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annual report 2002

spirax sarco

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.

Spirax-Sarco Engineering plc final results

	2002	2001*	Change
Turnover	£296.4m	£291.9m	+2%
Operating profit	£42.7m	£40.8m	+5%
Operating profit margin	14.4%	14.0%	
Profit before taxation	£40.7m	£38.0m	+7%
Earnings per share	35.3p	34.4p	+3%
Dividends per share	19.3p	18.6p	+4%
Return on capital employed	25.6%	23.6%	
Net debt	£22.7m	£40.5m	-44%
Net gearing	15%	29%	

* 2001 figures exclude the profit on disposal of fixed assets and have been restated for FRS 19 - Deferred Tax

- Organic sales growth 4% - broadly spread
- Good progress with sales developments
- Improved profit margin
- Strong cash flow - £18m reduction in net debt
- Dividend up 4%

chairman's statement

T.B. FORTUNE *Chairman*

I am pleased to report a good set of results for 2002. Profit before tax increased by 7% (before the profit on disposal of fixed assets in 2001), a robust performance given the continuing difficult global trading environment. Following the solid sales performance in the first half, sales progressed in the second half which, together with efficiency improvements and cost controls, underpinned the profit margin increase and the strong cash flow.

In 2002, the economies of the Americas, and most of Europe, including the UK, were weak, whereas Asia was better but generally grew only slowly with the major exception of Japan, which remained very depressed. Industrial output and investment were subdued in most parts of the world. In spite of this background and an adverse exchange rate effect of 2%, our turnover increased by 2% in the year to £296 million, as compared with £292 million in 2001. Organic sales growth was 4%, which was well spread with increases in Continental Europe, the Americas, and Asia, Australasia and Africa; in the UK, sales were flat. The sales increase was achieved through the technical support that we provide to our customers and progress with sales plans and product developments, which are targeted at specific market opportunities and which have good growth potential.

The operating profit for the year increased by 5% from £40.8 million to £42.7 million. The adverse effect of movements in exchange rates was £½ million for the year due to weakness of the US dollar, Brazilian Real and some Asian currencies, mitigated by the slightly stronger euro and, despite the collapse of the Peso, gains in Argentina from where we export in US dollars. The profit increase was mainly in the Americas, where higher local currency sales, improved efficiencies and cost controls gave better margins, and in Asia, Australasia and Africa, where increased sales in most markets, with the exception of Japan and Korea, led to improved profits and trading margins. In the UK profits were down, being affected by increased pension and insurance costs, and in Continental Europe profits were flat, reflecting mixed but overall rather quiet markets. The operating profit margin for the Group, therefore, increased to 14.4% (2001: 14.0%) and return on capital employed was 26%, an increase from 24% in 2001.

The net interest charge of £2.0 million decreased from £2.8 million in 2001 mainly due to the good cash generation during the year. The net interest expense was covered twenty-one times by operating profit. Profit before tax for the year was £40.7 million compared with £38.0 million last year before the non-operating item, an increase of 7%. The non-operating item in 2001 was a profit of £0.6 million on the disposal of fixed assets. Amortisation of goodwill was £0.6 million (2001: £0.5 million).

The tax charge increased to 34.1%, closer to the underlying rate, compared with 31.6% in 2001 before the non-operating item. We have adopted FRS 19 - Deferred Tax and the comparative tax charge and earnings per share figures have been restated accordingly; the effect of this change is minimal. Minority interests were higher at £0.7 million due to increased profits in India. Earnings per share rose by 3% to 35.3p from 34.4p before the non-operating item (2001: 35.3p including the non-operating item). The Board is recommending a final dividend of 13.5p per share which, with the interim dividend of 5.8p per share, gives a total for the year of 19.3p, an increase of 4%. The cost of the interim and final dividends is £14.4 million, which is covered 1.8 times by earnings. No scrip alternative to the cash dividend is being offered.

Net capital expenditure for the year was £11.3 million (2001: £16.8 million). We restrained expenditure during 2002 but we are continuing to invest to improve our sales, marketing and manufacturing activities to support future growth.

Cash flow was strong in the year and net debt reduced to £22.7 million from £40.5 million at the end of 2001. Gearing at 31st December 2002 improved to 15% compared with 29% a year earlier.

Following the previously reported acquisition in January 2002 of Marford Engineering in Australia for £1 million, on 31st December 2002 we completed the acquisition, for £1 million (including assumed liabilities), of Ampe Srl, a small Italian manufacturer of pneumatic and electronic instrumentation and actuators.

As previously announced, Chris Sneath retired from the Board with effect from 26th July 2002 following a great many years of association with Spirax Sarco, firstly at KPMG and, for the last eight years, as non-executive director. The Board wishes to put on record its thanks for Chris' advice and guidance throughout his time with us.

The Board was pleased to welcome, as an independent non-executive director, Bill Whiteley, Chief Executive of Rotork plc and a non-executive director of The Roxboro Group plc, with effect from 26th July 2002.

The good result for 2002 springs from the resilience of the Group, the determination of our employees and our continuing focus on our niche Spirax Sarco and Watson-Marlow Bredel businesses. Both businesses provide high quality products and significant benefits to customers, which are delivered by our dedicated workforce who make, sell and deliver the products and services to the customer, and, on behalf of the Board, I thank all of them for their contribution to the 2002 performance.

prospects

We have made a firm start to 2003 although currency movements continue to affect Group profits over three-quarters of which are earned outside the UK. We are investing to grow our market leading positions and expect that we will see the benefits continue to come through in the future. It seems likely that 2003 will be another difficult year for large parts of the world economy; however, provided that there is no major disruption to the trading environment, we look forward to another year of progress for the Group.

Tim. Fortune.

T.B. FORTUNE *Chairman*

chief executive's review

M.J.D. STEEL *Chief Executive*

In 2002, we worked hard to increase sales and protect our profits, given the destabilised economic environment that followed September 11th and the bursting of the economic bubble. We succeeded in growing sales in the Spirax Sarco and Watson-Marlow Bredel markets, and in improving our profits and profit margins. This demonstrates the fundamental strength of our business and the opportunities for growth open to us.

The Spirax-Sarco Engineering Group is focused on the businesses which supply and service the industrial and commercial steam systems market (Spirax Sarco) and the peristaltic pumping market (Watson-Marlow Bredel). Both are the world leader in their respective markets and, in both cases, we provide knowledge, service and products in order to help customers to maintain and improve the efficiency of their processes and the quality of their products. The high level of technical support given to customers in both businesses is fundamental to fostering close customer relations with, and reliance on, Spirax Sarco and Watson-Marlow Bredel.

For a great many years, the Spirax Sarco business has accumulated a wealth of experience on how steam should be used most effectively to transfer heat energy and is an acknowledged expert in the control and efficient use of steam and other industrial fluids. Steam is a sterile gas containing large amounts of energy which is released as heat, at constant temperature for any given pressure, on condensation back into water. Steam can be generated using many energy sources such as gas, oil, coal or waste products. These important characteristics make steam the ideal heat transfer medium for industrial and commercial applications.

Spirax Sarco has an extremely wide customer base which includes manufacturers of petrochemicals, food and drink, pharmaceuticals, chemicals, plastics, rubbers, fertilisers, pulp and paper, sugar, metals and electronics, and is widely used in laundries, hospitals, horticulture and in the biotechnology sector, for heating, humidification and sterilisation applications. We have over 100,000 customers regularly buying from our 42 companies in 32 countries and from our distributors around the globe. Practically everything we use in our day to day lives is produced using steam at some point in its manufacture as some of the photographs in this report illustrate.

Our specialised steam application knowledge is freely available to customers to improve the efficiency of their plant, reduce energy bills and enhance the quality of their products. Spirax Sarco does this through the use of extensive training programmes and through its own highly trained force of over 800 direct sales engineers worldwide building long term partnerships with our customers. By understanding and identifying our customers' needs, our sales engineers can feed back market requirements to the marketing and design engineers within our Supply organisation.

Our range of specially engineered products has been developed over the years to encompass the valves and controls used in the steam loop - from the generation of steam in the boilerhouse, its measurement and distribution, its control by process users and the return of condensed steam, water, back to the boilerhouse. The vast majority of products are manufactured in our own world class factories around the world.

Watson-Marlow Bredel is the world market leader and largest manufacturer of peristaltic pumps. The peristaltic pumping principle is increasing its share of the positive displacement pump market because of its special features. In particular, it avoids contamination of the fluid or the pump, the action is gentle (necessary for some sensitive products like blood plasma, foods, etc.), it is self-priming, can run dry, involves no seals, is reversible and prevents back flow. The full Watson-Marlow Bredel range handles flows from 0.0002 millilitres per minute to 80,000 litres per hour and pressures up to 16 bar. The applications for peristaltic pumps are very wide and include chemical processing, water and waste treatment, food processing, pulp and paper, biotechnology, pharmaceuticals, printing and many others.

trading

As anticipated, trading levels and profits in the second half of 2002 were ahead of the second half of 2001, which had been depressed particularly by reduced demand on our factories. The result is that the 2002 full year produced higher sales and profits, which is good given the trading conditions. The economies of the Americas and Europe, including the UK, were generally weak and there was low industrial investment arising from a lack of business confidence, which still persists. In Asia, Australasia and Africa, the position was more encouraging although could not be described as strong; in particular Japan remained very depressed, but, against that, the Chinese economy continued to grow well. The Argentinian economy collapsed at the end of 2001 and remained in a fragile state throughout 2002, but, by concentrating on particular market areas and seizing our opportunities, we protected our position well.

Turnover grew by 2% in the year which included organic growth of 4% but with an adverse exchange effect of 2%. The exchange effect arose from weakness of the US dollar, South American currencies and most Asian currencies, partially offset by a stronger euro. The underlying sales growth of 4% was achieved against the tough trading environment mentioned above, and arose from the implementation of a number of sales development plans and continuing development of the product range, including the progressive release of a new generation of the core range of Watson-Marlow Bredel pumps that started in 2001.

New in 2002

Digital In-line Variable Area Flowmeter

Operating profit grew by 5% from £40.8 million to £42.7 million and this includes a small negative exchange effect of about £½ million. The increase in profit arose chiefly from the organic growth in sales, efficiency improvements, resourcing of raw materials in Asia and cost controls, including reduced numbers employed as was outlined in the 2001 Annual Report.

chief executive's review *(continued)*

In Continental Europe, profits were marginally up, although the results were rather mixed. The UK profits were down because of some cost increases - notably pensions and insurances. In the Americas and in Asia, Australasia and Africa, profits increased as a result of a mixture of the sales growth and cost and efficiency improvements.

New in 2002

Stainless Steel Float Trap for the food and beverage industry

The factors above enabled the operating profit margin to increase from 14.0% in 2001 to 14.4% in 2002 in spite of the difficult trading environment and the adverse exchange rate movements. The improvement of the margin in future years will also be based on both sales growth and control of costs; the fundamental benefits of offering technical support for, and selling direct to, end user customers remain and will continue to underwrite the profitability of the Group.

In December 2002 we completed the acquisition of Ampe, in Italy, for £1 million including assumed liabilities; this brings into the Group our supplier of pneumatic and electronic instrumentation and actuators. In February 2003 we announced our intention to close our small factory in Spain as part of our cost controls and efficiency improvements. The closure costs of about £1½ million will be included within operating profits for the first half of 2003 but will be mitigated by cost savings in the second half.

united kingdom

Sales in the UK domestic market were flat. The economy was anaemic, particularly the industrial sector which makes up a significant part of the customer base for the steam and peristaltic pumping businesses. Industrial production was down and investment was weak, but we protected our sales through taking the opportunities provided by new products and winning a number of the few projects being undertaken. Demand on the UK factories, which supply our worldwide markets, was firm and stock reductions were achieved. Total UK operating profits fell from £8.6 million to £8.0 million due to substantially higher pension (an extra £1.7 million per annum), insurance and some central costs, the effects of which were mitigated by the cost saving programmes and raw material resourcing.

success at AstraZeneca in the UK

Total elimination of any risk of cross contamination, accurate flow rates and optimum hygiene standards, as well as cost savings, were all factors in the selection of a Watson-Marlow Bredel peristaltic pump for a dispensing duty at AstraZeneca UK Manufacturing, Macclesfield.

The dispensing duty involves filling glass bottles with a high value anaesthetic. The original intention had been to install a total dispensing machine. However, when AstraZeneca saw the Watson-Marlow Bredel pump, they recognised its possibilities as a key component of a simple, efficient and highly cost effective alternative.

The anaesthetic, a low viscosity liquid, is pumped at ambient temperature. Empty bottles are fed by conveyor to the filling machine where the pump delivers from pressurised bulk containers to the dispensing head. Integration of the pump controls and filling machine provides the required start/stop operational sequence. Recorded accuracy of ± 0.2% guarantees against loss of product due to overfilling. The pump's glandless, seal free construction, with the liquid contained within the tube, eliminates leakage or product contamination from external sources.

Product quality controls require the cleaning of the filling system after each batch. The Watson-Marlow Bredel pump design provides a cost effective solution to this problem through the use of disposable silicone tubing that is quick and easy to fit, all of which are major factors in the overall efficiency of the system. Compared with the original 'total dispensing' concept, there are substantial cost savings from using the Watson-Marlow Bredel peristaltic pump solution.

chief executive's review *(continued)*

continental europe

There was a mixture of performances in Continental Europe; third party sales increased by 5% to £106.5 million, of which 2% results from favourable exchange movements. The performance of our French sales company was again poor, sales were lower and profits were well down; remedial actions have been taken and some reorganisation costs were incurred. In Poland and Switzerland conditions were difficult and sales and profits were down. However good sales increases were achieved in Czech, Denmark, Italy, Norway, Portugal, Spain and Sweden and profits were up. In Germany, sales were flat and profits were marginally ahead in spite of tough market conditions and Hygromatik did well. The factories in France and Holland experienced steady demand in 2002 and stocks were reduced as part of the working capital control programme.

The operating profit in Continental Europe was £13.6 million and was adversely affected by the results in France but benefited by about £½ million from the stronger euro. This compares with an operating profit of £13.4 million in 2001.

international

(markets outside Americas and Europe)

Third party sales grew during 2002 by 6% at constant exchange rates but suffered an adverse exchange translation effect of 3%, resulting in an increase in sterling of 3% to £65.6 million. Trading conditions in Japan were very depressed and sales were down, with the resultant effect on profitability. By contrast, our business in China produced a good result and again grew sales and profits; we have a relatively small share of this market, offering good opportunities for the future. There was a reduction in project work in Korea which held back business at below 2001 levels but active cost controls allowed us to increase our margin so profits were only marginally down. In Malaysia and Singapore, the industrial sector was weak with inward investment being diverted to China and sales and profits were down. Australia, India, New Zealand, South Africa, Taiwan and Thailand all grew sales and profits. The overall result was an operating profit increase of 5% to £9.8 million despite an adverse exchange movement of £½ million and the operating profit margin increased. In January 2002, we announced the acquisition of Marford Engineering in Australia for £1 million. Marford is a water treatment chemicals specialist and has already contributed to the development of our boiler water treatment business in Australia.

success at Dreher in Hungary

Following a steam system management presentation at Dreher Brewery, Spirax Sarco entered into a venture to provide knowledge, services and products in the reconstruction of their steam and condensate piping systems.

The customer's requirements were to reduce natural gas and steam consumption and improve production efficiency, all of which would result in reduced operating costs. This could only be achieved by improvement in the quality of the steam; the elimination of serious shock loading (water hammer) in steam and condensate pipe lines; reducing live and flash steam losses; correctly selected and installed steam traps with an electronic monitoring system and elimination of cavitation problems in the electric condensate return pumps, all of which would result in reduced costs for operating and maintaining the steam and condensate systems.

Following completion of plant surveys and technical discussions, Spirax Sarco advised on the full scope of works needed to fulfil the brewery's requirements. This resulted in orders to Spirax Sarco for a wide range of steam traps and control equipment.

The Dreher brewery has a capacity of 2.1 million hectolitres of beer and following the first phase of recommended improvements, the brewery annual natural gas consumption fell by 1,987,900 m^3, and by a further 1,739,600 m^3 in the second year after all system improvements had been completed.

The total project resulted in a 32% reduction in gas consumption that provided an impressive 3.5 month payback on the total investment.

chief executive's review *(continued)*

americas

Our Americas operations produced good results in 2002 despite significant adverse exchange rate movements. Sales were down 3% but, excluding the adverse effect of exchange, organic sales were up 5%. Operating profits increased 23% at constant exchange rates; the profit growth was spread broadly across the region. In the USA, the Watson-Marlow Bredel business produced an excellent year for sales and profits, winning some good projects. The Spirax Sarco company in the USA saw sales fall as the industrial sector of the economy cut back; we implemented sales initiatives to mitigate the effects of the depressed market. Despite the lower sales, the operating profit grew in 2002 through improved efficiency and reduced costs; here too stocks were reduced through improved controls. Our Canadian company produced another good performance. In Argentina, the collapse of the currency and economy was counteracted by our careful sales and cash conservation strategy, which, with our exports in US dollars, meant that profits increased in 2002 - a good achievement under the prevailing conditions. In Brazil, the company increased local currency sales and profit, but devaluation of the Real reduced the sterling result. The Mexican market is still in recession; we increased sales and profits in local currency but not in sterling. The overall result for the region was a 19% increase in operating profit to £11.3 million and a profit margin increase to 12.6% from 10.3% in 2001.

balance sheet and cash flow

Capital employed (net assets excluding goodwill and net debt) decreased to £161.6 million at 31st December 2002 from £176.6 million at the start of the year, in spite of the increase in business during the year. There was a reduction in working capital; in particular stock reductions were achieved, most notably in our manufacturing units. Exchange rate movements reduced capital employed by £7.4 million versus 2001. Additions to fixed assets were £11.5 million and were marginally below the depreciation charge for the year. The return on capital employed improved from 24% to 26%.

Cash flow for the year was unusually strong with an inflow from operating activities of £58.6 million (2001: £50.0 million), benefiting from the improved profit and success in reducing working capital. Acquisitions absorbed £1.4 million. For the year, there was a £17.8 million reduction in net debt resulting from cash flows, including an adverse exchange impact of £1.2 million. At 31st December 2002, net debt was therefore £22.7 million compared with £40.5 million a year earlier. Net gearing reduced to 15% (2001: 29%).

On an actuarial basis, the main UK pension funds were broadly in balance at the last triennial valuation at 31st December 2001, resulting in the annualised rate of cash contribution increasing by approximately £1.0 million, as recommended by the actuary. The FRS 17 disclosures (see note 29 to the accounts) in respect of all the Group's defined benefit pension schemes show that, on this basis, there is a net deficit of £35 million at the balance sheet date.

success at Green Spot in Thailand

Spirax Sarco Thailand successfully satisfies Green Spot's requirements for constant temperature hot water and prevention of waterhammer (pipe work shock loading) with the EasiHeat packaged plate heat exchanger.

Green Spot (Thailand) Ltd. produces and distributes drinks and beverages in the domestic market. Its well-known products are Green Spot, a non-carbonated orange drink and Vitamilk, a soymilk with several varieties including UHT, sterilised, no powder milk added formula, and V-Soy.

Beverage companies need large quantities of hot water for regular cleaning of their complete manufacturing process including storage tanks for both raw material and the finished products.

High standards of quality are set for the process washing water that determines the method for both production and storage of the water. Selected equipment needs to provide accurate control of the process water temperature without causing problems in the steam and process pipe work.

Green Spot is one of many beverage companies that need stable hot water in their process and who experience the added problem of having limited installation space for equipment.

Spirax Sarco supplied the ideal solution to both their quality and space problem with the EasiHeat steam to hot water generator. The package provided Green Spot with a fully engineered system that produces hot water at a constant temperature and being compact in size, limited take up of expensive factory floor space. The EasiHeat unit uses a highly efficient plate type heat exchanger controlled by the latest range of Spirax Sarco controls, which eliminated problems in both the steam and process piping systems.

chief executive's review *(continued)*

looking forward

As already discussed, the Spirax-Sarco Engineering Group is focused on its markets where it has a world leading position - specifically in the industrial steam using market and the peristaltic pumping market. These are niche markets where we offer specialist knowledge, service and products to the end-user, OEMs, contractors and through distributors. Even as market leader, we have a small share of the steam market, which is fragmented, and the peristaltic pumping market is growing steadily. So, we have the opportunity to continue to grow the business in the future.

This will be done by developing and improving the products that we offer, for instance through the new initiatives in steam system management and prefabricated engineered systems which are based on our technical strengths and development of our own in-house tubing in Watson-Marlow Bredel. We will increase our sales coverage in order to push up our market share. There are opportunities for geographical growth, with the world's biggest economies offering good potential as well as the less developed countries.

We will also continue to improve our efficiency through systems improvements and capital investments to improve our competitiveness.

Our growth plans continue to include a proactive acquisitions policy. However, our insistence on remaining focused on our area of expertise means that we are only prepared to consider specific companies which are in the markets that interest us. This limits the opportunities but helps to ensure that those which are considered are more likely to be integrated successfully.

It is clear, therefore, that there is ample scope for us to continue to grow in the long term.

Marcus Steel.

M.J.D. STEEL *Chief Executive*

success at Fibra Dupont in Brazil

FIBRA DUPONT

Spirax Sarco Brazil helped textile manufacture, Fibra DuPont, save energy and related costs by detecting problems with their steam system, found during a Spirax Sarco steam system survey.

Fibra DuPont is the largest single man-made fibre manufacturer in Brazil and is a joint venture between Vicunha and DuPont founded in 1994.

Hydroelectric power is a main source of energy in Brazil and during 2001 low river water levels induced an energy crisis compounded by rapidly increasing domestic oil prices. Many organisations suddenly found themselves having to dramatically cut their energy usage in order to maintain production and to remain competitive.

Spirax Sarco approached Fibra DuPont with a payback presentation, offering a combination of products, packaged systems and ancillaries, installation, surveys, and after-sales service.

Keen to solve their energy problems, Fibra DuPont opted for a Spirax Sarco steam system survey. This resulted in an energy saving proposal that included automatic boiler controls, flow metering, EasiHeat hot water generator packages and flash steam recovery equipment.

Following the approval of the proposal and installation of the new equipment, Fibra Dupont immediately began saving $25,000 per month in energy costs resulting in an impressive two-month payback on their investment.

As a result of the actual savings, Spirax Sarco have now been awarded a full system survey contract.

Spirax Sarco worldwide

united kingdom

Spirax-Sarco Ltd.
Spirax-Sarco Investments Ltd.
Spirax-Sarco Overseas Ltd.
Watson-Marlow Ltd.

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.

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.
Watson-Marlow S.A.
Germany
Spirax-Sarco GmbH
Hygromatik Lt. A. GmbH
Watson-Marlow GmbH

Italy

Spirax-Sarco S.r.l.
Watson-Marlow S.r.l.
M&M International S.r.l.
AMPE S.r.l.

Netherlands

Bredel Hose Pumps B.V.
Spirax-Sarco Engineering B.V.
Spirax-Sarco Investments B.V.
Watson-Marlow Bredel Holdings 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.
Spirax-Sarco Engineering S.L.
M&M Iberica S.L. (67%)

Sweden

Spirax-Sarco A.B.
WM Alitea A.B.

Switzerland

Spirax-Sarco A.G.

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 directors

Tim Fortune CEng MIMechE (64) 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 (57) 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 and Finance Committees and Chairman of the Risk Management Committee.

Chris Ball (59) 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. He is a member of the Risk Management Committee.

Alan Black BA (Hons) (45) 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. He is a member of the Risk Management Committee.

Einar Lindh FCA (58) 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 (57) 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. He is a member of the Risk Management Committee.

David Meredith FCMA (43) 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 and Risk Management Committees.

Michael Smith (59) 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. He is a member of the Risk Management Committee.

Peter Smith ACIS (55) 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. He is a member of the Risk Management Committee.

Michael Townsend MA FCA (61) 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 Chairman of the Audit and Remuneration Committees, a member of the Nomination Committee and Senior Independent Director.

Bill Whiteley BSc ACMA (54) joined the Group as an independent non-executive director on 26th July 2002. He is the Chief Executive of Rotork plc. He is a member of the Audit, Remuneration and Nomination Committees. He is also a non-executive director of The Roxboro Group plc.

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 2002.

RESULTS
The results of the Group for the year are set out in the Chairman's Statement and Chief Executive's Review on pages 2 to 12.

DIVIDEND
An interim cash dividend of 5.8p per share (2001: 5.6p) was paid in November 2002. The directors now recommend the payment of a final dividend of 13.5p per share (2001: 13.0p). If approved at the annual general meeting the final dividend will be paid on 20th May 2003 to shareholders on the register at 22nd April 2003. The total distribution for the year will be 19.3p per share (2001: 18.6p).

BUSINESS REVIEW
A review of the operations of the Group in 2002 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 2002 on research and development amounted to £4,411,000 (2001: £4,593,000).

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 2002 by approximately £9,000,000 (2001: £8,000,000).

BOARD OF DIRECTORS
The directors of the Company are those listed on pages 16 and 17. Mr. W. H. Whiteley was appointed to the Board on 26th July 2002 as an independent non-executive director. In addition Mr. C. G. Sneath was a director until 26th July 2002 when he retired.

In accordance with the Company's articles of association:

i) Mr. Whiteley will retire from office at the annual general meeting and, being eligible, offers himself for appointment. Mr. Whiteley, as an independent non-executive director, has no service contract with the Company.

ii) Messrs. C. J. Ball and E. Lindh retire and, being eligible, offer themselves for re-appointment. Mr. Ball has a service contract with the Company determinable on two years' notice. Mr. Lindh, as an independent 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 Directors' Remuneration Report on pages 24 to 30.

	Ordinary Shares of 25p each Beneficial Interests		**Ordinary Shares of 25p each Non-beneficial Interests**	
	31.12.02 or date of retirement*	**31.12.01** or date of appointment**	**31.12.02** or date of retirement*	**31.12.01** or date of appointment**
T.B. Fortune	87,668	87,668	424,288	424,288
M.J.D. Steel	62,087	61,138	257,118	342,401
C.J. Ball	52,679	51,730	-	-
A.D.H. Black	18,915	17,966	-	-
G.P. Marchand	69,753	68,804	-	-
D.J. Meredith	40,417	19,716	681,406	766,689
P.A. Smith	50,286	24,107	681,406	766,689
P.M. Smith	39,496	38,547	-	-
E. Lindh	-	-	-	-
C.G. Sneath *	2,185	2,185	-	-
M. Townsend	2,879	2,879	-	-
W.H. Whiteley **	2,734	-	-	-

At 31st December 2002, 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 257,118 shares in the Company at 31st December 2002.

EMPLOYMENT REPORT AND POLICIES
Details of the Group's Employment Policies are set out on pages 20 and 21.

ANNUAL GENERAL MEETING
The Notice of Meeting and an explanation of Resolutions 7 to 11 to be proposed at the annual general meeting are set out in the enclosed Circular.

SHARE CAPITAL
Details of shares issued during the year are set out in note 25 on page 45.

PURCHASE OF OWN SHARES
There was no purchase of shares by the Company during the year. At 31st December 2002 the number of shares which may be purchased under the shareholders' authority given at the annual general meeting in 2002 was 7,300,000 and the number of shares in issue was 74,300,622.

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 17th February 2003 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	%
The Capital Group Companies Inc.	4,449,891	5.99
Sprucegrove Investment Management Ltd	3,925,277	5.28
JP Morgan Fleming Asset Management	3,574,294	4.81
Arnhold and S Bleichroeder Advisers Inc.	3,350,397	4.51
Newton Investment Management	3,099,566	4.17
NFU Mutual	2,833,853	3.81

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 £51,861 (2001: £41,031). There were no political donations (2001: nil).

AUDITOR
A resolution to re-appoint the auditor, 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.

10th March 2003

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 as explained in The Directors' Remuneration Report.

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-appointment by shareholders at the first opportunity after their appointment and thereafter at intervals of no more than three years.

The Board delegates specific responsibility to Board committees, notably the Audit, Finance, Nomination and Remuneration Committees. The membership of these committees is detailed on page 22. Additionally the executive directors comprise the Risk Management Committee.

Shareholder Relations

The Group conducts regular dialogue with institutional shareholders and provides such information as is permitted within the guidelines of the Listing Rules. The preliminary results announcement may be accessed by individual investors on the Group web site, www.SpiraxSarcoEngineering.com. The 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, Finance, Nomination, Remuneration and Risk Management Committees will be available to answer questions. The results of proxy votes are declared at Annual General Meetings after each resolution has been dealt with on a show of hands and this practice will continue at future general meetings.

CORPORATE SOCIAL RESPONSIBILITY

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

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

Compliance with the principles of CSR, embedded in the guidance, can only be achieved if its management of such risks is incorporated into the policies, systems and procedures of the Group. The Group's operations are carried out under the Group's Business Code which was established in 1995. This formalised policies followed over many years by the Group. The main areas are as follows, although further details are set out below:-

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

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

In the risk management process explained in paragraph (i) of Internal Controls, see page 22, the risks involved in not achieving appropriate SEE standards continue to be assessed and any significant risk is monitored by the Board following half yearly reports from all Group companies.

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

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

(ii) Employee Rights
Board members satisfy themselves that the terms of employment in subsidiaries worldwide are appropriate. The Group has a policy of non-discrimination 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 provide for a culture of openness and honesty. Channels of communication appropriate to the local operation have been established to allow employees to voice their views and concerns. The Group encourages development of employee skills through a policy of reward and recognition. Recognition is given to individual employees' needs and requirements throughout the Group and, where possible, flexible working arrangements are considered where the circumstances are justified.

The Group operates personnel policies and communication structures designed to meet the needs of its subsidiaries and employees around the world. The Group's management philosophy recognises employees as its most important asset. Employees are encouraged to apply their skills, knowledge and energy. Employees have the opportunity to comment on matters of concern to them through established communication channels. A summary of the Group's annual accounts is made available to its employees. The Group encourages the growth of employee share ownership. The Group applies the principles of equal opportunity.

The Group has a continuing policy of giving disabled people full consideration for all job vacancies for which they offer themselves as suitable applicants. Wherever practical the Group maintains employment of those employees who become disabled and offers appropriate training.

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

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

(iv) Supplier Relations
The Company policy is to use suppliers of goods and services which maintain appropriate standards in their operations.

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

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

(vii) Health and Safety

- The Company has a clear attitude to health and safety, which is that each operation will maintain a healthy and safe environment. In the first instance the general manager of each company has the responsibility for ensuring that this is effectively managed at the local level.
- The Director - Supply is responsible for overseeing all health and safety matters in each of the Group's subsidiaries.
- Funds are allocated for health and safety training.
- Regular reviews are conducted to ensure that employee knowledge of health and safety matters relevant to them is up to date with current practice.
- The health and safety record of all subsidiaries, including actions taken, is reported by Board members and supervised by the Director - Supply.

Internal Controls
The Board has overall responsibility for the system of internal control and for reviewing its effectiveness, whilst the role of management is to implement Board policies on risk and control. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve the business objectives.

corporate governance *(continued)*

In pursuing these objectives, internal controls can only provide reasonable and not absolute assurance against material mis-statement or loss.

As required by the UK Listing Authority, the Company has complied, throughout the year and up to the date of this report, with the Combined Code provisions on internal control having established the procedures necessary to implement the guidance issued by the Turnbull Committee and by reporting in accordance with that guidance.

(i) Risk Management
The Group has operated procedures for considering risks in the normal operations of the Group and with regard to significant transactions. Strategic and annual planning also encompasses considerations of business risks. The Risk Management Committee specifically 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 six monthly basis their position with regard to implementing the identified countermeasures to address the Group's significant business risks. The six monthly returns are assessed by the Risk Management Committee. Reports are made to the Board as a whole, by the Chief Executive, for review of the risks and measures taken. Annually the executive directors carry out a reappraisal of the business risks. The Audit Committee reviews the system of reporting and monitoring and its effectiveness as a whole.

(ii) Financial
The Finance Committee of the Board considers financing and investment decisions concerning the Group, including the giving of guarantees and indemnities, and monitors policy and control mechanisms for managing treasury risk within the limits laid down by the Board.

Financial reporting systems include comprehensive annual plans approved by the directors and monthly reporting of actual results with appropriate comparisons against plan and previous year's results. Forecast operating results for the year are regularly updated. Capital investment is subject to approval under a clear policy. This includes annual plans, appropriate authorisation, detailed investment appraisal and post-investment review and due diligence requirements where businesses are being acquired.

(iii) Operational
All subsidiaries of the Group are required to complete self-certification questionnaires regarding compliance with the policies, procedures and minimum requirements for an effective system of internal control.

(iv) Audit Committee
The Audit Committee 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 auditor. There is provision for the Committee to confer with the auditor without the attendance of executive directors. The Audit Committee reviews the independence of the external auditor on an annual basis. The recommendations of the Smith Report on audit committees, dated January 2003, will be considered over the coming year.

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 the Senior Independent Director.

Remuneration and Nomination Committees and Directors' Responsibilities
The Directors' Remuneration 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.

Committee Membership
(i) Audit Committee
Messrs. T. B. Fortune, E. Lindh, C. G. Sneath*, M. Townsend (Chairman) and W. H. Whiteley**.
(ii) Finance Committee
Messrs. T. B. Fortune (Chairman), D. J. Meredith and M. J. D. Steel.
(iii) Nomination Committee
Messrs. T. B. Fortune (Chairman), E. Lindh, C. G. Sneath*, M. J. D. Steel, M. Townsend and W. H. Whiteley**.
(iv) Remuneration Committee
Messrs. E. Lindh, C. G. Sneath*, M. Townsend (Chairman) and W. H. Whiteley**.
(v) Risk Management Committee
Messrs. C. J. Ball, A. D. H. Black, G. P. Marchand, D. J. Meredith, P. A. Smith, P. M. Smith and M. J. D. Steel (Chairman).

* until retirement on 26th July 2002
** with effect from 26th July 2002

Higgs' Report (Review of the Role and Effectiveness of Non-Executive Directors dated January 2003)
The Board will consider the recommendations of this report over the coming year.

ENVIRONMENTAL POLICY

The Group regularly reviews its written policy statement and performance with regard to environmental matters to ensure compliance with good practice and statutory regulations in all its operations and to meet corporate objectives. The Group operates its businesses with a proper concern for their impact on the environment generally and, particularly, with concern for the local communities where the Group's operations are located.

The Group, through its Board of Directors, ensures that its managers and staff are aware of the actions required to meet environmental considerations in each of the Group's plants and the risks of failing to do so. Managers are required to take environmental considerations into account in running the business, for example in its energy efficiency, its use of appropriate materials and the design and manufacture of its products generally and in the investment in new equipment, new processes and new buildings and services.

There is a detailed procedure which lays down responsibility for seeing that the Group's policy is carried out. Employees are also expected in their daily job to be aware of environmental considerations and draw to the attention of management any matters of possible concern.

Implementation

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

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

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

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

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

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

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

Environmental Benefits from the use of Group Products

The use by customers of Group products has a significant environmental benefit which outweighs the environmental issues associated with the production of the products. Certainly the environmental impact arising from the manufacture of the Group's range of steam system products is significantly less than the energy saving benefits enjoyed by customers in the application of those products. The name Spirax Sarco is synonymous with steam and its efficient use worldwide. The majority of sales are the result of helping customers to improve the efficiency of their plant and processes, reduce energy consumption and emissions and meet local safety regulations. The Group's technical advice on the application of its products and in relation to steam systems, which is freely given to customers, is the key to maximising the benefit of the products we supply. There are numerous individual examples of benefits enjoyed by customers which include improved overall boiler efficiency, improved energy efficiency of process plant, and reduced consumption of water, water treatment chemicals and lower production of effluent.

Many applications for Watson-Marlow Bredel peristaltic pumps are those where environmental improvement is the main aim. They are particularly suited to applications like waste water treatment where difficult fluids have to be handled safely and reliably.

the directors' remuneration report

The Board presents the following report on directors' remuneration and the operation of the Remuneration Committee.

THE REMUNERATION COMMITTEE

This Committee has been established for many years and operates under terms of reference agreed by the Board.

Messrs. E. Lindh, C. G. Sneath, M. Townsend (Chairman) and W. H. Whiteley were members of the Committee during the year when the Committee was considering matters relating to directors' remuneration. Mr. Sneath served on the Committee until his retirement on 26th July 2002. Mr. Whiteley commenced membership of the Committee on his appointment as an independent non-executive director on 26th July 2002.

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 from Towers Perrin to ensure that the Company's remuneration policies are appropriate and competitive. Towers Perrin was appointed by the Committee and has not provided other services to the Company during the year. 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 a material performance-related element, this portion being increased with effect from 1st January 2002 when further non-pensionable elements were added to the performance-related bonus.

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 service contracts provide for a normal retirement age of 62½ for each executive director.

The Remuneration Committee establishes the remuneration package for the executive directors having regard to pay and conditions elsewhere in the Group and in particular to those senior executives who are not Board members.

The following table shows the number of executives at differing levels of basic pay and bonus.

Remuneration £pa	No. of Senior Executives
100,000 - 150,000	9
150,001 - 200,000	2
200,001 - 250,000	1

The Committee currently has no plans to change the Company's policy on directors' remuneration or the structure of their remuneration packages during this year or subsequent years. However this position will be kept under review to ensure the directors' overall packages remain properly competitive and shareholders will be informed of any resulting change.

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) 33% of the percentage increase in pre-tax profit for the year over the average pre-tax profit for the previous three years;

(ii) 67% of the percentage increase in earnings per share for the year over the average earnings per share for the previous three years;

additionally from 1st January 2002:-

(iii) cash generation (expressed as a percentage of profit) will carry a maximum of 30% bonus. Where cash inflow, as determined from the Accounts, is less than 100% of profit for the financial year, no bonus will be earned; where cash generated equals or exceeds 140%, the full 30% will accrue with proportionate bonus being earned between 100% and 140% of profit; and

(iv) gross margin percentage will be compared with that for the previous year. Where the gross margin has deteriorated by 0.5 percentage points or more, no bonus will accrue; where there has been an improvement of 1.5 percentage points or more, the full allocation of 20% will accrue with proportionate bonus being earned between these limits, provided always that the percentage is above the required minimum.

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 elements (i) and (ii) have been and are pensionable. Elements (iii) and (iv) are not pensionable. The non-executive directors do not participate in the bonus scheme.

Options

Spirax-Sarco Engineering 1992 UK & Global Share Option Schemes and Spirax-Sarco Engineering Approved & 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 exercise of any option granted to any director under the Company's share option schemes since 1995 (and any discounted option granted before 1994 when the granting of discounted options ceased) is subject to the satisfaction of performance criteria.

In accordance with market practice, options granted are normally specified to be exercisable between three and ten years from the date of grant and, for grants from 1995 and up to and including 2001, only if specified performance criteria are satisfied. In line with the then established market practice, 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. For options granted from and including 2002 the performance criteria require an increase in earnings per share of more than 9% greater than the increase in the UK retail prices index over a period of three consecutive years between grant and exercise. The same performance criteria apply to each director. The performance criteria chosen were considered appropriate because it ensured increases in the share price were achieved having taken account of UK inflation. In assessing whether the chosen performance criteria are met the Committee arranges for the auditor to confirm the calculations made. This method of assessment is considered appropriate to confirm compliance with the criteria. The performance condition requires a comparison with a factor external to the Company, namely the growth in the UK retail prices index over the performance period.

The exercise of options granted before 1995 (other than discounted options) is not subject to any performance criteria being met. This is in line with market practice at the time of grant of those options.

The discounted options granted are exercisable between five and ten years from date of grant 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.

Details of total share options issued are set out on page 46. The above performance criteria also apply to other relevant options granted to participants in the share option schemes.

Spirax-Sarco Engineering plc Employee Share Ownership Plan

The executive directors participate in the Employee Share Ownership Plan, as described on page 29. Participation in the Employee Share Ownership Plan is open to all eligible UK employees. No employee's entitlement under the Employee Share Ownership Plan is subject to performance conditions. This is because the aim is to encourage increased shareholding in the Company by all eligible UK employees.

There are no other long term incentives provided to directors.

the directors' remuneration report *(continued)*

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.

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.

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.

The executive directors have service contracts as follows:-

	Date of Contract	Notice Period
M.J.D. Steel	30.12.92	24 months
C.J. Ball	26.11.92	24 months
A.D.H. Black	18.11.98	12 months
G.P. Marchand	30.12.92	24 months
D.J. Meredith	30.12.92	24 months
P.A. Smith	24.12.92	24 months
P.M. Smith	01.09.98	12 months

The Committee believes it is appropriate to retain the 24 months' notice period for Messrs. M. J. D. Steel, C. J. Ball, G. P. Marchand, D. J. Meredith and P. A. Smith, 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. They have appointment letters, normally for three year periods, and re-appointment is not automatic.

TOTAL SHAREHOLDER RETURN
The performance graph illustrated shows the Company's total cumulative shareholder return for the five year period ended 31st December 2002 compared with the total cumulative shareholder return for the FTSE All-Share Engineering and Machinery Index. This comparison is selected as being the most appropriate sector for the Company's operations as the comparison automatically takes account of the impact on the Company's shares of the market's view of the engineering industry generally.

DETAILS OF INDIVIDUAL EMOLUMENTS

The auditor is required to report on the information contained in this section of the Report.

	Basic Salary/ Fees £	Benefits (1) £	Annual performance related bonus £	Total emoluments excluding pension 2002 Total £	2001 Total £
T. B. Fortune (2)	70,000	349	-	70,349	68,947
M.J.D. Steel	270,000	15,124	135,648	420,772	291,155
C.J. Ball	158,000	18,504	79,379	255,883	177,931
A.D.H. Black	150,000	14,861	75,360	240,221	172,845
G.P. Marchand	162,000	10,481	81,389	253,870	178,498
D.J. Meredith	175,000	10,958	87,920	273,878	196,581
P.A. Smith	125,000	7,684	62,800	195,484	140,273
P.M. Smith	150,000	15,699	75,360	241,059	173,560
E.Lindh (2)	20,000	-	-	20,000	19,100
C.G. Sneath (2) (3)	11,667	-	-	11,667	19,100
M.Townsend (2)	26,500	-	-	26,500	25,400
W.H. Whiteley (2) (4)	8,641	-	-	8,641	-
	1,326,808	93,660	597,856	2,018,324	1,463,390

(1) Benefits arising from employment by the Company, which relate in the main to the provision of a company car.
(2) Non-executive director.
(3) Mr. C. G. Sneath retired from the Board on 26th July 2002.
(4) Mr. W.H. Whiteley was appointed to the Board on 26th July 2002.

Long Term Incentives

(i) Spirax-Sarco Engineering 1992 UK & Global Share Option Schemes and Spirax-Sarco Engineering Global Share Option Scheme

The interests of directors are set out below:-

	(1)	31.12.01 No.	Granted during year to 31.12.02 No. (2)	Exercised in year No. (3)	31.12.02 No.	Average exercise price per share pence (4)	Date from which exercisable	Expiry date
M.J.D. Steel	A	25,000	-	-	25,000	319.2	17.03.03	08.04.08
	B	160,000	30,000	-	190,000	492.7	10.10.97	08.04.08
		185,000	30,000	-	215,000			
C.J. Ball	A	15,000	-	-	15,000	319.2	17.03.03	29.09.05
	B	110,000	17,500	-	127,500	521.2	10.10.97	29.09.05
		125,000	17,500	-	142,500			
A.D.H. Black	A	15,000	-	-	15,000	319.2	17.03.03	17.03.10
	B	55,000	17,500	-	72,500	439.4	16.09.01	22.03.12
	C	7,569	-	5,046	2,523	341.8	07.10.96	07.10.03
	D	12,500	-	-	12,500	648.6	10.10.97	16.09.07
		90,069	17,500	5,046	102,523			
G.P. Marchand	A	30,137	-	-	30,137	330.5	07.10.96	24.12.07
	B	110,000	17,500	-	127,500	521.2	10.10.97	24.12.07
		140,137	17,500	-	157,637			
D.J. Meredith	A	42,752	-	27,752	15,000	319.2	17.03.03	17.03.10
	B	120,000	17,500	-	137,500	527.7	10.10.97	22.03.12
		162,752	17,500	27,752	152,500			
P.A. Smith	A	15,000	-	-	15,000	319.2	17.03.03	17.03.10
	B	80,000	17,500	-	97,500	522.1	18.09.98	18.08.10
	C	37,845	-	25,230	12,615	344.2	07.10.96	07.10.03
	D	12,500	-	-	12,500	427.0	10.10.97	10.10.04
		145,345	17,500	25,230	137,615			
P.M. Smith	A	15,000	-	-	15,000	319.2	17.03.03	21.09.05
	B	55,000	17,500	-	72,500	439.4	16.09.01	21.09.05
	C	7,568	-	-	7,568	340.0	07.10.96	07.10.03
	D	35,000	-	-	35,000	624.7	10.10.94	21.09.05
		112,568	17,500	-	130,068			

the directors' remuneration report *(continued)*

Notes

1. Options shown on lines A and B relate to options granted to members of the Board, whereas options shown on lines C and D relate to options granted to individuals prior to their appointment to the Board.

   Options shown on lines A and C are those where the exercise prices are lower than the middle market price of the Company's ordinary shares on 31st December 2002. Options shown on lines B and D 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 135,000 ordinary shares at 436.0p per share under the Spirax-Sarco Engineering Global Share Option Scheme, which is unapproved. Mr. M. J. D. Steel was granted 30,000 options and each of the remaining executive directors were granted 17,500 options.

3.

	Options exercised	Option exercise price	Market price on the date options exercised	2002 Gain arising on exercise	2001 Gain arising on exercise
	No.	pence	pence	£	£
T.B. Fortune					59,317.87
A.D.H. Black	3,154	233.03216 }	433.5	9,337.57	
	1,892	274.15490 }			
P.A. Smith	13,608	233.03216 }	438.5	47,060.25	
	11,622	274.15490 }			
D.J. Meredith	12,615	233.03216 }	456.0	45,419.74	
	3,784	301.81416 }			
	11,353	355.07554 }			
Aggregate of gains arising on exercise				101,817.56	59,317.87

4. These are the weighted averages of the exercise prices for ordinary shares under option at 31st December 2002.

The market price of the ordinary shares on 31st December 2002 was 414p. During the period from 1st January 2002 to 31st December 2002, the ordinary share price ranged between 473.5p and 341p.

Within the number of options set out in the table above, the outstanding discounted options held by executive directors as at 31st December 2002 are as follows:-

	No. of discounted options	Discounted price pence	Expiry date
A.D.H. Black	631	301.81416	07.10.03
G.P. Marchand	3,784	301.81416	07.10.03
P.A. Smith	2,587	301.81416	07.10.03
P.M. Smith	2,144	301.81416	07.10.03

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 2002.

(ii) Spirax-Sarco Engineering plc Employee Share Ownership Plan

The Company operated an employee share ownership plan in which all the executive directors are eligible to participate on the same basis as all other eligible UK employees. For the Plan period the individual director's contributions are limited to a maximum of £1,500 per annum under Inland Revenue Rules.

	Interest as at 01.01.02	Vested No.	Interest as at 31.12.02 No.	Period of qualifying conditions
M.J.D. Steel	-	949	949	3 years
C.J. Ball	-	949	949	3 years
A.D.H. Black	-	949	949	3 years
G.P. Marchand	-	949	949	3 years
D.J. Meredith	-	949	949	3 years
P.A. Smith	-	949	949	3 years
P.M. Smith	-	949	949	3 years

DIRECTORS' PENSIONS

The Director's Remuneration Report Regulations 2002 require disclosure of directors' defined benefit pensions arrangements on a different basis from that specified in the Combined Code. Details on both bases are shown below.

	Age attained at 31.12.02	Accrued pension at 31.12.01 £pa	Accrued pension at 31.12.02 £pa	Change in accrued pension during the year £pa	Change in accrued pension during the year* £pa	Transfer value of change in accrued pension £	Transfer value of accrued pension at 31.12.01 £	Transfer value of accrued pension at 31.12.02 £	Change in total transfer value £
M.J.D. Steel	57	136,570	151,310	14,740	12,418	153,000	1,694,000	1,699,000	5,000
C.J. Ball	59	98,997	107,861	8,864	7,181	109,000	1,378,000	1,466,000	88,000
A.D.H. Black	45	53,398	59,291	5,893	4,985	30,000	399,000	340,000	-59,000
G.P. Marchand	57	79,614	89,881	10,267	8,914	113,000	1,101,000	1,131,000	30,000
D.J. Meredith	43	49,048	54,763	5,715	4,881	27,000	351,000	299,000	-52,000
P.A. Smith	54	59,905	65,334	5,429	4,411	47,000	691,000	633,000	-58,000
P.M. Smith	59	54,664	60,614	5,950	5,021	77,000	835,000	901,000	66,000

* net of deferred pension revaluation at a rate of 1.7%

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.

the directors' remuneration report *(continued)*

(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.

Signed by

T. B. Fortune *Chairman*
on behalf of the Board

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.

auditor's report

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

We have audited the accounts on pages 32 to 53. We have also audited the information in The Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report and The Directors' Remuneration Report. As described on page 30, 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 whether the accounts and the part of The Directors' Remuneration Report to be audited have been 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 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 the unaudited part of The Directors' Remuneration Report, 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 and the part of The Directors' Remuneration Report to be audited. 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 and the part of The Directors' Remuneration Report to be audited 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 and the part of The Directors' Remuneration Report to be audited.

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 2002 and of the profit of the Group for the year then ended; and the accounts and the part of The Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants, Registered Auditor

London 10th March 2003

group profit and loss account

for the year ended 31st december 2002

	notes	2002 £000	2001 (Restated) £000
Turnover	2	**296,363**	291,942
Operating costs	3	**(253,689)**	(251,139)
Operating profit	5	**42,674**	40,803
Profit on disposal of fixed assets	6	**-**	616
Profit before interest		**42,674**	41,419
Net interest payable	7	**(1,981)**	(2,778)
Profit on ordinary activities before taxation	8	**40,693**	38,641
Taxation on profit on ordinary activities	10	**(13,887)**	(12,016)
Profit on ordinary activities after taxation		**26,806**	26,625
Minority interests - equity		**(681)**	(585)
Profit for the financial year	11	**26,125**	26,040
Dividends	12	**(14,350)**	(13,752)
Retained profit for the financial year	26	**11,775**	12,288
Earnings per share (basic)	13		
Before the disposal of fixed assets		**35.3p**	34.4p
After the disposal of fixed assets		**35.3p**	35.3p
Earnings per share (diluted)	13		
Before the disposal of fixed assets		**35.2p**	34.4p
After the disposal of fixed assets		**35.2p**	35.2p
Dividends per share	12	**19.3p**	18.6p

All amounts relate to continuing operations.

The notes on pages 36 to 53 form an integral part of the accounts.

The historical cost profit is not materially different from the reported profit for 2001 or 2002.

balance sheets

at 31st december 2002

	notes	THE GROUP 2002 £000	THE GROUP 2001 (Restated) £000	PARENT COMPANY 2002 £000	PARENT COMPANY 2001 £000
Fixed assets					
Intangible assets	14	**10,384**	8,958	**-**	-
Tangible assets	15	**88,593**	91,906	**-**	-
Investments	16	**-**	-	**55,473**	54,623
		98,977	100,864	**55,473**	54,623
Current assets					
Stocks	17	**57,588**	62,840	**-**	-
Debtors	18	**87,130**	88,385	**18,760**	22,269
Cash deposits and short term investments	19	**31,796**	16,147	**16,500**	3,550
Cash at bank and in hand		**4,882**	4,312	**106**	-
		181,396	171,684	**35,366**	25,819
Creditors					
Amounts falling due within one year	20	**(73,859)**	(72,013)	**(10,887)**	(12,858)
Net current assets		**107,537**	99,671	**24,479**	12,961
Total assets less current liabilities		**206,514**	200,535	**79,952**	67,584
Creditors					
Amounts falling due after more than one year	21	**(41,035)**	(40,084)	**(1,398)**	(941)
Provisions for liabilities and charges	23	**(16,186)**	(15,336)	**-**	-
Net assets	24	**149,293**	145,115	**78,554**	66,643
Capital and reserves					
Called up share capital	25	**18,575**	18,484	**18,575**	18,484
Share premium account	26	**34,380**	33,327	**34,380**	33,327
Revaluation reserve	26	**4,216**	4,618	**-**	-
Capital redemption reserve	26	**1,832**	1,832	**1,832**	1,832
Profit and loss account	26	**87,328**	83,626	**23,767**	13,000
Shareholders' funds - equity		**146,331**	141,887	**78,554**	66,643
Minority interests - equity		**2,962**	3,228	**-**	-
		149,293	145,115	**78,554**	66,643

These financial statements were approved by the Board of Directors on 10th March 2003 and signed on its behalf by:

Directors

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

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

group statement of total recognised gains and losses

for the year ended 31st december 2002

	2002	2001
		(Restated)
	£000	£000
Profit for the financial year	**26,125**	26,040
Currency translation differences on foreign currency net investments	**(8,475)**	(5,772)
Total recognised gains and losses relating to the year	**17,650**	20,268
Prior year adjustment in respect of the adoption of FRS 19 - Deferred Tax (note 26)	**(959)**	
	16,691	

reconciliations of movement in shareholders' funds

for the year ended 31st december 2002

	THE GROUP		**PARENT COMPANY**	
	2002	2001	**2002**	2001
		(Restated)		
	£000	£000	**£000**	£000
Shareholders' funds at 1st January (as previously reported)	**142,846**	134,924	**66,643**	60,639
Adjustment in respect of FRS 19 - Deferred Tax	**(959)**	(869)	**-**	-
Shareholders' funds at 1st January - restated	**141,887**	134,055	**66,643**	60,639
Profit for the financial year	**26,125**	26,040	**25,117**	18,440
Dividends	**(14,350)**	(13,752)	**(14,350)**	(13,752)
Net proceeds of issue of shares	**1,144**	1,316	**1,144**	1,316
Currency translation differences	**(8,475)**	(5,772)	**-**	-
Shareholders' funds at 31st December	**146,331**	141,887	**78,554**	66,643

group cash flow statement

for the year ended 31st december 2002

RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOW

	notes	2002 £000	2001 £000
Operating profit		**42,674**	40,803
Depreciation and amortisation charges		**12,492**	12,303
Decrease in stocks		**3,858**	(435)
Increase in debtors		**(2,241)**	873
Increase in creditors and provisions		**1,779**	(3,573)
Cash inflow from operating activities		**58,562**	49,971

GROUP CASH FLOW STATEMENT

	notes	2002 £000	2001 £000
Cash inflow from operating activities		**58,562**	49,971
Returns on investments and servicing of finance	*30*	**(2,441)**	(3,254)
Taxation		**(11,605)**	(12,429)
Capital expenditure	*30*	**(11,339)**	(16,834)
Acquisitions and disposals	*30*	**(1,386)**	(404)
Equity dividends paid		**(13,930)**	(13,412)
Cash inflow before use of liquid resources and financing		**17,861**	3,638
Management of liquid resources	*30*	**(15,918)**	1,735
		1,943	5,373
Financing - Issue of ordinary share capital	*30*	**1,144**	1,316
- Decrease in debt	*30*	**(4,492)**	(5,477)
		(3,348)	(4,161)
Decrease in cash in the period	*31*	**(1,405)**	1,212

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

	2002 £000	2001 £000
Decrease in cash in the period	**(1,405)**	1,212
Cash outflow from decrease in debt	**4,492**	5,477
Cash outflow from increase in liquid resources	**15,918**	(1,735)
Change in net debt resulting from cash flows	**19,005**	4,954
Amortisation of loan expenses	**(21)**	(25)
Translation difference	**(1,177)**	206
Movement in net debt in the period	**17,807**	5,135
Net debt at 1st January	**(40,473)**	(45,608)
Net debt at 31st December	**(22,666)**	(40,473)

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. The Group has adopted FRS 19 - Deferred Taxation and the comparative statements have been restated accordingly.

Basis of consolidation
The Group accounts include the accounts of the company and its subsidiary undertakings made up to 31st December 2002. 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	12.5 - 20%
Leasehold properties	10%	Motor vehicles	20%
Plant and machinery	10-12.5%	Tooling and patterns	10%

Stocks
Stocks and work in progress are valued at the lower of cost, including 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.

1 ACCOUNTING POLICIES *(continued)*

Deferred taxation
Deferred taxation is recognised without discounting at current rates of tax on short and long term timing differences in accordance with Financial Reporting Standard 19 - Deferred Tax which the company has adopted this year.

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.

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:

	2002 £000	2001 £000
United Kingdom	**38,928**	38,869
Continental Europe	**106,490**	101,406
The Americas	**85,385**	87,770
Asia, Australasia and Africa	**65,560**	63,897
	296,363	291,942

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

	2002 £000	2001 £000
United Kingdom	**89,435**	85,733
Continental Europe	**127,403**	125,589
The Americas	**89,768**	92,267
Asia, Australasia and Africa	**58,843**	57,137
	365,449	360,726
Intra-group sales	**(69,086)**	(68,784)
Sales to third parties	**296,363**	291,942

There were no discontinued operations in 2002 or 2001.
The Group operates in one business segment which is the control of fluids.

notes to the accounts *(continued)*

3 OPERATING COSTS

	2002 £000	2001 £000
Change in stocks of finished goods and work in progress	**2,615**	656
Raw materials and consumables	**75,946**	79,451
Staff costs (note 4)	**109,681**	107,621
Depreciation	**11,935**	11,796
Amortisation of goodwill	**557**	507
Other operating charges	**52,955**	51,108
	253,689	251,139

4 STAFF COSTS AND NUMBERS

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

	2002 £000	2001 £000
Wages and salaries	**87,936**	87,456
Social security costs	**14,907**	15,119
Other pension costs	**6,838**	5,046
	109,681	107,621

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

	Number	Number
United Kingdom	**1,099**	1,132
Overseas	**2,899**	2,927
	3,998	4,059

5 OPERATING PROFIT

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

	2002 £000	2001 £000
United Kingdom	**8,014**	8,603
Continental Europe	**13,561**	13,414
The Americas	**11,336**	9,498
Asia, Australasia and Africa	**9,763**	9,288
	42,674	40,803

The profit on disposal of fixed assets in 2001 was split UK £1,134,000 and Americas (£518,000).

6 NON-OPERATING ITEM

	2002 £000	2001 £000
Profit on sale of freehold land and buildings	**-**	616

No tax was payable on the non-operating item.

7 NET INTEREST PAYABLE

		2002 £000	2001 £000
Interest payable:	Bank loans and overdrafts	**1,823**	2,478
	Other loans	**906**	1,310
		2,729	3,788
Interest receivable		**(748)**	(1,010)
		1,981	2,778

8 PROFIT BEFORE TAXATION

Profit before taxation is shown after charging:

	2002 £000	2001 £000
Depreciation of tangible fixed assets held under finance leases	**160**	91
Audit fees (Spirax-Sarco Engineering plc £90,000 (2001: £85,000))	**635**	633
Hire of plant and machinery	**310**	369
Other operating leases	**2,670**	3,045
Research and development	**4,411**	4,593
Share Ownership Plan contributions	**393**	463

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 £520,000 (2001: £416,000), including amounts paid to the auditors of overseas companies of £227,000 (2001: £236,000). 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 Directors' Remuneration Report on pages 24 to 30.

10 TAXATION

	2002 £000	2001 (Restated) £000
Analysis of charge in period		
UK corporation tax		
Current tax on income for the period	**8,059**	6,069
Adjustments in respect of prior periods	**60**	122
	8,119	6,191
Double taxation relief	**(5,244)**	(4,174)
	2,875	2,017
Foreign tax		
Current tax on income for the period	**11,357**	9,639
Adjustments in respect of prior periods	**(243)**	(227)
	11,114	9,412
Total current tax charge	**13,989**	11,429
Deferred tax	**(102)**	587
Tax on profit on ordinary activities	**13,887**	12,016

The adoption of FRS 19 - Deferred Tax increased the 2001 tax charge by £90,000. It is not practical to quantify the equivalent effect on the 2002 tax charge.

10 TAXATION *(continued)*
Current tax reconciliation

Profit on ordinary activities before tax	**40,693**	38,641
Current tax at 30% (2001: 30%)	**12,208**	11,592
Higher tax rates on overseas earnings	**1,911**	1,553
Non-deductible expenses, provisions and accruals	**1,413**	811
Pension prepayment	**(132)**	(572)
Accelerated capital allowances	**(734)**	(587)
Adjustment to tax in respect of previous periods	**(183)**	(105)
Other	**(494)**	(1,263)
Total current tax charge (see above)	**13,989**	11,429

Factors that may affect the future tax charges:
The Group's tax charge in future years is likely to be affected by the proportion of profits arising and the effective tax rates in the various territories in which the Group operates. No UK tax (after double tax relief for underlying tax) is expected to be payable on the future remittance of the retained earnings of overseas subsidiaries. No provision has been made for deferred tax on property revaluations: the total amount unprovided is £416,000 and it is not envisaged that the tax will become payable in the foreseeable future.

11 PROFIT FOR THE FINANCIAL YEAR
Profit dealt with in the accounts of Spirax-Sarco Engineering plc was £25,117,000 (2001: £18,440,000). Included in this amount are dividends from subsidiary undertakings of £25,803,000 (2001: £18,026,000).

12 DIVIDENDS

			2002 £000	2001 £000
Interim paid	5.8p	(2001: 5.6p) per share	**4,319**	4,140
Final proposed	13.5p	(2001: 13.0p) per share	**10,031**	9,612
	19.3p	(2001: 18.6p) per share	**14,350**	13,752

13 EARNINGS PER SHARE
The calculation of earnings per share (basic) before the disposal of fixed assets is based on earnings of £26,125,000 (2001: £25,424,000) and the calculation of earnings per share (basic) after the disposal of fixed assets is based on earnings of £26,125,000 (2001: £26,040,000), as shown in the Group profit and loss account, divided by the weighted average number of shares in issue during the year of 74,072,923 (2001: 73,808,317). 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 121,943 (2001: 101,481) to 74,194,866 (2001: 73,909,798). The dilution is in respect of unexercised share options.

14 FIXED ASSETS: INTANGIBLE ASSETS

	THE GROUP Goodwill £000
Cost:	
At 1st January 2002	10,149
Exchange adjustments	144
	10,293
Additions (note 32)	1,876
At 31st December 2002	**12,169**
Amortisation:	
At 1st January 2002	1,191
Exchange adjustments	32
	1,223
Charged in year	562
At 31st December 2002	**1,785**
Net book value:	
At 31st December 2002	**10,384**
At 31st December 2001	8,958

15 FIXED ASSETS: TANGIBLE ASSETS

	THE GROUP				
	Land and buildings				
	Freehold £000	Short leasehold £000	Plant and machinery £000	Fixtures, fittings, tools and equipment £000	Total £000
Cost or valuation:					
At 1st January 2002	48,410	1,564	75,742	49,120	174,836
Exchange adjustments	(1,887)	(140)	(2,643)	(1,216)	(5,886)
	46,523	1,424	73,099	47,904	168,950
Additions	1,486	98	6,408	3,556	11,548
Disposals	(1)	(9)	(2,124)	(1,145)	(3,279)
At 31st December 2002	**48,008**	**1,513**	**77,383**	**50,315**	**177,219**
Depreciation:					
At 1st January 2002	5,866	252	43,684	33,128	82,930
Exchange adjustments	(484)	(19)	(1,737)	(1,034)	(3,274)
	5,382	233	41,947	32,094	79,656
Charged in year	945	42	6,535	4,436	11,958
Disposals	-	(9)	(1,885)	(1,094)	(2,988)
At 31st December 2002	**6,327**	**266**	**46,597**	**35,436**	**88,626**
Net book value:					
At 31st December 2002	**41,681**	**1,247**	**30,786**	**14,879**	**88,593**
At 31st December 2001	42,544	1,312	32,058	15,992	91,906

notes to the accounts *(continued)*

15 FIXED ASSETS: TANGIBLE ASSETS *(continued)*

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

		2002 £000	2001 £000
Valuation	1976	**63**	63
	1986	**6,939**	6,819
	1991	**2,195**	2,421
Cost		**38,811**	39,107
		48,008	48,410

The historic cost net book value of freehold land and buildings at 31st December 2002 was £37,453,000. Freehold land of £7,758,000 is not depreciated.

Included in the above are finance leases with net book value of £1,917,000.

As permitted by FRS 15 - Tangible Fixed Assets, it is not currently the intention to update valuations.

16 FIXED ASSETS: INVESTMENTS

	PARENT COMPANY		
	Shares in subsidiary undertakings £000	Loans to subsidiary undertakings £000	Total £000
Cost:			
At 1st January 2002	44,515	12,144	56,659
Exchange adjustments	-	166	166
	44,515	12,310	56,825
Transfer	1,839	-	1,839
Repayments	-	(1,155)	(1,155)
At 31st December 2002	**46,354**	**11,155**	**57,509**
Amounts written off:			
At 1st January 2002 and 31st December 2002.	994	1,042	2,036
Net book value:			
At 31st December 2002	**45,360**	**10,113**	**55,473**
At 31st December 2001	43,521	11,102	54,623

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

Details relating to subsidiary undertakings are given on pages 14 and 15. Except where stated on those pages all classes of shares were 100% owned by the Group at 31st December 2002. 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., Watson-Marlow Bredel Holdings B.V., Spirax-Sarco Engineering S.L., 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	
	2002	2001
	£000	£000
Raw materials and consumables	**19,062**	20,346
Work in progress	**9,636**	10,500
Finished goods and goods for resale	**28,890**	31,994
	57,588	62,840

18 DEBTORS

	THE GROUP		PARENT COMPANY	
	2002	2001 (Restated)	**2002**	2001
	£000	£000	**£000**	£000
Trade debtors	**70,139**	70,435	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**18,515**	21,793
Other debtors	**9,802**	9,538	**112**	103
Prepayments and accrued income	**2,927**	4,584	**74**	113
Taxation recoverable	**884**	642	**59**	260
Deferred tax	**3,378**	3,186	**-**	-
	87,130	88,385	**18,760**	22,269

Taxation recoverable in the Group balance sheet represents advance corporation tax of £Nil (2001: £236,000) and other amounts recoverable of £884,000 (2001: £406,000).

Taxation recoverable in the parent company balance sheet represents advance corporation tax of £Nil (2001: £236,000) and other amounts recoverable of £59,000 (2001: £24,000).

19 CASH DEPOSITS AND SHORT-TERM INVESTMENTS

Cash deposits and short-term investments in the Group balance sheet comprise money market deposits of £31,796,000 (2001: £16,147,000) and £16,500,000 (2001: £3,550,000) 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	
	2002	2001	**2002**	2001
	£000	£000	**£000**	£000
Bank loans and overdrafts				
Overdrafts	**6,794**	4,099	**-**	-
Other loans	**12,542**	17,823	**-**	-
Trade creditors	**14,396**	15,289	**-**	-
Bills of exchange payable	**834**	1,093	**-**	-
Obligations under finance leases (note 22)	**349**	61	**-**	-
Amount owing to subsidiary undertakings	**-**	-	**-**	3,000
Corporation tax	**2,032**	866	**-**	-
Overseas tax	**5,341**	5,395	**-**	-
Social security	**2,129**	2,089	**-**	-
Other creditors	**8,795**	6,414	**-**	46
Accruals	**10,616**	9,272	**856**	200
Proposed dividend	**10,031**	9,612	**10,031**	9,612
	73,859	72,013	**10,887**	12,858

Bank loans and overdrafts amounting to £155,000 (2001: £417,000) are secured on current assets of certain Group companies.

notes to the accounts *(continued)*

21 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	THE GROUP		PARENT COMPANY	
	2002	2001	**2002**	2001
	£000	£000	**£000**	£000
Bank and other loans - Repayable between 1 and 2 years	**19,545**	4,246	**-**	-
- Repayable between 2 and 5 years	**18,946**	33,029	**-**	-
Obligations under finance leases (note 22)	**1,168**	1,674	**-**	-
Amount owed to subsidiary undertakings	**-**	-	**1,398**	941
Tax payable	**27**	-	**-**	-
Accruals	**1,349**	1,135	**-**	-
	41,035	40,084	**1,398**	941

The Company together with other Group companies has jointly and severally guaranteed loans granted to subsidiary undertakings amounting to £56,940,000 at 31st December 2002 (2001: £55,536,000).

22 OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP	
	2002	2001
	£000	£000
Aggregate amounts repayable:		
Over 5 years	**326**	347
between 2 and 5 years	**473**	895
between 1 and 2 years	**369**	432
	1,168	1,674
in 1 year or less	**349**	61
	1,517	1,735

23 PROVISIONS FOR LIABILITIES AND CHARGES

	THE GROUP			
	Deferred taxation provisions £000	Post retirement benefits £000	Warranty and other provisions £000	Total £000
Provisions at 1st January 2002 (as previously reported)	2,782	9,084	325	12,191
Adjustment in respect of FRS 19 - Deferred Tax	3,145	-	-	3,145
Provisions at 1st January 2002 - restated	5,927	9,084	325	15,336
Exchange adjustments	(137)	321	-	184
	5,790	9,405	325	15,520
Charge for the year	146	1,619	-	1,765
Utilised during the year	-	(1,099)	-	(1,099)
Provisions at 31st December 2002	**5,936**	**9,925**	**325**	**16,186**

An analysis of deferred taxation is set out below.

	THE GROUP	
	Provided	
	2002	2001 (Restated)
	£000	£000
Accelerated capital allowances	**3,614**	3,134
Provisions disallowed	**(3,452)**	(2,719)
Other timing differences	**2,396**	2,326
	2,558	2,741
Deferred tax liabilities	**5,936**	5,927
Deferred tax asset (see note 18)	**3,378**	3,186
	2,558	2,741

The impact of the adoption of FRS 19 - Deferred Tax on the 2001 balance sheet was to increase deferred tax assets by £2,186,000 and to increase deferred tax provisions by £3,145,000.

24 NET ASSETS

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

	THE GROUP	
	2002	2001 (Restated)
	£000	£000
United Kingdom	**47,178**	46,937
Continental Europe	**61,271**	59,660
The Americas	**33,909**	47,162
Asia, Australasia and Africa	**34,483**	36,141
	176,841	189,900
Cash at bank and in hand	**(4,882)**	(4,312)
Capital employed	**171,959**	185,588
Net debt	**(22,666)**	(40,473)
Net assets	**149,293**	145,115

25 CALLED UP SHARE CAPITAL

	THE GROUP		PARENT COMPANY	
	2002	2001	**2002**	2001
	£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 74,300,622	**18,575**	18,484	**18,575**	18,484

244,994 ordinary shares, having an aggregate nominal value of £61,248, were issued pursuant to the Spirax-Sarco Engineering plc Employee Share Ownership Plan on 4th October 2002 for a consideration of £785,000 received by the Company. 2,963 ordinary shares, having an aggregate nominal value of £741, were issued pursuant to the Spirax-Sarco Engineering Employee Share Ownership Plan in lieu of dividends of £12,000. 117,294 ordinary shares, having an aggregate nominal value of £29,323, were issued during the year pursuant to the Spirax-Sarco Engineering Share Option Schemes for a consideration of £347,000 received by the Company.

notes to the accounts *(continued)*

25 CALLED UP SHARE CAPITAL *(continued)*

Directors and 105 other senior employees and former employees of the Group have been granted options to purchase 2,873,113 ordinary shares with an aggregate nominal value of £718,278. Options are exercisable as follows:

	Number of shares	Price to be paid per share
Between 1996 and 2003	27,968	301.8p
Between 1996 and 2003	81,145	355.1p
Between 1997 and 2004	5,338	363.0p
Between 1997 and 2004	214,662	427.0p
Between 1998 and 2005	230,000	611.0p
Between 1999 and 2006	270,500	739.0p
Between 2000 and 2007	264,500	669.0p
Between 2001 and 2008	307,500	420.0p
Between 2002 and 2009	294,500	525.0p
Between 2003 and 2010	369,500	319.2p
Between 2004 and 2011	444,000	397.7p
Between 2005 and 2012	363,500	436.0p
	2,873,113	

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 25 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 2002 (as previously reported)	33,327	4,618	1,832	84,585	124,362
Adjustment in respect of FRS 19 - Deferred Tax	-	-	-	(959)	(959)
Balance at 1st January 2002 - restated	33,327	4,618	1,832	83,626	123,403
Effect of exchange rate adjustments	-	(402)	-	(8,073)	(8,475)
	33,327	4,216	1,832	75,553	114,928
Retained profit for the financial year	-	-	-	11,775	11,775
Premium on the issue of shares	1,053	-	-	-	1,053
Balance at 31st December 2002	**34,380**	**4,216**	**1,832**	**87,328**	**127,756**

The cumulative amount of goodwill resulting from acquisitions prior to 1998 (less goodwill on disposals) deducted from reserves amounted to £67,322,000 (2001: £67,322,000).

	PARENT COMPANY				
Balance at 1st January 2002	33,327	-	1,832	13,000	48,159
Retained profit for the financial year	-	-	-	10,767	10,767
Premium on the issue of shares	1,053	-	-	-	1,053
Balance at 31st December 2002	**34,380**	**-**	**1,832**	**23,767**	**59,979**

27 CAPITAL COMMITMENTS

	THE GROUP		PARENT COMPANY	
	2002	2001	**2002**	2001
	£000	£000	**£000**	£000
Capital expenditure contracted for but not provided	**1,201**	1,356	**-**	-

28 LEASE OBLIGATIONS

	THE GROUP			
	Buildings		Other operating leases	
	2002	2001	**2002**	2001
	£000	£000	**£000**	£000
Rental payments due in 2003 are under current operating leases terminating in the following years:				
2003	**653**	681	**730**	745
2004 to 2007	**772**	1,050	**891**	1,036
2008 onwards	**636**	157	**1**	9
	2,061	1,888	**1,622**	1,790

29 PENSIONS AND OTHER POST-RETIREMENT BENEFITS

The total pension charge for the Group this year was £6,838,000 (2001: £5,046,000) of which £2,782,000 (2001: £2,651,000) 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 during 2001. The defined contribution scheme was established in 2001 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 carried out at either 31st December 2001 or 5th April 2002. The valuations show that the market value of the assets was £109,700,000 and was sufficient to cover 98 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 assumptions used in the valuations 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 2.9 per cent per annum and pension increases by an average of 3.9 per cent per annum.

Included in other debtors in the Group balance sheet are prepaid pension costs of £5,942,000 (2001: £5,481,000).

In respect of certain overseas schemes the excess of £9,323,000 (2001: £8,474,000) of the accumulated pension cost over the amount funded is provided in the accounts (note 23). Part of this provision relates to the unfunded German defined benefit scheme.

The charge for post-retirement benefits other than pensions for the Group in 2002 was £107,000 (2001: £51,000) and related to health care. Provisions for the benefit obligations at 31st December 2002 amounted to £602,000 (2001: £610,000) 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 6.75%.

FRS 17 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 actuarial valuations of the Group's defined benefit schemes were carried out at various dates between 1st January 2000 and 31st December 2002. The results produced at earlier valuation dates were updated to the 31st December 2002 by independent qualified actuaries.

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

The financial assumptions used at 31st December were:

	Assumptions weighted by value of liabilities % per annum			
	UK pensions		Overseas pensions and medical	
	2002	2001	2002	2001
Rate of increase in salaries	3.3	3.5	3.4	4.2
Rate of increase in pensions	2.3	2.5	1.8	2.0
Discount rate	5.6	5.8	6.2	6.5
Rate of price inflation	2.3	2.5	N/A	N/A
Medical trend rate			5.0	6.0

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

	Assumptions weighted by market value of assets % per annum			
	UK pensions		Overseas pensions and medical	
	2002	2001	2002	2001
Expected rate of return on assets (aggregate)	7.5	7.0	7.6	8.2
Bonds	5.0	5.1	6.0	6.8
Equities	8.2	7.8	9.0	8.5
Other	5.9	5.3	2.7	3.8

The market value of the schemes'assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the schemes' liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, at 31st December 2002 were:

	UK pensions		Overseas pensions and medical		Total	
	2002 £000	2001 £000	2002 £000	2001 £000	2002 £000	2001 £000
Total market value in aggregate	91,100	109,600	11,900	16,700	103,000	126,300
Bonds	15,900	22,900	3,800	500	19,700	23,400
Equities	70,100	77,800	7,300	14,400	77,400	92,200
Other	5,100	8,900	800	1,800	5,900	10,700

	UK pensions £000	Overseas pensions and medical £000	Total £000
Total market value of schemes' assets	91,100	11,900	103,000
Present value of the schemes' liabilities	(124,400)	(27,300)	(151,700)
Deficit in the schemes	(33,300)	(15,400)	(48,700)
Related deferred tax asset	10,000	3,300	13,300
Net pension liability	(23,300)	(12,100)	(35,400)

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

The movement in deficits in the schemes during the year were:

	UK pensions £000	Overseas pensions and medical £000	Total £000
Net pension liability at beginning of year	(4,900)	(9,280)	(14,180)
Contributions paid	4,500	1,000	5,500
Current service cost	(5,100)	(850)	(5,950)
Other finance income (charge)	1,000	(450)	550
Actuarial loss	(26,700)	(3,600)	(30,300)
Adjustment to deferred tax asset	7,900	1,080	8,980
Net pension liability at end of year	(23,300)	(12,100)	(35,400)

The components for the defined benefit cost for the year ended 31st December 2002 under FRS 17 were:

	UK pensions £000	Overseas pensions and medical £000	Total £000
Current service cost	(5,100)	(850)	(5,950)
Past service cost	-	-	-
Total charge to operating profit	(5,100)	(850)	(5,950)
Interest on pension scheme liabilities	(6,700)	(1,550)	(8,250)
Expected return on assets in the pension scheme	7,700	1,100	8,800
Net (charge) credit to other finance income	1,000	(450)	550
Total charge before tax	(4,100)	(1,300)	(5,400)

The amounts to be recognised in the Group statement of total recognised gains and losses (STRGL) were:

	UK pensions £000	Overseas pensions and medical £000	Total £000
Loss on assets	(27,700)	(1,700)	(29,400)
Experience gain/(loss) on liabilities	500	(1,500)	(1,000)
Gain/(loss) on change of assumptions (financial and demographic)	500	(400)	100
Total loss recognised in STRGL before adjustment for tax	(26,700)	(3,600)	(30,300)

The history of experience gains and losses was:

	UK pensions £000	Overseas pensions and medical £000	Total £000
Loss on assets	(27,700)	(1,700)	(29,400)
% of schemes' assets at end of year	(30.4%)	(14.3%)	(28.5%)
Experience gain/(loss) on liabilities	500	(1,500)	(1,000)
% of schemes' liabilities at end of year	0.4%	(5.5%)	(0.7%)
Total loss recognised in STRGL	(26,700)	(3,600)	(30,300)
% of schemes' liabilities at end of year	(21.5%)	(13.2%)	(20.0%)

notes to the accounts *(continued)*

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

If the above amounts had been recognised in the accounts, the Group's net assets and profit and loss account reserve at 31st December 2002 would be as follows:

	£000
Net assets (page 33)	149,293
Unprovided pension liability	(33,700)
Adjusted net assets including pension liability	115,593
Profit and loss account reserve (page 33)	87,328
Unprovided pension liability	(33,700)
Adjusted profit and loss account reserve	53,628

The net pension liability of £35,400,000 calculated in accordance with FRS 17 compares with the net pension provision currently recorded of £1,700,000.

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

	THE GROUP	
	2002 **£000**	2001 £000
Returns on investments and servicing of finance		
Interest received	**748**	1,012
Interest paid	**(2,553)**	(3,654)
Interest element of finance lease rentals payments	**(109)**	(78)
Dividends paid by subsidiary undertakings to minority interests	**(527)**	(534)
Net cash outflow for returns on investments and servicing of finance	**(2,441)**	(3,254)
Capital expenditure		
Purchase of tangible fixed assets	**(11,684)**	(18,584)
Sales of tangible fixed assets	**345**	1,750
Net cash outflow for capital expenditure	**(11,339)**	(16,834)
Acquisitions and disposals		
Purchase of subsidiary undertakings	**(1,687)**	(404)
Net cash and overdrafts acquired with subsidiary	**170**	-
Sale of subsidiary undertakings	**131**	-
Net cash outflow for acquisitions	**(1,386)**	(404)
Management of liquid resources*		
Net cash put on deposit	**(15,918)**	1,735
Net cash outflow from management of liquid resources	**(15,918)**	1,735
Financing		
Issue of ordinary share capital	**1,144**	1,316
Debt due within a year: net decrease in short term borrowings	**(5,581)**	(3,679)
Debt due beyond a year: net increase in long term borrowings	**1,342**	(2,139)
Capital element of finance lease rentals payments	**(253)**	341
Decrease in debt	**(4,492)**	(5,477)
Net cash outflow from financing	**(3,348)**	(4,161)

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

31 ANALYSIS OF CHANGES IN NET DEBT

	At 1st Jan 2002	Cash flow	Other non-cash changes	Exchange movement	At 31st Dec 2002
	£000	£000	£000	£000	£000
Cash in hand and at bank	4,312	1,009	-	(439)	4,882
Overdrafts	(4,099)	(2,414)	-	(281)	(6,794)
		(1,405)			
Debt due within a year	(17,823)	5,581	-	(300)	(12,542)
Debt due beyond a year	(37,275)	(1,342)	(21)	147	(38,491)
Finance leases	(1,735)	253	-	(35)	(1,517)
		4,492			
Current asset investments	16,147	15,918	-	(269)	31,796
Total	**(40,473)**	**19,005**	**(21)**	**(1,177)**	**(22,666)**

32 PURCHASE OF SUBSIDIARY UNDERTAKINGS

		Ampe			Marford			Christian Berner	
		Book value	Accounting policy adjustments	Fair value	Book value	Accounting policy adjustments	Fair value	Book and fair value	Total
		£000	£000	£000	£000	£000	£000	£000	£000
Tangible fixed assets		254	(46)	208	105	-	105	-	313
Current assets									
	Stock	761	(38)	723	188	(50)	138	-	861
	Debtors	9	-	9	162	-	162	-	171
	Cash	-	-	-	165	-	165	-	165
		770	(38)	732	515	(50)	465	-	1,197
Current liabilities									
	Trade creditors	(672)	-	(672)	(132)	-	(132)	-	(804)
	Other creditors	(14)	(137)	(151)	-	-	-	-	(151)
		(686)	(137)	(823)	(132)	-	(132)	-	(955)
Net current assets (liabilities)		84	(175)	(91)	383	(50)	333	-	242
Pension provision		(172)	(17)	(189)			-	-	(189)
Total net assets (liabilities)		166	(238)	(72)	488	(50)	438	-	366
Goodwill				771			738	367	1,876
Purchase consideration				**699**			**1,176**	**367**	**2,242**
Satisfied by	Cash paid			55			968	339	1,362
	Deferred consideration			499			-	-	499
	Acquisition expenses			145			208	28	381
				699			**1,176**	**367**	**2,242**
Analysis of net flow of cash and cash equivalents in respect of purchase of subsidiaries									
Cash consideration				180			1,154	353	1,687
Cash acquired				-			(170)	-	(170)
Net cash outflow				**180**			**984**	**353**	**1,517**

The acquisition of Marford Feedwater Treatment (Aust.) Pty Ltd was completed on 18th January 2002. The acquisition was accounted for by the acquisition method of accounting. Consideration of A$2,769,000 (£968,000) was paid on completion. The book value of stock has been adjusted to reflect Spirax Sarco's accounting policies in order to arrive at its fair value.

The acquisition of Ampe srl was completed on 31st December 2002. The acquisition was accounted for by the acquisition method of accounting. Consideration of €84,000 (£55,000) was paid on completion. The book value of net assets has been adjusted to reflect Spirax Sarco's accounting policies in order to arrive at their fair value.

The total profits after tax of the businesses acquired in the period in 2002 prior to acquisition were £124,000. The total profits for 2001 of the businesses acquired were £158,000.

In addition there was goodwill of £367,000 on the acquisition of Christian Berner AB the distributor for Watson-Marlow Bredel in Sweden.

notes to the accounts *(continued)*

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 19% 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 2002 the percentage of debt to net assets, excluding debt, was 63% (2001: 68%) for the euro and 48% (2001: 49%) 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:

2002	Total	Fixed rate financial liabilities	Floating rate financial liabilities	Financial liabilities on which no interest is paid
	£000	£000	£000	£000
Euro	39,481	1,524	36,608	1,349
US dollar	11,870	9,908	1,962	-
Other	9,342	98	9,244	-
	60,693	**11,530**	**47,814**	**1,349**
2001				
	£000	£000	£000	£000
Euro	41,392	2,345	37,912	1,135
US dollar	13,645	13,645	-	-
Other	7,030	1,040	5,990	-
	62,067	17,030	43,902	1,135

In respect of fixed rate financial liabilities the interest rate for euro financial liabilities is 4.6% fixed for 3.3 years (2001: 4.4 years). The interest rate for US dollar financial liabilities is 6.7% fixed for 3.1 years (2001: 4.1 years).

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

Canadian dollar Japanese yen US dollar	LIBOR
Euro	LIBOR/EURIBOR

33 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS *(continued)*

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:

2002	Total	Floating rate financial assets	Financial assets on which no interest is earned
	£000	£000	£000
Sterling	16,606	16,500	106
Other	20,072	15,296	4,776
	36,678	**31,796**	**4,882**

2001			
	£000	£000	£000
Sterling	4,147	4,083	64
Other	16,312	12,064	4,248
	20,459	16,147	4,312

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 was a net monetary asset of £273,000 (2001: £105,000 net monetary liability) and in respect of the US dollar a net monetary asset of £1,032,000 (2001: £882,000).

Foreign exchange contracts
There were no forward exchange contracts outstanding at 31st December 2002.

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

	2002	2001
	£000	£000
In one year or less, or on demand	**19,685**	21,983
In more than one year but no more than two	**20,757**	5,006
In more than two years but no more than five	**19,925**	35,078
In more than five years	**326**	-
	60,693	62,067

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:

	2002	2001
	£000	£000
Expiring in one year or less	**17,872**	9,495

Fair values of financial assets and financial liabilities
A US dollar loan with a book value of £9,908,000 (2001: £13,644,000) had a fair value at 31st December of £10,525,000 (2001: £14,107,000). 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 1993 - 2002

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

* before exceptional and non-operating items

** after exceptional and non-operating items

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

2001 figures have been restated for FRS 19 - Deferred Tax

turnover (£m)

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

1997 £000	1998 £000	1999 £000	2000 £000	2001 £000	**2002 £000**
265,595	249,030	258,942	278,148	291,942	**296,363**
48,574	42,433	42,721	43,370	40,803	**42,674**
18.3%	17.0%	16.5%	15.6%	14.0%	**14.4%**
47,715	42,270	41,751	41,157	38,025	**40,693**
47,715	30,641	41,751	40,167	38,641	**40,693**
31,229	20,140	29,058	27,300	26,625	**26,806**
12,535	13,116	13,102	13,301	13,752	**14,350**
128,772	136,196	128,737	138,264	145,115	**149,293**
38.3p	34.5p	36.1p	37.4p	34.4p	**35.3p**
38.3p	24.1p	36.1p	35.4p	35.3p	**35.3p**
15.8p	16.5p	17.3p	18.0p	18.6p	**19.3p**
36.5%	30.3%	28.0%	26.2%	23.6%	**25.6%**

earnings per share (p)
(before exceptional
and non-operating items)

geographical analysis
of turnover (£m)

officers and advisers

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IMPORTANT DATES

Ordinary shares quoted ex-dividend	16th April 2003
Record date for final dividend	22nd April 2003
Annual general meeting	8th May 2003
Final dividend payable	20th May 2003

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