

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 2005.

RESULTS

The results of the Group for the year, which have been prepared for the first time in accordance with the International Financial Reporting Standards (IFRS), are explained in the Chairman's Statement and Chief Executive's Review on pages 2 to 9 and are set out in the Group income statement on page 38. The application and effects of IFRS are explained in Note 34 on pages 71 to 77.

DIVIDEND

An interim cash dividend of 6.8p per share (2004: 6.3p) was paid in November 2005. The directors now recommend the payment of a final dividend of 17.0p per share (2004: 15.1p). If approved at the annual general meeting the final dividend will be paid on 22nd May 2006 to shareholders on the register on 21st April 2006. The total distribution for the year will be 23.8p per share (2004: 21.4p).

BUSINESS REVIEW

A review of the operations of the Group in 2005 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 are those listed on pages 16 and 17. Mr. G. Bullock was appointed to the Board on 2nd May 2005 as a non-executive director. Mr. A. J. Scrivin was appointed to the Board on 2nd May 2005 as an executive director. In addition Mr. C. J. Ball was a director until 29th April 2005 when he retired. Mr. T. B. Fortune retired as Chairman of the Company and from the Board on 12th May 2005 when he was succeeded by Mr. M. Townsend.

In accordance with the Company's articles of association Messrs. E. Lindh and W. H. Whiteley retire and, being eligible, offer themselves for re-appointment. Mr. E. Lindh, as a non-executive director, has a letter of appointment with the Company. Mr. W. H. Whiteley, as a non-executive and Senior Independent Director, has a letter of appointment with the Company.

DIRECTORS' INTERESTS AND REMUNERATION

The interests of the directors in the share capital of Spirax-Sarco Engineering plc as at 31st December 2005 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 28 to 35.

	Ordinary Shares of 25p each Beneficial Interests		Ordinary Shares of 25p each Non-beneficial Interests	
	31.12.05 (or date of retirement if earlier)	31.12.04 (or date of appointment if later)	31.12.05 (or date of retirement if earlier) ⁽⁴⁾	31.12.04 (or date of appointment if later) ⁽⁴⁾
T.B. Fortune ⁽¹⁾	67,723	67,723	424,288	424,288
M. Townsend	2,879	2,879	-	-
M.J.D. Steel	83,457	66,590	-	-
C.J. Ball ⁽²⁾	55,877	56,989	-	-
A.D.H. Black	45,482	20,318	424,288	-
N.H. Daws	3,165	2,588	-	-
G.P. Marchand	71,474	52,525	-	-
D.J. Meredith	42,497	41,920	424,288	424,288
A.J. Scrivin ⁽³⁾	17,456	11,952	-	-
P.A. Smith	65,937	65,360	424,288	424,288
G. Bullock ⁽³⁾	1,250	-	-	-
E. Lindh	-	-	-	-
W. Whiteley	2,734	2,734	-	-

(1) Mr. T. B. Fortune retired from the Board on 12th May 2005.

(2) Mr. C. J. Ball retired from the Board on 29th April 2005.

(3) Messrs. G. Bullock and A. J. Scrivin were appointed to the Board on 2nd May 2005.

(4) At 31st December 2005, the Spirax Sarco pension funds held 424,288 shares in the Company. In the period from the beginning of the year until 12th May 2005 Messrs. T. B. Fortune, D. J. Meredith and P. A. Smith were trustees of these funds. With effect from 12th May 2005 Messrs. A. D. H. Black, D. J. Meredith and P. A. Smith are trustees of these funds.

There have been no changes in the number of shares held by the directors as shown above since 31st December 2005.

Mr. C. J. Ball purchased a motor car from the Company at the current market value of £20,500.

EMPLOYMENT POLICIES

Details of the Group's Employment Policies are set out on pages 24 to 26.

ANNUAL GENERAL MEETING

The notice of meeting and an explanation of resolutions 7 to 10 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 55.

PURCHASE OF OWN SHARES

There was no purchase of shares by the Company during the year. At 31st December 2005 the number of shares which may be purchased under the shareholders' authority given at the annual general meeting in 2005 was 7,500,000 and the number of shares in issue was 76,951,907.

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 3rd March 2006 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.	4,660,491	6.05
Arnhold and S Bleichroeder Advisers LLC	4,514,985	5.86
Sprucegrove Investment Management Ltd	4,416,223	5.73
Hermes Pensions Management	3,333,152	4.33
Aberforth Partners LLP	3,000,996	3.90
Morgan Stanley Investment Management	2,980,542	3.87
Legal & General Investment Management	2,870,282	3.73
NFU Mutual	2,783,363	3.61
F&C Asset Management	2,475,738	3.21
Schroder Investment Management Ltd	2,450,141	3.18

FINANCIAL INSTRUMENT RISK MANAGEMENT

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. More detail is set out in Note 33 on pages 68 to 71.

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 2005 on research and development amounted to £4,288,000 (2004 on an IFRS basis: £4,365,000), of which an element is capitalised as explained in Note 1 on page 43.

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 2005 by approximately £10,000,000 (2004: £9,000,000).

GROUP CHARITABLE AND POLITICAL DONATIONS

Charitable donations amounted to £59,400 (2004: £47,982). There were no political donations (2004: 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.

13th March 2006