undertakings, amounted to £26,130,000 (2000: £26,367,000). This represents earnings per share of 35.4p, after the disposal, which equals the 35.4p for 2000. Earnings per share before the disposal of fixed assets was 34.6p (2000: 37.4p). If all outstanding share options were exercised the diluted earnings per share after the disposal would be 35.4p (2000: 35.3p) compared with the undiluted 35.4p (2000: 35.4p).

DIVIDEND
An interim cash dividend of 5.6p per share (2000: 5.4p) was paid in November 2001. The directors now recommend the payment of a final dividend of 13.0p per share (2000: 12.6p). If approved at the annual general meeting the final dividend will be paid on 17th May 2002 to shareholders on the register at 19th April 2002. The total distribution for the year will be 18.6p per share (2000: 18.0p).

TURNOVER
Total turnover to external customers amounted to £291,942,000 in 2001 (2000: £278,148,000). The geographical analysis of turnover is given in note 2 to the accounts on page 35.

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 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 2001 on research and development amounted to £4,593,000 (2000: £4,571,000).

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 2001 by approximately £8,000,000 (2000: £9,000,000).

BOARD OF DIRECTORS
The directors of the Company during the year 2001 are those listed on page 16.

In accordance with the articles of association Messrs. T. B. Fortune, M. J. D. Steel, A. D. H. Black and P. M. Smith retire and, being eligible, offer themselves for re-election.

Messrs. A. D. H. Black and P. M. Smith have service contracts with the Company determinable on one year's notice. Mr. M. J. D. Steel's service contract is determinable on two years' notice. Mr. T. B. Fortune, as Chairman and a 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 Remuneration Policy and Practice Report on pages 24 to 28.

	Ordinary Shares of 25p each Beneficial Interests		**Ordinary Shares of 25p each Non-beneficial Interests**	
	31.12.01	31.12.00	**31.12.01**	31.12.00
T.B. Fortune	87,668	87,668	424,288	424,288
M.J.D. Steel	61,138	57,494	342,401	326,646
C.J. Ball	51,730	51,580	-	-
A.D.H. Black	17,966	15,792	-	-
G.P. Marchand	68,804	66,558	-	-
D.J. Meredith	19,716	17,236	766,689	750,934
P.A. Smith	24,107	22,399	766,689	750,934
P.M. Smith	38,547	36,413	-	-
E. Lindh	-	-	-	-
C.G. Sneath	2,185	2,185	-	-
M. Townsend	2,879	2,879	-	-

At 31st December 2001, 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 342,401 shares in the Company at 31st December 2001.

Directors' Report

ANNUAL GENERAL MEETING

The Notice of Meeting and an explanation of Resolutions 8 to 11 to be proposed at the AGM are set out in the enclosed Circular.

SHARE CAPITAL

Details of shares issued during the year are set out in note 25 on page 43.

PURCHASE OF OWN SHARES

There was no purchase of shares by the Company during the year. At 31st December 2001 the number of shares which may be purchased under the shareholders' authority given at the annual general meeting in 2001 was 7,300,000 and the number of shares in issue was 73,935,371.

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 18th February 2002 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	%
Threadneedle Investments	4,828,343	6.53
Newton Investment Management	2,952,061	3.99
NFU Mutual	2,833,853	3.83
Royal & Sun Alliance	2,763,270	3.74
Co-operative Insurance Society Limited	2,625,511	3.55
AIB Govett	2,586,000	3.50
Friends Ivory & Sime	2,534,937	3.43

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 £41,031 (2000: £41,585). There were no political donations (2000: 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.

11th March 2002

Corporate Governance

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, and continues to be, in full compliance with the provisions set out in Section 1 of the Combined Code.

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, including the acquisition and disposal of businesses and major capital expenditure. All directors receive detailed progress reports one week prior to each Board meeting.

The Board comprises a balance of 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 have all had senior executive experience and offer independent judgement on board matters. Non-executive directors do not participate in bonus, share option or pension schemes.

There are procedures for individual Board members to receive induction and training as appropriate and to solicit independent professional advice 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-election 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 Remuneration, Nomination, Audit and Finance Committees. The membership of these committees is detailed on page 16. Additionally the executive directors comprise the Risk Management Committee.

Shareholder Relations

The Group conducts regular dialogue with institutional shareholders and divulges 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 final results 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, Remuneration and Nomination 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

The Board has reviewed within the Group the current guidance on Corporate Social Responsibility ("CSR") (as that term is understood and used by such organisations as the Association of British Insurers). 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 in the Group which will be the subject of further review during the course of 2002.

The principles and systems followed in the Group are set out below with a further explanation of employment and environmental practices later in this Report.

(i) Employment Policy

- Board members satisfy themselves that the terms of employment in subsidiaries worldwide are appropriate.
- The Group has a policy of non-discrimination on grounds of race, gender or disability and does not tolerate harassment in any form.
- The recruitment procedures throughout the Group avoid employment of underage staff.
- Care has been taken to ensure that a culture of openness and honesty exists and channels of communication 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.

(ii) 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.

(iii) Environmental Report

- Regular audits of the Group's facilities worldwide are conducted. Following audit the implementation of any actions is monitored at Group level.
- In the first instance the general manager of each company has the responsibility for ensuring that this is effectively managed at the local level. Within each Group company there is a nominated person responsible for monitoring compliance with the Group's environmental policy.
- Additionally environmental audits are carried out for major Group manufacturing operations and the Divisional Director is responsible for ensuring appropriate action is taken.
- The Group's objective is to comply with environmental laws and good practice and where non-compliance is identified management systems currently in place ensure that this is rectified within an appropriate timeframe.
- Where environmental upgrades are made to plant and machinery, consideration is given to implementation across the Group's facilities worldwide.

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 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 in September 1999 (the Turnbull committee report) 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 executive directors specifically review any risks facing the business which could give rise to a "significant loss".

As part of the on-going process, the Group companies have reported on a quarterly basis their position with regard to implementing the identified countermeasures to address the Group's significant business risks. The quarterly 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, comprising the non-executive directors, Messrs. T. B. Fortune, E. Lindh, C. G. Sneath and M. Townsend (Chairman), review the system of reporting and monitoring and its effectiveness as a whole.

The Group established its Business Code in 1995.

(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.

Corporate Governance

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.

(iv) Audit Committee
The Audit Committee consists of the non-executive directors. It meets at least 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.

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 was appointed as Senior Independent Director on 1st January 2000.

Remuneration and Nomination Committees and Directors' Responsibilities
The Remuneration Policy and Practice Report presented by the Board of Directors is set out with the Statement of Directors' Responsibilities.

The Board has a Nomination Committee for appointments to the Board which comprises the non-executive directors and the Chief Executive.

Corporate Governance

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

The Group also recognises that the achievement of good quality, 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. For each subsidiary there is a nominated person who is responsible for monitoring compliance with the Group's policy.

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

Implementation

To implement the above policy the Board has appointed the Director - Supply with specific environmental responsibility in relation to the Group's operations. The environmental policy set out above is appropriately circulated to management and to all employees and, through executive directors, general managers of operating companies within the Group are responsible for local compliance with the Group's policy and with local legislation.

Previously the Group has utilised external environmental consultants to audit a number of manufacturing facilities and has established an internal environmental audit process under which a senior manager assesses the environmental position in each of the major manufacturing units and reports for action to the local management. This process is overseen by the Director - Supply.

The Group also operates a regular system of review, under which every operating company reports on environmental issues and compliance with local legislation; any identified problems are actioned as a result. Investment has been made in component cleaning equipment which minimises the use of solvents and therefore the amount of effluent produced.

Some chemicals and fluxes have been replaced by new developments which have also contributed to a cleaner operating environment. Significant investment has been made in noise attenuation benefiting employees and also local residents adjacent to the factories.

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, 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.

EMPLOYMENT REPORT

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

The defined benefit pension schemes for Spirax-Sarco UK employees were closed to new members from 31st August 2001. A defined contributions scheme was established for new employees and stakeholder schemes were also established. There were no major changes to the benefits under the Group's principal pension schemes during the year.

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 and in the UK meets the requirements of the Disability Discrimination Act 1995.

Remuneration Policy and Practice

The Board presents the following report on the operation of the Remuneration Committee.

THE REMUNERATION COMMITTEE

This Committee, which has been established for many years and operates under terms of reference agreed by the Board, comprises the independent non-executive directors, Messrs. E. Lindh, C. G. Sneath and M. Townsend (Chairman).

The Committee is responsible for determining, on behalf of the Board, the Company's remuneration policy and for determining the employment conditions and remuneration packages of the Chairman and individual executive directors. The Committee also administers and determines the grant of options under the Group's share option schemes for executive directors and other senior employees.

The Committee obtains independent professional advice to ensure that the Company's remuneration policies are appropriate and competitive. Mr. T. B. Fortune, the Company Chairman, and Mr. M. J. D. Steel, the Chief Executive, attend meetings at the invitation of the Committee to provide information requested by it. However, they do not participate in any discussions involving their own remuneration.

The Company has throughout the year complied with the code of best practice set out under the Combined Code with regard to directors' remuneration. The Committee has given full consideration to the Combined Code in establishing the remuneration policy and packages for directors.

POLICY ON EXECUTIVE DIRECTORS' REMUNERATION

The Company's policy is to reward directors competitively and on the broad principle that their remuneration should be comparable with remuneration in other similar public companies. The total remuneration package is appropriate and necessary to attract, retain and motivate directors of the calibre required to take the Company forward. In order to align the interests of directors and shareholders, the Committee has structured the total remuneration package to provide for a significant performance-related element. The structure of directors' remuneration packages, which was established in 1989 and confirmed following a specific review in 1995, has been amended for appointments of executive directors after 1st January 1998 to provide normally for a 12 month, rather than for a 24 month, notice period in the service contract. The Remuneration Committee considers that as the length of service contracts complied with normal practice at the time the contracts were entered into it is inappropriate to change existing terms and conditions. The remuneration packages comprise the following:-

Basic salary

The Committee obtains independent professional advice using published information for comparable public companies. Salaries are reviewed annually on 1st January taking into account the experience, responsibility and performance of the individual.

Annual bonus

The Company operates an annual bonus scheme for executive directors. The bonus is paid as a percentage of salary. This percentage is the sum of:-

i) one-third of the percentage increase in pre-tax profit for the year over the average pre-tax profit for the previous three years, and

ii) two-thirds of the percentage increase in earnings per share for the year over the average earnings per share for the previous three years.

There is a contractual maximum bonus payment equal to basic salary. The bonus forms an integral and regular part of the executive directors' remuneration and has been and is pensionable. The non-executive directors do not participate in the bonus scheme.

Long term incentives

(i) Spirax-Sarco Engineering 1992 UK/Global Share Option Schemes

The Company operates share option schemes for executive directors and senior management which are administered by the Committee which determines the grant of options under the schemes usually once per year. These are designed to align the longer term interests of directors and senior management with those of shareholders by giving an incentive linked to added shareholder value. The policy is to phase options over the ten year life of the share option schemes. Options granted to each director are subject to performance criteria which are set out below. The granting of discounted options ceased in 1994.

Remuneration Policy and Practice

The interests of directors are set out below:-

(a) As at 31st December 2000 Mr. T. B. Fortune held options over 5,051 and 135,133 ordinary shares in category A and B respectively (as explained in Note 1 overleaf).

Mr. Fortune exercised the following options during the year:-
5,051 options @ 301.81416p each
15,133 options @ 355.07554p each
50,000 options @ 427p each

The market price on the date the options were exercised (8th June 2001) was 487p. The gain arising on the exercise was £59,317.87.

A further 70,000 options granted to Mr. Fortune lapsed on 31st October 2001 following the expiry of the extended exercise period.

(b) The following directors hold options over the number of ordinary shares shown against their respective names. None of these directors exercised any options during 2000 and 2001.

	(1)	**31.12.00** No.	**Granted during the year to 31.12.01** (2) No.	**31.12.01** No.	**Average exercise price per share** (3) pence	**Date from which exercisable**	**Expiry date**
M.J.D. Steel	A	25,000	-	25,000	319.2	17.03.03	08.04.08
	B	125,000	35,000	160,000	503.3	10.10.97	08.04.08
		150,000	35,000	185,000			
C.J. Ball	A	15,000	-	15,000	319.2	17.03.03	29.09.05
	B	90,000	20,000	110,000	534.7	10.10.97	29.09.05
		105,000	20,000	125,000			
A.D.H. Black	A	20,677	-	22,569	305.9	15.07.95	17.03.10
	B	49,392	20,000	67,500	479.0	10.10.97	27.03.11
		70,069	20,000	90,069			
G.P. Marchand	A	18,784	-	30,137	330.5	07.10.96	24.12.07
	B	101,353	20,000	110,000	534.7	10.10.97	24.12.07
		120,137	20,000	140,137			
D.J. Meredith	A	31,399	-	42,752	301.8	07.10.96	17.03.10
	B	111,353	20,000	120,000	541.1	10.10.97	27.03.11
		142,752	20,000	162,752			
P.A. Smith	A	42,817	-	52,845	293.1	15.07.95	17.03.10
	B	82,528	20,000	92,500	525.5	10.10.97	18.08.10
		125,345	20,000	145,345			
P.M. Smith	A	17,144	-	22,568	326.1	07.10.96	21.09.05
	B	75,424	20,000	90,000	512.1	10.10.97	21.09.05
		92,568	20,000	112,568			

Remuneration Policy and Practice

Notes

1. Options shown on line A are those where the exercise prices are lower than the middle market price of the Company's ordinary shares on 31st December 2001. Options shown on line B are those where the exercise prices are higher than the middle market price on that date.

2. Options were granted to directors during the year over 155,000 ordinary shares at 397.6666p per share under the Spirax-Sarco Engineering 1992 Global Share Option Scheme, which is Unapproved.

3. These are the weighted averages of the exercise prices for ordinary shares under option at 31st December 2001.

The market price of the ordinary shares on 31st December 2001 was 376p. During the period from 1st January 2001 to 31st December 2001, the ordinary share price ranged between 501.5p and 310p.

Options granted are normally exercisable between three and ten years from the date of grant and, for grants from 1995, only if performance criteria are satisfied. These performance criteria require an increase in earnings per share of more than 6% greater than the increase in the UK retail prices index over a period of three consecutive years between grant and exercise.

Prior to 1995 options granted did not have performance criteria attached to them, except for discounted options granted which are exercisable between five and ten years at an alternate exercise price which reflects a 15% discount to the market price at the time of grant. These require an increase in earnings per share of more than 10% greater than the increase in the UK retail prices index over a period of five consecutive years between grant and exercise.

The Register of Directors' Interests (which is open to inspection) contains full details of directors' shareholdings and options to subscribe.

There have been no changes in the number of shares held or share options granted as shown above since 31st December 2001.

Details of total share options issued are set out on page 44. The above performance criteria also apply to other relevant options granted to participants in the share option schemes.

(ii) Spirax-Sarco Engineering 1992 Share Ownership Scheme
The Company operated an employee share ownership scheme in which the executive directors participated on the same basis as all other eligible UK employees.

(iii) Spirax-Sarco Engineering plc Employee Share Ownership Plan
The executive directors are also eligible to participate in the Employee Share Ownership Plan which commenced on 1st October 2001. The Employee Share Ownership Plan enables employees to acquire shares in the Company each year using deductions from salary on a pre-tax basis which will be matched on a maximum 1:1 basis by allocations of shares paid for by the Company. For the Plan period the directors' contributions are limited to a maximum of £1,500 per annum under Inland Revenue Rules.

There are no other long-term incentives provided to directors.

Pensions
The executive directors are members of an Inland Revenue approved non-contributory defined benefit pension scheme based on 1/60th of pensionable salary, for each year of pensionable service. The maximum pension is two-thirds of pensionable salary. The executive directors accrue pro-rata additional service at a rate which gives a further two and a half years of service at their normal retirement age of 62½. Additionally Mr. G. P. Marchand accrues pro-rata additional service at a rate which gives a further nine years of service at age 60.

The scheme provides lump sum death in service benefit of four times pensionable salary. Spouses' pensions are payable where death occurs in service or in retirement. No executive director is affected by the Inland Revenue earnings cap and there are no Unapproved pension arrangements in respect of directors.

Remuneration Policy and Practice

Details of the additional deferred pension earned during the year to 31st December 2001, net of statutory deferred pension revaluation, and the change in the transfer value corresponding to this change in deferred pension are set out below individually for each director. This information complies with the requirements of the UK Listing Authority.

	Age attained at 31.12.01	Accrued pension at 31.12.00	Accrued pension at 31.12.01	Change in accrued pension during year*	Transfer value of change in accrued pension
		£pa	£pa	£pa	£
M.J.D. Steel	56	117,423	136,570	15,272	209,614
C.J. Ball	58	88,332	98,997	7,750	121,963
A.D.H. Black	44	47,505	53,398	4,325	35,041
G.P. Marchand	56	68,549	79,614	8,803	123,805
D.J. Meredith	42	42,288	49,048	5,364	39,536
P.A. Smith	53	51,025	59,905	7,196	91,172
P.M. Smith	58	47,253	54,664	5,852	92,268

* Net of deferred pension revaluation at the rate of 3.3%.

Note: Accrued pension means pension payable at normal retirement age assuming no further pensionable service.

The following is additional information relating to directors' pensions:

(i) Dependant's pensions
On the death of a director in service, a spouse's pension equal to one-half of the director's pension based on pensionable service to the date of death is payable.

On the death of a director after payment of the pension commences, a spouse's pension of one-half of the director's pension entitlement at the date of death, ignoring commutation and any early retirement actuarial reduction, is payable; in addition directors' pensions are guaranteed to be paid for five years from retirement.

(ii) Early retirement rights
After leaving the service of the Company, a director has the right to draw his accrued pension at any time after his 60th birthday with no reduction.

(iii) Pension increases
All pensions are subject to contractual annual increases in line with the annual rise in the RPI subject to a maximum of 5% per annum. The Trustees and the Company have the discretion to apply a greater increase.

(iv) Transfer values
The changes in transfer values stated above do not represent a sum paid or payable to the individual director. Instead they represent a potential liability of the pension scheme.

(v) Other discretionary benefits
There are no discretionary practices which are taken into account in calculating transfer values on leaving service.

Service Contracts
Messrs. M. J. D. Steel, C. J. Ball, G. P. Marchand, D. J. Meredith and P. A. Smith have service contracts which are subject to two years' notice. The Committee believes it is appropriate to retain this notice period for those directors, being the established practice at the date of their appointment. As a result of a specific review, the Committee, recognising the subsequent change in practice, has determined that in normal circumstances appointments of executive directors made after 1st January 1998 would be on a 12 months' notice basis. Messrs. A. D. H. Black and P. M. Smith have service contracts which are subject to 12 months' notice.

The non-executive directors, including the Chairman, Mr. T. B. Fortune, do not have service contracts.

In determining the amount of compensation payable on termination of a service contract, it is the Committee's policy to apply normal principles of mitigation which, in its opinion, confer greater flexibility to deal with individual circumstances than seeking to include in directors' service contracts a fixed compensation payment. Poor performance will not be rewarded.

Remuneration Policy and Practice

NON-EXECUTIVE DIRECTORS

The remuneration of non-executive directors is approved by the full Board within the limits set out in the Company's articles of association. Their remuneration reflects the amount of time spent on the Company's business. The non-executive directors do not participate in the bonus, share option or share ownership schemes and their appointments are non-pensionable.

DIRECTORS' REMUNERATION

	Basic Salary/ Fees	Benefits (1)	Annual performance related bonus	Other (2)	Total emoluments excluding pension 2001 Total	2000 Total
	£	£	£	£	£	£
T. B. Fortune (3)	68,600	347	-	-	68,947	63,947
M.J.D. Steel	250,000	8,995	24,925	7,235	291,155	262,280
C.J. Ball	147,000	11,903	14,656	4,372	177,931	166,638
A.D.H. Black	142,000	12,364	14,157	4,324	172,845	160,739
G.P. Marchand	150,000	9,076	14,955	4,467	178,498	164,765
D.J. Meredith	165,000	10,200	16,451	4,930	196,581	182,745
P.A. Smith	118,000	7,106	11,765	3,402	140,273	124,831
P.M. Smith	142,000	13,158	14,157	4,245	173,560	159,703
E.Lindh (3)	19,100	-	-	-	19,100	18,200
C.G. Sneath (3)	19,100	-	-	-	19,100	18,200
M.Townsend (3)	25,400	-	-	-	25,400	24,300
	1,246,200	73,149	111,066	32,975	1,463,390	1,346,348

(1) Benefits arising from employment by the Company, which relate in the main to the provision of a company car.

(2) The executive directors participated in the Spirax-Sarco Engineering 1992 Share Ownership Scheme, which is available to all UK employees. The Company contributed shares which broadly matched those deposited by the participant, the cost to the Company of which is shown above.

(3) Non-executive director.

T. B. Fortune *Chairman*

Statement of Directors' Responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss for that period. In preparing those accounts, the directors are required to:

(i) Select suitable accounting policies and then apply them consistently.
(ii) Make judgements and estimates that are reasonable and prudent.
(iii) State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.
(iv) Prepare the accounts on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the requirements of the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Auditors' Report

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

We have audited the accounts on pages 30 to 49.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report. As described on page 28 this includes responsibility for preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on page 20 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the accounts.

BASIS OF AUDIT 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 mis-statement, 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 2001 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 Audit Plc

KPMG Audit Plc
Chartered Accountants, Registered Auditor

London 11th March 2002

Group Profit and Loss Account

for the year ended 31st December 2001

	notes	**2001** £000	2000 £000
Turnover	2	**291,942**	278,148
Operating costs	3	**(251,139)**	(234,778)
Operating profit	5	**40,803**	43,370
Profit/(loss) on disposal of fixed assets	6	**616**	(990)
Profit before interest		**41,419**	42,380
Net interest payable	7	**(2,778)**	(2,213)
Profit on ordinary activities before taxation	8	**38,641**	40,167
Taxation on profit on ordinary activities	10	**(11,926)**	(12,867)
Profit on ordinary activities after taxation		**26,715**	27,300
Minority interests - equity		**(585)**	(933)
Profit for the financial year	11	**26,130**	26,367
Dividends	12	**(13,752)**	(13,301)
Retained profit for the financial year	26	**12,378**	13,066
Earnings per share	13		
Before the disposal of fixed assets		**34.6p**	37.4p
After the disposal of fixed assets		**35.4p**	35.4p
Earnings per share (diluted)	13		
Before the disposal of fixed assets		**34.5p**	37.3p
After the disposal of fixed assets		**35.4p**	35.3p
Dividends per share	12	**18.6p**	18.0p

All amounts relate to continuing operations.

The notes on pages 34 to 49 form an integral part of the accounts.

The historical cost profit is not materially different from the reported profit for 2000 or 2001.

Balance Sheets

at 31st December 2001

	notes	THE GROUP 2001 £000	THE GROUP 2000 £000	PARENT COMPANY 2001 £000	PARENT COMPANY 2000 £000
Fixed assets					
Intangible assets	14	**8,958**	9,299	**-**	-
Tangible assets	15	**91,906**	89,114	**-**	233
Investments	16	**-**	-	**54,623**	55,762
		100,864	98,413	**54,623**	55,995
Current assets					
Stocks	17	**62,840**	64,166	**-**	-
Debtors	18	**86,199**	88,768	**22,269**	11,171
Cash deposits and short term investments	19	**16,147**	18,111	**3,550**	5,250
Cash at bank and in hand		**4,312**	2,961	**-**	-
		169,498	174,006	**25,819**	16,421
Creditors					
Amounts falling due within one year	20	**(72,013)**	(81,204)	**(12,858)**	(11,134)
Net current assets		**97,485**	92,802	**12,961**	5,287
Total assets less current liabilities		**198,349**	191,215	**67,584**	61,282
Creditors					
Amounts falling due after more than one year	21	**(40,084)**	(42,060)	**(941)**	(643)
Provisions for liabilities and charges	23	**(12,191)**	(10,891)	**-**	-
Net assets	24	**146,074**	138,264	**66,643**	60,639
Capital and reserves					
Called up share capital	25	**18,484**	18,398	**18,484**	18,398
Share premium account	26	**33,327**	32,097	**33,327**	32,097
Revaluation reserve	26	**4,618**	4,653	**-**	-
Capital redemption reserve	26	**1,832**	1,832	**1,832**	1,832
Profit and loss account	26	**84,585**	77,944	**13,000**	8,312
Shareholders' funds - equity		**142,846**	134,924	**66,643**	60,639
Minority interests - equity		**3,228**	3,340	**-**	-
		146,074	138,264	**66,643**	60,639

These financial statements were approved by the Board of Directors on 11th March 2002 and signed on its behalf by:

Directors

M.J.D. Steel D.J. Meredith

M J D Steel

Group Statement of Total Recognised Gains and Losses *for the year ended 31st December 2001*

	2001	2000
	£000	£000
Profit for the financial year	**26,130**	26,367
Currency translation differences on foreign currency net investments	**(5,772)**	1,049
Total recognised gains and losses relating to the year	**20,358**	27,416

Reconciliations of Movement in Shareholders' Funds *for the year ended 31st December 2001*

	THE GROUP		**PARENT COMPANY**	
	2001	2000	**2001**	2000
	£000	£000	**£000**	£000
Shareholders' funds at 1st January	**134,924**	125,763	**60,639**	60,222
Profit for the financial year	**26,130**	26,367	**18,440**	18,672
Dividends	**(13,752)**	(13,301)	**(13,752)**	(13,301)
Share buy-back	**-**	(5,851)	**-**	(5,851)
Net proceeds of issue of shares	**1,316**	897	**1,316**	897
Currency translation differences	**(5,772)**	1,049	**-**	-
Shareholders' funds at 31st December	**142,846**	134,924	**66,643**	60,639

Group Cash Flow Statement

for the year ended 31st December 2001

RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOW

	notes	2001 £000	2000 £000
Operating profit		**40,803**	43,370
Depreciation and amortisation charges		**12,303**	11,216
Increase in stocks		**(435)**	(4,220)
Decrease in debtors		**873**	(10,046)
Decrease in creditors and provisions		**(3,573)**	3,073
Cash inflow from operating activities		**49,971**	43,393

GROUP CASH FLOW STATEMENT

	notes	2001 £000	2000 £000
Cash inflow from operating activities		**49,971**	43,393
Returns on investments and servicing of finance	30	**(3,254)**	(2,878)
Taxation		**(12,429)**	(11,993)
Capital expenditure	30	**(16,834)**	(10,248)
Acquisitions	30	**(404)**	(7,408)
Equity dividends paid		**(13,412)**	(13,104)
Cash inflow before use of liquid resources and financing		**3,638**	(2,238)
Management of liquid resources	30	**1,735**	4,877
		5,373	2,639
Financing - Issue of ordinary share capital	30	**1,316**	897
- Share buy-back	30	**-**	(5,851)
- Decrease in debt	30	**(5,477)**	1,840
		(4,161)	(3,114)
Increase in cash in the period	31	**1,212**	(475)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT (Note 31)

	2001 £000	2000 £000
Increase in cash in the period	**1,212**	(475)
Cash outflow from decrease in debt	**5,477**	(1,840)
Cash inflow from decrease in liquid resources	**(1,735)**	(4,877)
Change in net debt resulting from cash flows	**4,954**	(7,192)
Amortisation of loan expenses	**(25)**	(25)
Finance leases	**-**	(732)
Finance leases acquired with subsidiary	**-**	(619)
Translation difference	**206**	(2,237)
Movement in net debt in the period	**5,135**	(10,805)
Net debt at 1st January 2001	**(45,608)**	(34,803)
Net debt at 31st December 2001	**(40,473)**	(45,608)

Notes to the Accounts

1 ACCOUNTING POLICIES

Basis of preparation
The consolidated accounts, which are prepared under the historical cost convention, supplemented by the revaluation of certain assets in prior years, and which have been prepared in accordance with applicable accounting standards, comprise the accounts of the parent company and its subsidiary undertakings. As permitted by FRS 15: Tangible fixed assets, a policy of revaluation has not been adopted. FRS 18 Accounting policies has been adopted for the first time in these accounts with no effect on the Group's results or net assets.

Basis of consolidation
The Group accounts include the accounts of the company and its subsidiary undertakings made up to 31 December 2001. Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

Goodwill
Purchased goodwill arising on consolidation in respect of acquisitions since 1st January 1998 has been capitalised and is being amortised over 20 years.

Prior to 1998, goodwill arising on the acquisition of subsidiary undertakings was written off to reserves in the year of acquisition. On the subsequent disposal or termination of a business acquired prior to 1998, the profit or loss on disposal or termination is calculated after charging the gross amount of any related goodwill previously taken to reserves.

Turnover
Turnover comprises net sales to external customers.

Depreciation
Depreciation is calculated on cost or valuation on a straight line basis at rates which write down the value of the assets to their residual values over their estimated useful lives. The principal rates are as follows:

Freehold land	nil	Office furniture and fittings	10%
Freehold buildings	1.5%	Office equipment	20%
Leasehold properties	10%	Motor vehicles	20%
Plant and machinery	10%	Tooling and patterns	20%

Stocks
Stocks and work in progress are valued at the lower of cost, including factory overheads where appropriate, and estimated net realisable value.

Cash and liquid resources
Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market.

Research and development expenditure
Research and development expenditure is charged against profits as incurred.

Notes to the Accounts

Deferred taxation
Deferred taxation is recognised at current rates of tax on short and long term timing differences where the directors consider that an asset or liability will crystallise. In the case of timing differences relating to pension contributions deferred tax is recognised on a full provision basis.

Foreign currency translation
Foreign currency assets and liabilities are translated into sterling at rates of exchange ruling at 31st December. Trading results of overseas subsidiary undertakings have been translated into sterling at average rates of exchange ruling during the year.

Differences arising from the changes in rates of exchange are treated as part of the trading profit where they relate to items of a trading nature. Exchange differences arising from the retranslation of the opening net investment in overseas subsidiary undertakings, borrowings to hedge those net investments and between the profits for the year translated at average and closing rates, are disclosed as movements on reserves. The results, assets and liabilities of operations in hyper-inflationary economies are translated using an appropriate relatively stable currency as the functional currency. The exchange translation movement arising from this process is taken to the profit and loss account.

Leases
Assets held under finance leases are recorded in the balance sheet as fixed assets and depreciated over the shorter of the lease term and useful economic lives. The obligations relating to finance leases, net of finance charges in respect of future periods, are included as appropriate under creditors due within, or creditors due after more than, one year. The interest element of the rental obligation is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the obligation for each accounting period. Rentals under operating leases are charged to the profit and loss account on an accruals basis.

Pensions and other post-retirement benefits
Pension schemes are operated by the Company and subsidiary undertakings which employ the majority of Group employees. Contributions to the schemes are charged to the consolidated profit and loss account such that the cost is spread over the estimated working lives of employees of the Group. The Group has adopted the transitional requirements of FRS 17 - Retirement Benefits as reported in note 29.

The costs of providing post-retirement benefits other than pensions, principally healthcare, are charged to the profit and loss account on a consistent basis over the average service lives of employees. Such costs are assessed in accordance with the advice of independent qualified actuaries.

2 TURNOVER
The analysis of turnover by reference to the geographical location of customers is as follows:

	2001 £000	2000 £000
United Kingdom	**38,869**	37,507
Continental Europe	**101,406**	94,190
The Americas	**87,770**	83,079
Asia, Australasia and Africa	**63,897**	63,372
	291,942	278,148

The analysis of turnover by reference to the geographical location of the Group's operations is as follows:

	2001 £000	2000 £000
United Kingdom	**85,733**	86,802
Continental Europe	**125,589**	114,091
The Americas	**92,267**	88,050
Asia, Australasia and Africa	**57,137**	57,255
	360,726	346,198
Intra-group sales	**(68,784)**	(68,050)
Sales to third parties	**291,942**	278,148

There were no discontinued operations in 2001 or 2000.
The Group operates in one business segment which is the control of fluids.

Notes to the Accounts

3 OPERATING COSTS

	2001 £000	2000 £000
Change in stocks of finished goods and work in progress	**656**	(3,475)
Raw materials and consumables	**79,451**	76,145
Staff costs (note 4)	**107,621**	100,320
Depreciation	**11,796**	10,853
Amortisation of goodwill	**507**	363
Other operating charges	**51,108**	50,572
	251,139	234,778

4 STAFF COSTS AND NUMBERS

The aggregate payroll costs of persons employed by the Group were as follows:

	2001 £000	2000 £000
Wages and salaries	**87,456**	82,214
Social security costs	**15,119**	13,424
Other pension costs	**5,046**	4,682
	107,621	100,320

The average number of persons employed by the Group (including directors) during the year was as follows:

	Number	Number
United Kingdom	**1,132**	1,108
Overseas	**2,927**	2,806
	4,059	3,914

5 OPERATING PROFIT

The analysis of operating profit by reference to the geographical location of the Group's operations is as follows:

	2001 £000	2000 £000
United Kingdom	**8,603**	11,878
Continental Europe	**13,414**	13,468
The Americas	**9,498**	8,139
Asia, Australasia and Africa	**9,288**	9,885
	40,803	43,370

The profit/(loss) on disposal of fixed assets is split UK £1,134,000 and Americas (£518,000) (2000: Americas (£990,000)).

6 NON-OPERATING ITEM

	2001 £000	2000 £000
Profit/(loss) on sale of freehold land and buildings	**616**	(990)

No tax is payable on the non-operating item (2000: £488,000 payable).

Notes to the Accounts

7 NET INTEREST PAYABLE

		2001 £000	2000 £000
Interest payable:	Bank loans and overdrafts	**2,478**	2,483
	Other loans	**1,310**	930
		3,788	3,413
Interest receivable		**(1,010)**	(1,200)
		2,778	2,213

8 PROFIT BEFORE TAXATION

Profit before taxation is shown after charging:

	2001 £000	2000 £000
Depreciation of tangible fixed assets held under finance leases	**91**	3
Audit fees (Spirax-Sarco Engineering plc £85,000 (2000: £83,000))	**633**	595
Hire of plant and machinery	**369**	773
Other operating leases	**3,045**	2,416
Research and development	**4,593**	4,571
Share Ownership Scheme contributions	**463**	499

Fees paid to the auditors of the parent company and their associates for services other than statutory audits supplied to the Company and the rest of the Group worldwide amounted to £416,000 (2000: £544,000), including amounts paid to the auditors of overseas companies of £236,000 (2000: £309,000). Fees were paid mainly in respect of taxation services.

9 DIRECTORS' EMOLUMENTS

Details of directors' emoluments, share options and pension benefits are shown in the statement of Remuneration Policy and Practice on pages 24 to 28.

10 TAXATION

	2001 £000	2000 £000
United Kingdom corporation tax at 30% (2000: 30%)	**6,069**	9,024
Deduct double taxation relief	**(4,174)**	(5,766)
	1,895	3,258
Overseas taxation	**9,639**	8,734
Deferred taxation	**497**	1,108
	12,031	13,100
Adjustment in respect of previous years	**(105)**	(233)
	11,926	12,867

The provision for taxation includes taxation on dividends receivable out of the profits of overseas subsidiary undertakings for the year.

11 PROFIT FOR THE FINANCIAL YEAR

Profit dealt with in the accounts of Spirax-Sarco Engineering plc was £18,440,000 (2000: £18,672,000). Included in this amount are dividends from subsidiary undertakings of £18,026,000 (2000: £19,187,000).

12 DIVIDENDS

			2001 £000	2000 £000
Interim paid	5.6p	(2000: 5.4p) per share	**4,140**	4,028
Final proposed	13.0p	(2000: 12.6p) per share	**9,612**	9,273
	18.6p	(2000: 18.0p) per share	**13,752**	13,301

13 EARNINGS PER SHARE

The calculation of earnings per share before the disposal of fixed assets is based on earnings of £25,514,000 (2000: £27,845,000) and the calculation of earnings per share after the disposal of fixed assets is based on earnings of £26,130,000 (2000: £26,367,000), as shown in the Group profit and loss account, divided by the weighted average number of shares in issue during the year of 73,808,317 (2000: 74,531,906). The calculation of earnings per share (diluted) before and after the disposal of fixed assets is based on the earnings shown above and the weighted average number of shares in issue diluted by 101,481 (2000: 75,374) to 73,909,798 (2000: 74,607,280). The dilution is in respect of unexercised share options.

14 FIXED ASSETS: INTANGIBLE ASSETS

	THE GROUP Goodwill £000
Cost:	
At 1st January 2001	9,991
Exchange adjustments	(88)
	9,903
Additions (note 32)	246
At 31st December 2001	**10,149**
Amortisation:	
At 1st January 2001	692
Exchange adjustments	(8)
	684
Charged in year	507
At 31st December 2001	**1,191**
Net book value:	
At 31st December 2001	**8,958**
At 31st December 2000	9,299

Notes to the Accounts

15 FIXED ASSETS: TANGIBLE ASSETS

	THE GROUP					PARENT COMPANY
	Land and buildings					
	Freehold £000	Short leasehold £000	Plant and machinery £000	Fixtures, fittings, tools and equipment £000	Total £000	Freehold land and buildings £000
Cost or valuation:						
At 1st January 2001	48,988	1,508	70,176	46,722	167,394	233
Exchange adjustments	(1,980)	23	(1,969)	(703)	(4,629)	-
	47,008	1,531	68,207	46,019	162,765	233
Additions	2,035	47	9,881	5,547	17,510	-
Disposals	(633)	(14)	(2,346)	(2,446)	(5,439)	(233)
At 31st December 2001	**48,410**	**1,564**	**75,742**	**49,120**	**174,836**	**-**
Depreciation:						
At 1st January 2001	5,738	217	40,998	31,327	78,280	-
Exchange adjustments	(362)	(2)	(1,252)	(441)	(2,057)	-
	5,376	215	39,746	30,886	76,223	-
Charged in year	888	40	6,147	4,593	11,668	-
Disposals	(398)	(3)	(2,209)	(2,351)	(4,961)	-
At 31st December 2001	**5,866**	**252**	**43,684**	**33,128**	**82,930**	**-**
Net book value:						
At 31st December 2001	**42,544**	**1,312**	**32,058**	**15,992**	**91,906**	**-**
At 31st December 2000	43,250	1,291	29,178	15,395	89,114	233

Freehold land and buildings at cost or valuation on the basis of open market values for existing use comprises:

		2001 £000	2000 £000
Valuation	1976	**63**	67
	1986	**6,819**	6,863
	1991	**2,421**	2,372
Cost		**39,107**	39,686
		48,410	48,988

The historic cost net book value of freehold land and buildings at 31st December 2001 was £37,607,000.
Freehold land of £8,403,000 is not depreciated.

Included in the above are finance leases with net book value of £1,825,000.

As permitted by FRS15: Tangible fixed assets, it is not currently the intention to update valuations.

Notes to the Accounts

16 FIXED ASSETS: INVESTMENTS

	PARENT COMPANY		
	Shares in subsidiary undertakings £000	Loans to subsidiary undertakings £000	Total £000
Cost:			
At lst January 2001	44,515	13,283	57,798
Exchange adjustments	-	(341)	(341)
	44,515	12,942	57,457
Repayments	-	(798)	(798)
At 31st December 2001	**44,515**	**12,144**	**56,659**
Amounts written off:			
At lst January 2001	994	1,042	2,036
Charge for year	-	-	-
At 31st December 2001	**994**	**1,042**	**2,036**
Net book value:			
At 31st December 2001	**43,521**	**11,102**	**54,623**
At 31st December 2000	43,521	12,241	55,762

Investments are stated at cost less provisions for any impairment in value.

Details relating to subsidiary undertakings are given on page 14. Except where stated on that page all classes of shares were 100% owned by the Group at 31st December 2001. The country of incorporation of the principal Group companies is the same as the country of operation with the exception of companies operating in the United Kingdom which are incorporated in Great Britain and registered in England and Wales. All are in the fluid control business except Spirax-Sarco Investments Ltd., Spirax-Sarco Overseas Ltd., Sarco International Corp., Spirax-Sarco Engineering B.V. and Spirax-Sarco Investments B.V. which are investment holding companies.

Spirax-Marshall Limited, in which the Group has a 40% interest, and Spirax-Sarco Mexicana S.A., in which the Group has a 49% interest, have been consolidated as subsidiaries because the Group has participating interests in them and exercises a dominant influence over them. The dominant influence is on the basis that the operating and financial policies of these companies are set in accordance with the wishes of the Group and for the Group's benefit.

17 STOCKS

	THE GROUP	
	2001 £000	2000 £000
Raw materials and consumables	**20,346**	19,343
Work in progress	**10,500**	11,396
Finished goods and goods for resale	**31,994**	33,427
	62,840	64,166

Notes to the Accounts

18 DEBTORS

	THE GROUP		PARENT COMPANY	
	2001	2000	**2001**	2000
	£000	£000	**£000**	£000
Trade debtors	**70,435**	73,717	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**21,793**	10,755
Other debtors	**9,538**	8,648	**103**	130
Prepayments and accrued income	**4,584**	4,822	**113**	50
Taxation recoverable	**642**	1,061	**260**	236
Deferred tax	**1,000**	520	**-**	-
	86,199	88,768	**22,269**	11,171

Taxation recoverable in the Group balance sheet represents advance corporation tax of £236,000 (2000: £346,000) and other amounts recoverable of £406,000 (2000: £715,000).

Taxation recoverable in the parent company balance sheet represents advance corporation tax of £236,000 (2000: £236,000) and other amounts recoverable of £24,000 (2000: nil).

19 CASH DEPOSITS AND SHORT-TERM INVESTMENTS

Cash deposits and short-term investments in the Group balance sheet comprise money market deposits of £16,147,000 (2000: £18,111,000) and £3,550,000 (2000: £5,250,000) in the parent company, all with major banks, all of which have a maturity of three months or less from inception.

20 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	THE GROUP		PARENT COMPANY	
	2001	2000	**2001**	2000
	£000	£000	**£000**	£000
Bank loans and overdrafts				
Overdrafts	**4,099**	3,990	**-**	151
Other loans	**17,823**	21,691	**-**	-
Trade creditors	**15,289**	17,529	**-**	-
Bills of exchange payable	**1,093**	1,385	**-**	-
Obligations under finance leases (note 22)	**61**	32	**-**	-
Amount owing to subsidiary undertakings	**-**	-	**3,000**	1,501
Corporation tax	**866**	2,394	**-**	74
Overseas tax	**5,395**	5,038	**-**	-
Social security	**2,089**	2,128	**-**	-
Other creditors	**6,414**	7,687	**46**	-
Accruals	**9,272**	10,057	**200**	135
Proposed dividend	**9,612**	9,273	**9,612**	9,273
	72,013	81,204	**12,858**	11,134

Bank loans and overdrafts amounting to £417,000 (2000: £1,227,000) are secured on freehold property and current assets of certain Group companies.

21 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	THE GROUP		PARENT COMPANY	
	2001	2000	**2001**	2000
	£000	£000	**£000**	£000
Bank loans				
Repayable in part in more than five years	**-**	5,217	**-**	-
Other loans repayable between two and five years	**37,275**	34,353	**-**	-
Obligations under finance leases (note 22)	**1,674**	1,397	**-**	-
Amount owed to subsidiary undertakings	**-**	-	**941**	643
Accruals	**1,135**	1,093	**-**	-
	40,084	42,060	**941**	643

The bank loans repayable between two and five years are represented by a £10,905,000 (2000: £13,345,000) loan expressed in US dollars at a fixed interest rate of 6.7% repayable in four equal annual instalments beginning in 2003, a £3,187,000 (2000: £2,392,000) loan expressed in Japanese yen at an interest rate of LIBOR plus 50 basis points repayable in full in 2006 and a £7,002,000 (2000: £1,941,000) loan expressed in euros at a fixed interest rate of 4.4% repayable in quarterly instalments terminating in 2006.

The Company together with other Group companies has jointly and severally guaranteed loans granted to subsidiary undertakings amounting to £55,536,000 at 31st December 2001 (2000: £62,630,000).

22 OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP	
	Obligations under finance leases	
	2001	2000
	£000	£000
Aggregate amounts repayable:		
between 2 and 5 years	**1,415**	1,204
between 1 and 2 years	**259**	193
	1,674	1,397
in 1 year or less	**61**	32
	1,735	1,429

23 PROVISIONS FOR LIABILITIES AND CHARGES

	THE GROUP			
	Deferred taxation	Post retirement benefits	Warranty and other provisions	Total
	£000	£000	£000	£000
Provisions at 1st January 2001	1,797	8,769	325	10,891
Exchange adjustments	(26)	(158)	-	(184)
	1,771	8,611	325	10,707
Charge for the year	1,011	1,293	-	2,304
Utilised during the year	-	(820)	-	(820)
Provisions at 31st December 2001	**2,782**	**9,084**	**325**	**12,191**

An analysis of deferred taxation is set out below.

	THE GROUP			
	Provided		Unprovided	
	2001	2000	**2001**	2000
	£000	£000	**£000**	£000
Accelerated capital allowances	**456**	403	**2,337**	2,612
Property revaluations	**-**	-	**390**	400
Other timing differences	**1,326**	874	**(803)**	(2,450)
	1,782	1,277	**1,924**	562

The amount of deferred tax unprovided in respect of property revaluations excludes tax on revaluations where rollover relief would be available.

Provision has not been made for taxation which would be payable if full distributions within the Group were made out of post acquisition revenue reserves of overseas subsidiary undertakings at 31st December 2001.

24 NET ASSETS

The analysis of net assets by reference to the geographical location of the Group's operations is as follows:

	THE GROUP	
	2001	2000
	£000	£000
United Kingdom	**48,706**	43,847
Continental Europe	**58,940**	53,974
The Americas	**47,582**	52,322
Asia, Australasia and Africa	**35,631**	36,690
	190,859	186,833
Cash at bank and in hand	**(4,312)**	(2,961)
Capital employed	**186,547**	183,872
Net debt	**(40,473)**	(45,608)
Net assets	**146,074**	138,264

25 CALLED UP SHARE CAPITAL

	THE GROUP		PARENT COMPANY	
	2001	2000	**2001**	2000
	£000	£000	**£000**	£000
Ordinary shares of 25p each:				
Authorised 120,000,000	**30,000**	30,000	**30,000**	30,000
Allotted, called up and fully paid 73,935,371	**18,484**	18,398	**18,484**	18,398

225,261 ordinary shares, having an aggregate nominal value of £56,315 were issued pursuant to the Spirax-Sarco Engineering 1992 Share Ownership Scheme on 20th April 2001 for a consideration of £892,034 received by the Company. 118,074 ordinary shares, having an aggregate nominal value of £29,519, were issued during the year pursuant to the Spirax-Sarco Engineering Share Option Schemes for a consideration of £415,219 received by the Company.

Notes to the Accounts

25 CALLED UP SHARE CAPITAL *(continued)*

Directors and 101 other senior employees and former employees of the Group have been granted options to purchase ordinary shares with an aggregate nominal value of £679,727. Options are exercisable as follows:

	Number of shares	Price to be paid per share
Between 1995 and 2002	52,265	233.0p or 274.2p
Between 1995 and 2002	25,908	274.2p
Between 1995 and 2002	9,500	233.3p or 274.5p
Between 1996 and 2003	38,060	301.8p or 355.1p
Between 1996 and 2003	98,174	355.1p
Between 1997 and 2004	7,838	363.0p or 427.0p
Between 1997 and 2004	219,662	427.0p
Between 1998 and 2005	245,000	611.0p
Between 1999 and 2006	278,000	739.0p
Between 2000 and 2007	277,000	669.0p
Between 2001 and 2008	322,500	420.0p
Between 2002 and 2009	307,000	525.0p
Between 2003 and 2010	382,000	319.2p
Between 2004 and 2011	456,000	397.7p
	2,718,907	

Where relevant these figures reflect adjustments made to the options as a result of the Company's bonus issue.

The performance criteria applicable to directors' share options set out on page 26 also apply to these options.

26 RESERVES

	THE GROUP				
	Share premium account £000	Revaluation reserve £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
Balance at 1st January 2001	32,097	4,653	1,832	77,944	116,526
Effect of exchange rate adjustments	-	(35)	-	(5,737)	(5,772)
	32,097	4,618	1,832	72,207	110,754
Retained profit for the financial year	-	-	-	12,378	12,378
Premium on the issue of shares	1,230	-	-	-	1,230
Balance at 31st December 2001	**33,327**	**4,618**	**1,832**	**84,585**	**124,362**

The cumulative amount of goodwill resulting from acquisitions prior to 1998 (less goodwill on disposals) deducted from reserves amounted to £67,322,000 (2000: £67,322,000).

	PARENT COMPANY				
Balance at 1st January 2001	32,097	-	1,832	8,312	42,241
Retained profit for the financial year	-	-	-	4,688	4,688
Premium on the issue of shares	1,230	-	-	-	1,230
Balance at 31st December 2001	**33,327**	**-**	**1,832**	**13,000**	**48,159**

27 CAPITAL COMMITMENTS

	THE GROUP		PARENT COMPANY	
	2001	2000	**2001**	2000
	£000	£000	**£000**	£000
Capital expenditure contracted for but not provided	**1,356**	1,346	**-**	-

28 LEASE OBLIGATIONS

	THE GROUP			
	Buildings		Other operating leases	
	2001	2000	**2001**	2000
	£000	£000	**£000**	£000
Rental payments due in 2002 are under current operating leases terminating in the following years:				
2002	**681**	547	**745**	571
2003 to 2006	**1,050**	769	**1,036**	823
2007 onwards	**157**	94	**9**	6
	1,888	1,410	**1,790**	1,400

29 PENSIONS AND OTHER POST-RETIREMENT BENEFITS

The total pension charge for the Group this year was £5,046,000 (2000: £4,682,000) of which £2,651,000 (2000: £2,474,000) relates to the overseas schemes.

The Group operates three defined benefit schemes in the UK and one defined contribution scheme. Two of the defined benefit schemes were closed to new entrants in the course of the year. The defined contribution scheme was established to provide pension benefits to new employees. The cost of the UK defined benefit pension schemes was determined using the projected unit and attained age methods following the advice of a qualified actuary. The cost of the defined contribution scheme is equal to the contributions paid.

The most recent actuarial valuations in the UK schemes were at 31 December 1998. At this date the market value of the assets was £95,600,000 and the actuarial value of the assets was sufficient to cover 97 per cent of the benefits that had accrued to members, after allowing for expected future increases in earnings. This shortfall should be eliminated within the average working lifetime of the employees in the UK.

The most important assumption used in the valuation for accounting purposes concern the rate of return on investments and the rates of increases in salary and pensions. It was assumed that investment returns would exceed salary increases by an average of 3.6 per cent per annum and pension increases by an average of 4.6 per cent per annum.

Included in other debtors in the Group balance sheet are prepaid pension costs of £5,481,000 (2000: £3,615,000).

In respect of certain overseas schemes the excess of £8,474,000 (2000: £8,165,000) of the accumulated pension cost over the amount funded is provided in the accounts (note 23). Most of this provision relates to the unfunded German scheme.

The charge for post-retirement benefits other than pensions for the Group in 2001 was £51,000 (2000: £63,000) and related to health care. Provisions for the benefit obligations at 31st December 2001 amounted to £610,000 (2000: £604,000) and are included in provisions for post retirement benefits (note 23). The future costs of benefits are assessed in accordance with the advice of independent qualified actuaries and are based on assumed discount rates of 7.75% and investment return rates of 8.5%. No deferred tax asset has been provided for this obligation.

FRS17 disclosures

Whilst the Group continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension costs', under FRS 17 'Retirement benefits' the following transitional disclosures are required:

The most recent actuarial valuations of the Group's defined benefit schemes were carried out at various dates between 31 December 2000 and 31 December 2001. The results produced at earlier valuation dates were updated to the 31st December 2001 by independent qualified actuaries.

29 PENSIONS AND OTHER POST-RETIREMENT BENEFITS *(continued)*

The financial assumptions used at 31 December 2001 were:

	Assumptions weighted by value of liabilities % per annum		
	UK pensions	Overseas pensions	Post retirement medical
Rate of increase in salaries	3.5	4.2	
Rate of increase in pensions	2.5	2.0	
Discount rate	5.8	6.5	7.3
Rate of price inflation	2.5	N/A	
Medical trend rate			6.0
	Assumptions weighted by market value of assets % per annum		
Expected rate of return on assets (aggregate)	7.0	7.6	
Bonds	5.1	6.4	
Equities	7.8	7.9	
Other	5.3	5.8	

The assets in the schemes at 31 December 2001 were:

	Market value		
	UK pensions £000	Overseas pensions £000	Post retirement medical £000
Total in aggregate	109,600	16,700	
Bonds	22,900	500	
Equities	77,800	14,400	
Other	8,900	1,800	

The following amounts at 31 December 2001 were measured in accordance with the requirements of FRS17.

	UK pensions £000	Overseas pensions £000	Post retirement medical £000
Total market value of schemes' assets	109,600	16,700	-
Present value of the schemes' liabilities	116,600	27,400	800
Deficit in the schemes	(7,000)	(10,700)	(800)
Related deferred tax asset	2,100	1,980	240
Net pension liability	(4,900)	(8,720)	(560)

If the above amounts had been recognised in the accounts, the Group's net assets and profit and loss account reserve at 31 December 2001, would be as follows:

	£000
Net assets excluding pension liability	146,074
Pension liability	(5,096)
Net assets including pension liability	140,978
Profit and loss account reserve excluding pension liability	84,585
Pension liability	(5,096)
Profit and loss account reserve	79,489

The net pension liability of £14,180,000 calculated in accordance with FRS 17 compares with the pension provision currently recorded of £9,084,000 (note 23).

30 ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	THE GROUP 2001 £000	THE GROUP 2000 £000
Returns on investments and servicing of finance		
Interest received	**1,012**	1,194
Interest paid	**(3,654)**	(3,317)
Interest element of finance lease rentals payments	**(78)**	(6)
Dividends paid by subsidiary undertakings to minority interests	**(534)**	(749)
Net cash outflow for returns on investments and servicing of finance	**(3,254)**	(2,878)
Capital expenditure		
Purchase of tangible fixed assets	**(18,584)**	(16,151)
Sales of tangible fixed assets	**1,750**	5,903
Net cash outflow for capital expenditure	**(16,834)**	(10,248)
Acquisitions		
Purchase of subsidiary undertakings	**(404)**	(5,984)
Net cash and overdrafts acquired with subsidiary	**-**	(1,424)
Net cash outflow for acquisitions	**(404)**	(7,408)
Management of liquid resources*		
Net cash taken off deposit	**1,735**	4,877
Net cash inflow from management of liquid resources	**1,735**	4,877
Financing		
Issue of ordinary share capital	**1,316**	897
Share buy-back	**-**	(5,851)
	1,316	(4,954)
Debt due within a year: net decrease in short term borrowings	**(3,679)**	3,177
Debt due beyond a year: net decrease in long term borrowings	**(2,139)**	(1,310)
Capital element of finance lease rentals payments	**341**	(27)
Increase in debt	**(5,477)**	1,840
Net cash inflow from financing	**(4,161)**	(3,114)

* Spirax-Sarco Engineering plc includes as liquid resources term deposits of less than a year.

31 ANALYSIS OF CHANGES IN NET DEBT

	At 1 Jan 2001 £000	Cash flow £000	Other non-cash changes £000	Exchange movement £000	At 31 Dec 2001 £000
Cash in hand and at bank	2,961	1,446	-	(95)	4,312
Overdrafts	(3,990)	(234)	-	125	(4,099)
		1,212			
Debt due within a year	(21,691)	3,679	-	189	(17,823)
Debt due beyond a year	(39,570)	2,139	(25)	181	(37,275)
Finance leases	(1,429)	(341)	-	35	(1,735)
		5,477			
Current asset investments	18,111	(1,735)	-	(229)	16,147
Total	**(45,608)**	**4,954**	**(25)**	**206**	**(40,473)**

32 PURCHASE OF SUBSIDIARY UNDERTAKINGS

The acquisition of the M & M group of companies was completed on 31st October 2000. The acquisition was accounted for by the acquisition method of accounting. During 2001 additional goodwill of £246,000 arose in respect of stock and provisions.

The cash outflow on acquisitions included £404,000 in respect of the M & M group of companies.

33 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Group does not enter into significant derivative transactions. The Group's principal financial instruments comprise bank loans, guaranteed senior notes, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained fundamentally unchanged since the beginning of 2000.

Interest rate risk

The Group borrows in desired currencies at both fixed and floating rates of interest as appropriate to the purposes of the borrowing depending on which gives best value. At the year-end 28% of the Group's debts were at fixed rates.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, loans and finance leases as appropriate.

Foreign currency risk

The Group has operations around the world and therefore its balance sheet can be significantly affected by movements in the rate of exchange between sterling and various other currencies particularly the US dollar and euro. The Group seeks to mitigate the effect of this structural currency exposure by borrowing in these currencies where appropriate while maintaining a low cost of debt. At 31st December 2001 the percentage of debt to net assets, excluding debt, was 68% (2000: 68%) for euro based currencies and 49% (2000: 52%) for the US dollar.

The Group also has transactional currency exposures principally as a result of trading between Group companies. Such exposures arise from sales or purchases by an operating unit in currencies other than the unit's functional currency. Net cash flows between any two currencies of less than £1m per annum would not usually be considered sufficiently material to warrant forward cover. Forward cover is not taken out more than twelve months in advance or for more than 80% of the forecast exposure.

The disclosures below exclude short-term debtors and creditors.

Interest rate risk profile of financial liabilities

The interest rate profile of the financial liabilities of the Group as at 31st December was as follows:

2001	Total £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £000
Euro currencies	40,257	2,345	37,912
US dollar	13,645	13,645	-
Other	7,030	1,040	5,990
	60,932	**17,030**	**43,902**

2000	£000	£000	£000
Euro currencies	38,517	2,915	35,602
US dollar	20,750	13,345	7,405
Other	7,413	122	7,291
	66,680	16,382	50,298

All financial liabilities are interest bearing.

In respect of fixed rate financial liabilities the interest rate for euro currency financial liabilities is 4.4% fixed for 4.5 years (2000: 5.5). The interest rate for US dollar financial liabilities is 6.7% fixed for 4.1 years (2000: 5.1 years).

The benchmark rates for the floating rate financial liabilities are as follows:

Canadian dollar, Dutch guilder, Japanese yen, US dollar, French franc	LIBOR
French franc	EURIBOR/T4m
Italian lire	EURIBOR
Spanish peseta	MIBOR

Interest rate risk profile of financial assets

The interest rate profile of the financial assets of the Group as at 31st December was as follows:

2001	Total	Floating rate financial assets	Financial assets on which no interest is earned
	£000	£000	£000
Sterling	4,147	4,083	64
Other	16,312	12,064	4,248
	20,459	**16,147**	**4,312**

2000			
	£000	£000	£000
Sterling	7,018	6,864	154
Other	14,054	11,247	2,807
	21,072	18,111	2,961

Floating rate financial assets comprise cash placed on money market deposit mainly at call and three month rates.

Currency exposures

As explained above, the Group's objectives in managing the currency exposures arising from its net investment overseas (in other words, its structural currency exposures) are to maintain a low cost of debt while partially hedging against currency depreciation. All gains and losses arising from these structural currency exposures are dealt with in the statement of total recognised gains and losses.

Transactional (or non-structural) exposures give rise to net currency gains and losses that are recognised in the profit and loss account. Such exposures include the monetary assets and monetary liabilities in the Group balance sheet that are not denominated in the operating (or 'functional') currency of the operating unit involved. At 31st December the currency exposures in respect of the euro currencies was a net monetary liability of £105,000 (2000: £388,000) and in respect of the US dollar a net monetary asset of £882,000 (2000: £595,000).

Foreign exchange contracts

The nominal value of forward contracts at 31st December 2001 is £1,330,000, the fair value is £66,000 and the book value is £nil.

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 31st December was as follows:

	2001	2000
	£000	£000
In one year or less, on demand	**21,984**	25,713
In more than one year but no more than two	**4,504**	9,308
In more than two years but no more than five	**34,444**	26,442
In more than five years	-	5,217
	60,932	66,680

Borrowing Facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available at 31st December in respect of which all conditions precedent had been met at that date were as follows:

	2001	2000
	£000	£000
Expiring in one year or less	**9,495**	15,061
Expiring in more than one year but no more than two	-	101
	9,495	15,162

Fair values of financial assets and financial liabilities

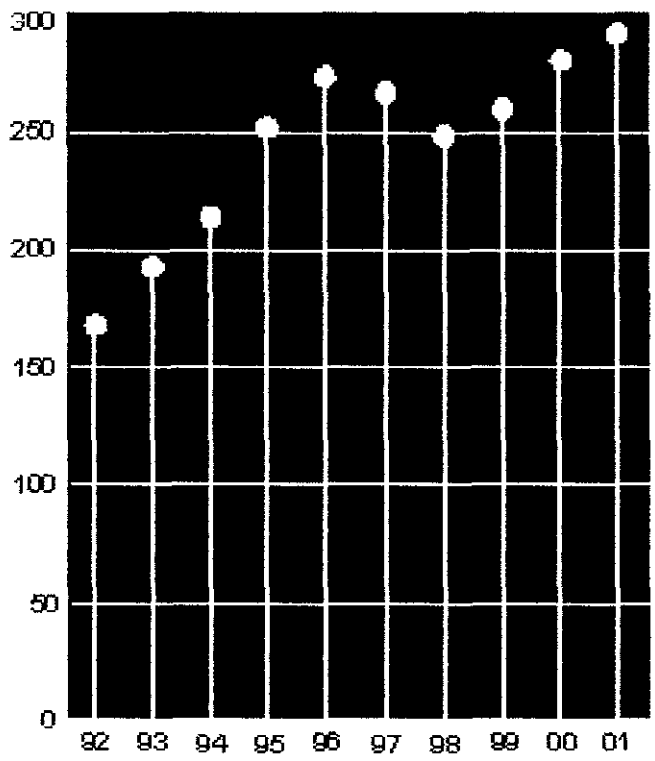
A US dollar loan with a book value of £13,644,000 (2000: £13,344,000) had a fair value at 31st December of £14,107,000 (2000: £13,409,000). Apart from this loan, fair values of financial assets and liabilities at that date were not considered to be materially different from book values due to their size or the fact that they were at short term rates of interest.

Financial Summary 1992-2001

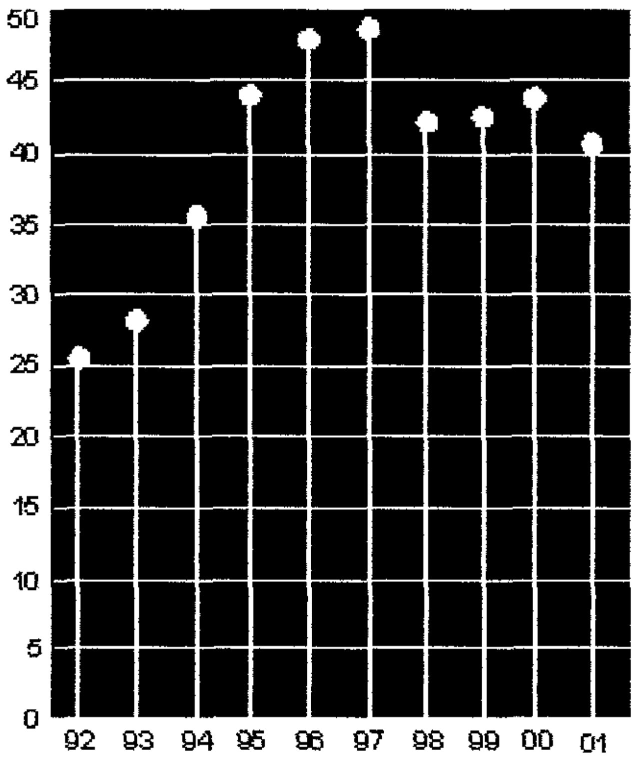
	1992 £000	1993 £000	1994 £000	1995 £000	1996 £000
Turnover	168,377	192,507	217,875	251,285	271,980
Operating profit *	25,402	28,086	35,838	44,016	48,214
Operating profit margin	15.1%	14.6%	16.4%	17.5%	17.7%
Profit before taxation *	24,402	26,667	34,559	43,072	47,113
Profit before taxation **	23,145	26,667	34,559	43,072	47,113
Profit after taxation	13,440	17,155	22,464	27,230	30,984
Dividends	6,942	7,517	8,947	10,361	11,686
Net assets	88,927	89,897	102,864	122,524	119,898
Earnings per share *	18.6p	21.6p	27.9p	33.8p	38.0p
Earnings per share **	16.9p	21.6p	27.9p	33.8p	38.0p
Dividends per share	9.3p	9.9p	11.5p	13.2p	14.8p
Return on capital employed	26.1%	26.1%	32.9%	37.2%	37.1%

* before exceptional and non-operating items
** after exceptional and non-operating items

Turnover (£m)



Operating profit (£m)
(before deducting exceptional and non-operating items)



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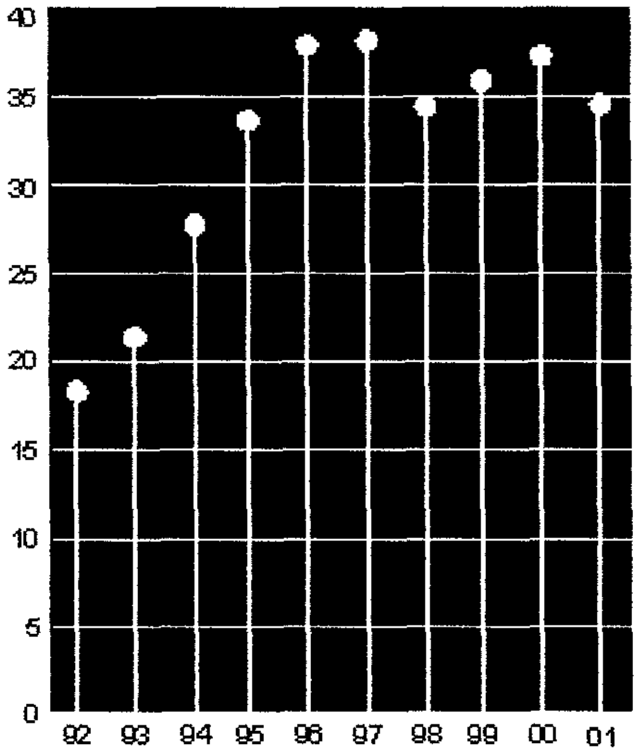
1997 £000	1998 £000	1999 £000	2000 £000	**2001 £000**
265,595	249,030	258,942	278,148	**291,942**
48,574	42,433	42,721	43,370	**40,803**
18.3%	17.0%	16.5%	15.6%	**14.0%**
47,715	42,270	41,751	41,157	**38,025**
47,715	30,641	41,751	40,167	**38,641**
31,229	20,140	29,058	27,300	**26,715**
12,535	13,116	13,102	13,301	**13,752**
128,772	136,196	128,737	138,264	**146,074**
38.3p	34.5p	36.1p	37.4p	**34.6p**
38.3p	24.1p	36.1p	35.4p	**35.4p**
15.8p	16.5p	17.3p	18.0p	**18.6p**
36.5%	30.3%	28.0%	26.2%	**23.5%**

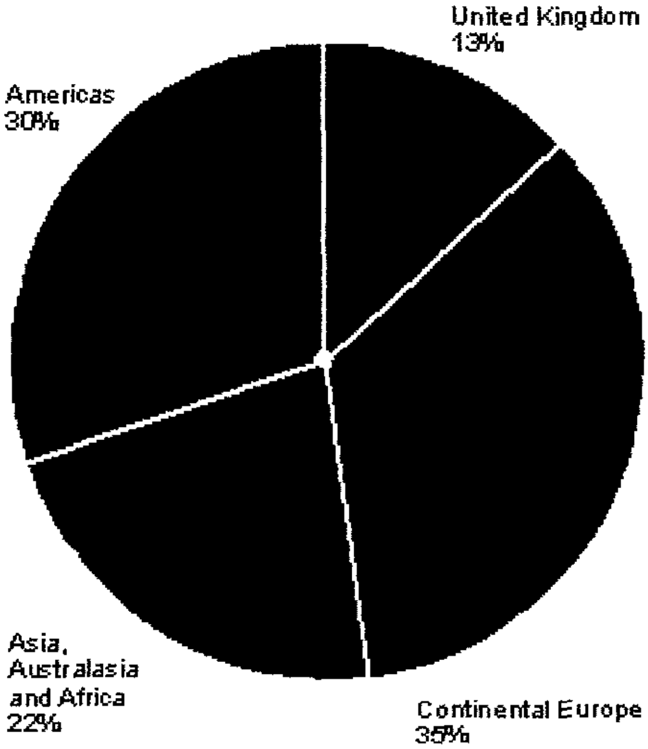
Return on capital employed is based on operating profit before deducting the exceptional and non-operating items and goodwill amortisation, and average net assets excluding net goodwill and net debt.

Earnings per share (p)

(before deducting exceptional and non-operating items)



Geographical analysis of turnover



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IMPORTANT DATES

Ordinary shares quoted ex-dividend	17th April 2002
Record date for final dividend	19th April 2002
Annual general meeting	9th May 2002
Final dividend payable	17th May 2002

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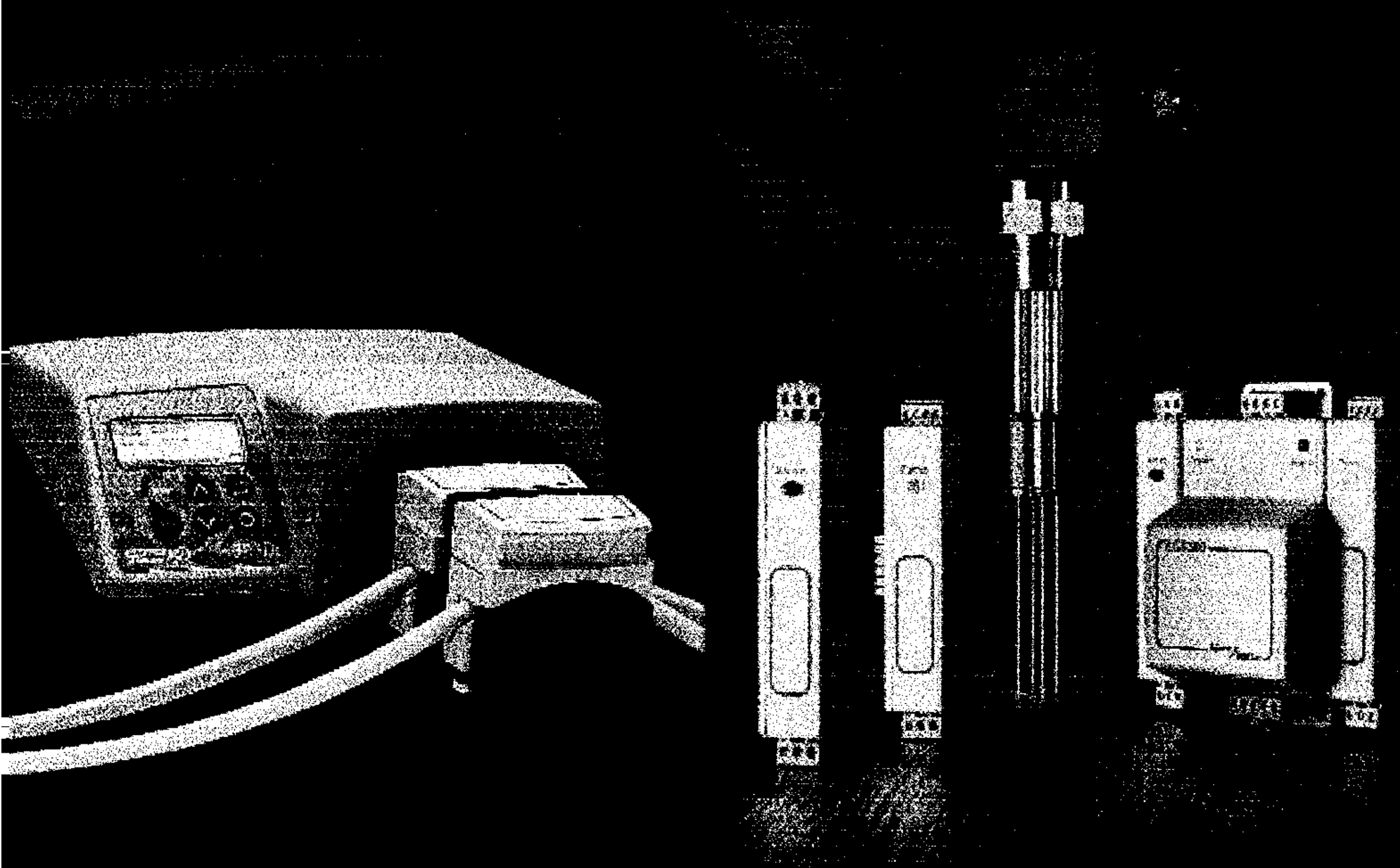

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