

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 2006.

RESULTS

The results of the Group for the year, which have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), are explained in the Chairman's Statement and the Business Review on pages 6 to 23 and are set out in the Group income statement on page 46.

DIVIDEND

An interim cash dividend of 7.5p per share (2005: 6.8p) was paid in November 2006. The directors now recommend the payment of a final dividend of 19.0p per share (2005: 17.0p). If approved at the annual general meeting the final dividend will be paid on 21st May 2007 to shareholders on the register on 20th April 2007. The total distribution for the year will be 26.5p per share (2005: 23.8p).

BUSINESS REVIEW

A review of the development and performance of the business of the Group, including the financial performance during the year, the position at the end of year, key performance indicators and a description of the principal risks and uncertainties facing the Group, are set out on pages 8 to 23.

The following cautionary statement applies to the Business Review, which is incorporated in this Director's Report by reference.

This Annual Report has been prepared for, and only for the members of the Company, as a body, and no other persons. The Company, its directors, employees, agents or advisers do not accept or assume responsibility for any other purpose or to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. By their nature, the statements concerning the risks and uncertainties facing the Group involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.

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 24 and 25. Mr. M. Vernon was appointed to the Board on 1st July 2006 as an executive director. In addition, Mr. G. P. Marchand was an executive director until 30th June 2006 when he retired.

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

- i) Following his appointment since the last meeting, Mr. M. Vernon retires at the annual general meeting and, being eligible, offers himself for appointment. Mr. M. Vernon has a service contract determinable on 12 months' notice.
- ii) Messrs. N. Daws, D. J. Meredith, P. A. Smith and M. Townsend retire and, being eligible, offer themselves for re-appointment. Messrs. N. Daws, D. J. Meredith and P. A. Smith have service contracts determinable on 12 months' notice. Mr. M. Townsend, as Chairman and a non-executive director, has a letter of appointment.

Biographical details of each of the directors retiring at the forthcoming annual general meeting are set out on pages 24 and 25.

DIRECTORS' INTERESTS AND REMUNERATION

The interests of the directors in the share capital of Spirax-Sarco Engineering plc as at 31st December 2006 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 36 to 43.

	Ordinary Shares of 25p each Beneficial Interests		Ordinary Shares of 25p each Non-beneficial Interests	
	31.12.06 (or date of retirement if earlier)	31.12.05 (or date of appointment if later)	31.12.06	31.12.05
M. Townsend	2,879	2,879	-	-
M.J.D. Steel	83,922	83,457	-	-
A.D.H. Black	45,930	45,482	424,288	424,288
N.H. Daws	3,630	3,165	-	-
G.P. Marchand ⁽¹⁾	76,530	71,474	-	-
D.J. Meredith	42,962	42,497	424,288	424,288
A.J. Scriver	18,517	17,456	-	-
P.A. Smith	66,402	65,937	424,288	424,288
M. Vernon ⁽²⁾	4,500	-	-	-
G. Bullock	1,250	1,250	-	-
E. Lindh	-	-	-	-
W.H. Whiteley	4,934	2,734	-	-

(1) Mr. G. P. Marchand retired from the Board on 30th June 2006.

(2) Mr. M. Vernon was appointed to the Board on 1st July 2006.

At 31st December 2006, the Spirax Sarco pension funds held 424,288 shares in the Company. 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 2006.

Mr. G. P. Marchand purchased a motor car from the Company at the current market value of £14,000.

EMPLOYMENT POLICIES

Details of the Group's Employment Policies are set out on pages 32 to 34.

ANNUAL GENERAL MEETING

The notice of meeting and an explanation of resolutions 10 to 13 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 63.

PURCHASE OF OWN SHARES

1,980,500 shares of 25 pence each were purchased by the Company during the year representing approximately 2.6% of the total issued share capital of the Company as at 31st December 2006. The aggregate consideration paid for the shares was £18,117,884. At 31st December 2006, the number of shares which may be purchased under the shareholders' authority given at the annual general meeting in 2006 was 5,719,500 and the total number of shares in issue was 77,184,904.

SHAREHOLDINGS OF 3% OR MORE

As at 2nd March 2007, the Company had an issued share capital of 77,194,904 shares of which 1,561,069 of such shares are held in treasury. Of the 75,633,835 ordinary shares with voting rights in issue, as at this date, the Company received notice of material interests in 3% or more of the voting rights (calculated on the issued share capital less the shares held in treasury). This is a lower denominator than in 2006. The information received is set out below.

	Ordinary Shares	%
The Capital Group Companies Inc.	4,650,791	6.15
Arnhold and S Bleichroeder Advisers LLC	4,201,043	5.55
Sprucegrove Investment Management Ltd	3,852,333	5.09
Hermes Administration Services Ltd	3,521,411	4.66
Schroder Investment Management Ltd	2,916,959	3.86
Aberforth Partners	2,852,696	3.77
NFU Mutual Insurance	2,783,363	3.68
Legal & General Investment Management	2,682,614	3.55
M & G Investment Management	2,640,385	3.49
Foreign & Colonial Asset Management	2,587,266	3.42

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 77 to 79.

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 2006 on research and development amounted to £5,812,000 (2005: £5,366,000), of which £979,000 (2005: £1,078,000) is capitalised as explained in Note 1 on page 51.

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 2006 by approximately £10,000,000 (2005: £10,000,000).

GROUP CHARITABLE AND POLITICAL DONATIONS

Charitable donations amounted to £62,424 (2005: £59,400). There were no political donations (2005: nil).

AUDITORS

As at the date of this report, as far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware. Each director has taken such steps as he should have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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.

12th March 2007