

I am pleased to report another strong performance in 2007; we built on the investments and developments of the last few years which helped to sustain our long record of growth, good profitability and cash generation. We increased sales by 9% and pre-tax profits by 11% to £72.8 million. This was achieved through maintaining our commitment to product development, investing in new and expanding markets and improving efficiency in our business.

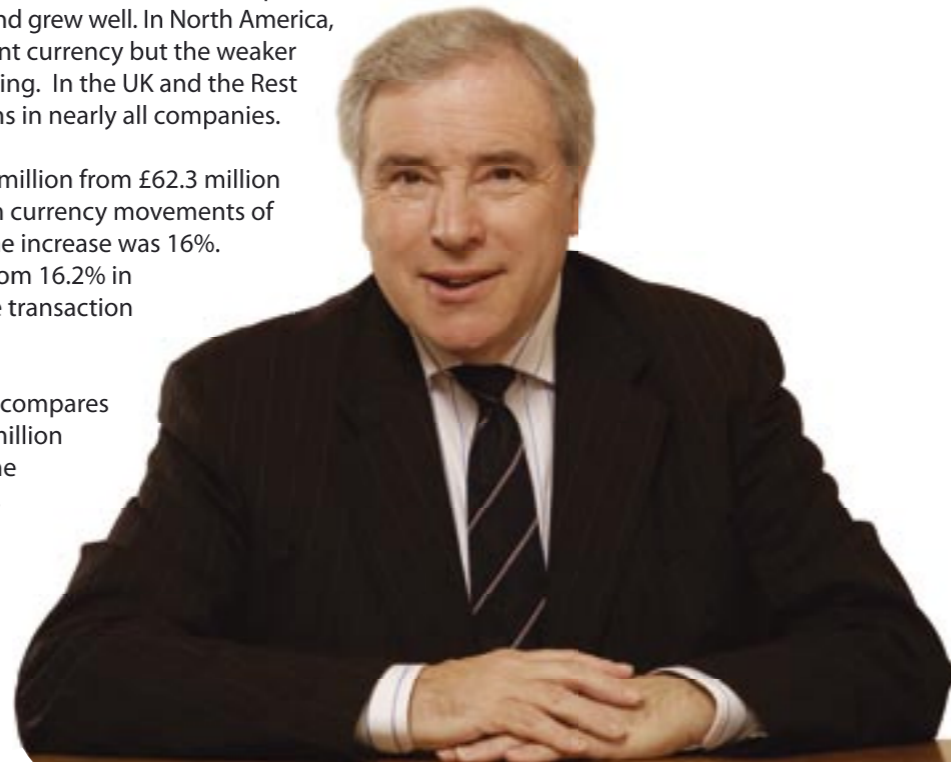
# Chairman's statement

Sales grew to £417.3 million, from £384.2 million in 2006. On average, sterling was over 2% stronger in 2007 than in 2006; at constant exchange rates the sales increase was a strong 11%.

As in the first half of the year, the sales growth for the full year was spread across all regions. There was a continuation of the strong growth in Asia; sales in Continental Europe also maintained momentum in the second half and grew well. In North America, there was a good increase in sales at constant currency but the weaker US dollar led to only a small increase in sterling. In the UK and the Rest of the World, there were also solid sales gains in nearly all companies.

Operating profit increased by 10% to £68.7 million from £62.3 million in 2006. This includes an adverse effect from currency movements of over £3 million and, at constant currency, the increase was 16%. The operating margin improved to 16.5% from 16.2% in the prior year despite the adverse exchange transaction effect.

Net finance income was £2.4 million, which compares with £2.0 million in 2006. There was a £1.1 million increase in net finance income relating to the defined benefit pension funds; against this, there was an increase in net bank interest payable as a result of the impact of the share buy-back in 2006, special pension contributions and the acquisition of UltraPure. The proportion of Associates' post-tax profits attributable to the Group increased to £1.6 million (2006: £1.4 million).



Pre-tax profit for the Group increased by 11% to £72.8 million (2006: £65.7 million) and earnings per share rose by 13% to 65.5p from 58.1p in 2006.

Your Board is recommending a final dividend of 21.6p per share payable on 19th May 2008 to shareholders on the register at the close of business on 18th April 2008. This, together with the interim dividend of 8.3p per share paid in November, makes a total dividend for the year of 29.9p per share. This compares with a total dividend of 26.5p per share last year, an increase of 13%, in line with our improved performance in 2007. The cost of the interim and final dividends is £22.8 million, which is covered 2.2 times by earnings. No scrip alternative to the cash dividend is being offered.

On 11th February 2008, the Group completed the acquisition of Flexicon A/S in Denmark. Flexicon will form part of the Watson-Marlow Bredel business and its range of peristaltic aseptic filling systems is complementary to the range offered by Watson-Marlow Bredel. The consideration was DKK141 million (£14.1 million).

At the end of 2007, the Group had net cash of £15.8 million. The year started with net debt of £6.6 million and during the year there was a strong cash in-flow helped by tight control of working capital and relatively low tax payments reflecting tax relief on the special pension contributions in 2006 and 2007. The acquisition of Flexicon and significantly higher capital expenditure in 2008 will largely utilise short-term cash balances.

We announced on 13th December 2007 that our Chief Executive, Marcus Steel, would be retiring from the Board on 31st March 2008, having joined the Group in 1972 and the Board in 1992. Marcus has successfully led the company in a firm and positive manner achieving improved financial performances, while retaining its ethos and reputation for fair dealing. I, and the whole Board, thank him and wish him a very happy and long retirement.

We were delighted to announce that Mark Vernon will succeed Marcus as Chief Executive from 1st April 2008. Mark joined the Group as President of Spirax Sarco, Inc. in the USA in 2003 and he then came onto the Board of Spirax-Sarco Engineering plc in June 2006 with responsibility for the Americas and Group Marketing. Mark brought to Spirax a wealth of experience in the global process control industry and he is well qualified to take the Group forward.

Also on 13th December 2007 we announced that Peter Smith will be retiring as Company Secretary and Director with effect from 31st March 2008 after 33 years with the Group. He joined the Board of Spirax-Sarco Engineering plc in 1995. Since that date,

Peter has provided the Board with wise and balanced advice. His counsel will be much missed and we wish him a long and healthy retirement.

We are pleased to have announced the appointment of William Stebbings as Company Secretary with effect from 1st April 2008. William joined Spirax in February 2007. He is a solicitor with extensive industrial experience at Linpac Group Ltd., HP Bulmer Holdings PLC, Bunzl PLC and The Distillers Company PLC.

The good results we have achieved in the past and again in 2007 reflect the fundamental strengths of the Group - a wide geographical spread, diverse customer base, broad product range and our focus on our niche Spirax Sarco and Watson-Marlow Bredel businesses. Spirax-Sarco Engineering plc is a high quality business and it is the skills and dedication of the people who make up the Group that sets it apart. Their efforts all around the world have made our achievements possible; my thanks and those of the Board go to our colleagues past and present for their hard work which has produced such strong results over a very long period.

## PROSPECTS

Today, whilst we are faced with increasing uncertainty about the resilience of the global economy, the underlying strengths of the Spirax Sarco and Watson-Marlow Bredel businesses, which sell into a very broad range of industries worldwide, and the increasing importance of energy savings should allow us to continue our long history of consistent performance. 2008 has started well including a more favourable exchange environment. We will continue to invest in the development and expansion of our business and, assuming that our global markets remain stable, we expect to produce another good performance in 2008.

**Note:** All profit measures exclude the amortisation of acquisition-related intangible assets. The total in 2007 is £0.6 million (2006: £0.4 million) of which £0.2 million relates to Associates (2006: nil).

A handwritten signature in black ink, appearing to read 'Mike Townsend'.

**M Townsend**, Chairman