

the directors' remuneration report

The Board presents the following report on directors' remuneration and the work and responsibilities 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 and which can be found on the Group web site: www.SpiraxSarcoEngineering.com.

The Committee members are Messrs. E. Lindh, M. Townsend (Chairman) and W. H. Whiteley, each of whom is an independent non-executive director.

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 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 and, subject to its adoption at the 2005 annual general meeting, will administer and determine grants of awards under the proposed Performance Share Plan referred to below.

The Committee obtains independent professional advice from Towers Perrin to ensure that the Company's remuneration policy is 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 Secretary acts as Secretary to the Committee.

The Company has throughout the year complied with the provisions of The Combined Code and Code of Best Practice published in July 2003 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.

The structure of the directors' remuneration package has been established subject to appropriate modifications for many years and has regard to pay and conditions elsewhere in the Group.

The remuneration package comprises:-

Basic Salary

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

Annual Bonus

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

- (i) one third of the percentage increase in pre-tax profit for the year over the average pre-tax profit for the previous three years;
- (ii) two thirds of the percentage increase in earnings per share for the year over the average earnings per share for the previous three years;
- (iii) cash generation (expressed as a percentage of profit for the financial year) will carry a maximum of 20% bonus. Where cash inflow, as determined from the Accounts, is less than 100% of profit, no bonus will be earned under this element; where cash generated equals or exceeds 160% of profit, the full 20% will accrue with proportionate bonus being earned between 100% and 160% of profit; and

(iv) an amount derived from the change in gross margin percentage compared with that for the previous year. Where the gross margin has deteriorated by 0.5 percentage points or more, no bonus will be earned under this element; 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 gross margin percentage is above a 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) are pensionable. Elements (iii) and (iv) are not pensionable.

In 2004, the Committee made a preliminary review, with assistance from its professional advisers, of the pension arrangements for executive directors. Following the deferment of the implementation of the new tax regime to April 2006, the Committee continues to review, with professional advice, the pension position of the executive directors including the pensionability of elements (i) and (ii) of the bonus.

The Company's policy on directors' remuneration and the structure of their remuneration package are kept under review to ensure the directors' overall package remains properly competitive and shareholders will be informed of any resulting change.

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, senior executives and 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 executive directors, senior executives and 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 from 1995 are subject to a performance condition which is described below.

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, only if a specified performance condition is satisfied. In line with the then established market practice, the performance condition for options granted from 1995 up to 2001 requires 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 condition requires 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 condition applies to each director. The performance condition chosen was considered appropriate because it ensured increases in the earnings per share were achieved having taken account of UK inflation. In assessing whether the chosen performance condition is met the Committee arranges for the auditors to confirm the calculations made. This method of assessment is considered appropriate to confirm compliance with the condition. 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 is not subject to any performance condition being met. This is in line with market practice at the time of grant of those options.

Details of total share options issued are set out on page 54. The above performance condition applies to other relevant options granted to all participants in the share option schemes.

Performance Condition for Share Option Schemes

For grants from 2005, the performance condition will, ordinarily, need to be met over the three year period from the 1st January prior to the date of grant in order for the option to become exercisable. If the condition is not met at the end of the three year period, the option will lapse.

Performance Share Plan

As anticipated in the 2003 Annual Report, the Committee has undertaken a review, with assistance from its professional advisers, of the long term incentive arrangements for executive directors, senior executives and management, and details of the proposed performance share plan are provided in the circular to shareholders and the notice of the annual general meeting.

the directors' remuneration report *(continued)*

Spirax-Sarco Engineering plc Employee Share Ownership Plan

The executive directors participate in the Employee Share Ownership Plan, as described on pages 35 and 36. 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 but a resolution to establish a Performance Share Plan will be proposed to shareholders at the annual general meeting on 12th May 2005.

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.

As noted above, in view of the change to the tax regime expected from April 2006, the Committee continues to review the Company's pension arrangements for executive directors on the broad principle that there will be no material increase in cost to the Company.

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 will not participate in the proposed new Performance Share Plan. Non-executive directors' appointments are non-pensionable.

Service Contracts

The executive directors, with the exception of Mr. C. J. Ball, who will retire on 29th April 2005, have service contracts which are subject to 12 months' notice. The service contracts provide for a normal retirement age of 62½ for each executive director.

The executive directors at 14th March 2005 have service contracts as follows:-

	Date of Contract	Notice Period
M.J.D. Steel	30.12.92	12 months
A.D.H. Black	18.11.98	12 months
N.H. Daws	28.05.03	12 months
G.P. Marchand	30.12.92	12 months
D.J. Meredith	30.12.92	12 months
P.A. Smith	24.12.92	12 months

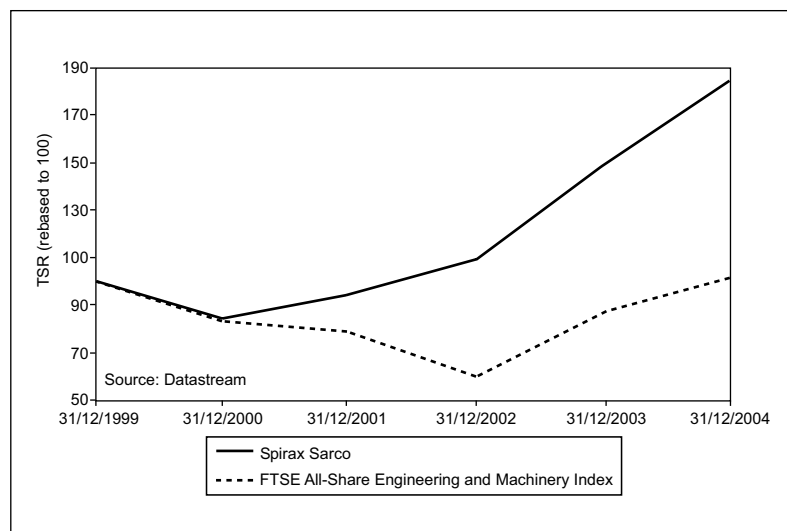
The non-executive directors, including the Chairman, Mr. T. B. Fortune, who will retire at the conclusion of the annual general meeting on 12th May 2005, do not have service contracts. They have appointment letters, normally for three year periods, and re-appointment is not automatic.

POLICY ON SENIOR EXECUTIVE REMUNERATION

The Committee determines the philosophy, principles and policy of remuneration which shall apply to the Group's senior executives. The responsibility for determining the precise package to meet local practice and performance lies with the Chief Executive and the responsible executive director.

TOTAL SHAREHOLDER RETURN

The performance graph illustrated shows the Company's total cumulative shareholder return for the five year period ended 31st December 2004 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.



INFORMATION SUBJECT TO AUDIT

The auditors are required to report on the information contained in the remaining sections of the Report.

DETAILS OF INDIVIDUAL EMOLUMENTS

	Basic Salary/ Fees	Benefits (1)	Annual performance related bonus	Total emoluments excluding pension	
	£	£	£	2004 Total £	2003 Total £
T. B. Fortune (2)	77,000	407	-	77,407	73,849
M. J. D. Steel	305,000	15,123	104,646	424,769	386,466
C. J. Ball (3)	176,000	17,381	60,386	253,767	229,830
A. D. H. Black	168,000	15,836	57,641	241,477	220,949
N. H. Daws	139,000	13,074	47,691	199,765	105,731
G. P. Marchand	180,000	11,998	61,758	253,756	230,167
D. J. Meredith	195,000	12,130	66,905	274,035	247,960
P. A. Smith	139,000	7,254	47,691	193,945	176,851
E. Lindh (2)	24,000	-	-	24,000	22,000
M. Townsend (2)	33,000	-	-	33,000	29,750
W. H. Whiteley (2)	24,000	-	-	24,000	22,000
	1,460,000	93,203	446,718	1,999,921	1,745,553*

* Additionally Mr. P. M. Smith's 2003 total emoluments excluding pension for 2003 amounted to £92,329. He retired from the Board on 31st May 2003 and therefore was not a director in 2004.

(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. J. Ball's annual bonus of £60,386 includes an amount of £24,552 which Mr. C. J. Ball has waived. The Company is contributing £24,552 to a defined contribution executive pension plan for Mr. C. J. Ball set up on independent financial advice.

the directors' remuneration report *(continued)*

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:-

		31.12.03	Granted during year to 31.12.04	Exercised in year	31.12.04	Average exercise price per share	Date from which exercisable	Expiry date
	(1)	No.	(2) No.	(3) No.	No.	(4) pence	(5)	(5)
M.J.D. Steel	A	220,000	35,000	15,000	240,000	445.2	18.09.98	08.04.08
	B	30,000	-	-	30,000	704.0	24.09.99	16.09.07
		250,000	35,000	15,000	270,000			
C.J. Ball	A	112,500	-	15,000	97,500	448.3	18.09.98	29.09.05
	B	30,000	-	-	30,000	704.0	24.09.99	29.09.05
		142,500	-	15,000	127,500			
A.D.H. Black	A	107,500	20,000	-	127,500	434.3	16.09.01	25.03.14
	D	10,000	-	-	10,000	704.0	24.09.99	16.09.07
		117,500	20,000	-	137,500			
N.H. Daws	A	-	20,000	-	20,000	541.9	25.03.07	25.03.14
	C	49,000	-	2,500	46,500	420.9	18.09.98	14.03.13
	D	20,000	-	-	20,000	704.0	24.09.99	16.09.07
		69,000	20,000	2,500	86,500			
G.P. Marchand	A	117,500	20,000	-	137,500	454.1	18.09.98	24.12.07
	B	30,000	-	-	30,000	704.0	24.09.99	16.09.07
		147,500	20,000	-	167,500			
D.J. Meredith	A	142,500	20,000	15,000	147,500	464.7	18.09.98	25.03.14
	B	30,000	-	-	30,000	704.0	24.09.99	16.09.07
		172,500	20,000	15,000	177,500			
P.A. Smith	A	112,500	20,000	-	132,500	455.4	18.09.98	18.08.10
	B	20,000	-	-	20,000	704.0	24.09.99	16.09.07
	C	12,500	-	12,500	-			
		145,000	20,000	12,500	152,500			

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 2004. 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 541.9p per share under the Spirax-Sarco Engineering Global Share Option Scheme, which is not approved by the Inland Revenue. Mr. M. J. D. Steel was granted an option over 35,000 shares and each of the remaining executive directors, with the exception of Mr. C. J. Ball, were granted options over 20,000 shares.

(3)	2004 Options exercised	Option exercise price	Market price on the date options exercised	2004 Gain arising on exercise	2003 Gain arising on exercise
	No.	pence	pence	£	£
C. J. Ball	15,000	427.0	587.0	24,000.00	
A.D.H. Black	-	-	-	-	8,329.02
N. H. Daws	-	-	-	-	3,235.62
	2,500	427.0	588.0	4,025.00	-
G. P. Marchand	-	-			48,162.90
D. J. Meredith	15,000	427.0	629.5	30,375.00	
P.A. Smith	-	-	-	-	22,604.50
	12,500	427.0	635.5	26,062.50	
M.J.D. Steel	15,000	427.0	580.0	22,950.00	
Aggregate of gains arising on exercise				107,412.50	82,332.04*

* Additionally Mr. P. M. Smith exercised options in 2003 realising a gain of £9,990.76. He retired from the Board on 31st May 2003 and therefore was not a director in 2004.

(4) These are the weighted averages of the exercise prices for ordinary shares under option at 31st December 2004.

(5) These are the ranges of dates between which all options which have been aggregated may be exercised.

The market price of the ordinary shares on 31st December 2004 was 647.5p. During the period from 1st January 2004 to 31st December 2004 the ordinary share price ranged between 525p and 647.5p.

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 share options granted as shown on page 34 since 31st December 2004.

(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. The Company provides a matching share for each share purchased under the Plan by the director which is the same basis for other participating employees.

the directors' remuneration report *(continued)*

	Interest as at 31.12.03	Vested	Interest as at 31.12.04	Period of qualifying conditions
M.J.D. Steel	1,832	620	2,452	3 years
C.J. Ball	1,832	620	2,452	3 years
A.D.H. Black	1,804	548	2,352	3 years
N.H. Daws	1,832	620	2,452	3 years
G.P. Marchand	1,832	620	2,452	3 years
D.J. Meredith	1,832	620	2,452	3 years
P.A. Smith	1,832	620	2,452	3 years

DIRECTORS' PENSIONS

The directors are members of defined benefit pension arrangements. The information below is consistent with the presentation used last year and sets out the disclosures under the Stock Exchange Listing Rules and the 2002 Directors' Remuneration Report Regulations.

	Age attained at 31.12.04	Accrued pension at 31.12.03	Accrued pension at 31.12.04	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 31.12.03 £	Transfer value of accrued pension at 31.12.04 £	Change in total transfer value £
M.J.D. Steel	59	170,864	192,727	21,863	16,566	256,000	2,268,000	2,883,000	615,000
C.J. Ball	61	118,420	129,872	11,452	7,781	130,000	1,866,000	2,274,000	408,000
A.D.H. Black ⁽¹⁾	47	67,281	51,230	(16,051)	(18,137)	(131,000)	455,000	367,000	(88,000)
N.H. Daws	42	41,238	55,356	14,118	12,839	74,000	225,000	319,000	94,000
G.P. Marchand ⁽²⁾	59	101,231	115,971	14,740	11,602	189,000	1,479,000	1,885,000	406,000
D.J. Meredith	45	62,232	71,751	9,519	7,590	50,000	397,000	484,000	87,000
P.A. Smith	56	72,726	82,168	9,442	7,187	95,000	841,000	1,060,000	219,000

* net of deferred pension revaluation at a rate of 3.1%

(1) Allowing for pension sharing order of £181,407, effective May 2004.

(2) Mr. G. P. Marchand's transfer value as at 31st December 2004 has been re-assessed to age 62½.

No disclosures are given in the current year for Mr. P. M. Smith as he retired in the prior year and has not been a director at any point during 2004.

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

Pensions are subject to annual increases in line with the annual rise in the RPI subject to a maximum of 5% per annum. The Trustees and the Company have the discretion to apply a greater increase.

(iv) Other discretionary benefits

There are no discretionary practices which are taken into account in calculating transfer values on leaving service.

(v) Defined contribution executive pension plan

The defined contribution executive pension plan for Mr. C. J. Ball is explained on page 33.

Signed by

T. B. Fortune *Chairman*

on behalf of the Board