

I am pleased to report a good performance in 2006 which continues the Group's long record of consistent growth and strong profitability. We grew sales by over 10% and pre-tax profits were 15% ahead of 2005 at a record £65.7 million. This is a consequence of your Board's long-standing determination to focus on the development of the Spirax Sarco steam specialty business and the Watson-Marlow Breidel peristaltic pumping business through investment in new products, expansion of sales coverage, development of new markets and management of costs.

Chairman's statement

Sales reached £384.2 million (2005: £349.1 million). Sterling was largely unchanged on average versus other currencies in 2006 as against 2005, the weakness in the first half having been virtually eliminated by a strengthening in the second half of the year, particularly against the US dollar.

The sales growth came in all regions. Growth in sales in Asia continued strongly. In Continental Europe, the good growth which started in 2005 and accelerated through the first half of 2006, continued for the full year. Sales growth in North America and the Rest of the World was good and in the UK was positive, though this market remains difficult.

Operating profit increased to £62.3 million from £55.3 million in 2005, an increase of 13%, with a small positive effect of less than £½ million from currency movements. The operating margin improved to 16.2% compared with 15.9% in 2005.

Net finance income was £2.0 million, a significant increase on the £0.9 million in 2005. The increase came from higher net finance income relating to the defined benefit pension funds which offsets the higher pension charge within operating profit. The proportion of Associates' post-tax profits attributable to the Group increased to £1.4 million (2005: £0.9 million).

Pre-tax profit for the Group increased by 15% to £65.7 million (2005: £57.1 million) and the earnings per share rose by 16% to 58.1p (2005: 50.2p).

Your Board is recommending a final dividend of 19.0p per share which, together with the interim dividend of 7.5p per share paid in November, makes a total dividend for the year of 26.5p per share. This compares with a total dividend of 23.8p per share last year, an increase of 11%. The cost of the interim and final dividends is £20.0 million, which is covered 2.2 times by earnings. No scrip alternative to the cash dividend is being offered.



The Group completed two small acquisitions during the year. On 6th April 2006, we announced the acquisition of AFTCO, LLC of Florida. AFTCO's range of electromagnetic flow meters is being combined with our EMCO meter range and strengthens the Group's meter offering. The consideration was US\$2.75 million (£1.5 million) and is subject to adjustment based on future sales.

On 7th July 2006, we announced the acquisition of 80% of the business and assets of UltraPure, Inc. of Florida, USA, for a consideration of US\$4.9 million (£2.6 million). UltraPure's range of pure steam generators and water stills complements and strengthens the Group's existing products for hygienic processes particularly in the pharmaceutical and biotechnology industries.

We finished the year with net debt of £6.6m. The opening cash balance and the continued good underlying cash flow for the year were offset by the previously announced special contributions of £15.9 million to the Group's main defined benefit pension schemes and the purchase of nearly 2 million shares into Treasury at a cost of £18.1 million at an average share price of 913p. In addition, there was a working capital cash outflow to support the higher sales, increased investment in fixed assets and the investments in acquisitions.

As we announced earlier in the year, Graham Marchand retired from the Board on 30th June 2006, having joined the Group in 1987 and the Board in 1992. I would like to restate the Board's thanks to Graham for his excellent contribution to the Board's deliberations and to the progress of the Group over those years.

We welcomed Mark Vernon onto the Board on 1st July 2006 as an Executive Director with responsibility for the Americas and the Group Marketing function. Mark joined the Group in 2003 as President and General Manager of Spirax Sarco Inc. in South Carolina. I am confident that Mark will, as a member of the executive team, bring an imaginative and constructive approach to the future development of the Group.

The good performance in 2006 is the result of maintaining focus on our core businesses where we place particular emphasis on serving the needs of our customers, on broadening our presence across the globe and on continuously improving efficiency in all aspects of our activities, including the use of latest technology. We are fortunate to have a strong team of

talented and hardworking people in the Group who have delivered the successful performance in 2006, and I thank them all on behalf of the Board and the shareholders.

Prospects

We are currently faced with the continuing strength of sterling and, therefore, a likely adverse effect on the 2007 results, particularly in comparison with the first half of 2006. However, in most markets trading conditions remain firm and the year has started well, which, with the Group's fundamental strengths, should enable us to make further progress in 2007.

Note. Operating profit, pre-tax profit and EPS figures exclude the amortisation of acquired intangible assets of £0.4 million in 2006 (2005: £0.2 million).



M Townsend, Chairman