

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 2007.

RESULTS

The results of the Group for the year, which have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU ("IFRS"), are explained in the Chairman's Statement and the Business Review on pages 8 to 23 and are set out in the Group income statement on page 46.

DIVIDEND

An interim cash dividend of 8.3p per share (2006: 7.5p) was paid in November 2007. The directors now recommend the payment of a final dividend of 21.6p per share (2006: 19.0p). If approved at the annual general meeting the final dividend will be paid on 19th May 2008 to shareholders on the register on 18th April 2008. The total distribution for the year will be 29.9p per share (2006: 26.5p).

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 set out on pages 8 to 23 and which is incorporated in this Directors' 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. In accordance with the Company's articles of association, Messrs. A. D. H. Black, G. Bullock and A. J. Scrivin retire and, being eligible, offer themselves for re-appointment. Messrs. A. D. H. Black and A. J. Scrivin have service contracts determinable on 12 months' notice. Mr. G. Bullock, as 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 beneficial interests of the directors in the share capital of Spirax-Sarco Engineering plc as at 31st December 2007 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 31.12.07	Ordinary Shares of 25p each 31.12.06
M. Townsend	2,879	2,879
M.J.D. Steel	84,342	83,922
M.E. Vernon	10,084	4,500
A.D.H. Black	46,346	45,930
N.H. Daws	7,455	3,630
D.J. Meredith	43,382	42,962
A.J. Scrivin	19,367	18,517
P.A. Smith	67,322	66,402
G. Bullock	1,250	1,250
E. Lindh	-	-
W.H. Whiteley	4,934	4,934

There have been no changes in the number of shares held by the directors as shown above since 31st December 2007.

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 8 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

There was no purchase of shares by the Company during the year. At 31st December 2007 the number of shares which may be purchased under the shareholders' authority given at the annual general meeting in 2007 was 7,500,000 and the number of shares in issue was 77,194,904.

SHAREHOLDINGS OF 3% OR MORE

As at 29th February 2008, the Company had an issued share capital of 77,197,404 shares of which 1,092,115 shares are held in treasury. Of the 76,105,289 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).

The information received is set out below.

	Ordinary Shares	%
Schroders Investment Management Ltd	9,453,204	12.42
Blackrock Investment Management	4,908,646	6.45
Aberforth Partners LLP	3,345,296	4.40
Legal & General Investment Management	3,330,003	4.38
Sprucegrove Investment Management Ltd	3,243,081	4.26
Arnhold and S Bleichroeder Advisers LLC	3,013,010	3.96
M & G Investment Management Ltd	2,914,646	3.83
NFU Mutual Insurance Society	2,783,363	3.66
F&C Management Ltd	2,569,721	3.38
Baillie Gifford & Co	2,321,320	3.05

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 75 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 2007 on research and development amounted to £6,270,000 (2006: £5,812,000), of which £1,608,000 (2006: £979,000) 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 2007 by approximately £14,000,000 (2006: £10,000,000).

GROUP CHARITABLE AND POLITICAL DONATIONS

Charitable donations amounted to £72,381 (2006: £62,424). There were no political donations (2006: 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*

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10th March 2008