

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.

In the period from the beginning of the year until his retirement from the Committee on 12th May 2005, Mr. M. Townsend was a member and Chairman of the Committee. With effect from 12th May 2005 the Committee members are Messrs. G. Bullock, E. Lindh, and W. H. Whiteley (Chairman), 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 administers and determines the grants of awards under the Performance Share Plan.

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. M. Townsend, 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.

The directors' remuneration report in 2004 referred to the Committee's continuing review, with professional advice, on the pension position of the executive directors including the pensionability of elements (i) and (ii) of the bonus. The Committee can now report that an amendment to the calculation of pensionable pay has been agreed with each of the relevant executive directors. Elements (i) and (ii) of any bonus earned after 31st December 2005 will not be pensionable. From 1st January 2006 an appropriate, actuarially calculated, percentage increase to basic salary has been applied, reflecting the individual director's age and expected period of service to normal retirement date. This increase will qualify as part of the directors' pensionable pay. However, the change does not apply to Mr. G. P. Marchand in view of his retirement on 30th June 2006. Mr. A. J. Scrivin, who was appointed last year, has not earned pension on the bonus payments.

Additionally the Committee plans to offer to executive directors a cash alternative to pension contributions in respect of the directors' pensionable service from 6th April 2006, i.e. "A Day" under the Inland Revenue tax regime for pensions. This cash alternative will be confirmed by the Company's actuaries. The cost of the alternative to the Company will be no greater than the cost of the pension contributions.

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 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 participants with those of shareholders by giving an incentive linked to added shareholder value. Following the introduction of the Performance Share Plan in 2005, it is intended that, ordinarily, executive directors will be granted awards under that plan rather than be granted options. Executive directors, senior executives and management hold options granted in previous years and it is intended that options will continue to be granted to senior executives and management. 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.

Performance Condition for Share Option Schemes

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.

For grants from and including 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.

Details of total share options issued are set out in Note 24 on page 55. The above performance conditions apply to other relevant options granted to all participants in the share option schemes.

Performance Share Plan

A performance share plan for executive directors, senior executives and management was adopted at the 2005 annual general meeting. Awards take the form of contingent rights to acquire shares, subject to the satisfaction of a performance target. To the extent they vest, awards may be satisfied in cash or in shares. The Committee's current policy is that the maximum individual annual award will be of shares with a market value of not more than 150% of salary, although the intention is that in practice the market value of an individual award will be significantly below the maximum. Ordinarily, an eligible person will not be granted options under the Company's share option schemes and awards under the performance share plan in the same year.

THE DIRECTORS' REMUNERATION REPORT (continued)

The vesting of an award will normally be subject to the satisfaction of a performance target. The performance target applied to awards granted in 2005 is based on the Company's total shareholder return ("TSR") relative to the TSR of other companies included in the FTSE All-Share Engineering and Machinery Index over the three year period commencing with effect from 1st January 2005. Awards will vest on a sliding scale. For full vesting the Company's TSR must be at or above the upper quartile. 25% of the shares subject to an award will vest if the Company's TSR is at the median. Awards will vest on a pro-rata straight line basis between median and upper quartile performance. The same performance condition applies to each director. The FTSE All-Share Engineering and Machinery Index has ceased to exist with effect from 2006. For the awards granted in 2005, the comparator group will remain as those companies comprising that sector immediately before the start of the performance period. Additionally, for an award to vest the Committee will also, normally, need to be satisfied that the Company's underlying financial performance has been satisfactory over the three year performance period.

The performance condition chosen was considered appropriate because it is dependent on the Company's relative long term performance based on total shareholder return, it compares the Company's performance with the performance of companies in a comparator group and was the basis described to shareholders when the plan was approved by shareholders at the 2005 annual general meeting. In assessing whether the chosen performance condition is met the Committee's professional advisers will be asked to perform the necessary calculations. In calculating TSR, average share prices for the period before the beginning and end of the performance period will be used to avoid abnormal share price movements significantly affecting the calculation. Since the FTSE All-Share Engineering and Machinery Index has ceased to exist with effect from January 2006, any awards made in 2006 will be subject to the same performance condition as described above save that the Company's TSR will be compared with the TSR of other companies included in the FTSE All-Share Industrial Engineering Index. Since the Company is now included in this sector, the Committee believes that this is the appropriate comparator group.

Spirax-Sarco Engineering plc Employee Share Ownership Plan

The executive directors participate in the Employee Share Ownership Plan, as described on page 34. 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.

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. This additional service does not apply to Mr. A. J. Scrivin, who has a normal retirement age of 65. Additionally Mr. G. P. Marchand accrued 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 do not participate in the new Performance Share Plan. Non-executive directors' appointments are non-pensionable.

Service Contracts

The executive directors 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, with the exception of Mr. A. J. Scrivin who has a normal retirement age of 65.

The executive directors have service contracts as follows:-

	Date of Contract	Notice Period
M.J.D. Steel	30.12.92	12 months
A.D.H. Black	18.10.98	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
A.J. Scrivin	15.03.05	12 months
P.A. Smith	24.12.92	12 months

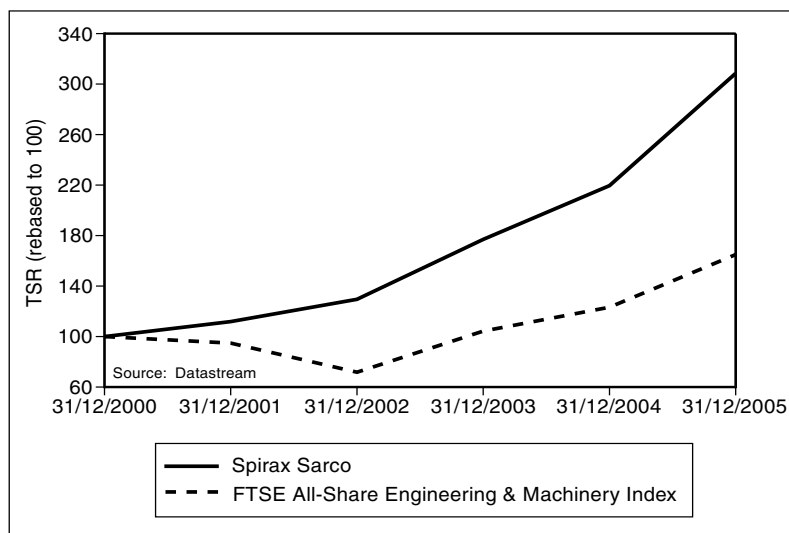
The non-executive directors, including the Chairman, Mr. M. Townsend, do not have service contracts. They have appointment letters, normally for three year periods, and re-appointment is not automatic.

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 2005 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	
	£	£	£	2005 Total £	2004 Total £
T.B. Fortune ^{(2) (3)}	28,332	153	-	28,485	77,407
M. Townsend ⁽²⁾	62,480	-	-	62,480	33,000
M.J.D. Steel	322,000	15,121	131,215	468,336	424,769
C.J. Ball ⁽⁴⁾	62,000	5,410	25,265	92,675	253,767
A.D.H. Black	182,000	14,508	74,165	270,673	241,477
N.H. Daws	163,000	12,481	66,422	241,903	199,765
G.P. Marchand	190,000	13,512	77,425	280,937	253,756
D.J. Meredith	206,000	12,619	83,945	302,564	274,035
A.J. Scrivin ⁽⁵⁾	100,000	5,130	40,750	145,880	-
P.A. Smith	147,000	7,484	59,903	214,387	193,945
G. Bullock ^{(2) (6)}	19,000	-	-	19,000	-
E. Lindh ⁽²⁾	27,000	-	-	27,000	24,000
W.H. Whiteley ⁽²⁾	33,223	-	-	33,223	24,000
	1,542,035	86,418	559,090	2,187,543	1,999,921

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

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

(5) Mr. A. J. Scrivin was appointed to the Board on 2nd May 2005 and his emoluments in the above table are calculated from this date. Total emoluments for the full year 2005 were £178,410.

(6) Mr. G. Bullock was appointed to the Board on 2nd May 2005 and his emoluments in the above table are calculated from this date.

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Long Term Incentives

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

The interests of directors are set out below:-

	(1)	31.12.04 (or date of appointment if later*) No.	Granted during year to 31.12.05 No.	Exercised in year (4) No.	31.12.05 No.	Average exercise price per share (2) pence	Date from which exercisable (3)	Expiry date (3)
M.J.D. Steel	A	270,000	-	85,000	185,000	437.2	12.10.02	08.04.08
		270,000	-	85,000	185,000			
A.D.H. Black	A	127,500	-	87,500	40,000	468.2	14.03.06	25.03.14
	B	10,000	-	10,000	-			
		137,500	-	97,500	40,000			
N.H. Daws	A	20,000	-	-	20,000	541.9	25.03.07	25.03.14
	B	66,500	-	14,500	52,000	510.7	24.09.99	14.03.13
		86,500	-	14,500	72,000			
G.P. Marchand	A	167,500	-	97,500	70,000	569.3	24.09.99	24.12.07
		167,500	-	97,500	70,000			
D.J. Meredith	A	177,500	-	75,000	102,500	540.0	24.09.99	25.03.14
		177,500	-	75,000	102,500			
A.J. Scrivin *	B	59,500	-	39,500	20,000	540.7	24.09.99	16.06.12
		59,500	-	39,500	20,000			
P.A. Smith	A	152,500	-	112,500	40,000	468.2	14.03.06	18.08.10
		152,500	-	112,500	40,000			

* Mr. A. J. Scrivin was appointed to the Board on 2nd May 2005.

Mr. C. J. Ball retired from the Board on 29th April 2005. As at 31st December 2004, Mr. C. J. Ball held 127,500 options.

Notes

(1) Options shown on line A relate to options granted to members of the Board, whereas options shown on line B relate to options granted to individuals prior to their appointment to the Board.

The exercise prices for all options shown are lower than the middle market price of the Company's ordinary shares on 30th December 2005 (being the last trading day of the financial year).

(2) These are the weighted averages of the exercise prices for ordinary shares under option at 31st December 2005.

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

(4)	2005	Option	Market	2005	2004
	Options	exercise	price on	Gain arising	Gain arising
	exercised	price	the date	on exercise	on exercise
	No.	pence	options	£	£
			exercised		
			pence		
A.D.H. Black	20,000	420.00000 }			-
	15,000	525.00000 }			
	15,000	319.16666 }			
	20,000	397.66666 }	805.0	348,016.67	
	17,500	436.00000 }			
	5,000	739.00000 }			
	5,000	669.00000 }			
N.H. Daws					4,025.00
	7,000	420.00000 }			
	5,000	525.00000 }	714.0	32,605.00	
	2,500	611.00000 }			
G.P. Marchand					-
	15,000	420.00000 }			
	15,000	525.00000 }			
	15,000	319.16666 }	723.5	251,429.17	
	20,000	397.66666 }			
	17,500	436.00000 }			
	15,000	611.00000 }	730.0	17,850.00	
D.J. Meredith					30,375.00
	15,000	420.00000 }			
	15,000	319.16666 }			
	20,000	397.66666 }	797.0	254,591.67	
	25,000	611.00000 }			
A.J. Scrivin *					-
	10,000	420.00000 }			
	2,500	611.00000 }	736.0	34,725.00	
	5,000	525.00000 }			
	5,000	319.16666 }			
	10,000	397.66666 }	775.0	96,755.00	
	7,000	436.00000 }			
P.A. Smith					26,062.50
	10,000	420.00000 }			
	15,000	525.00000 }			
	15,000	319.16666 }			
	20,000	397.66666 }	710.0	229,891.67	
	17,500	436.00000 }			
	10,000	669.00000 }			
	15,000	611.00000 }	770.0	23,850.00	
	10,000	739.00000 }	816.5	7,750.00	
M.J.D. Steel					22,950.00
	40,000	420.00000 }			
	15,000	669.00000 }			
	15,000	611.00000 }	775.0	187,900.00	
	15,000	739.00000 }			
Aggregate of gains arising on exercise (Note 5)				1,485,364.18	83,412.50

* Mr. A. J. Scrivin was appointed to the Board on 2nd May 2005 and exercised the options after this date.

(5) Mr. C. J. Ball retired from the Board on 29th April 2005. Following his retirement, but in accordance with the rules of the option schemes, Mr. C. J. Ball exercised the options he held realising a gain of £325,229.17. Mr. C. J. Ball exercised options in 2004 realising a gain of £24,000.00

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The market price of the ordinary shares on 30th December 2005 was 882.5p. During the period from 1st January 2005 to 30th December 2005 the ordinary share price ranged between 906p and 640.5p.

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 pages 32 and 33 since 31st December 2005.

(ii) Performance Share Plan

Under the Performance Share Plan the following awards were granted during the year to executive directors.

	Shares over which rights were granted during year	End of the period over which the performance conditions are measured*	Interest at 31.12.05	Market price of shares on 20th May 2005**
M.J.D. Steel	27,268	31.12.07	27,268	708.5p
A.D.H. Black	15,412	31.12.07	15,412	708.5p
N.H. Daws	13,803	31.12.07	13,803	708.5p
G.P. Marchand	16,090	31.12.07	16,090	708.5p
D.J. Meredith	17,445	31.12.07	17,445	708.5p
A.J. Scrivin	12,702	31.12.07	12,702	708.5p
P.A. Smith	12,448	31.12.07	12,448	708.5p

* The performance conditions are described on pages 29 and 30.

** This price is the mid market price on 20th May 2005. The date of award was 23rd May 2005.

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

The Company operates 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 as for other participating employees.

	Interest at 31.12.04 (or date of appointment if later*)	Vested	Interest at 31.12.05 (or date of retirement if earlier**)	Period of qualifying conditions
M.J.D. Steel	2,452	577	3,029	3 years
C.J. Ball **	2,452	-	2,452	3 years
A.D.H. Black	2,352	574	2,926	3 years
N.H. Daws	2,452	577	3,029	3 years
G.P. Marchand	2,452	577	3,029	3 years
D.J. Meredith	2,452	577	3,029	3 years
A.J. Scrivin *	-	504	504	3 years
P.A. Smith	2,452	577	3,029	3 years

* Mr. A. J. Scrivin was appointed to the Board on 2nd May 2005.

** Mr. C. J. Ball retired from the Board on 29th April 2005.

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 Companies Act 1985.

	Age attained at 31.12.05	Accrued pension at 31.12.04 £pa	Accrued pension at 31.12.05 £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 value of accrued pension at 31.12.04 £	Transfer value of value of accrued pension at 31.12.05 £	Change in total transfer value £
M.J.D. Steel	60	192,727	227,651	34,924	29,801	488,000	2,883,000	3,677,000	794,000
C.J. Ball ⁽¹⁾	62	129,872	134,633	4,761	2,733	48,600	2,274,000	2,344,000	70,000
A.D.H. Black ⁽²⁾	48	51,230	67,637	16,407	15,045	117,000	367,000	536,000	169,000
N.H. Daws	43	55,356	72,696	17,340	15,869	92,000	319,000	466,000	147,000
G.P. Marchand	60	115,971	137,698	21,727	18,644	322,000	1,885,000	2,360,000	475,000
D.J. Meredith	46	71,751	86,419	14,668	12,761	90,000	484,000	636,000	152,000
A.J. Scrivin ⁽³⁾	58	83,877	93,791	9,914	7,685	110,000	965,000	1,177,000	212,000
P.A. Smith	57	82,168	97,336	15,168	12,984	208,000	1,060,000	1,445,000	385,000

* net of deferred revaluation at a rate of 2.7% per annum (reduced accordingly for Messrs. C. J. Ball and A. J. Scrivin for the part year they were directors).

(1) Mr. C. J. Ball retired from the Board on 29th April 2005 - the transfer value at end of year relates to benefits on retirement on end of year assumptions.

(2) Benefits shown net of pensions sharing order, currently worth £25,750 per annum.

(3) Mr. A. J. Scrivin was appointed to the Board on 2nd May 2005 - the transfer value at start of year relates to the value at 2nd May 2005.

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, with the exception of Mr. A. J. Scrivin who has a normal retirement age of 65.

(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.

Signed by

M. Townsend *Chairman*

on behalf of the Board