

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 2004.

RESULTS

The results of the Group for the year are explained in the Chairman's Statement and Chief Executive's Review on pages 2 to 9 and are set out in the profit and loss account on page 40.

DIVIDEND

An interim cash dividend of 6.3p per share (2003: 6.0p) was paid in November 2004. The directors now recommend the payment of a final dividend of 15.1p per share (2003: 14.1p). If approved at the annual general meeting the final dividend will be paid on 23rd May 2005 to shareholders on the register at 22nd April 2005. The total distribution for the year will be 21.4p per share (2003: 20.1p).

BUSINESS REVIEW

A review of the operations of the Group in 2004 together with an indication of future prospects of the business is given on pages 2 to 9.

PRINCIPAL ACTIVITIES

The Group's business is the provision of knowledge, service and products, worldwide for the control and efficient use of steam and other industrial fluids and for peristaltic pumping.

BOARD OF DIRECTORS

The directors of the Company as at 31st December 2004 are those listed on pages 18 and 19. Since that date it has been announced that:-

Mr. T. B. Fortune will retire as Chairman of the Company and from the Board with effect from the conclusion of the annual general meeting on 12th May 2005. He will be succeeded by Mr. M. Townsend.

Mr. C. J. Ball will retire from the Board with effect from 29th April 2005, Mr. G. Bullock has been appointed to the Board with effect from 2nd May 2005 as a non-executive director and Mr. A. J. Scrivin has been appointed to the Board as an executive director with effect from 2nd May 2005 with the title Director - Europe.

In accordance with the Company's articles of association:-

- i) Messrs. G. Bullock and A. J. Scrivin will retire from office at the annual general meeting and, being eligible, the Board is recommending that they offer themselves for appointment. Mr. A. J. Scrivin will have a service contract with the Company determinable on 12 months' notice. Mr. G. Bullock, as a non-executive director, will have a letter of appointment with the Company; and
- ii) Messrs. M. J. D. Steel and A. D. H. Black retire and, being eligible, the Board is recommending that they offer themselves for re-appointment. Messrs. M. J. D. Steel and A. D. H. Black have service contracts with the Company determinable on 12 months' notice.

DIRECTORS' INTERESTS AND REMUNERATION

The interests of the directors in the share capital of Spirax-Sarco Engineering plc as at 31st December 2004 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 30 to 37.

	Ordinary Shares of 25p each Beneficial Interests		Ordinary Shares of 25p each Non-beneficial Interests	
	31.12.04	31.12.03 or date of retirement*	31.12.04	31.12.03
T. B. Fortune	67,723	67,723	424,288	424,288
M. J. D. Steel	66,590	62,970	-	115,938
C. J. Ball	56,989	53,516	-	-
A. D. H. Black	20,318	19,770	-	-
N. H. Daws	2,588	1,968	-	-
G. P. Marchand	52,525	51,905	-	-
D. J. Meredith	41,920	41,300	424,288	540,226
P. A. Smith	65,360	63,784	424,288	540,226
P. M. Smith*	-	41,023	-	-
E. Lindh	-	-	-	-
M. Townsend	2,879	2,879	-	-
W. H. Whiteley	2,734	2,734	-	-

* Mr. P. M. Smith retired from the Board on 31st May 2003.

At 31st December 2004, the Spirax Sarco pension funds held 424,288 shares in the Company. Messrs. T. B. Fortune, D. J. Meredith and P. A. Smith are trustees of these funds.

There have been no changes in the number of shares held by those directors as shown on page 20 since 31st December 2004.

EMPLOYMENT REPORT AND POLICIES

Details of the Group's Employment Policies are set out on pages 26 and 27.

ANNUAL GENERAL MEETING

The notice of meeting and an explanation of resolutions 9 to 16 to be proposed at the annual general meeting are set out in the enclosed circular.

SHARE CAPITAL

Details of shares issued during the year are set out in Note 24 on page 53.

PURCHASE OF OWN SHARES

There was no purchase of shares by the Company during the year. At 31st December 2004 the number of shares which may be purchased under the shareholders' authority given at the annual general meeting in 2004 was 7,400,000 and the number of shares in issue was 75,201,211.

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 22nd February 2005 as set out below. So far as is known there is no other notifiable interest of 3% or more in the issued capital.

	Ordinary Shares	%
Arnhold and S Bleichroeder Advisers Inc.	6,178,397	8.21
The Capital Group Companies Inc.	4,578,191	6.09
Legal & General Group plc	4,401,456	5.85
Sprucegrove Investment Management Ltd	4,332,883	5.76
NFU Mutual	2,783,363	3.70

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.

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 2004 on research and development amounted to £5,047,254 (2003: £4,878,000).

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 2004 by approximately £9,000,000 (2003: £8,000,000).

GROUP CHARITABLE AND POLITICAL DONATIONS

Charitable donations amounted to £47,982 (2003: £49,910). There were no political donations (2003: nil).

AUDITORS

A resolution to re-appoint the auditors, KPMG Audit Plc, will be proposed at the annual general meeting.

CAPITAL GAINS TAX

For capital gains tax purposes the market value of the Company's ordinary shares at 31st March 1982 was 140.375p.

COMPANY INFORMATION

Further information on the Company is available on the Group web site: www.SpiraxSarcoEngineering.com

By order of the Board
P. A. Smith *Secretary*

Charlton House, Cirencester Road,
Cheltenham.

14th March 2005