

Annual Report 2017

Engineering opportunities



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Corporate Information

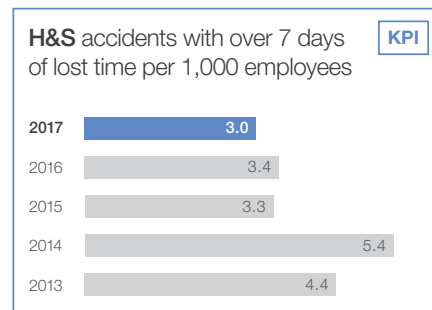
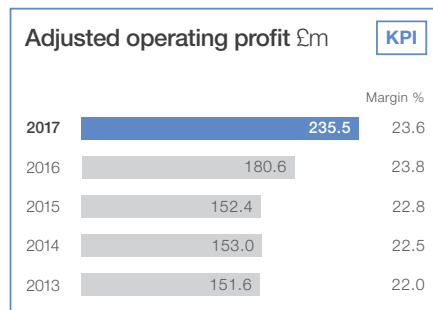
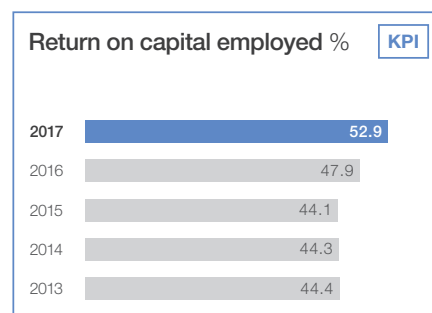
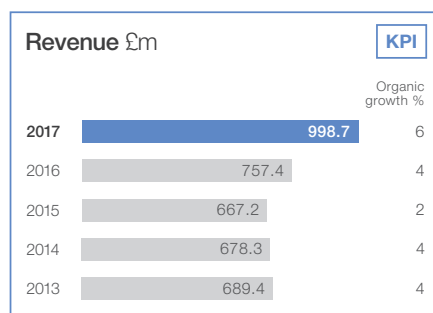
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A snapshot of 2017

for the year ended 31st December 2017

- › Organic sales growth of 6%
- › Adjusted operating margin of 23.6%
- › Good growth in Steam Specialties and in Watson-Marlow
- › Acquisitions performing in line with plan; adding 20% to sales, 14% to profit
- › Net debt of £373.6 million, 1.4x EBITDA
- › Full Year dividend increased by 15%

Financial highlights



KPI Throughout this Report, we use a symbol to indicate which measures are main Group KPIs.

2017 key figures

Adjusted*	2017	2016	Reported	Organic†
Revenue	£998.7m	£757.4m	+32%	+6%
Adjusted operating profit*	£235.5m	£180.6m	+30%	+6%
Adjusted operating profit margin*	23.6%	23.8%	-20 bps	+0 bps
Adjusted profit before taxation*	£229.1m	£177.9m	+29%	
Adjusted basic earnings per share*	220.5p	171.5p	+29%	
Dividend per share	87.5p	76.0p	+15%	
Cash conversion	86%	101%		
Statutory	2017	2016	Reported	
Operating profit	£198.9m	£174.1m	+14%	
Profit before taxation	192.5m	£171.4m	+12%	
Basic earnings per share	214.4p	165.0p	+30%	

* All profit measures exclude certain items which totalled £36.6 million for the year ended 31st December 2017, as set out and explained in the Financial Review and in Note 2.

† Organic percentage growth measures are at constant currency and exclude acquisitions.

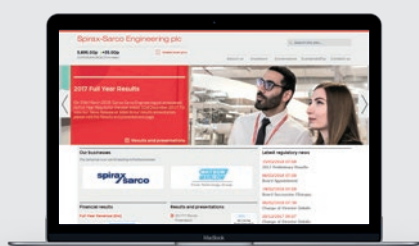
Introduction

Spirax-Sarco Engineering plc is a multi-national industrial engineering Group with expertise in steam, electrical thermal energy solutions, fluid path technologies and peristaltic pumping.

Our diverse customer base is spread across a broad range of industries, from food and beverage processing, to water treatment plants and pharmaceutical research, in 116 countries worldwide. Through our direct sales business model we stay close to our customers, understand their day-to-day process requirements and apply our technical expertise to deliver engineered solutions that increase efficiency and add value.

2017 was an eventful year for the Group; we made two significant acquisitions – Gestra and Chromalox – and worked to integrate Aflex, which we acquired in November 2016. We also delivered a strong year of organic growth and made progress implementing our strategy, positioning us well to deliver future growth.

We are engineering opportunities.

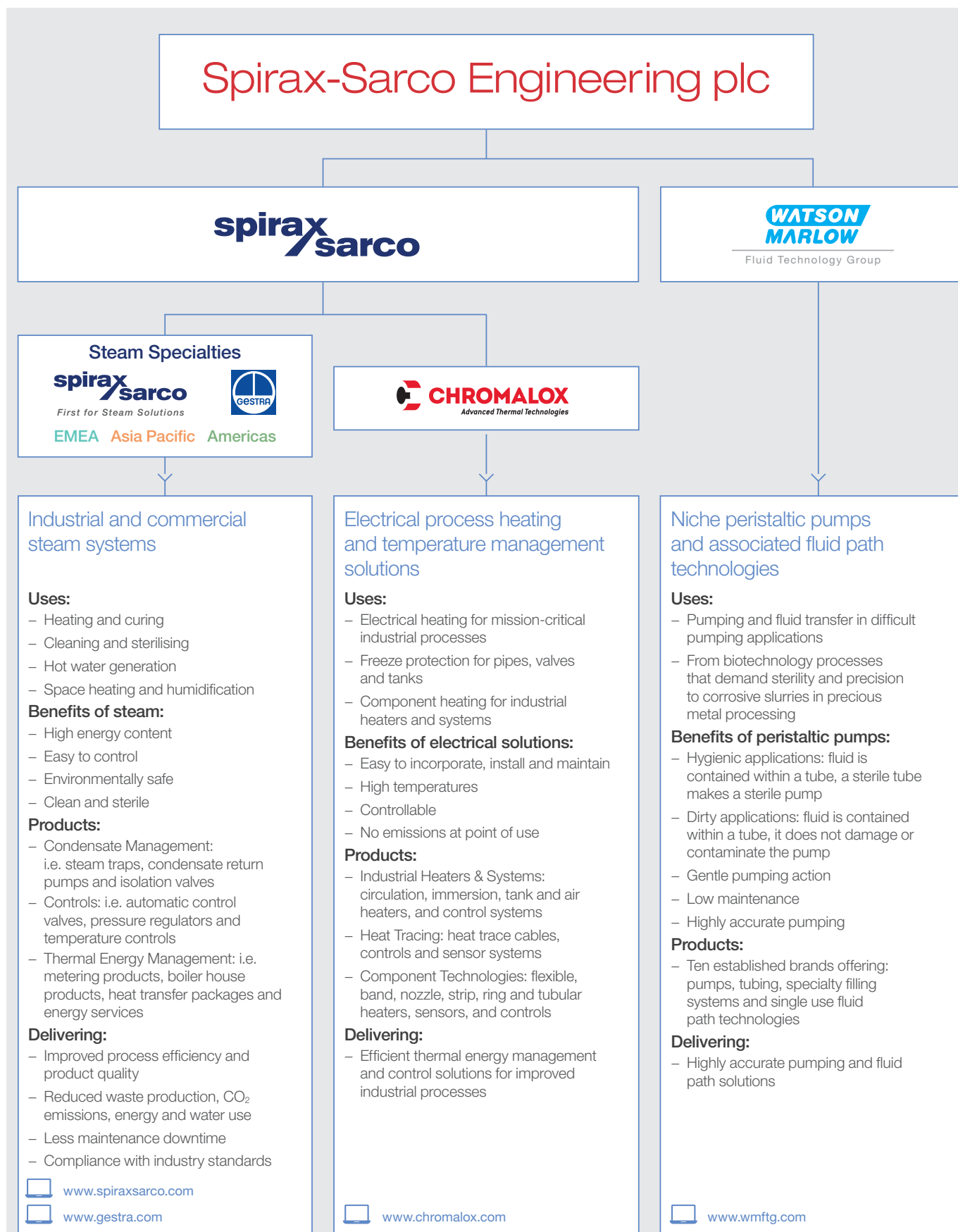


For more information about how Spirax-Sarco Engineering plc is engineering opportunities, please visit our website:

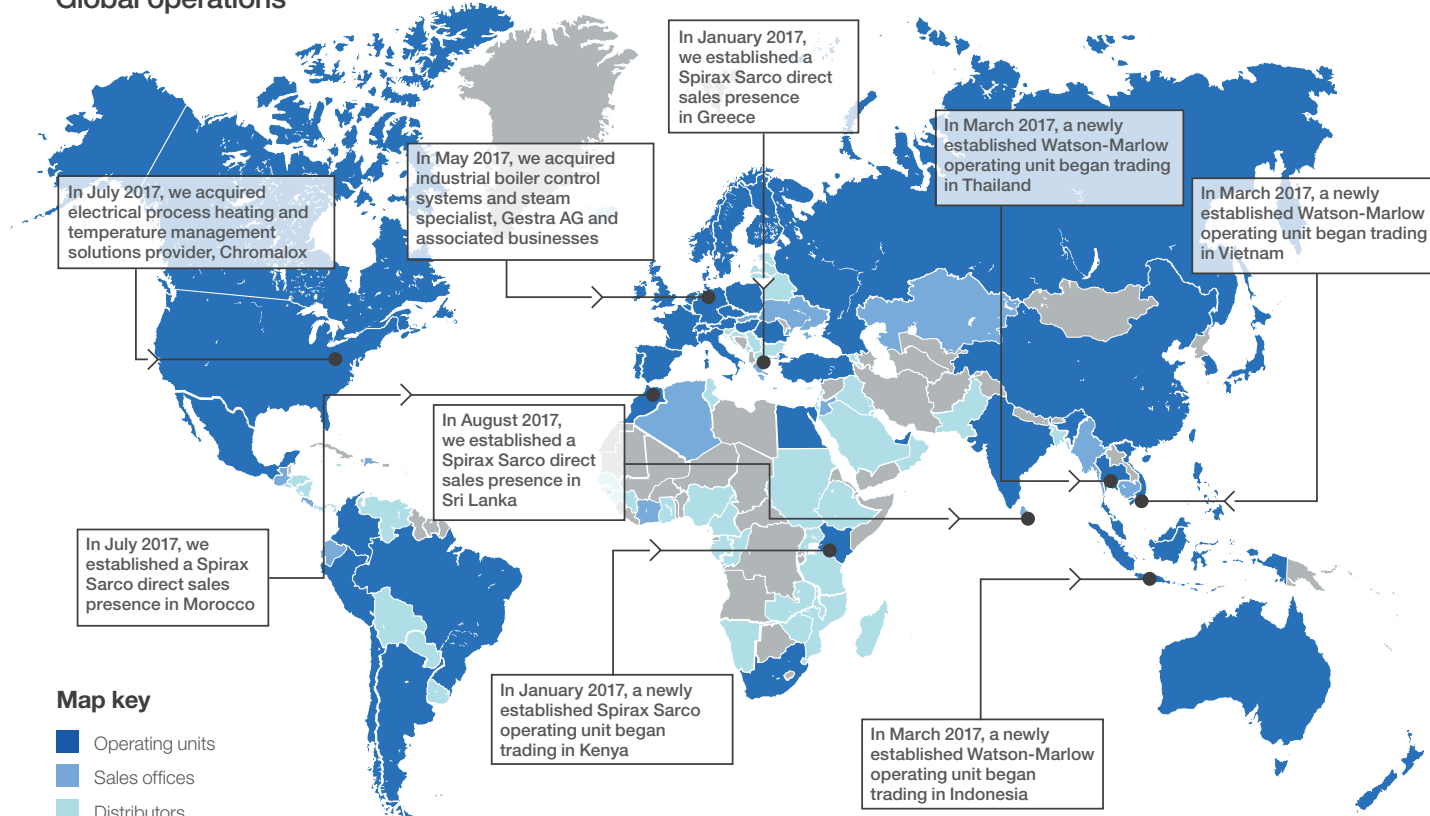
www.spiraxsarcoengineering.com

Spirax-Sarco Engineering plc at a glance

A multi-national industrial engineering Group

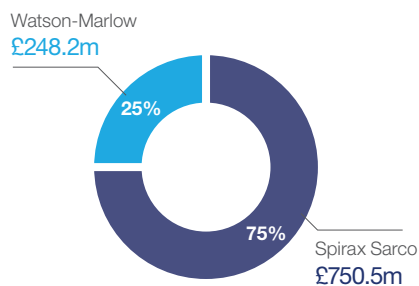


Global operations**

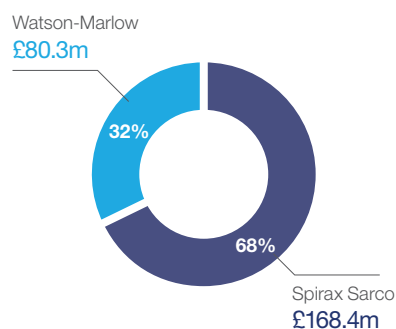


Key financial performance

Revenue £m



Adjusted operating profit* £m



* Before corporate expenses of £13.2 million. See Note 3.

Key facts



114

operating units*
in 47 countries**

62

countries with a direct sales
presence on six continents

1,600+

sales and service
engineers

7,250+

employees



1,500

core product lines†
leading to

300,000+

stock keeping units



100,000+

direct buying customers†

* Operating units are business units that invoice locally, includes Associate.

** Global operations at the time of publication, March 2018. Five operating units began trading after 31st December 2017: Spirax Sarco Maghreb, Spirax Sarco Hungary, Spirax Sarco Romania, Watson-Marlow Malaysia and Watson-Marlow UAE.

† 800 product lines added by Gestra and Chromalox.

† Actively purchasing in the last 24 months.

Chairman's Statement

A year of opportunity

Key points in this section:

- › £998.7m sales and £235.5m operating profit; 6% organic increase in both*
- › Acquisitions add 20% to sales and 14% to profit
- › Total Ordinary dividend increased 15% to 87.5p per share

* Unless otherwise stated, all profit measures exclude certain items, as set out and explained in the Financial Review and in Note 2 on page 129. Organic measures are at constant currency and exclude acquisitions.

Introduction

My last full year as Chairman was a successful and eventful one. In May we were delighted to welcome Gestra to the Group. Gestra's market-leading automated boiler controls and strong market position in Germany increases the market share of our Steam Specialties division, improves access to the German market and provides potential to grow Gestra's presence outside its core German market. Two months later, in July, electrical process heating and temperature management solutions provider, Chromalox, joined the Group. Industrial electrical heating solutions are complementary to our steam business and Chromalox's direct sales business model, based around application selling, diverse customer base and broad market diversity, make it an ideal fit.

Three other important milestones have also been reached. In 2017, Group sales reached £1 billion, the Group's underlying trading margin, excluding acquisitions, exceeded 24% and the proposed dividend marks the 50th consecutive year of progress.

The events of 2017 demonstrate that we are not content to let external circumstances dictate Group performance and outcomes, but are actively engaged in engineering

opportunities for sustainable growth. I am deeply proud to have been the Chairman of this great Company for over nine years and in my last full year I am pleased to be able to report that, despite a very busy year, we maintained our rigorous focus on organic growth and delivered another strong set of results, outperforming our markets.

Financial highlights

Sales for the year were £998.7 million, an organic increase of 6%; exceeding global industrial production growth of 3.4%. Favourable currency movements increased sales on translation by 5% and acquisitions added 20%. As a result, reported sales were 32% higher than 2016. Our Watson-Marlow Fluid Technology business had another strong year, which saw organic sales up 10%. The Spirax Sarco business also performed well with organic sales up 5% and gains in all segments. Gestra, which is reported within the Spirax Sarco Steam Specialties division, performed in line with our expectations as did Chromalox, which is reported as a separate division within the Spirax Sarco business.

Group adjusted operating profit increased by 6% on an organic basis to a reported £235.5 million. Watson-Marlow delivered organic profit growth of 6%, with the Steam Specialties division up 6% organically. Favourable translation and transaction currency movements increased adjusted operating profit by 9% while acquisitions added 14%, resulting in adjusted operating profit being up 30%. The adjusted operating margin fell by 20 bps, to 23.6% as a result of the dilutionary effect of the two large acquisitions made in the year. Excluding the effects of acquisitions the underlying margin increased 90 bps to 24.7%.

The Group adjusted pre-tax profit was £229.1 million, 29% ahead at reported currency. Adjusted basic earnings per share was 29% ahead at 220.5 pence (2016: 171.5 pence).

The pre-tax profit on a statutory basis was £192.5 million (2016: £171.4 million) and includes certain items, explained in Note 2. The statutory basic earnings per share was 214.4 pence (2016: 165.0 pence).

Cash and dividends

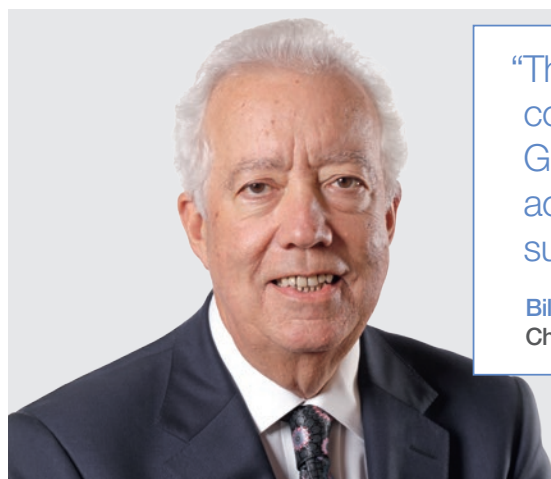
During the year, we had a cash outflow of £484 million to fund the acquisitions of Gestra and Chromalox. As a result, at 31st December 2017 we had a net debt balance of £373.6 million, compared with net cash of £27.4 million at 31st December 2016; a net debt to EBITDA ratio of 1.4 times.

The interim dividend for 2017, paid on 10th November 2017, was raised by 13% to 25.5 pence per share (2016: 22.5 pence per share). The Board is recommending an increase in the final dividend of 16% to 62.0 pence per share (2016: 53.5 pence). Subject to approval of the final dividend by shareholders at the AGM on 15th May 2018, the total Ordinary dividend for the year is therefore 87.5 pence per share, an increase of 15% over the 76.0 pence per share for the prior year.

Corporate governance

As we announced on 14th February, I have indicated my intention to retire from the Board after this year's Annual General Meeting on 15th May 2018 (AGM), having served as a Director for 16 years and as Chairman for the past nine years.

It is proposed that Jamie Pike, the current Senior Independent Director who joined the Board in 2014, will take over as Chairman with effect from the close of the AGM. As a consequence of Jamie's appointment, it



"The events of 2017 demonstrate that we are not content to let external circumstances dictate Group performance and outcomes, but are actively engaged in engineering opportunities for sustainable growth."

Bill Whiteley
Chairman

is also proposed that Clive Watson be appointed as the Senior Independent Director. Clive will continue as Chairman of the Audit Committee. All appointments are subject to the re-election of Directors at the AGM.

Jamie Pike will, on appointment as Chairman, resign as a member of the Audit Committee and the Remuneration Committee in compliance with the Code. He will Chair the Board and the Nomination Committee.

In anticipation of these changes we initiated a search for an additional Independent Non-Executive Director and on 6th March we announced that Peter France will join the Board with immediate effect. Peter will be a member of the Audit, Remuneration and Nomination Committees. From 2008 to July 2017, Peter was Chief Executive at Rotork plc.

Employees

On behalf of the Board, I would like to welcome our new Gestra and Chromalox colleagues to the Group and to thank all our employees throughout the world for their individual and collective contributions that have enabled us to deliver another excellent set of results in 2017.

Summary and outlook

Global industrial production growth rates, which are a good indicator of our market conditions, strengthened throughout the year resulting in growth of 3.4% in 2017 compared with 0.9% in 2016 and 0.3% in 2015.

Current indications for the industrial production growth rate in 2018 suggest that it will be at a similar level to that seen in 2017. We will remain focused on engineering opportunities for self-generated growth, through the rigorous implementation of our strategy. As we integrate and develop the recent acquisitions, we are also laying the foundations for their future organic growth.

Following two years of foreign exchange tailwinds, sterling has strengthened against most of the currencies that we trade in and therefore we expect a currency headwind in 2018. If current exchange rates were to prevail for the remainder of the year, 2017's revenues would have been 2% lower and trading profit would have been 4% lower. Movements in exchange rates are often volatile and unpredictable, therefore the actual impact could be significantly different.

For 2018, given the recent changes to the composition of the Group and the volatility of the main currencies we trade in, we have chosen to provide additional information in this outlook. Considering the current industrial production growth rates, we would expect a similar organic growth performance in the Spirax Sarco Steam Specialties division as seen in 2017. As we continue the integration of the Gestra and Chromalox acquisitions, we expect these companies to grow at rates similar to global industrial production growth, over their full year 2017 sales of £223 million. Watson-Marlow's revenue growth was higher than expected in 2017 as a number of larger orders booked in late 2016 were shipped in 2017. Therefore, we maintain our expectations of mid-to-high single-digit organic sales growth for the Watson-Marlow Fluid Technology business in 2018.

Excluding acquisitions, the 2017 trading margin improved by 90 bps to 24.7%, due to the effects of positive exchange movements. As anticipated, the underlying margins remained constant as we reinvested operational gearing gains in the business. Looking forward, we will continue investing in the business for growth while also taking actions to mitigate the adverse transactional currency effects on margins that could occur if current exchange rates prevail throughout this year. Therefore, for Chromalox and the

Steam Specialties division, excluding Gestra, we anticipate maintaining the same level of operating margins achieved in the full year 2017. However, due to the proportionally higher investments for growth in Watson-Marlow and Gestra, we anticipate a small margin decline for these businesses in 2018, similar to Watson-Marlow's organic decline in 2017.

Assuming no significant deterioration in trading conditions, the Board expects to make further progress in 2018.

We confirm that to the best of our knowledge:

- The Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation, taken as a whole.
- The Annual Report for 2017, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.
- The Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period to 31st December 2020. For the full Viability Statement, see page 80.
- The Annual Report contains the information required for compliance with the Companies, Partnerships and Groups (and Non-Financial Reporting) Regulations 2016. The Non-Financial Information Statement comprises information found on pages 12 to 15 (business model), pages 30 to 33 (risks), and pages 52 to 61 (environmental matters, the Company's employees, social matters, respect for human rights, and anti-corruption and anti-bribery matters).
- The Strategic Report was approved by the Board on 14th March 2018.

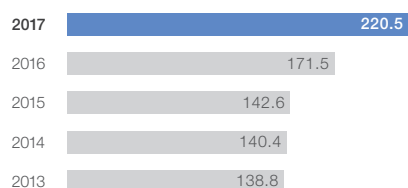
Signed by:

Bill Whiteley
Chairman

on behalf of the Board of Directors
14th March 2018

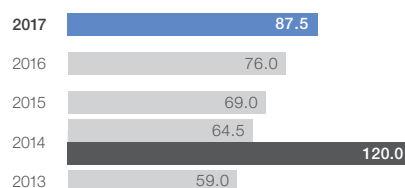
Basic earnings per share* p

KPI



* Based on adjusted operating profit.

Dividend per share p



■ Special dividend

Group Chief Executive's Statement

Implementing our strategy for growth

Key points in this section:

- › Successfully implementing our strategy for organic growth
- › Acquisition of two outstanding businesses: Gestra and Chromalox
- › Delivering long-term sustainable value for stakeholders

Introduction

Our Company purpose is to help our customers and end users implement environmentally-friendly engineered solutions for energy savings, process efficiency, product quality and improvements in plant health, safety and regulatory compliance, and to engineer sustainable value for stakeholders. We do this through having the right products, in the right place, at the right time, and an extensive global network of over 1,600 expert sales and service engineers with the knowledge and skills required to understand customers' difficult operational challenges and design bespoke engineered solutions to resolve them.

Our direct sales business model is highly effective at uncovering opportunities to improve customers' steam systems, electrical heating and temperature management systems, or fluid path processes. As they walk our customers' facilities, our specialist engineers are able to identify unrecognised needs. The engineered solutions required to meet these needs generally have a relatively short payback period of around 24 months or less and, crucially, are typically paid for out of our customers' operational budgets. Purchasing decisions are therefore made at operational level from budgets, which are

less likely to be cut in times of recession. This "self-generated" element of our business, combined with the high proportion of sales that derive from end users' maintenance and operating budgets, and the wide diversity of the markets we serve, both geographically and by industry sector, makes our business highly resilient, although not immune, to the vagaries of the markets.

Strategy implementation

Four years ago we undertook an extensive strategic review and developed our strategy for growth, the aim of which is to deliver self-generated growth that outperforms our markets. We identified six Group strategic themes, which help us to do better what we already do well:

- increase direct sales effectiveness through sector focus;
- develop the knowledge and skills of our expert sales and service teams;
- broaden our global presence;
- leverage R&D investments;
- optimise supply chain effectiveness; and
- operate sustainably and help improve our customers' sustainability.

During 2017, notable progress was made in the implementation of our strategic priorities, which was a significant contributing factor to the good financial results and strong organic growth achieved during the year:

- We continued increasing the alignment between our direct sales force and our target industries of Food & Beverage; Healthcare; Pharmaceutical; Oil, Gas & Chemical; and OEM customers, supported by developments in our R&D processes, manufacturing capabilities, marketing and training materials. In the Spirax-Sarco Steam Specialties division, the organic growth rate of these priority sectors strongly outpaced the growth

rate of the other sectors. These priority sectors now represent almost 50% of the division's sales, compared to 40% in 2014. Also noteworthy, the strategically prioritised Controls and Thermal Energy Management (TEM) products, which represent around 40% of sales and are the main constituents of our self-generated solution sales, are growing at a much faster pace than the traditional Condensate Management products.

- We continued to strengthen the knowledge and skills of our sales and service teams and to develop our pipeline of talent. By the end of the year the training materials of the Spirax Sarco Academy, which was established in 2016 to oversee the learning and development of the Spirax Sarco Steam Specialties division, were available in 16 languages and we had rolled out the Academy's initial programmes to almost 1,100 customer-facing employees. Building on the success of our UK Steam Specialties award winning graduate programme, we established a Global Group Graduate Programme to attract and develop talented young engineers.
- We again expanded our geographical reach, with four new operating units commencing trading at the start of the year: Spirax Sarco East Africa (Kenya), Watson-Marlow Indonesia, Watson-Marlow Thailand and Watson-Marlow Vietnam, and established a Spirax Sarco direct sales presence in Greece, Sri Lanka and Morocco, and in UAE to support Watson-Marlow sales expansion in the Middle East. In recognition of our successful international growth, in 2017 Watson-Marlow Ltd and BioPure Technology Ltd won a combined Queen's Award for Enterprise, in the International Trade category.



"Notable progress was made in the implementation of our strategic priorities, which was a significant contributing factor to the good financial results and strong organic growth achieved during the year."

Nicholas Anderson
Group Chief Executive

- We made two significant acquisitions, Gestra and Chromalox, which increased our market share and expanded our addressable market and successfully integrated the two acquisitions made in 2016, Aflex and Hiter Controls.
- Almost thirty new products were launched during 2017. Watson-Marlow launched the innovative and award-winning Quantum peristaltic bioprocessing pump with patented ReNu SU Technology® cartridge, which offers a step change in pump technology enabling higher downstream process yields with minimum pulsation throughout the pressure range. Other product launches from Watson-Marlow include: a patented single-handed and tool free sanitary tri-clamp for use in the Biopharmaceutical industry, called QClamp, from BioPure; the Flexicon PF7, a benchtop filling pump for use in cleanroom environments; and range extensions of the Certa pump, for use in the Food & Beverage industry. The Spirax Sarco Steam Specialties division launched multiple new products including the SIMS™ Software energy monitoring and targeting solution, which enables real-time monitoring and visualisation of customers' steam and thermal energy systems. Amongst other new product introductions, Chromalox introduced the CCX Cast Block Heater, for use in high pressure environments; and the CXHXD corrosion-resistant, explosion-proof Unit Heater, for use in hazardous or challenging environments, such as offshore drilling platforms.
- To further develop the capacity and efficiency of our supply chain, we accelerated the capital investment programmes designed to modernise and renew our manufacturing equipment and completed the expansion of our state-of-the-art manufacturing facility in China. We also established a new distribution hub for the Steam Specialties division in Singapore, which is designed to improve the efficient distribution of products and increase customer service levels throughout the Asia Pacific region.

- The implementation of the Group Sustainability Strategy remained a key priority and good progress was made in a number of areas. During the year we increased the number of Health and Safety professionals within the business, rolled out our Supplier Sustainability Code to direct suppliers of our sales companies, established a network of community engagement champions across the Group and launched a Community Engagement Award to recognise and raise awareness of the activities that are taking place across the Group. We also reduced our global carbon emissions intensity by 4%.

Acquisitions

Our Group acquisitions strategy outlines our key acquisition criteria. Acquisitions should:

- have the potential to create significant shareholder value and either increase our addressable market into related sectors or expand the capabilities of our niche businesses through new skills, technologies or geographic coverage;
- serve customers through a direct sales business model;
- increase sales in our core markets;
- provide products or services where there is a high cost of non-performance to the customer;
- have the potential for geographical or technology expansion;
- have strong maintenance, repair and overhaul demand and recurring revenues; and
- be capable of achieving Group margins.

During 2017, a unique opportunity arose to acquire two outstanding businesses, Gestra and Chromalox. Both companies have long and successful histories. Industrial boiler controls and steam specialist Gestra was founded in Germany in 1902 and electrical process heating and temperature management solutions provider Chromalox was founded in the USA in 1917, with both companies bringing distinct opportunities for growth and expansion to the Group.

Gestra's strength in a number of product areas, such as industrial boiler control systems, and end applications, such as the German chemical industry, complement the Spirax Sarco Steam Specialties division's product offering and industry reach. With the help of the Spirax Sarco global footprint, we believe that the combination of the two entities will enhance organic growth opportunities going forward.

Chromalox represents an excellent opportunity to expand our addressable markets through the acquisition of a clearly related business that is also dedicated to transferring heat energy into industrial processes and shares our strong direct sales business model. As we invest in strengthening Chromalox's direct sales channels and leverage our global footprint and expertise, this acquisition will enhance our growth and sustainable value creation for customers and shareholders.

Both acquisitions were accretive to Group earnings in 2017 and were positively received by customers and employees. The integration of both businesses into the Group has proceeded very positively and remains in line with the integration plans reported at the time of their respective acquisitions.

Engineering opportunities for sustainable value creation

As a socially responsible business, we recognise the importance of operating in a way that delivers long-term sustainable value for all stakeholders. This year we engineered opportunities to strengthen the Group's basis for organic growth; served over 100,000 direct buying customers, enabling them to improve process efficiency and reduce their environmental impacts; invested extensively in developing the skills and capabilities of our employees; developed new products; expanded our geographical reach; engaged with our local communities to help meet their needs; reduced our own CO₂ emissions intensity; maintained the Group operating margin and delivered the 50th year of dividend progress, all of which has been achieved whilst delivering strong organic growth.

Nicholas Anderson
Group Chief Executive
14th March 2018

The markets we serve

We serve a very wide range of industries and have a great diversity of end markets and customers.



Food

Steam is used for blanching, cooking, baking, packaging, cleaning and sterilising. Electric heating elements are used in commercial food equipment. Pumps are used to meter ingredients, deliver food to process lines and handle process waste.



Beverage

Steam is essential for brewing and distilling processes. It is used to protect product quality and flavour, and ensure compliance with industry standards. Pumps are used to transfer fruit, juice, concentrates, yeast and other additives.



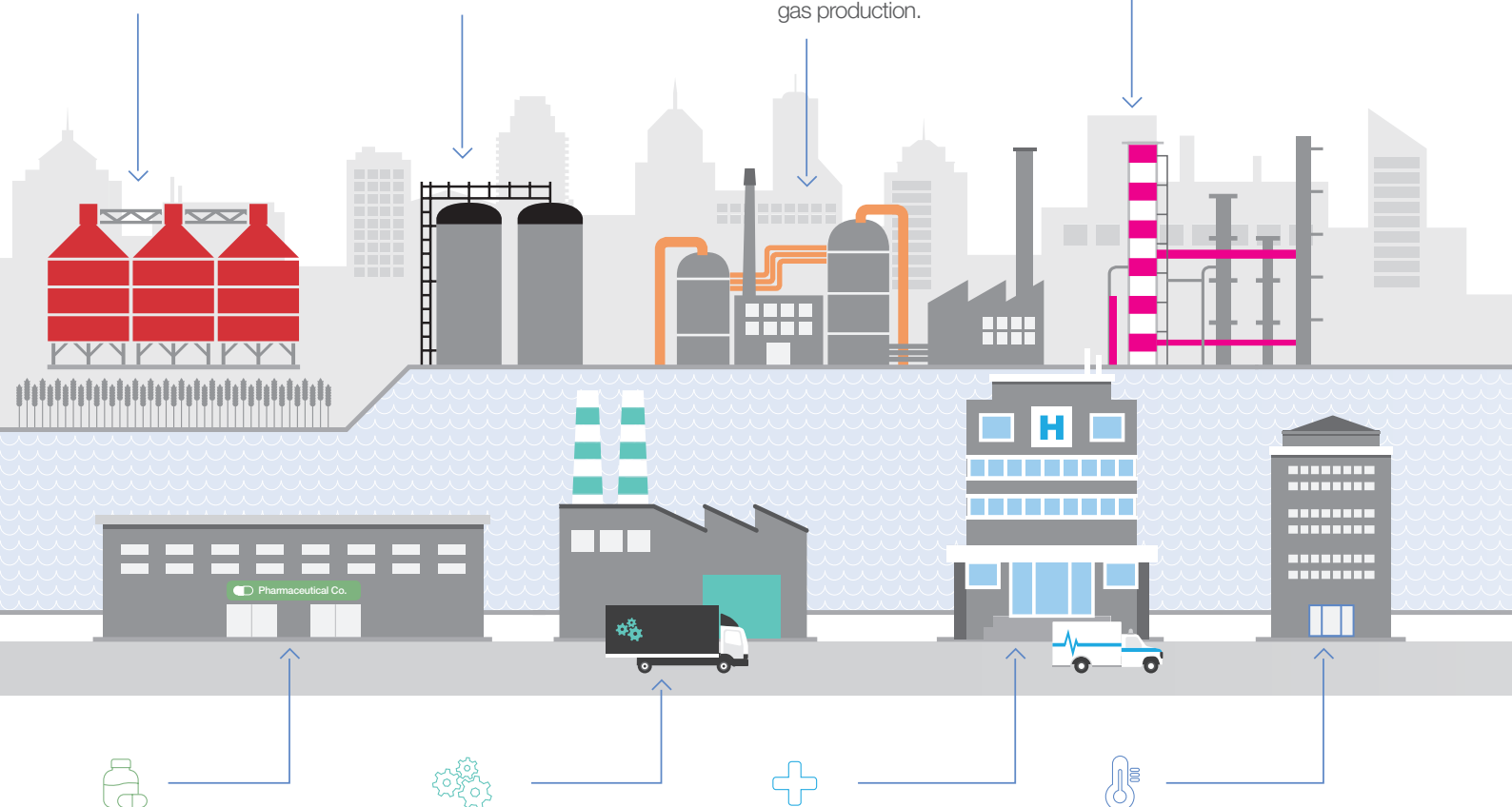
Oil & Gas

Electrical heating products increase fluid viscosity, deliver freeze protection and help separate natural gas, crude oil and water during extraction. Our steam products enable optimum steam system performance and reduce energy use during oil and gas production.



Chemical

Steam and electricity are widely used as an energy source in chemical production and product processing, while our pumps are used to safely and accurately transfer and dose critical chemical components.



Pharmaceutical & Biotechnology

Clean steam reduces the risk of product and process contamination; electrical heating is used in a wide range of process heating applications; our peristaltic pumps, valves and single-use components enable precise flow control and fluid isolation.

OEM Machinery

Original Equipment Manufacturers (OEMs) are companies that build and supply machines for use in industry. Our activities with OEMs vary from simple product supply to advising on machine performance improvements and process plant design.

Healthcare

Steam is used in hospitals and clinics for space heating, hot water production, humidification and sterilisation. Pumps and associated equipment are used in the manufacture of products for the Healthcare industry.

Buildings

Steam is used to provide space heating, humidification and hot water in public and private buildings, while our electrical products are used for hot water and heat generation, snow melting, gutter and roof de-icing, and frost-heave prevention.



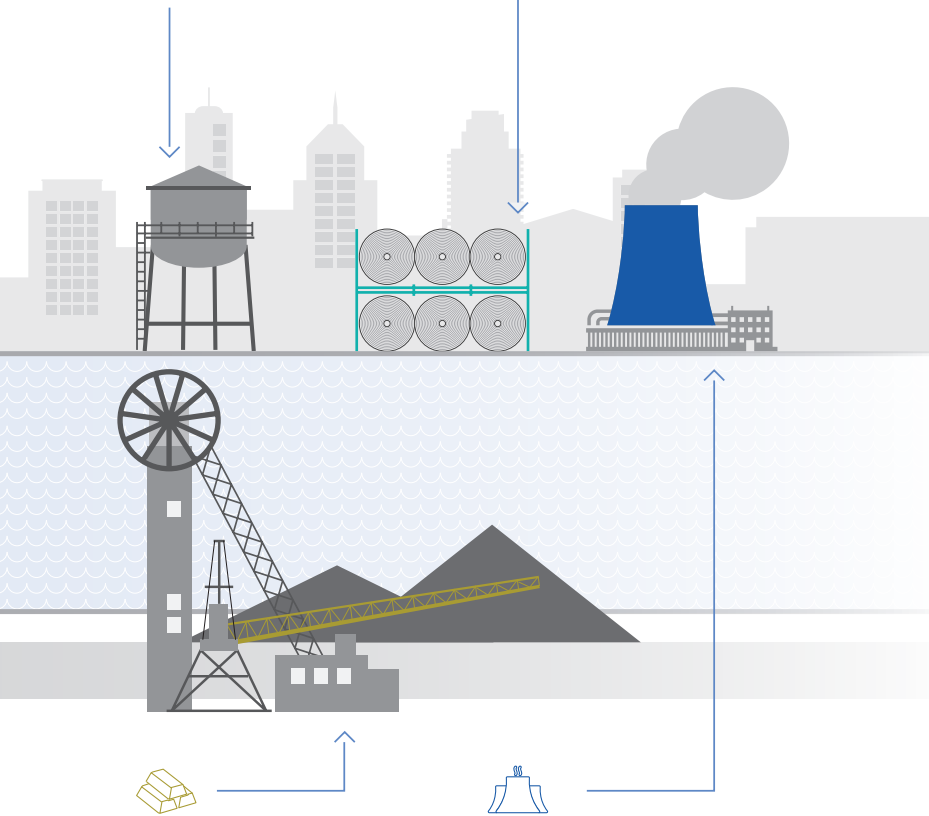
Water & Wastewater

Peristaltic pumps are used to dose chemicals during water treatment processes and to transfer viscous and abrasive slurries. Electrical heating solutions provide freeze protection, temperature maintenance and space heating in water treatment plants.



Pulp & Paper

Our steam, electric and pump products facilitate the accurate control of critical processes, such as washing, bleaching, dyeing, drying and finishing, in the manufacture of paper and a wide range of domestic and industrial tissues.



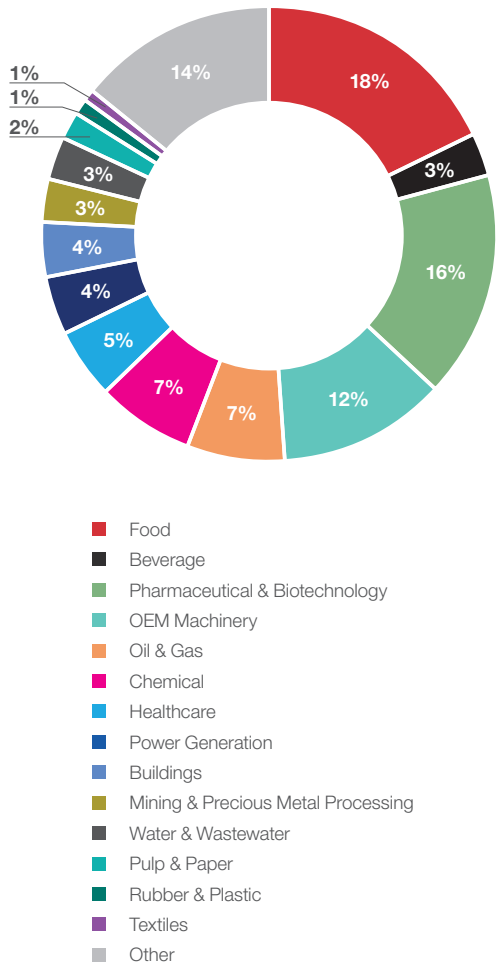
Mining & Precious Metal Processing

Peristaltic pumps reduce water, energy and chemical use and increase productivity while moving and processing abrasive ores and slurries. Electrical heating is used for temperature maintenance and space heating for workers.

Power Generation

Electrical heat technologies are widely used to optimise power generation. Steam turbines transfer chemical energy in fuel into electrical energy and steam is used to distribute and re-use waste heat formed during the power generation process.

Revenue by key industry sector* %



* Where there is little visibility of end user industry sector (primarily in sales via distributors), sales have been allocated across industries on a pro-rata basis. In 2017 these "unknown" sales accounted for 24% of total revenue. OEM sales to identifiable end industries have been allocated to those industries. Sales to OEM customers accounted for 20% of Group revenue in 2017. Revenue by industry sector includes full year revenue from acquisitions made in 2017.

Investment case

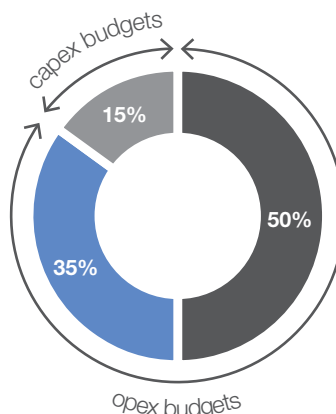
1 Significant income from maintenance and operations expenditure

85%*

of Group revenue is generated from annual maintenance and operational budgets, rather than large projects from capex budgets, which are more likely to be cut during periods of slower growth.

By staying close to our customers we are able to understand their needs. We self-generate business as we provide small, typically better margin engineered solutions, to meet those needs.

* Based on internal estimates. Includes full year revenue from acquisitions made in 2017.



■ **Maintenance and repair sales** that **maintain existing systems**, supported by the end users' opex budgets, with a typical invoice value of around £1k

■ **Small project sales** that **improve existing systems**, supported by the end users' opex budgets, with a typical invoice value of £10k-£50k

■ **Large project sales** that **build new systems**, supported by the end users' capex budgets, with a typical invoice value of over £100k

2 Serving less cyclical industries

We have an excellent balance between higher-growth end markets and those that are more "defensive" and resilient.

c. 50%*

of Group revenue is derived from defensive, less cyclical end markets, including: Food & Beverage, Pharmaceutical & Biotechnology, Healthcare and Water & Wastewater.

* Based on internal estimates. Includes full year revenue from acquisitions made in 2017.

3 Targeting self-generated growth

Our overall strategic objective is to deliver self-generated growth in order to outperform our markets. We achieve this by staying close to our customers, understanding their system requirements and providing them with innovative products and solutions to solve their process challenges.

[Read more about our direct sales approach on pages 12-14 and our strategy for growth on pages 21-27](#)

4 Our long-term market growth drivers remain positive

Population growth

Increased consumption and demand in all our major industry sectors.

Ageing population

Increased demand for healthcare and pharmaceutical products.

Increase in global energy consumption

Increased investment in the Oil & Gas industry and demand for energy management solutions.

Economic development in emerging markets

New markets and increased consumption.

National and international climate change mitigation strategies

Requirement for companies to manage energy more efficiently, increasing demand for energy management products and services.

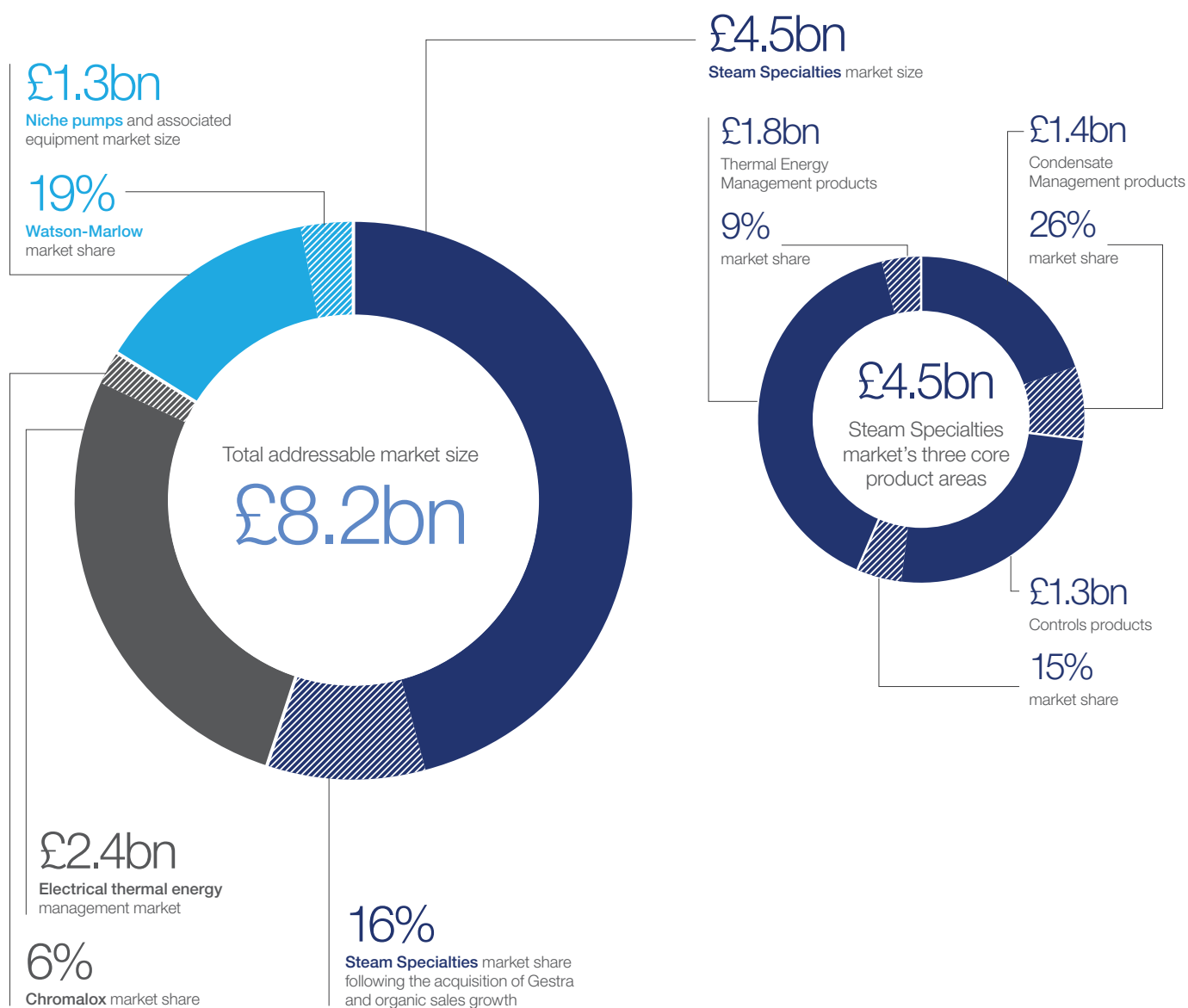
Industrial production

As steam, electrical heating and pumps are so widely used across industry, our markets reflect changes in industrial production but our sales have consistently outperformed our markets as we have expanded our addressable market, extended our geographic penetration and grown our market share.

Our market size and share

Acquisitions in the year significantly expanded our addressable market, which has increased from £5.8bn in 2016 to £8.2bn at the end of 2017.

We estimate that we hold a 13% share of our total addressable market.



Source: based on Spirax Sarco internal estimates.

The revised market size reflects underlying changes in market segment sizes, expansion of the addressable market as a result of acquisitions, product development and the impact of exchange movements. Market share includes full year revenue from acquisitions made during 2017.

Our business model

We combine our specialist knowledge with our industry-leading products and services to deliver value-adding engineered solutions to customers.

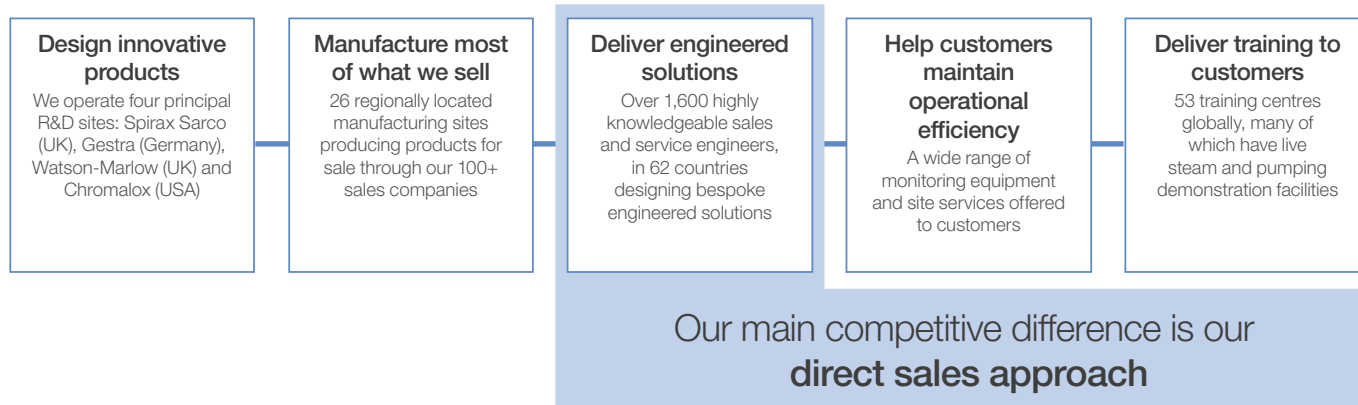
With a direct sales presence in 62 countries and a further network of distributors, our business has a global reach. By having the right products, in the right place, at the right time and an extensive global network of specialist engineers, we help users of industrial and commercial steam systems, electrical heating and temperature management systems, and process fluid paths and pumping systems to increase efficiency, reduce their environmental impacts, improve product quality and achieve regulatory compliance.

Through innovative R&D we develop and enhance our already broad range of products, pre-fabricated packages and site services. Our technically-expert direct sales force allows us to leverage these new products and develop new applications for existing products, which increases the amount of plant spend that we can capture in the small-scale capital projects and maintenance activities that lie at the heart of our business.

We have 26 strategically located manufacturing plants across Europe, North America, Latin America and Asia, in which we manufacture most of the products we sell. By manufacturing regionally we optimise customer service and enhance the efficiency of our supply chains. We generally employ demand flow processes at our manufacturing sites; this lean manufacturing system enables us to respond quickly to customer needs and provides maximum flexibility of daily manufacture.

To maintain operational efficiency, production output and product quality, regular maintenance spending is required by our customers. In the Group as a whole, approximately 50% of our revenue is derived from our customers' maintenance, repair and overhaul activities. To support this, we offer a comprehensive range of site audits and maintenance services to keep our customers' industrial systems operating efficiently. We also deliver customer training, to help meet their skill gaps, in 53 training centres located around the world.

Our main activities:



We create value for customers by providing solutions that help them to:

Reduce

- Energy use and costs
- Water use and costs
- CO₂ emissions
- Chemical use and costs
- Maintenance downtime
- Pumping times
- Waste production
- Risk of batch contamination
- Production times
- Whole life-cycle costs

Improve

- Product quality
- Pumping accuracy and reliability
- Production output
- Efficiency
- Plant monitoring
- Ease of validation
- Maintenance
- Profitability

Meet

- Statutory rules and regulations
- Industry standards
- H&S requirements

Our business model *continued*

Our direct sales approach makes us different

Our direct sales approach is our most important differentiator. It is this that builds long-lasting relationships with our customers, enables us to add value and drives our sales.

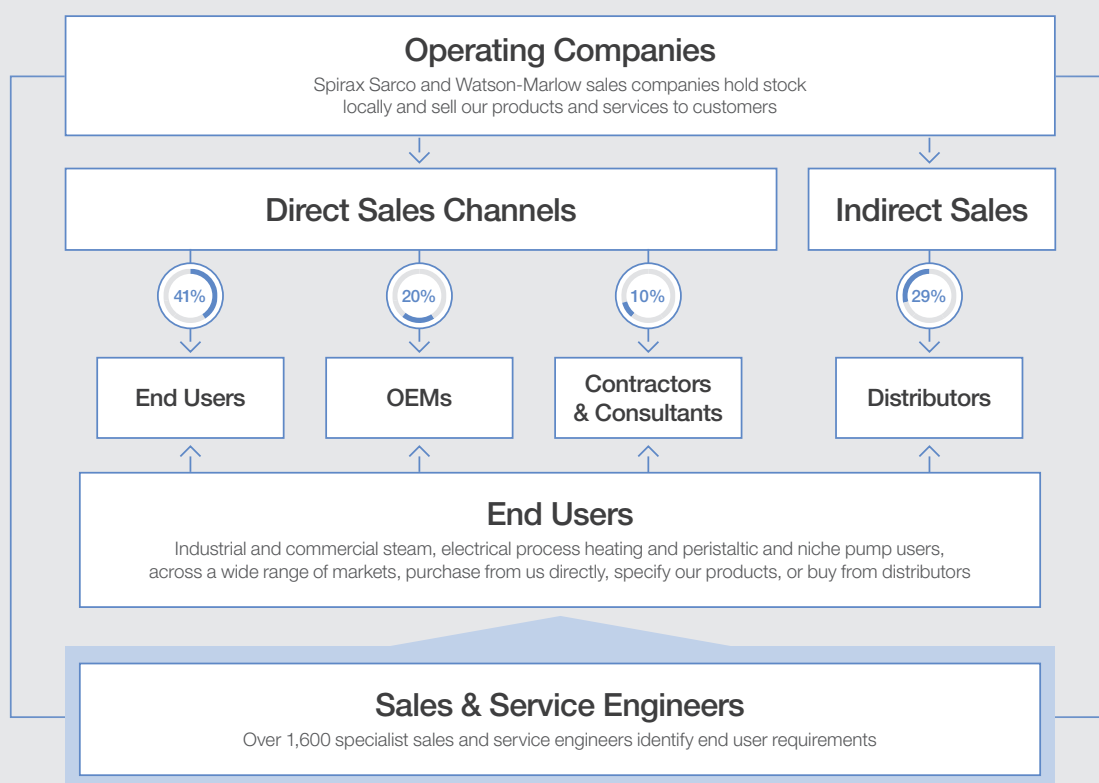
Direct sales

Our sales and service engineers are singularly focused on assisting steam, electrical heating and pump users to overcome their process challenges and meet their operational needs.

Our territories are covered segmentally where possible, with sector specialists allocated to our core industries, and geographically where sectorisation is not practical or appropriate. Our sales engineers build deep, long-term relationships with their customers, who trust them as valued engineering partners or expert advisers in their plants.

Routes to market

In 2017, 71% of Group revenue was generated through direct sales channels; the remaining 29%, which generally arises from end users' maintenance, repair and overhaul activities, was indirect, via distributors. Our direct sales model plays an important role in all our routes to market as our engineers call on end users and highlight the benefits of our products, solutions and services. End users may then purchase from us directly, specify our products in OEM equipment, request that contractors specify our products in their plans, or purchase from a distributor.



The benefits of our direct sales approach

Bridge the knowledge gap

Many end users no longer have the knowledge or engineering resources that they once had, so they do not understand the problems they have or how to fix them. We bridge that knowledge gap.

Focus on value-creating solutions

We are increasingly acting as a trusted engineering adviser to our customers; solving their problems, identifying efficiency improvement opportunities and providing value-creating solutions.

Self-generated growth opportunities

As our sales engineers walk our end users' plants they use their wide experience and industry knowledge to identify unrecognised needs. Providing solutions to meet these needs creates opportunities for self-generated growth.

Encourage innovative product and solution development

A deep understanding of our end users' processes drives product innovation. We have led the way in developing ready to install packaged solutions that provide convenient, effective and reliable solutions to customers' problems.

Leverage information from our unique databases

We have large and unique databases of contact information for our customers and potential customers. Leveraging this information gives us a formidable advantage for sales growth.

Our direct sales approach is instrumental in creating added-value and opportunities for self-generated growth

Our business model *continued*

Creating value through meeting customer needs

Meeting the needs of our customers by helping them to solve their difficult productivity and process challenges, improve their operational sustainability and comply with increasingly stringent health, safety and environmental requirements, is at the core of what we do. As we meet our customers' needs we create value.

Competitive strengths



Customer closeness

Our direct sales business model creates a unique understanding of our customers' needs and enables us to build deep, long-term relationships as we help our customers solve their difficult productivity, control and energy efficiency problems, and improve their operational performance and sustainability.



Regional manufacturing

Local availability of a wide range of products, which meet applicable regional design codes, is critical to our business model and enhances top-line revenue growth. We have strategically located our major manufacturing plants across the world in Europe, North America, Latin America and Asia.



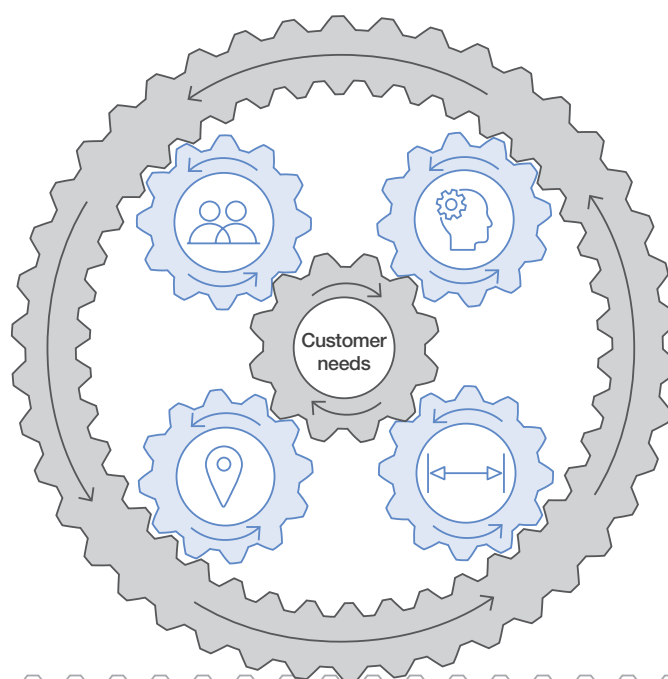
Applied engineering

It is not our products alone that provide value to our customers – it is the application of our extensive knowledge of systems design, operations and maintenance. Our customers increasingly rely on our expertise to deliver unique engineering solutions to achieve enhanced and sustainable operating efficiencies.



Wide product range

The breadth of our product offering is unmatched by our competitors and our one-stop shop approach simplifies the procurement process for our customers who are increasingly seeking partnerships with competent full-service suppliers. We are committed to R&D to further widen our range of products and pre-fabricated engineered packages.



→ **Value creation** →

Driving sustainable growth and stakeholder value



Read more about how we self-generate business by staying close to our customers on pages 16-19

How we maximise value

We maximise value by focusing on our strategy for growth.



Read more on pages 21-27

Our Core Values

Our Core Values of respect, accountability, passion, integrity and delivery shape our company culture and provide the foundation upon which we work.




Read more on page 56

Beneficiaries of our value creation

We engineer sustainable value through the effective use of financial, human and natural resources, and by carefully managing our relationships with customers, shareholders, employees, suppliers, governments and our communities. We manage these relationships in accordance with our Core Values and through open and transparent dialogue.

As we develop strong long-term relationships with key stakeholder groups we create sustainable value.

	The value we create:	Link to sustainability objectives:
Customers		
We directly serve over 100,000 customers in 62 countries, through our global network of operating units and sales offices. We also serve customers via distributors in a further 54 countries. As we focus on consistently delivering value to our customers we also generate value for other stakeholders.	Through using our products and services, end users improve operational efficiency, productivity and safety, meet regulatory requirements and increase their sustainability.	 Engineering sustainable solutions  Read more on page 60
Shareholders		
We have a diverse range of institutional and private shareholders, who are geographically widespread. Our shareholders value our ability to achieve growth that outperforms our markets and our outstanding record of delivering shareholder value.	£58.1 million paid as dividends to shareholders during 2017.	
Employees		
Globally we employ over 7,250 people, in 62 countries. Our people are our most important asset and our greatest competitive advantage. We create value for employees as we invest in developing their knowledge and skills and remunerate them fairly for the work that they do.	Nearly £300 million paid in wages, salaries and pension contributions, and extensive investment in training and development during 2017.	 Engineering for excellence  Read more on pages 55-56
Suppliers		
By manufacturing regionally, using local and national suppliers, the beneficiaries of our value creation are geographically widespread. We select responsible suppliers who adhere to our Supplier Sustainability Code and they in turn create value for their stakeholders.	Over £400 million paid to suppliers of materials and services during 2017.	 Engineering the responsible way  Read more on page 57
Governments		
Through paying taxes in the many countries in which we operate we support the development of public infrastructure, healthcare and educational provision, further broadening the reach of our value creation.	Approximately £300 million paid in taxes (corporation tax, employment taxes and net VAT) to national governments during 2017.	
Communities		
We seek to have a positive impact on the communities in which we operate, through making charitable donations to worthwhile causes, employee volunteering and educational provision. As we invest in charitable causes we create value for the people that live and work in our local communities.	Over £400,000 cash and in-kind donations plus employee time donated to charitable causes worldwide during 2017.	 Engineering better futures  Read more on page 61
The environment		
We create value for the environment as we provide products and services that improve the sustainability of our end users' operations; minimising their environmental impacts through reducing energy consumption, emissions, water use and waste.	5.8 million tonnes of CO ₂ emissions saved by our end users annually from products sold during 2017.	 Engineering sustainable solutions  Read more on page 60

Our business model in action

Engineering opportunities by...

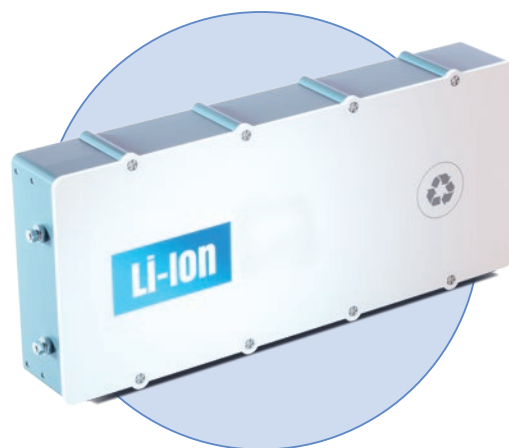
developing product applications for growing industries

Globally, there is a growing demand for Lithium ion (Li-ion) batteries, which are used in electric vehicles, consumer products and energy storage systems. We are engineering opportunities for growth as we expand our addressable market and develop new product applications to meet the needs of this and other growing industries.

Steam is increasingly being recognised as a highly-efficient heating medium in the production of Li-ion batteries. Steam has safety and environmental benefits over alternative heating solutions. It is also highly energy efficient, providing estimated energy cost savings of around £140,000 per year, per drying oven. By developing steam system heating solutions to support this growing industry, Spirax Sarco China has seen more than a 700% increase in sales to Li-ion battery manufacturers over the last two years.

Opportunities for growth are not limited to heating applications. In South Korea, when using locally manufactured hose to transfer chemicals a Li-ion battery manufacturer was experiencing frequent problems of hose breakage and chemical leakage. Aflex, which joined the Group in 2016, recommended the use of Corroline+ PTFE lined hose, which is uniquely designed by Aflex to provide flexibility, kink and chemical resistance. An initial trial proved so successful that the customer is now installing Corroline+ hose across all 149 assemblies on site.

In another application, at a Li-ion battery plant in China, pumps remove slurry generated during the milling of lithium iron phosphate. This viscous and abrasive fluid was causing wear, damage, reduced capacity and leakage of the installed air-operated double diaphragm pumps, leading to frequent downtime and costly repairs. Watson-Marlow recommended the installation of Bredel 65 hose pumps, which have no seals, ball-checks, diaphragms, glands, immersed rotors, stators or pistons to leak, clog, corrode or replace. Once installed the Bredel pumps increased flow stability and reduced maintenance down-time, enabling the battery manufacturer to meet planned output schedules.



What it means for the customer...

£140,000

savings per oven each year; lower energy consumption; increased process efficiency; reduced maintenance downtime

What it means for Spirax Sarco...

Opportunities for growth;

over 700%

increase in revenue from this application for Spirax Sarco China, 2015-2017

Engineering opportunities by...

the application of new products

Atlantic Engineering, an OEM based in Belgium, specialises in dispensing technology for the food industry. The company has created an innovative packaging machine, called Innofill, which enables food manufacturers to take liquid food straight from cooking vessels, fill and seal it into flexible packets. Innofill's unique packaging system extends product shelf life, keeping it fresh for up to 40 days, and increases manufacturing efficiency.

The new Certa Sine™ (Certa) pump, launched by Watson-Marlow Fluid Technology Group in 2016, is the only pump on the market that can meet all of the OEM's exacting pumping requirements. The pump must gently handle viscous fluids, with low pulsation; provide consistent and accurate flows; and be hygienic and easy to clean, while also having a high heat resistance. Certa's unique design makes it easy to clean; in just 60 seconds the pump can be cleaned in-situ and be ready to pump again.

Mr De Bleye of Atlantic Engineering commented, "We do use Watson-Marlow as a selling point. The company has a good name and the quality of the pumps is widely known. We are very satisfied with the qualities of the Certa pump and these advantages contribute to the success of Innofill".

Benefits to the end user are significant. The Innofill machine, equipped with Certa, safely transfers the food product without degradation, reduces the manpower needed for packaging operations by 50% and increases product shelf life by up to 50%.

John Engels

Regional Sales Manager, Benelux, WMFTG

What it means for the customer...

Innovative packaging machine brought to market

What it means for end users...

50%

reduction in manpower
in packaging operations

50%

longer shelf life for the
food product



Our business model in action *continued*

Engineering opportunities by...

helping customers to reduce costs

At a railway terminal in Northern Canada, crude oil is off-loaded and reloaded onto railway cars for transportation to oil refineries. In winter, when temperatures can drop as low as -40°C , the oil must be safely warmed throughout the process to reduce its viscosity and improve flow rates. When the railway terminal needed to significantly expand its operations, while tightly controlling costs, Chromalox was asked to design and supply an engineered heat trace solution.

As the customer required low set-up costs, electric heat tracing proved the most efficient solution. Working closely with the customer's project team, Chromalox designed a solution that utilised SLL Series Long Line Cable, Digital Thermostats and IntelliTrace Supervisory Controls, to deliver a fully monitored heat trace system at half the cost of a standard electric heat trace system, saving approximately US\$250,000 (£193,000).*

Our direct sales approach, combined with our deep knowledge and understanding of customers' applications and process requirements, enables us to engineer opportunities for improved efficiency and cost savings for customers.

Cassandra Marcum

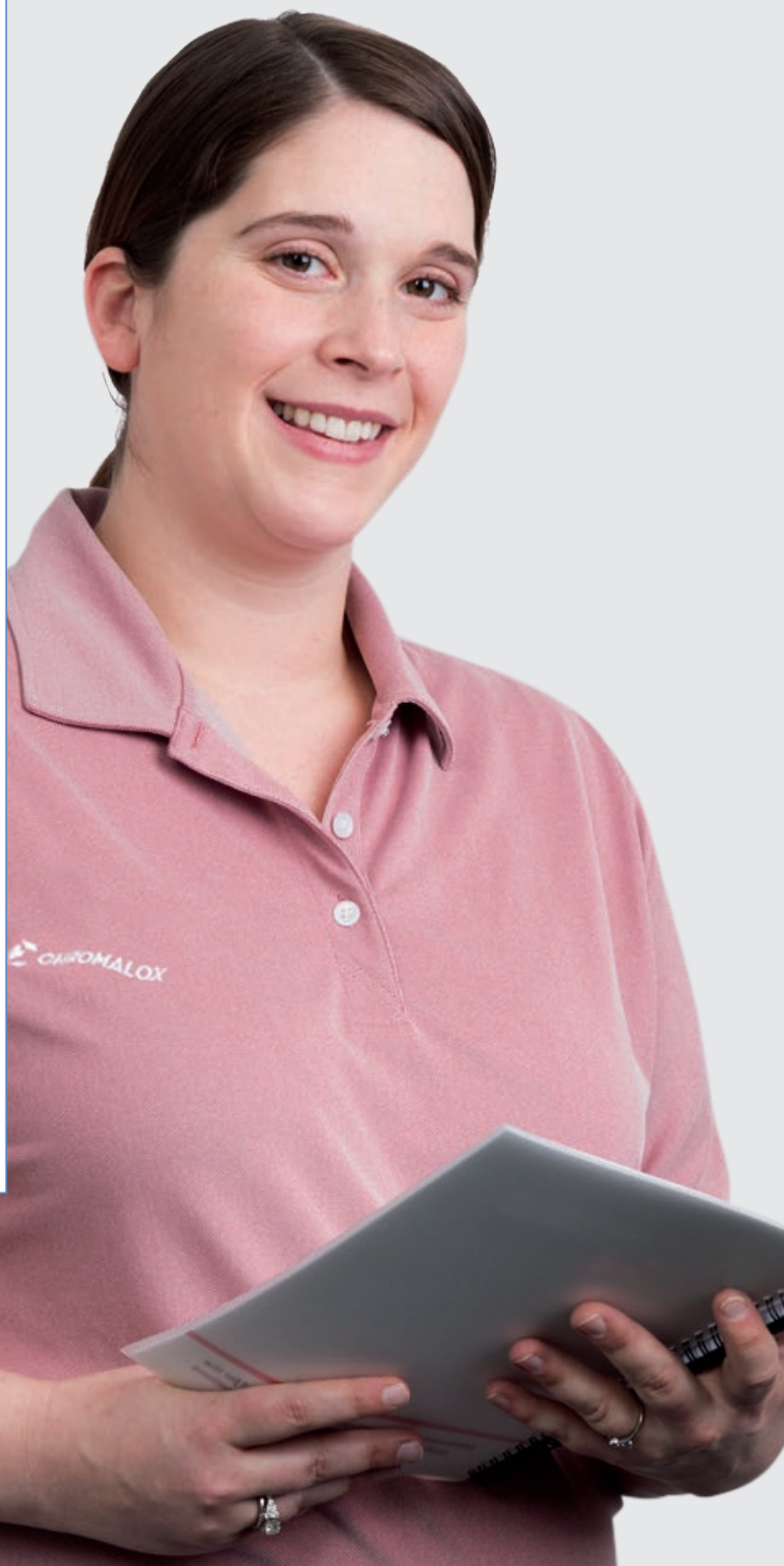
Senior Application Engineer, Chromalox

* The long line cable solution required less than half the number of circuits to trace the piping than a standard cable system, reducing the number of power connections, material and labour costs, temperature sensors and equipment required to monitor the system.

What it means for the customer...

US\$250k

savings over standard electric heat trace system



Engineering opportunities by...

supplying industry-leading products

Karpowership, an industry pioneer, builds, owns and operates a fleet of Powerships – floating power plants – which provide mid- to long-term solutions to electrical power shortages in countries such as Indonesia, Ghana, Zambia, Iraq and Lebanon. Since 2010, 15 Powerships have been completed with a further 18 under construction.

Steam is central to the power generation process. To ensure maximum efficiency and reliability in a challenging environment, Gestra supplies Karpowership with a complete package of boiler house monitoring and control equipment, including water level limiter electrodes, level switches, alarms and a range of valves.

As the Powerships are located worldwide and have to operate continuously for many years with minimal maintenance and repair, product quality and reliability were paramount for Karpowership when selecting Gestra's boiler house monitoring equipment and controls.

As we supply industry-leading products we engineer opportunities for our customers, who benefit from our expertise, and for ourselves, as we grow our business and increase our installed base.

Frank Heißenbüttel
Sales Engineer, Gestra

What it means for the customer...

Around two thirds of Karpowership's fleet of Powerships utilise Gestra's boiler controls, with a global capacity of approximately 2,000MW

What it means for end users...

Reliable, low-cost electricity generation



Acquisitions in 2017

The perfect fit

What do these acquisitions bring to the Group?

During 2017, a very rare opportunity arose to acquire two outstanding businesses: Gestra and Chromalox.

Gestra is highly complementary to the Spirax Sarco Steam Specialties division and will enhance the implementation of Spirax Sarco's strategy for growth, as a result of its well-developed capabilities in a wide range of industries and applications. Gestra brings market-leading boiler controls to our product portfolio.

Chromalox is closely related to the Spirax Sarco Steam Specialties division in delivering thermal energy management solutions to customers, with the decision between using steam or electricity as a heating medium being driven by application needs or customer circumstances. Chromalox expands our total addressable market by over £2 billion.

What do you see as the main opportunities for growth?

Due to its strong brand, Gestra will operate alongside the Spirax Sarco steam business, targeting global growth in its key market sectors. We will invest in Gestra's product and market development to extend its addressable market, delivering enhanced value to both customers and shareholders.

We will leverage our worldwide footprint to grow Chromalox's presence outside its core markets in the USA and will support the company's research and development programme to ensure that it continues to deliver innovative new products to customers and drives sustainable value creation.

How do you plan to ensure that management won't be distracted by the integration process?

The Board and Group Executive Committee invested considerable time to ensuring that Gestra's and Chromalox's acquisition objectives are supported by detailed implementation plans. Prior to the acquisition of Gestra, we engaged an external, independent operations and integration team to undertake due diligence in relation to our synergy and integration plans and we have appointed a highly experienced manager from the Spirax Sarco steam business to lead the company.

Chromalox is being run as a stand-alone global business unit, led by a strong, long-serving executive team that has remained with the business, minimising the need for significant integration activities.

Elsewhere in the Group we maintain our rigorous focus on implementing our strategy for organic growth.

Are more large-scale acquisitions in the pipeline?

As we focus on embedding both the Gestra and Chromalox acquisitions, we do not anticipate any large-scale acquisitions in 2018.

Has the Group strategy changed?

Our strategy, which allows for targeted acquisitions, has not changed and we continue to focus on actions to help us self-generate sales and achieve organic growth. Acquisitions will continue to supplement organic growth, rather than supplant it.



Steam system specialist and technology leader in advanced industrial boiler controls

Headquartered in Bremen, Germany

€186 million acquisition, May 2017

Increases the Steam Specialties division's market share



Specialist provider of electrical products, systems and solutions for industrial process heating and temperature management

Headquartered in Pittsburgh, USA

US\$415 million acquisition, July 2017

Expands our addressable market by £2.4bn



"We are delighted to bring Gestra and Chromalox into the Spirax Sarco family. These businesses are a perfect fit for the Group and, as they grow, will deliver enhanced value to both customers and shareholders."

Nicholas Anderson
Group Chief Executive

Our strategy

Engineering opportunities

As we implement our strategy we increase the effectiveness of our direct sales organisation, leverage our strength in key sectors, identify and take advantage of attractive opportunities, expand our addressable markets and align and direct our resources more effectively to improve business performance.

Our strategic objective:

To deliver self-generated growth that outperforms our markets

Our strategic focus:

Doing better what we already do well

Our six strategic themes:



- 1 Increase direct sales effectiveness through sector focus

[Read more on page 22](#)



- 2 Develop the knowledge and skills of our expert sales and service teams

[Read more on page 23](#)



- 3 Broaden our global presence

[Read more on page 24](#)



- 4 Leverage our R&D investments

[Read more on page 25](#)



- 5 Optimise supply chain effectiveness

[Read more on page 26](#)



- 6 Operate sustainably and help improve our customers' sustainability

[Read more on page 27](#)

Our strategy in action

1

Increase direct sales effectiveness through sector focus

As we sectorise our sales force around key industries, and align our products and services in support of this, we increase our ability to self-generate growth and provide value to customers.

During 2016 and 2017, Spirax Sarco Korea undertook a programme to increase the sectorisation of its direct sales force. Until recently, the company's sales force was divided into two teams: Project Sales and End-User Sales, with some sector specialists in each team. Four new sales departments have now been created to align sales engineers with key industries:

Team 1 – Food & Beverage, Healthcare and General Industries;

Team 2 – Electric and Electronics;

Team 3 – Oil & Gas and Chemicals; and

Team 4 – Buildings and OEMs.

By the end of the year, 40% of sales and service engineers were aligned to an industry sector.

Maintaining customer service throughout the period of change was essential and the process required detailed planning prior to implementation. To ensure a smooth transition, industry sales and market size were analysed, industrial distribution was mapped, individual and collective industry knowledge and application expertise were reviewed, as were relationships with key accounts and customers. Extensive training has been delivered to ensure maximum efficacy of the new sales teams.

Spirax Sarco Korea is already seeing the benefits of these changes with increased sales efficiency and revenue generated from key industries.



Spirax Sarco Technical Consultants, Sangyoon Lee and Gunsun Shin, review a boiler control panel on a customer site, South Korea



Rob Shipton (Senior Trainer) with graduate engineers Chola Shanyinde and Sean Spencer in the UK Steam Technology Centre

2

Develop the knowledge and skills of our expert sales and service teams

The knowledge of our sales and service engineers is a key differentiator. We invest extensively in the professional development of our people, building a level of expertise that is unrivalled by our competitors.

Recruiting talented young engineers and developing their knowledge, skills and expertise is essential for the on-going success of the Group. In 2013 we developed an award winning graduate programme in our UK Spirax Sarco Steam Specialties company, which has attracted many highly talented engineers. Building on the success of that programme, in 2017 we launched a Group Global Graduate Development Programme, to increase the number of placements that we can offer, facilitate inter-company movement and widen the range of opportunities and experiences available to programme participants.

We are recruiting high-calibre graduates, primarily with a STEM (Science, Technology, Engineering and Mathematics) background, to join a two

year rotational programme. Each graduate will experience four six-month placements, tailored to their individual interests and designed to provide a broad range of business experience across functions such as Product Development, Manufacturing, Sales, Business Development, Marketing, or Health, Safety & the Environment. One of the four placements will be held in an overseas operating company, ensuring first-hand experience of the multi-national nature of the Group. 16 graduates joined the programme in 2017, in the USA, Mexico, Argentina, Italy, Germany, China and the UK.

Through investing in a Global Graduate Programme, we are adopting a co-ordinated approach to replenishing our pipeline of talent.

Our strategy in action *continued*

3

Broaden our global presence

Our strong global infrastructure enables us to rapidly branch into neighbouring markets or leverage our existing infrastructure to pioneer the introduction of our businesses and technologies into new markets.

In January 2017, Watson-Marlow Fluid Technology Group began trading via a newly established sales company in Indonesia, having previously served the country through distributors. The move to direct selling brings a better focus to this growing market, increases the number of customers that can be served and conveys the company's expertise and advanced technologies into a previously untapped market.

Prior to commencing trading, during 2016 Watson-Marlow intensively trained a local sales force. Training took place within the region, supported by Watson-Marlow's global training programme. Having sector specialist, expert engineers who understand customers' applications is central to Watson-Marlow's

customer value proposition and is crucial for the successful transition from distributor to direct sales.

During 2017, the new company primarily focused on two core markets: the Pharmaceutical & Biotechnology and Food & Beverage industries, and sales have exceeded expectations. The new operation is led by General Manager Rahmi Hidayati who, prior to joining Watson-Marlow, had over 14 years of experience working in the Biopharmaceutical industry. Rahmi's in-depth understanding of the Biopharmaceutical market has had a significant impact on the company's ability to quickly establish a foothold in this important industry.



Rahmi Hidayati, General Manager
of Watson-Marlow Indonesia



A CCX Cast Block Heater from Chromalox, installed in a customer's plant in Italy

4

Leverage our R&D investments

We leverage R&D investments to meet changing customer requirements, improve our offering, respond to market trends, expand our addressable market and maintain our market-leading position in each of our business niches.

Chromalox is a highly innovative company with an active product pipeline and a vitality index of 15%. Amongst several new products launched in 2017 was the CCX Cast Block Heater, which allows Chromalox to be more competitive in the Power Generation and Oil & Gas markets, particularly in Europe and Russia.

The unique construction of the Chromalox CCX heater – which utilises an immersion heater and coiled tubing set in an aluminium casting – allows for the indirect heating of fluids or gases up to pressures of 3,500 psi (241 bar), with an option for up to 7,500 psi (517 bar), at a process temperature of 200°C. Chromalox CCX heaters are suited to a variety of industrial process applications, including seal gas heating and

condensation prevention for turbines, fuel oil pre-heating, water pre-heating, steam superheating, and air, CO₂ and nitrogen heating.

The CCX heater, part of the XtremeDuty™ platform due to its ability to handle high pressures, has ASME (American Society of Mechanical Engineers) and PED (EU Pressure Equipment Directive) pressure certification; marine grade casting, making it suitable for salt-laden environments such as offshore platforms; an explosion-proof terminal enclosure (junction box); and is IECEx (International Trade of Electrical Equipment used in Explosive Atmospheres) and ATEX (EU equipment directive) rated, meaning that it can be safely used in hazardous environments.

Our strategy in action *continued*

5

Optimise supply chain effectiveness

We operate a regional manufacturing strategy and focus on increasing supply chain agility and compressing lead times to enable greater responsiveness, reduce costs and improve customer service.

During 2017, we invested £1.4 million to develop a new 1,500m² distribution centre in Singapore to serve our Steam Specialties division's sales companies throughout the Asia Pacific region and an accompanying 1,800m² office space to house our Singapore sales company, South East Asia headquarters, Asia Pacific divisional headquarters and training facilities.

Historically, sales companies across Asia Pacific have sourced core stock directly from our regional manufacturing centre in China and supplementary stock from our manufacturing sites in Europe or the Americas, leading to a complex supply chain and limited visibility of regional product availability.

The new facility in Singapore, which opened in September 2017, will significantly increase supply chain efficiency. The consolidation of demand will increase the range of products offered in the region, without the need for sales companies to increase stock, and is expected to reduce air freight in the region by around 10%. The installation of a regional inventory management system will improve regional stock visibility, shorten lead times and reduce stock replenishment time by an average of 13 days. Cumulatively, these benefits will significantly improve customer service throughout the region.



1,500m² distribution centre,
Spirax Sarco Singapore



Jemma Moore, Environment, Health
& Safety Manager, Spirax Sarco UK

6

Operate sustainably and help improve our customers' sustainability

In a resource constrained and competitive world, sustainability makes good business sense. As we focus on improving our own operational sustainability and deliver innovative solutions that improve the sustainability of our customers' operations, we create value and drive growth.

As part of our goal to improve the sustainability of our operations and reduce our environmental impacts, in June 2017 we were pleased to attain "zero waste to landfill" at our Cheltenham-based manufacturing site and Group headquarters, which we intend to maintain from this point forward.

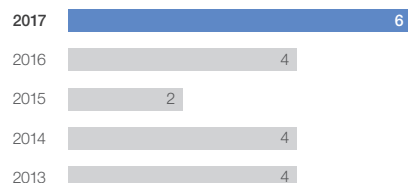
To achieve this milestone we worked with our waste management providers to ensure that they proactively segregate, re-use and recycle waste. For example, all food waste is sent to an anaerobic digestion facility and is used to generate electricity, while a wide range of plastics, metals, papers and cardboard are recycled. Any general waste that cannot be recycled, which would historically have been sent to landfill, is now used to generate energy.

In addition, we have worked to improve waste management internally, increasing on-site segregation of waste streams to facilitate ease of off-site processing. We have developed an internal educational campaign for 2018 to raise awareness amongst our employees of the importance of waste segregation, describe what happens to the waste we produce, and highlight the business and environmental benefits of good waste management.

As a result of the actions undertaken in 2017, we will prevent approximately 35 tonnes of waste being sent to landfill annually.

Key Performance Indicators

1. Organic revenue growth %



Definition

Organic revenue growth measures the change in revenue in the current year compared with the prior year from continuing Group operations. The effects of currency movements, acquisitions and disposals have been removed.

Link to strategy¹



Progress in 2017

Organic sales increased by 6%, with 5% organic growth in the Steam Specialties division and 10% organic growth in Watson-Marlow. Both businesses saw organic growth across all three geographic regions.

Link to remuneration² ■ ■

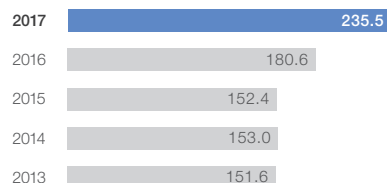
Revenue growth is a key driver of profit generation and a central element in the annual planning process. Bonus targets are driven off annual plans and therefore revenue growth drives a key measure of variable remuneration.



Link to risk³



2. Adjusted operating profit* £m



Definition

Adjusted operating profit is the profit earned from our business operations before interest, taxes, the share of profit of Associate companies and certain other items.*

Link to strategy¹

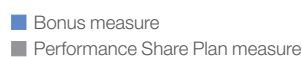


Progress in 2017

Adjusted operating profit increased by 6% organically to a reported £235.5 million. Watson-Marlow delivered organic profit growth of 6%, with the Steam Specialties division up 6% organically. Favourable currency movements increased adjusted operating profit by 9% and acquisitions added 14%, resulting in adjusted operating profit being up 30%.

Link to remuneration² ■ ■

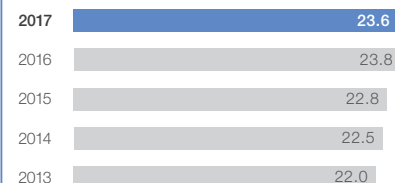
Group operating profit is a key element of the annual planning process. Bonus targets are driven off annual plans and therefore profit is a key measure of variable remuneration.



Link to risk³



3. Operating profit margin* %



Definition

Operating profit margin is defined as adjusted operating profit expressed as a percentage of revenue.

Link to strategy¹

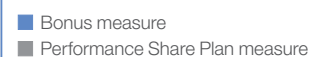


Progress in 2017

The adjusted operating margin fell by 20 bps, to 23.6% as a result of the dilutionary effect of the two large acquisitions made in the year. Excluding the effects of acquisitions the underlying margin increased 90 bps to 24.7%.

Link to remuneration² ■ ■

Executive Directors' variable remuneration is measured on two main indicators: profit and ROCE. Operating profit margin is a key driver of both profit and ROCE.

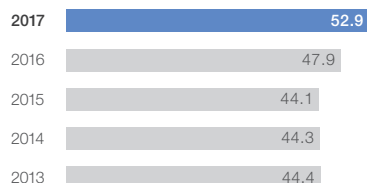


Link to risk³



* Based on adjusted operating profit. Adjusted operating profit excludes certain items as set out and explained in the Financial Review and in Note 2 on page 129.

4. Return on capital employed (ROCE)* %



Definition

Return on Capital Employed is a pre-tax measure of the efficiency with which the Group generates operating profits from its capital. ROCE is calculated as adjusted operating profit divided by average capital employed.

Link to strategy¹



Progress in 2017

ROCE increased to 52.9%, an increase of 500 bps due to the high growth in profit and our close control of the various components of capital employed. At constant currency, excluding acquisitions ROCE increased by 360 bps.

Link to remuneration² ■ ■

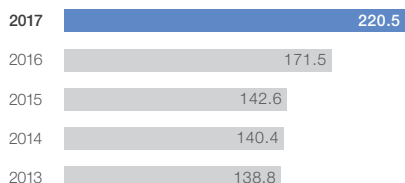
ROCE is a key measure in Executive Directors' annual bonus arrangements.



Link to risk³



5. Basic earnings per share (EPS)* p



Definition

Earnings per share is a measure of the profit performance of the Group, taking into account the equity structure. EPS is defined as the adjusted after-tax profit attributable to equity shareholders divided by the weighted average number of shares in issue.

Link to strategy¹



Progress in 2017

Adjusted basic earnings per share increased by 29% to 220.5 pence as acquisitions, organic growth and exchange gains contributed to an increase in earnings.

Link to remuneration² ■ ■

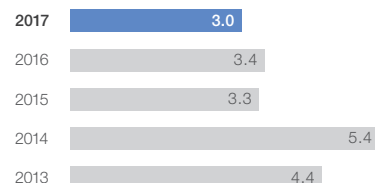
EPS measured over three-year periods is one of the two components of the Performance Share Plan.



Link to risk³



6. H&S accidents with over seven days of lost time per 1,000 employees



Definition

The number of work-related accidents that resulted in over seven days of absence per 1,000 employees. For an accident to be considered "work-related" the machinery, plant, substances, or equipment being used; the way the work was carried out; or the condition of the site, must have played a significant role.

Link to strategy¹



Progress in 2017

Our over seven day lost-time accident rate fell to 3.0 accidents per 1,000 employees as we focused extensively on H&S awareness training, embedding leading indicators and strengthening our H&S culture across the Group.

Link to remuneration² ■ ■

The safety of our employees is central to the sustainability of our business and has an impact on the financial success and profitability of the Group, creating an indirect link with Executive Directors' variable remuneration.



Link to risk³



¹ More information about our strategy can be found on pages 21-27

² More information about our remuneration measures can be found on pages 85-108

³ More information about our principal risks can be found on pages 30-33

Risk management

Our approach and appetite for risk

We recognise risk as an inherent part of our business operations and we approach risk with the same deliberate, strategic consideration as other aspects of the business. The Committee monitors our risks, in particular those identified as principal risks, on an on-going basis, while the Board is responsible for the overall stewardship of risk management and internal control. Using the information and evaluations obtained from our regular top-down and bottom-up reviews, alongside the Committee-led principal risk appetite ratings, the Committee creates an effective system for monitoring, planning and developing a Group-wide approach and culture regarding risk. General Managers are directly involved in the risk assessment process and the evaluations of the Committee, including the appropriate levels of risk, are communicated to all Group companies.

The on-going monitoring and engagement contributes to the Group's risk register and the management of risks. Both the risk register and the principal risks are dynamic and fluid. They provide a reflection of current conditions across the Group and guidance for on-going monitoring and preparation.

What important developments occurred in 2017?

The Committee regularly reviews the principal risks, potential impacts, mitigation and prevention planning. It also assesses developing issues that have the potential to become principal risks. The following actions have been undertaken during the year:

Principal risks

The Committee performed a bottom-up review of the principal risks, assessing responses from Group companies. In light of these responses and the Committee's internal considerations, we updated our principal risks to reflect changes to the risks affecting the Group. The changes are set out on pages 32 to 33.

Risk appetite

The Committee confirmed the current Risk Appetite Statement, which is set out on page 83.

Modern Slavery Act

A statement has been approved by the Board and is available on our website, www.spiraxsarcoengineering.com.

Group suppliers are required to abide by the principles contained within the statement. Compliance is monitored through our Global Excellence in Supply Chain Initiative.

Regular updates

The Group Executive Committee regularly reviews the risk register, to determine if the risks are still current, and the Board is provided with updates.

How is the Group preparing for the impacts of Brexit?

The Group is continuing to plan and assess its approach to the impacts of Brexit as negotiations progress. The Group has already conducted scenario planning exercises to prepare contingency plans and lay the groundwork for future actions, including risk-mitigation and identifying and capitalising on potential opportunities. Our Brexit plan has 11 areas of focus, each with an individual sponsor, to ensure adequate attention is given to the various challenges and opportunities stemming from the Brexit process. Whilst activities to date have primarily involved monitoring developments, the Group will begin to step-up the implementation of the plan in 2018, beginning with specific impact assessments regarding tariffs and exchange rate impacts, which will be conducted in the first quarter.

What are the key areas of focus for 2018?

In 2018 we will be developing, testing and implementing a Crisis Management Plan across the Group.

2018 will also be a significant year with regard to Brexit. We will continue to monitor on-going Brexit negotiations and apply or adjust our planned response accordingly, as explained more fully above.




"In 2017, the Committee conducted a bottom-up review of risks, incorporating views from across the Group to update our approach to risk assessment. In 2018, we will be developing a crisis management plan and will continue to monitor and plan for Brexit-related issues."

Nicholas Anderson,
Risk Management Committee Chairman

What due diligence processes does the Group employ to pursue Group objectives? What has been the impact of these activities?

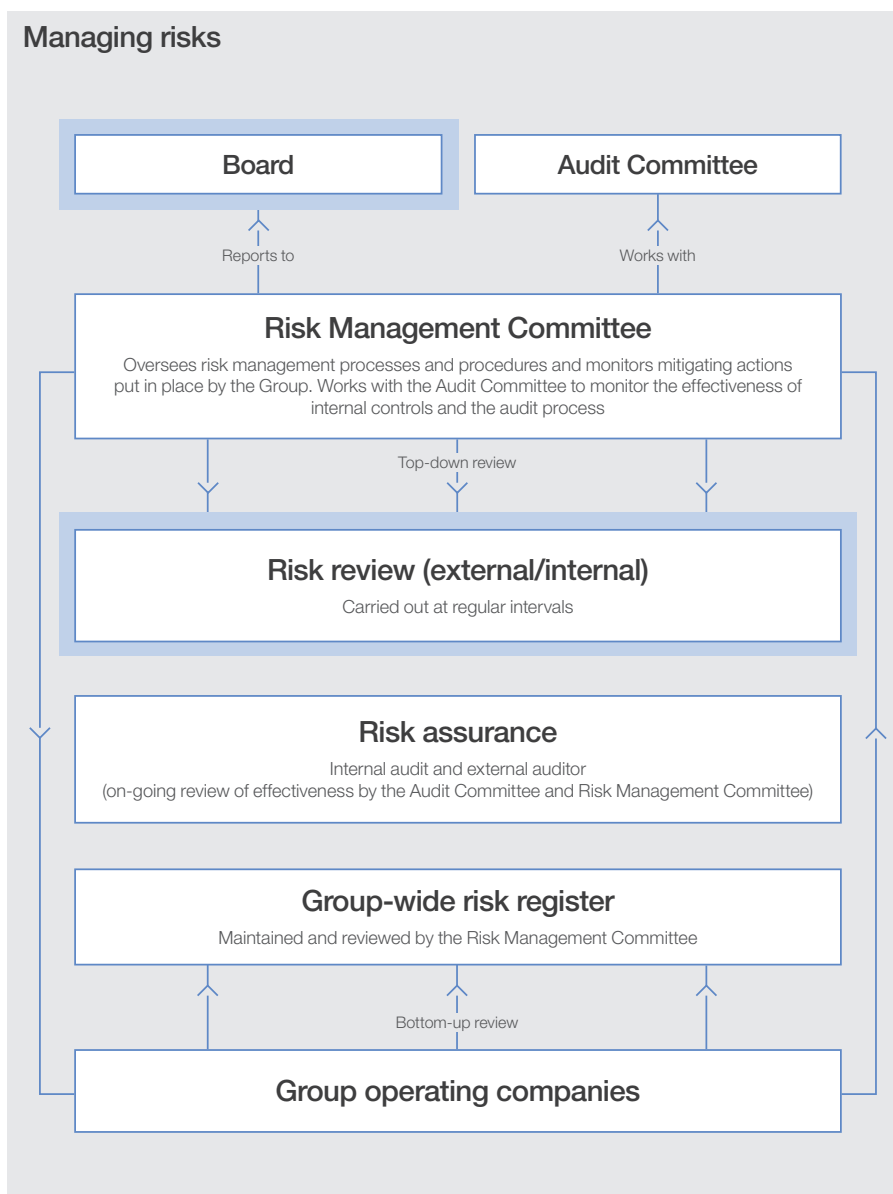
The Group is continuing its work in the Global Excellence in Supply Chain Initiative, which puts in place a monitoring mechanism to oversee our own operations and help ensure our suppliers operate in compliance with our Supplier Sustainability Code (Code). This direct engagement with suppliers is critically important to guard against violations of standards with respect to the protection of individuals, communities and the environment. The Code further addresses one of our principal risks – Health, Safety and Environmental (HSE) Risks – and has had a significant impact by not only setting supplier standards, but also engaging operating companies across the Group to bring these issues to the forefront of the business.

Due diligence, undertaken prior to each Group acquisition, is a key process to ensure that acquisition objectives – another principal risk – and non-financial objectives are achieved. In addition to financial and legal considerations our acquisition due diligence approach thoroughly investigates anti-bribery and corruption issues, potential business ethics concerns and HSE matters to ensure that any business that becomes part of the Group is upholding our values and governance standards.

 Pages 81-83 of the Governance Report provide further information on the Group's approach to risk, including risk appetite, along with the roles, responsibilities, and actions of the Risk Management Committee.

 Page 80 contains our Viability Statement and page 111 our Going Concern Statement.

Managing risks



Risk likelihood, control and impact

The Committee's analysis of the principal risks affecting the Group, before mitigation, is set out in the adjacent diagram.

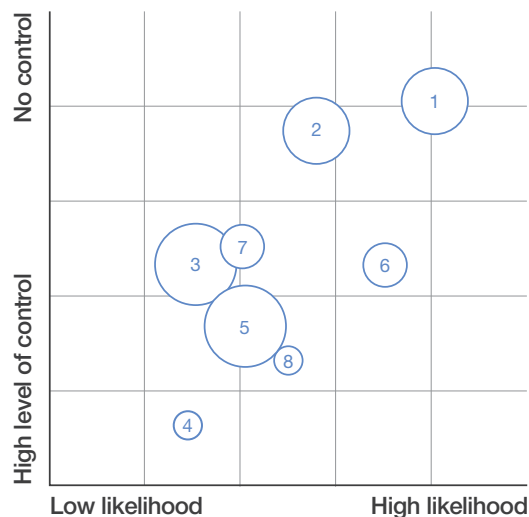
The numbers relate to the principal risks outlined on pages 32 to 33.

Key

1. Economic and political instability
2. Significant exchange rate movements
3. Loss of manufacturing output at any Group factory
4. Failure to realise acquisition objectives
5. Cybersecurity
6. Solution specification failure
7. Breach of legal and regulatory requirements (including ABC laws)
8. Health, safety and environmental risks

  
Potential impact of the risk

 For details of the principal risks see pages 32-33



Risk management *continued*

Principal risks

The table below sets out the Group's principal risks and describes the links to strategy, the mitigation measures and the appetite for each risk. The year-on-year change column sets out the direction of change from 2016.

The table includes those risks which we have identified as currently most relevant to the Group.

Principal risk and why it is relevant	Year-on-year change	Key mitigation, sponsor and explanation of change	Risk appetite rating	Rationale for rating	Link to strategic themes (pages 22-27)
1 Economic and political instability					
The Group operates worldwide and maintains operations in territories that have historically experienced economic or political instability. This type of instability, which includes the uncertainties of regime change, creates risks for our locally based direct operations and broader risks to credit, liquidity and currency.	→	<ul style="list-style-type: none"> Operations in accordance with Group Treasury Policy Externally-facilitated scenario planning Strong internal controls, including internal audit and appropriate insurance Resilient business model Well spread business by geography and sector Executive sponsor: Nicholas Anderson Change: No change	<input type="radio"/> Very low <input type="radio"/> Low <input type="radio"/> Balanced <input checked="" type="radio"/> High <input type="radio"/> Very high	We have the background and know-how to successfully manage the unique challenges in economically and politically unstable territories. We are willing to accept these challenges where opportunities for growth are substantial.	<div>1 2 3</div> <div>4 5 6</div> <div> <input checked="" type="checkbox"/> Direct link <input type="checkbox"/> Indirect link <input type="checkbox"/> No link </div>
2 Significant exchange rate movements					
The Group reports its results and pays dividends in sterling. Operating and manufacturing companies trade in local currency. With sales companies in nearly 50 countries and manufacturing spread across the globe, the nature of the Group's business necessarily results in exposure to exchange rate volatility.	→	<ul style="list-style-type: none"> Maintain spread of manufacturing across currency areas Consideration of exchange rate exposures in manufacturing strategy Forward cover where appropriate and in line with Group Treasury Policy Focus on reducing manufacturing cost Executive sponsor: Kevin Boyd Change: No change	<input type="radio"/> Very low <input type="radio"/> Low <input checked="" type="radio"/> Balanced <input type="radio"/> High <input type="radio"/> Very high	We take a balanced view of this risk: the risk arises as a direct result of our global presence, but our geographic spread means we are not wholly dependent on any one currency.	<div>1 2 3</div> <div>4 5 6</div> <div> <input checked="" type="checkbox"/> Direct link <input type="checkbox"/> Indirect link <input type="checkbox"/> No link </div>
3 Loss of manufacturing output at any Group factory					
The risk includes loss of output as a result of natural disasters, industrial action and accidents. Loss of manufacturing output at any important plant risks serious disruption to sales operations.	→	<ul style="list-style-type: none"> Investment in modern flexible machining Capacity planning and holding stock in sales companies Conducting audits/inspections Annual Risk Assessments and business continuity planning Review and maintain appropriate insurance cover Continued commitment to employee policies, ensuring satisfactory benefits and regular communication with all employees Executive sponsors: Jay Whalen and Ian Farnworth Change: No change	<input type="radio"/> Very low <input checked="" type="radio"/> Low <input type="radio"/> Balanced <input type="radio"/> High <input type="radio"/> Very high	Whilst we have mitigated this risk through a geographic spread of factories, calculated replication of capacity and management of stock, the potential negative consequences to the Group and its customers warrants a low appetite for this risk.	<div>1 2 3</div> <div>4 5 6</div> <div> <input checked="" type="checkbox"/> Direct link <input type="checkbox"/> Indirect link <input type="checkbox"/> No link </div>
4 Failure to realise acquisition objectives					
Whilst the Group mitigates this risk in various ways, including through comprehensive due diligence, professional advisers and contractual protections, amongst others, there are some variables that are uncontrollable or difficult to control, such as economic conditions, culture clashes and employee movement. Therefore, these could impact acquisition objectives. The Group also has comprehensive integration implementation plans, developed with independent consultants, which are being successfully rolled out.	↑	<ul style="list-style-type: none"> Regular review of acquisition criteria in line with strategic plan Board approval of post-acquisition plans for major acquisitions Full scrutiny of targets involving local lawyers, accountants, and key internal players/operating units Use of retainer/escrow to provide protection against warranty claims Use of insurance as protection against seller breach and non-disclosure Ensuring valuation models show healthy return on investment Regular monitoring of performance by the Board against the approved investment case Executive sponsor: Kevin Boyd Change: With the recent major acquisitions of Aflex, Gestra and Chromalox, this risk has increased.	<input type="radio"/> Very low <input checked="" type="radio"/> Low <input type="radio"/> Balanced <input type="radio"/> High <input type="radio"/> Very high	Thorough planning and proper due diligence can mitigate many of the potentially risky aspects of an acquisition. Implementation plans must be well-developed and carefully pursued to achieve the full strategic and financial benefits.	<div>1 2 3</div> <div>4 5 6</div> <div> <input checked="" type="checkbox"/> Direct link <input type="checkbox"/> Indirect link <input type="checkbox"/> No link </div>

Risk appetite ratings defined:

Very low

Following a marginal-risk, marginal-reward approach that represents the safest strategic route available.

Low

Seeking to integrate sufficient control and mitigation methods in order to accommodate a low level of risk, though this will also limit reward potential.

Balanced

An approach which brings a high chance for success, considering the risks, along with reasonable rewards, economic and otherwise.

High

Willing to consider bolder opportunities with higher levels of risk in exchange for increased business payoffs.

Very high

Pursuing high-risk, unproven options that carry with them the potential for high-level rewards.

Principal risk and why it is relevant	Year-on-year change	Key mitigation, sponsor and explanation of change	Risk appetite rating	Rationale for rating	Link to strategic themes (pages 22-27)
5 Cybersecurity					
Cybersecurity risks include risks from malware, accident, statutory and legislative requirements, malicious actions and other unauthorised access by third parties.	↑	<ul style="list-style-type: none"> Global assessment of IT environment against UK cyber essentials framework and prioritising actions for improvement Deploying security tools to limit impact and spread of ransomware Initiating new centrally managed Firewall environment Further strengthening of security for centrally managed systems for heightened protection and consistency <p>Executive sponsor: Shaun Mundy</p> <p>Change: This is a new risk on the risk register and the Committee is monitoring this risk in line with the issues set out therein.</p>	<input checked="" type="radio"/> Very low <input type="radio"/> Low <input type="radio"/> Balanced <input type="radio"/> High <input type="radio"/> Very high	Concerns of potential impact on the business, in addition to the important considerations surrounding protection of personal data, reinforce our commitment to implement and maintain robust security measures across the Group.	<div> <div>123</div> <div>456</div> <div> <input checked="" type="checkbox"/> Direct link <input type="checkbox"/> Indirect link <input type="checkbox"/> No link </div> </div>
6 Solution specification failure					
Total solutions demand understanding of customers' complex technical requirements and there is risk involved in pursuing new opportunities in engineering systems design, installation and servicing. Failure could result in disruption and loss to a customer's production line.	↑	<ul style="list-style-type: none"> Extensive internal and field testing of new products prior to launch Continuing capital investment in the latest manufacturing technology Centres of responsibility established to maintain product control Established testing policy and procedures at Group manufacturing sites Quality procedures ensure that manufactured quality meets these standards <p>Executive sponsors: Jay Whalen and Ian Farnworth</p> <p>Change: With the newly acquired businesses, the Group will be handling larger, more complex, orders thereby increasing this risk.</p>	<input type="radio"/> Very low <input checked="" type="radio"/> Low <input type="radio"/> Balanced <input type="radio"/> High <input type="radio"/> Very high	Satisfying customer requests for new, innovative products and designs is an important aspect of our business, but it must always be pursued without compromising our hard-earned reputation for quality products.	<div> <div>123</div> <div>456</div> <div> <input type="checkbox"/> Direct link <input type="checkbox"/> Indirect link <input type="checkbox"/> No link </div> </div>
7 Breach of legal and regulatory requirements (including ABC laws)					
<p>We operate globally and must ensure compliance with laws and regulations wherever we do business. As we grow into new markets and territories, we must continually review and update our operations and procedures, and ensure our employees are fully informed and educated in all applicable legal requirements. This is particularly important with respect to anti-bribery and corruption (ABC) legislation. Breaching any of these laws or regulations could have serious consequences for the Group.</p> <p>The General Data Protection Regulation (GDPR), which protects personal sensitive data, will take effect in May 2018 and we are undertaking a gap analysis to assist with a remediation plan to ensure that we are compliant with this new law as applicable across the Group.</p>	→	<ul style="list-style-type: none"> On-going global monitoring of commercial arrangements and agreements, with appropriate professional advice Established procedures to maintain accreditations Group-wide ABC training and whistle-blowing hotline Group Litigation Report and on-going monitoring of cases Regular updates on Corporate Governance and Stock Exchange rules Continued roll out of Supplier Sustainability Code GDPR gap analysis and remediation plan <p>Executive sponsor: Andy Robson</p> <p>Change: No change</p>	<input checked="" type="radio"/> Very low <input type="radio"/> Low <input type="radio"/> Balanced <input type="radio"/> High <input type="radio"/> Very high	We respect the laws, rules and regulations of the jurisdictions in which we operate and believe we have a duty to comply with those requirements.	<div> <div>123</div> <div>456</div> <div> <input type="checkbox"/> Direct link <input type="checkbox"/> Indirect link <input type="checkbox"/> No link </div> </div>
8 Health, safety and environmental risks					
A major health, safety or environmental incident could cause total or partial closure of a manufacturing facility. As a premium provider of safety critical products, a breach of these requirements would also have reputational consequences for the Group.	↓	<ul style="list-style-type: none"> All manufacturing locations report monthly on health and safety issues Board review of HSE items at every Board Meeting Role of Group EHS Executive and appointment of EHS Officers in all major Supply and Sales sites Enhanced training programmes, keeping the focus on health, safety and the environment Site visits conducted by Group Supply Chain Director and Group EHS Executive where practices are reviewed and improvement opportunities identified <p>Executive sponsor: Ian Farnworth</p> <p>Change: This risk has reduced due to increased investment in HSE programmes, including newly-appointed EHS Officers.</p>	<input checked="" type="radio"/> Very low <input type="radio"/> Low <input type="radio"/> Balanced <input type="radio"/> High <input type="radio"/> Very high	We take seriously the health and safety of our employees, customers and all related stakeholders. We continually strive to put in place policies and procedures to ensure compliance with HSE legislation.	<div> <div>123</div> <div>456</div> <div> <input type="checkbox"/> Direct link <input type="checkbox"/> Indirect link <input type="checkbox"/> No link </div> </div>

Key

Increased risk
 No change to risk
 Decreased risk

Following the bottom-up review, the following changes were made to the principal risks:

- Risk 1: economic and political instability – amended to ensure that we captured all our mitigation activities relating to Brexit.
- Risk 4: failure to realise acquisition objectives and Risk 5: cybersecurity – added. Risk appetite determined for these two risks.
- Risk 7: breach of legal and regulatory requirements amalgamated with breach or potential breach of ABC laws and renamed breach of legal and regulatory requirements (including ABC laws).
- Following a recent triennial valuation which saw a material reduction in the deficit, defined pension benefit deficit (previously Risk 4) was removed from the principal risks but remains on the risk register.
- The year-on-year change for each principal risk was assessed.

Group Chief Executive's Review of Operations

Our performance

Key points in this section:

- › Reported revenue up 32% to £998.7 million
- › 5% organic revenue growth in the Steam Specialties division*
- › 10% organic revenue growth in Watson-Marlow
- › Adjusted operating profit up 30% to £235.5 million*
- › 23.6% operating margin*
- › Good first time contribution from acquisitions

* Unless otherwise stated, all profit measures exclude certain items, as set out and explained in the Financial Review and in Note 2 on page 129. Organic measures are at constant currency and exclude acquisitions.

Introduction

During 2017, the Group delivered record revenue and operating profit, achieved through a combination of good organic growth, accretive acquisitions and favourable exchange rate movements. We saw progress in all geographical segments of the Steam Specialties division, strong progress in the Watson-Marlow Fluid Technology business and a good performance, in line with expectations, in the Gestra and Chromalox acquisitions. In the year we saw a 35% growth in headcount to more than 7,250.

Market environment

Steam continues to be the most efficient medium for transferring energy (in the form of heat) within industrial processes, with applications including heating, curing, cooking, drying, cleaning, sterilising, space heating, humidification and on-demand hot water production. Electrical heating technologies are widely utilised for freeze protection, high temperature industrial applications and temperature management in mission critical industrial processes. Peristaltic and niche pumps and associated fluid path components are also used across an extensive range of industries to address mission critical or difficult pumping problems.

Our wide geographic spread, diversity of industrial sectors and a large proportion of revenues that derive from end users'

maintenance and operating budgets, mean that our market conditions closely correlate with industrial production growth. Following a sustained period of very low growth, global industrial production growth began to pick up in the latter half of 2016. This growth continued into 2017 giving a global industrial production growth rate of 3.4% for the year. Emerging markets achieved a higher level of growth, at 4.2%, than OECD markets, which averaged 2.9% for the year, with strong growth in China accounting for much of the difference. The improvement in industrial production is reflected in the good organic growth achieved in both the Steam Specialties division and Watson-Marlow, although we outperformed industrial production in both businesses as we successfully self-generated sales through the effective utilisation of our direct sales business model.

In EMEA, industrial production growth reached its highest level for several years at 3.3%, despite on-going political and economic uncertainty in the region, particularly in the Eurozone. Asia Pacific saw 4.6% industrial production growth, buoyed by a strong year in China. Elsewhere in the region growth was lower and more mixed, with Korea seeing growth of 1.2%. In the Americas, North America's industrial production returned to positive growth after two years of contraction, with a 2.0% growth

	2016	Exchange	Organic	Acquisitions	2017	Organic	Reported
Revenue	£757.4m	£38.4m	£48.1m	£154.8m	£998.7m	+6%	+32%
Adjusted operating profit	£180.6m	£16.0m	£11.9m	£27.0m	£235.5m	+6%	+30%
Adjusted operating margin	23.8%				23.6%	+0 bps	-20 bps



"The Group delivered record revenue and operating profits, achieved through a combination of good organic growth, accretive acquisitions and favourable currency movements."

Nicholas Anderson
Group Chief Executive

rate seen in the USA. After three years of negative growth, Latin America returned to positive territory, with slight signs of recovery in some of the larger markets, although growth in Mexico remained negative.

Industrial production is currently expected to remain positive in 2018, at broadly the same levels of 2017.

Progress in 2017

Overall the Group achieved organic sales growth of 6%, with 5% organic growth in the Steam Specialties division and 10% organic growth in Watson-Marlow, continuing the strong growth seen in 2016. Both businesses saw organic growth across all three geographic regions.

At £998.7 million, Group sales were up 32% at reported exchange rates (2016: £757.4 million). Weaker sterling increased sales on translation by 5%, with most of the impact being seen in the first half of the year. Sterling strengthened towards the end of the year and this strength has continued into 2018. Currency movements are notoriously difficult to predict and sterling is likely to be affected by the progress of Brexit negotiations during 2018.

The acquisitions made in the year, Gestra and Chromalox, combined with the full year effects of the two acquisitions made in 2016, Hiter and Aflex, contributed £154.8 million, or 20%, to sales.

The Spirax Sarco business accounted for 75% of Group revenue in 2017. The Steam Specialties division saw organic sales growth of 5%, with sales increased by 10% due

to the acquisition of Gestra in May and the full year effect of Hiter Controls that was acquired in July 2016. Gestra's sales during their eight months in the Group totalled £51.5 million. For reference this represents 67% of their £77 million full year 2017 sales. Favourable currency movements added a further 5% taking reported growth to 20%. Chromalox, which joined the Group on 3rd July, contributed £75.1 million in sales to the Spirax Sarco business in 2017. For reference this represented 52% of their £146 million full year 2017 sales.

Geographically, the Steam Specialties division saw solid organic growth in EMEA. Some progress was made in the Americas and Asia Pacific was boosted by a strong performance in China.

In Watson-Marlow, which accounted for 25% of Group revenues, organic growth was 10% and was supplemented by 5% due to favourable currency movements. The full year effect of the acquisition of Aflex at the end of November 2016 added a further 12% to sales bringing reported growth to 28%. Growth was achieved across all geographic regions.

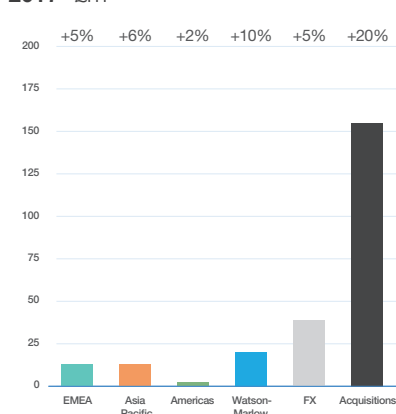
Group adjusted operating profit was 6% ahead of the prior year on an organic basis and, at £235.5 million, was up 30% at reported exchange rates, helped by a 9% benefit from translational and transactional exchange gains, and 14% from acquisitions. Within the Steam Specialties division, EMEA and Asia Pacific both delivered organic operating profit growth, while the Americas was flat due in part to the £1.5 million one-off

contribution in 2016 from the devaluation of the Argentine currency in the prior year. Watson-Marlow also saw organic operating profit growth but, as expected, at a lower rate than in recent years due to our increased revenue investments to sustain future organic growth.

Gestra's trading profit during their eight months with the Group was £7.6 million. For reference, this represented 70% of their £11 million full year 2017 profit. Chromalox's trading profit during their six months with the Group was £13.8 million. For reference this represented 53% of their £26 million full year 2017 profit.

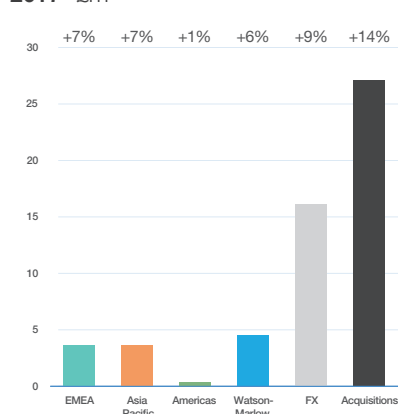
Group adjusted operating profit margin of 23.6% was 20 bps lower than the prior year, as currency exchange benefits were more than offset by the dilutionary impacts of recent acquisitions. Excluding the impact of acquisitions, the adjusted operating margin expanded by 90 bps to 24.7%, despite increased investments for growth and an increase in material prices. Within the Steam Specialties division, EMEA and Asia Pacific were able to leverage margin expansion from their increased sales volume and transactional currency benefits. In the Americas, currency movements were dilutive although the underlying margin was maintained. As expected, Watson-Marlow's operating margin fell due to the full year dilutionary impact of Aflex. Excluding Aflex, the margin expanded by 40 bps.

Year-on-year revenue changes, 2017* £m



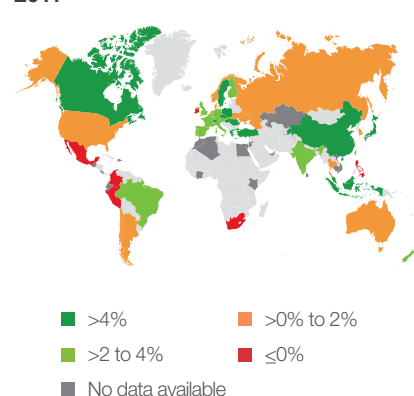
* Rates of change at constant currency.

Year-on-year operating profit changes, 2017* £m



* Rates of change at constant currency.

Industrial production growth rates, 2017*



* Compared with the prior year. (Source: Global Industrial Production Watch, CHR Economics, February 2018).

Our performance at a glance



Revenue

Operating profit*

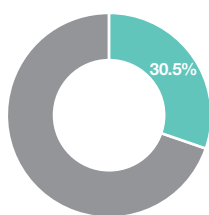
Operating margin

No. of operating units at year end

Key industries

Performance summary

Europe, Middle East and Africa



£305.3m

Reported
+30%

Organic
+5%

£66.1m

21.7%

33

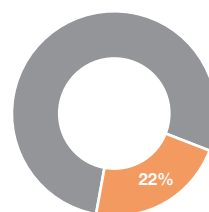
operating units



Organic sales up 5%; organic operating profit up 7%. Currency tailwind of 5% on sales and 11% on profit. Strong sales growth in Italy, France, Iberia, Benelux and Middle East. Sales broadly flat in Germany; UK and Nordics down. Gestra integrating well; adds 19% to sales, 13% to profit. Margin 40 bps higher; +140 bps excluding acquisition. Remain confident in our ability to deliver above market growth.

Read more on pages 38-39

Asia Pacific



£218.0m

Reported
+13%

Organic
+6%

£56.9m

26.1%

14

operating units



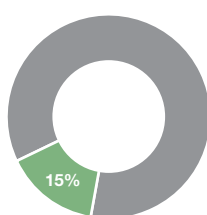
Organic sales up 6%; organic operating profit up 7%. China performed strongly, self-generated sales drive growth. Solid growth in Korea driven by large Oil & Gas project. India progressing well; doubled sales, increased manufacturing volumes. China plant extension completed; new Singapore distribution centre. Margin up 30 bps; up 60 bps excluding Gestra. Well positioned to make further progress.

Read more on pages 40-41

* Unless otherwise stated, all profit measures exclude certain items, as set out and explained in the Financial Review and in Note 2 on page 129. Organic measures are at constant currency and exclude acquisitions.

spirax/sarco

Americas



£152.1m

Reported
+12%

Organic
+2%

£31.6m

20.8%

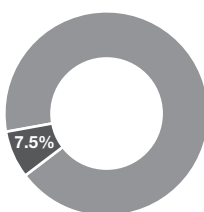
10
operating units



Organic sales up 2%; organic operating profit up 1%. North America: sales growth in distribution; end user projects down. Latin America: 6% organic growth; Mexico, Argentina up, Brazil marginally down. Hiter making excellent progress; H2 2017 profit ahead of schedule. Organic margin flat; dilutionary effect from acquisitions and currency. Focus on efficiency improvements to offset exchange headwinds in 2018. Well positioned to make further progress.

Read more on pages 42-43

Chromalox (Acquired July 2017)



£75.1m

£13.8m

18.4%

15
operating units



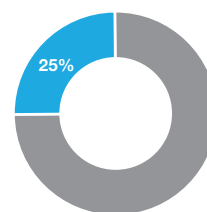
Since acquisition (July): £75.1m sales, £13.8m profit. Full year performance (2017) in line with expectations. Strong H2 2017 demand, good growth on H2 2016. Strong sales and profit growth in Q4 2017. Integration progressing well; investing for growth. Margin ahead of 2016; 18.4% post-acquisition. Good medium to long-term prospects.

Read more on pages 44-45

WATSON MARLOW

Fluid Technology Group

Watson-Marlow



£248.2m

Reported
+28%

Organic
+10%

£80.3m

32.4%

38
operating units



Organic sales up 10%; benefited from 2016 order book. Strong growth in all regions; APAC, LATAM very strong. Pharma & Biotech sector up against tough compare. Excellent growth in Food & Beverage with Certa™ pump. Aflex acquisition performing well; boosts sales 12%. Profit up 6% organically; FX offsets investments for growth. Margin down 70 bps due to Aflex dilution. Increased R&D spend; small margin decline in 2018.

Read more on pages 46-47

Europe, Middle East and Africa (EMEA)

Steam Specialties

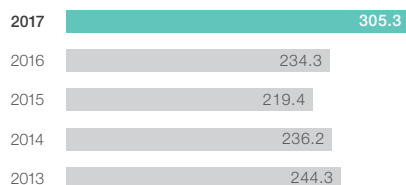
Revenue

£305.3m

2016: £234.3m

Reported
+30%

Organic
+5%



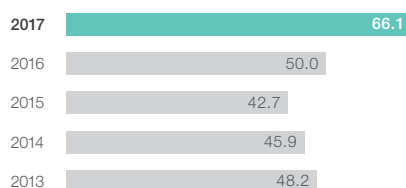
Operating profit

£66.1m

2016: £50.0m

Reported
+32%

Organic
+7%



Operating margin

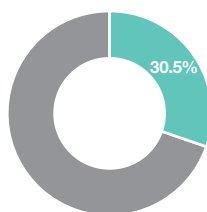
21.7%

2016: 21.3%

Reported
+40 bps

Organic
+20 bps

Group revenue %



EMEA at a glance (at year end)

33

operating units*

34

countries with a direct sales presence

2,763

employees

* Operating units are business units that invoice locally.

Market overview

EMEA saw a steady increase in industrial production growth rates during 2017, with an annual rate of 3.3%. This figure somewhat masks the disruption in the region caused by political elections in a number of key markets and uncertainties surrounding Brexit negotiations in the UK, which have tended to suppress investments in the affected countries, causing project delays. The relatively low oil price throughout the first half of the year continued to stifle upstream investments in the Oil & Gas industry, but as demand increased in the second half of the year the barrel price increased putting the industry in a better position going into 2018. The German Power industry, a key market for Gestra, saw a large drop in investment in 2017, with a number of project postponements.

Progress in 2017

In EMEA, sales increased by 5% on an organic basis to a reported £305.3 million, with favourable currency movements increasing sales on translation by 5% and Gestra contributing a further 19%. Organic sales growth in the region was mixed. Central and Eastern Europe saw organic growth, despite Germany being broadly flat and slowing in the second half, as the German general election affected business confidence. The UK and Nordics fell back while France saw solid growth and in Southern Europe Italy, Spain and Portugal experienced excellent growth. While Oil & Gas markets were subdued, the Middle

	2016	Exchange	Organic	Acquisitions	2017	Organic	Reported
Revenue	£234.3m	£12.4m	£12.8m	£45.8m	£305.3m	+5%	+30%
Adjusted operating profit	£50.0m	£5.4m	£3.6m	£7.1m	£66.1m	+7%	+32%
Adjusted operating margin	21.3%				21.7%	+20 bps	+40 bps



“Organic sales increased 5% to a reported £305.3 million. Operating profit was up 7% organically to a reported £66.1 million. The acquisition of Gestra contributed 19% to sales and 13% to profits.”

Neil Daws
Executive Director, EMEA

East performed strongly due to a renewed focus on Oil & Gas maintenance and repair business. Investments in our direct sales presence in the Netherlands, East Africa and Egypt paid off with sales up strongly in these countries. We achieved above market growth in the Food & Beverage, Healthcare, Oil & Gas and Chemical industries, and OEM markets were considerably stronger than the prior year.

Sales in Gestra, which joined the Group in May, were impacted by the acquisition process during the second quarter, but recovered well during the second half of the year with German OEM boiler makers, in particular, providing opportunities for growth.

At £66.1 million, reported operating profit was ahead 32%, consisting of 7% organic growth, an 11% exchange benefit and 13% from acquisitions. Organic growth was primarily driven by leveraging good operating profit from sales growth, price management initiatives and tight control of overheads, enabling investments to be made to strengthen our direct sales presence in the region while maintaining the margin. Continued efficiency improvements in our UK manufacturing unit in Cheltenham also contributed to the improved organic trading margin.

The strong profit growth delivered an operating profit margin of 21.7%, 40 bps higher than in the prior year and 140 bps higher excluding the dilutionary effects of the Gestra acquisition.

Strategy update

We have made good progress with the implementation of our strategy for growth. We further strengthened our market presence in our newer operating companies in the Netherlands, Egypt and the Middle East. A new company began trading in Kenya (East Africa) during January 2017 and customers have responded positively to the increased investment we have made, resulting in a good first year. We completed the groundwork to begin trading through newly established companies in Hungary, Romania and in the Maghreb, which will serve Morocco, Tunisia and Algeria. These businesses began trading in January 2018.

An increased sector focus in the Food & Beverage, Healthcare, Oil & Gas and Chemical industries, and OEMs is enabling us to achieve above average market growth as we uncover new solutions to deliver excellent return on investment to customers. Through improving our strategic account management processes we are forming and strengthening mutually-beneficial, long-lasting relationships with key customers. The initial programmes of the Spirax Sarco Academy have been rolled out to customer-facing staff, accelerating the sharing of knowledge and protecting this important asset.

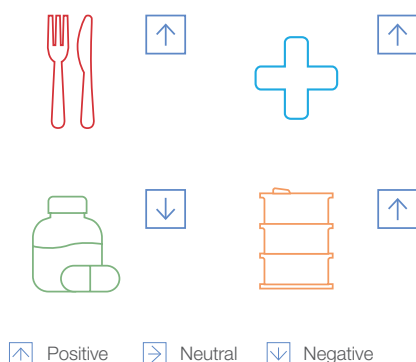
Gestra's strategy and implementation plan were defined during the acquisition process, with safe delivery being the most important priority for 2017, along with the successful carve out of Gestra's businesses in Italy, the UK, the USA and Singapore from their previous parent. Going forward we will further develop Gestra, maintaining its own brand, visual identity, product range and sales force, while also looking for product and supply synergies to increase the efficiency of the Steam Specialties division as a whole.

Together, these strategic actions are enhancing our ability to deliver self-generated growth that outperforms our markets.

Segment outlook

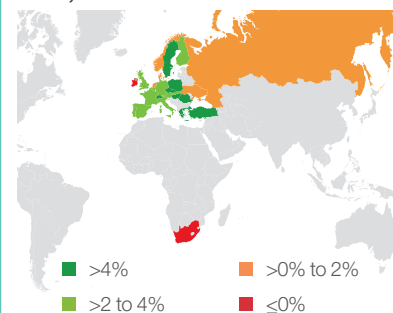
We anticipate a slight softening in market conditions during 2018, with industrial production staying positive but at lower levels than seen in 2017. Brexit negotiations and uncertainty are likely to remain a key factor affecting market conditions in the region during 2018, while political elections in Italy and on-going political uncertainties in Germany could cause some turbulence. We continue to monitor the situation in Europe carefully and during 2018 will step-up the implementation of our Brexit contingency planning. Whilst remaining cautious on market conditions, we remain confident in our ability to deliver above market growth rates as we implement our strategy for growth, develop Gestra, and deepen our reach to customers. If exchange rates continue at their current levels we do not anticipate a significant impact on the margin due to transaction effects although we would expect to see some dilution from having a full year of Gestra.

Key market performance



- Industrial production growth rate of 3.3%
- Political elections and Brexit uncertainty suppressed investments in affected countries
- Low oil price stifled upstream investments; conditions began to improve in the second half
- Above market growth achieved in Food & Beverage, Healthcare, Oil & Gas and Chemical industries
- OEM markets stronger than in prior year

Industrial production growth rates, 2017*



* Compared with the prior year. (Source: Global Industrial Production Watch, CHR Economics, February 2018).

Asia Pacific

Steam Specialties

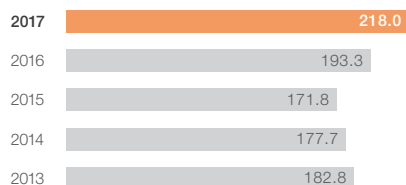
Revenue

£218.0m

2016: £193.3m

Reported
+13%

Organic
+6%



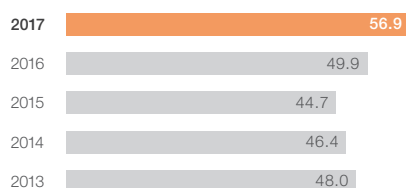
Operating profit

£56.9m

2016: £49.9m

Reported
+14%

Organic
+7%



Operating margin

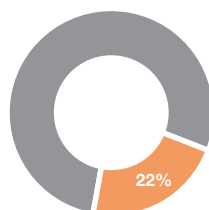
26.1%

2016: 25.8%

Reported
+30 bps

Organic
+10 bps

Group revenue %



Asia Pacific at a glance (at year end)

14
operating units*

16
countries with a direct
sales presence

1,119
employees

* Operating units are business units that invoice locally.

Market overview

Industrial Production growth rates improved significantly in the region, with a yearly average of 4.6%. Much of this growth occurred in China, which saw 6.2% growth in the year, although weaker in the second half. Elsewhere in Asia Pacific, growth was more mixed with 1.2% in Korea and conditions varied in our smaller markets. Most markets in the region experienced lower growth rates in the second half of the year.

Progress in 2017

Sales in Asia Pacific were £218.0 million, up 6% on an organic basis and ahead 13% at reported exchange rates. Weaker sterling delivered exchange benefits of 5%, with a further 1% contributed by Gestra, which has a small presence in the region. Organic sales were ahead in most countries, as improved macro-economic conditions increased demand. Self-generated and MRO sales grew faster than large project orders throughout the region as a result of our strategic focus on developing the knowledge and skills of our sales engineers, increasing their ability to identify and deliver smaller-scale operational efficiency improvement projects for our customers. While not buoyant, project work recovered slightly and we saw solid growth during the year.

China, our largest market in the region, started the year very strongly, boosted by good growth in the economy, and continued to perform well throughout the year, despite slowing industrial production

	2016	Exchange	Organic	Acquisitions	2017	Organic	Reported
Revenue	£193.3m	£9.7m	£12.9m	£2.1m	£218.0m	+6%	+13%
Adjusted operating profit	£49.9m	£3.4m	£3.6m	£0.0m	£56.9m	+7%	+14%
Adjusted operating margin	25.8%				26.1%	+10 bps	+30 bps



“Organic sales were ahead 6% to a reported £218.0 million, with a small gain from acquisitions and a 5% exchange benefit. Operating profit grew 7% organically to a reported £56.9 million.”

Paul Lee Suay Wah
Divisional Director, Asia Pacific

growth, benefiting from our focus on self-generated sales. In Korea, we were able to outperform the low industrial production growth rate to deliver solid organic growth, with a particularly large Oil & Gas project. Elsewhere in the region Japan, Taiwan and Vietnam achieved excellent results in 2017.

Our new wholly-owned direct sales and manufacturing operation in India is progressing well and in line with our expectations, more than doubling the sales it made in 2016, its first year of operation. Local manufacturing volumes increased significantly in 2017, improving the under-utilisation of this long-term strategic investment. As anticipated, the company remains loss making as we invest in top line growth and increase manufacturing output.

Operating profit increased strongly on an organic basis, up 7%. On a reported basis, operating profit was ahead 14% with a 7% exchange benefit and a very small contribution from Gestra in the region. Operating margin was ahead 30 bps to 26.1%, benefiting from product mix – notably the growth of typically smaller, higher margin, self-generated projects and MRO orders. Excluding the effects of the Gestra acquisition, the margin expanded by 60 bps.

Strategy update

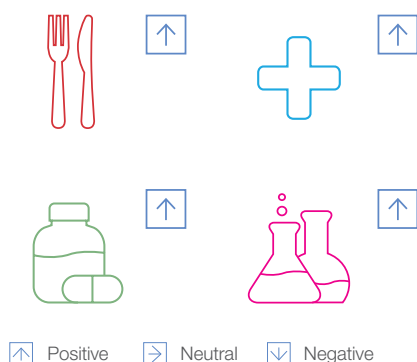
We completed the £13 million plant expansion project in China, which will further increase efficiency and improve customer delivery performance in the region. We also invested £1.4 million to establish a regional Distribution Centre and office facilities to house our Singapore sales company, South East Asia headquarters and Asia Pacific headquarters. The new facility, which opened in September, will increase supply chain efficiency, improve inventory management in the region and shorten lead times, significantly improving customer service.

We continued to focus on strengthening our direct selling capabilities, with the roll-out of the programmes of the Spirax Sarco Academy to customer facing employees in the region and increased sales force alignment with our target industries. As a result of this increased alignment, we have seen above market growth in the key industries of Pharmaceuticals and Chemicals.

Segment outlook

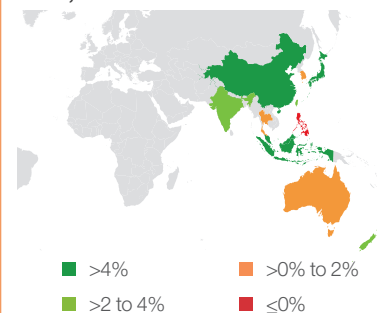
Slowing growth in China is likely to affect business confidence in the region. This, combined with very strong growth in 2017, may lead to slightly lower organic growth rates in the current year. If current exchange rates persist, we would expect a dilutionary effect on margin due to transaction affects and a full year of Gestra. However, our strategic investments to improve supply chain agility and customer service, and strengthen our direct sales capabilities in the region position us well to continue to make progress as we self-generate our own growth opportunities.

Key market performance



- Industrial production growth rate significantly stronger than the prior year, at 4.6%
- China contributed strongly to industrial production growth; weaker in the second half
- Elsewhere in Asia Pacific, market conditions varied and generally lower in the second half
- Self-generated and MRO sales grew faster than large project orders as a result of strategic focus to develop the skills of sales and service engineers

Industrial production growth rates, 2017*



* Compared with the prior year. (Source: Global Industrial Production Watch, CHR Economics, February 2018).

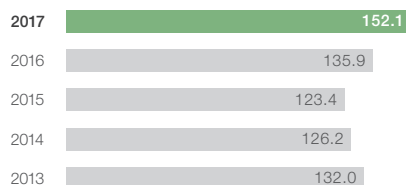
Americas

Steam Specialties

Revenue

£152.1m

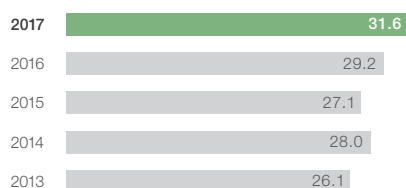
2016: £135.9m

Reported
+12%
Organic
+2%


Operating profit

£31.6m

2016: £29.2m

Reported
+8%
Organic
+1%


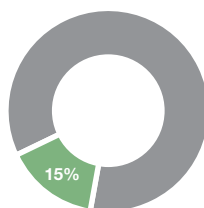
Operating margin

20.8%

2016: 21.5%

Reported
-70 bps
Organic
+0 bps

Group revenue %



Americas at a glance (at year end)

10

operating units*

12

countries with a direct sales presence

906

employees

* Operating units are business units that invoice locally.

Market overview

Industrial production growth rates returned to positive territory in the region following a number of years of contraction with the USA, Canada, Argentina and Brazil all showing growth, although Mexico and some of the smaller countries in the region remained negative. The USA has seen signs of some small, but uneven, recovery in industrial production, impacted by Hurricanes Harvey and, to a lesser extent, Irma. In Argentina, President Macri's business-friendly policies began to attract inward investment and stimulate growth. Continuing political instability in Brazil suppressed inward investment in the economy and held back industrial production growth, although there were some signs of the beginning of a recovery in the second half of the year. The Food & Beverage and Pharmaceutical sectors were strong during 2017.

Progress in 2017

On an organic basis, sales increased by 2% in the Americas to a reported £152.1 million, with a 4% impact from exchange and a 6% impact from the acquisition of Gestra, which has a small local presence in the USA, and a full year contribution from Hiter in Brazil, which was acquired in July 2016.

Organic sales in North America were marginally behind the prior year. Sales in Canada grew strongly, despite continuing softness in the Oil & Gas sector, with good growth in MRO business and self-generated sales as oil and gas producers sought to optimise efficiency in their existing systems.

	2016	Exchange	Organic	Acquisitions	2017	Organic	Reported
Revenue	£135.9m	£5.8m	£2.2m	£8.2m	£152.1m	+2%	+12%
Adjusted operating profit	£29.2m	£0.9m	£0.4m	£1.1m	£31.6m	+1%	+8%
Adjusted operating margin	21.5%				20.8%	+0 bps	-70 bps



“Organically sales increased by 2% with acquisitions adding 6% and exchange 4%, giving reported revenue of £152.1 million. Operating profit of £31.6 million was ahead 1% organically.”

Sheldon Banks
 Divisional Director, Americas

Within the USA, improved economic conditions helped to strengthen distributor sales, primarily of our core product range. End user sales remained challenging with the non-repeat of larger end-user projects of 2016. In July 2017, we relocated a highly experienced senior leader from a Spirax Sarco operating company in Latin America to the role of President of our USA operation. We believe that the experience that he has in growing end user sales in his home market will be highly beneficial as we continue to strengthen our direct sales model in the USA, to increase the value that we can add to customers, while retaining distributor sales as an important route to market. In October 2017, we also recruited a new Senior Vice President of Sales and Marketing with almost thirty years' experience driving organic sales growth in the USA, through direct sales channels and distribution. Despite a marginal decline in sales, operating profit grew on an organic basis in North America.

Latin America saw 6% organic growth despite some economic headwinds, with good growth in Mexico, Colombia and Argentina. Brazil ended the year with a marginal decline, despite achieving 2% organic growth in the second half. Hiter Controls, the Brazilian control valve manufacturer, acquired in July 2016, made excellent progress during the year, focusing on the Mining, Oil & Gas and Bioethanol markets, and delivered a small profit in the second half of the year, ahead of schedule.

Operating profit grew 8% to £31.6 million. Organic growth was 1%, impacted by the non-repeat of the one-off profit made in Argentina in the first half of 2016 as a result of the country's currency devaluation in late 2015. Exchange movements added 3% and there was a 4% contribution from acquisitions. The adjusted operating profit

margin fell 70 bps to 20.8% impacted by the dilutionary effects of both currency and the Hiter and Gestra acquisitions. Excluding acquisitions, the margin was 30 bps lower.

Strategy update

Overall good progress has been made in implementing our strategy across the Americas. We continued to develop the structure of our sales force to increase alignment with key sectors, enabling our engineers to better understand the needs of decision makers in our customers' businesses and align our value proposition in a more customer specific way. The Food & Beverage and Pharmaceutical sectors, in particular, have benefited from our focus in 2017. Enhanced strategic account management has been further embedded in the region with progress seen amongst large multi-national customers and large national Food & Beverage customers.

The skills and sales approach in the whole region have been strengthened by the launch of the Spirax Sarco Academy's programmes in 2017. Available in the region's key languages, this significant investment in knowledge transfer will benefit our customers as they receive the class-leading knowledge of our sales and service teams both now and in the future.

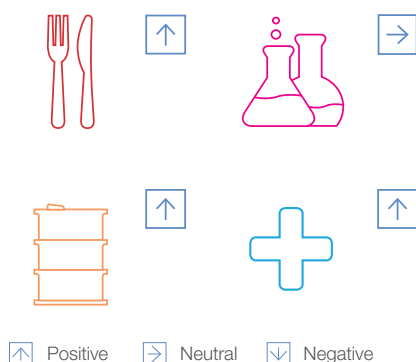
We have focused on improving customer service in the region, with a drive to improve on-time delivery performance, through improving manufacturing efficiencies and managing inventory more effectively, ensuring that the right products are available locally to our customers and distributors, to ensure that we maintain our position as market leader.

Segment outlook

In North America, the return to industrial production growth seen in 2017 is forecast to continue, driven by the administration's attempts in the USA to stimulate the economy. In Latin America, Argentine and Brazilian economic fortunes could turn more positive during 2018, albeit from a low base. Our strong market-leading position in these countries will enable us to capitalise on any improvements in our operating environment. However, during 2018, Mexico, Brazil, Colombia and Chile will all have Presidential elections and the associated political uncertainty could affect business confidence in these countries during the year.

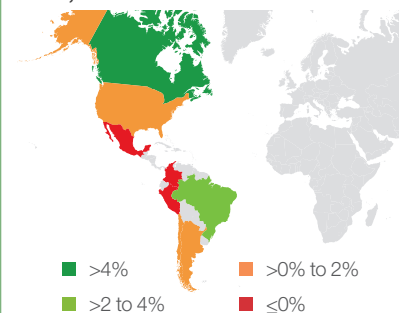
Should the recent relative strength of sterling against the US dollar continue, we will see a headwind to sales in the Americas as well as a dilutionary impact on margins, which we are working hard to counteract through increased efficiencies.

Key market performance



- Industrial production turned positive following a number of years of contraction
- The USA saw a small but uneven recovery in industrial production growth, impacted by natural disasters
- Argentina's business-friendly policies began to stimulate growth; political instability in Brazil held back growth, signs of recovery in the second half
- Food & Beverage and Pharmaceutical sectors strong

Industrial production growth rates, 2017*



* Compared with the prior year. (Source: Global Industrial Production Watch, CHR Economics, February 2018).

Chromalox

Acquired July 2017

Revenue

£75.1m

For reference only, full year revenue: £146 million.

2017 full year revenue



Operating profit

£13.8m

For reference only, full year profit: £26 million.

2017 full year profit

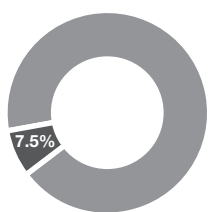


Operating margin

18.4%

For reference only, full year operating margin: 17.8%.

Group revenue %



Chromalox at a glance (at year end)

15

operating units*

11

countries with a direct sales presence

1,155

employees

* Operating units are business units that invoice locally.

Market overview

Electrical process heating and temperature management solutions specialist, Chromalox, joined the Group in July 2017. The company's products are widely used across a diverse range of industrial processes and, as a result, industrial production growth rates provide a good measure of conditions in the company's markets. Geographically, Chromalox generated 73% of revenue in North America, 15% in EMEA, 9% in Asia Pacific and 3% in Latin America. Due to its strong position in the USA, the company has a high level of exposure to industrial production growth rates in that market and, to a lesser extent, elsewhere in the Americas, Europe, the Middle East and Asia, where it has a small direct sales presence. While the USA's economy returned to growth in 2017, industrial production remained lacklustre and patchy, providing a subdued operating environment for most of the year, but with some signs of improvement towards the end of 2017. Elsewhere, conditions were similar to those in the Steam Specialties markets, with moderate levels of growth in EMEA and slightly higher growth rates in Asia Pacific.

With 16% of sales being generated in the Oil & Gas industry, the depressed oil prices throughout most of 2017 suppressed inward investment and limited opportunities for growth. As the oil price increased towards the end of the year, conditions began to moderate, offering hope for improved trading conditions in 2018.

	2016	Exchange	Organic	Acquisitions	2017	Full Year 2017 For reference only	
Revenue	£0.0m	–	–	£75.1m	£75.1m	£146m	-2%
Adjusted operating profit	£0.0m	–	–	£13.8m	£13.8m	£26m	+3%
Adjusted operating margin					18.4%	17.8%	+80 bps



“Chromalox contributed £75.1 million of revenue to the Group post-acquisition and £13.8 million operating profit, with an 18.4% profit margin.”

Mike Sutter
Divisional Director, Chromalox

Progress in 2017

Chromalox contributed £75.1 million to Group revenue post-acquisition. For reference purposes, full year revenues in 2017 were £146 million, in line with our expectations at the time of the acquisition. On a comparable basis, sales were 2% down on 2016 at constant currency, following a difficult start to the year prior to acquisition. However, from the second quarter on, order intake was higher than the same period in the prior year, with full year order intake 3% ahead of 2016 at constant currency. Demand during the fourth quarter reached the highest level of the past two years, translating into good sales and profit growth over Q4 2016 at constant currency. This was driven in part by a renewed focus on OEM customers, particularly for highly-specialised, niche applications that are addressable by Chromalox technologies and increased investment in direct selling resources, positioning us well for 2018.

Post-acquisition, Chromalox contributed £13.8 million in adjusted operating profit. For reference, the full year 2017 adjusted operating profit was £26 million, slightly ahead of our expectations at the time of the acquisition. On a comparable basis, full year profit was 3% ahead of 2016. Under Spirax ownership, adjusted operating margin was 18.4%. On a comparable basis the margin for the full year 2017 increased 80 bps to 17.8% due to an improved product mix and a rigorous focus on continuous improvement, an important element of the Chromalox Management System.

Integration and strategy update

Post-acquisition, Chromalox has continued to operate as a stand-alone global division, maintaining its brand within the Spirax Sarco business group. The company has a strong, long-serving executive team, all of whom remained with the business post-acquisition, delivering continuity in a time of change and bringing their experience to bear at this exciting new stage of the company's history. While there will be many opportunities for Spirax-Sarco Engineering plc to support Chromalox's growth and margin improvement over the coming years, this stand-alone structure and the continuation of the management team minimises the need for significant integration activities.

During 2017 Chromalox celebrated its centenary. This was an important time to reflect on those factors that have contributed to the company's success during the last 100 years and to identify those things that we must do going forward to deliver enhanced growth and customer value. Throughout the second half of 2017 we conducted an extensive strategic review and refreshed the Chromalox strategic growth plan, with implementation starting in January 2018.

New product development is a key strategic priority for Chromalox. A number of innovative new products were launched during the year including: the CCX Cast Block Heater; CXHXD Corrosion-Resistant Explosion Proof Unit Heater; RSP Remote Sensor Panel; TEH Tubular Enclosure Heater; and Wireless Monitoring enhancement for heat trace and heater control panels. We will continue to invest in research and development to ensure that Chromalox continues to deliver innovative new products to customers.

Currently sales outside of North America are relatively limited and over the coming years we will look to internationalise our business further, leveraging Spirax Sarco's global footprint to grow our direct sales presence outside the USA. The Chromalox direct sales force will remain separate from the Steam Specialties division, but will utilise Spirax Sarco's facilities, systems and experience to gain a foothold in new markets, while constantly pursuing commercial synergy opportunities.

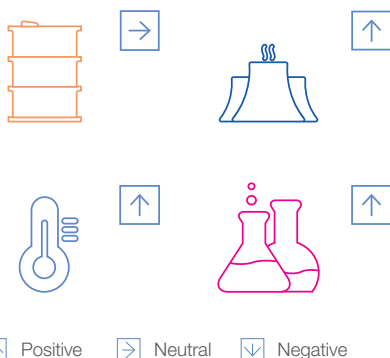
Outlook

While market conditions were challenging throughout much of 2017, the year ended with conditions improving and a good order book going into 2018. The higher oil prices, if sustained, should provide greater buoyancy in the Oil & Gas industry during the coming year, providing opportunities for growth.

It is too early to determine whether the more positive industrial production levels seen in the latter part of 2017 in the USA will continue to improve in 2018. Nevertheless, our direct sales business model, class-beating products, renewed strategic focus and the opportunities for geographical expansion that come from being part of the Group, position Chromalox very well for growth in the medium to long-term.

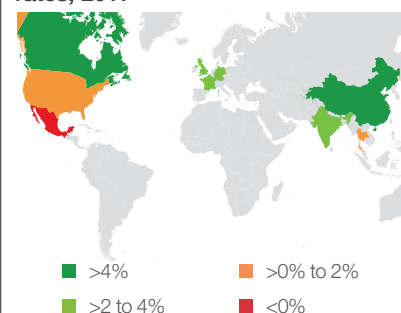
Despite the increased revenue investments for growth and potentially unfavourable currency headwinds, we anticipate maintaining the trading margin in 2018 at 2017's full year level.

Key market performance



- 73% of revenue generated in North America
- Industrial production growth in the USA lacklustre and patchy; subdued operating environment but some signs of improvement towards the end of 2017
- Depressed oil prices suppressed investment in the Oil & Gas industry; conditions began to moderate late-2017
- Good progress with OEM customers

Industrial production growth rates, 2017*



* Compared with the prior year. (Source: Global Industrial Production Watch, CHR Economics, February 2018).

Watson-Marlow

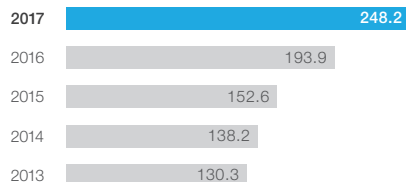
Revenue

£248.2m

2016: £193.9m

Reported
+28%

Organic
+10%



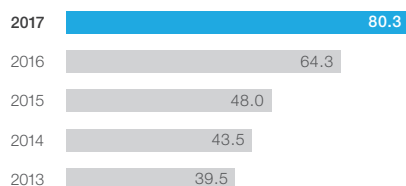
Operating profit

£80.3m

2016: £64.3m

Reported
+25%

Organic
+6%



Operating margin

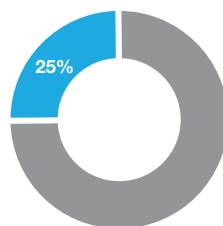
32.4%

2016: 33.1%

Reported
-70 bps

Organic
-110 bps

Group revenue %



Watson-Marlow at a glance (at year end)

38

operating units*

32

countries with a direct sales presence

1,315

employees

* Operating units are business units that invoice locally.

Market overview

With its broad customer base and geographic spread, the Watson-Marlow niche pumps and associated fluid path technologies business is subject to similar economic conditions and industrial production growth rates as those experienced by the Steam Specialties division. However, Watson-Marlow's greater exposure (c.40% of sales) to the Pharmaceutical & Biotechnology industry means that it is heavily affected by conditions in that market. During the early months of the year demand from the Pharmaceutical & Biotechnology industry weakened as rhetoric during the US Presidential election in 2016 affected business confidence and stalled inward investment. However, conditions started improving during the second quarter of 2017, with historic demand levels resuming in the second half of the year. The upturn in industrial production growth gave a boost to OEM manufacturers. Food & Beverage was solidly up, driven by the recent Certa pump launch. Conditions in the Mining industry were mixed; lacklustre in traditional regions but with growth elsewhere. Water & Wastewater continued to be variable, with reduced project size in the USA but strong base business driven by market gains across North America and Europe from our Qdos range of pumps.

Progress in 2017

Sales increased by 10% on an organic basis, boosted by a number of large orders placed in 2016. A 5% benefit from exchange and 12% coming from the full year effect of the acquisition of Aflex, combined to give reported sales of £248.2 million; a 28% increase over the prior year on a reported basis.

	2016	Exchange	Organic	Acquisitions	2017	Organic	Reported
Revenue	£193.9m	£10.5m	£20.2m	£23.6m	£248.2m	+10%	+28%
Adjusted operating profit	£64.3m	£6.5m	£4.5m	£5.0m	£80.3m	+6%	+25%
Adjusted operating margin	33.1%				32.4%	-110 bps	-70 bps



"Organic sales increased 10%, boosted by Aflex's full year contribution and exchange gains, to a reported £248.2 million. Operating profit was up 6% organically to a reported £80.3 million."

Jay Whalen

Executive Director, Watson-Marlow

Strong organic sales growth was achieved in all geographic regions. Europe saw good growth, with notable performances in the UK, Germany, Italy and the Netherlands. There was excellent growth in Asia Pacific, with Japan and Taiwan achieving outstanding growth and a strong performance in China. The Americas saw good growth in North America, by far the largest market, and excellent progress in Latin America.

Sales into the Pharmaceutical & Biotechnology industry were up despite a very tough compare and a slow start to the year. General industry was ahead of the prior year, due in large part to the expanded Qdos pump range. OEM achieved good growth. The MasoSine Certa pump, which was launched in 2016, underpinned excellent growth in the Food & Beverage industry, with both end user and OEM sales significantly benefiting from this innovative, world-leading pump. The Mining industry achieved modest growth with flat sales in traditional geographies supplemented by good growth in Russia and Mexico. Growth in the Water & Wastewater industry primarily came from EMEA.

Aflex, which was acquired at the end of November 2016, has integrated well and delivered good, above-plan performance in sales and an improvement in operating profit by leveraging higher volume sales against controlled overheads. New companies in Canada and Ireland made excellent progress in their first full year of trading, while new operating units in Indonesia, Thailand and Vietnam, which began direct selling in March 2017, and a newly established sales office in the UAE, also performed well. Our customers are benefiting from our investment in direct sales personnel and the attendant knowledge and expertise they bring to these markets.

Watson-Marlow's operating profit of £80.3 million was up 6% on an organic basis and 25% on a reported basis benefiting from currency and a full year of Aflex. At 32.4%,

the reported operating profit margin was down 70 bps on the prior year due to the dilutionary impact of Aflex's lower margin. Excluding Aflex, margins expanded by 40 bps as operational gearing and transactional currency benefits more than offset increased revenue investment for growth.

Strategy update

During 2017 we continued to rigorously implement our five-point strategic plan. We expanded our geographic direct sales footprint and began trading through three new operating units in Indonesia, Thailand and Vietnam in March 2017, with a sales office in the UAE. In the UK, our commitment to international trade was recognised as Watson-Marlow Ltd and BioPure Ltd won a combined Queen's Award for Enterprise: International Trade.

Improving the effectiveness of our direct sales teams through market sector focus and enhanced training, continued apace. We established a US East Coast Pharmaceutical & Biotechnology direct sales team and invested in increasing headcount specifically to address this important market. This investment was supported by an international Pharmaceutical & Biotechnology sales training conference and three regional training conferences, in Europe, Asia and Latin America.

We had an excellent year for product launches, with several important new products released to market. These included the Quantum purification pump, designed for specific, low pulsation applications in the Biotechnology industry; BioPure Q-Clamp; a new gasket and braided hose range from BioPure; the 730 Watson-Marlow process pumps; Puresu® single use tube assemblies; Qdos 20; and the Flexicon PF7 peristaltic filling machine. The Quantum pump has been very well received, winning the "Best Technical Innovation" award at the International Pharmaceutical Expo, in New York City.

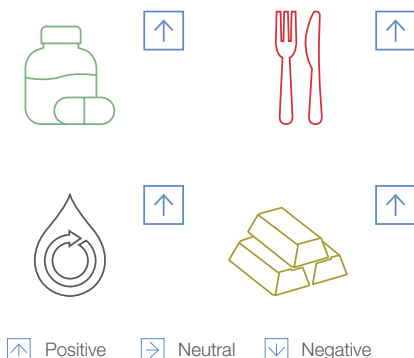
We established a new business intelligence system that links directly to our ERP system, enhancing business visibility and automating many previously manual reporting functions, expanded into new premises in Switzerland, Austria, Singapore, China and India and invested in a new manufacturing building at BioPure in the UK.

In January 2018, we acquired a small pre-revenue company and we envisage expensing R&D investments of approximately £1.5 million a year, over the next two years, to bring an innovative product to market.

Outlook

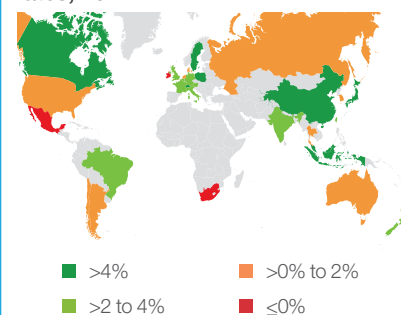
Globally, industrial production looks likely to remain positive during 2018, at similar levels to those seen in 2017, with our markets also being influenced by levels of investment in our core focus areas and macro-economic conditions in the countries in which we operate. Following the rebound in 2017, we expect the Pharmaceutical & Biotechnology market to be robust in 2018 and are well placed to achieve growth as we benefit from our increased investment and focus on this important sector. New products are making good inroads, displacing other pump types, delivering enhanced customer value and providing opportunities for growth. We remain confident in our ability to deliver above-market organic sales growth, although the lower order intake rate in 2017 would point to a mid-to-high single digit level of sales growth in the current year. Should current exchange rates persist for the rest of the year, transactional foreign exchange effects would negatively impact the reported margin. Combined with the proportionally higher revenue investments for growth, we anticipate a small margin decline in 2018, similar to the organic margin decline of 2017.

Key market performance



- After a sustained period of decline, the global industrial production growth rate strengthened in 2017 to 3.4%
- Emerging markets had a higher level of growth, at 4.2% than OECD markets, at 2.9%
- Pharmaceutical & Biotechnology industry started slowly, historic demand levels resumed in the second half
- Mining and Water & Wastewater markets variable
- OEM manufacturers boosted by industrial production growth
- Food & Beverage solidly up

Industrial production growth rates, 2017*



* Compared with the prior year. (Source: Global Industrial Production Watch, CHR Economics, February 2018).

Financial Review

Key points in this section:

- › Final dividend of 62.0p per share; total Ordinary dividend of 87.5p per share, an increase of 15%
- › Adjusted basic earnings per share increased by 29% to 220.5p
- › Return on capital employed increased 500 bps to 52.9%

* Unless otherwise stated, all profit measures exclude certain items, as set out and explained in the Financial Review and in Note 2 on page 129. Organic measures are at constant currency and exclude acquisitions.

Financial Review

The Group reports under International Financial Reporting Standards (IFRS) and also uses adjusted and organic figures where the Board believes that they help to effectively monitor the performance of the Group and help users of the Financial Statements to draw comparisons with our peers. Certain alternative performance measures also form a meaningful element of Executive Directors' annual bonuses. Unless otherwise stated, adjusted figures are used throughout this section. A reconciliation of adjusted operating profit to statutory operating profit is given below and more detail can be found in Note 2 to the Financial Statements. As we are a multi-national Group of companies that trade in a large number of foreign currencies and regularly acquire and sometimes dispose of companies, we also refer to organic performance measures. Organic measures strip out the effects of the movement of foreign currency exchange rates and of acquisitions. The percentage organic growth or decline is defined as the movement, excluding acquisitions or disposals, on the prior year's result translated at the current

year's exchange rates. The Board believes that this allows users of the Financial Statements to gain a further understanding of how the Group has performed.

A good financial result was achieved in 2017 against the positive background of better industrial production growth. Reported sales grew 32% to £998.7 million (2016: £757.4 million). Organic sales grew by 6%. Watson-Marlow had another excellent year, again delivering 10% organic growth, with all regions performing well. Organic sales grew by 5% in the Steam Specialties division, with a 5% advance in EMEA, 6% gain in Asia Pacific and 2% growth in the Americas. The net effect of the acquisition of Hiter in July 2016, Aflex in November 2016, Gestra in May 2017 and Chromalox in July 2017 added 20% to sales.

The weakening of sterling following the UK referendum on EU membership had a dramatic effect on revenue in the second half of 2016 that continued into the first half of 2017, giving a gain of 5% for the full year. Towards the end of the year, sterling began to strengthen. If recent exchange rates were to prevail for the whole of 2018 we would expect to see a 2% exchange headwind to sales on translation when compared to 2017.

Adjusted operating profit of £235.5 million (2016: £180.6 million) was 30% ahead at reported exchange rates and 6% ahead on an organic basis (constant currency, excluding acquisitions). On an organic basis the Steam Specialties division saw profits increase by 6% with 7% growth in EMEA, 7% in Asia Pacific and 1% in the Americas. Watson-Marlow's profits grew 6% on an organic basis.

Currency movements boosted operating profit by 9%, a mixture of translational and transactional gains. The net transactional gain was £6.6 million. The main transactional exposure flow affecting the Group is the

export of products from our factories in the UK, invoiced in sterling, less the import of goods from overseas Group factories and third parties priced predominately in euros and US dollars. The net exposure is in the range £60-65 million. If recent exchange rates prevail for the whole of 2018 we would expect to see a 4% reduction to profit due to transactional and translation foreign exchange movements.

The net effect of the acquisitions made in 2016 and 2017 was to add 14% to profit on a constant currency basis.

Adjusted operating profit margin in the Steam Specialties division was flat at 22.9% despite the dilutionary impact of the Gestra and Hiter acquisitions. Excluding the acquisitions, the margin would have been 70 bps higher at 23.6%. As expected, Watson-Marlow's margin fell due to the inclusion of Aflex, ending the year down 70 bps at 32.4%. Excluding Aflex they increased 40 bps to an outstanding 33.5%. Chromalox performed a little ahead of our expectations with a margin of 18.4%. Overall the Group's reported margin fell by 20 bps to 23.6% due to acquisitions. The underlying margin, excluding acquisitions, improved 90 bps to 24.7%.

Statutory operating profit was £198.9 million (2016: £174.1 million).

Interest

Net interest rose from £2.6 million to £6.4 million. Net bank interest increased from zero in 2016 to £3.9 million reflecting the debt taken on during the year to fund the Gestra and Chromalox acquisitions. We anticipate net bank interest charges in the region of £6 million in 2018.

Net finance costs under IAS19 in respect of the Group's defined benefit pension schemes reduced slightly to £2.5 million (2016: £2.6 million). We anticipate a similar cost in 2018.



"A good financial result was achieved in 2017 against the positive background of better industrial production growth."

Kevin Boyd
Group Finance Director

Associates

The Group has only one Associate holding, a 38.9% interest in Econotherm, a heat pipe technology business. Econotherm's performance in 2017 was similar to 2016, with our share, net of tax, reflecting a break-even position (2016: £0.1 million loss).

Pre-tax profit

The adjusted profit before tax of £229.1 million (2016: £177.9 million) was 29% ahead at reported exchange rates. As outlined earlier, currency movements were favourable in the year. At constant currency, adjusted profit before tax increased by 18%.

The statutory profit before tax was £192.5 million (2016: £171.4 million) and includes the items listed below that have been excluded from the adjusted profit:

- a charge of £21.6 million (2016: £6.0 million) for the amortisation and impairment of acquisition-related intangible assets;
- acquisition related items of £7.8 million (2016: £0.5 million); and
- reversal of acquisition related fair value adjustments to inventory, £7.2 million (2016: £nil million).

Taxation

The tax charge on the adjusted profit before tax, excluding the results of the Associate (which is presented on an after-tax basis), remained constant at 29.1% (2016: 29.1%). The Group's overall tax rate reflects the blended average of the tax rates in over 40 tax jurisdictions around the world in which our operations trade and generate profit. The Group comprises over 110, mainly

small, operating units reflecting our local direct sales business model.

The Group expects the recently enacted US Tax Cuts and Jobs Act (the Act) to positively impact its future US after-tax adjusted earnings, primarily due to the reduction in the US federal corporate income tax rate from 35% to 21% applicable from 1st January 2018.

In 2017 there was no impact from the Act on the Group effective tax rate on adjusted profit although there was a one-off non-cash tax credit relating to the revaluation of US deferred tax assets and liabilities of £24 million which has been excluded from adjusted earnings. For the year to 31st December 2018 we currently anticipate (based on the forecast mix of adjusted profit) that the changes will reduce the Group effective tax rate on adjusted profits to approximately 27%. We will continue to review and update our guidance in the light of future clarifications from the US authorities on the complex provisions in the legislation.

Earnings per share

Adjusted basic earnings per share increased by 29% to 220.5 pence (2016: 171.5 pence). Statutory earnings per share was 214.4 pence (2016: 165.0 pence). The fully diluted earnings per share was not materially different in either year.

Dividends

The Group has a progressive dividend policy where dividend payments follow underlying earnings per share growth while maintaining prudent levels of dividend cover. The aim is to provide sustainable, affordable dividend growth, building on our 50 year record of

dividend progress, with a compound annual increase of 11.0% over that period; in line with the 11.3% per annum increase over the last 10 years. The Board is proposing a final dividend of 62.0 pence per share for 2017 (2016: 53.5 pence) payable on 25th May 2018 to shareholders on the register at 27th April 2018. Together with the interim dividend of 25.5 pence per share (2016: 22.5 pence), the total Ordinary dividend is therefore 87.5 pence per share, which is an increase of 15.1% on the Ordinary dividend of 76.0 pence per share in 2016.

The total amount paid in dividends during the year was £58.1 million, 12% above the £51.9 million paid in 2016.

Acquisitions

Acquisitions are an important complement to our strategy for organic growth. Dedicated resource is focused on identifying opportunities to add attractive businesses that closely match our strategic, industrial and commercial requirements. During 2017 we made two acquisitions at a total cost of £484 million (including fees). Both fulfil our three broad acquisition criteria:

- geographic expansion, typically through the acquisition of a distributor in a developing market;
- products that can be integrated into our existing businesses; and
- related acquisitions that fit alongside our existing Steam Specialties and Watson-Marlow businesses.

On 3rd May the Group announced the successful completion of the acquisition of Gestra AG and its overseas subsidiaries for a cash-free, debt-free consideration of €186 million.

Gestra, headquartered in Bremen, Germany, is a technology leader in advanced industrial boiler control systems and specialises in the design and production of valves and control systems for steam and fluid process control. The business is highly complementary to the Spirax Sarco Steam Specialties division and will enhance and accelerate the implementation of Spirax Sarco's strategy for growth, as a result of its well-developed capabilities in a wide range of industries and applications. Gestra's results are reported within the three geographic segments of the Spirax Sarco Steam Specialties division.

In the eight months of ownership, Gestra has performed in line with the business case at the time of acquisition. For reference, considering Gestra's full year 2017 performance at constant currency, orders were in line with the previous year but

	Adjusted operating profit 2017 £m	Adjusted operating margin 2017 %	Adjusted operating profit 2016 £m	Adjusted operating margin 2016 %
Europe, Middle East and Africa	66.1	21.7%	50.0	21.3%
Asia Pacific	56.9	26.1%	49.9	25.8%
Americas	31.6	20.8%	29.2	21.5%
Chromalox	13.8	18.4%		
Spirax Sarco	168.4	22.4%	129.1	22.9%
Watson-Marlow	80.3	32.4%	64.3	33.1%
Corporate expenses	(13.2)		(12.8)	
Adjusted operating profit	235.5	23.6%	180.6	23.8%
Amortisation and impairment of acquisition-related intangible assets	(21.6)		(6.0)	
Acquisition related items	(7.8)		(0.5)	
Reversal of acquisition related fair value adjustments to inventory	(7.2)		–	
Statutory operating profit	198.9		174.1	

Financial Review *continued*

	2017 £m	2016 £m
Capital employed		
Property, plant and equipment	227.5	201.8
Inventories	145.4	112.5
Trade receivables	237.5	185.5
Prepayments and other current assets	46.3	38.8
Trade, other payables, current provisions and current tax	(176.9)	(128.6)
Capital employed	479.8	410.0
Intangibles including goodwill	631.3	169.7
Post-retirement benefits	(85.6)	(94.2)
Net deferred tax	(36.9)	15.0
Non-current provisions and long-term payables	(5.5)	(3.5)
Net (debt)/cash	(373.6)	27.4
Net assets	609.5	524.4
Adjusted operating profit	235.5	180.6
Average capital employed	444.9	377.3
Return on capital employed	52.9%	47.9%

sales and profits were down as expected. However, in the second half of the year, order intake was above the same period of 2016 and in the last quarter of 2017 sales and profits also returned to growth.

On 3rd July the Group completed the acquisition of Chromalox Inc. for a cash-free, debt-free consideration of US\$415 million.

Chromalox is a USA based provider of electrical products, systems and solutions for industrial process heating and temperature management. It is closely related to the Spirax Sarco Steam Specialties business in delivering thermal energy solutions to its customers through a primarily direct sales channel and has expanded our total addressable market. It forms part of the Spirax Sarco business group and is reported as a separate division within that business.

In the six months of ownership, Chromalox has performed in line with the business case at the time of acquisition. For reference, considering Chromalox's full year 2017 performance at constant currency, orders and profits were 3% ahead of the previous year, while sales were 2% down. In the second half of the year, order intake was above the same period of 2016 and in the last quarter of 2017 sales and profits also returned to growth.

Following an especially active period for the Group in 2017, we do not anticipate making any significant acquisitions in 2018 as we focus on the integration of Gestra and Chromalox. However, we continue to look at small bolt-on acquisitions and technology buys. In January 2018, we acquired a small pre-revenue company for the Watson-Marlow business group. We envisage expensing R&D investments

of approximately £1.5 million a year, over the next two years, to bring an innovative product to market. Consideration on a cash-free, debt-free basis was €3.0 million with a further €6.5 million potentially paid in the coming years on completion of certain technical development hurdles.

The two acquisitions that were made in 2016, Aflex in Watson-Marlow and Hiter in the Steam Specialties division, have been integrated successfully into the Group and are performing ahead of expectations in their first full year in our Group.

Research and development

The development of innovative new products, and getting those products to market faster and sold more effectively, is an important element of our strategy for growth.

Overall the Group's total spend in research and development in 2017 was £14.4 million (2016: £13.6 million) of which £2.9 million was capitalised (2016: £3.0 million).

Capital employed

Total capital employed has increased 17% at reported exchange rates. If the effects of currency and acquisitions are excluded, growth was 3%. This compares with organic sales growth of 6%.

Tangible fixed assets increased by £25.7 million to £227.5 million. Changes in exchange rates reduced fixed assets by £3.7 million and £26.6 million came from acquisitions, giving an organic increase of £2.8 million, around 1%. Unlike previous years, there were no significant plant expansion projects in 2017 with spend being spread over a number of investment categories including the "Future Factory"

programme at our Steam facility in Cheltenham to upgrade machine tools and an upgrade of IT equipment at Gestra's Bremen facility. Looking forward, we would expect capital expenditure to increase in 2018 to approximately £45 million as we continue to invest in the Group and, in particular, in the recent acquisitions. We generate significant cash and our first priority is to reinvest in the business, taking opportunities to generate good returns from increased efficiency, reduced costs and flexibility.

Total working capital increased by £44.1 million. The ratio of working capital to sales reduced by 220 bps to 25.3% (2016: 27.5%) mostly due to foreign exchange effects and the acquisitions made during the year. Including a full 12 months of sales for Gestra and Chromalox, the ratio would be 23.0%. On a constant currency basis, excluding acquisitions, working capital as a percentage of sales reduced by 60 bps. Going forward, we would expect working capital as a percentage of sales to increase slowly as Gestra and Chromalox expand the proportion of their revenue that go through direct sales channels.

Return on capital employed (ROCE)

ROCE measures effective management of fixed assets and working capital relative to the profitability of the business. ROCE increased to 52.9% (2016: 47.9%), an increase of 500 bps due to the high growth in profit and our close control of the various components of capital employed. At constant currency, excluding acquisitions ROCE increased by 360 bps.

Post-retirement benefits

The net post-retirement benefit liability under IAS19 fell to £85.6 million (2016: £94.2 million) primarily as a result of the return on assets being greater than the increase in liabilities despite further small reductions in the AA corporate bond rates used to discount future cash flows. In total, assets rose by £31.3 million (7%) which outweighed the increase in liabilities of £22.7 million (4%).

The main UK schemes, which constitute 88% of assets, were closed to new members in 2001 but have remained open to future service accrual. These schemes continue to be managed under a dynamic de-risking strategy whereby asset and liability values are monitored on a daily basis by the asset manager and appropriate asset allocation decisions taken as the funding level improves against pre-agreed trigger points.

During 2017 we had the results of the actuarial valuation of two of the three UK schemes as at 31st December 2016. On a technical provisions basis, the smaller of the two had a surplus of £3.5 million while the larger had a deficit of £11.2 million. As a result we agreed a deficit reduction programme with the Trustees whereby the Company will make contributions of £2.8 million per annum until 2021.

Cash flow and treasury

Cash generation in 2017 was dominated by the two large acquisitions and the growth in revenue which impacted working capital.

Cash from operations increased to £202.6 million (2016: £182.7 million) representing 86% cash conversion. There was an outflow of working capital in the year of £34.2 million. However, excluding acquisitions and on a constant currency basis, working capital as a percentage of sales fell 60 bps from 25.3% to 24.7%.

Capital expenditure grew to £35.0 million (2016: £31.3 million), in part reflecting investment in the acquisitions. We would expect capital expenditure in 2018 to increase to around £45 million as we continue to invest across the Group. In particular, we expect to begin the

construction of a new facility for Aflex that will combine the four existing UK sites into one. In total, we estimate that this will cost a net £18 million spread over the next three years, with approximately £4 million in the current year and the bulk of the balance in 2019. We also expect work to commence on the construction of new facilities in Australia, which was postponed in 2017, and to continue the accelerated equipment upgrade programme for some of our manufacturing facilities to maintain the efficiency gains seen in 2016 and 2017.

Tax paid in the year was £61.0 million (2016: £56.5 million). Tax paid was broadly in line with the tax charge in the Income Statement and included tax paid in virtually every one of the 44 countries in which the Group had operating units in 2017. Free cash flow rose to £135.2 million (2016: £126.2 million).

Dividend payments were £58.4 million, including payments to minorities, (2016: £52.1 million) and represent the final dividend for 2016 and the interim dividend for 2017.

There was a cash outflow, including fees, of £484.3 million for acquisitions in the year compared with £66.5 million in the prior year. Shares issued under the Group's various

employee share schemes gave a cash inflow of £2.4 million (2016: £1.3 million).

Net cash at the start of the year reduced from £27.4 million to a net debt figure of £373.6 million at 31st December 2017, a reduction of £401.0 million due to the two large acquisitions. This equates to a net debt to EBITDA ratio of 1.4 and in the current year we would expect this to fall further to approximately 1.0.

The Group's Income Statement and Balance Sheet are exposed to movements in a wide range of different currencies. This stems from our direct sales business model, with a large number of local operating units. These currency exposures and risks are managed through a rigorously applied Treasury Policy, typically using centrally managed and approved simple forward contracts to mitigate exposures to known cash flows and avoiding the use of complex derivative transactions. The largest exposures are to the euro, US dollar, Chinese renminbi and Korean won. Whilst currency effects can be significant, the structure of the Group provides some mitigation through our regional manufacturing strategy, diverse spread of geographic locations and through the natural hedge of having a high proportion of our overhead costs in the local currencies of our direct sales operating units.

Capital structure

The Board keeps the capital requirements of the Group under regular review, maintaining a strong Balance Sheet to protect the business and provide flexibility of funding for growth. The Group earns a high return on capital, which is reflected in strong cash generation over time. Our capital allocation policy remains unchanged. Our first priority is to maximise investment in the business to generate further good returns in the future, aligned with our strategy for growth and targeting improvement in our key performance indicators. Next, we prioritise finding suitable acquisitions that can expand our addressable market through increasing our geographic reach, deepening our market penetration or broadening our product range. Acquisition targets need to exhibit good strategic fit and meet strict commercial, economic and return on investment criteria. When cash resources significantly exceed expected future requirements, we sought to return capital to shareholders, as evidenced by special dividends declared in respect of 2010, 2012 and 2014. However, in the near term, we will look to reduce our financial leverage prior to considering new returns of capital to shareholders.

	2017 £m	2016 £m
Adjusted cash flow		
Adjusted operating profit	235.5	180.6
Depreciation and amortisation	31.6	25.6
Adjusted earnings before interest, tax, depreciation and amortisation	267.1	206.2
Cash payments to pension schemes less than the charge to operating profit	0.1	1.6
Equity settled share plans	4.6	1.9
Working capital changes	(34.2)	4.3
Net capital expenditure (including software and development)	(35.0)	(31.3)
Cash from operations	202.6	182.7
Net interest	(6.4)	–
Income taxes paid	(61.0)	(56.5)
Free cash flow	135.2	126.2
Net dividends paid	(58.4)	(52.1)
Provisions	1.2	2.3
Proceeds from issue of shares / purchase of employee benefit trust shares	2.4	1.3
Acquisitions (including costs)	(484.3)	(66.5)
Other	–	(0.5)
Cash flow for the year	(403.9)	10.7
Exchange movements	2.9	11.9
Opening net cash	27.4	4.8
Net (debt)/cash at 31st December	(373.6)	27.4

Sustainability Report

Sustainability is a key strategic priority for the Group; as we focus on improving the sustainability of our operations, and help our customers to do the same, we drive growth, increase efficiency and play our part in engineering a more sustainable future.

Our sustainability vision:

To engineer a more sustainable future.

Our sustainability mission:

We will operate sustainably through responsibly managing our business for on-going financial success; operations in accordance with laws and regulations; social and environmental impacts; ethical and social responsibilities; and customer and supplier relationships, to improve the sustainability of their operations.

We commit to engineering a sustainable future by focusing on five core areas: our workplaces, our supply chain, our environment, our customers and our communities, setting objectives and targets in each area.

Our sustainability strategy: 2017 update

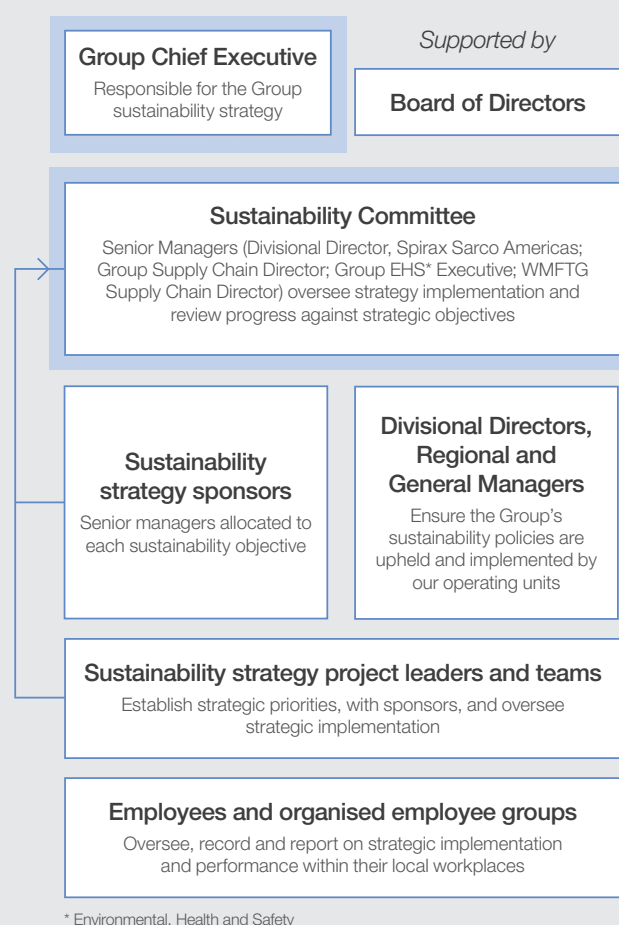
Throughout the year our focus has been on the implementation of our five year plans within each of our material sustainability topics. (Further information can be found in the reports for each topic on pages 54 to 61.)

A key priority during 2017 was to raise awareness of the sustainability strategy across the Group. During the year we launched a sustainability e-learning module, which is available in 15 languages; 2,732 employees completed the training during 2017. Increasing the number of employees who have completed the training will be a focus for 2018. We were pleased to welcome Gestra and Chromalox into the Group during 2017 and have begun to raise awareness of the sustainability strategy within these businesses and to involve them in its strategic implementation.

The Sustainability Committee met quarterly throughout the year, with presentations by the project leaders of each topic. The Committee oversees progress and performance and supports the implementation of the strategy. Progress was reported to the Group Chief Executive, Executive Committee and Board of Directors.

Managing sustainability

We have a well-defined management structure to help us achieve our sustainability objectives.



“Engineering sustainable value creation requires the consistent implementation of ethical business practices, respect for the environment and our local communities, and a commitment to delivering outstanding solutions to customers.”

Nicholas Anderson
Group Chief Executive

Sustainability objectives

1. Our workplaces



Engineering for excellence

- To achieve Health and Safety (H&S) excellence through engagement, empowerment and fostering good behaviours, while targeting zero accidents.
- To promote diversity and equality through employment practices that are free from discrimination and in accordance with international human rights principles.
- To act in accordance with our Core Values, upholding a zero tolerance approach to bribery and corruption.
- To invest in developing the knowledge and skills of our people.

2. Our supply chain



Engineering the responsible way

- To focus on continuous improvement in our supply chain with particular emphasis on sustainability.
- To incorporate sustainability factors into our product design process, including energy efficiency, emissions, serviceability, recyclability and the availability of compliant and ethically sourced materials.

3. Our environment



Engineering for our planet

- To limit the environmental impacts of our operations through reducing water use and minimising and managing effluent and waste.
- To minimise the environmental impacts of our operations by managing energy consumption with the aim of reducing carbon emissions.

4. Our customers



Engineering sustainable solutions

- To provide products and services that improve the sustainability of our customers' operations through helping them reduce their environmental impacts, improve plant efficiency and productivity, and maintain product quality.

5. Our communities



Engineering better futures

- To engage positively with the communities in which we operate and offer financial support to approved charities.

Sustainability spotlight: achievements in 2017

Spirax Sarco Singapore recognised at iChemE awards

During 2017, Spirax Sarco Singapore received a highly commended award in the Training and Development category, from the Institution of Chemical Engineers (IChemE), Singapore in recognition of the company's provision of industrial steam training in Myanmar.

Since 2015, Spirax Sarco has partnered with the Myanmar Engineering Society to provide a month-long training course to engineering students to build their steam systems knowledge and help improve energy management in Myanmar. Spirax Sarco provides all of the training materials, stationery and expertise for the course, and three company employees give a total of 120 hours a year in support of the programme.

The iChemE awards, which are widely recognised as the world's most prestigious chemical engineering awards, reward organisations that deliver engineering excellence, societal benefit and sustainable impacts.

Broad-Based Black Economic Empowerment, South Africa

In 2017 Spirax Sarco took steps to support the "Broad Based Black Economic Empowerment" initiative and at the same time give something back to the local community.

Spirax Sarco Services, a subsidiary of Spirax Sarco South Africa (Pty) Ltd, was established to provide on-site maintenance services to customers in South Africa. (Spirax Sarco South Africa will continue to offer all other Spirax Sarco solutions and services.) The new company is 51% owned by a charity called Tomorrow Trust, which supports orphaned and vulnerable children throughout their educational journey.

The charity focuses on developing academic and life skills, supporting students through school and college until they graduate fully prepared for a career in their field of study, empowering them to reach their full potential as self-sustaining members of society.



FTSE4Good

Spirax-Sarco Engineering plc is a constituent of the FTSE4Good UK Index

FTSE Group confirms that Spirax-Sarco Engineering plc has been independently assessed according to the FTSE4Good criteria and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index company FTSE Group, FTSE4Good is an equity index series that is designed to facilitate investment in companies that meet globally recognised corporate responsibility standards. Companies in the FTSE4Good Index Series have met stringent environmental, social and governance criteria, and are positioned to capitalise on the benefits of responsible business practices.

Sustainability Report *continued*

Engineering for excellence



Health and Safety

Objective: To achieve Health and Safety (H&S) excellence through engagement, empowerment and fostering good behaviours while targeting zero accidents

Target: Zero accidents



"As we focus on leading indicators we increase risk awareness and establish a culture that drives safe behaviours."

Mark Wyatt
Group Environment, Health and Safety Executive

Overview

Health and Safety (H&S) excellence is the cornerstone of our business. Reducing accidents and maintaining a safe working environment for our employees, contractors, visitors and customers are our primary aims. We are actively promoting a H&S culture, encouraging our employees to adopt safe working practices at all times. The Group Chief Executive and Board of Directors oversee our H&S programmes and performance, with H&S a standing agenda item at every Board meeting. All Group companies are required to adhere to the Group H&S Policy, operate within Group programmes and have detailed H&S management systems in place locally.

Performance in 2017

During 2017, our over seven day lost-time accident rate fell to 3.0 accidents per 1,000 employees (2016: 3.4). We benchmarked our performance against RIDDOR's "Over 7-Day Rate of Reported Non-Fatal Injury Per 100,000 Employees, 2012/13-2016/17" in the UK manufacturing sector, which was 365 (3.65 per 1,000 employees). Our H&S performance in 2017 was therefore better than the industry average. Excluding businesses acquired in 2017, the number of accidents resulting in over three days of lost time, which includes over seven day accidents, fell to 20 in 2017. Four over three day accidents occurred post-acquisition in businesses that joined the Group in 2017, taking the total number of over three day accidents to 24. During the year, 14 of our 26 manufacturing sites did not have any over three day accidents and Watson-Marlow MasoSine maintained their world-class safety performance, this year achieving 18 years without a lost-time accident.

We significantly increased the number of H&S training units delivered to 24,747 (2016: 14,958). As part of our Behavioural Based Safety programme we have focused on reporting of employee concerns and near misses. 5,485 employee concerns were raised during 2017 (2016: 7,845). Each concern was reviewed and corrective actions taken. A total of 562 near misses were reported during the year (2016: 250). Each near miss was thoroughly investigated, corrective action taken, and learning shared across the Group. The high number of concerns raised and near misses reported demonstrates the success of our awareness campaigns and

the embedding of a H&S culture across the Group, which empowers employees to raise concerns and take action to report near misses. We employ 39 full-time, qualified H&S professionals and additional part-time EHS employees (2016: 32). As part of our due diligence process to ensure compliance with Group policies and procedures, during 2017 we completed 787 internal continuous improvement EHS inspections across our supply sites (2016: 489).

At the end of the year, 15 of our 26 manufacturing sites held OHSAS 18001 certification and a number of companies were working towards achieving it (2016: 11 of 19). All Watson-Marlow manufacturing sites established Behavioural Based Safety programmes during 2017.

During 2017, we opened a new Distribution Centre in Singapore. During the extensive refurbishment of the building we followed our internal Management of Change procedure to ensure the highest standards of H&S were met. The Centre was opened without any lost-time accidents.

Actions taken in 2017

We concentrated on two key themes throughout 2017: first, the training of managers and second, investment in engineering controls to reduce risk.

The first session of our Worldwide Leadership Conference was focused on workplace safety. The 107 senior managers present were instructed in the steps required to develop a strong safety culture. The training also focused on the importance of engaging employees and monitoring H&S performance using leading indicators. An external guest speaker delivered a powerful presentation about a serious industrial accident that he encountered while working for a global industrial company and the long-lasting impact this had on individuals and the business. During 2017, we also delivered Institution of Occupational Safety and Health "Safety for Executives and Directors" training to 30 executives and senior managers within the business.

To further strengthen the safety culture, programmes and performance within our Spirax Sarco sales companies, we created regional EHS leadership roles and have appointed nine new EHS professionals whose remit will be to provide advice, training and H&S solutions to our companies, while implementing the Group's roadmap to EHS excellence.

During 2017, we removed 59 machines from the business after a H&S risk was identified.

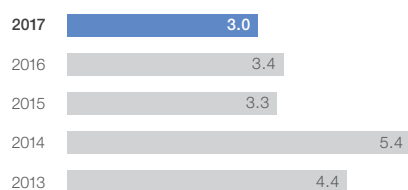
We have also started to align recent acquisitions, Gestra and Chromalox, to our H&S programmes and are investing in increasing the number of H&S professionals employed in these businesses.

Next steps for 2018

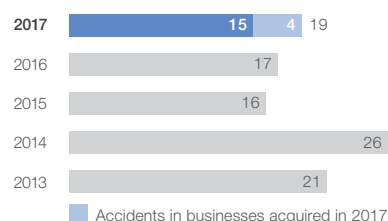
- Roll out cross-business H&S audits across the Steam Specialties division
- Create and deliver a bespoke Safety Leadership training programme for senior managers
- Roll out and adoption of the Group Lock-Out Tag-Out Policy across supply sites
- Embed regional EHS leaders within the Steam Specialties division

H&S accidents with over 7 days of lost time per 1,000 employees

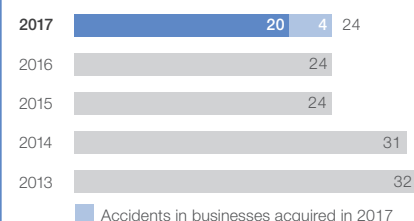
KPI



H&S total number of accidents with over 7 days of lost time



H&S total number of accidents with over 3 days of lost time*



* Includes over 7 day lost-time accidents.

Sustainability Report *continued*

Engineering for excellence



Employment practices

Objective: To promote diversity and equality through employment practices that are free from discrimination and in accordance with international human rights principles

Target: 33% of women on our Board, as opportunities arise



"Equitable and fair employment practices are central to ensuring the ethical and sustainable operation of our businesses."

Jim Devine
Group Human Resources Director

Overview

We have policies and commitments around the way that we treat people and we base our employment practices on our Core Values, in particular the value of respect. Along with the Group Whistle-Blowing Policy, our HR policies and systems provide a strong framework to protect the rights of employees and ensure their fair and equitable treatment.

A diverse workforce brings vitality and creativity to our workplaces and increases our ability to sustainably create value for our stakeholders. We seek to increase diversity at all levels of the organisation, with a particular focus on gender diversity. Our remuneration practices are designed to reward and recognise skills, experience and achievement, and to be free of gender bias. Employees are remunerated fairly for the work that they do and we do not promote or require excessive working hours.

Applicants and employees are treated equally during recruitment, transfer, promotion, training or salary assessment, and we do not discriminate on the basis of an individual's gender, sexual orientation, age, religion, beliefs, maternity, or any other protected characteristic, as prescribed by law.

We are a member of the Business Disability Forum (UK) and the Employers Network for Equality & Inclusion (UK), give full and fair consideration to applications for employment made by disabled persons, having regard to their abilities and aptitudes, and support the continuing employment of individuals who become disabled during their employment with the Company. Disabled persons are entitled to the same professional development and opportunities for promotion as other Company employees.

Our Group Human Rights Policy recognises the right of all individuals to lead a dignified life, free from fear and want and free to express independent beliefs, as well as the right of employees to equal opportunities, non-discriminatory treatment, a safe working environment and a fair wage. We do not use forced, compulsory or child labour either directly or within our supply chain; we respect the rights of children; maintain workplaces free of victimisation, harassment or bullying; and accept the rights of employees to association and collective bargaining.

We communicate with employees through a variety of channels, to ensure that they have an understanding of the operations and performance of the Group. We undertake confidential employee surveys to assess our performance as an employer and have well-established grievance and whistle-blowing procedures to enable employees to raise concerns.

Performance in 2017

During 2017, two sizable acquisitions increased our global headcount by nearly 30%. These two businesses have a similar gender profile to the rest of the Group, meaning that our gender balance remains relatively unchanged with 5,628 males (2016: 4,243) and 1,630 females (2016: 1,141) across the workforce as a whole and 490 male (2016: 392) and 103 female (2016: 77) senior managers. However, on a like-for-like basis, excluding acquisitions, we made good progress in improving our senior management gender diversity, with the percentage of female senior managers increasing from 16% in 2016 to 20% in 2017. Board gender diversity remained unchanged with seven males and two females. During 2017, we participated in the FTSE Women Leaders (Hampton-Alexander) Review. With 22.2% female representation on our Board and 19.5% of Executive Committee and their Direct Reports combined being female, we were ranked 124th in the FTSE 250 for senior management gender diversity. We recognise that further actions need to be taken to increase the representation of women.

Actions taken in 2017

During 2017, we formalised our commitment to the promotion of diversity within our business as we established a Group Diversity and Inclusion Policy. We also increased our target for women on the Board to 33%, as opportunities allow. In accordance with Gender Pay Gap Reporting requirements in the UK, we implemented Gender Pay Gap reporting. Our 2017 Gender Pay Gap Report can be found on our website.

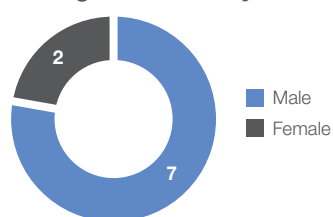
During 2017, we worked hard to address our gender imbalance through fair and transparent recruitment practices and compensation packages; talent management and succession planning; and by seeking to recruit and appoint females into senior management positions within the Group. In addition, we sought to redress gender stereotypes through educational outreach programmes in schools and universities, we continued to sponsor the Cheltenham Science Festival and partnered with the Cheltenham Science Group, a community interest company that is seeking to inspire children to love science, engineering, technology and maths.

As part of an on-going assessment of our employment practices and our due diligence processes to ensure that our policies are upheld and implemented across our businesses, we initiated a Group-wide HR survey and, for the first time, implemented a Global Employee Survey. Following the Employee Survey we established employee focus groups to enable more detailed feedback on areas identified for improvement and to ensure open and honest dialogue between our employees and senior management.

Next steps for 2018

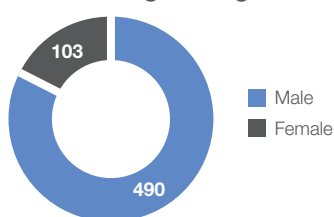
- We will apply a Group-wide focus to identify opportunities to increase female representation in senior management roles and will define an action plan to help us to achieve this

Board gender diversity*

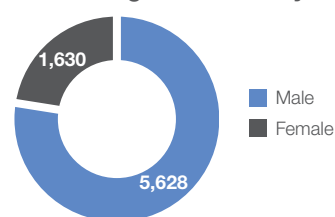


* At year end

Senior management gender diversity*



Workforce gender diversity*



Sustainability Report *continued*

Engineering for excellence



Ethical business practices

Objective: To act in accordance with our Core Values, upholding a zero tolerance approach to bribery and corruption

Target: Zero incidents of bribery and corruption



“Developing and supporting a culture of integrity and ethical standards is of the highest importance for the Group.”

Andy Robson
General Counsel and Company Secretary

Overview

The policies, practices and employee training put in place across the Group are developed specifically to provide a foundation for ethical business operations and to foster the Core Values of Respect, Accountability, Passion, Integrity and Delivery. Our Anti-Bribery and Corruption (ABC) Policy, along with our ABC employee training, is a fundamental part of our programme to establish guidelines and promote a culture of ethical behaviour in our operations across the globe. This training is provided in 15 languages in order to ensure that it is effective and to also convey the significance of compliance with these standards across the business worldwide. We are committed to bringing our Core Values and culture to our newly acquired businesses, Gestra and Chromalox, and to ensuring that we are a business free from bribery and corruption at all levels.

Performance and actions taken in 2017

We continue to provide a third-party, confidential whistle-blowing helpline, Safecall, to allow employees to raise concerns about any wrongdoing in the workplace. Safecall received several calls in 2017, an indication that the service is being successfully presented and made available to employees across the Group. All reports received by Safecall were thoroughly investigated by a relevant management team member and, as appropriate, follow-up measures were implemented. The Audit Committee reviewed post-action reports to ensure the management response was satisfactory. With the addition of approximately 450 new employees following the Gestra acquisition, the Safecall whistle-blowing helpline was rolled out to the Gestra operating companies. Chromalox, with its 1,150 employees, has continued to use Convercent, a similar third-party whistle-blowing hotline provider. Both Gestra and Chromalox have procedures in line with Group policy to investigate and address any concerns raised through the whistle-blowing hotlines.

Our online ABC training module was completed by 317 employees in 2017, taking the total number of employees who have completed the training since its introduction in 2012 to 4,777. A further 659 employees completed an ABC refresher course during 2017. Chromalox continued to implement its existing ABC training course for its employees, but will adopt the Group's ABC training in 2018.

Compliance with both the ABC training and the whistle-blowing procedures are validated by our internal and external auditing functions.

Next steps for 2018

- Refresh our ABC training by creating and rolling out a new ABC training course to all Group companies
- Continue to promote the use of the whistle-blowing hotline and online Global Gifts and Hospitality register across the Group



Training

Objective: To invest in developing the knowledge and skills of our people

Target: Increase the impact of our technical and leadership training offering



“Developing our people is essential to ensure that we deliver ever improving service and products to our customers.”

Shaun Laubscher
Head of Talent and Organisational Development

Overview

Developing the knowledge and skills of our people is central to our strategy for growth and for the long-term sustainability of our business. All employees are actively encouraged to pursue development opportunities. As they enhance their knowledge and skills we are better able to deliver value to our customers and provide shareholder value.

We have 53 training centres located worldwide, through which we deliver technical training to our employees, and have developed an extensive e-learning library. Our sales and service engineers undergo rigorous on-the-job training and mentoring and employees at all levels are encouraged to participate in professional development opportunities.

Performance and actions taken in 2017

During 2017, we continued to strengthen the knowledge and skills of our sales and service teams and to develop our pipeline of talent. In 2016 we established the Spirax Sarco Academy to oversee the learning and development of the Spirax Sarco Steam Specialties division. By the end of 2017 we had translated the training materials and made them available in 16 languages and rolled out the Academy's compliance programmes to almost 1,100 of our customer facing employees.

Watson-Marlow also invested in strengthening and expanding its training programmes, adding 50 new e-learning units to the company's online training library during 2017, taking the total number of courses to 70. Comprehensive online product training was delivered to support new product releases. In addition, four three-day sales conferences were held, attended by nearly 400 employees, which focused on product and market training to support and strengthen the effectiveness of the company's direct sales teams.

13 senior managers attended a two-week Advanced Management Programme, run by the Ashridge Business School, during the year, taking the total number who have attended to 85. The programme covers such topics as effective people management; driving growth and innovation; and delivering results. By investing in the professional development of our managers we better equip them to support the long-term success of the business. In addition, 31 managers participated in our Advancing High Performance leadership programme.

Next steps for 2018

- Continue to roll-out the training materials of the Spirax Sarco Academy across the customer facing employees of the Steam Specialties division
- Enhance our leadership development offering to managers and senior leaders

Sustainability Report *continued*

Engineering the responsible way

End-to-end supply chain

Objective: To focus on continuous improvement in our supply chain with particular emphasis on sustainability

Target: 90% of direct material suppliers, by spend, of recently acquired businesses (Hiter, Aflex, Gestra and Chromalox) to have signed our Supplier Sustainability Code by Dec. 2018



"By focusing on achieving excellence in all aspects of our supply chain, while also monitoring the standards of our suppliers, we enhance the sustainability of our operations."

Ian Farnworth
Group Supply Chain Director

Overview

Improving the sustainability of our end-to-end supply chain, which encompasses all the activities that transport and transform materials and components into finished products and delivers them to customers, is a key strategic objective for the Group.

We operate a regional manufacturing strategy, with 26 manufacturing sites globally. By manufacturing close to the point of sale we improve customer service by reducing lead times, ensure that our products meet local specifications, reduce transportation requirements for finished products and provide local employment in the regions in which we operate.

A central component of our supply chain sustainability programme is our Supplier Sustainability Code (Code), which outlines the expectations that we have for suppliers, particularly in relation to the fair treatment of employees and their environmental impacts, and enables us to embed sustainability criteria into our purchasing processes.

The Code specifies that our suppliers must not use forced, bonded or non-voluntary labour; should establish recognised employment relationships in accordance with national laws, including non-discriminatory employment practices, maximum working hours and the freedom of association; and exercise clarity in relation to wages.

Suppliers' facilities must be constructed and maintained to an acceptable standard and their activities must be safe for the health of their employees, their contractors, the local community and the users of their products. Suppliers must have an appropriate H&S policy, H&S operating and management systems and seek to prevent work-related injuries and illnesses, through effective risk mitigation.

Suppliers must avoid the use of substances dangerous to their employees' health and safety; including, but not limited to, carcinogenic, mutagenic and toxic to reproduction substances. All products and services delivered by suppliers must meet the quality and safety standards required by applicable laws.

We expect our suppliers to operate within the laws of their country, conduct business ethically and free from bribery or corruption, and adhere to the UN Guiding Principles on Business and Human Rights and the Core Conventions of the International Labour Organisation. We do not countenance the use of child labour.

Lastly, our suppliers are expected to take steps to mitigate their environmental impacts, deliver a high product quality and source responsibly.

Modern Slavery Act statement

Spirax-Sarco Engineering plc prides itself on setting high standards for sustainable and ethical business practices in its operations worldwide. Included in those high standards is a commitment to respecting and protecting the human rights of all individuals and combating all forms of modern slavery or human trafficking in all parts of our business organisation, including our supply chain. We are continuously developing and improving our business practices and policies in line with that commitment. We support a strong, collective stand to identify, prevent and raise awareness of modern slavery and human trafficking practices in all parts of the world.

To read the statement in full, please visit the Group's website.
www.spiraxsarcoengineering.com/Sustainability/Pages/our-supply-chain.aspx

Performance in 2017

Having exceeded our phase 1 target of 90% of direct material suppliers, by spend, to have signed the Code in 2016, our phase 2 target was for 90% of sales company direct suppliers, by spend, to have signed our Code by the end of 2017.* 86% of suppliers signed the Code in 2017 taking the total number of suppliers who have signed the Code, excluding new businesses, to 94%. We will continue to focus on reaching our phase 2 target in the early part of 2018. During 2017, we exited 12 suppliers who were not prepared to sign the Code and we are working with the remaining suppliers on a continuous improvement basis to further develop their capabilities.

In accordance with our Group policies, no breaches of Human Rights or incidents of modern slavery were identified in our supply chain during 2017.

* Excluding suppliers of businesses acquired in 2016 or 2017.

Actions taken in 2017

During 2017, we continued to roll out the Code to all new direct material suppliers and extended the scope to include suppliers of our sales companies. We also commenced a limited roll out of the Code into recently acquired businesses, in those areas deemed to be of greatest risk.

We enhanced our monitoring of the environmental and sustainability performance of suppliers as we formalised a broader set of criteria into our supplier audits and began to audit suppliers against these more rigorous criteria. This due diligence process enables us to monitor supplier performance and conformity with Group policies.

We have undertaken training of key personnel in supply chain risk management and reinforced and standardised our approach to supply chain risk management.

Next steps for 2018

- Phase 3 roll out of the Code to direct material suppliers of recently acquired businesses Hiter, Aflex, Gestra and Chromalox
- Expand supplier audits incorporating sustainability criteria and enhance the training of key audit personnel
- Apply audit results in the supplier selection process to preferentially select suppliers
- Continue to mitigate supply chain risks

Sustainability Report *continued*

Engineering the responsible way/Engineering for our planet

Product responsibility

Objective: To incorporate sustainability factors into our product design process, including energy efficiency, emissions, serviceability, recyclability and the availability of compliant and ethically sourced materials

Target: Continuing compliance with all applicable EHS standards, while meeting customer expectations of performance and cost



“Applying eco-design principles to new product development enables us to deliver safe and ethically produced products to the market.”

Stephen Dewfall
Group R&D Manager (Steam Specialties)

Overview

We apply robust product development processes and incorporate best practice in the areas of design-for-manufacture and compliance with safety and environmental standards, to ensure that our products are safe for our customers to use, are manufactured using ethically sourced materials and are environmentally sound. We apply eco-design principles; avoid the use of hazardous materials; consider the availability of raw materials; and place strong emphasis on in-service performance, product life and continuous improvement.

All products and product developments undergo assessment and validation by analysis or physical testing, in line with legislation and national standards relevant to the location of sale or release. Structured internal compliance processes enable the identification of regulatory requirements and compilation of supporting evidence. Where applicable, third-party validation testing is employed. Central policies exist to ensure responsibilities for product safety and compliance are clear and understood.

Our products are sold with Installation and Maintenance Instructions, ensuring that they can be safely installed and maintained.

Performance and actions taken in 2017

During 2017, we established an auditable process to link supply chain sustainability to our eco-design and new product development processes within the Spirax Sarco Steam Specialties business and Watson-Marlow Ltd. This means that we will only design new products that contain materials available from suppliers that have signed the Supplier Sustainability Code, preventing us from specifying materials or substances that do not comply with eco-design standards or from using suppliers that cannot meet our required standards.

We also completed a best practice review of eco-design practices across the Group (excluding the 2017 acquisitions).

Next steps for 2018

- Complete a best practice review of new product development processes in recently acquired businesses Gestra and Chromalox
- Standardise Group eco-design principles across the new businesses
- Improve the use of quality and warranty returns data as an indicator of the success of our eco-design processes
- Identify a feedback mechanism that uses production quality metrics to assess the manufacturing effectiveness of our eco-design principles

Water and waste

Objective: To limit the environmental impacts of our operations through reducing water use and minimising and managing effluent and waste

Target: To identify opportunities for waste reduction, increase recycling rates and reduce water use

Overview

We view water as an important resource that requires careful management and take steps across our business to use it efficiently. We select specialist contractors to manage waste, focusing on technical recycling capabilities and safe Duty of Care practices.

Performance and actions taken in 2017

During 2017, we appointed a third-party adviser to review our water and waste data collection processes, prior to seeking external verification of the data. The review identified some potential verification challenges for waste data from sites outside of Europe. We have decided not to report global Group waste data until assurance processes are fully implemented and demonstrate improved levels of material confidence.

All of our European sites operate under the EU Waste Framework Directive. Therefore, we are confident in the accuracy of their data. During 2017, our European sites (excluding acquisitions) generated 1,811 tonnes of waste, of which 1,543 tonnes (85%) was recycled and 268 tonnes (15%) was sent to landfill. There were no incidents relating to breaches of legislation or harm to the environment.

During 2017, our manufacturing facility and Group headquarters in Cheltenham became the first of our businesses to achieve zero waste to landfill and, in a drive to minimise waste and highlight the importance of waste management, we ran our 2017 Worldwide Leadership Conference as a “paperless” event. This was achieved by providing all delegates with electronic devices for viewing presentations and conference materials, and making notes. By going paperless, we saved over 41,000 sheets of paper. Our water use varies considerably due to changing demands for steam generation during new product development, quality and safety assurance testing. During 2017, our global operations (excluding acquisitions) had a total water consumption of 167,000m³.

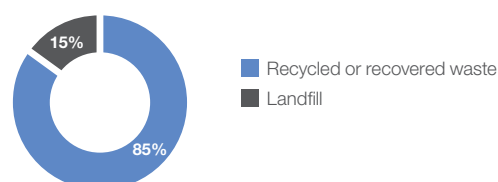
To reduce water consumption, an increasing number of our sites, particularly in water stressed regions, are harvesting grey water for site irrigation and flushing toilets; this is a design requirement for new manufacturing plants.

Throughout the year we completed EHS site audits and “treasure hunts” across our Spirax Sarco and Watson-Marlow facilities, to review compliance with the Group EHS Policy and to identify opportunities to improve our environmental sustainability.

Next steps for 2018

- Sustain our commitment to waste minimisation and zero waste to landfill through the example of our Cheltenham operations
- Improve waste data quality and reporting from all global operations
- Raise awareness of water as a key resource and reduce consumption
- Roll out environmental audits in Gestra and Chromalox

Waste recycling, Europe, 2017* %



* Excludes businesses acquired in 2017.

Sustainability Report *continued*

Engineering for our planet



Energy and carbon

Objective: To minimise the environmental impacts of our operations by managing energy consumption with the aim of reducing carbon emissions

Target: To achieve a year-on-year reduction in our energy consumption and CO₂e emissions intensity



"We are proactively managing our energy use and reducing the CO₂e emissions intensity of our operations."

Richard Hildersley
Group Energy & Environment Manager

Overview

Anthropogenic climate change is a global challenge that can only be addressed through the concerted effort of individuals, businesses and governments. In accordance with national and international directives, we endeavour to reduce the carbon intensity of our business and minimise our carbon footprint.

We employ an "operational control" definition to outline our carbon footprint boundary. Included within that boundary are manufacturing facilities, administrative and sales offices where we have authority to implement our operating policies. For each of these entities we have measured and reported on our relevant Scope 1 and Scope 2 emissions. (Scope 1 refers to direct emissions from sources owned or controlled by the Company; Scope 2 refers to indirect emissions resulting from the purchase of energy generated off site, including electricity.) Excluded from our footprint boundary are entities where we do not have operational control. In 2017 this included Econotherm. Also excluded from the footprint boundary are emission sources from operating companies established or acquired during 2017. We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2017 to calculate our total CO₂e emissions figures.

Performance in 2017

Our CO₂e 2017 emissions data have been audited by TÜV UK Ltd, part of TÜV NORD Group, which has provided limited assurance as follows:

"TÜV UK Ltd is acting as the independent verifier of the carbon footprint of Spirax Sarco. Based on our checks and reviews, taking into consideration a materiality level of 10% and a limited level of assurance we have found no evidence suggesting that the calculated greenhouse gas emissions are materially misstated and, hence, they are not an unreasonable assertion of the greenhouse gas-related data and information.

Further, no facts became evident, which led us to the assumption that the calculation was not carried out in accordance with the applied international norm for the quantification, monitoring and reporting of GHG emissions (GHG-Protocol).

The emissions for the reporting period 1st January 2017 to 31st December 2017 (inclusive) are: 17,230 tCO₂e for Scope 1 and 14,828 tCO₂e for Scope 2.

TÜV UK Ltd, London, February 2018"

The increase in total emissions reflects the expansion of our business, including the new operations that were acquired or established during 2016 or that began trading on 1st January 2017, whose emissions were included for the first time in 2017, set against emissions reductions made elsewhere across the Group as a result of our energy saving activities. Excluding new businesses we reduced our emissions by 2%. Despite the total increase, we are pleased to report that we made further progress in reducing the emissions intensity of our business. During 2017, our emissions intensity reduced by 4%, giving a 20% reduction since 2013, our benchmark year.

Actions taken in 2017

In addition to the environmental site audits and "treasure hunts" that were carried out during the year, the Group Energy and Environment Manager conducted several site reviews to assess conformity with Group policy and to identify possible opportunities for improvements.

To facilitate ease of reporting, during 2017 we undertook a review of global carbon accounting software, with the intention of procuring our selected software in 2018.

Spirax Sarco Ltd (UK), Spirax Sarco China and Watson-Marlow Ltd (UK) achieved certification to energy management standard ISO50001, taking the total number of our manufacturing sites with the standard to six. All remaining Spirax Sarco steam business manufacturing sites are actively working towards certification to the standard.

An efficiency review of the Combined Heat and Power plant in Spirax Sarco UK led to a 6% increase in productivity, with further improvements, including grid export, identified for 2018. Compressed air efficiency was significantly improved in Spirax Sarco USA, through investment and management techniques, improving energy efficiency. Spirax Sarco France also undertook a detailed review of compressed air systems within their manufacturing facility.

Next steps for 2018

- Implement carbon accounting software
- Further extend factory lighting conversion to LED technology across the Spirax Sarco steam business and Watson-Marlow
- Implement compressed air system enhancements in Spirax Sarco France, USA and UK, utilising waste heat recovery and through optimising hardware and controls

CO₂e intensity tonnes per £m of inflation adjusted sales, at constant currency*

2017	36.8
2016	38.2
2015	39.1
2014	44.9
2013	45.8

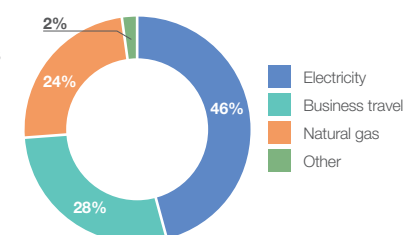
* Excludes businesses established or acquired in 2017.

Total Group CO₂e emissions (scope 1 and 2) tonnes*

2018	17,230	14,828	32,058
2017		30,704	
2016		30,050	
2015		34,431	
2014		33,961	

■ Scope 1 ■ Scope 2

Greenhouse gas emissions inventory*



Sustainability Report *continued*

Engineering sustainable solutions

Customers

Objective: To provide products and services that improve the sustainability of our customers' operations through helping them reduce their environmental impacts, improve plant efficiency and productivity and maintain product quality

Overview

Our direct sales business model is founded on our ability to provide solutions to customers that improve their operational sustainability through increasing efficiency, reducing energy, water or chemical use, or reducing waste.

Reducing energy use and lowering CO₂e emissions are key sustainability drivers for our customers who are seeking to lower costs and increase their environmental sustainability. We provide products and services that help steam users to reduce their energy consumption, increase the efficiency of their steam systems and recover and reuse thermal energy. Our electrical process heating and temperature management solutions can deliver energy savings and efficiencies, and the unique action of our pumps can provide significant energy savings over other pump types. For example, MasoSine pumps, from Watson-Marlow, are particularly adept at handling viscous fluids, which other pumps require large electrical motors to operate. Switching to a MasoSine pump for high viscosity pumping applications can deliver up to 50% power savings in comparison to lobe or circumferential piston pumps.

The products and services of our Steam Specialties division can deliver efficiencies in water use, reducing total site consumption. For example, by improving the efficiency of condensate return, our products prevent condensate from being discharged to the drain, enabling its reuse. We also supply solutions to capture and utilise flash steam, which would otherwise be lost to atmosphere, and improve the quality of boiler feedwater, reducing the frequency of boiler "blow-down", thus reducing water use. The application of Watson-Marlow pumps can also significantly reduce water use. Within the mining industry, the installation of a Bredel pump, from Watson-Marlow, can reduce water consumption by over 70%, equating to savings of 900,000m³ of water per year compared with a common centrifugal pump.

Performance in 2017

We estimate that a select range of energy management products sold during 2017 will reduce our end users' CO₂ emissions by 5.8 million tonnes annually. The methodology used to determine this external impact has been independently assessed with the assistance of Ricardo Energy & Environment. The methodology used was updated during 2017 to include an expanded range of Spirax Sarco steam business products (see Actions in 2017) and to ensure that the underlying principles are consistent with current data on steam system operations as well as taking revised emission factors into account. The calculation is based on a selected range of

energy saving products for which we can quantify savings with reasonable accuracy. Many other of our products, such as blow-down heat recovery, FREME, Heat Pipe Heat Exchangers, Thermocompressors and Vapour Condensers, will also provide CO₂e savings but as these are not easily quantifiable they are excluded from our methodology.

Actions taken in 2017

Following a review of the products included in our customer CO₂ emissions saving metric, we identified a small selection of additional steam system products for which it is possible to quantify CO₂ savings with sufficient accuracy to enable their inclusion in the calculation. Additional products included within the metric in 2017 are: Smart Electro-Pneumatic Positioners, which have industry-leading low levels of air consumption and reduce compressed air usage, having a direct impact on energy consumption and CO₂ emissions; BSA Bellows Sealed Stop Valves, which eliminate stem seal leakage; and Spirax EasiHeat packages, which generate hot water using steam, avoiding the energy losses associated with the storage of hot water. The assumptions and methodology used to include these additional products were reviewed by Ricardo Energy & Environment, who also reviewed the assumptions for all other products included in the calculation (Flash Vessels, Steam Traps, Condensate Pumps and Flow Meters) and updated the model.

During the year we undertook two test projects to demonstrate the sustainability of the Qdos pump, from Watson-Marlow. In the first, we completed a benchmark test comparing the accuracy of the Qdos pump against two key competitor pumps, to demonstrate the chemical savings, in litres, of the existing installed base of Qdos pumps. The test has been completed and a White Paper is in development. In the second test, the Qdos pump was monitored in a paper industry application, to demonstrate the positive environmental impacts of the pump as expressed in fossil fuel energy consumption savings and subsequent reduction in greenhouse gas emissions. The test has been completed and data is being analysed.

Next steps for 2018

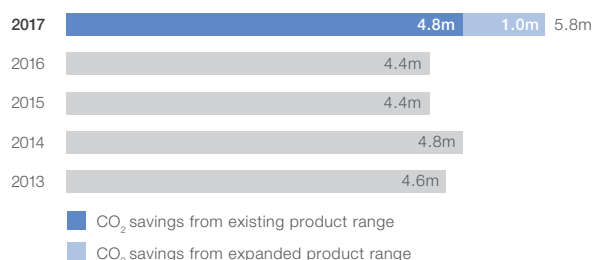
- Conduct a customer trial to analyse the impact of de-scaling management on heat exchanger efficiency
- Assess the impact of single use systems on energy and water savings in the Biotechnology industry
- Complete a customer trial to examine the energy saving benefits of using Qdos pumps in a moulded fibre application
- Explore the feasibility of using Watson-Marlow technology to pump solid butter in a dairy application and assess the energy saving benefits

Case study: Spirax Sarco Australia helps customer reduce gas use by 23%

In a drive to increase energy efficiency and reduce gas consumption at their meat processing plant in Dubbo, New South Wales, Fletcher International Exports identified steam system efficiency improvements as an effective way to rapidly reduce gas consumption. Working with Fletcher's on-site engineering team, Spirax Sarco identified four key areas for improvement 1) recover flash steam and reuse it in other processes, 2) increase condensate return, 3) increase boiler house efficiency and 4) improve steam distribution. The engineered solution designed by the project team had significant benefits, which were measured and verified by independent, third-party engineers.

As a result of the installed solution, gas consumption reduced by 23%, saving an estimated 27,000 gigajoules of gas per year, equating to monthly savings of approximately AUS\$45,000 (over £26,500), or AUS\$540,000 (£319,000) per year. In addition to energy savings, boiler water consumption is expected to reduce by eight million litres a year and chemical use has also been reduced, saving a further AUS\$10,000-15,000 (£6,000-£9,000) a year. Including installation, the project is expected to have a payback period of 12 months or less.

Tonnes of CO₂ emissions our end users saved as a result of purchasing our energy management products*



* Spirax Sarco steam products only, excludes Gestra.

Sustainability Report *continued*

Engineering better futures



Community engagement

Objective: To engage positively with the communities in which we operate and to offer financial support to approved charities

Target: All Group manufacturing companies to participate in at least one community engagement activity in 2018

Overview

As a global business, we can be a force for good in our local communities around the world. We seek to have a positive impact in the communities in which we operate by making charitable donations to worthwhile causes and contributing time, resources and expertise where there is a local need. Our Group Charitable Donations Policy guides our community engagement activities. Our primary focus is education (particularly in the sciences and engineering), but we seek to identify and respond to local needs and will also offer support for the underprivileged young, disadvantaged, disabled and elderly, and contribute to natural disaster relief.

Performance in 2017

During 2017, we again increased funding to the Spirax Sarco Group Charitable Trust, which made 56 donations ranging in size from £150 to £20,000 with a total value of £231,150 (2016: £180,150). For example, we donated £20,000 to the National Star College in Cheltenham, which provides specialist further education and training to young people aged 16 to 25 with complex physical, educational and emotional needs, taking total donations from the Trust to the College to £159,000 in the last 10 years. We also donated £20,000 each to the American Red Cross' Hurricane Irma and Hurricane Harvey relief funds. A further £150,000 was donated to charitable causes by our operating companies during 2017 (2016: £87,000). In addition to financial donations, our operating companies donated the equivalent of £33,000 in in-kind donations such as products and office equipment, incurred management costs and contributed over 1,900 hours of working time to community engagement activities. Using an average hourly salary to estimate the cost to the company of employee volunteering, we estimate that the total value of our operating companies' community engagement activities in 2017 was in excess of £230,000. In addition, our employees donated £96,000 of their own money and 344 hours of their own time in workplace organised fundraising and community engagement activities. We also achieved our 2017 target of establishing community engagement champions across the Group.

Actions taken in 2017

During 2017, each of our operating companies appointed a community engagement champion, either individually or in conjunction with another Group company. This network of community engagement champions are responsible for identifying opportunities for participation in community engagement activities, organising activities, sharing success stories and data collection. While integrating into the Group, Gestra and Chromalox have each appointed a central community engagement champion. Once fully integrated, these companies will expand their network of champions.

Group Charitable Trust donations £'000

2017	231.1
2016	180.1
2015	150.8
2014	155.1
2013	159.1

The community engagement data collection framework, which was established and rolled out at the end of 2016, was utilised in 2017, enabling more detailed performance data to be reported this year.

During the year we launched the Group's first "Community Engagement Awards", with all Group companies having the opportunity to enter. Twelve outstanding entries were received from across the business, including entries from Gestra, Watson-Marlow and Spirax Sarco. Congratulations to the winners: Spirax Sarco New Zealand (small company), Spirax Sarco China (large company, joint winner) and Spirax Sarco Argentina (large company, joint winner), which were selected by the Group Sustainability Committee and approved by the Group Chief Executive. The winning companies each received £5,000 to be spent on community engagement activities locally. The Sustainability Committee also awarded a Highly Commended prize to Spirax Sarco Brazil; £1,000 to be spent on the company's community engagement activities.

Next steps for 2018

- Strengthen the community engagement data collection process
- Promote employee volunteering across the Group

2017 Community Engagement Award Winners

Spirax Sarco New Zealand

Designed and donated a bespoke, modular Heat Exchange system to the Engineering facility of the University of Canterbury in Christchurch. The purpose of the donation is to enable hands-on training for young engineers, allowing students to manipulate process conditions in a safe and controlled fashion. The donation promotes steam engineering knowledge, helping to meet a skills gap, and raises awareness of Spirax Sarco amongst young engineers.

Spirax Sarco China

In ZunYi (a city in the poorest province of China) many talented students drop out of school because their families cannot afford the daily living costs needed to keep them in education. Working with a local charitable organisation, in 2017 Spirax Sarco China donated RMB 1,000 each to 50 Grade 11 students and RMB 2,000 each to 35 Grade 10 students, to help with their living costs. Students were selected based on academic performance and family circumstances (poverty). The students will be supported through the full three years of high school. A team of eight volunteers from Spirax Sarco also delivered a 1.5 hour class each week, for 12 weeks, to 55 pupils at a local school for the children of low income migrant workers.

Spirax Sarco Argentina

Formed a cross-functional Community Engagement Committee and developed a community engagement roadmap. Throughout the year, a wide range of activities were undertaken such as the donation of products, furniture and hardware that are no longer in use to schools, universities and technical colleges; interview training for young people; lectures to university and college students; the donation of waste paper to raise money for a children's hospital; and sponsorship of a charity for children with cancer.

Spirax Sarco Brazil

In partnership with Hiter, acquired in 2016, Spirax Sarco provided five hours of training to 27 students (14-19 years old) to help them prepare for finding their first job. In another activity, Spirax Sarco, Hiter and Watson-Marlow joined several other local companies to revitalise a poorly funded local school. The companies donated the paint and the volunteers each gave a day's labour.

Governance Report

Our governance

1. Nicholas Anderson
Group Chief Executive

3. Jay Whalen
Executive Director, WMFTG

5. Andy Robson
General Counsel and
Company Secretary

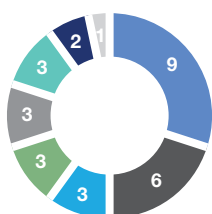
2. Bill Whiteley
Chairman

4. Trudy Schoolenberg
Independent Non-Executive Director



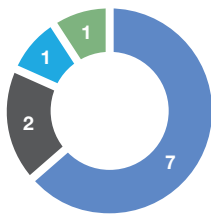
Full Board biographies can be found on pages 66-67

Core expertise*



■ Engineering
■ International
■ Finance
■ Sales and marketing
■ Operational
■ Product development
■ Senior management
■ HR

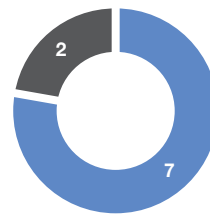
Nationality*



■ British¹
■ American¹
■ Dutch
■ Irish²

¹ N.J. Anderson holds dual British and American citizenship.
² J. Pike holds dual British and Irish citizenship.

Gender*



■ Male
■ Female

* At year end.

6. Clive Watson

Independent Non-Executive Director

8. Jane Kingston

Independent Non-Executive Director

10. Kevin Boyd

Group Finance Director

7. Neil Daws

Executive Director, EMEA

9. Jamie Pike

Independent Non-Executive Director
and Senior Independent Director



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Chairman's introduction

Business ethics are our foundation

Key points in this section:

- › [Board changes](#)
- › [Gender and diversity](#)
- › [Preparation for Brexit](#)
- › [Enhancing our risk management and compliance programmes](#)

Our approach to governance

Governance helps us to:

- Ensure our shareholders receive a good return on their investment
- Behave with integrity
- Treat our customers, employees, suppliers and local communities properly
- Respect the environment

Sustainable governance

Subject to shareholder approval at the Annual General Meeting (AGM) on 15th May 2018, I am pleased that Jamie Pike will take over as Chairman following my retirement at the AGM and Clive Watson will become our Senior Independent Director in addition to continuing as Chairman of the Audit Committee. Peter France was appointed in March 2018 as an independent Non-Executive Director. Peter's proven track record of delivering results and his appointment reflects the Company's commitment to bringing broader sector experience to the Board.

It has been a pleasure to serve the shareholders and the Company for 16 years

and, over this time, to see it make significant progress. The Group has my best wishes for the future.

As a Board it is our responsibility to provide strategic oversight of management's direction of travel for the Group, in order to encourage improvement whilst providing stability and steady growth for shareholders and stakeholders. The Board is fully committed to ethical business practices and to ensuring the business operates to the highest standards of corporate governance.

In this section of the Annual Report we set out our approach to governance, using the five main principles of the Corporate Governance Code 2016 (Code), and explain how the Board and its Committees are structured and their areas of focus during the year.

Regulatory disclosures required under the Disclosure and Transparency Rules 7.2.6 can be found on pages 109 to 111.

You will find the Remuneration Report on pages 85 to 108. The Annual Report on Remuneration 2017 sets out the details of Executive compensation throughout 2017, which will be subject to the normal advisory vote at the AGM in May 2018.

Brexit

The EU 27 and the UK have given broad indications of how they plan to approach the Brexit negotiations, via the publication of three documents: the UK's Article 50 notice, a draft of the European Parliament's motion for a resolution on the negotiations and a draft of the European Council's negotiation guidelines. Whilst it is still far from clear what the final destination will be, the direction of travel is becoming clearer as the negotiations

progress. Transitional arrangements for a limited duration not exceeding two years are also likely.

As a global organisation, with over 90% of our revenues and profits generated outside of the UK, we are well positioned for a UK exit from the EU. Our Brexit plan has 11 areas of focus, ranging from UK and EU customer targeting to a review of IT systems and acquisition opportunities. We have navigated periods of political and economic uncertainty in the past and have a long and successful history of growth. We are well prepared for significant work in the period late 2018 to early 2019 as actual Brexit and post-Brexit trading relationships crystallise.

Key actions during the year

During 2017, we paid particular attention to succession planning for the Board, as part of our on-going response to the key recommendations from the last external Board effectiveness review conducted by Dr Tracy Long CBE (the findings of the review are set out on page 73). The appointment of Jamie Pike as the new Chairman, Clive Watson as the Senior Independent Director and Peter France as a Non-Executive Director were all part of the implementation of our long-term succession plan to ensure key Board positions transition smoothly.

As a Group we are committed to gender diversity and to achieving a minimum target of 33% female representation on the Board, the Group Executive and their direct reports. We ensure that this target is taken into account in our succession planning and recruitment. Our Group Diversity and Inclusion Policy has been published on the Group's website,



"Managing risk and robust governance structures enable our shareholders to be confident that the Group is well positioned for the future."

Bill Whiteley
Chairman

www.spiraxsarcoengineering.com, under the Governance section. Further information is set out on page 76 in the Nomination Committee Report.

We reviewed the tenure of the Non-Executive Directors in order to ensure independence.

Another key activity this year was the internal Board effectiveness review. I am pleased that this anonymised, internal evaluation of the Board and our Committees supported the independent evaluation carried out during 2015 and the internal evaluation in 2016; confirming that the Board is collegiate, transparent and effective. A summary of the findings and recommendations are set out on pages 72 to 73 of this Report. The next external review is set for 2018, in accordance with the Code.

The Risk Management Committee carried out a thorough review of all the risks on the risk register, which encompasses all Group businesses, including Gestra and Chromalox, which were recently acquired. Following “bottom-up” reports from our Group companies, cybersecurity, loss of indirect channels to market and loss of critical suppliers were introduced onto the register. Finally, the Risk Management Committee focused on crisis management to ensure that the Group can respond properly to a catastrophic event such as a terror attack, cyberattack or global pandemic that causes loss of life and/or life-changing injuries, threatens to de-stabilise the Company or significantly damage the Company's reputation. Further details are contained in the Strategic Risk and Risk Management Report beginning on page 30 and the Risk Management Committee Report starting on page 81.

During 2017, the Remuneration Committee focused on rewarding strong business performance. Our Remuneration Policy 2017 is unchanged. In addition to Jane Kingston's summary of key activities in her Statement on page 87, full details can be found in the Remuneration Report beginning on page 88.

The Board is updated on a regular basis on progress with our General Data Protection Regulation project. Ernst & Young LLP has been appointed as consultant. A gap analysis was recently conducted by Ernst & Young LLP and a remediation plan will follow, to be rolled out to all affected Group companies.

Perhaps the most engaging activity for the Board in 2017 was our close involvement in approving the acquisitions of Gestra and Chromalox, which have both started well and are already making a healthy contribution to the Group.

We continue to make good progress as a Group and are outperforming our markets, as detailed in the Strategic Report beginning on page 1.

Core values

The Board takes seriously its responsibilities for promoting the Group's Core Values and, in particular, for ensuring that all employees and everyone associated with the Group are aware of their responsibility to act lawfully and conduct themselves in accordance with high standards of business integrity. These values are embedded in our Group Management Code and driven by tone-from-the-top. The Audit Committee supervised the revision and updating of the Group Management Code, which sets out our adherence to ethical business behaviour and is found on the Group's website, www.spiraxsarcoengineering.com, under the Governance section.

A strong anti-bribery and corruption culture is central to the Group's values and all employees are required to undertake anti-bribery training. A biennial refresher examination programme ensures that we maintain this position. Our anti-bribery training is extended to all new businesses that join the Group: Gestra employees are on track to complete the training shortly. We are introducing a new anti-bribery programme in the first half of 2018 and the employees at Chromalox will be the first participants.

Turning to sustainability, in 2017 we focused on the implementation of our five year plans and the Sustainability Committee concentrated on raising awareness of our strategy throughout our new enlarged Group. Our progress and achievements can be found on pages 52 to 61.

As a Group the primary focus of our community engagement activities is education, particularly in the sciences and engineering, because we recognise the transformative impact that education can have on the lives of individuals and the well-being of communities.

I am pleased to report that good corporate governance is integrated into our culture at Spirax Sarco. I look forward to welcoming you at our AGM on Tuesday, 15th May 2018.



ICSA award

In November 2017 we were delighted to win the ICSA award for Annual Report of the Year (FTSE 250) for our 2016 Annual Report and to be nominated for an award in the category of “Best Board Disclosure”.

Compliance statement

Our Governance Report over the following pages explains how the Group has applied the principles and complied with the provisions of the UK Corporate Governance Code 2016 (Code).

We are fully compliant with the requirements of the Code, as set out in detail on the Group's website, www.spiraxsarcoengineering.com, under the Governance section.

Fair, balanced and understandable

In accordance with the Code, the Directors confirm that they consider the Annual Report, taken as a whole, to be fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Board of Directors



Bill Whiteley
BSc, FCMA

Chairman
N*

Appointed to the Board
July 2002. Appointed Chairman in June 2009

Areas of experience

- Senior management
- Engineering
- Finance
- International

Background

Until his retirement in 2008, Bill Whiteley was Chief Executive of Rotork plc, where he had been a Director since 1984. Bill has been awarded an honorary Doctorate of Engineering by the University of Bath.



Nicholas Anderson
BSc Engineering, MBA

Group Chief Executive
N RK*

Appointed to the Board

March 2012. Appointed Chief Operating Officer in August 2013 and Group Chief Executive in January 2014

Areas of experience

- International
- Operational
- Industrial
- Sales and marketing
- Engineering

Background

Before joining the Group in 2011 as Director EMEA, Nicholas Anderson was Vice-President of John Crane Asia Pacific (part of Smiths Group plc), based in Singapore, and President of John Crane Latin America, based in the USA. Previously, Nicholas held senior positions with Alcoa Aluminio in Argentina and the Foseco Minsep Group plc in Brazil.



Kevin Boyd
BEng, CEng, FIET, FCA

Group Finance Director
RK

Appointed to the Board

May 2016

Areas of experience

- Finance and accounting
- Engineering
- Pensions
- International

Background

Before joining the Group in 2016, Kevin Boyd was Group Finance Director for Oxford Instruments plc. Prior to that he was Group Finance Director of Radstone Technology plc and previously held senior finance positions within Siroyan Ltd and the TI Group (now Smiths Group plc). Kevin is a Chartered Engineer, a Chartered Accountant and a Fellow of the Institute of Chartered Accountants and the Institution of Engineering and Technology.

External appointments

Non-Executive Director of EMIS Group plc.



Jamie Pike
MBA, MA, MIMechE

Independent Non-Executive Director
Senior Independent Director
A N R

Appointed to the Board

May 2014

Areas of experience

- Senior management
- Engineering
- International

Background

Jamie Pike joined Burmah Castrol in 1991 and was Chief Executive of Burmah Castrol Chemicals before leading the Foseco buy-out in 2001 and its subsequent flotation in 2005. Prior to joining Burmah, he was a partner at Bain & Company. Jamie was educated at Oxford, holds an MBA from INSEAD and is a Member of the Institute of Mechanical Engineers.

External appointments

Chairman of Ibstock plc* and RPC Group.

* Stepping down as Chairman and Director in May 2018.



Jane Kingston
BA

Independent Non-Executive Director
A N R*

Appointed to the Board

September 2016

Areas of experience

- Human Resources
- Remuneration
- International
- Engineering

Background

From 2006 until her retirement in December 2015, Jane Kingston served as Group Human Resources Director for Compass Group PLC. Prior to this, she served as Group Human Resources Director for BPB plc. Jane has worked in a variety of sectors, including roles with Blue Circle Industries plc, Enodis plc and Coats Viyella plc and has significant international experience.

External appointments

Non-Executive Director of National Express Group plc.

At year end

- A** Audit Committee
- N** Nomination Committee
- R** Remuneration Committee
- RK** Risk Management Committee
- *** Denotes Committee Chairman

Flag denotes country of citizenship



Neil Daws

CEng, FIMechE

Executive Director, EMEA



Appointed to the Board

June 2003

Areas of experience

- Manufacturing
- Engineering
- Product development
- Sales and marketing
- Broad operational experience

Background

Neil Daws joined the Group in 1978 and held positions in production and design engineering prior to being named as UK Supply Director. Following this Neil has held responsibility for Asia Pacific, Latin America and the Group's Supply operations, including the Group's health, safety and environmental matters.



Jay Whalen

BA, MBA

Executive Director, WMFTG



Appointed to the Board

March 2012

Areas of experience

- Sales and marketing
- Engineering
- Product development
- Operational
- International business development

Background

Jay Whalen joined the Group in 1991 as President of Watson-Marlow Inc. in the USA. He was named Sales and Marketing Director of the global Watson-Marlow business in 2002 and in 2010 was appointed to his current Group position of President, Watson-Marlow Fluid Technology Group. Prior to joining Watson-Marlow, Jay was Vice-President Operations for Harvard Bioscience, Inc.



Andy Robson

LLB Law, Barrister

General Counsel and Company Secretary



Appointed as General Counsel and Company Secretary

June 2012

Areas of experience

- International law
- Corporate governance
- International business development including mergers and acquisitions
- Business restructuring
- Information technology, public private partnership and private finance initiative projects
- Contract negotiation

Background

Before joining the Group in 2012, Andy Robson was General Counsel and Company Secretary of RM Plc, a role he held for 14 years. Prior to this Andy was European General Counsel with Cendant Corporation headquartered in Baltimore, USA.



Trudy Schoolenberg

PhD

Independent Non-Executive Director



Appointed to the Board

August 2012

Areas of experience

- Engineering
- Product development
- Oil and petrochemical

Background

Prior to her most recent position at AkzoNobel, Trudy Schoolenberg served as Vice-President of Global Research & Development at Wärtsilä Oy. Trudy previously held senior management positions with Royal Dutch Shell plc and was Head of Strategy for Shell Chemicals. Until October 2016, Trudy served as Director of Integrated Supply Chain and Research, Development and Innovation, Decorative Paints Division of AkzoNobel.

External appointments

Non-Executive Director of COVA and Low & Bonar PLC. Non-Executive Director and Senior Independent Director of Accsys Technologies plc from April 2018.



Clive Watson

B Comm (Acc), ACA, CTA

Independent Non-Executive Director



Appointed to the Board

July 2009

Areas of experience

- Finance
- Tax and treasury
- Engineering

Background

Clive Watson held several tax and finance roles before joining Black & Decker in 1988 as Director of Tax and Treasury Europe. He was later appointed Vice-President of Business Planning and Analysis in the USA. Clive then joined Thorn Lighting as Group Finance Director before working for Borealis as Chief Financial Officer and Executive Vice-President of Business Support. He is a member of the Institute of Chartered Accountants and Chartered Institute of Taxation.

External appointments

Executive Director and Group Finance Director of Spectris plc.

As previously announced:

- Bill Whiteley to retire at the AGM in May 2018;
- Jamie Pike to be appointed Chairman;
- Clive Watson to be appointed Senior Independent Director; and
- Peter France was appointed as an independent Non-Executive Director with effect from 6th March 2018.

Leadership

The Board

The Board

The Board relies on executive management to run the business and monitor management activities, and holds them accountable against targets and standards. The Board also approves long-term corporate and strategic plans after a full review and assessment of market and technology trends, business drivers and risks. Having a senior management team that is capable of executing the strategic plans is a key focus for the Board.

The formal schedule of matters reserved for the Board's decision is available on the Group's website, www.spiraxsarcoengineering.com, under the Governance section. In addition, during 2017 the Board approved and issued a revised Authority Limits Policy that sets out clearly the primary responsibilities, controls and authorisation limits on matters affecting the Group's business.

The Non-Executive Directors provide independent challenge and review, bringing wide experience, specific expertise and a fresh objective perspective.

The Board meets as often as is necessary to discharge its duties. In 2017 the Board met seven times. All Directors are expected to attend all Board meetings and

relevant Committee meetings unless prevented by prior commitments, illness or a conflict of interest. Directors unable to attend specific Board or Committee meetings are sent the relevant papers and asked to provide comments in advance of the meeting to the Chairman of the Board or Committee. In addition, all Board and Committee members receive the minutes of meetings as a matter of course.

The Directors' attendance record at Board meetings is set out on page 70. The Non-Executive Directors meet without the Executive Directors present to discuss the Executive Directors' performance and other matters.

The Senior Independent Director is available to discuss concerns with shareholders, in addition to the normal channels of the Chairman, Group Chief Executive or the Group Finance Director.

The Board has a Conflicts of Interest Policy and has put in place procedures for the disclosure and review of any potential or actual conflicts.

Committee composition

The Non-Executive Directors play an important governance role in the detailed work they carry out on our Committees on behalf of the Board. All the Non-Executive Directors are determined by the Board to be independent in character and judgement, in compliance with the Code. The Chairman was independent on appointment.

The General Counsel and Company Secretary supports the Committee Chairmen in making sure members are equipped for informed decision-making and that they appropriately allocate their time to subjects.

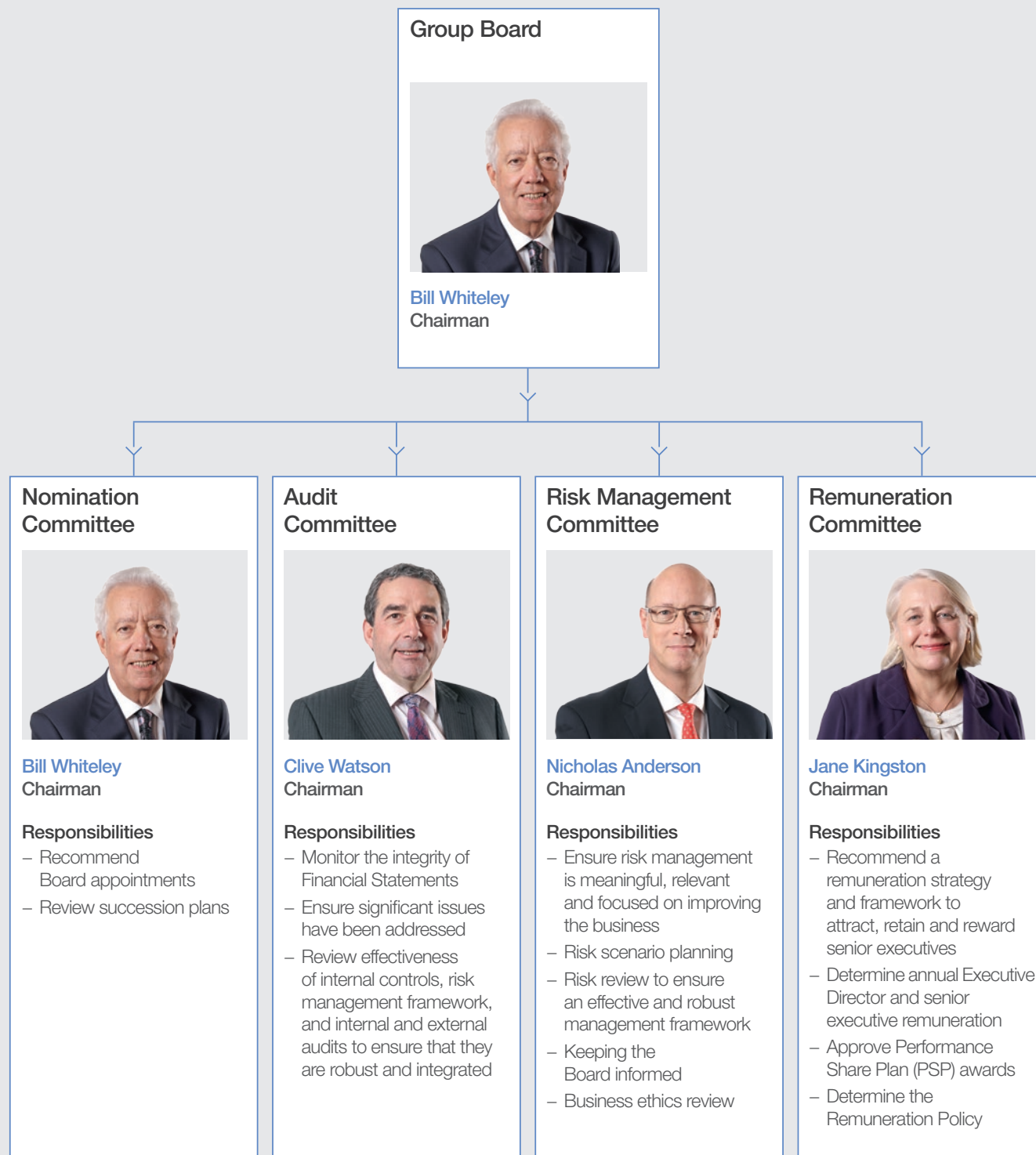
The Board has satisfied itself that at least one member of the Audit Committee, namely Clive Watson, has recent and relevant financial experience and is confident that the collective experience of its members enables it to be effective. The Audit Committee also has access to the financial expertise of the Group, the external and internal auditors and can seek further professional advice at the Company's expense, if required. There is also one Non-Executive Director, Jane Kingston, with relevant sector experience across a range of different industries, including a strong services background, to add additional support to the implementation of the Group's strategy for growth.

Division of roles and responsibilities

Key Board matters	Chairman	Senior Independent Director	Group Chief Executive
<p>The approval of corporate and strategic business plans</p> <p>The approval of the annual and interim results</p> <p>Trading updates</p> <p>Integrated risk management framework</p> <p>Major acquisitions/disposals</p> <p>Major capital expenditure</p> <p>Director appointments</p> <p>Material litigation</p> <p>Governance structure</p>	<p>Managing the Board</p> <p>Safeguarding governance</p> <p>Business performance – with the Group Chief Executive</p> <p>Shareholder contact – with the Group Chief Executive and the Group Finance Director</p> <p>Director performance</p> <p>Succession planning</p>	<p>Relations with shareholders</p> <p>Reviewing effectiveness of the Chairman as part of the annual Board evaluation</p>	<p>Leadership</p> <p>The Group's short, medium and long-term performance</p> <p>Stewardship of capital, technical and human resources</p> <p>Corporate and business strategy</p> <p>Internal risk management controls</p> <p>Organisational structure</p>

Governance structure

The Board Committees and their Chairmen are listed below, together with an overview of each Committee's responsibilities. The Terms of Reference for the Committees are published on the Group's website, www.spiraxsarcoengineering.com, on the Policies and procedures page, within the Governance section.



Further information on each of the Committees' activities during the year ended 31st December 2017 is set out on pages 75-108

Leadership

Board activity

Board activity

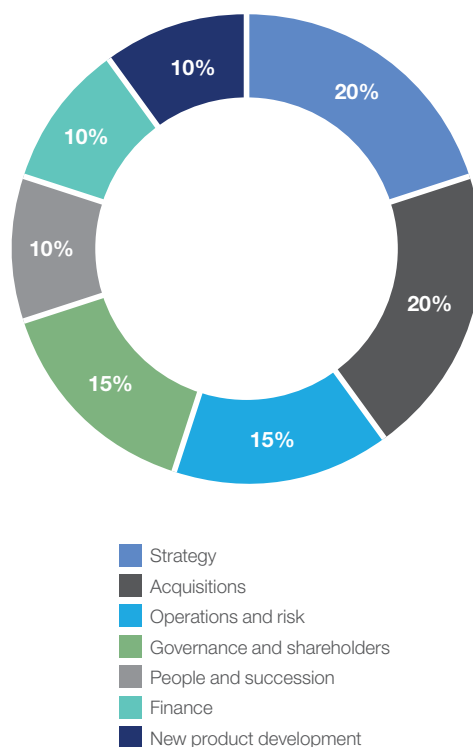
The Board ensures good governance practices are embedded throughout the Group as they are an integral part of running a successful business. In the adjacent chart we have set out how the Board spent its time during 2017. The Board agendas are carefully planned to ensure focus on the Group's strategic priorities and key monitoring activities, as well as reviews of significant issues. During 2017, the Board devoted 20% of its time to the Spirax Sarco steam and Watson-Marlow Fluid Technology Group (WMFTG) strategies, the Group 2020 plan and reviewing implementation progress of the Group corporate strategy. The acquisitions of Gestra and Chromalox rightly demanded considerable focus both in terms of ensuring the transaction was well managed and that post-closing implementation plans were robust.

Health & Safety is of fundamental importance to the business and is considered at each Board meeting. It is also considered in detail at each Group Executive Committee meeting.

In June 2017, the Board's annual strategy meeting was held at the Group's steam manufacturing and sales office in Argentina, where we undertook a review of our Spirax Sarco and WMFTG businesses in the Americas.

During 2017, the Board regularly reviewed the Group's performance and satisfied itself that management was on track in delivering the strategic business plan. The Board also concentrated its attention on formulating a proactive Brexit strategy, looking at both the challenges and opportunities for the Group posed by a UK exit from the EU. The Board continued to engage with shareholders on governance, remuneration and trading during the period.

Board focus during 2017



Board attendance

Details of the number of Board meetings, and individual attendance by Director for 2017, are set out in the table below.

	Board meetings							Attendance
W.H. Whiteley ¹	✓	✓	✓	✓	✓	✓	✓	86%
N.J. Anderson	✓	✓	✓	✓	✓	✓	✓	100%
K.J. Boyd	✓	✓	✓	✓	✓	✓	✓	100%
N.H. Daws	✓	✓	✓	✓	✓	✓	✓	100%
J.L. Whalen	✓	✓	✓	✓	✓	✓	✓	100%
J.S. Kingston	✓	✓	✓	✓	✓	✓	✓	100%
J. Pike	✓	✓	✓	✓	✓	✓	✓	100%
G.E. Schoolenberg	✓	✓	✓	✓	✓	✓	✓	100%
C.G. Watney	✓	✓	✓	✓	✓	✓	✓	100%

¹ Absence due to illness.

Key activities in 2017

February

- Draft Annual Report
- General Data Protection Regulation
- Gestra acquisition, with emphasis on post-acquisition implementation plans
- Management presentations - Middle East, Africa and Western Europe and the Spirax Academy

March

- 2016 financial results
- Annual dividend
- Review and approval of Annual Report
- Gestra and Chromalox acquisitions
- Business review - EMEA
- Management presentation - China

May

- Report by Risk Management Committee
- Gestra and Chromalox acquisitions
- Business review - Asia Pacific

June (Argentina)

- Succession planning
- Chairman job description approval
- Gestra and Chromalox acquisitions
- Asia Pacific offices and distribution centre
- Business and corporate strategy
- Business review - Americas and WMFTG
- Management presentations - Latin America

August

- Half year results and Interim Dividend
- Cybersecurity
- Gestra and Chromalox
- Authority limits
- Investor view of the Group and peer performance
 - Bank of America Merrill Lynch
- Employee Engagement Survey
- Management presentation - Northern Europe

October

- Gestra and Chromalox
- Business review - Group Supply
- Management presentations - WMFTG Europe and Middle East

December

- Approval of budget
- Board effectiveness review
- Draft Annual Report and Circular to shareholders
- Chromalox lease renewals
- 2018 Plan and divisional presentations

Miscellaneous

- An Environmental, Health and Safety update is the first operational matter addressed by the Board at each meeting
- The Group Chief Executive and the Group Finance Director report on monthly, quarterly, bi-annual and annual trading, as appropriate
- The General Counsel and Company Secretary regularly updates the Board on changes to relevant laws and regulations
- Company share performance and shareholder/analyst feedback is discussed at most Board meetings

Effectiveness

Board evaluation

Board evaluation

During 2017, the Board carried out an internal evaluation of the performance of the Board and the Board Committees, in accordance with the provisions of the Code. The General Counsel and Company Secretary, on behalf of the Chairman, circulated a comprehensive questionnaire to members of the Board covering all issues related to the effective running of the Board and the functioning of the Committees. The responses were consolidated and anonymised and common themes identified in order for the Board to determine key actions and next steps for improving Board and Committee effectiveness and performance.

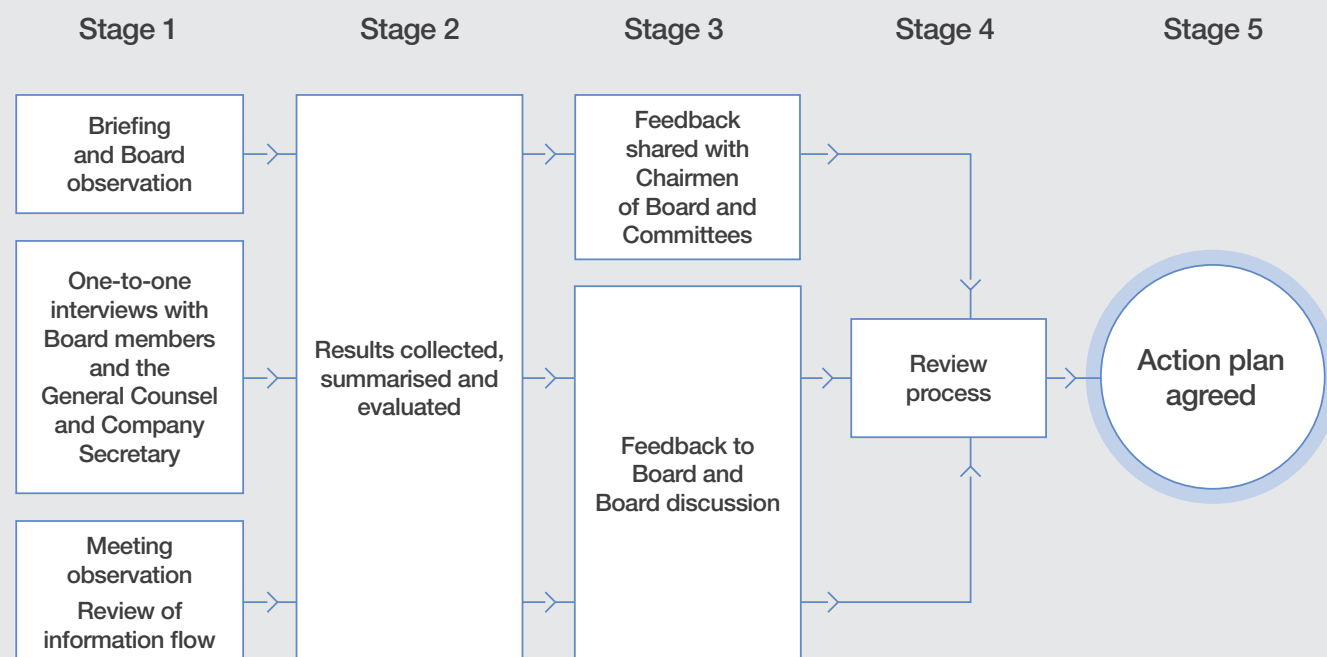
The internal effectiveness review supported the overall conclusion of the 2015 external evaluation that the Board is collegiate, transparent and effective. In particular, it was noted that the Board is well-balanced across skill sets and backgrounds and has a good dynamic, with open discussion and the ability to table challenging points of view.

The main recommendations, following the review, are:

- Board review of long-term risks linked to the Strategic Plan;
- Non-Executive Director knowledge update via the Deloitte Academy; and
- succession planning - continue with current plans and focus.

In accordance with the Code an annual review of the effectiveness of the Board is undertaken with input from an independent external adviser every three years. The process used for the external evaluation is set out below.

External evaluation process



Board evaluation findings

Summary of recommendations following external review in 2015	Summary of recommendations following internal review in 2016	Summary of key actions following internal review in 2017
Refresh the Board and Executive Director succession plan	Board to ensure up-to-date succession plans are in place for the Board, Group Chief Executive and key management roles	Please see the implementation of this plan on pages 75 to 76
Board contact with major shareholders	Non-Executive Directors have requested increased contact with major shareholders	Board to facilitate contact, where appropriate. In August 2017, Bank of America Merrill Lynch presented an investor perspective of the Group
Update and refresh skills and knowledge	<p>Directors to be given sufficient opportunity to familiarise themselves with key aspects of the Group's businesses (processes, products, sales staff, customers and competitors)</p> <p>Board to be given sufficient opportunity to update and refresh their skills and knowledge</p>	<p>June Board meeting at Spirax Sarco Argentina including Board presentations from a broad range of senior managers</p> <p>Introduction of Governance training through the Deloitte Academy, the last session having been held in February 2018</p>
Review the maturity of the internal audit function	Appoint Head of Internal Audit	Head of Internal Audit joined the Company in November 2017

Effectiveness

Training and development

Training and development

The Board is regularly notified of changes to relevant laws and regulations, with a report at each Board meeting from the General Counsel and Company Secretary.

All the Directors are members of the Deloitte Academy, giving them access to a comprehensive programme of training and technical support on a wide range of corporate governance matters to enable the Directors to update their knowledge and keep them informed of their duties. Non-Executive Directors are invited to attend Group conferences, which provide information on business strategy, new product development and sales and marketing initiatives. Business presentations are given at Board meetings to ensure the Directors are kept informed of new product development, regional operations, business strategies and employee development.

The Board visits Group operating companies where possible and other relevant industry events (such as major trade exhibitions).

In June, the Board visited Spirax Sarco Argentina with presentations covering the Americas from members of the management team.

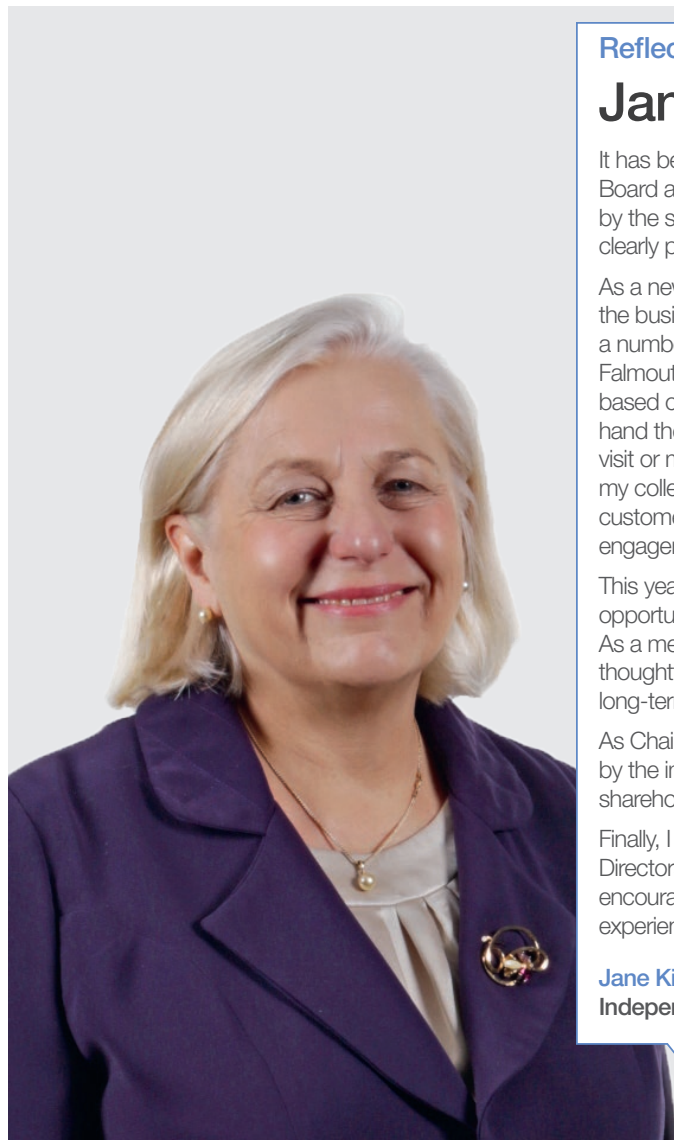
In addition, Bank of America Merrill Lynch attended a Board meeting to give an investor perspective of the Group.

Board induction

On joining the Board, all new Directors receive a tailored and comprehensive induction programme, comprising a combination of briefings and meetings with the Directors, General Counsel and Company Secretary, corporate advisers and senior management. This covers Directors' duties and the UK listing regime, an overview of the business, its operations, risks and

regulatory matters, governance, finance and investor relations.

In the case of an Executive Director, this will include visits to our principal operating companies in the Group in order to understand the international nature of our business and, where appropriate, meetings with key shareholders and analysts. It is essential that our Directors have a solid grasp of our products and services and, in addition to product technical information and marketing brochures, inductees are given an in-depth tour of our manufacturing and R&D site in Cheltenham and are encouraged to take engineering courses at our UK Steam Technology Centre located at our Headquarters. Directors also visit WMFTG in Falmouth to gain an understanding of the fluid technology business.



Reflections on my first year

Jane Kingston

It has been a great pleasure to work with the Spirax-Sarco Engineering plc Board and other colleagues during the past year. I have been impressed by the strong governance, transparency and team working culture that is clearly present across the Group.

As a new Board member, I have had interactions with many parts of the business at Board meetings. I have also had the opportunity to visit a number of Group companies, from Watson-Marlow's operations in Falmouth, UK, to Spirax Sarco Argentina, and visited customers with field based colleagues (engineers). All this has enabled me to observe first-hand the implementation of the Group's strategic priorities. After each visit or meeting I come away reflecting on how deeply passionate all of my colleagues are about the business and how focused they are on our customers. Indeed, I am indebted to colleagues for their support and engagement in my first year.

This year, as a Board, we have focused extensively on both organic growth opportunities and also the significant acquisitions of Gestra and Chromalox. As a member of the Nomination Committee I am pleased with the thoughtful and thorough succession planning we are undertaking to ensure long-term business continuity both for the Board and senior management.

As Chairman of the Remuneration Committee, I have been impressed by the importance that Spirax Sarco attaches to its relationship with its shareholders and the quality of the engagement process.

Finally, I would like to extend a thank you to Bill Whiteley and all my fellow Directors who have made me extremely welcome in my first year and encouraged me to bring my experience to bear and to learn from their experience in equal measure.

Jane Kingston

Independent Non-Executive Director

Effectiveness

Nomination Committee

Role of the Committee

The main role of the Committee is to recommend changes to the Board and consider succession planning for the future.

Summary of the key Committee activities in 2017:

- Appointment of Jamie Pike as Chairman
- Appointment of Clive Watson as Senior Independent Director
- Appointment of Peter France as an independent Non-Executive Director
- Succession planning
- Reviewed tenure of Non-Executive Directors
- Reviewed Board and executive management diversity

Summary of the key areas of focus for 2018:

- Board and Committee succession planning
- Executive Director succession planning

 [Read more on page 76](#)

Membership and attendance

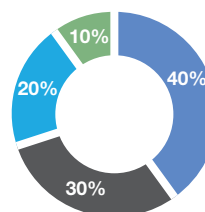
There were two meetings in 2017

Committee member	Attendance
 W.H. Whiteley ¹	1
 N.J. Anderson	2
 J.S. Kingston	2

Committee member	Attendance
 J. Pike ²	2
 G.E. Schoolenberg	2
 C.G. Watson	2

¹ Absence due to illness. ² Recused for conflicted items.

How the Committee spent its time during the year



- Succession planning
- Recruitment
- Diversity
- Board and Committee composition



“Board succession has been our principal priority this year. The right balance of skills, international experience and diversity amongst our Directors is essential for the long-term future of the Company.”

Bill Whiteley
Nomination Committee Chairman

Effectiveness

Nomination Committee *continued*

Responsibilities

Make appropriate recommendations to the Board for the appointment, re-appointment or replacement of Directors

Review the structure and composition of the Board with regard to the overall balance of skills, knowledge and experience against current and perceived future requirements of the Group

Recommend any proposed changes to the Board

Consider succession planning arrangements for Directors and, more generally, senior executives

Review of 2017

At the 2018 AGM, Bill Whiteley will retire, Jamie Pike will be appointed as Chairman and Clive Watson will be appointed as Senior Independent Director.

Jamie Pike's appointment follows a rigorous and independent selection process conducted in accordance with the Code. The process was led by a Nomination Sub-Committee made up entirely of independent Non-Executive Directors and chaired by Clive Watson, the most senior independent Non-Executive Director who was not conflicted. The current Chairman, Bill Whiteley, and Jamie Pike, as a candidate, were excluded from the process in accordance with Code provision B.2.1. The Sub-Committee developed a job specification and appointed Korn Ferry as an independent search and recruitment agency. Korn Ferry assisted the Sub-Committee with the evaluation of Jamie Pike against the job specification and determined that he was well qualified to perform the role. Jamie's appointment was approved by the full Board following interviews with all Directors.

Jamie will step down as Chairman and Director of Ibstock plc on 24th May 2018. He will continue as Chairman of RPC Group plc. This will bring his total FTSE Board chairmanships to two and, therefore, the Board is satisfied that Jamie will have the time and capacity to fulfil his duties as Chairman of the Company. Two FTSE chairmanships is also compliant with the 2017 proxy adviser voting guidelines including those issued by Institutional Shareholder Services and Glass Lewis. Jamie will, on appointment as Chairman, resign from the Audit and Remuneration Committees, in compliance with the Code. He will chair the Board and the Nomination Committee.

Peter France was appointed as an independent Non-Executive Director with effect from March 2018, and has joined the Audit, Nomination and Remuneration Committees.

The Board changes set out above are the implementation of our succession plan to ensure that appointments for Board roles are phased with the benefit of adequate handover periods, ensuring a smooth transition. They follow the recommendations

on succession planning made by Dr Long of Boardroom Review Ltd in 2015. The most recent review of succession planning by the full Board and the executive and senior management team was undertaken as part of the strategic review meeting held in June 2017. In respect of all positions Korn Ferry was instructed to advise on the suitability of candidates against a job description approved by the Sub-Committee/Committee. Korn Ferry provides no other services to the Group.

A review of the tenure of the Non-Executive Directors was undertaken as part of the succession planning and we shall ensure that, at all times, the number of independent Non-Executive Directors is the same or more than the number of Executive Directors so that we remain compliant with the Code.

The appointment of Peter France is part of the succession planning being undertaken to recruit Directors with the skills and experience to support the implementation of the Group's strategy for growth. Peter brings with him a broad range of relevant sector experience, particularly his extensive services experience from his time at Rotork plc.

We cultivate a culture of achievement and career progression. High-potential individuals are supported in their professional development through our Leadership Academy, in conjunction with Ashridge Business School, and our "Advancing High Performance" programme for senior managers. We also encourage leadership development through robust succession planning and an individualised performance management culture.

During 2017, we formalised our commitment to the promotion of diversity as we established a Group Diversity and Inclusion Policy. The Group recognises the importance of diversity at all levels of the Company as well as on the Board.

We believe that the Board's perspective and approach is greatly enhanced by gender, age and cultural diversity and it is our policy to consider overall Board balance and diversity when appointing new Directors. As shown on page 62, the range of nationalities and experience of our Board is particularly relevant given the broad international reach of the Group and we will seek to increase

the diversity of our international footprint with future appointments to the Board.

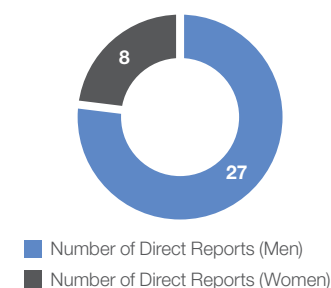
Normalised for succession changes, we currently exceed 20% gender diversity on the Board and we are committed to a target of a minimum of 33% women on our Board, the Group Executive and their reports. We ensure that this target is taken into account in our succession planning and recruitment.

We support the promotion of women to senior positions throughout the Group and, during the last 12 months, women were appointed as: Financial Controller, EMEA Business Partner, Recruitment Manager, Senior Human Resources Business Partner, Group Human Resources Projects Manager, Head of Human Resources (Watson-Marlow UK), Head of Human Resources (Asia Pacific), Head of Human Resources (Americas), Group Talent Partner (Spirax Sarco, Inc., USA), General Manager Asia Pacific (Gestra) and Global Director Environmental, Health and Safety (Chromalox, USA), with a number of these being internal promotions.

We continue to offer practical support for the Department for Business Innovation and Skills' "Women on Boards – FTSE 250" initiative by encouraging two women from our senior management team to serve as Non-Executive Directors on other company Boards.

We participated in the FTSE Women Leaders (Hamilton-Alexander) Review in June 2017.

Direct reports to the Executive Committee (excluding administrative support staff):



With 22.2% of women on our Board and 19.5% of the combined Executive Committee and their direct reports being female, we ranked 124th in the FTSE 250 companies.

Accountability

Audit Committee

Role of the Committee

The main role and responsibilities of the Committee include:

- monitoring the integrity of the Group's Financial Statements and public announcements relating to the Company's financial performance;
- reviewing the effectiveness of the internal and external audit process; and
- reviewing the effectiveness of the Group's financial and internal controls and the process for the evaluation, assessment and management of risk.

The Terms of Reference for the Committee are set out in detail on the Group's website, www.spiraxsarcoengineering.com, on the Policies and procedures page, within the Governance section. These terms are subject to regular review.

Summary of the key Committee activities in 2017:

- Reviewed Financial Statements
- Reviewed external auditor effectiveness and audit process
- Agreed Group tax strategy
- Agreed Group Tax Policy
- Analysed and approved integrated risk assessment and management framework
- Reviewed risk management and controls
- Reviewed cybersecurity and agreed process for strengthening cybersecurity controls
- Agreed General Data Protection Regulation (GDPR) policy and process

 [Read more on pages 78-80](#)

Summary of the key areas of focus for 2018:

- Financial Statements
- Review of Internal Audits
- On-going monitoring of risks
- Group treasury strategy
- Monitoring of Group's implementation of GDPR policy and process
- Monitoring effectiveness of cybersecurity controls
- Review of major acquisitions

Membership and attendance

There were three meetings in 2017

Committee member	Attendance
 C.G. Watson	3
 J.S. Kingston	3



J.S. Kingston



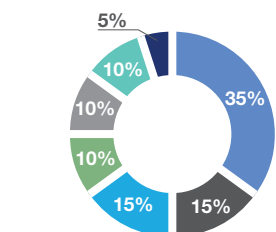
Committee member	Attendance
 J. Pike	3
 G.E. Schoolenberg	3



G.E. Schoolenberg



How the Committee spent its time during the year



- Finance and tax reviews
- Internal audit
- External audit
- Risk management and controls
- Corporate governance
- Results review
- Whistle-blowing



“The Committee plays an active role in reviewing the effectiveness of internal controls and welcomes Dan Harvey, Head of Internal Audit, to strengthen that function.”

Clive Watson
Audit Committee Chairman

Accountability

Audit Committee *continued*

Matters considered

In 2017, the following matters were considered by the Committee and, where applicable, by the Board or other Committees:

Review of internal audit and effectiveness	The potential impact of Brexit	Review of principal risks and risk appetite	Risk Management Committee	Assessing future compliance with legislation on data protection and prevention of tax evasion
Annual Report – fair, balanced and understandable	Litigation update	Annual forward plan	Group Tax Policy	Taxation
Viability statement and going concern	Risk Appetite Statement	External auditor and Audit Committee effectiveness	Assessing future compliance with the UK Corporate Governance Code 2016	Audit plan: annual audit and interim review
Whistle-blowing	Performance evaluation of the Committee	Anti-bribery and corruption	Group tax strategy	

Review of 2017

The Committee met three times in 2017. Kevin Boyd, Group Finance Director, John Senior, Group Financial Controller, and the external auditor attended the meetings and had direct access to the Committee Chairman. The Group Chief Executive attended one Audit Committee meeting (March), in accordance with the recommendations made during the 2015 external Board evaluation (which were implemented during 2016).

During the year the Committee received reports from external and internal auditors on the major findings of their work and the progress of management follow-up by way of management reports.

As a safeguard, the Committee holds separate meetings with the external and internal auditors without management present to discuss their respective areas and any issues arising from their audits.

The Committee received assurance on going concern, viability, pension valuation, material litigation and risk management. The Committee considered this assurance and concluded it was reliable.

This year the Committee approved the Group Tax Policy and Tax Strategy (which had been amended to reference the Group's new policy on prevention of criminal facilitation of tax evasion). This is available on the Group's website, www.spiraxsarcoengineering.com, in compliance with the Finance Act 2016.

The Group has complied with the provisions of the Competition and Market Authority (CMA) Order, issued by the CMA in September 2014, for "The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities)".

Auditor

This is the fourth financial year in which the Annual Report and Financial Statements have been audited by Deloitte LLP following their appointment as the Company's external auditor as of 20th May 2014. This appointment is subject to on-going monitoring and will run for a maximum of 10 years before being tendered.

One of the primary responsibilities of the Committee is to assess the robustness of the external audit process and make recommendations to the Board in relation to the appointment, re-appointment or removal of the external auditor. The Committee took a number of factors into account when evaluating the effectiveness of the external audit including:

- the quality and scope of the planning of the audit (in October 2017, Deloitte LLP presented their plan for the 2017 audit to the Committee); and
- feedback from all audited operating units, the Group Finance team, senior management and Directors on the audit process and the quality and experience of the audit partners engaged in the audit.

During the year, the Committee reviewed and approved the proposed audit fees and terms of engagement for the 2017 audit and recommended to the Board that it proposes to shareholders that Deloitte LLP be re-appointed as the Group's external auditor for 2018 at the AGM to be held on 15th May 2018.

The Committee recognises that the independence of the external auditor is an essential part of the audit framework and has adopted a policy which sets out a framework for determining whether it is appropriate to engage the Group's auditor for non-audit services. This policy states that any expenditure with the Group's auditor on

non-audit fees should not exceed 70% of the average audit fees charged in the last three-year period. During the year, the Group spent £0.3 million on non-audit services provided by Deloitte LLP (being 25% of the average of Group audit fees charged over the past three years). Further details can be found in Note 7 on page 135.

Internal audit

The Committee reviewed the schedule of planned internal audits undertaken in 2017 and assessed the robustness of the control framework that is in place to track and monitor progress in remedying any identified deficiencies. This review ensures that the Committee is able to give assurances that the Group has an effective and integrated risk management framework, in addition to the oversight provided by the Risk Management Committee. The internal audit process is explained on page 83. In 2016 PricewaterhouseCoopers LLP (PwC) was commissioned to undertake a review of the internal audit function. This review validated the Committee's view of the strengths and weaknesses of the current approach and suggested other potential development areas in light of best practice. The PwC report concluded that peer review works well and should continue, but also made a number of recommendations for improvement. A key recommendation was the creation of a new role of Head of Internal Audit to oversee the internal audit processes and procedures and be responsible for implementing the other PwC recommendations. This recommendation was adopted by the Committee and the new Head of Internal Audit joined the Group in November 2017.

Significant issues in relation to the Financial Statements

During the year the Committee considered significant issues in relation to the Group's Financial Statements and disclosures relating to:

(i) Revenue recognition

In view of the profile of revenue and profit recognition in the final quarter of the year, the need to focus on any new contracts and revenue cut-off for certain businesses was highlighted to ensure the appropriate recognition of revenue for the year ended 31st December 2017. The Committee received regular updates on the assessment of the impact of IFRS 15 (Revenue from Contracts with Customers) during the year.

(ii) Pensions

There are judgements and estimates made in selecting appropriate assumptions in valuing the Group's defined benefit pension obligations, including discount ratios, mortality, inflation and salary increases. The Committee considered reports by the Company, including those from independent external advisers, and is comfortable that the key assumptions are reasonable.

(iii) Acquisitions

Acquisition accounting, in particular in respect of the Gestra and Chromalox acquisitions, was also considered. After reviewing the presentations and reports from management and consulting with the auditor, the Committee is satisfied that the Financial Statements appropriately address the amounts reported and the disclosures. The Committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust.

(iv) Ensuring the Annual Report is fair, balanced and understandable

The Committee carried out a full assessment and review to ensure the standard was satisfied.

(v) Other judgements in the Financial Statements

Viability and going concern have been assessed successfully.

Review of the Financial Statements

During 2017, the Committee considered many components of business performance in order to ensure it has a full understanding of the operations of the Group. Key matters considered by the Committee include:

- determining the position adopted in judgement and estimate areas for pensions;
- risk areas set out in the Risk Management Committee Report;
- receipt of regular strategy reports from the Group Chief Executive and operational reports from the Divisional Directors;
- requesting members of management to attend Committee meetings to provide updates on operational and strategic matters;
- reviews of the budget and operational plan; and
- consideration of judgements and estimates.

Through these processes and its monitoring of the effectiveness of controls, internal audit and risk management, the Committee is able to maintain a good understanding of business performance, key areas of judgement and decision-making processes within the Group.

Fair, balanced and understandable

One of the key governance requirements of the Committee is for the Annual Report to be fair, balanced and understandable. The co-ordination and review of the Group-wide input into the Annual Report is a significant exercise performed within an exacting time frame, which runs alongside the formal audit process undertaken by the external auditor.

To ensure the Annual Report is fair, balanced and understandable, the Committee assessed the consistency of the risks and judgements, reviewed the Board minutes to ensure issues of significance were given prominence and arrived at a position where initially the Committee, and then the Board, were satisfied with the overall fairness, balance and clarity of the document, which is underpinned by the following:

- comprehensive guidance for contributors at operational level;
- a verification process dealing with the factual content of the reports;
- a consideration of the appropriateness of alternative performance measures;
- comprehensive reviews undertaken at different levels in the Group that aim to ensure consistency and overall balance; and
- comprehensive review by the senior management team.

Whistle-blowing

The Group is committed to promoting a safe and effective culture for employees to raise genuine concerns without fear of reprisals. To this end, and as a matter of best practice, in 2014 the Group adopted a Whistle-blowing Policy. Linked to this was the implementation of a multi-lingual whistle-blowing helpline, facilitated by Safecall, to ensure that employees can freely access an independent third party. The whistle-blowing helpline continues to be made available throughout the Group and in 2017 multiple calls were received from individuals across the globe. Management's response and handling of reported cases continues to be considered appropriate and satisfactory by the Committee.

Finance team appointments

The Committee noted that, during the year, the Group had appointed a new Tax Manager and new Head of Internal Audit. The Committee sees these appointments as positive steps to further strengthen the Finance team and the control environment of the Group.

GDPR preparedness

On 25th May 2018, the GDPR will come into effect. The GDPR is an EU Regulation that has direct legal effect in all European countries without the need for the UK to pass implementing legislation. The GDPR will apply to all of the Group's companies that operate in, or sell into, Europe. GDPR represents a major development in data protection and privacy laws, with greatly increased penalties for non-compliance. Accordingly, it will be a risk that the Committee will continue to review throughout 2018. To date, a gap analysis has been carried out by Ernst & Young LLP, all remedial actions have been identified and a schedule to ensure compliance has been prepared. In addition, a new Group-wide GDPR policy has been prepared and will be implemented across the Group.

Preventing the criminal facilitation of tax evasion

In 2017, the Criminal Finances Act introduced two new strict liability offences of corporate failure to prevent the facilitation of tax evasion. The Group's culture has always been one where the facilitation of tax evasion is never acceptable.

Accountability

Audit Committee *continued*

We, therefore, welcomed the new corporate offences and formalised our stance on this topic through the publication of a new Group-wide policy ("Preventing the Criminal Facilitation of Tax Evasion"). The policy sets out the Group's position on this matter and details the steps each Group company is to take to ensure that it does not facilitate, and is not at risk of facilitating, tax evasion by any associated persons. The Committee notes that a requirement of the new policy is for each Group company to complete a risk assessment questionnaire which will be reviewed by the Group Finance team on completion and during internal audit.

Cybersecurity

The focus on cybersecurity increased during 2017. The Group has identified the information assets that are potentially at risk from a cyberattack and is taking steps to ensure the relevant protections are in place. The Committee will continue to monitor and review this significant risk during 2018.

Specifically, during 2017, significant investments were made to drive stronger defences. These investments include a "next generation" global firewall deployment, with 24/7 monitoring services. Furthermore, we are rolling out new tools to all desktops to increase our resilience to ransomware through improved malware protection and web filtering, accompanied by an education campaign. Security policies have been improved with an extensive compliance programme on core activities such as the updating of Microsoft patches.

Group Management Code

During 2017, the Committee oversaw and approved revisions to the Group Management Code. The revised Group Management Code can be found on the Group's website, www.spiraxsarcoengineering.com, on the Policies and procedures page, within the Governance section.

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code 2016, the Directors have assessed the viability of the Group over a three-year period, taking into account the Group's current financial

position, business strategy, the Board's risk appetite and the potential impacts of the principal risks, outlined on pages 32 to 33 of the Strategic Report, and the Risk Appetite Statement on page 83. Based on this assessment, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period to 31st December 2020.

The Board believes that a three-year viability assessment period is appropriate as the timeframe is covered by the Group's strategic plan; takes into account the nature of the Group's principal risks, a number of which are external and have the potential to impact over short time periods. While the Board has no reason to believe that the Group will not be viable over a longer period, given the inherent uncertainty involved, the Board believes that a three-year period presents readers of the Annual Report with a reasonable degree of confidence while still providing a longer-term perspective.

In making their assessment, the Directors completed a robust assessment of the principal risks facing the Group, as set out on pages 32 to 33, including those that would threaten its business model, future performance, solvency or liquidity, and undertook sensitivity and stress testing to determine the potential impacts of the occurrence of one or more of the principal risks on sales, profit, margin and cash. In addition to completing an impact assessment of the principal risks, the Directors considered the probability of occurrence of the principal risks, the Company's ability to control them and the effectiveness of mitigating actions.

The Group's resilient business model has proven strong and defensive in the long term and has enabled the business to prosper, even in challenging market conditions. The diversity of our end user markets and customers, broad product range, wide geographic spread, high replacement revenue streams and large base of installed equipment worldwide, together with our effective direct sales business model, enhances the viability of the Group in the

face of adverse economic conditions and/or political uncertainty, as does our ability to self-generate business through identifying solutions to our customers' difficult process challenges and our ability to adjust our cost base.

Whilst no Board can ever fully foresee all possible risks facing the business in the future, the Directors are of the view that a robust assessment was undertaken of the severe but plausible scenarios that may feasibly impact upon the business over the next three years. We have also assumed that our various finance facilities will continue to be available. Furthermore, the Board remains confident in the Group's risk management process and the risk mitigation actions taken to address identified risks.

A number of scenarios were developed from the Group's principal risks, and the impact on future viability of the two worst case scenarios happening simultaneously, was assessed. Both scenarios were associated with economic and political disasters occurring in two of the Group's largest territories with subsequent contagion throughout the rest of the world. Despite the adverse impacts, no viability issues resulted. In addition to this impact assessment, the Directors also considered the probability of occurrence of the principal risks, the Company's ability to control them and the effectiveness of mitigating actions. No viability issues resulted.

Financial Reporting Council (FRC) conclusion of review on Company's disclosures in respect of the significant judgements

The Committee was pleased that following the FRC's thematic review of the disclosure in the Group's 2016 Accounts in relation to significant accounting judgements and sources of estimation uncertainty: (i) the FRC had no substantive issues to raise with the Group and (ii) they included the Group's disclosure as an example of better practice when they published the results of their thematic review.

Accountability

Risk Management Committee

Role of the Committee

The Committee ensures that the Group has risk management policies and procedures, including those covering project governance, sanctions and embargoes, human rights, business continuity and business management. The Committee is responsible for the management and control of significant risks affecting the Group.

Summary of the key

Committee activities in 2017:

- Conducted a bottom-up review of risk
- Added three new risks to the risk register
- Updated risks identified as principal risks
- Reviewed Group risk register and principal risks
- Confirmed Risk Appetite Statement
- Reviewed need for development of Crisis Management Plan
- Developed guide and Group policy regarding the criminal offence of failure to prevent facilitation of tax evasion

 [Read more on pages 82-83](#)

Summary of the key areas of focus for 2018:

- On-going monitoring of risk management and internal controls
- Creation of new anti-bribery and corruption training:
 - updated programme to be rolled out across the Group
 - training to move from bi-annual to annual requirement
- Ensure continuing publication and availability to employees of third-party whistle-blowing helpline
- Develop and test Crisis Management Plan and ensure training of relevant employees

Membership and attendance

There were three meetings in 2017

Committee member	Attendance
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N.J. Anderson 3



K.J. Boyd 3

Committee member	Attendance
------------------	------------



N.H. Daws 3



J.L. Whalen 3

The following executives are also members of the Committee:



Jim Devine
Group Human
Resources Director



Mike Sutter¹
President and CEO,
Chromalox Inc.



Andy Robson
General Counsel and
Company Secretary

How the Committee spent its time during the year



¹ Joined in July 2017 and attended both Committee meetings held after his appointment.

In addition, the Chairman of the Audit Committee attends a Risk Management Committee meeting at least once per year.



“Using the information obtained from this year’s bottom-up risk review, and viewed through the lens of the standards set by our risk appetite ratings, the Committee continued to monitor and plan for risks to the Group.”

Nicholas Anderson
Risk Management Committee Chairman

Accountability

Risk Management Committee *continued*

Responsibilities

To identify and understand the risks facing the Group

To determine our appetite for risk

To accept and manage within the business those risks which our employees have the skills and expertise to understand and leverage

To identify appropriate risk mitigation techniques and countermeasures

The risk review process

The Committee has accountability for overseeing risk management processes and procedures. This is accomplished with support from the Audit Committee. The Risk Management Committee reports to the Board on the risks facing the Group. Further, the Committee is charged with the on-going monitoring of sufficient and effective mitigation plans for relevant risks at each Group operating company and division.

The Committee employs internal controls on the risk management process, including via the external and internal audits, to ensure the Group's actions and activities are in line with Group objectives and policies. At least once a year at a local level, each operating company is required to undertake a formal review of the risks which impact, or have the potential to impact, its business.

The reviews are consolidated into Group-wide risk reports which are maintained and reviewed by the Committee on a regular basis.

We have a robust risk management process in place through which we identify, evaluate and manage the principal risks that could impact the Group's performance.

During 2017, we reviewed the Group's exposure to risk using a bottom-up approach, collecting information and evaluations for each Group operating company. The Committee analysed this information and updated our risk register to reflect the relevant changes, which included expanding the risks addressed in the register, as well as the assessment of and action plans for each risk. Our principal risks and the product of the 2017 review are set out on pages 32 to 33.

The Group's governance structure is set up so that there are three lines of defence within the risk management framework:

- first line of defence – the business is responsible for the identification, control and management of its own risks;

- second line of defence – the Risk Management Committee, with the Audit Committee, ensures that the risk and compliance framework is effective so as to facilitate the monitoring of risk management with on-going challenge and review of the risk profile in the business; and

- third line of defence – internal audits provide independent testing and verification of compliance with policies and procedures and monitoring of follow up actions where required.

This approach ensures that senior managers have full accountability for the management of risks in their specific areas.

Internal controls

An on-going review process for identifying and managing risks faced by the Group has been in place since 2013. The review covers and assesses the effectiveness of all material controls, including financial, operational and compliance controls and risk management systems. It ensures that proper accounting records have been maintained, that financial information used within the business is reliable and that the preparation of the Consolidated and Company Financial Statements and the financial reporting process comply with all relevant regulatory reporting requirements. The system of internal controls is designed to manage, rather than eliminate, the risk of failure to achieve the business objectives.

The Board has ultimate responsibility for the effective management of risk across the Group and determining risk appetite.

The Board also has overall responsibility for the system of internal controls and for reviewing its effectiveness, whilst the role of management is to implement Board policies on risk and control.

All operating companies are required annually to complete self-certification questionnaires regarding compliance with the policies, procedures and minimum requirements for an effective system of internal controls. Self-certification is given by both the General Manager and the Finance Manager of each operation.

This system of analysing and incorporating information directly from the Group companies allows the Committee to continually assess new and changing risks in the Group's business.

Further, while internal controls are not an absolute assurance against material misstatement or loss, the Board believes the regular cycle of review paired with internal monitoring provides a commercially sound approach to protect the Group from the risks that are a necessary part of its operations.

As required by the UK Listing Authority, throughout the year and up to the date of the publication of the Annual Report, the Group has complied with the Code provisions on internal controls.

With respect to Anti-Bribery and Corruption (ABC) concerns, the Group has continued to reinforce the message of zero tolerance for bribery and corruption within its business through the online ABC training. Further, representatives of the Group Legal function provided presentations to the senior management of the Group's newly acquired businesses to emphasise the significance of the ABC policies and training, as well as the whistle-blowing hotline, in developing and maintaining a commitment to ethical business practices. To ensure the ABC training remains relevant, engaging and up-to-date, we will be developing and rolling-out a new online ABC training programme in 2018.

The Group's statement regarding the Modern Slavery Act has been confirmed once again, and is set out on page 57.

Internal audit

Each of the Group operating companies undergoes an internal audit at least once every three years. Operating companies located in higher risk territories are audited more frequently.

All businesses acquired by the Group are subject to internal audit within one year from the date of acquisition. Internal audits are conducted by experienced, qualified accounting staff from principal Group operating companies and a professional auditing firm, BDO International. Reports are made to the Audit Committee and the Board as a whole.

The Committee has ensured compliance with centrally documented control procedures on such matters as capital expenditure, information and technology security and legal and regulatory compliance.

During 2017, the Audit Committee and Board determined that the size of the Group and the growing function of the internal audit warranted the appointment of a Head of Internal Audit. In November 2017, Dan Harvey was appointed to this role. Dan has nearly 20 years of international internal audit experience across a range of businesses in the engineering and technology sectors. A qualified chartered accountant and internal auditor, he has recently held senior audit roles at Experian and BAE Systems, and spent four years leading the internal audit and risk function at Dyson.

 [Read more on page 78](#)

“Internal audit provides valuable assurance to the Board that the Group’s key risks are being managed effectively.”

Dan Harvey,
Head of Internal Audit



Risk Appetite Statement

We recognise that risk is an inherent part of business and, in order to achieve our business aims, we must accept certain risks. We seek to implement a balanced approach to risk, ensuring that our resources are protected while still pursuing opportunities to accelerate and deliver growth.

The decision to take opportunity-based risks should, to the greatest extent possible, be deliberate and calculated. We aim to confirm that the level of risk is commensurate with the strategic and economic benefits the risk might bring; we evaluate our ability to control the risk or mitigate its effects, should that risk materialise; and we always assess the potential ethical considerations arising from knowingly accepting some level of risk.

An informed and well considered process is crucial to any decision to accept risk. The Risk Management Committee has undertaken a thorough evaluation process to determine an appropriate risk appetite rating for each principal risk.

During 2017, we updated our risk register and amended the risks identified as the Group’s principal risks. The eight principal risks and the risk appetite ratings are set out on pages 32 to 33. In summary, the Group has a very low appetite for risks that could lead to violations of health, safety and environmental legislation, or to breaches of legal and regulatory requirements. In contrast, the Group has a high risk appetite in relation to economic and political instability; with decades of experience in successfully managing operations in volatile markets, we have the control procedures in place to handle the challenges that come with those risks and we appreciate that without taking risks in new, albeit sometimes unstable, territories we would miss out on valuable opportunities for growth. As a whole, we consider that the risk appetite ratings for the eight principal risks demonstrate that the Group has an appropriate and balanced risk appetite.

As an organisation we are risk aware, but not risk averse. We continually monitor and assess the risks facing the Group and evaluate our ability to control them and mitigate their effects. Focusing on our strategic objectives, we evaluate our risk appetite and decisions to accept risk in a way that will ensure the on-going financial health of the Group.

Relations with shareholders

Governance structure

We maintain an active dialogue with our principal investors, institutional shareholder advisers and the investment community. During 2017, we undertook a comprehensive calendar of events, as shown in the shareholder engagement calendar. By providing regular forums for meeting and communicating with shareholders, their advisers and the investment community we ensure that we understand the views and opinions of our investors and are kept informed of any concerns that may arise. We are also able to give updates on our results and developments within our business.

We communicate using a variety of forums including regulatory news announcements, interviews, investor and analyst calls, one-to-one meetings, roadshows, site tours and capital markets events. During the year Nicholas Anderson, Group Chief Executive, and Kevin Boyd, Group Finance Director, attended Shareholder roadshows across a number of key countries, including the UK, France, Germany, Switzerland, Canada and the USA.

At the AGM in 2017, shareholders were able to hear from and put questions to the Board on a range of matters.

Our forthcoming AGM will take place on 15th May 2018 at our UK Head Office: Charlton House, Cheltenham. The Group Chief Executive will give a short presentation about the previous year and the Group's strategic progress. The presentation will be available on the Group's website, www.spiraxsarcoengineering.com, on the Shareholder notices page, after the meeting. Following the AGM, the Board will be available to answer questions and meet informally with shareholders.

How our investors can find us:

Our Group website

www.spiraxsarcoengineering.com

Online 2017 Annual Report

www.spiraxsarcoengineering.com/investors/pages/results-and-presentations.aspx



Shareholder engagement calendar 2017

January

- Shareholder visit hosted by Spirax Sarco China
- Institutional meetings, Cheltenham
- Shareholder consultation on Remuneration Policy
- Investor and analyst calls

February

- Investor and analyst calls

March

- Preliminary Results announcement, analyst meeting and shareholder roadshow, London
- Broker industrials conference, London
- Institutional meetings, Cheltenham and London
- Investor and analyst calls

April

- Institutional meetings, Cheltenham
- Investor and analyst calls including following Gestra acquisition announcement

May

- AGM and trading update
- Institutional meetings, Cheltenham and London
- Investor and analyst calls following AGM, trading update and Chromalox acquisition announcement

June

- Institutional meetings, Cheltenham
- Investor and analyst calls

July

- Investor and analyst calls

August

- Half Year Results announcement, analyst meeting and shareholder roadshow, London
- Institutional meetings, Cheltenham
- Shareholder roadshow, Scotland
- Investor and analyst calls

September

- Institutional meetings, Cheltenham and London
- Shareholder roadshow, Canada and USA
- Investor and analyst calls

October

- Shareholder roadshow, Europe (France, Germany and Switzerland)
- Investor and analyst calls

November

- Institutional meetings, Cheltenham and London
- Trading update
- Investor and analyst calls

December

- Institutional meetings, Cheltenham
- Investor and analyst calls

Remuneration

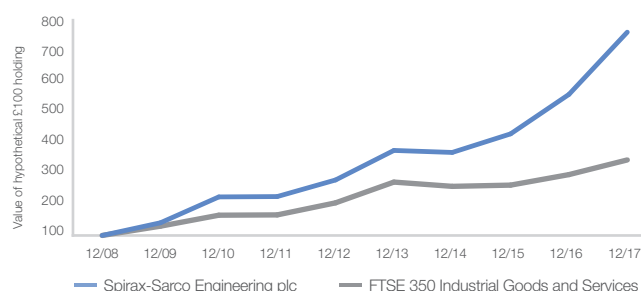
Remuneration at a glance

How we performed

Key performance indicator	2017	2016
Organic revenue growth (%)	6.0	4.0
Adjusted operating profit (£m)	235.5	180.6
Operating profit margin (%)	23.6	23.8
Return on capital employed (ROCE) (%)	52.9	47.9
Basic earnings per share (EPS) (p)	220.5	171.5

[Read more on pages 28-29](#)

TSR performance growth



Executive Directors' remuneration and shareholdings [Read more on pages 88-98](#)

Executive Director	Single total remuneration figure (£/\$000)	Value of shareholding vs shareholding policy (% of salary)
Nicholas Anderson Group Chief Executive	2017: 684.0 (Fixed), 660.0 (Annual Bonus), 826.6 (LTIP) = £2,173 2016: 667.8 (Fixed), 638.6 (Annual Bonus), 302.1 (LTIP) = £1,611	2017: 216.0 2016: 134.0
Kevin Boyd ¹ Group Finance Director	2017: 445.7 (Fixed), 344.0 (Annual Bonus) = £790 2016: 289.3 (Fixed), 221.5 (Annual Bonus) = £511	2017: 32.7 2016: 12.0
Neil Daws Executive Director, EMEA	2017: 408.4 (Fixed), 312.0 (Annual Bonus), 490.5 (LTIP) = £1,213 2016: 396.5 (Fixed), 275.4 (Annual Bonus), 183.2 (LTIP) = £858	2017: 446.6 2016: 358.0
Jay Whalen ² Executive Director, WMFTG	2017: 675.7 (Fixed), 460.6 (Annual Bonus), 580.8 (LTIP) = \$1,717 2016: 657.2 (Fixed), 444.3 (Annual Bonus), 222.7 (LTIP) = \$1,324	2017: 152.4 2016: 146.0

■ Fixed ■ Annual Bonus ■ LTIP

¹ 2016 Remuneration calculated from date of appointment to the Board.

² Paid in US dollars. Original dollar value with the exception of Benefits - refer to Benefits table on page 89.

Overview of the Executive Directors' Remuneration Policy [Read more on pages 99-108](#)

Base salary	Benefits	Pension	Annual bonus award	Performance Share Plan (PSP)
<ul style="list-style-type: none"> To enable the Group to attract, retain and motivate high-performing Executive Directors of the calibre required to meet the Group's strategic objectives 	<ul style="list-style-type: none"> To provide market competitive benefits To enable the Executive Directors to undertake their roles through ensuring their well-being and security 	<ul style="list-style-type: none"> To offer market competitive levels of pension To attract and retain individuals with the personal attributes, skills and experience required to deliver Group strategy 	<ul style="list-style-type: none"> To incentivise and reward performance against selected KPIs which are directly linked to business strategy To ensure a significant proportion of Executive Director remuneration is directly linked to business performance 	<ul style="list-style-type: none"> To incentivise and reward Executive Directors for delivering against long-term Group performance To align Executive Directors' interests to those of shareholders To retain key Executive talent

Our remuneration information is structured as follows:

Remuneration at a glance

- Performance against our key performance indicators
- How we performed against the FTSE 350 Industrial Goods & Services index
- Executive Directors' single figure of remuneration
- Executive Directors' shareholding (% of salary)
- Executive Directors' Remuneration Policy overview

Remuneration Committee overview

- Membership and attendance
- How the Committee spent its time
- Role of the Committee

Statement by the Chairman of the Committee

- Executive Director salary review
- Rewarding strong business performance
- Looking ahead to 2018

Annual Report on Remuneration 2017

- Directors' remuneration
- Directors' shareholdings
- Directors' service agreements

Remuneration Policy Report 2017

- The current policy approved at the AGM 2017

Remuneration

Remuneration Committee

Role of the Committee

The Committee determines Executive remuneration policies and sets targets for short and long-term performance-based incentive schemes. It also monitors compliance with the presiding Remuneration Policy.

Summary of the key Committee activities in 2017:

- Set bonus and Long-Term Incentive Plan (LTIP) performance targets
- Reviewed Executive Director pay and benefits
- Reviewed feedback from shareholders and investors/proxy advisers
- Prepared for gender pay gap reporting requirements
- Monitored UK government proposals on executive pay

 [Read more on pages 87-108](#)

Summary of the key areas of focus for 2018:


- Review Executive Director pay and benefits in light of business expansion
- Adjust LTIP performance targets for impact of acquisitions on EPS
- Monitor Government proposals on corporate governance and compensation

Membership and attendance


There were three meetings in 2017

Committee member	Attendance
 J.S. Kingston	3




Committee member	Attendance
 G.E. Schoolenberg	3



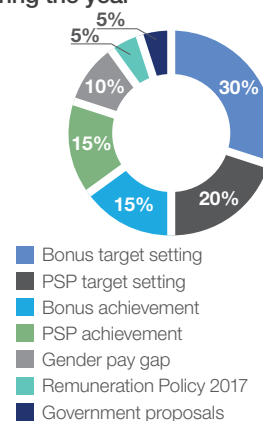
Committee member	Attendance
 J. Pike ¹	2



Committee member	Attendance
 C.G. Watson	3



How the Committee spent its time during the year



¹ Unavoidable absence due to a bereavement.



“Our remuneration framework is aligned with the strategic direction of the business and the interests of our shareholders, with a clear focus on rewarding outstanding performance.”

Jane Kingston
Remuneration Committee Chairman

Remuneration

Statement by the Chairman of the Committee

Dear Shareholder,

On behalf of the Board, I am pleased to present our Remuneration Report for 2017. I am happy to confirm that the implementation of Executive Director remuneration complied fully with our Remuneration Policy, approved by shareholders at the AGM in May 2017.

The Remuneration Report has been split into two sections:

- the 2017 remuneration implementation report (Annual Report on Remuneration 2017) as set out on pages 88 to 98; and
- Directors' Remuneration Policy (Remuneration Policy Report 2017) as set out on pages 99 to 108.

We would like to thank shareholders for the support they showed for the Annual Report on Remuneration 2016 and the Remuneration Policy 2017. At the AGM in May 2017, the advisory resolution on the Annual Report on Remuneration 2016 received 99.7% votes in favour. At the same time our new Remuneration Policy was approved with 95.1% votes in favour. This new Policy was implemented immediately following the AGM. The Committee is satisfied that the Remuneration Policy continues to reflect the interests of shareholders and aligns Executive remuneration with Company strategy, while allowing the Group to attract and retain motivated and talented individuals.

Executive Director salary review

Salaries were reviewed in accordance with the Remuneration Policy, taking into account the Company and individual performance in conjunction with the wider workforce comparisons. For 2018, all Executive Directors were awarded base salary increases strictly in line with the wider workforce. This equated to 2.7% for the UK-based Executive Directors and 3.0% for Jay Whalen, who is based in the USA.

Rewarding strong business performance

As noted in the Chairman's Statement on pages 4 to 5, the Company made impressive progress in 2017 with Group revenue up 6% and adjusted operating profit up 6%, both on an organic basis (contributing to adjusted earnings per share (EPS) growth of 29% and a return on capital employed (ROCE) of 51.8% (as determined under Annual Incentive Plan (AIP) rules)). The Company delivered a total shareholder return (TSR) of 111.7% which is in the upper quartile of our comparator group. An increase in the total dividend for the year extends our dividend progress to 50 years.

2017 was a landmark year with the two largest acquisitions in the Group's history; Gestra and Chromalox. During this transformative year, the Company continued to demonstrate strong underlying organic growth of 5% in the Spirax Sarco Steam Specialties business and 10% in Watson-Marlow.

Our Remuneration Policy is designed to ensure that a significant percentage of Executive Director pay is based on the achievement of demanding performance targets and is, therefore, "at risk".

Maximum payout in the AIP and Performance Share Plan (PSP) is only possible as a result of significant strong performance by the business. The Committee considers that the remuneration paid to Executive Directors in 2017 (given as a single figure for each Director on page 88) reflects the progress made by the Company during 2017 as well as over the last three years.

Annual bonus

Annual bonuses are based on adjusted operating profit, ROCE targets and personal strategic objectives. The Group profit achievement of £214.1 million (as determined under the AIP rules) was 6.2% above the £201.7 million plan target and the ROCE achieved of 51.8% was 2.7 percentage points above the 49.1% plan target. These achievements resulted in a 125% of salary bonus award for the Group Chief Executive and 100% of salary for the Group Finance Director. Other Executive Directors' targets have an additional divisional profit element and details of their bonus targets and level of achievement can be found on pages 89 to 90.

Performance Share Plan

In spite of difficult macro-economic conditions over the performance period, I am delighted to confirm that the Group has performed well against the demanding performance targets set for the 2015 PSP. Shares awarded in the 2015 PSP vest based on the growth of two measures, EPS (60%) and TSR (40%), over the three year performance period. EPS resulted in 100% vesting. A 111.7% increase in TSR in the three year performance period triggered a 100% award for this element. The total number of shares vesting under both elements was therefore 100% of the total shares awarded. Details of the PSP awards can be found on pages 91 to 92.

In light of the significant acquisition activity in 2017, we have increased the target of the EPS element of the Executive Director PSP to reflect both planned organic growth from the underlying business and the incremental contribution expected from Gestra and Chromalox in accordance with our acquisition business case.

Looking ahead to 2018

In respect of 2017 we reported record levels of profit, a further material increase in our share price and a dividend increase of 15%. The acquisitions of both Gestra and Chromalox have created a larger and more complex organisation that is providing additional challenges for the leadership team. Our Remuneration Policy 2017 was designed to provide flexibility for the future, if so required, to meet the needs of the changing shape of the Group, its management structure and to retain Executives. We are not proposing any changes to the existing Policy in 2018, or to the way in which we implement it beyond the modest salary increases and increased PSP targets described above. However, during 2018 we will review our remuneration arrangements to ensure they continue to drive incremental performance while appropriately reflecting the changes in the size, scope, operations and complexity of the Group. In addition to this we have published our Gender Pay Gap data and we will also be monitoring the outcome of the FRC review of the UK Corporate Governance Code and any resulting legislation.

I hope that this provides a useful overview of the decisions the Committee has taken during the year.

Jane Kingston

Remuneration Committee Chairman

14th March 2018

Remuneration

Annual Report on Remuneration 2017

Strategic alignment

The Committee ensures that the remuneration paid to the Executive Directors is closely aligned to the Group strategy. In June 2017 the Board reviewed the Strategic Plan approved in 2014.

The Strategic Plan is used to set individual strategic objectives for the Executive Directors and, from this, bonus targets are agreed and approved by the Committee. This process forms part of the annual Board calendar, with the bonus targets approved in the early part of the financial year. The Group's strategic themes are set out on page 21.

1.0 Annual Report on Remuneration 2017

This section sets out the Directors' remuneration for the financial year ended 31st December 2017.

The following information has been audited by Deloitte LLP:

- Single total figure of remuneration;
- Pension;
- Scheme interests awarded between 1st January 2017 and 31st December 2017;
- Payments to past Directors;
- Loss of office payments; and
- Directors' shareholdings and share interests.

1.1 Single total figure of remuneration (audited)

	Salary/Fees		Benefits		Annual bonus		PSP ¹		Pension		ESOP ²		Total	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Executive Directors														
N.J. Anderson	£515,000	£528,000	£24,000	£24,063	£638,600	£660,000	£302,082	£826,648	£128,750	£132,000	£2,459	£1,909	£1,610,891	£2,172,620
K.J. Boyd ³	£223,333	£344,000	£10,224	£15,774	£221,546	£344,000	N/A	N/A	£55,833	£86,000	N/A	N/A	£510,936	£789,774
N.H. Daws	£302,500	£312,000	£18,378	£18,450	£275,448	£312,000	£183,177	£490,556	£75,625	£78,000	£2,459	£1,909	£857,587	£1,212,915
J.L. Whalen ⁴	\$444,250	\$470,000	\$47,347	\$50,462	\$444,250	\$460,600	\$222,717	\$580,842	\$165,638	\$155,230	N/A	N/A	\$1,324,202	\$1,717,134
Chairman and Non-Executive Directors														
W.H. Whiteley	£165,400	£175,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	£165,400	£175,000
J.S. Kingston ³	£17,500	£59,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	£17,500	£59,000
J. Pike	£53,000	£57,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	£53,000	£57,000
G.E. Schoolenberg	£48,000	£49,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	£48,000	£49,000
C.G. Watson	£57,000	£59,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	£57,000	£59,000

¹ The 2017 column relates to vesting of the 2015 PSP award valued at \$755.0p or \$74.62 for J.L. Whalen. Value converted at the 2017 average dollar/sterling exchange rate of 1.2966. The 2016 column relates to vesting of the 2014 PSP award valued at \$568.0p or \$62.12 for J.L. Whalen. Value converted at the 2016 average dollar/sterling exchange rate of 1.36.

² Matching shares awarded during the year based on the mid-market price of the shares on the date of award: 5785.0p for 2017 and 4553.0p for 2016.

³ 2016 remuneration calculated from date of appointment to the Board. K.J. Boyd was appointed on 11th May 2016 and J.S. Kingston was appointed on 1st September 2016.

⁴ Paid in US dollars. All elements of J.L. Whalen's remuneration are shown in US dollars because he lives and works mostly in the USA. Furthermore, converting to sterling is misleading due to the large movement in exchange rates. Original dollar value with the exception of Benefits - refer to Benefits table on page 89.

Salary/fees

The following table sets out the 2017 base salary with effect from 1st January 2017 for each of the Executive Directors, compared to 2016.

Executive Directors	2016	2017	Increase
N.J. Anderson	£515,000	£528,000	2.5%
K.J. Boyd	£335,000	£344,000	2.6%
N.H. Daws	£302,500	£312,000	3.0%
J.L. Whalen	\$444,250	\$470,000	5.8%

The Executive Directors' salaries increased by an average of 3.3% in 2017. Increases for the broader employee population were on average 2.5% in the UK, and 3.0% in the USA, increasing in accordance with internal guidelines for top performers. The increases for Executive Directors, like those for the broader employee population, took account of both individual performance and market data, to ensure that salaries remain competitively positioned in the market. A higher salary increase was awarded to Jay Whalen in view of the significant contribution of WMFTG to the Group.

The following table sets out the 2017 fees for the Chairman and Non-Executive Directors. Pay for the Chairman and Non-Executive Directors does not vary with performance. Fees for Non-Executive Directors are reviewed annually.

Chairman and Non-Executive Directors	Basic fees	Additional fees	2017 Total fees
W.H. Whiteley	£175,000	N/A	£175,000
J.S. Kingston ¹	£49,000	£10,000	£59,000
J. Pike ²	£49,000	£8,000	£57,000
G.E. Schoolenberg	£49,000	N/A	£49,000
C.G. Watson ¹	£49,000	£10,000	£59,000

¹ J.S. Kingston received £10,000 in respect of her role as Chairman of the Remuneration Committee. C.G. Watson received £10,000 in respect of his role as Chairman of the Audit Committee.

² J. Pike received £8,000 in respect of his duties as Senior Independent Director.

The Chairman's fee and the Senior Independent Director's fee were both increased following a review of market data and the scope of the roles.

Benefits (excluding pension)

Benefits	N.J. Anderson	K.J. Boyd	N.H. Daws	J.L. Whalen ^{1,2}
Company car and associated running costs or cash alternative allowance	£23,664	£15,375	£17,859	\$25,758
Private health insurance	£399	£399	£399	\$20,598
Telecommunications and computer equipment	–	–	£192	\$4,106
Mobility-related benefit:				
– Tax advice ^{2,3}	£6,748	–	–	\$11,068
Life assurance ^{2,3}	£724	£472	£428	\$531
Long-term disability insurance ^{2,3}	£2,017	£1,314	£1,193	\$1,478

¹ Paid in US dollars. All elements of J.L. Whalen's remuneration are shown in US dollars because he lives and works mostly in the USA. Furthermore, converting to sterling is misleading due to the large movement in exchange rates. Original dollar value.

² J.L. Whalen's values converted at the 2017 average dollar/sterling exchange rate of 1.2966.

³ Not taxable therefore not included in the single total figure of remuneration.

Pension

Full details of the pension benefits are set out at section 1.2 on pages 92 to 93.

Annual bonus

Executive Directors participate in the annual bonus plan, which rewards them for financial performance both at Group level and, where relevant, the business segment for which they are responsible. Targets are reviewed annually to ensure continuing alignment with strategy and are agreed at the start of the year. Resulting awards are determined following the end of the financial year by the Committee, based on performance against these targets.

For the Group Chief Executive, achievement of target performance results in a bonus of 75% of salary, increasing to 125% of salary for maximum performance. For the other Executive Directors, achievement of target performance results in a bonus of 60% of salary, increasing to 100% of salary for maximum performance.

Bonus payments are subject to clawback or malus for up to three years following payment. Circumstances that may result in a clawback or malus include financial misstatement, erroneous calculations determining bonus payments or gross misconduct.

The payment of up to 10% of an Executive Director's bonus opportunity, 12.5% for the Group Chief Executive, is based on individual strategic objectives, alongside the current financial measures. These strategic objectives are tailored to an individual's areas of responsibility and agreed at the start of the year. Each measure is subject to three possible achievement levels: fully achieved, partially achieved and not achieved. A comprehensive review of the personal objectives which applied in 2017 to each Executive Director can be found on page 90.

	Performance targets			% of salary
	Fully achieved	Partly achieved	Not achieved	
N.J. Anderson	5	0	0	12.5%
K.J. Boyd	5	0	0	10.0%
N.H. Daws	5	0	0	10.0%
J.L. Whalen	5	0	0	10.0%

Remuneration

Annual Report on Remuneration 2017 *continued*

Nicholas Anderson:

Objectives included continued improvement to the Health and Safety performance of the Group; the successful implementation of the corporate strategy by leading the successful acquisitions of the Gestra and Chromalox businesses, including their integration into the Group; and implementation of the Customer First strategy to drive organic growth in the Steam Specialties division.

Kevin Boyd:

Objectives included fully supporting the due diligence, acquisition and integration of the Gestra and Chromalox businesses; the successful completion of the annual audit cycle; the recruitment of a new Group IS Director and implementation of a revised IS strategy with emphasis on improvements to cybersecurity; the development of a Group tax strategy to improve the Group's corporate tax position; and implementation of the actions recommended in the 2016 internal audit review by PricewaterhouseCoopers LLP.

Neil Daws:

Objectives included continued improvement to the Health and Safety performance of the EMEA region; maintenance of the successful implementation of the Customer First strategy; the successful integration of the Gestra acquisition; acceleration of sales growth and execution of local manufacturing plans in India; and continued territorial expansion into new markets.

Jay Whalen:

Objectives included full integration of recent acquisitions, including Aflex; the successful and timely launch of new products; completion of the global ERP system; continued investment in development activities for WMFTG personnel and implementation of the Group sustainability strategy.

The table below sets out the performance measures that each of the Executive Directors' bonus awards were subject to:

Executive Directors	2017 Measures (% of salary)
N.J. Anderson	Group operating profit (87.5%) Group ROCE (25.0%) Personal strategic objectives (12.5%)
K.J. Boyd	Group operating profit (70%) Group ROCE (20%) Personal strategic objectives (10%)
N.H. Daws	Segmental operating profit (50%) Group operating profit (20%) Group ROCE (20%) Personal strategic objectives (10%)
J.L. Whalen	

The performance measures are adjusted to reflect certain non-operating items including the amortisation of acquisition-related intangible assets and exceptional reorganisational costs and to exclude any profit contribution and other impacts such as major acquisitions during the period.

2017 was a good year for the Group which delivered earnings growth, maintained operating profit margin and increased dividend to shareholders. The annual bonus payments to Executive Directors ranged between 98% and 125% of salary. The bonus is payable in cash where the relevant Executive Director has met the share ownership requirement, otherwise that part of the bonus over 60% of base salary, 75% for the Group Chief Executive, net of tax, must be used to buy shares until the shareholding requirement has been met.

The table below summarises the achieved performance in 2017 in respect of each of the measures used in the determination of annual bonus, together with an indication of actual performance relative to target.

	Actual performance ¹	Threshold	Target	Maximum
Group operating profit	£214.1m	£191.6m	£201.7m	£211.8m
Group ROCE	51.8%	46.6%	49.1%	51.6%
EMEA operating profit ²	£52.4m	£46.7m	£49.1m	£51.6m
Watson-Marlow operating profit	£83.0m	£75.4m	£79.4m	£83.4m

¹ To comply with the annual bonus plan rules these metrics use, as a base, the actual adjusted operating profit of £235,462 for segmental operating profit performance, and exclude centrally allocated overheads from both the target measure and actual performance.

² Excludes performance of the UK and French manufacturing units, and Gestra, for which N.H. Daws is not responsible.

As a result of this performance in 2017, the following bonuses were achieved:

Executive Directors	Bonus achieved	Bonus (% of salary)
N.J. Anderson	£660,000	125%
K.J. Boyd	£344,000	100%
N.H. Daws	£312,000	100%
J.L. Whalen ¹	\$460,600	98%

¹ Paid in US dollars. All elements of J.L. Whalen's remuneration are shown in US dollars because he lives and works mostly in the USA. Furthermore, converting to sterling is misleading due to the large movement in exchange rates. Original dollar value.

The following graph provides a six-year summary of bonus outcomes for the Group Chief Executive against the performance of Group operating profit and ROCE. This illustrates the strong historical alignment between pay and performance.



Spirax-Sarco Performance Share Plan (PSP)

The Committee makes an annual conditional award of shares to each Executive Director under the PSP. Prior to award, the Committee reviews the performance targets for each measure to ensure they remain sufficiently stretching. For financial measures this includes a review of analysts' forecasts. PSP awards are subject to malus (reduction in the amount of deferred and as yet unpaid compensation) and clawback (reimbursement of compensation that has already been paid) for up to three years following the award, and can be applied during a holding period. Circumstances that may result in a clawback or malus adjustment include financial misstatement, erroneous calculations determining bonus payments or gross misconduct.

In relation to PSP awards made prior to 2017, the maximum award under the PSP was 100% of base salary. From 2017 the maximum award was increased to 150% for the Group Chief Executive and 125% for the other Executive Directors, in accordance with the Remuneration Policy approved at the AGM in 2017. Vesting is based on two performance conditions measured over a three-year period, which have been chosen as they are aligned with our strategy:

- TSR relative to a comparator group; and
- EPS growth.

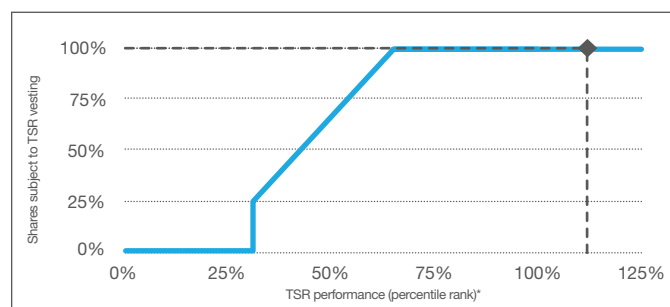
In addition, a two-year post-vesting holding period applies to PSP awards made from 2017.

PSP awards vesting over 2015-2017

In 2015 the Executive Directors received share awards under the PSP, with vesting subject to EPS growth and relative TSR performance. The following diagrams set out details of the performance measures and targets that applied, along with the actual performance during the period 1st January 2015 to 31st December 2017.

Relative TSR performance (40% of PSP award)

Over the three-year period to 31st December 2017, the Company delivered an increase in TSR of 111.7%. This ranked above the upper quartile TSR of the comparator group.



	Target	TSR	Payout
Threshold	Median TSR	31.2%	25%
Maximum	Upper quartile TSR or above	65.0%	100%
Actual		111.7%	100%

* Vesting is calculated based on Spirax Sarco's TSR relative to the median and upper quartile TSR of the peer group.

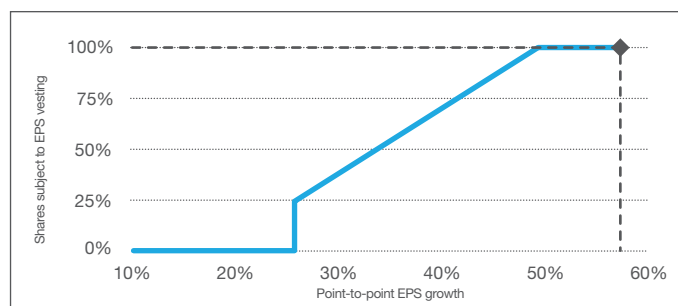
The comparator group for the purpose of measuring relative TSR performance is the FTSE 350 Industrial Goods and Services Supersector.

Remuneration

Annual Report on Remuneration 2017 *continued*

EPS growth (60% of PSP award)

Over the three-year period to 31st December 2017, the Company delivered adjusted EPS growth of 57.1%. This equated to growth of approximately 16.3% per annum over the three years.



	Performance (over 3 years)	Payout
Threshold	25.7%	25.0%
Maximum	49.5%	100.0%
Actual	57.1%	100.0%

EPS is derived from the audited Annual Report for the relevant financial year but adjusted to exclude the items shown separately on the face of the Consolidated Income Statement and augmented following the acquisitions of Gestra and Chromalox.

In respect of the 2015 PSP awards, actual performance for the combined relative TSR and point-to-point EPS resulted in 100% of shares vesting.

Executive Directors	Award	Vested	Lapsed	Value on vesting ¹
N.J. Anderson	14,364	14,364	0	£826,648
N.H. Daws	8,524	8,524	0	£490,556
J.L. Whalen	7,784	7,784	0	\$580,842

¹ Based on share price at date of vesting, 13th March 2018 (5755.0p or \$74.62 for J.L. Whalen). Value converted at the 2017 average dollar/sterling exchange rate of 1.2966.

1.2 Pension (audited)

In lieu of pension benefits, Nicholas Anderson and Kevin Boyd received 25% of their basic salary in cash, which in the year ended 31st December 2017 amounted to £132,000 and £86,000 respectively.

Neil Daws became a deferred member of an HMRC registered, contributory defined benefit scheme, the Spirax-Sarco Executives' Retirement Benefits Scheme, with effect from 31st December 2012, and is, therefore, no longer accruing any pension benefits within the defined benefit scheme. His defined benefit rights in the Scheme at 31st December 2017 were £4,765,000 and his normal retirement date is 1st January 2025 (age 62½). In lieu of pension benefits, he received 25% of his basic salary in cash, which in the year ended 31st December 2017 amounted to £78,000.

Jay Whalen is a member of the Spirax Sarco Inc. defined benefit plan. The benefit paid under normal retirement from the US defined benefit plan is a single life annuity equal to the number of years of service multiplied by the sum of 1.0% of pensionable salary up to social security covered compensation, plus 1.45% of pensionable salary in excess of social security covered compensation. Final average salary is the average of the highest pensionable pay for any five consecutive years prior to retirement up to a ceiling. Jay Whalen's final average salary is higher than the salary ceiling as at 31st December 2017.

Jay Whalen's defined benefit plan arrangements are as follows:

Executive Director	Age attained at 31.12.17	Accrued pension at 31.12.16	Accrued pension at 31.12.17	Change in accrued pension during the year	Change in accrued pension during the year ¹	Change in the value ² of accrued pension over the year net of inflation ¹ and Director's own contributions ³
J.L. Whalen	61	\$86,161	\$90,849	\$4,688	\$2,764	\$55,280

¹ Net of inflation, limited to 0% ie at a rate of 1.46% per annum.

² This year the value of pension has been calculated based on a factor of 20 in line with that required under the disclosure regulations.

³ This is a non-contributory plan so J.L. Whalen paid zero contributions into the defined benefit plan over the year.

The following additional information is provided:

- Upon death in service: a spouse's pension equal to one-half of the member's pension, based on pensionable service to the date of death, is payable. After payment of the pension commences the accrued pension shown has no attaching spouse's pension. However, at retirement there is an option to reduce the member's pension to provide for a spouse's pension after death.
- Early retirement rights: after leaving the service of the Company, Jay Whalen has the right to draw his accrued pension at any time after his 65th birthday with no reduction. In addition, he has the right to commence his pension earlier if he meets the age and service requirements, with the pension being reduced. The annual reductions for early retirement are 3% for each year from age 65 to age 60.
- Pension increases: the pension has no guaranteed increases. Spirax Sarco Inc. has the discretion to provide increases.

– Other discretionary benefits: additionally, Jay Whalen benefited from Company contributions to a personal plan (choice of a personal US defined contribution pension plan or cash in lieu of pension benefits) and to a 401k plan. The total amount contributed by the Group was \$99,950.

1.3 Scheme interests awarded during the financial year (audited)

Spirax-Sarco Performance Share Plan (PSP)

All awards were granted under the PSP as a contingent right to receive shares, with the face value calculated as a percentage (150% for the Group Chief Executive and 125% for the Executive Directors) of base salary, using the share price at date of award (5256.0p). Awards were made on 26th May 2017.

Executive Director	PSP award	Face value	Last day of the performance period	Vesting at threshold performance
N.J. Anderson	15,068 shares	£791,974	31.12.19	25%
K.J. Boyd	8,181 shares	£429,993	31.12.19	25%
N.H. Daws	7,420 shares	£389,995	31.12.19	25%
J.L. Whalen ¹	7,420 shares	\$505,668	31.12.19	25%

¹ Value converted at the 2017 average dollar/sterling exchange rate of 1.2966.

In respect of the PSP awards made to Executive Directors in 2017, vesting is dependent on the following TSR and EPS performance measures. In addition to the three-year vesting period, a two-year holding period applies.

Relative TSR performance (40% of PSP award)	Performance	Payout
Threshold	TSR equal to median	25%
Maximum	TSR equal to or higher than the upper quartile	100%

For awards made in 2017 the comparator group is the constituents of the FTSE 350 Industrial Goods and Services Supersector at the start of the performance period.

Point-to-point EPS growth (60% of PSP award)	Performance	Payout
Threshold	Global Industrial Production +2% per annum	25%
Maximum	Global Industrial Production +8% per annum	100%

With effect from 2016, the EPS element of the PSP is based on growth in excess of global industrial production growth rates, often referred to in our industry as “Global IP”, rather than UK RPI. Global IP* is a measure that the Board and management have used for some time as there is well documented evidence that it is the best predictor of the global and industrial markets within which the Group operates. For these reasons, Global IP was used in the formulation of the long-term strategic plan and targets for EPS growth approved by the Board. As a result, the Committee was of the view it made sense to incorporate Global IP into our PSP, as a means of better aligning the assessment of performance against our long-term strategic plan and market dynamics within our industry. The Committee reviewed the historical and projected data (2007-2020), including the Group’s performance, market benchmarks and analysts’ consensus to determine a performance range associated with this benchmark growth rate that remains sufficiently challenging across various market environments. Accordingly, threshold vesting will occur for exceeding Global IP by 2% per annum, increasing on a straight line basis to full vesting for exceeding Global IP by 8% per annum.

* The Global IP data source is the CHR Metals Global IP Index, providing data, that incorporates over 90% of global industrial output.

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

Executive Directors (excluding Jay Whalen who is a US citizen) are eligible to participate in an HMRC approved Share Incentive Plan known as the ESOP. Nicholas Anderson and Neil Daws are participants. Kevin Boyd was not eligible to participate in the 2016 ESOP because the date on which he joined the Group was too late. He is a participant in the 2017 ESOP which has a share purchase date of October 2018.

During the year ended 31st December 2017 Nicholas Anderson and Neil Daws each purchased 33 partnership shares, were each awarded 33 matching shares and received seven and 30 dividend shares respectively. Further information is set out in the table on page 95.

The maximum annual investment in shares was increased (along with eligible UK employees) to the HMRC limit of £1,800 per Executive Director which can be matched by the Company on a one-for-one basis for each share that is purchased by an Executive Director and dividend shares can be reinvested.

No shares acquired under the ESOP are subject to performance measures as the aim of the ESOP is to encourage increased shareholding in the Company by all eligible UK employees.

1.4 Payments to past Directors (audited)

There were no payments to former Directors during the year ended 31st December 2017.

1.5 Payments for loss of office (audited)

There were no payments made to Directors for loss of office during the year ended 31st December 2017.

Remuneration

Annual Report on Remuneration 2017 *continued*

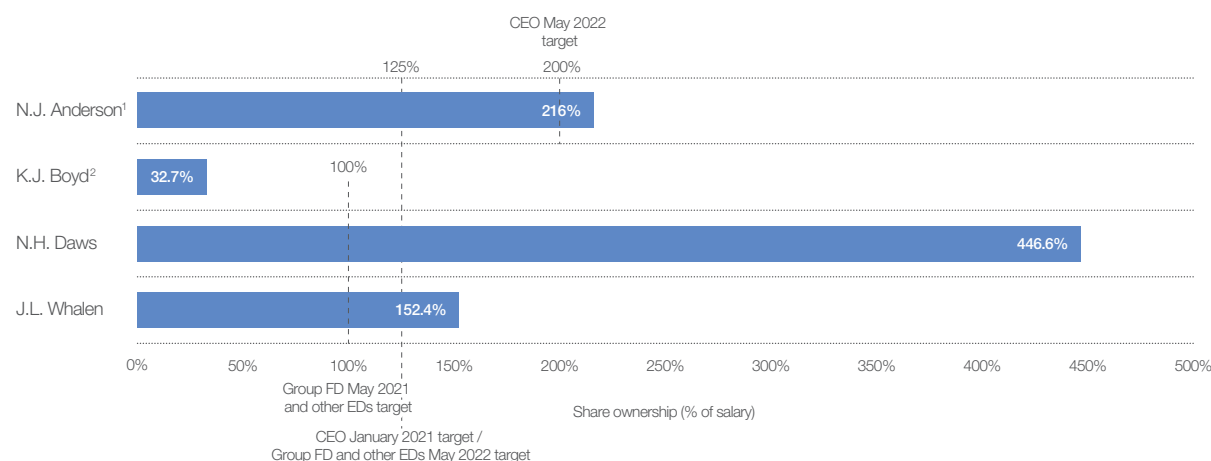
1.6 Statement of Directors' shareholding and share interests (audited)

Progress towards share ownership guideline

The following chart sets out the Executive Directors' progress towards the Company's share ownership guidelines.

In 2016 the guidelines were 125% of base salary for the Group Chief Executive and 100% for the other Executive Directors, over a maximum period of five years from date of appointment to the Board. Following the approval of the Remuneration Policy at the AGM in May 2017, the share ownership guidelines were increased to 200% of base salary for the Group Chief Executive and 125% for the other Executive Directors. This increase applies to the period from 2017. Executive Directors are expected to achieve the increased maximums within five years.

Progress against the 2016 guidelines and the reset 2017 guidelines is illustrated below. The value of the shareholding is taken at 29th December 2017 as a percentage of 2017 base salary.



¹ Target increased from 100% to 125%, with effect from January 2016, and to 200%, with effect from May 2017.

² Appointed to the Board 11th May 2016. Target increased from 100% to 125% with effect from May 2017*.

* Increased target also applies to other EDs.

In accordance with Policy, Executive Directors must use the part of bonus over 60% of base salary, 75% of base salary for the Group Chief Executive, net of tax, to buy shares until their shareholding guideline has been met. This is, in effect, a bonus deferral mechanism.

The share ownership guidelines have been met by all Executive Directors excepting Kevin Boyd. Kevin Boyd has made significant progress since he joined in May 2016 and will use that part of his bonus over 60% of base salary to buy more shares to reach the 2021 and 2022 targets.

Outstanding share interests

The following table summarises the total interests of the Directors in shares of the Company as at 31st December 2017. These cover beneficial and conditional interests. No Director had any dealing in the shares of the Company between 31st December 2017 and 14th March 2018.

	Beneficial ¹	PSP awards ²	PSP nil-cost options ³	ESOP shares ⁴	Total 31.12.17	Total 14.03.18 ⁵
W.H. Whiteley	11,034	N/A	N/A	N/A	11,034	11,034
N.J. Anderson	19,709	43,939	0	551	64,199	78,563
K.J. Boyd	2,000	17,599	0	N/A	19,599	19,599
N.H. Daws	23,856	24,465	16,735	938	65,994	74,518
J.L. Whalen	9,828	23,137	0	N/A	32,965	40,749
J.S. Kingston	1,080	N/A	N/A	N/A	1,080	1,080
J. Pike	4,540	N/A	N/A	N/A	4,540	4,540
G.E. Schoolenberg	1,854	N/A	N/A	N/A	1,854	1,854
C.G. Watson	2,446	N/A	N/A	N/A	2,446	2,446

¹ Shares include any owned by connected persons.

² Subject to the performance measures as set out on pages 91 to 92.

³ Explained in table overleaf.

⁴ Not subject to performance measures.

⁵ The increase in shareholding at 14th March 2018 for N.J. Anderson, N.H. Daws and J.L. Whalen is a result of 100% of the 2015 PSP award vesting.

Spirax-Sarco Engineering plc Share Option Schemes (Option Schemes)

No Directors had interests under the Option Schemes.

Spirax-Sarco Performance Share Plan (PSP)

The interests of Executive Directors in the PSP are set out below.

	Date of award			Balance 01.01.17	Vested 06.03.17 ¹	Lapsed 06.03.17 ¹	Awarded 26.05.17 ⁴	Balance 31.12.17
	14.03.14 ¹	11.06.15 ²	05/11.04.16 ³					
N.J. Anderson	16,533	14,364	14,507	45,404	6,613	9,920	15,068	43,939
K.J. Boyd	0	0	9,418	9,418	0	0	8,181	17,599
N.H. Daws	10,024	8,524	8,521	27,069	4,010	6,014	7,420	24,465
J.L. Whalen	8,963	7,784	7,933	24,680	3,585	5,378	7,420	23,137

¹ The mid-market price of the shares on 14th March 2014 was 2873.0p. 40% of the PSP award vested on 6th March 2017 as the performance measures applicable were partly met. During the performance period 1st January 2014 to 31st December 2016, the TSR performance of the Company resulted in 100% vesting of this element. The EPS performance of the Company resulted in zero vesting of this element. The mid-market price of the shares on 29th February 2016 was 4568.0p. The 2014 awards vested in the form of whole shares.

² The average mid-market price of the shares on 8th June, 9th June and 10th June 2015 was 3446.0p. The period over which performance measures are measured is 1st January 2015 to 31st December 2017. Details of the performance measures attached to these PSP awards are set out on pages 91 to 92.

³ The mid-market price of the shares on 5th April 2016 (N.J. Anderson, N.H. Daws and J.L. Whalen) and 11th April 2016 (K.J. Boyd) was 3550.0p and 3557.0p respectively. The period over which performance measures are measured is 1st January 2016 to 31st December 2018. There are two performance measures governing vesting of this PSP award: 40% of the PSP award is subject to a TSR performance measure which requires the Company to rank at median relative to a comparator group of the constituents of the FTSE 350 Industrial Goods and Services Supersector for 25% of this portion of the PSP award to vest, increasing to full vesting for ranking at the upper quartile; 60% of the PSP award is subject to an EPS performance measure which requires growth of Global IP +2% per annum for 25% of this portion of the PSP award to vest, increasing to full vesting for growth of Global IP +8% per annum.

⁴ The average mid-market price of the shares on 19th May to 25th May 2017 inclusive was 5256.0p. This was applied in determining the number of shares subject to the PSP awards granted on 26th May 2017. The period over which performance measures are measured is 1st January 2017 to 31st December 2019. Details of the performance measures attached to these PSP awards are set out on page 93. A two-year post-vesting holding period applies to this award.

As noted in previous years, the 2010 and 2011 awards that vested in 2013 and 2014 respectively took the form of nil-cost options. The following table summarises the outstanding options.

	Balance at 01.01.17	Exercised	Balance at 31.12.17	2017 gain arising on exercise (£)	Date from which first exercisable	Expiry date
N.J. Anderson	—	—	—	—	—	—
N.H. Daws	12,740	—	12,740	—	05.03.13	05.03.20
	3,995	—	3,995	—	04.03.14	04.03.21
Subtotal for N.H. Daws	16,735	—	16,735	—	—	—
J.L. Whalen	—	—	—	—	—	—

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

The interests of eligible Executive Directors are set out below.

	Balance 01.01.17	Partnership shares purchased ¹	Matching shares awarded ¹	Dividend shares ²	Shares sold	Balance 31.12.17	Period of qualifying conditions ³
N.J. Anderson	478	33	33	7	0	551	3 years
N.H. Daws	2,042	33	33	30	1,200	938	3 years

¹ Partnership shares were purchased, at a price of 4477.3p, and matching shares were awarded on 11th October 2017. The mid-market price of the shares on that date was 5785.0p.

² 26 dividend shares were received on 26th May 2017, on which date the mid-market price of the shares was 5760.0p. 11 dividend shares were received on 10th November 2017, on which date the mid-market price of the shares was 5690.0p.

³ Partnership shares are not subject to qualifying conditions. No matching shares or dividend shares were released from the ESOP or forfeited during the year ended 31st December 2017.

Remuneration

Annual Report on Remuneration 2017 *continued*

1.7 Directors' service agreements and letters of appointment

Chairman and Non-Executive Directors

The Chairman and Non-Executive Directors have letters of appointment with the Company for a period of three years, subject to annual re-election at the AGM. Appointments may be terminated by the Company or individual with one month's notice. The appointment letters for the Chairman and Non-Executive Directors provide that no compensation is payable on termination, other than accrued fees and expenses.

Directors' terms of service

The tables below set out the dates on which each Director was initially appointed, their latest service agreement or letter of appointment and their notice period. All Directors are subject to election or re-election (as the case may be) at the AGM, with the exception of Bill Whiteley who retires at the end of the meeting.

Executive Director	Original appointment date	Current agreement ¹	Expiry date	Notice period
N.J. Anderson	15.03.12	13.12.13	16.01.26	12 months
K.J. Boyd	11.05.16	26.10.15	02.09.29	12 months
N.H. Daws	01.06.03	25.09.12	01.07.27	12 months
J.L. Whalen	15.03.12	17.04.12	28.05.21	12 months

Chairman and Non-Executive Directors	Original appointment date	Appointment/ Re-appointment letter ¹	Expiry date	Notice period
W.H. Whiteley	26.07.02	30.06.15	15.05.18	1 month
J.S. Kingston	01.09.16	16.08.16	31.08.19	1 month
J. Pike	01.05.14	06.03.17	30.04.20	1 month
G.E. Schoolenberg	01.08.12	03.08.15	31.07.18	1 month
C.G. Watson	17.07.09	03.08.15	16.07.18	1 month

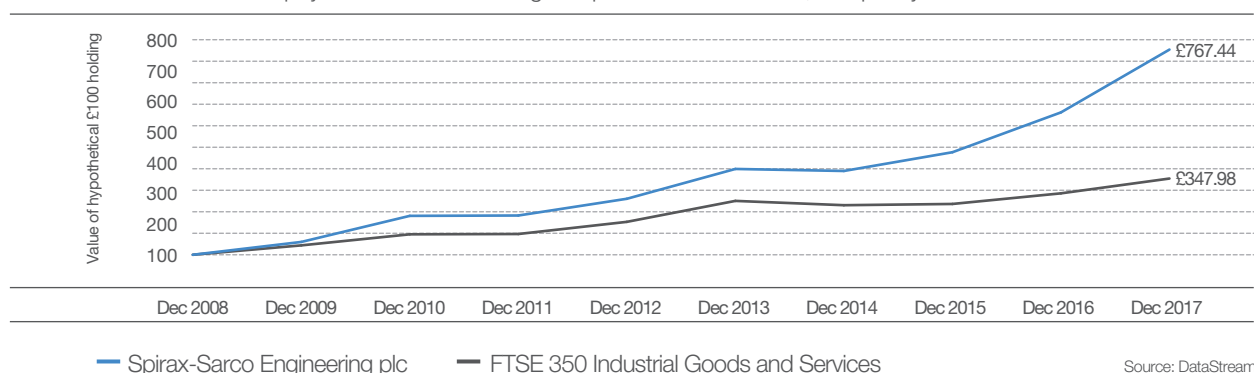
¹ All letters of appointment and service agreements are available for inspection at the Group's headquarters in Cheltenham.

1.8 External directorships

Kevin Boyd served as a Non-Executive Director at EMIS Group plc during 2017, for which he received and retained total fees of £40,000.

1.9 TSR performance graph

This graph demonstrates the growth in value of a £100 investment in the Company compared to the FTSE 350 Industrial Goods and Services Supersector from December 2008 to December 2017. This comparison is chosen as it is the supersector within which the Company is classified and it is a broad equity market index including companies of a similar size, complexity and sector.



The table below shows the historic levels of the Group Chief Executive's pay (single figure of total remuneration) and annual variable and PSP awards as a percentage of maximum.

	Single figure of annual remuneration	Annual variable pay as a percentage of maximum	Value of vested PSP awards as a percentage of maximum
2017	£2,172,620	100.00%	100.00%
2016	£1,610,891	99.20%	40.00%
2015	£1,191,137	61.39%	80.33%
2014 ¹	£1,000,115	55.76%	33.06%
2013	£1,593,150	95.24%	29.93%
2012	£1,402,668	31.69%	74.60%
2011	£1,516,798	80.08%	100.00%
2010	£1,720,765	100.00%	100.00%
2009	£1,092,229	37.00%	100.00%

¹ N.J. Anderson appointed Group Chief Executive in January 2014.

1.10 Percentage change in remuneration of the Group Chief Executive

The following table provides a summary of the 2017 increase in base salary, benefits and bonus for the Group Chief Executive compared to the average increase for the general employee population across the Group in the same period.

		2017 change	2016 change
Salary	Group Chief Executive	2.5%	4.1%
	General employee population	2.5%	2.0%
Benefits	Group Chief Executive	1.8%	8.5%
	General employee population	2.5%	2.0%
Bonus	Group Chief Executive	3.4%	110.1%
	General employee population	2.4%	49.7%

1.11 Relative importance of spend on pay

The table below demonstrates the relative importance of total pay spend relative to total employee numbers, profit before tax (selected as the best measure of efficiency) and dividends payable in respect of the year.

	2017	2016	Change
Total pay spend	£351m	£264m	33.0%
Group average headcount	6,316	4,998	26.4%
Profit before tax	£193m	£171m	12.9%
Dividends payable	£64m	£56m	14.3%

1.12 Changes for 2018

With effect from 1st January 2018, the Executive Directors' salaries have been increased by an average of 2.8%. Increases for the broader employee population were on average 2.7% for the UK and 3.0% for the US, increasing in accordance with internal guidelines for top performers. The increases for Executive Directors, like those for the broader UK employee population, took account of both individual performance and market data, to ensure that salaries remain competitively positioned in the market.

Base salaries:

– N.J. Anderson	£543,000	2.7%
– K.J. Boyd	£353,300	2.7%
– N.H. Daws	£320,400	2.7%
– J.L. Whalen	\$484,100	3.0%

Bonus targets for 2018 are not disclosed because they are considered by the Board to be commercially sensitive. The targets will be retrospectively reported in the Annual Report on Remuneration next year.

Chairman and Non-Executive Director fees

Effective from 1st January 2018, the Non-Executive Director basic fee was increased by 2.7%, which is in line with the average UK employee salary increase of 2.7%. The fee for Committee chairmanship was unchanged. The Senior Independent Director's fee was increased from £8,000 to £10,000 to match the market median. The Chairman's fee was increased by 5.7% to continue addressing the asymmetries to our Group policy and the below-market competitiveness of the Chairman's fee.

Remuneration

Annual Report on Remuneration 2017 *continued*

Annual bonus plan

From 2018, and consistent with the Remuneration Policy 2017, the Group ROCE element of the annual bonus plan will be replaced with a Group cash generation metric in order to reinforce cash discipline.

Other aspects of remuneration

There are no other planned or implemented changes of note for remuneration in 2018.

1.13 Consideration by the Directors of matters relating to Directors' remuneration

Operation of the Remuneration Committee in 2017

Membership and attendance

Each Committee member is an independent Non-Executive Director and thus brings independence to all aspects of Board remuneration and the application of professional advice to matters relating to remuneration.

During 2017, the Committee was chaired by Jane Kingston and the members comprised: Jamie Pike, Trudy Schoolenberg and Clive Watson. In 2017, the Committee met three times and, with the exception of Jamie Pike, all members attended each meeting. Jamie Pike was unable to attend one meeting due to unavoidable absence because of a bereavement, but reviewed all the papers and provided his views in advance to the Committee Chairman.

Advisers to the Committee

During 2017, the Committee sought advice and information from Bill Whiteley, the Chairman; Nicholas Anderson, the Group Chief Executive; and Jim Devine, the Group Human Resources Director. None of the invitees participated in any discussions regarding their own remuneration or fees. The General Counsel and Company Secretary acts as Secretary to the Committee.

In addition, the Committee received external advice from Willis Towers Watson, who was appointed by the Committee and provided material advice to the Committee on various matters such as Executive remuneration levels and structure, performance updates in respect of the PSP, the Remuneration Report and attendance at Committee meetings. Willis Towers Watson's fees in respect of these services totalled £32,000 in 2017. In addition, Willis Towers Watson work with management on other matters relating to remuneration with the approval of the Committee. A separate advisory team within Willis Towers Watson provides support and advice to management on pensions and other employee benefit-related matters. The Committee is of the opinion that the advice received is objective and independent, given that Willis Towers Watson are a signatory to the Remuneration Consultants Group Code of Conduct, the manner in which advice is delivered and the separate teams that advise management more generally.

In 2017, Baker & McKenzie LLP provided legal advice to the Company (which was available to the Committee). Legal fees relate to advice provided to the Company and not the Committee, and are charged on a time-cost basis.

1.14 Statement of voting at general meeting

At the AGM in 2017, shareholders approved the Annual Report on Remuneration 2016 and the Remuneration Policy Report 2017. The table below shows the results in respect of these resolutions, which required a simple majority (i.e. 50%) of the votes to be cast to be in favour in order for the resolution to be passed.

	Votes for	%	Votes against	%	Votes withheld
Annual Report on Remuneration 2016 (2017 AGM)	60,631,649	99.7	169,497	0.3	261,765
Remuneration Policy Report 2017 (2017 AGM)	57,778,590	95.1	3,005,646	4.9	278,674

This Annual Report on Remuneration 2017 has been approved by the Board of Directors of Spirax-Sarco Engineering plc and signed on its behalf by:

Jane Kingston

Remuneration Committee Chairman

14th March 2018

Remuneration

Remuneration Policy Report 2017

2.0 Remuneration Policy Report 2017

Please note that the Remuneration Policy Report 2017 is reproduced exactly as published in the Annual Report 2016 and as approved by shareholders at the 2017 AGM. Therefore, as the content remains the same the page numbers, examples and illustrations are necessarily historical.

2.1 Remuneration Policy

The table below summarises the Remuneration Policy which will take effect, if approved, from the AGM to be held on 9th May 2017.

Element	Purpose and link to strategy	Operation	Performance measures	Maximum potential value
Fixed elements of Executive Director remuneration				
Base salary	To enable the Group to attract, retain and motivate high performing Executive Directors of the calibre required to meet the Group's strategic objectives.	<p>Reviewed annually by the Committee, taking into account:</p> <ul style="list-style-type: none"> – scale, scope and complexity of the role; – skills and experience of the individual; – wider workforce comparisons; and – market benchmarking, within a defined external comparator group. The Committee uses this information with caution, given the limited number of direct comparators and to avoid remuneration inflation as a result of benchmarking exercises with no corresponding improvement in performance. <p>The Committee considers the impact of any base salary increase on the total remuneration package.</p>	Reviews take into account Company and individual performance.	<p>Ordinarily, salary increases will not exceed the average increase awarded to other Group employees. The maximum value of any annual increase in Executive Director salaries will be capped at country of residence inflation plus 5%.</p> <p>The Committee may award increases above this level, subject to a maximum of country of residence inflation plus 10%, in circumstances such as (i) where a new recruit or promoted Executive Director's salary has been set lower than the market level for such a role, or (ii) where there is a significant increase in the size and responsibilities of the Executive Director's role.</p>
Pension	<p>To offer market competitive levels of pension and benefit.</p> <p>To attract and retain individuals with the personal attributes, skills and experience required to deliver Group strategy.</p>	<p>For eligible Executive Directors who joined the UK Company before 2001 the Company provides a UK defined benefits pension scheme (DB scheme) or cash alternative allowance.</p> <p>For UK nationals who joined the UK Company after 2001 the Company provides a defined contribution pension arrangement (DC plan) and/or contributions to a private pension and/or a cash allowance.</p> <p>Executive Directors who have transferred internally from overseas may continue to participate in home country pension arrangements and/or receive a cash allowance.</p>	N/A	<p>For DB scheme as per actuarial value.</p> <p>For all other arrangements the total contribution to all pension arrangements will comprise no more than 25% of base salary.</p> <p>No element other than base salary is pensionable.</p>

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Remuneration

Remuneration Policy Report 2017 *continued*

Element	Purpose and link to strategy	Operation	Performance measures	Maximum potential value
Fixed elements of Executive Director remuneration				
Common benefits	<p>To provide market competitive benefits.</p> <p>To enable the Executive Directors to undertake their roles through ensuring their wellbeing and security.</p>	<p>The Company provides common benefits including:</p> <ul style="list-style-type: none"> – Company car and associated running costs or cash alternative allowance; – private health insurance; telecommunications and computer equipment; – life assurance; and – long term disability insurance. 	N/A	The aggregate maximum cash value of providing all common benefits will not exceed 20% of base salary.
Variable elements of Executive Director remuneration				
Mobility-related benefits	To ensure that Executive Directors who have relocated nationally or internationally are compensated for costs incurred.	<p>The Company will pay all reasonable expenses for the Executive Director to relocate on appointment. Costs will primarily be dependent on geographical location and family size.</p> <p>The Company will pay all reasonable expenses for repatriation of the Executive Director and his/her family to the original home country at the end of their assignment and/or employment.</p> <p>Executive Directors are personally responsible for all taxes and social charges incurred in the home and host locations as a result of their appointment. To ensure that Executive Directors who relocate internationally are able to fulfil their tax obligations in the home and host countries the Company will pay for reasonable tax advice and filing support in relation to work related income for international Executive Directors.</p> <p>Executive Directors are reimbursed under a Tax Treaty Adjustment for any double tax they might be liable for as a result of being subject to home country and host country taxation typically for days worked in the home location.</p> <p>Executive Directors are not entitled to tax equalisation.</p>	N/A	<p>Based on individual circumstances and subject to written agreement.</p> <p>Maximum values will not exceed the normal market practice of companies of a similar size and nature at the time of relocation.</p>

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Element	Purpose and link to strategy	Operation	Performance measures	Maximum potential value
Variable elements of Executive Director remuneration				
Annual bonus	<p>To incentivise and reward performance against selected KPIs which are directly linked to business strategy.</p> <p>To recognise performance through variable remuneration and enable the Company to flexibly control its cost base and react to events and market circumstances.</p> <p>To ensure a significant proportion of Executive Director remuneration is directly linked to business performance.</p>	<p>Measures, targets and their relative weightings are reviewed regularly by the Committee to ensure continuing alignment with strategic objectives and will be detailed in the relevant Annual Report on Remuneration.</p> <p>Bonus is based largely or entirely on the achievement of challenging financial performance measures, which have been selected to ensure the Company is focused on its strategic objectives.</p> <p>Bonus is delivered in cash. Executive Directors must use that part of the bonus over target (net of tax) to buy shares until the shareholding guidelines have been met. Purchase to be made within 12 months of bonus receipt.</p> <p>Bonus is subject to clawback or malus for up to three years following payment. Circumstances include financial misstatement, erroneous calculations determining bonus payments or gross misconduct.</p> <p>The Committee can adjust some performance targets to reflect certain non operating items such as the amortisation of acquisition related intangible assets and exceptional reorganisational costs, and to reflect the inclusion of Associate companies. These adjustments are mechanical rather than discretionary.</p>	<p>Subject to the Committee's judgement, performance measures and their respective targets are set at a Group or divisional level depending on the Executive Director's role.</p> <p>Any measure can be incorporated at the Committee's discretion provided it is clearly aligned to the Group's strategic objectives, subject to a maximum of 10% of bonus opportunity.</p> <p>The weighting of each component will be chosen specifically to reflect the Executive Director's role.</p>	150% of salary.

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Remuneration

Remuneration Policy Report 2017 *continued*

Element	Purpose and link to strategy	Operation	Performance measures	Maximum potential value
Variable elements of Executive Director remuneration				
Performance Share Plan (PSP)	<p>To incentivise and reward Executive Directors for delivery against long term Group performance.</p> <p>To align Executive Directors' interests to those of shareholders.</p> <p>To drive sustainable Company performance.</p> <p>To retain key executive talent.</p>	<p>The Committee makes an annual conditional award of shares to each Executive Director. Annual participation is subject to Committee approval.</p> <p>Measures, targets and their relative weightings are reviewed regularly by the Committee to ensure continuing alignment with strategic objectives and will be detailed in the relevant Annual Report on Remuneration.</p> <p>Performance is measured over a three-year period, starting at the beginning of the financial year in which awards are granted.</p> <p>An additional two-year post-vesting holding period will apply.</p> <p>Awards can vest in the form of shares, a nil-cost option or cash.</p> <p>Share awards made from 2012 are subject to clawback or malus for up to three years following award. Circumstances include financial misstatement, erroneous calculations determining bonus payments or gross misconduct.</p> <p>Dividends are not payable on PSP awards prior to vesting.</p>	<p>Vesting is currently based on two performance measures, which have been chosen as they are clearly aligned with our strategic objectives:</p> <ul style="list-style-type: none"> – TSR; and – EPS growth. <p>To ensure continued alignment with the Company's strategic priorities, the Committee may, at its discretion, vary the measures and their weightings from time to time including the consideration of organic growth measures.</p> <p>The Committee reserves the right to adjust for the effects of divestments or major acquisitions from the EPS results, to ensure those results are in line with the primarily organic growth principles that support the EPS targets.</p>	200% of salary.
Employee Share Ownership Plan (ESOP)	<p>To offer all eligible UK-based employees the opportunity to build a shareholding in a tax-efficient way.</p> <p>To align Executive Director interests to those of shareholders.</p>	<p>Eligible UK Executive Directors are entitled to participate in an HMRC approved Share Incentive Plan known as the ESOP.</p> <p>Whilst not currently operated, if in the future employee share plans are offered outside the UK, eligible Executive Directors will be entitled to participate on the same basis as all other eligible employees.</p> <p>Awards granted under the ESOP are not subject to clawback or malus.</p> <p>The ESOP operates over a five-year period.</p>	N/A	<p>Maximum annual investment subject to HMRC limits or such lower sum as determined by the Board.</p> <p>Potential 1:1 matching share award from the Company and dividend shares (can be reinvested).</p> <p>If the ESOP (or an approved sub plan) is offered outside the UK, Executive Directors will be subject to the same limitations as all other participants.</p>

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Element	Purpose and link to strategy	Operation	Performance measures	Maximum potential value
Variable elements of Executive Director remuneration				
Share ownership guidelines	To provide alignment with shareholder interests.	Executive Directors are required to accumulate, over a maximum period of five years, a shareholding in the Company worth 200% for the Group Chief Executive, and 125% for the other Executive Directors, and to maintain this level of shareholding whilst the Executive Director remains on the Board. The five-year accumulation period is reset if a higher maximum share ownership requirement is introduced but only in respect of such increased amount.	N/A	N/A
Chairman and Non-Executive Directors				
Fees	To attract and retain high calibre individuals, with appropriate experience or industry related skills, by offering market competitive fee levels.	<p>The Chairman is paid a single fee for all responsibilities.</p> <p>The Non Executive Directors are paid a basic fee. The Chairmen of the main Board Committees and the Senior Independent Director are paid an additional fee to reflect their extra responsibilities.</p> <p>Fees for the Chairman and the Non Executive Directors are reviewed annually by the Board, with reference to any change in the time commitment required, UK market levels and the average base salary increase across the wider workforce.</p> <p>The Chairman and the Non Executive Directors do not participate in any annual bonus or incentive plans, pension schemes, healthcare arrangements, the Company's PSP or ESOP.</p> <p>The Company repays the reasonable expenses that the Chairman and the Non Executive Directors incur in carrying out their duties as Directors.</p>	N/A	The aggregate value of fees paid to the Chairman and Non Executive Directors will not exceed the amount set out in the Articles of Association.

Remuneration

Remuneration Policy Report 2017 *continued*

2.2 Notes to the Policy table

Changes to the Remuneration Policy

The proposed changes to the Remuneration Policy are as follows:

- AIP award: increase potential maximum award from 125% to 150% of salary;
- PSP award: increase potential maximum award from 100%-150% of salary to 200% of salary;
- PSP holding period: introduce a two-year post-vesting holding period (currently there is no holding period);
- share ownership requirements: increase share ownership requirements from at least 125% of salary for the Group Chief Executive and at least 100% of salary for the other Executive Directors to 200% of salary for the Group Chief Executive and 125% of salary for the other Executive Directors;
- remove the Committee's discretion to grant one-off awards for recruitment or retention in exceptional circumstances; and
- reserve the Committee's right to adjust for the effects of divestments or major acquisitions from the EPS results, to ensure those results are in line with the primarily organic growth principles that support the EPS targets.

Additional details and an explanation of the changes can be found in the Statement by the Chairman of the Committee on pages 85 and 86.

Outstanding incentive awards

Details of outstanding incentive awards granted to Executive Directors prior to the Policy coming into force, including awards granted in 2016, and details of the performance targets are set out on pages 89 to 92 of the Annual Report on Remuneration 2016.

All incentive awards granted prior to this Policy coming into force will continue on their existing terms including the exercise of discretion to amend such awards.

Remuneration policy for other employees

The Company's approach to annual salary reviews is consistent across the Group, with consideration given to the scope of the role, level of experience, responsibility, individual performance and market pay levels. The most senior managers in the business (approximately 80 people globally) participate in bonus arrangements with similar targets, measures and relative weightings to the Executive Directors. Target and maximum potential values are lower and determined by the grade of the manager's role. Performance targets are based on an appropriate combination of Group, divisional and local operating company financial measures. Contractual terms and benefits for the wider workforce are subject to local employment legislation and best practice.

Measure selection and the target setting process

Measures are selected taking into account the key strategic priorities of the Company, shareholder expectations and factors that sit within an individual's span of control.

Targets are set with reference to internal and external forecasts to ensure that they are realistic, yet sufficiently stretching. An appropriate mix of long and short-term targets will be used, informed by the nature of the measure.

2.3 External directorships

Directors are permitted to hold external directorships in order to broaden their experience, to the benefit of the Company. Such appointments are subject to approval by the Board and the Director may retain any fees paid in respect of such directorships. The Board ensures compliance by Directors with Code provision B.3.

2.4 Approach to recruitment and promotion remuneration

When appointing external hires, promoting executives, or an Executive Director internally, the Committee will continue to act in the best interests of shareholders when determining remuneration, in line with the stated policy. The main elements of the Remuneration Policy for Executive Director appointments are:

- Base salary will be set on appointment taking into account the factors set out in the Policy table, but also the individual's experience. Depending on an individual's prior experience, the Committee may set salary below market norms, with the intention that it is realigned over time, typically two to three years, subject to performance in the role. In this situation, the Committee is permitted to exceed the "normal" rate of annual salary increase set out in the Policy table.
- On-going annual incentive pay opportunity will not exceed 350% of salary, in line with the maximums stated in the Policy table (up to 150% of salary for annual bonus and an award of up to 200% of salary under the PSP). In the year of appointment an off-cycle award under the PSP may be made by the Committee to ensure an immediate alignment of individual interests.
- In addition to the standard elements of remuneration, on the appointment of an external candidate, the Committee reserves the right to buy-out incentive awards that the individual has foregone by accepting the appointment, if appropriate. The terms of such awards would be informed by the amounts being forfeited and the associated terms (for example the extent to which the outstanding awards were subject to performance, the vehicles and the associated time horizons). Awards would be made either through the existing share plans or in accordance with the relevant provisions contained within the Listing Rules.
- When an internal appointment to the Board is made, any pre-existing obligations may be honoured by the Committee and payment will be permitted under this Remuneration Policy.

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– For internal promotions, salary will be capped at that of the incumbent Group Chief Executive.

Details of the remuneration for any new Chairman or Executive Director appointed to the Board will be disclosed on the Group's website, www.spiraxsarcoengineering.com.

2.5 Service agreements and termination policy

The Company's policy on service agreements and termination arrangements for Executive Directors is set out below. Service agreements are designed to reflect the interests of the Company, as well as the individual concerned. Executive Directors' service agreements are kept at the Company's headquarters in Cheltenham.

In accordance with the Code and guidelines issued by institutional investors, Executive Directors have service agreements that are terminable by either the Company or the Executive Director on 12 months' notice. In the event of termination or resignation, and subject to business reasons, the Company would not necessarily hold the Executive Director to his or her full notice period. All Directors are subject to election (if newly appointed in the year) or re-election at the AGM.

Service agreements set out restrictions on the ability of the Executive Director to participate in businesses competing with those of the Group or to entice or solicit away from the Group any senior employees or to solicit/deal with clients of the Group or interfere with supply, in the 12 months following the cessation of employment.

Salary, pension and benefits are included in the agreements and are treated as described in the policy table on pages 100 to 103. There is no contractual entitlement to payment of an annual bonus or granting of an award under the PSP, until individual participation, level of award, measures and targets have been set for a particular year.

The Chairman and Non-Executive Directors do not have service agreements but serve the Company under letters of appointment, for an initial period of three years, subject to annual re-election at the AGM. Appointments may be terminated by the Company or individual with one month's notice.

Group Chief Executive and new appointments from 1st January 2013

The details of the service agreements of the Group Chief Executive and for new appointments to the Board are outlined below and comply with best practice. In the event of a material change in role, function or responsibilities, Executive Directors' agreements will be reviewed and will be expected to be updated to meet the requirements outlined below.

Notice period	12 months by the Executive Director and 12 months by the Company
Termination	<p>No payment if Executive Director commits a repudiatory breach of the service agreement or for gross misconduct or in certain circumstances.</p> <p>No additional termination payment if notice worked.</p> <p>If notice only part worked/part on garden leave, payment in respect of unexpired period of notice, otherwise 12 months' base salary only.</p> <p>Company discretion to pay in lieu of notice in lump sum or monthly except within 12 months of a change of control, when a lump sum will be paid.</p> <p>If paid monthly, payment will be reduced by the value of any salary, fees and benefits, excluding long-term incentives, earned in new paid employment in that period.</p> <p>No automatic entitlement to payments under the annual bonus or PSP. See page 106.</p> <p>Garden leave clause.</p> <p>Robust post-termination restrictions on confidentiality, non-compete, non-solicitation and non-interference with customers or suppliers.</p> <p>Service agreements may be terminated without notice and without payment of compensation on the occurrence of certain events, such as gross misconduct or financial misstatement.</p>
Clawback or malus	<p>Bonus payments and PSP awards are subject to clawback or malus for up to three years following award.</p> <p>Circumstances include financial misstatement, erroneous calculations determining bonus payments or gross misconduct.</p>

Executive Directors' legacy agreements

Within the legacy agreements of Executive Directors, termination of agreements is subject to a 12 month notice period. Where payment is made in lieu of notice on termination, the payment of a sum in respect of lost future bonus opportunity (based on an average of the preceding three years' bonus payments) is subject to the Committee's discretion. The Committee has the power to reduce the amount to reflect performance on the part of the Executive Director that is considered by the Committee to be unsatisfactory. On termination of such an Executive Director's service agreement, the Committee will take into account the departing Executive Director's need to mitigate his or her loss when determining the amount of bonus. Payment will only be made at the discretion of the Committee after taking into account individual performance in order to ensure that there will be no "payments for failure". In any event, payments will be subject to clawback or malus provisions.

Executive Directors' service agreements may be terminated without notice and without payment of compensation on the occurrence of certain events, such as termination for gross misconduct or financial misstatement.

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Remuneration

Remuneration Policy Report 2017 *continued*

While the Executive Directors' service agreements include a provision to deal with termination on a change of control, in the event of an offer being made, shareholders have discretion to accept the offer or not. The decision to recommend acceptance, or not, is a matter for the Board, and the Committee is of the clear view that the change of control provision within the Executive Directors' service agreements would have no influence on the voting pattern of those Executive Directors. Executive Directors' legacy agreements are summarised in the table below.

Notice period	12 months by the Executive Director and 12 months by the Company
Termination	<p>No payment if Executive Director commits a repudiatory breach of the service agreement or for gross misconduct or in certain circumstances.</p> <p>No additional termination payment if notice worked.</p> <p>If notice only part worked/part on garden leave, payment in respect of unexpired period of notice.</p> <p>Otherwise 12 months' base salary, the value of other benefits, plus the cost of pension credits or contributions for the period plus the average of the prior three years' annual bonus payments, with Committee discretion to reduce the amount of the bonus that would otherwise be calculated, to reflect performance on the part of the Executive Director that is considered by the Committee to be below the required standards, provided that termination by the Company does not occur within 12 months of a change of control.</p> <p>Committee discretion to pay in lump sum or monthly except within 12 months of a change of control when a lump sum will be paid.</p> <p>If paid monthly, payment will be reduced by the value of any salary, fees and benefits excluding long-term incentives, earned in new paid employment in that period.</p> <p>No automatic entitlement to payments under the current annual bonus or PSP. See page 106.</p> <p>Garden leave clause.</p> <p>Robust post-termination restrictions on confidentiality, non-compete, non-solicitation and non-interference with customers or suppliers.</p>
Clawback or malus	<p>Bonus payments and PSP awards are subject to clawback or malus for up to three years following award.</p> <p>Circumstances include financial misstatement, erroneous calculations determining bonus payments or gross misconduct.</p>

Treatment of leavers under the incentive plans

Whilst it is not an entitlement, it is expected that where an Executive Director is a "good leaver" (ie where the cessation of employment is due to death, disability, redundancy, retirement or the company business in which he/she works being disposed of or where the ending of employment is instigated by the Company and is not for cause), payments will be made under the annual bonus plan if performance targets are met subject to, and in accordance with, the plan rules. If the Executive Director is not a "good leaver" it is expected that no bonus will be paid.

The treatment of leavers under the PSP is determined in accordance with the shareholder approved PSP rules. Any awards granted within six months prior to termination (or the giving or receiving of notice) will lapse. Any awards granted six months or longer prior to termination of employment (but prior to the end of the performance period) will lapse unless the Executive Director is considered to be a "good leaver".

In the case of a "good leaver" the award will vest on the termination date, or the normal vesting date, at the Committee's discretion. This is subject to the satisfaction of the performance targets at that date and a pro-rata reduction in the number of shares to take account of the shortening of the performance period.

For awards granted on or after 1st March 2012, if the Executive Director is a "good leaver" where the ending of employment is not for cause, the number of shares vested may be reduced (including to zero) by the Committee in its absolute discretion.

If an Executive Director ceases employment (or notice is given) on or after the end of the performance period but prior to the date on which the Committee has determined the extent to which the award has vested, if the Executive Director is a "good leaver", his/her award will be preserved and will be treated in the same way as if his/her employment had continued, whereas if the Executive Director is not a "good leaver", his/her award will lapse on the earlier of his/her cessation of employment and the giving of notice.

In relation to the ESOP, as an HMRC approved plan, where an Executive Director leaves the treatment will be in line with the approved plan rules and HMRC guidance.

Change of control

Bonus: if termination occurs within 12 months of a change of control, the Executive Director is entitled to (i) a lump sum payment in lieu of notice and (ii) receive a full bonus payment calculated by reference to the average of the preceding three years' bonus payments (without any reduction for performance).

PSP: the rules provide that in the event of a change of control, outstanding share-based awards will vest to the extent that performance targets are met at the date of the event. Any such vesting would generally be on a time pro-rated basis. The Committee may, at its discretion, increase the level of vesting if it believes that exceptional circumstances warrant such treatment.

The Remuneration Policy Report 2017 is reproduced exactly as published in the Annual Report 2016 and as approved by shareholders at the 2017 AGM. Therefore, as the content remains the same the page numbers, examples and illustrations are necessarily historical.

2.6 Illustrations of application of the Remuneration Policy

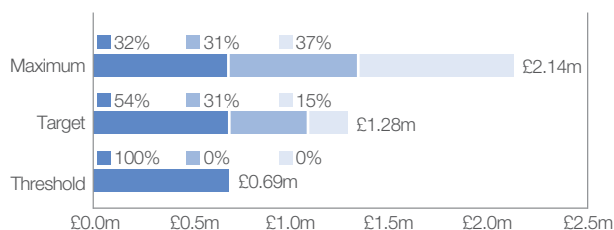
Under the Remuneration Policy, a significant portion of remuneration is variable and depends on the Company's performance. Below and overleaf we illustrate how the total pay opportunity for the Executive Directors varies under three performance scenarios: maximum, on target, and below threshold.

The scenarios for 2017, informed by the current application of our pay policy, are as follows:

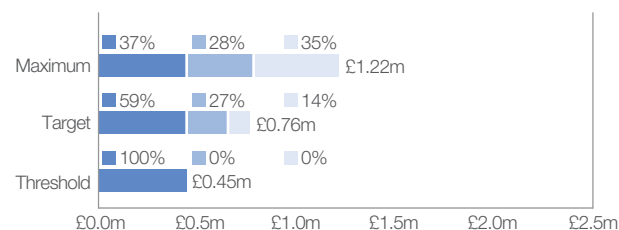
Element	Percentage of base salary		
Fixed pay, benefits and ESOP	Fixed pay and ESOP does not vary with performance and comprises: – base salary effective 1st January 2017; – benefits value based on 2016 disclosure; – pension value (DB 2016: as reported; cash allowance: rate applied to 2017 salary); and – ESOP participation of up to £1,500 1:1 matching shares for eligible Executive Directors.		
	Below threshold	On target	Maximum
Annual bonus (% of salary)	0%	75% CEO / 60% ED	125% CEO / 100% ED
PSP ¹ (% of salary at award)	0%	37.5% CEO / 31.25% ED	150% CEO / 125% ED

¹ A level of 25% vesting for "on target" performance is equivalent to threshold performance under the PSP, which the Committee believes to be a fair assumption for on target performance given the approach taken to setting performance targets.

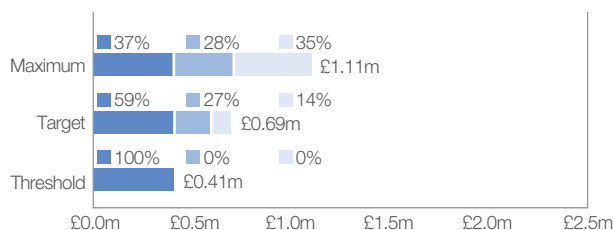
Nicholas Anderson (Group Chief Executive)



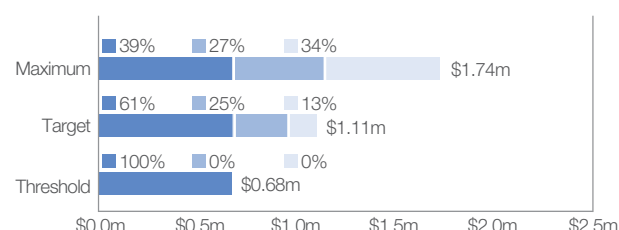
Kevin Boyd (Group Finance Director)



Neil Daws (Executive Director, EMEA)



Jay Whalen (Executive Director, WMFTG)



■ Fixed ■ Annual bonus ■ PSP

2.7 Statement of consideration of employment conditions elsewhere in the Group

When determining the remuneration of Executive Directors, the Committee considers the pay of employees across the Group. When conducting the annual salary review, the average base salary increase awarded to the UK workforce and senior managers across the Group provides a key reference point when determining levels of increase for Executive Director remuneration. The Remuneration Policy was drawn up by the Committee without the need for any consultation with employees.

The Committee also determines the principles and policy of remuneration which shall apply to the Group's senior managers. The responsibility for determining precise compensation packages that meet local practice and performance targets lies with the Group Chief Executive and the responsible Executive Director.

To ensure consistency in Remuneration Policy across the Group and to encourage a performance culture, senior managers participate in the PSP. The Board believes that share ownership is an effective way of aligning the interests of managers and shareholders and to strengthen the development of the business.

The Remuneration Policy Report 2017 is reproduced exactly as published in the Annual Report 2016 and as approved by shareholders at the 2017 AGM. Therefore, as the content remains the same the page numbers, examples and illustrations are necessarily historical.

Remuneration

Remuneration Policy Report 2017 *continued*

2.8 Statement of consideration of shareholder views

In developing and reviewing the Company's Remuneration Policy for Executive Directors and other senior executives, the Committee seeks and takes into account the range of views of shareholders and institutional shareholder advisers. The Committee Chairman actively engages with major shareholders and institutional shareholder advisers when appropriate and takes into account their views when reviewing and implementing the Company's Remuneration Policy.

The Committee considers shareholder feedback received in relation to the AGM each year and guidance from institutional shareholder advisers more generally. This feedback, plus any additional feedback received during the year at meetings with shareholders, is considered as part of the Company's annual Remuneration Policy review. At the AGM in 2016, the advisory vote on the 2015 Annual Report on Remuneration received 97.2% in favour. At the AGM in 2014 the Remuneration Policy received 98.5% in favour.

In finalising the 2017 Remuneration Policy the views of shareholders and institutional shareholder advisers have shaped the:

- introduction of an additional two-year post-vesting holding period for PSP grants;
- rebalance of long-term and short-term compensation opportunities by way of the Director's PSP opportunity now being more substantive than the AIP;
- agreement to disclose AIP targets retrospectively;
- increase in share ownership requirements;
- removal of the Committee's discretion to grant one-off awards for recruitment or retention in exceptional circumstances;
- keeping of the PSP performance metrics under review, including the consideration of organic growth measures; and
- reserving of the Committee's right to adjust for the effects of divestments or major acquisitions from the EPS results, to ensure those results are in line with the primarily organic growth principles that support the EPS targets.

Regulatory disclosures

Principal activities

Spirax-Sarco Engineering plc is a multi-national industrial engineering group that is domiciled and incorporated in the UK under registration number 596337 and which has expertise in steam, electrical thermal energy solutions, fluid path technologies and peristaltic pumping. An overview of our principal activities, by business, is given on pages 2, 8 to 9 and 12 to 14 of the Strategic Report.

Future development

An indication of likely future developments in the Group is given in the Strategic Report.

Strategic Report

This is set out on the inside front cover to page 61 of the Annual Report.

Risk management and principal risks

A description of risk management and the principal risks facing the business are on pages 30 to 33.

Constructive use of AGM

We are delighted when our shareholders attend our AGM. Those who are unable to attend are encouraged to vote online or using the proxy card mailed to them.

In 2017, 64.4% of the proxy votes received were lodged electronically through the CREST system.

At the AGM, the Group Chief Executive will give a short presentation about the previous year and, more generally, about current trading and the Group's future plans. The Chairman and other Board members are available to answer questions raised by shareholders. Shareholders are invited to vote on the resolutions by way of a polled vote. The results are announced instantaneously at the AGM using the Equiniti "Vote Now" polling system, and on the London Stock Exchange and the Group's website, www.spiraxsarcoengineering.com, shortly after the conclusion of the meeting. Following the AGM the Board is available to answer questions and meet informally with individual shareholders.

The Notice of Meeting convening the AGM, to be held on Tuesday, 15th May 2018, and an explanation of the resolutions sought, is set out in the Circular posted on our website and sent to shareholders in the format selected by them.

Results

The Group's results for the year have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union. They are set out in the Consolidated Income Statement, which appears on page 121.

Dividend

The Directors are proposing the payment of a final dividend of 62.0p (2016: 53.5p) which, together with the interim dividend of 25.5p (2016: 22.5p), makes a total distribution for the year of 87.5p (2016: 76.0p). If approved at the AGM, the final dividend will be paid on 25th May 2018 to shareholders on the register at the close of business on 27th April 2018.

Directors' interests

The interests of the Directors in the share capital of Spirax-Sarco Engineering plc as at 31st December 2017 are set out on page 94.

	As at 31.12.17		As at 23.02.18	
	Number of Ordinary shares	% of issued share capital	Number of Ordinary shares	% of issued share capital
Substantial shareholdings				
MFS Investment Management	6,307,238	8.6%	6,390,257	8.7%
APG Asset Management NV	4,000,000	5.4%	4,000,000	5.4%
Fiera Capital Corporation	3,625,735	4.9%	3,630,782	4.9%
Schroder Investment Management Ltd	2,965,669	4.0%	1,989,975	2.7%
BlackRock Investment Management (UK) Ltd	2,594,904	3.5%	2,635,879	3.6%
Mondrian Investment Partners Ltd	2,334,865	3.2%	2,141,707	2.9%



"Good governance is the cornerstone of retaining long-term shareholder value."

Andy Robson
General Counsel and Company Secretary

Regulatory disclosures *continued*

Substantial shareholdings

The voting rights in the table, on page 109, have been notified to the Company under the requirements of the UK Listing Authority's Disclosure and Transparency Rules DTR 5, which represent 3% or more of the voting rights attached to issued shares in the Company as at 23rd February 2018 and 31st December 2017. So far as can be ascertained, the holdings are beneficially held. There are no Controlling Founder Shareholders.

Directors' and Officers' insurance

The Company provides Directors' and Officers' Insurance for Board members, Directors of the Group's operating companies and senior officers.

The Company has also provided each Director with an indemnity to the extent permitted by law in respect of the liabilities incurred as a result of their holding office as a Director of the Company.

Appointment and replacement of Directors

The appointment and replacement of Directors is governed by the Company's Articles of Association, the Code, the Companies Act 2006 and related legislation.

All Directors will seek election or re-election (as the case may be) at the AGM, with the exception of Bill Whiteley who retires at the end of the meeting.

The Directors stand for election or re-election on an annual basis at each AGM, in accordance with the Code. The Board considers that all Directors standing for election or re-election continue to perform effectively and demonstrate commitment to their roles. In addition, the Board considers that all Directors have the necessary skills and experience, as set out in their biographies on pages 66 to 67.

Conflicts of interest

Under the Companies Act 2006 and the provisions of the Company's Articles of Association, the Board is required to consider potential conflicts of interest. The Company has established formal procedures for the disclosure and review of any conflicts, or potential conflicts, of interest which the Directors may have and for the authorisation of such matters of conflict by the Board. To this end the Board considers and, if appropriate, authorises any conflicts, or potential conflicts, of interest as they arise and reviews any such authorisation annually. New Directors are required to declare any conflicts, or potential conflicts, of interest to

the Board at the first Board meeting after his or her appointment. The Board believes that the procedures established to deal with conflicts of interest are operating effectively.

Articles of Association

The Company's Articles of Association are available from Companies House in the UK or by writing to the General Counsel and Company Secretary at the Group's registered office in Cheltenham. Amendments to the Articles of Association can only be made by means of a special resolution at a general meeting of the shareholders of the Company.

Share capital

As at 28th February 2018 there were no treasury shares held by the Company. Details of shares issued during the year are set out in Note 21 on page 145.

As at 31st December 2017 the Company's share capital was made up of Ordinary shares which each carry one vote at general meetings of the Company. Except as set out in the Articles of Association or in applicable legislation, there are no restrictions on the transfer of shares in the Company and there are no restrictions on the voting rights in the Company's shares.

The Company is not aware of any agreements entered into between any shareholders in the Company which restrict the transfer of shares or the exercise of any voting rights attached to the shares.

Powers of the Directors and purchase of own shares

Subject to the provisions of the Articles of Association, the Directors may exercise all the powers of the Company. A shareholder's authority for the purchase by the Company of a maximum of 10% of its own shares was in existence during the year. However, the Company did not purchase any of its shares during that time. This authority expires at the forthcoming AGM and it is proposed that a similar authority be approved. The total number of shares in issue as at 31st December 2017 was 73,600,195.

PSP and Employee Benefit Trust (EBT)

The number of shares held in the EBT at 31st December 2017 was 35,945 for the purpose of satisfying the vesting of awards and options granted to employees under the various Company schemes. Dividends on shares in the EBT are waived.

Significant contracts

The Company is not a party to any significant agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid.

There are provisions in the Executive Directors' service agreements which state that following a takeover or change of control, if the Executive Director's employment is terminated then both salary/benefits and a sum in respect of lost future bonus opportunity become payable as a lump sum.

The Strategic Report contains all the information required to comply with Section 414(c) of the Companies Act 2006 and there are no contractual arrangements that need to be disclosed which are essential to the business of the Group.

Disclosure of information to the auditor

As at the date of the approval of this Annual Report, as far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware. Each Director has taken all such steps as he or she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

The Company's auditor throughout the period of this Annual Report was Deloitte LLP, who was appointed on 20th May 2014.

Deloitte LLP has expressed its willingness to continue in office as auditor and a resolution to re-appoint Deloitte LLP will be proposed at the forthcoming AGM.

Research and development

The Group continues to devote significant resources to the research and development and the updating and expansion of its range of products in order to remain at the forefront of its world markets. The R&D functions in Cheltenham (Spirax Sarco Steam Specialties), Falmouth (WMFTG), Bremen (Gestra) and the Product Development function in Pittsburgh and Utah (Chromalox) are tasked with improving the Group's pipeline of new products, decreasing the time to launch, expanding the Group's addressable market and realising additional sales. Further information on the expenditure on R&D is contained in Note 1 on page 127. The amount of R&D expenditure capitalised, and the amount amortised, in the year, are given in Note 14 on page 139.

Treasury and foreign exchange

The Group has in place appropriate treasury policies and procedures, which are approved by the Board. The treasury function manages interest rates for both borrowings and cash deposits for the Group and is also responsible for ensuring there is sufficient headroom against any banking covenants contained within its credit facilities, and for ensuring there are appropriate facilities available to meet the Group's strategic plans.

In order to mitigate and manage exchange rate risk, the Group routinely enters into forward contracts and continues to monitor exchange rate risk in respect of foreign currency exposures.

All these treasury policies and procedures are regularly monitored and reviewed. It is the Group's policy not to undertake speculative transactions which create additional exposures over and above those arising from normal trading activity.

Political donations

The Group has a policy of not making political donations and no political donations were made during the year (2016: nil).

Greenhouse gas emissions

Details of our greenhouse gas emissions can be found on page 59.

Going concern

The Group's business activities, together with the main trends and factors likely to affect its future development, performance and position, and the financial position of the Group, its cash flows, liquidity position and borrowing facilities, are set out in the Financial Review on pages 48 to 51. In addition, Note 28 on page 154 includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, its financial instruments and hedging activities, its exposures to credit risk and liquidity risk.

The Group has considerable financial resources together with contracts with a diverse range of customers and suppliers across different geographic areas and industries. No one customer accounts for more than 1% of Group turnover.

As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully.

The Directors, having made appropriate enquiries, consider that the Company and the Group have adequate resources to continue in operational existence and that the Directors intend to do so, for at least one year from the date the Financial Statements were signed, and that it is appropriate to adopt the going concern basis in preparing the Annual Report.

Scope of the reporting in this Annual Report

The Board has prepared a Strategic Report (including the Chairman's Statement, the Group Chief Executive's Report and the Group Chief Executive's Review of Operations) which provides an overview of the development and performance of the Group's business in the year ended 31st December 2017 and its position at the end of that year, and which covers likely future developments in the business of the Company and the Group.

For the purposes of compliance with DTR 4.1.5 R(2) and DTR 4.1.8 R, the required content of the management report can be found in the Strategic Report and these Regulatory disclosures, including the sections of the Annual Report incorporated by reference.

The Strategic Report and the Directors' Report were approved by the Board on 14th March 2018. Pages 109 to 111 form the Directors' Report for the purposes of the Companies Act 2006.

The Annual Report contains the information required for compliance with the Companies, Partnerships and Groups (and Non-Financial Reporting) Regulations 2016.

For the purposes of LR 9.8.4C R, the information required to be disclosed by LR 9.8.4 R is set out in the table below.

Andy Robson

General Counsel and Company Secretary
14th March 2018

Spirax-Sarco Engineering plc
Registered no. 596337

Section	Topic	Location
(1)	Interest capitalised	Not applicable
(2)	Publication of unaudited financial information	Not applicable
(4)	Details of long-term incentive schemes	Remuneration Report, pages 91-92
(5)	Waiver of emoluments by a Director	Not applicable
(6)	Waiver of future emoluments by a Director	Not applicable
(7)	Non pre-emptive issues of equity for cash	Not applicable
(8)	Item (7) in relation to major subsidiary undertakings	Not applicable
(9)	Parent participation in a placing by a listed subsidiary	Not applicable
(10)	Contracts of significance	Regulatory Disclosures, page 110
(11)	Provision of services by a controlling shareholder	Not applicable
(12)	Shareholder waivers of dividends	Regulatory Disclosures, page 110
(13)	Shareholder waivers of future dividends	Not applicable
(14)	Agreements with controlling shareholders	Not applicable

Statement of Directors' responsibilities

Board of Directors

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare consolidated Group and Parent Company Financial Statements for each financial year in accordance with IFRS as adopted by the EU and applicable law.

In addition, by law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing these Financial Statements, the Directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its Financial Statements comply

with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website, www.spiraxsarcoengineering.com. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Cautionary statement

All statements other than statements of historical fact included in this document, including those regarding the financial condition, results, operations and businesses of Spirax-Sarco Engineering plc (its strategy, plans and objectives), are forward-looking statements. These forward-looking statements reflect management's assumptions made on the basis of information available to it at this time. They involve known and unknown risks, uncertainties and other important factors which could cause the actual results, performance or achievements of Spirax-Sarco Engineering plc to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Spirax-Sarco Engineering plc and its Directors accept no liability to third parties in respect of this Report save as would arise under English law.

Any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be

determined in accordance with schedule 10A of the Financial Services and Markets Act 2000. Schedule 10A contains limits on the liability of the Directors of Spirax-Sarco Engineering plc and their liability is solely to Spirax-Sarco Engineering plc.

Responsibility statement

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report 2017 taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 14th March 2018 and is signed on its behalf by:

Kevin Boyd
Group Finance Director
14th March 2018



"We ensure our Annual Report is fair, balanced and understandable and gives you a true and fair view of our Group."

Kevin Boyd
Group Finance Director



Nicholas Anderson,
Group Chief Executive

Kevin Boyd,
Group Finance Director

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Independent Auditor's Report

to the members of Spirax-Sarco Engineering plc only

Report on the audit of the Financial Statements

Opinion

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31st December 2017 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

We have audited the Financial Statements of Spirax-Sarco Engineering plc (the Parent Company) and its subsidiaries (the Group) which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Parent Company Statements of Financial Position;
- the Consolidated Statement of Cash Flows;
- the Consolidated and Parent Company Statements of Changes in Equity; and
- the related Notes 1 to 28 to the Consolidated Financial Statements and 1 to 11 for the Parent Company Financial Statements.

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and IFRS as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> – Acquisition accounting; focused on the valuation of intangible assets – Revenue recognition – Defined benefit pension liability valuation
Materiality	We determined materiality for the Group to be £9.8m (2016: £7.8m), which is based upon 5% (2016: 5%) of statutory profit before tax.
Scoping	We focused our Group audit scope primarily on the audit work at 28 components. These components represent the principal business units and account for 86% of the Group's total assets, 70% of the Group's revenue and 78% of the Group's profit before tax.
Significant changes in our approach	Last year our report included an inventory obsolescence key audit matter in respect of inventory in niche markets and industries where local demand fluctuates over periods. Whilst still an area of audit focus, this matter is not included in our report this year. There has been no history of material error over previous years and we have considered the ratio of provision to inventory and the stable nature of the underlying balance and concluded inventory obsolescence is not considered to be a key audit matter for the Group Financial Statements.

Conclusions relating to going concern, principal risks and viability statement

Going concern

- We have reviewed the Directors' statement in Note 1 to the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and to Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the Financial Statements.
- We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Parent Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 32 to 33 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 80 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 80 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Acquisition accounting; focused on the valuation of intangible assets

Key audit matter description

The Group completed the acquisition of Gestra AG on 2nd May 2017 and Chromalox Inc on 3rd July 2017 with a total initial consideration of £484.3m on a debt-free cash-free basis.

Given the two acquisitions in the current year, we have identified that there is a risk of material misstatement that acquisitions are not accounted correctly in line with IFRS 3, Business Combinations. We have pinpointed the key audit matter to the assumptions and assertions used by management to identify and value the separately identifiable intangible assets.

Intangible assets of £218.7m were identified as arising on these two acquisitions. The valuation methodology applied is based on a number of assumptions and judgements such as identification of the primary intangibles, EBIT margin assumptions, discount and short term growth rates.

Refer to Note 1 for the Group's acquisition accounting policies including the key estimates and assumptions used in the intangibles valuation, Note 27 for the Group's disclosures on acquisitions in the year and the significant issues section of the Audit Committee Report.

Independent Auditor's Report *continued*

How the scope of our audit responded to the key audit matter	<p>We have evaluated management's determination of the fair value of the net assets acquired, focusing on the valuation of intangible assets recognised at the acquisition date.</p> <p>We challenged management's methodology and assumptions underlying the valuation of intangible assets by:</p> <ul style="list-style-type: none"> – Performing walkthroughs to understand the adequacy of the design and implementation of controls relating to acquisition accounting. – Involving our internal valuation specialists to evaluate the valuation methodologies, including judgements around identification of primary intangibles, used by management and the Group's external valuation expert. – In consultation with our internal valuation specialists we audited key assumptions based on external market data including the EBIT margin, discount and short term growth rate. We compared these rates to the rates used by management and the Group's external valuation expert. – Reperforming the calculations of the valuation of intangible assets. – Performing sensitivity analysis on the key assumptions used in the valuation model of acquired intangibles. – Assessing whether any evidence exists which contradicts the assumptions used in the valuation.
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Key observations	From the work performed above we are satisfied that management's key estimates, methodology and assumptions used in the valuations of acquired intangibles at the acquisition date fall within an acceptable range.
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Revenue recognition

Key audit matter description	<p>The Group generates revenue primarily from the sale of goods with revenue being recognised on delivery or dispatch. There is a significant risk due to the potential for fraud through possible manipulation of this balance.</p> <p>We have identified two key areas of focus in relation to revenue recognition.</p> <ul style="list-style-type: none"> – There is a significant volume of trade in the final quarter of the year in certain components leading to the potential overstatement of revenue. The key audit matter for these components focuses on the recognition of revenue by reference to contracted shipping terms and the transfer of ownership for product despatch and delivery spanning the year end. – There is a focus on any significant new and one-off contracts spanning the year end to determine whether any specific alternative revenue recognition policies are required. <p>Refer to Note 1 for the Group's revenue recognition policy and the significant issues section of the Audit Committee Report.</p>
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How the scope of our audit responded to the key audit matter	<p>We performed walkthroughs to understand the adequacy of the design and implementation of the controls relating to the revenue cycle. At significant components, we map the end to end controls and processes in place.</p> <p>We reviewed the product despatch cycle and revenue recognition profile across the year end period and sampled a selection of items confirming the date of transfer of ownership was in line with the revenue recognition date in accordance with the terms of trade with customers. We focused our procedures on those components with a significant volume of trade in the final quarter.</p> <p>We audited a sample of contracts spanning the year end to assess the terms of sale and the associated revenue recognition.</p>
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Key observations	From the work performed above we are satisfied that there are no material cut-off errors and revenue recognition for significant new contracts is appropriate.
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Defined benefit pension liability valuation

Key audit matter description	<p>At 31st December 2017 the gross retirement benefit liability recognised in the Statement of Financial Position was £543.0m (31st December 2016: £520.3m). There is a risk of material misstatement relating to the judgements made by management in valuing the defined benefit pension liabilities including the use of key model input assumptions specifically the discount rate, mortality assumption and inflation level. These variables can have a material impact in calculating the quantum of the retirement benefit liability.</p> <p>Refer to Note 1 for the Group's policy on defined benefit plans, Note 24 for the financial disclosure including the key estimates and assumptions used in the defined benefit pension plan valuation and the significant issues section of the Audit Committee Report.</p>
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How the scope of our audit responded to the key audit matter	<p>We used our internal actuarial experts to assess the key assumptions applied in determining the pension obligations for the five main pension schemes (three in the UK, one in Germany and one in the US), and determined whether the key assumptions are reasonable. Testing covered 97.1% of defined benefit pension liabilities. For each of the five schemes, we challenged management's key assumptions by reference to illustrative benchmark rates, sensitising any difference between management's rates and the illustrative benchmark rates. Additionally we benchmarked the key assumptions against other listed companies to check for any outliers in the data used.</p>
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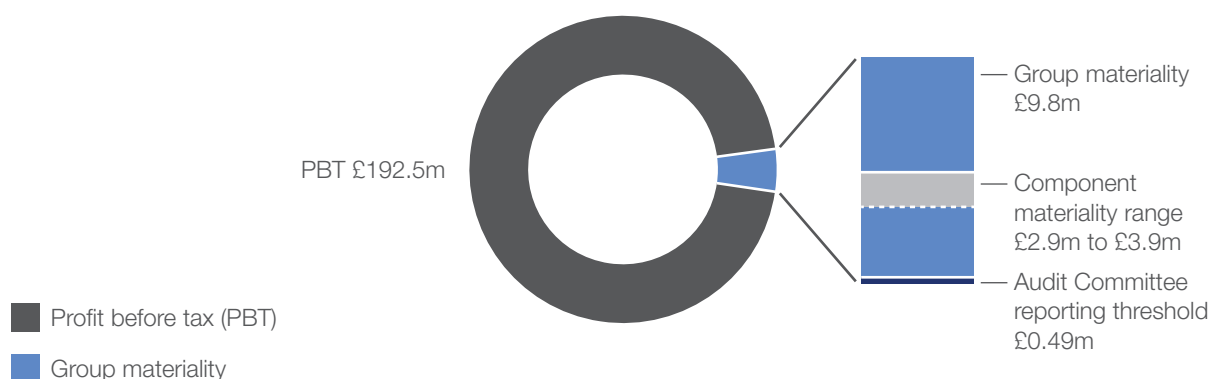
Key observations	From the work performed above we are satisfied that the key assumptions applied in respect of the valuation of the schemes' assets and liabilities are appropriate.
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Our application of materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

	Group Financial Statements	Parent Company Financial Statements
Materiality	£9.8m (2016: £7.8m)	£3.4m (2016: £3.5m)
Basis for determining materiality	5% of statutory profit before tax (PBT) for both 2017 and 2016.	Capped at component materiality being 40% (2016: 45%) of Group materiality
Rationale for the benchmark applied	Statutory profit before tax was used as the benchmark for determining materiality as this is considered to be a key benchmark used by investors.	In determining our final materiality based on our professional judgement we have considered net assets as the appropriate measure given the Parent Company is primarily a holding company for the Group. We then capped materiality at component materiality for the Group.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £490,000 (2016: £390,000) for the Group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

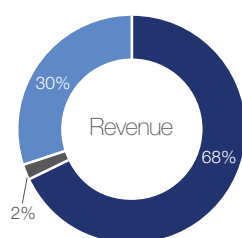
An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on the audit work at 28 (2016: 21) components. 25 (2016: 20) of these were subject to a full audit, whilst the remaining 3 components (2016: 1 component) were subject to specified audit procedures where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations at those components. These components represent the principal business units and account for 86% (2016: 90%) of the Group's total assets, 70% (2016: 69%) of the Group's revenue and 78% (2016: 71%) of the Group's profit before tax. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at the components was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from £2.9m to 3.9m (2016: £2.7m to £3.9m).

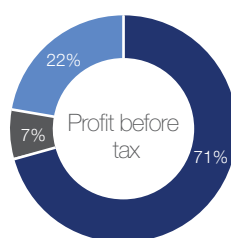
At the Parent Company level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

The Group audit team continued to follow a programme of planned visits that has been designed so that a senior member of the Group audit team visits each of the key components where the Group audit scope was focused at least once every three years and the most significant of them at least once a year. In the current year and prior year we visited the UK, USA, China and Korean components. In the current year we also visited the Chromalox US and Gestra Germany businesses and in the prior year we visited Italy and France. As part of these visits, meetings were held with both component management and the component audit team. For all components, we held close calls after they reported into us and as deemed necessary, conducted share screen reviews.

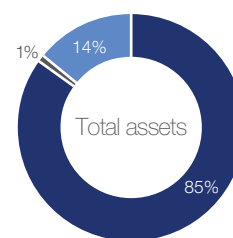
Independent Auditor's Report *continued*



■ Full audit scope
■ Specified audit procedures
■ Review at Group level



■ Full audit scope
■ Specified audit procedures
■ Review at Group level



■ Full audit scope
■ Specified audit procedures
■ Review at Group level

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report including the Strategic Report and the Governance Report, but does not include the Financial Statements and our Auditor's Report thereon.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the Directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit Committee reporting* – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

A further description of our responsibilities for the audit of the Financial Statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Directors and subsequently at the AGM on 11th May 2014 to audit the Financial Statements for the year ended 31st December 2014 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is four years, covering the years ended 31st December 2014 to 31st December 2017.

Consistency of the Audit Report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Mark Mullins FCA

Senior Statutory Auditor

for and on behalf of Deloitte LLP
Statutory Auditor

London
14th March 2018

Consolidated Statement of Financial Position

at 31st December 2017

	Notes	2017 £m	2016 £m
Assets			
Non-current assets			
Property, plant and equipment	13	227.5	201.8
Goodwill	14	351.3	88.5
Other intangible assets	14	280.0	81.2
Prepayments		6.1	5.9
Investment in Associate	12	–	–
Deferred tax assets	15	36.4	36.5
		901.3	413.9
Current assets			
Inventories	16	145.4	112.5
Trade receivables	28	237.5	185.5
Other current assets	17	27.5	21.7
Taxation recoverable		12.7	11.2
Cash and cash equivalents	25	152.1	119.2
		575.2	450.1
Total assets		1,476.5	864.0
Equity and liabilities			
Current liabilities			
Trade and other payables	18	147.1	107.8
Provisions	20	6.7	2.2
Bank overdrafts	25	0.5	0.4
Short-term borrowings	25	20.0	33.0
Current portion of long-term borrowings	25	49.3	0.2
Current tax payable		23.1	18.6
		246.7	162.2
Net current assets		328.5	287.9
Non-current liabilities			
Long-term borrowings	25	455.9	58.2
Deferred tax liabilities	15	73.3	21.5
Post-retirement benefits	24	85.6	94.2
Provisions	20	3.2	2.0
Long-term payables		2.3	1.5
		620.3	177.4
Total liabilities		867.0	339.6
Net assets	2/3	609.5	524.4
Equity			
Share capital	21	19.8	19.8
Share premium account		75.1	72.7
Other reserves	21	19.3	44.6
Retained earnings		494.2	386.3
Equity shareholders' funds		608.4	523.4
Non-controlling interest		1.1	1.0
Total equity		609.5	524.4
Total equity and liabilities		1,476.5	864.0

These Financial Statements of Spirax-Sarco Engineering plc, company number 00596337 were approved by the Board of Directors and authorised for issue on 14th March 2018 and signed on its behalf by:

N.J. Anderson **K.J. Boyd** Directors

Consolidated Income Statement

for the year ended 31st December 2017

	Notes	Adjusted 2017 £m	Adjustments 2017 £m	Total 2017 £m	Adjusted 2016 £m	Adjustments 2016 £m	Total 2016 £m
Revenue	3	998.7	–	998.7	757.4	–	757.4
Operating costs	4	(763.2)	(36.6)	(799.8)	(576.8)	(6.5)	(583.3)
Operating profit	2/3	235.5	(36.6)	198.9	180.6	(6.5)	174.1
Financial expenses		(8.1)	–	(8.1)	(4.0)	–	(4.0)
Financial income		1.7	–	1.7	1.4	–	1.4
Net financing expense	6	(6.4)	–	(6.4)	(2.6)	–	(2.6)
Share of profit of Associate		–	–	–	(0.1)	–	(0.1)
Profit before taxation	7	229.1	(36.6)	192.5	177.9	(6.5)	171.4
Taxation	9	(66.7)	32.1	(34.6)	(51.8)	1.7	(50.1)
Profit for the period		162.4	(4.5)	157.9	126.1	(4.8)	121.3
Attributable to:							
Equity shareholders		162.1	(4.5)	157.6	125.9	(4.8)	121.1
Non-controlling interest		0.3	–	0.3	0.2	–	0.2
Profit for the period		162.4	(4.5)	157.9	126.1	(4.8)	121.3
Earnings per share	2/10						
Basic earnings per share		220.5p		214.4p	171.5p		165.0p
Diluted earnings per share		219.7p		213.6p	171.0p		164.5p
Dividends	11						
Dividends per share				87.5p			76.0p
Dividends paid during the year (per share)				79.0p			70.7p

Adjusted figures exclude certain items, as set out and explained in the Financial Review and as detailed in Notes 2 and 3. All amounts relate to continuing operations.

The Notes on pages 125 to 159 form an integral part of the Financial Statements.

Consolidated Statement of Comprehensive Income

for the year ended 31st December 2017

	Notes	2017 £m	2016 £m
Profit for the year		157.9	121.3
Items that will not be reclassified to profit or loss:			
Remeasurement gain/(loss) on post-retirement benefits	24	11.8	(10.0)
Deferred tax on remeasurement (gain)/loss and the impact of change in tax rate on post-retirement benefits	24	(5.1)	1.9
		6.7	(8.1)
Items that may be reclassified subsequently to profit or loss:			
Foreign exchange translation differences	21	(27.4)	61.6
Non-controlling interest foreign exchange translation differences		0.1	0.2
Profit on cash flow hedges net of tax	28	0.2	0.4
		(27.1)	62.2
Total comprehensive income for the year		137.5	175.4
Attributable to:			
Equity shareholders		137.1	175.0
Non-controlling interest		0.4	0.4
Total comprehensive income for the year		137.5	175.4

Consolidated Statement of Changes in Equity

for the year ended 31st December 2017

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Equity shareholders' funds £m	Non-controlling interest £m	Total equity £m
Balance at 1st January 2017	19.8	72.7	44.6	386.3	523.4	1.0	524.4
Profit for the year	–	–	–	157.6	157.6	0.3	157.9
Other comprehensive (expense)/income:							
Foreign exchange translation differences	–	–	(27.4)	–	(27.4)	0.1	(27.3)
Remeasurement gain on post-retirement benefits	–	–	–	11.8	11.8	–	11.8
Deferred tax on remeasurement gain on post-retirement benefits	–	–	–	(5.1)	(5.1)	–	(5.1)
Profit on cash flow hedges reserve	–	–	0.2	–	0.2	–	0.2
Total other comprehensive (expense)/income for the year	–	–	(27.2)	6.7	(20.5)	0.1	(20.4)
Total comprehensive (expense)/income for the year	–	–	(27.2)	164.3	137.1	0.4	137.5
Contributions by and distributions to owners of the Company:							
Dividends paid	–	–	–	(58.1)	(58.1)	(0.3)	(58.4)
Equity settled share plans net of tax	–	–	–	1.7	1.7	–	1.7
Issue of share capital	–	2.4	–	–	2.4	–	2.4
Employee Benefit Trust shares	–	–	1.9	–	1.9	–	1.9
Balance at 31st December 2017	19.8	75.1	19.3	494.2	608.4	1.1	609.5

Other reserves represent the Group's Translation, Cash flow hedges, Capital redemption and Employee Benefit Trust reserves (see Note 21).

The non-controlling interest is a 2.5% share of Spirax-Sarco (Korea) Ltd held by employee shareholders.

Consolidated Statement of Changes in Equity

for the year ended 31st December 2016

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Equity shareholders' funds £m	Non- controlling interest £m	Total equity £m
Balance at 1st January 2016	19.7	69.7	(18.7)	326.8	397.5	0.8	398.3
Profit for the year	–	–	–	121.1	121.1	0.2	121.3
Other comprehensive (expense)/income:							
Foreign exchange translation differences	–	–	61.6	–	61.6	0.2	61.8
Remeasurement loss on post-retirement benefits	–	–	–	(10.0)	(10.0)	–	(10.0)
Deferred tax on remeasurement loss on post-retirement benefits	–	–	–	1.9	1.9	–	1.9
Profit on cash flow hedges reserve	–	–	0.4	–	0.4	–	0.4
Total other comprehensive income/(expense) for the year	–	–	62.0	(8.1)	53.9	0.2	54.1
Total comprehensive income for the year	–	–	62.0	113.0	175.0	0.4	175.4
Contributions by and distributions to owners of the Company:							
Dividends paid	–	–	–	(51.9)	(51.9)	(0.2)	(52.1)
Equity settled share plans net of tax	–	–	–	(1.6)	(1.6)	–	(1.6)
Issue of share capital	–	3.0	–	–	3.0	–	3.0
Employee Benefit Trust shares	0.1	–	1.3	–	1.4	–	1.4
Balance at 31st December 2016	19.8	72.7	44.6	386.3	523.4	1.0	524.4

Consolidated Statement of Cash Flows

for the year ended 31st December 2017

	Notes	2017 £m	2016 £m
Cash flows from operating activities			
Profit before taxation		192.5	171.4
Depreciation, amortisation and impairment	3/4	54.2	33.1
Profit on disposal of fixed assets	7	(1.0)	(1.5)
Contribution from Associate	12	–	0.1
Acquisition related fair value adjustments to inventory/exchange gain on acquisition funding	2	4.7	–
Cash payments to the pension schemes less than the charge to operating profit		0.1	1.6
Equity settled share plans	24	4.6	1.9
Net finance expense	6	6.4	2.6
Operating cash flow before changes in working capital and provisions		261.5	209.2
Change in trade and other receivables		(21.7)	(4.7)
Change in inventories		(10.2)	0.3
Change in provisions		1.2	2.3
Change in trade and other payables		(2.3)	8.7
Cash generated from operations		228.5	215.8
Interest paid		(8.1)	(1.4)
Income taxes paid		(61.0)	(56.5)
Net cash from operating activities		159.4	157.9
Cash flows from investing activities			
Purchase of property, plant and equipment		(29.7)	(28.1)
Proceeds from sale of property, plant and equipment		3.4	3.3
Purchase of software and other intangibles		(5.8)	(3.5)
Development expenditure capitalised		(2.9)	(3.0)
Acquisition of businesses net of cash acquired	27	(342.6)	(66.5)
Interest received		1.7	1.4
Net cash used in investing activities		(375.9)	(96.4)
Cash flows from financing activities			
Proceeds from issue of share capital	21	2.4	3.0
Employee Benefit Trust share purchase		–	(1.7)
Repaid borrowings	25	(415.9)	(20.4)
New borrowings	25	714.4	18.7
Change in finance lease liabilities	25	(0.1)	(0.1)
Dividends paid (including minorities)		(58.4)	(52.1)
Net cash from/(used in) financing activities		242.4	(52.6)
Net change in cash and cash equivalents		25.9	8.9
Net cash and cash equivalents at beginning of period		118.8	95.9
Exchange movement	25	6.9	14.0
Net cash and cash equivalents at end of period		151.6	118.8
Borrowings and finance leases	25	(525.2)	(91.4)
Net (debt)/cash at end of period	25	(373.6)	27.4

Notes to the Consolidated Financial Statements

1 Accounting policies

Basis of preparation

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) that have been adopted by the European Union (EU).

The preparation of Financial Statements in conformity with IFRS requires the Directors to apply IAS 1 and make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not apparent from other sources. The estimates and associated assumptions are based on historical experiences and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

The critical judgements, apart from those involving estimations (which are dealt with separately below) that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Financial Statements are outlined below:

(i) Post-retirement benefits

The Group's defined benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. The assumptions selected and associated sensitivity analysis are disclosed in Note 24 on pages 146 to 149.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are outlined below.

(i) Post-retirement benefits

The Group's defined benefit obligation is assessed by selecting key assumptions. The selection of mortality rates, inflation and pay increases are key sources of estimation uncertainty which could lead to material adjustment in the defined benefit obligation within the next financial year. These assumptions are set with close reference to market conditions. The assumptions selected and associated sensitivity analysis are disclosed in Note 24 on pages 146 to 149.

The Group has considerable financial resources together with a diverse range of products and customers across wide geographic areas and industries. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully.

Further information on the Group's business activities, performance and position, together with the financial position of the Group, its capital structure and cash flow are included in the Strategic Report from the inside front cover to page 61. In addition, Note 28 to the Financial Statements discloses details of the Group's financial risk management and credit facilities.

The Consolidated Financial Statements are presented in pounds sterling, which is the Company's functional currency, rounded to the nearest one hundred thousand.

The Group's Income Statement includes an adjustment column where certain items are included. These items include the amortisation and impairment of acquisition-related intangible assets, acquisition and disposal-related costs, reversal of acquisition-related fair value adjustments to inventory, foreign exchange gains and losses on borrowings, and significant restructuring costs. An analysis of these items is detailed in Note 2.

New, revised and amendments to IFRS

In the current year the Group has applied a number of amendments to IFRS issued by the International Accounting Standards Board (IASB). Their adoption has not had a material impact on the disclosures or on the amounts reported in these Financial Statements. The following amendments were applied:

- IAS 7: Statement of Cash Flows - Disclosure Initiative
- IAS 12: Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses
- Annual improvements to IFRS 2014-2016 Cycle including IFRS 12 Relating to Interests in Subsidiaries and Associates Held for Sale

Otherwise the accounting policies set out below have been applied consistently to both years presented in these Consolidated Financial Statements.

The following IFRS standards, whilst not adopted in these financial statements are effective from 1st January 2018 and will be adopted by the Group from that date:

- IFRS 15: Revenue from Contracts with Customers

IFRS 15 establishes a single model for recognising revenue arising from contracts with customers and supersedes IAS 18: Revenue and IAS 11: Construction Contracts. IFRS 15 introduces principles to allocate the transaction price to performance obligations and recognise revenue as those performance obligations are satisfied. It applies to accounting periods beginning on or after 1st January 2018.

An on-going assessment of the impact of IFRS 15 on the Group is being performed. Based on the current results of the assessment, the adoption of IFRS 15 is not expected to have a material impact on the profits of the Group in future periods.

- IFRS 9: Financial Instruments

IFRS 9 is effective for accounting periods beginning on or after 1st January 2018. IFRS 9 applies to financial assets and financial liabilities and replaces the multiple classification and measurement models in IAS 39 with a single model for financial assets and liabilities.

An assessment has been completed of the impact IFRS 9 will have on the Group. Based on the results of the assessment the adoption of IFRS 9 is not expected to have a material impact on the Financial Statements of the Group in future periods. This includes an assessment of the Group's hedging relationships where it has been determined that the relationships will qualify as continuing hedging relationships under IFRS 9.

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables and contract assets as required or permitted by IFRS 9.

At the date of authorisation of these Financial Statements, the Group has not applied the following new and revised IFRS that have been issued but are not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 16: Leases
- IFRS 2: (amendments) Classification and Measurement of Share-based Payment Transactions
- IFRS 17: Insurance Contracts

Notes to the Consolidated Financial Statements *continued*

1 Accounting policies *continued*

- IFRS 4 (amendments): Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- IAS 40 (amendments): Transfers of Investment Property
- IFRS 10 and IAS 28 (amendments): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Annual Improvements: Amendments to IFRS1 First-time Adoption to IFRS 2014-2016 of International Reporting Standards and Cycle IFRS 28 Investments in Associates and Joint Ventures
- IFRIC 22: Foreign Currency Transactions and Advanced Consideration
- IFRIC 23: Uncertainty Over Income Tax Treatments.

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the Financial Statements of the Group in future periods, except as noted below in relation to IFRS 16.

An assessment of the impact of IFRS 16 (effective from 1st January 2019) has not yet been performed but it may have a material impact on the reported assets and liabilities of the Group but we do not expect it to have a material impact on the net assets, Income Statement and cash flows of the Group. Furthermore, extensive disclosures will be required by IFRS 16.

IFRS 16 eliminates the classification of leases as either operating leases or finance leases and, instead, introduces a single model of accounting for leases. Under IFRS 16 a lessee is required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of a low value. The new standard also requires depreciation of the asset to be recognised separately from the interest expense on the lease liability. At 31st December 2017 the Group had total operating lease obligations of £30.8m and an operating lease charge of £11.0m for the year ended 31st December 2017. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of this standard until a detailed assessment has been completed.

Basis of accounting

(i) Subsidiaries

The Group Financial Statements include the results of the Company and all its subsidiary undertakings. Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

(ii) Associates

Associates are those entities for which the Group has significant influence, but not control, over the financial and operating policies. The Financial Statements include the Group's share of the total recognised income and expense of Associates on an equity accounted basis, from the date that significant influence commenced until the date that significant influence ceases.

(iii) Transactions eliminated on consolidation

Intra Group balances, and any unrealised gains and losses or income and expenses arising from intra Group transactions, are eliminated in preparing the Group Financial Statements. Unrealised gains arising from transactions with Associates are eliminated to the extent of the Group's interest in the entity.

Foreign currency

(i) On consolidation

The assets and liabilities of foreign operations are translated into sterling at exchange rates ruling at the date of the Consolidated Statement of Financial Position (closing rate). The revenues, expenses and cash flows of foreign operations are translated into sterling at average rates of exchange ruling during the year. Where the Notes to the Group Financial Statements include tables reconciling movements between opening and closing balances, opening and closing assets and liabilities are translated at closing rates and revenue, expenses and all other movements translated at average rates, with the exchange differences arising being disclosed separately.

Exchange differences arising from the translation of the assets and liabilities of foreign operations are taken to a separate translation reserve within equity. They are recycled and recognised in the Income Statement upon disposal of the operation. In respect of all foreign operations, any differences that have arisen before 1st January 2004, the date of transition to IFRS, are not presented as a separate component of equity.

(ii) Foreign currency transactions

Transactions in foreign currencies are translated to the respective currencies of the Group entities at the foreign exchange rate at the date of the transaction. Monetary assets and liabilities at the date of the Statement of Financial Position denominated in a currency other than the functional currency of the entity are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Income Statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates fair value was determined.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised in other comprehensive income and presented in the cash flow hedges reserve. The associated gain or loss is removed from equity and recognised in the Income Statement in the period in which the transaction to which it relates occurs.

Net investment hedge accounting

The Group uses foreign currency denominated borrowings as a hedge against translation exposure on the Group's net investment in overseas companies. Where the hedge is fully effective at hedging, the variability in the net assets of such companies caused by changes in exchange rates and the changes in value of the borrowings are recognised in the Consolidated Statement of Comprehensive Income and accumulated in the translation reserve. The ineffective part of any changes in value caused by changes in exchange rates is recognised in the Consolidated Income Statement.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of the financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Property, plant and equipment

Items of property, plant and equipment are stated at cost or deemed cost, less accumulated depreciation.

Certain items of property, plant and equipment that had been revalued to fair value prior to 1st January 2004, the date of transition to IFRS, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Depreciation is charged to the Income Statement on a straight-line basis at rates which write down the value of assets to their residual values over their estimated useful lives. Land is not depreciated.

The principal rates are as follows:

Freehold buildings	1.5-3.3%
Plant and machinery	10-12.5%
Office furniture and fittings	10%
Office equipment	12.5-33.3%
Motor vehicles	20%
Tooling and patterns	10%

The depreciation rates are reassessed annually.

Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method of accounting. Identified assets acquired and liabilities assumed are measured at their respective acquisition date fair values. The excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired is recorded as goodwill. Acquisition related costs are expensed as incurred. The operating results of the acquired business are reflected in the Group's Financial Statements after the date of acquisition.

Intangible assets

(i) Goodwill

Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment (see Note 14 for more detail). In respect of acquisitions prior to 1st January 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous UK Generally Accepted Accounting Practice (GAAP).

(ii) R&D

Expenditure on R&D is charged to the Income Statement in the period in which it is incurred except that development expenditure is capitalised where the development costs relate to new or substantially improved products that are subsequently to be released for sale and will generate future economic benefits. The expenditure capitalised includes staff costs and related expenses. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and any impairment losses.

(iii) Other intangible assets

Intangible assets other than goodwill that are acquired by the Group are stated at cost less accumulated amortisation (see below) and any impairment losses. Annual impairment tests are performed on acquired intangible assets by comparing the carrying value with the recoverable amount, being the higher of the fair value less cost to sell and value in use, discounted at an appropriate discount rate, of future cash flows in respect of intangible assets for the relevant cash generating unit. More detail is given in Note 14.

(iv) Amortisation

Amortisation is charged to the Income Statement on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date they are available for use. Goodwill is tested for impairment annually. The principal amortisation rates are as follows:

Capitalised development costs	20%
ERP systems and software	12-20%
Brand names and trademarks	5-33%
Manufacturing designs and core technology	6-50%
Non-compete undertakings	20-50%
Customer relationships	6-33%

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Cost also includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity usually of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

Going concern

The statement on the going concern assumption is included within the Governance Report on page 111.

Alternative performance measures

The Group reports under International Financial Reporting Standards (IFRS) and also uses alternative performance measures where the Board believe that they help to effectively monitor the performance of the Group, users of the Financial Statements might find them informative and an aid to comparison with our peers. One example is adjusted operating profit which excludes certain items such as the amortisation and impairment of acquisition-related intangible assets, impairment of goodwill, acquisition and disposal-related costs, reversal of acquisition related fair value adjustments to inventory, significant restructuring costs, and foreign exchange gains or losses on borrowings. Certain alternative performance measures also form a meaningful element of Executive Directors' annual bonuses. A definition of the alternative performance measures included in the Annual Report and a reconciliation to the closest IFRS equivalent are disclosed in Note 2.

Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the Income Statement as incurred.

(ii) Defined benefit plans

The costs of providing pensions under defined benefit schemes are calculated in accordance with the advice of qualified actuaries and spread over the period during which benefit is expected to be derived from the employees' services. The Group's net obligation or surplus in respect of defined benefit pensions is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. Past service costs are recognised straight away.

Notes to the Consolidated Financial Statements *continued*

1 Accounting policies *continued*

That benefit is discounted at rates reflecting the yields on AA credit rated corporate bonds that have maturity dates approximating the terms of the Group's obligations to determine its present value. Pension scheme assets are measured at fair value at the Statement of Financial Position date. Actuarial gains and losses, differences between the expected and actual returns, and the effect of changes in actuarial assumptions are recognised in the Statement of Comprehensive Income in the year they arise. Any scheme surplus (to the extent it is considered recoverable under the provisions of IFRIC 14) or deficit is recognised in full in the Statement of Financial Position.

The cost of other post-employment liabilities are calculated in a similar way to defined benefit pension schemes and spread over the period which benefit is expected to be derived from the employees' services, in accordance with the advice of qualified actuaries.

(iii) Employee share plans

Incentives in the form of shares are provided to employees under share option and share award schemes. The fair value of these options and awards at their date of grant is charged to the Income Statement over the relevant vesting periods with a corresponding increase in equity. The value of the charge is adjusted to reflect expected and actual levels of options and share awards vesting.

(iv) Long-term share incentive plans

The fair value of awards is measured at the date of grant and the cost spread over the vesting period. The amount recognised as an expense is not adjusted to reflect market based performance conditions, but is adjusted for non-market based performance conditions.

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business by subsidiary companies to external customers, net of discounts, Value Added Tax (VAT) and other sales-related taxes. Revenue is reduced for customer returns, rebates and other similar allowances.

Revenue from the sale of goods, which represent the significant majority of Group revenue, is recognised in the Income Statement when:

- the significant risks and rewards of ownership have been transferred to the buyer in accordance with the contracted terms of sale;
- the amount of revenue and costs can be measured reliably;
- the Group retains neither continuing managerial involvement nor effective control over the goods; and
- it is probable that the economic benefits associated with the transaction will flow to the Group.

This is typically on delivery or dispatch of the products.

Revenue from projects and service contracts is recognised by reference to the stage of completion of the contract based on the fair value of goods and services provided at the date of the Statement of Financial Position. Judgements can be required to assess the stage of completion, although in the vast majority of projects the position is relatively easy to identify. The stage of completion of the contract is determined as follows:

- installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the date of the Statement of Financial Position;

- service fees included in the price of products sold are valued by taking a proportion of the sales price (based on the cost of providing the servicing) and only recognised in revenue when the service is provided; and
- revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses incurred.

As soon as the outcome of a project or service contract can be estimated reliably, revenue and expenses are recognised in the Income Statement in proportion to the stage of completion of the project or service contract. Where it is probable that total contract costs exceed total contract revenue, the expected loss on a project or service is recognised immediately.

Leases

(i) Operating leases

Payments made under operating leases are charged to the Income Statement on a straight-line basis over the term of the lease.

(ii) Finance leases

Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases as if the asset had been purchased outright. Assets acquired under finance leases are recognised as assets of the Group and the capital and interest elements of the leasing commitments are shown as obligations in creditors. Depreciation is charged on a consistent basis with similar owned assets or over the lease term if shorter. The interest element of the lease payment is charged to the Income Statement on a basis which produces a consistent rate of charge over the period of the liability.

Taxation

The tax charge comprises current and deferred tax. Income tax expense is recognised in the Income Statement unless it relates to items recognised directly in equity or in other comprehensive income, when it is also recognised in equity or other comprehensive income respectively. Current tax is the expected tax payable on the profit for the year and any adjustments in respect of previous years using tax rates enacted or substantively enacted at the reporting date. Deferred tax is provided on temporary differences arising between the tax base of assets and liabilities, and their carrying amounts in the Financial Statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax is provided using rates of tax that have been enacted or substantively enacted at the date of the Statement of Financial Position or the date that the temporary differences are expected to reverse. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Share capital and repurchased shares

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares or placed in an Employee Benefit Trust and are presented as a deduction from total equity.

Share-based benefits granted to subsidiary employees

The Company grants share-based benefits over its own Ordinary shares directly to employees of subsidiary companies. These employees provide services to the subsidiary companies. The cost of these shares is not recharged and therefore the fair value of the share options granted is recognised as a capital contribution to the subsidiary companies. This is accounted for as an increase in investments with a corresponding increase in a non-distributable component of equity.

2 Alternative performance measures

The Group reports under International Financial Reporting Standards (IFRS) and also uses alternative performance measures where the Board believes that they help to effectively monitor the performance of the Group, users of the Financial Statements might find them informative and an aid to comparison with our peers. Certain alternative performance measures also form a meaningful element of Executive Directors' annual bonuses. Please see the Annual Report on Remuneration 2017 on pages 88 to 98 for further detail. A definition of the alternative performance measures and a reconciliation to the closest IFRS equivalent are disclosed below.

Adjusted operating profit

Adjusted operating profit excludes the amortisation and impairment of acquisition-related intangible assets, impairment of goodwill, costs associated with acquisitions and disposals, reversal of acquisition related fair value adjustments to inventory, restructuring costs and foreign exchange gains and losses on borrowings. A reconciliation between operating profit as reported under IFRS and adjusted operating profit is given below.

	2017 £m	2016 £m
Operating profit as reported under IFRS	198.9	174.1
Amortisation of acquisition-related intangible assets	18.4	6.0
Impairment of goodwill	3.2	–
Acquisition costs	10.3	0.5
Reversal of acquisition related fair value adjustments to inventory	7.2	–
Foreign exchange gain on borrowings	(2.5)	–
Adjusted operating profit	235.5	180.6

The impairment of goodwill is in respect of Spirax Sarco Colombia.

Adjusted earnings per share

	2017 £m	2016 £m
Profit for the period attributable to equity holders as reported under IFRS (£m)	157.6	121.1
Items excluded from adjusted operating profit disclosed above (£m)	36.6	6.5
Tax effects on adjusted items (£m)	(7.7)	(1.7)
Tax effects of the change in US tax rate (£m)	(24.4)	–
Adjusted profit for the period attributable to equity holders (£m)	162.1	125.9
Weighted average shares in issue (million)	73.5	73.4
Basic adjusted earnings per share	220.5p	171.5p
Diluted weighted average shares in issue (million)	73.8	73.6
Diluted adjusted earnings per share	219.7p	171.0p

Basic adjusted earnings per share is defined as adjusted profit for the period attributable to equity holders divided by the weighted average number of shares in issue. Diluted adjusted earnings per share is defined as adjusted profit for the period attributable to equity holders divided by the diluted weighted average number of shares in issue.

Basic and diluted EPS calculated on an IFRS profit basis are included in Note 10.

Further details on the tax effects of the change in US tax rate are included in Note 9.

Adjusted cash flow

A reconciliation showing the items that bridge between net cash from operating activities as reported under IFRS to an adjusted basis is given below.

	2017 £m	2016 £m
Net cash from operating activities as reported under IFRS	159.4	157.9
Acquisition and disposal costs	10.3	0.5
Capital expenditure excluding acquired intangibles from acquisitions	(35.0)	(31.3)
Movement in provisions	(1.2)	(2.3)
Tax paid	61.0	56.5
Interest paid	8.1	1.4
Adjusted net cash from operating activities	202.6	182.7

Adjusted cash conversion in 2017 is 86% (2016: 101%). Cash conversion is calculated as adjusted net cash from operating activities divided by adjusted operating profit.

The adjusted cash flow is included in the Financial Review on page 51.

Notes to the Consolidated Financial Statements *continued*

2 Alternative performance measures *continued*

Return on capital employed (ROCE)

This is an important key performance indicator but is a non-statutory measure. ROCE measures effective management of fixed assets and working capital relative to the profitability of the business. ROCE is calculated as adjusted operating profit divided by average capital employed. Average capital employed is based on capital employed at 31st December 2017 and 31st December 2016 at reported exchange rates. More information on ROCE can be found in the Capital Employed and ROCE sections of the Financial Review on page 50.

An analysis of the components is as follows:

	2017 £m	2016 £m
Property, plant and equipment	227.5	201.8
Prepayments	6.1	5.9
Inventories	145.4	112.5
Trade receivables	237.5	185.5
Other current assets	27.5	21.7
Tax recoverable	12.7	11.2
Trade, other payables and current provisions	(153.8)	(110.0)
Current tax payable	(23.1)	(18.6)
Capital employed	479.8	410.0
Average capital employed	444.9	377.3
Operating profit	198.9	174.1
Adjustments (see adjusted operating profit on page 129)	36.6	6.5
Adjusted operating profit	235.5	180.6
Return on capital employed	52.9%	47.9%

A reconciliation of capital employed to net assets as reported under IFRS and disclosed on the Consolidated Statement of Financial Position is given below.

	2017 £m	2016 £m
Capital employed	479.8	410.0
Goodwill and other intangible assets	631.3	169.7
Post-retirement benefits	(85.6)	(94.2)
Net deferred tax	(36.9)	15.0
Non-current provisions and long-term payables	(5.5)	(3.5)
Net (debt)/cash	(373.6)	27.4
Net assets as reported under IFRS	609.5	524.4

Organic measures

As we are a multi-national group of companies, which trade in a large number of foreign currencies and regularly acquire and sometimes dispose of companies, we also refer to organic performance measures throughout the Annual Report. These strip out the effects of the movement of foreign currency exchange rates and of acquisitions and disposals. The Board believes that this allows users of the accounts to gain a further understanding of how the Group has performed.

Exchange translation movements are assessed by re-translating prior period reported values to current period exchange rates. Exchange transaction impacts on operating profit are assessed on the basis of transactions being at constant currency between years.

Any acquisitions and disposals that occurred in either the current period or prior period are excluded from the results of both the prior and current period at current period exchange rates.

A reconciliation of the movement in revenue and adjusted operating profit compared to the prior period is given below.

	2016	Exchange	Organic	Acquisitions	2017	Organic	Reported
Revenue	£757.4m	£38.4m	£48.1m	£154.8m	£998.7m	+6%	+32%
Adjusted operating profit	£180.6m	£16.0m	£11.9m	£27.0m	£235.5m	+6%	+30%
Adjusted operating margin	23.8%				23.6%	+0 bps	-20 bps

The reconciliation for each segment is included in the Strategic Report.

3 Segmental reporting

As required by IFRS 8: Operating Segments, the following segmental information is presented in a consistent format with management information considered by the Board.

Analysis by location of operation 2017

	Gross revenue £m	Inter-segment revenue £m	Revenue £m	Total operating profit £m	Adjusted operating profit £m	Adjusted operating margin %
Europe, Middle East & Africa	348.9	43.6	305.3	58.7	66.1	21.7%
Asia Pacific	223.1	5.1	218.0	56.3	56.9	26.1%
Americas	159.4	7.3	152.1	26.0	31.6	20.8%
Steam Specialties	731.4	56.0	675.4	141.0	154.6	22.9%
Chromalox	75.1	–	75.1	4.0	13.8	18.4%
Spirax Sarco	806.5	56.0	750.5	145.0	168.4	22.4%
Watson-Marlow	248.2	–	248.2	74.8	80.3	32.4%
Corporate expenses				(20.9)	(13.2)	
	1,054.7	56.0	998.7	198.9	235.5	23.6%
Intra Group	(56.0)	(56.0)				
Total	998.7	–	998.7	198.9	235.5	23.6%
Net finance expense				(6.4)	(6.4)	
Share of profit of Associate				–	–	
Profit before tax				192.5	229.1	

2016

	Gross revenue £m	Inter-segment revenue £m	Revenue £m	Total operating profit £m	Adjusted operating profit £m	Adjusted operating margin %
Europe, Middle East & Africa	273.9	39.6	234.3	49.6	50.0	21.3%
Asia Pacific	197.7	4.4	193.3	49.3	49.9	25.8%
Americas	142.9	7.0	135.9	26.9	29.2	21.5%
Steam Specialties	614.5	51.0	563.5	125.8	129.1	22.9%
Watson-Marlow	193.9	–	193.9	61.1	64.3	33.1%
Corporate expenses				(12.8)	(12.8)	
	808.4	51.0	757.4	174.1	180.6	23.8%
Intra Group	(51.0)	(51.0)				
Total	757.4	–	757.4	174.1	180.6	23.8%
Net finance expense				(2.6)	(2.6)	
Share of profit of Associate				(0.1)	(0.1)	
Profit before tax				171.4	177.9	

Net revenue generated by Group companies based in the USA is £222.6m (2016: £146.3m), in China is £103.1m (2016: £90.6m), in the UK £95.3m (2016: £70.4m), and the rest of the world £577.7m (2016: £450.1m).

Notes to the Consolidated Financial Statements *continued*

3 Segmental reporting *continued*

The total operating profit for the period includes certain items, as analysed below:

2017

	Amortisation of acquisition-related intangible assets £m	Impairment of goodwill £m	Acquisition costs £m	Reversal of acquisition related fair value adjustments to inventory £m	Foreign exchange gain on borrowings £m	Total £m
Europe, Middle East & Africa	(3.6)	–	–	(3.8)	–	(7.4)
Asia Pacific	(0.6)	–	–	–	–	(0.6)
Americas	(2.3)	(3.2)	(0.1)	–	–	(5.6)
Steam Specialties	(6.5)	(3.2)	(0.1)	(3.8)	–	(13.6)
Chromalox	(6.4)	–	–	(3.4)	–	(9.8)
Spirax Sarco	(12.9)	(3.2)	(0.1)	(7.2)	–	(23.4)
Watson-Marlow	(5.5)	–	–	–	–	(5.5)
Corporate expenses	–	–	(10.2)	–	2.5	(7.7)
Total	(18.4)	(3.2)	(10.3)	(7.2)	2.5	(36.6)

The impairment of goodwill is in respect of Spirax Sarco Colombia.

2016

	Amortisation of acquisition-related intangible assets £m	Acquisition costs £m	Total £m
Europe, Middle East & Africa	(0.4)	–	(0.4)
Asia Pacific	(0.6)	–	(0.6)
Americas	(2.2)	(0.1)	(2.3)
Steam Specialties	(3.2)	(0.1)	(3.3)
Watson-Marlow	(2.8)	(0.4)	(3.2)
Total	(6.0)	(0.5)	(6.5)

Share of profit of Associate

The share of profit of Associate analysed between adjusted income and total is as follows:

	2017 Adjusted £m	2017 Total £m	2016 Adjusted £m	2016 Total £m
Europe, Middle East & Africa	–	–	(0.1)	(0.1)
Asia Pacific	–	–	–	–
Americas	–	–	–	–
Steam Specialties	–	–	(0.1)	(0.1)
Chromalox	–	–	–	–
Spirax Sarco	–	–	(0.1)	(0.1)
Watson-Marlow	–	–	–	–
Total share of profit of Associate	–	–	(0.1)	(0.1)

3 Segmental reporting *continued*

Net financing income and expense

	2017 £m	2016 £m
Europe, Middle East & Africa	(1.0)	(1.5)
Asia Pacific	0.1	0.2
Americas	(0.8)	(0.7)
Steam Specialties	(1.7)	(2.0)
Chromalox	–	–
Spirax Sarco	(1.7)	(2.0)
Watson-Marlow	(0.1)	–
Corporate	(4.6)	(0.6)
Total net financing expense	(6.4)	(2.6)

Net assets

	2017 Assets £m	2017 Liabilities £m	2016 Assets £m	2016 Liabilities £m
Europe, Middle East & Africa	400.6	(112.4)	195.3	(106.8)
Asia Pacific	162.6	(36.9)	163.1	(38.5)
Americas	112.2	(41.6)	127.0	(38.6)
Steam Specialties	675.4	(190.9)	485.4	(183.9)
Chromalox	386.7	(23.3)	–	–
Spirax Sarco	1,062.1	(214.2)	485.4	(183.9)
Watson-Marlow	213.1	(30.6)	211.7	(23.8)
	1,275.2	(244.8)	697.1	(207.7)
Liabilities	(244.8)		(207.7)	
Net deferred tax	(36.9)		15.0	
Net current tax payable	(10.4)		(7.4)	
Net (debt)/cash	(373.6)		27.4	
Net assets	609.5		524.4	

Non-current assets in the UK were £154.3m (2016: £156.5m).

Capital additions, depreciation, amortisation and impairment

	2017 Capital additions £m	2017 Depreciation, amortisation and impairment £m	2016 Capital additions £m	2016 Depreciation and amortisation £m
Europe, Middle East & Africa	81.9	16.7	11.1	12.4
Asia Pacific	8.2	7.9	12.6	6.9
Americas	4.2	9.8	8.0	5.9
Steam Specialties	94.3	34.4	31.7	25.2
Chromalox	183.3	8.2	–	–
Spirax Sarco	277.6	42.6	31.7	25.2
Watson-Marlow	7.9	11.6	38.5	7.9
Group total	285.5	54.2	70.2	33.1

Capital additions include property, plant and equipment of £56.3m (2016: £36.9m), of which £26.6m (2016: £9.0m) was from acquisitions in the period, and other intangible assets of £229.2m (2016: £33.3m) of which £218.7m (2016: £26.8m) relates to acquired intangibles and £1.8m (2016: £nil) of software from acquisitions in the period. Capital additions split between the UK and rest of the world are UK £16.6m (2016: £41.9m) and rest of the world £268.9m (2016: £28.3m).

Notes to the Consolidated Financial Statements *continued*

4 Operating costs

	2017 Adjusted £m	2017 Adjustments £m	2017 Total £m	2016 Adjusted £m	2016 Adjustments £m	2016 Total £m
Cost of inventories recognised as an expense	237.3	7.2	244.5	179.1	–	179.1
Staff costs (Note 5)	351.1	–	351.1	263.9	–	263.9
Depreciation, amortisation and impairment	32.6	21.6	54.2	27.1	6.0	33.1
Other operating charges	142.2	7.8	150.0	106.7	0.5	107.2
Total operating costs	763.2	36.6	799.8	576.8	6.5	583.3

Total depreciation, amortisation and impairment includes amortisation of acquisition-related intangible assets of £18.4m (2016: £6.0m) and impairment of goodwill of £3.2m (2016: £nil). Total other operating charges include acquisition costs of £10.3m (2016: £0.5m) and a foreign exchange gain on borrowings £2.5m (2016: £nil). Total cost of inventories recognised as an expense includes the reversal of acquisition related fair value adjustments to inventory £7.2m (2016: £nil). Operating costs include exchange difference benefits of £1.0m (2016: £1.4m).

5 Staff costs and numbers

The aggregate payroll costs of persons employed by the Group were as follows:

	2017 £m	2016 £m
Wages and salaries	275.6	207.9
Social security costs	54.4	37.8
Other pension costs	21.1	18.2
Total payroll costs	351.1	263.9

The average number of persons employed by the Group (including Directors) during the year was as follows:

	2017	2016
United Kingdom	1,790	1,349
Overseas	4,526	3,649
Group average	6,316	4,998

6 Net financing income and expense

	2017 £m	2016 £m
Financial expenses:		
Bank and other borrowing interest payable	(5.6)	(1.4)
Net interest on pension scheme liabilities	(2.5)	(2.6)
	(8.1)	(4.0)
Financial income:		
Bank interest receivable	1.7	1.4
Net financing expense	(6.4)	(2.6)
Net pension scheme financial expense	(2.5)	(2.6)
Net bank interest	(3.9)	–
Net financing expense	(6.4)	(2.6)

7 Profit before taxation

Profit before taxation is shown after charging:

	2017 £m	2016 £m
Depreciation of owned tangible fixed assets	25.1	20.6
Depreciation of tangible fixed assets held under finance leases	0.2	0.3
Hire of plant and machinery	2.4	0.6
Profit on disposal of property, plant and equipment	1.0	1.5
Other operating leases	8.6	5.7
Research and development	11.5	10.6

	2017 £m	2016 £m
Auditor's remuneration		
Audit of these Financial Statements	0.2	0.1
Amounts receivable by the Company's auditor and its Associates in respect of:		
Audit of Financial Statements of subsidiaries of the Company	1.5	1.1
Interim review procedures	0.1	–
Audit-related assurance services	–	–
Taxation compliance services	–	–
Other tax advisory services	–	–
All other services	0.2	–
Total auditor's remuneration	2.0	1.2

8 Directors' emoluments

Directors represent the key management personnel of the Group under the terms of IAS 24: Related Party Disclosures. Total remuneration is shown below.

Further details of salaries and short-term benefits, post-retirement benefits, share plans and long-term share incentive plans are shown in the Annual Report on Remuneration 2017 on pages 88 to 98. The share-based payments charge comprises a charge in relation to the Performance Share Plan and the Employee Share Ownership Plan (as described in Note 24).

	2017 £m	2016 £m
Salaries and short-term benefits	3.7	3.6
Post-retirement benefits	0.4	0.4
Share-based payments	1.1	0.2
Total Directors' remuneration	5.2	4.2

Notes to the Consolidated Financial Statements *continued*

9 Taxation

	2017 Adjusted £m	2017 Adjustments £m	2017 Total £m	2016 Adjusted £m	2016 Adjustments £m	2016 Total £m
Analysis of charge in period						
UK corporation tax:						
Current tax on income for the period	5.6	–	5.6	3.2	–	3.2
Adjustments in respect of prior periods	(0.7)	–	(0.7)	(0.1)	–	(0.1)
	4.9	–	4.9	3.1	–	3.1
Foreign tax:						
Current tax on income for the period	59.7	–	59.7	48.6	–	48.6
Adjustments in respect of prior periods	0.5	–	0.5	(0.8)	–	(0.8)
	60.2	–	60.2	47.8	–	47.8
Total current tax charge	65.1	–	65.1	50.9	–	50.9
Deferred tax – UK	0.1	–	0.1	0.8	–	0.8
Deferred tax – Foreign	1.5	(32.1)	(30.6)	0.1	(1.7)	(1.6)
Tax on profit on ordinary activities	66.7	(32.1)	34.6	51.8	(1.7)	50.1

Reconciliation of effective tax rate

	2017 Adjusted £m	2017 Adjustments £m	2017 Total £m	2016 Adjusted £m	2016 Adjustments £m	2016 Total £m
Profit before tax and share of profit of Associate	229.1	(36.6)	192.5	178.0	(6.5)	171.5
Expected tax at blended rate	65.0	(10.4)	54.6	50.0	(1.7)	48.3
Increased withholding tax on overseas dividends	3.5	–	3.5	2.0	–	2.0
Benefit of Financing structures	(4.1)	–	(4.1)	(1.5)	–	(1.5)
Non-deductible expenditure	2.5	–	2.5	1.5	–	1.5
Over provided in prior years	(1.9)	–	(1.9)	(0.7)	–	(0.7)
Other reconciling items	1.7	(21.7)	(20.0)	0.5	–	0.5
Total tax in income statement	66.7	(32.1)	34.6	51.8	(1.7)	50.1
Effective tax rate	29.1%	87.8%	18.0%	29.1%	26.2%	29.2%

The Group's tax charge in future years is likely to be affected by the proportion of profits arising and the effective tax rates in the various territories in which the Group operates.

The blended tax rate is calculated using each subsidiary company's headline tax rate as a proportion of its respective profit.

The Group's tax charge includes a credit of £32.1m in relation to certain items as detailed in Notes 2 and 3. Excluding these adjustments the tax on profit and the effective tax rate are £66.7m and 29.1% respectively.

A reduction in the US federal tax rate from 35% to 21%, effective from 1st January 2018, was enacted as part of the US Tax Cuts and Jobs Act on 22nd December 2017. As a result the US deferred tax assets and liabilities at 31st December 2017 have been calculated based on the future blended federal and state tax rate, with a federal tax element of 21%. This results in a deferred tax credit to the Consolidated Income Statement of £24.4m; this is included within the overall credit of £32.1m.

The UK corporation tax rate reduced from 20% to 19% on 1st April 2017. A further reduction to 17% (effective from 1st April 2020) was substantially enacted on 15th September 2016. This will reduce the Group's future current tax charge accordingly.

The UK deferred tax assets and liabilities at 31st December 2017 have been calculated based upon rates of 19% and 17% in respect of deferred tax expected to reverse before 1st April 2020 and after this date respectively.

The Group is aware of the on-going review by the European Commission into the UK Controlled Foreign Company (CFC) rules that exempts certain transactions by multinational groups from a full CFC apportionment. Due to the uncertainty of the outcome of this review no provision for any UK corporation tax has been recognised at the date of the Statement of Financial Position, however the potential contingent liability is estimated at approximately £4.5m.

No UK tax (after double tax relief for underlying tax) is expected to be payable on the future remittance of the retained earnings of overseas subsidiaries.

The effective tax rate is calculated as a percentage of profit before tax and share of profit of Associate.

10 Earnings per share

	2017	2016
Profit attributable to equity shareholders (£m)	157.6	121.1
Weighted average shares in issue (million)	73.5	73.4
Dilution (million)	0.3	0.2
Diluted weighted average shares in issue (million)	73.8	73.6
Basic earnings per share	214.4p	165.0p
Diluted earnings per share	213.6p	164.5p

Basic and diluted earnings per share calculated on an adjusted profit basis are included in Note 2.

The dilution is in respect of unexercised share options and the Performance Share Plan.

11 Dividends

	2017 £m	2016 £m
Amounts paid in the year:		
Final dividend for the year ended 31st December 2016 of 53.5p (2015: 48.2p) per share	39.3	35.4
Interim dividend for the year ended 31st December 2017 of 25.5p (2016: 22.5p) per share	18.8	16.5
Total dividends paid	58.1	51.9
Amounts arising in respect of the year:		
Interim dividend for the year ended 31st December 2017 of 25.5p (2016: 22.5p) per share	18.8	16.5
Proposed final dividend for the year ended 31st December 2017 of 62.0p (2016: 53.5p) per share	45.6	39.3
Total dividends arising	64.4	55.8

The proposed dividend is subject to approval in 2018. It is therefore not included as a liability in these Financial Statements. No scrip alternative to the cash dividend is being offered in respect of the proposed final dividend for the year ended 31st December 2017.

12 Investment in Associate

	Associate 2017 £m	Associate 2016 £m
Cost of investment	1.4	1.4
Share of equity	(1.4)	(1.4)
Total investment in Associate	–	–
Summarised financial information:		
Revenue	1.1	0.7
Profit/(loss) for the period	–	(0.2)
Current assets	0.3	0.4
Non-current assets	0.2	0.2
Current and non-current liabilities	0.7	0.6

Details of the Group's Associate at 31st December 2017 and 31st December 2016 is as follows:

Name of Associate	Country of incorporation and operation	Proportion of ownership interest and voting power held	Principal activity
Econotherm (UK) Ltd	UK	38.9%	Manufacturing and selling

Notes to the Consolidated Financial Statements *continued*

13 Property, plant and equipment

2017

	Freehold land and buildings £m	Leasehold land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost or deemed cost:					
At 1st January 2017	122.4	36.8	150.1	64.9	374.2
Exchange adjustments	(0.7)	(1.0)	(3.0)	(1.0)	(5.7)
	121.7	35.8	147.1	63.9	368.5
Acquisitions	14.2	0.4	8.4	3.6	26.6
Additions	2.9	2.9	14.4	9.5	29.7
Disposals	–	(1.4)	(5.0)	(3.6)	(10.0)
At 31st December 2017	138.8	37.7	164.9	73.4	414.8
Depreciation:					
At 1st January 2017	27.4	4.9	94.8	45.3	172.4
Exchange adjustments	(0.2)	(0.1)	(1.2)	(0.5)	(2.0)
	27.2	4.8	93.6	44.8	170.4
Charged in year	2.6	1.5	13.7	7.5	25.3
Disposals	–	(0.6)	(4.3)	(3.5)	(8.4)
At 31st December 2017	29.8	5.7	103.0	48.8	187.3
Net book value:					
At 31st December 2017	109.0	32.0	61.9	24.6	227.5

2016

	Freehold land and buildings £m	Leasehold land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost or deemed cost:					
At 1st January 2016	106.9	26.5	125.9	56.5	315.8
Exchange adjustments	10.3	4.0	13.6	6.1	34.0
	117.2	30.5	139.5	62.6	349.8
Additions	6.0	6.5	18.3	6.1	36.9
Disposals	(0.8)	(0.2)	(7.7)	(3.8)	(12.5)
At 31st December 2016	122.4	36.8	150.1	64.9	374.2
Depreciation:					
At 1st January 2016	22.8	3.4	81.9	37.8	145.9
Exchange adjustments	3.1	0.6	8.6	4.5	16.8
	25.9	4.0	90.5	42.3	162.7
Charged in year	2.0	1.0	11.2	6.7	20.9
Disposals	(0.5)	(0.1)	(6.9)	(3.7)	(11.2)
At 31st December 2016	27.4	4.9	94.8	45.3	172.4
Net book value:					
At 31st December 2016	95.0	31.9	55.3	19.6	201.8

Included in the above are finance leases with a net book value of £0.3m (2016: £0.4m) and assets under construction of £6.2m (2016: £11.3m).

In 2016 additions from acquisitions were £9.0m and are shown within additions.

14 Goodwill and other intangible assets

2017

	Acquired intangibles £m	Development costs £m	Computer software £m	Total intangibles £m	Goodwill £m
Cost or valuation:					
At 1st January 2017	86.2	24.6	49.9	160.7	89.4
Exchange and other adjustments	(4.3)	–	(0.4)	(4.7)	(3.2)
	81.9	24.6	49.5	156.0	86.2
Acquisitions	218.7	–	1.8	220.5	268.0
Additions	–	2.9	5.8	8.7	1.1
Disposals	–	(0.9)	(0.2)	(1.1)	–
At 31st December 2017	300.6	26.6	56.9	384.1	355.3
Amortisation and impairment:					
At 1st January 2017	31.9	17.8	29.8	79.5	0.9
Exchange adjustments	(0.5)	–	–	(0.5)	(0.1)
	31.4	17.8	29.8	79.0	0.8
Amortisation and impairment	18.4	3.0	4.3	25.7	3.2
Disposals	–	(0.5)	(0.1)	(0.6)	–
At 31st December 2017	49.8	20.3	34.0	104.1	4.0
Net book value:					
At 31st December 2017	250.8	6.3	22.9	280.0	351.3

2016

	Acquired intangibles £m	Development costs £m	Computer software £m	Total intangibles £m	Goodwill £m
Cost or valuation:					
At 1st January 2016	51.6	22.1	43.3	117.0	55.0
Exchange and other adjustments	7.8	0.3	3.6	11.7	7.0
	59.4	22.4	46.9	128.7	62.0
Additions	26.8	3.0	3.5	33.3	27.6
Disposals	–	(0.8)	(0.5)	(1.3)	(0.2)
At 31st December 2016	86.2	24.6	49.9	160.7	89.4
Amortisation and impairment:					
At 1st January 2016	22.5	15.4	24.3	62.2	0.9
Exchange adjustments	3.4	0.4	2.5	6.3	–
	25.9	15.8	26.8	68.5	0.9
Amortisation and impairment	6.0	2.8	3.4	12.2	–
Disposals	–	(0.8)	(0.4)	(1.2)	–
At 31st December 2016	31.9	17.8	29.8	79.5	0.9
Net book value:					
At 31st December 2016	54.3	6.8	20.1	81.2	88.5

Development

All capitalised development costs arise from internal product development.

Notes to the Consolidated Financial Statements *continued*

14 Goodwill and other intangible assets *continued*

Acquired intangibles

The disclosure by class of acquired intangible assets is shown in the tables below.

2017

	Customer relationships £m	Brand names and trademarks £m	Manufacturing designs and core technology £m	Non-compete undertakings and other £m	Total acquired intangibles £m
Cost or valuation:					
At 1st January 2017	38.3	15.3	19.8	12.8	86.2
Exchange and other adjustments	(0.1)	(3.5)	(0.1)	(0.6)	(4.3)
	38.2	11.8	19.7	12.2	81.9
Acquisitions	16.7	167.3	30.3	4.4	218.7
At 31st December 2017	54.9	179.1	50.0	16.6	300.6
Amortisation and impairment:					
At 1st January 2017	15.6	5.0	5.6	5.7	31.9
Exchange adjustments	–	(0.3)	–	(0.2)	(0.5)
	15.6	4.7	5.6	5.5	31.4
Amortisation and impairment	4.2	6.2	3.0	5.0	18.4
At 31st December 2017	19.8	10.9	8.6	10.5	49.8
Net book value:					
At 31st December 2017	35.1	168.2	41.4	6.1	250.8

Brand names and trademark assets are amortised over their useful economic lives in line with the accounting policies disclosed in Note 1. Within this balance individually material balances relate to Chromalox £124.5m (2016: £nil) and Gestra £34.5m (2016: £nil). The remaining amortisation period is 19 years and 14 years respectively.

Manufacturing designs and core technology are amortised over their useful economic lives in line with the accounting policies disclosed in Note 1. Within this balance individually material balances relate to Chromalox £12.6m (2016: £nil), Gestra £13.1m (2016: £nil) and Aflex £10.2m (2016: £11.1m). The remaining amortisation period is 14 years for Chromalox and Gestra and 12 years for Aflex.

Customer relationships are amortised over their useful economic lives in line with the accounting policies disclosed in Note 1. There are no individually material items within this balance.

Non-compete undertakings are amortised over their useful economic lives in line with the accounting policies disclosed in Note 1. There are no individually material items within this balance.

2016

	Customer relationships £m	Brand names and trademarks £m	Manufacturing designs and core technology £m	Non-compete undertakings and other £m	Total acquired intangibles £m
Cost or valuation:					
At 1st January 2016	28.6	7.3	7.2	8.5	51.6
Exchange and other adjustments	3.8	1.1	1.4	1.5	7.8
	32.4	8.4	8.6	10.0	59.4
Additions	5.9	6.9	11.2	2.8	26.8
At 31st December 2016	38.3	15.3	19.8	12.8	86.2
Amortisation and impairment:					
At 1st January 2016	11.4	4.1	3.6	3.4	22.5
Exchange adjustments	1.5	0.3	1.0	0.6	3.4
	12.9	4.4	4.6	4.0	25.9
Amortisation and impairment	2.7	0.6	1.0	1.7	6.0
At 31st December 2016	15.6	5.0	5.6	5.7	31.9
Net book value:					
At 31st December 2016	22.7	10.3	14.2	7.1	54.3

14 Goodwill and other intangible assets *continued*

Impairment

In accordance with the requirements of IAS 36: Impairment of Assets, goodwill is allocated to the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination that gave rise to the goodwill as analysed in the table below.

	2017 Goodwill £m	2016 Goodwill £m
Chromalox	170.2	–
Gestra	95.8	–
Aflex	27.1	27.1
Other cash-generating units	58.2	61.4
Total goodwill	351.3	88.5

The goodwill balance has been tested for annual impairment on the following basis:

- the carrying values of goodwill have been assessed by reference to value in use. These have been estimated using cash flows based on forecast information for the next financial year and in the case of recent acquisitions on detailed five-year forecasts. This information has been approved by the Board;
- the key assumptions on which the impairment tests are based are the discount and growth rates and the forecast cash flows;
- pre-tax discount rates range from 10-16% (2016: 11-17%);
- short-term growth rates vary between 2-8% depending on detailed forecasts (2016: 2-26%). The short-term is defined as not more than five years; and
- long-term growth rates are set using IMF forecasts and vary between 0.8–5.0% (2016: 0.8-5.0%).

As a result of this exercise an impairment of £3.2m was recognised in respect of Spirax Sarco Colombia. No other impairments were identified.

The principal value in use assumptions for the three largest goodwill balances were as follows:

Cash-generating unit	Pre-tax discount rate	Short-term growth rate	Long-term growth rate
Chromalox	10.8%	3.1-6.2%	2.5%
Gestra	11.4%	0.6-5.6%	2.5%
Aflex	10.3%	8.0%	2.5%

Where applicable sensitivity analysis shows that if pre-tax discount rates are raised by 1% and short and long term growth rates are lowered by 1% no impairment would arise. The 1% sensitivity threshold is considered a reasonable estimate of possible change.

Notes to the Consolidated Financial Statements *continued*

15 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2017 Assets £m	2016 Assets £m	2017 Liabilities £m	2016 Liabilities £m	2017 Net £m	2016 Net £m
Accelerated capital allowances	0.7	2.4	(6.0)	(4.5)	(5.3)	(2.1)
Provisions	3.1	2.8	–	–	3.1	2.8
Losses	2.7	1.0	–	–	2.7	1.0
Inventory	5.9	4.0	(1.5)	(2.3)	4.4	1.7
Pensions	19.8	24.3	(0.8)	(0.9)	19.0	23.4
Other temporary differences	4.2	2.0	(65.0)	(13.8)	(60.8)	(11.8)
Tax assets/(liabilities)	36.4	36.5	(73.3)	(21.5)	(36.9)	15.0

Movement in deferred tax during the year 2017

	1st January 2017 £m	Recognised in income £m	Recognised in OCI £m	Recognised in equity £m	Acquisitions £m	31st December 2017 £m
Accelerated capital allowances	(2.1)	(3.4)	0.2	–	–	(5.3)
Provisions	2.8	(0.9)	0.7	–	0.5	3.1
Losses	1.0	1.7	–	–	–	2.7
Inventory	1.7	2.4	0.3	–	–	4.4
Pensions	23.4	0.6	(5.6)	–	0.6	19.0
Other temporary differences	(11.8)	30.1	1.5	0.3	(80.9)	(60.8)
Group total	15.0	30.5	(2.9)	0.3	(79.8)	(36.9)

Movement in deferred tax during the year 2016

	1st January 2016 £m	Recognised in income £m	Recognised in OCI £m	Recognised in equity £m	Acquisitions £m	31st December 2016 £m
Accelerated capital allowances	(0.4)	(0.8)	(0.9)	–	–	(2.1)
Provisions	3.5	0.6	(1.3)	–	–	2.8
Losses	1.5	(1.0)	0.5	–	–	1.0
Inventory	0.9	0.9	(0.1)	–	–	1.7
Pensions	18.0	0.9	4.5	–	–	23.4
Other temporary differences	(8.2)	0.2	1.0	–	(4.8)	(11.8)
Group total	15.3	0.8	3.7	–	(4.8)	15.0

At the date of the Statement of Financial Position, the Group has deductible temporary differences, unused tax losses and unused tax credits of £8.4m (2016: £2.7m) available for offset against future profits. A deferred tax asset has been recognised in respect of £2.7m (2016: £1.5m). No deferred tax asset has been recognised in respect of the remaining £5.7m (2016: £1.2m) as it is not considered probable that there will be future taxable profits available against which the relevant deduction can be offset. Included in unrecognised tax losses are losses of £nil (2016: £0.1m) that will expire by 2023. Other losses may be carried forward indefinitely.

Deferred tax of £5.6m recognised in the Consolidated Statement of Comprehensive Income (page 122) comprises £5.1m associated with the remeasurement of defined benefit obligations and £0.5m relating to exchange movements.

A reduction in the US federal tax rate from 35% to 21%, effective from 1st January 2018, was enacted as part of the US Tax Cuts and Jobs Act on 22nd December 2017. As a result, the US deferred tax assets and liabilities at 31st December 2017 have been calculated based on the future blended federal and state tax rate, with a federal tax element of 21%. This results in a reduction in the net deferred tax liability of £21.9m of which £24.4m has been recognised as a credit in the income statement and £2.5m recognised as a debit in OCI.

16 Inventories

	2017 £m	2016 £m
Raw materials and consumables	47.9	38.4
Work in progress	24.0	15.5
Finished goods and goods for resale	73.5	58.6
Total inventories	145.4	112.5

The write-down of inventories recognised as an expense during the year in respect of continuing operations was £1.3m (2016: £4.0m). This comprises a cost of £3.3m (2016: £4.6m) to write-down inventory to net realisable value reduced by £2.0m (2016: £0.6m) for reversal of previous write-down reassessed as a result of customer demand.

The value of inventories expected to be recovered after more than 12 months is £12.1m (2016: £8.1m).

There is no material difference between the Statement of Financial Position value of inventories and their replacement cost. None of the inventory has been pledged as security.

17 Other current assets

	2017 £m	2016 £m
Other receivables	13.3	12.3
Prepayments and accrued income	14.2	9.4
Total other current assets	27.5	21.7

18 Trade and other payables

	2017 £m	2016 £m
Trade payables	51.3	29.6
Social security	4.0	3.4
Other payables	39.8	36.9
Accruals	52.0	37.9
Total trade and other payables	147.1	107.8

19 Obligations under finance leases

	Minimum lease payments		Present value lease payment	
	2017 £m	2016 £m	2017 £m	2016 £m
Amount payable:				
Within one year	0.2	0.2	0.2	0.2
One to five years inclusive	0.1	0.2	0.1	0.2
	0.3	0.4	0.3	0.4
Less future finance charges	–	–	–	–
Total obligations under finance leases	0.3	0.4	0.3	0.4

Finance lease obligations are further disclosed in Note 28.

Notes to the Consolidated Financial Statements *continued*

20 Provisions

	Product warranty £m	Legal, contractual and other £m	Total £m
2017			
At 1st January 2017	2.0	2.2	4.2
Additional provision in the year	2.1	5.2	7.3
Utilised or released during the year	(0.6)	(1.0)	(1.6)
Exchange adjustments	0.3	(0.3)	–
At 31st December 2017	3.8	6.1	9.9
	Product warranty £m	Legal, contractual and other £m	Total £m
2016			
At 1st January 2016	0.5	0.7	1.2
Reclassification from accruals	0.7	1.3	2.0
Additional provision in the year	0.6	1.5	2.1
Utilised or released during the year	(0.2)	(1.4)	(1.6)
Exchange adjustments	0.4	0.1	0.5
At 31st December 2016	2.0	2.2	4.2

During 2016, a review of the accruals balance was performed resulting in reclassifications totalling £2.0 million from accruals.

	2017 £m	2016 £m
Current provisions	6.7	2.2
Non-current provisions	3.2	2.0
Total provisions	9.9	4.2

Product warranty

Product warranty provisions reflect commitments made to customers on the sale of goods in the ordinary course of business. These are expected to be incurred in the next three years.

Legal, contractual and other

Legal, contractual and other provisions mainly comprise amounts provided against open legal and contractual disputes arising from trade and employment. These costs are based on past experience of similar items and other known factors and represent management's best estimate of the likely outcome. The Group has taken action to enforce its rights and protect its intellectual property rights around the world.

Reflecting the inherent uncertainty within many legal proceedings, the timing and amount of the outflows could differ significantly from the amount provided. Management does not expect that the outcome of such proceedings, either individually or in aggregate, will have a material adverse effect on the Group's financial condition or results of operations. Of the total legal, contractual and other provisions at 31st December 2017, £4.2m has been included within current and £1.9m within non-current provisions.

21 Called up share capital and reserves

	2017 £m	2016 £m
Ordinary shares of 26 ¹² / ₁₃ p (2016: 26 ¹² / ₁₃ p) each:		
Authorised 111,428,571 (2016: 111,428,571)	30.0	30.0
Allotted, called up and fully paid 73,600,195 (2016: 73,439,226)	19.8	19.8

In 2017 73,544 shares with a nominal value of £19,800 were issued in connection with the Group's Employee Share Schemes for a consideration of £2.4m received by the Company.

At 31st December 2017 35,945 shares were held in an Employee Benefit Trust and available for use in connection with the Group's Employee Share Schemes.

164 senior employees of the Group have been granted options on Ordinary shares under the Share Option Scheme and Performance Share Plan (details in Note 24).

Other reserves in the Consolidated Statement of Changes in Equity on pages 122 to 123 are made up as follows:

	1st January 2017 £m	Change in year £m	31st December 2017 £m
Translation reserve	46.1	(27.4)	18.7
Cash flow hedges reserve	(0.1)	0.2	0.1
Capital redemption reserve	1.8	–	1.8
Employee Benefit Trust reserve	(3.2)	1.9	(1.3)
Total other reserves	44.6	(25.3)	19.3

Translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the Financial Statements of foreign subsidiaries, including gains or losses on net investment hedges. On disposal accumulated exchange differences are recycled to the Income Statement.

Cash flow hedges reserve

The reserve records the cumulative net change in the fair value of forward exchange contracts where they are designated as effective cash flow hedge relationships.

Capital redemption reserve

This reserve records the historical repurchase of the Group's own shares.

Employee Benefit Trust reserve

The Group has an Employee Benefit Trust which is used to purchase, hold and issue shares in connection with the Group's employee share schemes. The shares held in Trust are recorded in this separate reserve.

22 Capital commitments and contingent liabilities

	2017 £m	2016 £m
Capital expenditure contracted for but not provided	5.5	3.6

All capital commitments are related to property, plant and equipment. The Group has no material contingent liabilities at 31st December 2017 (2016: £nil) but does have a non-material contingent liability in relation to tax (see Note 9 for further details).

23 Operating lease obligations

	2017 £m	2016 £m
Commitments under non-cancellable leases due as follows:		
Within 1 year	8.9	6.1
1–5 years inclusive	18.6	11.9
After 5 years	3.3	1.2
Total operating lease obligations	30.8	19.2

Operating leases are primarily in respect of property, plant and equipment.

Notes to the Consolidated Financial Statements *continued*

24 Employee benefits

Retirement benefit obligations

The Group operates a wide range of retirement benefit arrangements, which are established in accordance with local conditions and practices within the countries concerned. These include funded defined contribution and funded and unfunded defined benefit schemes.

Defined contribution arrangements

The majority of the retirement benefit arrangements operated by the Group are of a defined contribution structure, where the employer contribution and resulting Income Statement charge is fixed at a set level or is a set percentage of employee's pay. Contributions made to defined contribution schemes and charged to the Income Statement totalled £10.9m (2016: £9.3m). In the UK, following the closure of the defined benefit schemes to new entrants, the main scheme for new employees is a defined contribution scheme.

Defined benefit arrangements

The Group operates several funded defined benefit retirement schemes where the benefits are based on employees' length of service. Whilst the Group's primary schemes are in the UK, it also operates other material benefit schemes in the USA as well as less material schemes elsewhere. In funded arrangements, the assets of defined benefit schemes are held in separate trustee-administered funds or similar structures in the countries concerned.

UK defined benefit arrangements

The defined benefit schemes in the UK account for approximately half of the Group's net liability for defined retirement benefit schemes. Spirax-Sarco operates three UK schemes: the Spirax-Sarco Employees Pension Fund, the Spirax-Sarco Executives' Retirement Benefits Scheme and the Watson-Marlow Pension Fund. These are all final salary pension schemes. The UK schemes are closed to new members but are open to future accrual. There is a mix of different inflation-dependent pension increases (in payment and deferment) which vary from member to member according to their membership history and which scheme they are a member of. All three schemes have been set up under UK law and are governed by a Trustee committee, which is responsible for the scheme's investments, administration and management. A funding valuation is carried out for the Trustees of each scheme every three years by an independent firm of actuaries. Depending on the outcome of that valuation a schedule of future contributions is negotiated with Spirax Sarco. Further information on the contribution commitments is shown in the Financial Review on pages 50 to 51.

US defined benefit schemes

The Group operates a pension scheme in the USA which is closed to new entrants but open to future accrual and defines the pension in terms of the highest average pensionable pay for any five consecutive years prior to retirement. No pension increases (in payment and deferment) are offered by this scheme. It also operates a post-retirement medical plan in the USA, which is unfunded, as is typical for these plans.

Principal risks

The pension schemes create a number of risk exposures. Annual increase in benefits are, to a varying extent from scheme to scheme, dependent on inflation so the main uncertainties affecting the level of benefits payable are future inflation levels (including the impact of inflation on future salary increases) and the actual longevity of the membership. Benefits payable will also be influenced by a range of other factors including member decisions on matters such as when to retire and the possibility to draw benefits in different forms. A key risk is that additional contributions are required if the investment returns fall short of those anticipated when setting the contributions to the pension schemes. All pension schemes are regulated by the relevant jurisdictions. These include extensive legislation and regulatory mechanisms that are subject to change and may impact on the Group's pension schemes. The IAS 19 liability measurement known as Defined Benefit Obligation (DBO) and the Service Cost are sensitive to the actuarial assumptions made on a range of demographic and financial matters that are used to project the expected benefit payments, the most important of these assumptions being the future inflation and salary growth levels and the assumptions made about life expectation. The DBO and Service Cost are also very sensitive to the IAS 19 discount rate, which determines the discounted value of the projected benefit payments. The discount rate depends on market yields on high-quality corporate bonds. Investment strategies are set with funding rather than IAS 19 considerations in mind and do not seek to provide a specific hedge against the IAS 19 measurement of DBO. As a result the difference between the market value of the assets and the IAS 19 DBO may be volatile.

Sensitivity analysis to changes in discount rate and inflation are included on page 149.

The financial assumptions used at 31st December were:

	Assumptions weighted by value of liabilities % per annum			
	UK pensions		Overseas pensions and medical	
	2017 %	2016 %	2017 %	2016 %
Rate of increase in salaries	2.6	2.7	3.3	3.3
Rate of increase in pensions	2.9	3.0	1.7	1.7
Rate of price inflation	3.1	3.2	2.3	2.3
Discount rate	2.4	2.6	3.2	3.6
Medical trend rate	n/a	n/a	5.0	5.0

24 Employee benefits *continued*

The mortality assumptions for the material defined benefit schemes at 31st December 2017 and 31st December 2016 were:

Spirax-Sarco Employees Pension Fund	At 31st December 2017: 97% of SAPS S2 base table, with 2016 CMI Core Projection model from 2007, with a long-term trend of 1.25% p.a. At 31st December 2016: SAPS S1 base table, with 2015 CMI Core Projection model from 2002, with a long-term trend of 1.5% p.a.
Spirax-Sarco Executives Retirement Benefits Scheme	At 31st December 2017: 85% of SAPS S2 light base table for males and 96% of SAPS S2 base table for females, with 2016 CMI Core Projection model from 2007, with a long-term trend of 1.25% p.a. At 31st December 2016: SAPS S1 light base table, with 2015 CMI Core Projection model from 2002, with a long-term trend of 1.5% p.a.
Watson Marlow Pension Fund	At 31st December 2017: 120% of SAPS S2 base table, with 2016 CMI Core Projection model from 2007, subject to a long-term trend of 1.50% p.a. At 31st December 2016: 120% of SAPS S2 base table, with 2015 CMI Core Projection model from 2007, subject to a long-term trend of 1.50% p.a.
US Pension Scheme	At 31st December 2016 and 2017: RP-2014 Blue Collar x 110% adjusted back to 2006 with MP-16 Improvement Scale x 0.75

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The amounts recognised in the Consolidated Statement of Financial Position are determined as follows:

	UK pensions		Overseas pensions and medical		Total	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Fair value of schemes' assets	403.6	375.8	53.8	50.3	457.4	426.1
Present value of funded schemes' liabilities	(443.0)	(426.1)	(76.2)	(73.0)	(519.2)	(499.1)
(Deficit) in the funded schemes	(39.4)	(50.3)	(22.4)	(22.7)	(61.8)	(73.0)
Present value of unfunded schemes' liabilities	–	–	(23.8)	(21.2)	(23.8)	(21.2)
Retirement benefit liability recognised in the Consolidated Statement of Financial Position	(39.4)	(50.3)	(46.2)	(43.9)	(85.6)	(94.2)
Related deferred tax asset	6.7	9.2	12.3	14.2	19.0	23.4
Net pension liability	(32.7)	(41.1)	(33.9)	(29.7)	(66.6)	(70.8)

Fair value of scheme assets

	UK pensions		Overseas pensions and medical		Total	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Equities	146.3	159.5	30.9	29.0	177.2	188.5
Bonds	242.0	203.7	13.0	10.3	255.0	214.0
Other	15.3	12.6	9.9	11.0	25.2	23.6
Total market value in aggregate	403.6	375.8	53.8	50.3	457.4	426.1

At 31st December £97.7m (2016: £100.4m) of scheme assets have a quoted market price in an active market of which £46.8m (2016: £52.2m) relates to UK pensions and £50.9m (2016: £48.2m) relates to overseas pensions and medical.

The actual return on plan assets was £41.3million (2016: £79.2 million).

Notes to the Consolidated Financial Statements *continued*

24 Employee benefits *continued*

The movements in the defined benefit obligation (DBO) recognised in the Consolidated Statement of Financial Position during the year were:

	UK pensions		Overseas pensions and medical		Total	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Defined benefit obligation at beginning of year	(426.1)	(345.0)	(94.2)	(74.6)	(520.3)	(419.6)
Current service cost	(7.4)	(6.2)	(2.9)	(2.7)	(10.3)	(8.9)
Past service cost	–	–	0.1	–	0.1	–
Interest cost	(10.7)	(12.7)	(3.2)	(3.1)	(13.9)	(15.8)
Contributions by members	(0.2)	(0.3)	–	–	(0.2)	(0.3)
Remeasurement loss	(4.1)	(75.1)	(5.5)	(2.5)	(9.6)	(77.6)
Actual benefit payments	13.1	11.4	3.8	3.1	16.9	14.5
Acquisition - Gestra Germany	–	–	(1.7)	–	(1.7)	–
Experience gain/(loss)	(7.6)	1.8	(0.9)	(0.2)	(8.5)	1.6
Currency gain/(loss)	–	–	4.5	(14.2)	4.5	(14.2)
Defined benefit obligation at end of year	(443.0)	(426.1)	(100.0)	(94.2)	(543.0)	(520.3)

The movements in the fair value of plan assets during the year were:

	UK pensions		Overseas pensions and medical		Total	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Value of assets at beginning of year	375.8	306.9	50.3	39.0	426.1	345.9
Expected return on assets	9.5	11.4	1.9	1.8	11.4	13.2
Remeasurement gain	24.9	64.4	5.0	1.6	29.9	66.0
Contributions paid by employer	6.3	4.1	3.8	3.2	10.1	7.3
Contributions paid by members	0.2	0.3	–	–	0.2	0.3
Actual benefit payments	(13.1)	(11.3)	(3.8)	(3.1)	(16.9)	(14.4)
Currency (loss)/gain	–	–	(3.4)	7.8	(3.4)	7.8
Value of assets at end of year	403.6	375.8	53.8	50.3	457.4	426.1

The estimated employer contributions to be made in 2018 are £11.5m (2017: £7.0 million).

The history of experience adjustments is as follows:

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Defined benefit obligation at end of year	(543.0)	(520.3)	(419.6)	(426.9)	(385.9)
Fair value of schemes' assets	457.4	426.1	345.9	351.1	313.8
Retirement benefit liability recognised in the Statement of Financial Position	(85.6)	(94.2)	(73.7)	(75.8)	(72.1)
Experience adjustment on schemes' liabilities	(8.5)	1.6	2.4	11.0	(0.9)
As a percentage of schemes' liabilities	1.6%	0.3%	0.6%	2.6%	0.2%
Experience adjustment on schemes' assets	29.9	66.0	(7.2)	21.8	18.2
As a percentage of schemes' assets	6.5%	15.5%	2.1%	6.2%	5.8%

The expense recognised in the Group Income Statement was as follows:

	UK pensions		Overseas pensions and medical		Total	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Current service cost	(7.4)	(6.2)	(2.9)	(2.7)	(10.3)	(8.9)
Past service cost	–	–	0.1	–	0.1	–
Net interest on schemes' liabilities	(1.2)	(1.3)	(1.3)	(1.3)	(2.5)	(2.6)
Total expense recognised in Income Statement	(8.6)	(7.5)	(4.1)	(4.0)	(12.7)	(11.5)

24 Employee benefits *continued*

The expense is recognised in the following line items in the Consolidated Income Statement:

	2017 £m	2016 £m
Operating costs	(10.2)	(8.9)
Net financing expense	(2.5)	(2.6)
Total expense recognised in Income Statement	(12.7)	(11.5)

The gain or loss recognised in the Statement of Comprehensive Income (OCI) was as follows:

	UK pensions		Overseas pensions and medical		Total	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Remeasurement effects recognised in OCI:						
Due to experience on DBO	(7.6)	1.8	(0.9)	(0.2)	(8.5)	1.6
Due to demographic assumption changes in DBO	5.3	–	–	1.2	5.3	1.2
Due to financial assumption changes in DBO	(9.4)	(75.1)	(5.5)	(3.7)	(14.9)	(78.8)
Return on assets	24.9	64.4	5.0	1.6	29.9	66.0
Total remeasurement gain/(loss) recognised in OCI	13.2	(8.9)	(1.4)	(1.1)	11.8	(10.0)
Deferred tax on remeasurement (gain)/loss and change in rate recognised in OCI	(3.1)	1.1	(2.0)	0.8	(5.1)	1.9
Cumulative loss recognised in OCI at beginning of year	(58.5)	(50.7)	(17.2)	(16.9)	(75.7)	(67.6)
Cumulative loss recognised in OCI at end of year	(48.4)	(58.5)	(20.6)	(17.2)	(69.0)	(75.7)

Sensitivity analysis

The effect on the defined benefit obligation at 31st December 2017 of an increase or decrease in key assumptions is as follows:

	UK pensions £m	Overseas pensions and medical £m	Total £m
Increase/(decrease) in pension deficit:			
Discount rate assumption being 0.25% higher	(18.2)	(3.2)	(21.4)
Discount rate assumption being 0.25% lower	23.7	4.1	27.8
Inflation assumption being 0.25% higher	15.0	1.3	16.3
Inflation assumption being 0.25% lower	(14.4)	(1.2)	(15.6)
Mortality assumption life expectancy at age 65 being 1 year higher	15.9	3.5	19.4

The average age of active participants in the UK schemes at 31st December 2017 was 52 years (2016: 51 years) and in the overseas schemes 50 years (2016: 50 years).

Share-based payments

Disclosures of the share-based payments offered to employees are set out below. More detail on each scheme is given in the Annual Report on Remuneration 2017 on pages 88 to 98. The charge to the Income Statement in respect of share-based payments is made up as follows:

	2017 £m	2016 £m
Performance Share Plan	3.7	1.0
Employee Share Ownership Plan	0.9	0.9
Total expense recognised in Income Statement	4.6	1.9

Share option scheme

The Group operates equity settled share option schemes for employees, although no grants have been made since 2011 because awards have been made using the Group's Performance Share Plan instead. Awards were determined by the Remuneration Committee whose objective was to align the interests of employees with those of shareholders by giving an incentive linked to added shareholder value. Options are subject to performance conditions, which if met make the options exercisable between the third and tenth anniversary of the date of grant. For options granted before 2007 the performance condition is an increase in earnings per share (EPS) of more than 9% greater than the increase in the UK Retail Price Index over a consecutive three-year period between grant and ten years from date of grant. From 2007 the performance condition needs to be met over the three-year period from 1st January prior to the date of the grant. If the condition is not met at the end of the three-year period the option will lapse.

The share options granted have been measured using the Present Economic Value (PEV) valuation methodology. The relevant disclosures in respect of the share option scheme grants are set out on the following page.

Notes to the Consolidated Financial Statements *continued*

24 Employee benefits *continued*

	2009 Grant	2010 Grant	2011 Grant
Grant date	11th March	26th March	18th March
Exercise price	765.0p	1366.0p	1873.0p
Number of employees	70	75	87
Shares under option	223,500	290,000	350,000
Vesting period	3 years	3 years	3 years
Expected volatility	25%	25%	25%
Risk-free interest rate	2.5%	3.5%	3.1%
Expected dividend yield	3.5%	2.5%	2.5%
Fair value	145.5p	341.7p	442.9p

The number and weighted average exercise prices of share options are as follows:

Option (exercise price)	Outstanding at start of year	Granted during year	Exercised during year	Lapsed during year	Outstanding at end of year
2007 grant (1019.6p)	11,044	–	(11,044)	–	–
2008 grant (959.0p)	16,140	–	(5,140)	–	11,000
2009 grant (765.0p)	7,075	–	(2,499)	–	4,576
2010 grant (1366.0p)	24,500	–	–	–	24,500
2011 grant (1873.0p)	72,001	–	(10,500)	–	61,501
	130,760	–	(29,183)	–	101,577
Weighted average exercise price	£15.33		£12.94		£16.02
Weighted average contractual life remaining					2.6

Performance conditions in respect of all exercisable shares have been met. The number of shares exercisable at 31st December 2017 is 101,577 (2016: 130,760). The weighted average share price during the period was £52.55 (2016: £37.99).

Performance Share Plan

Awards under the Performance Share Plan are made to Executive Directors and other senior managers and take the form of contingent rights to acquire shares, subject to the satisfaction of a performance target. To the extent that they vest, awards may be satisfied in cash, in shares or an option over shares. The performance criteria is split into two separate parts. For awards granted from 2014 40% of the award is based on a TSR measure where the performance target is based on the Company's total shareholder return (TSR) relative to the TSR of other companies included in the FTSE All-Share Industrial Engineering Sector over a three-year performance period where awards will vest on a sliding scale. All shares within an award will vest if the Company's TSR is at or above the upper quartile. 25% will vest if the TSR is at the median and the number of shares that will vest will be calculated pro-rata on a straight line basis between 25% and 100% if the Company's TSR falls between the median and the upper quartile. No shares will vest if the Company's TSR is below the median. For awards granted from 2014 the second part, amounting to 60% of the award, is subject to achievement of a target based on aggregate EPS over a three-year performance period. 25% will vest if the compound growth in EPS is equal to the growth in the UK Retail Price Index plus 3% and 100% will vest if the compound growth in EPS is equal to or exceeds the growth in the UK Retail Price Index plus 9%, there is pro-rata vesting for actual growth between these rates. Awards made prior to 2014 had a weighting of 60% TSR and 40% EPS. From 2015 a change has been made to measure EPS on a point to point basis over the three-year performance period. From 2016 EPS growth is measured against the growth of global industrial production (IP), as published by CHR Economics with thresholds of plus 2% and plus 8%.

Shares awarded under the Performance Share Plan have been valued using the Monte Carlo simulation valuation methodology. The relevant disclosures in respect of the Performance Share Plan grants are set out below.

	2013 Grant	2014 Grant	2015 Grant	2016 Grant	2017 Grant	2017 Grant
Grant date	8th March	14th March	11th June	5th April	26th May	3rd July
Mid market share price at grant date	2615.0p	2873.0p	3460.0p	3550.0p	5256.0p	5390.0p
Number of employees	105	124	101	141	116	12
Shares under scheme	168,708	170,521	140,090	152,440	119,651	17,350
Vesting period	3 years	3 years	3 years	3 years	3 years	3 years
Probability of vesting	62.5%	75.2%	71.5%	70.8%	73.1%	73.1%
Fair value	1634.4p	2160.5p	2473.9p	2513.4p	3842.1p	3940.1p

24 Employee benefits *continued*

Employee Share Ownership Plan

UK employees are eligible to participate in the Employee Share Ownership Plan (ESOP). The aim of the ESOP is to encourage increased shareholding in the Company by all UK employees and so there are no performance conditions. Employees are invited to join the ESOP when an offer is made each year. Individuals save for 12 months during the accumulation period and subscribe for shares at the lower of the price at the beginning and the end of the accumulation period under HMRC rules. The Company provides a matching share for each share purchased by the individual.

Shares issued under the ESOP have been measured using the Present Economic Value (PEV) valuation methodology. The relevant disclosures in respect of the Employee Share Ownership Plans are set out below.

	2013 Grant	2014 Grant	2015 Grant	2016 Grant	2017 Grant
Grant date	1st October	1st October	1st October	1st October	1st October
Exercise price	3018.0p	2821.3p	2797.0p	4477.3p	5496.7p
Number of employees	1,015	1,064	1,038	1,040	1,229
Shares under scheme	29,610	34,204	34,449	22,173	22,411
Vesting period	3 years	3 years	3 years	3 years	3 years
Expected volatility	25%	20%	21%	21%	21%
Risk free interest rate	0.4%	0.6%	0.4%	0.1%	0.4%
Expected dividend yield	2.5%	2.5%	2.5%	2.5%	2.3%
Fair value	3208.1p	2948.3p	2931.3p	4696.7p	5799.0p

The accumulation period for the 2017 ESOP ends in September 2018, therefore some figures are projections.

25 Analysis of changes in net cash/(debt), including changes in liabilities arising from financing activities

	At 1st January 2017 £m	Cash flow £m	Acquired debt £m	Exchange movement £m	At 31st December 2017 £m
Current portion of long-term borrowings	(0.2)				(49.3)
Non-current portion of long-term borrowings	(58.2)				(455.9)
Short-term borrowings	(33.0)				(20.0)
Total borrowings	(91.4)				(525.2)
Comprising:					
Borrowings	(91.0)	(298.5)	(131.4)	(4.0)	(524.9)
Finance leases	(0.4)	0.1	–	–	(0.3)
	(91.4)	(298.4)	(131.4)	(4.0)	(525.2)
Cash at bank	119.2	26.0	–	6.9	152.1
Bank overdrafts	(0.4)	(0.1)	–	–	(0.5)
Net cash and cash equivalents	118.8	25.9	–	6.9	151.6
Net cash/(debt)	27.4	(272.5)	(131.4)	2.9	(373.6)

The cash flow for borrowings included acquisition related debt of a new €160m term loan, a new US\$200m term loan that was repaid by US\$33.3m in the year, a €250m bridge loan that was repaid in the year and €225m of private placement notes that were issued in the year.

The present value of finance lease payments are shown in Note 19 on page 143.

26 Related party transactions

	2017 £m	2016 £m
Sales to Associated companies	–	–

Transactions with Directors are disclosed separately in Note 8 and are shown in the Annual Report on Remuneration 2017 on pages 88 to 98.

Notes to the Consolidated Financial Statements *continued*

27 Purchase of businesses

The provisional fair value accounting is shown below:

	Acquisitions		
	Gestra fair value £m	Chromalox fair value £m	Total fair value £m
2017			
Non-current assets:			
Property, plant and equipment	10.5	16.1	26.6
Acquired intangibles	54.9	163.8	218.7
Software and other intangibles	0.2	1.6	1.8
Deferred tax assets	2.0	3.8	5.8
	67.6	185.3	252.9
Current assets:			
Inventories	12.0	21.3	33.3
Trade receivables	11.6	20.6	32.2
Other receivables	0.2	5.9	6.1
Cash	18.4	17.6	36.0
	42.2	65.4	107.6
Total assets	109.8	250.7	360.5
Current liabilities:			
Trade payables	2.1	14.6	16.7
Other payables, accruals and provisions	5.8	8.7	14.5
	7.9	23.3	31.2
Non-current liabilities:			
Long-term borrowings	–	131.4	131.4
Deferred tax liabilities	19.6	66.0	85.6
Post retirement benefit plans	1.7	–	1.7
	21.3	197.4	218.7
Total liabilities	29.2	220.7	249.9
Total net assets	80.6	30.0	110.6
Goodwill	90.8	177.2	268.0
Total	171.4	207.2	378.6
Satisfied by:			
Cash paid	171.4	207.2	378.6
Deferred consideration	–	–	–
	171.4	207.2	378.6
Cash outflow for acquired businesses in the Statement of Cash Flows (page 124):			
Cash paid for businesses acquired in the period and debt repaid on the acquisition date	171.4	338.6	510.0
Debt repaid on acquisition date	–	(131.4)	(131.4)
Cash paid for businesses acquired in the period	171.4	207.2	378.6
Less cash acquired	(18.4)	(17.6)	(36.0)
Net cash outflow	153.0	189.6	342.6

- On a debt-free cash-free basis the cash outflow for acquisitions was £484.3m consisting of £378.6m paid to the vendors, £131.4m of Chromalox debt repaid on the acquisition date, £10.3m of acquisition costs less cash acquired of £36.0m.
- The acquisition of 100% of Chromalox Inc. and associated businesses was completed on 3rd July 2017. The acquisition method of accounting has been used. Consideration of £338.6m was paid on completion. Separately identified intangibles are recorded as part of the provisional fair value adjustment. The acquired intangibles relate to brand names and trademarks, manufacturing designs and core technology and customer relationships. The goodwill recognised represents the skilled workforce acquired and the opportunity to achieve synergies from being part of a larger Group. Goodwill arising is not expected to be tax deductible. The acquisition has generated £75m of revenue and £14m of adjusted pre-tax profit since acquisition. Had the acquisition been made on the 1st January 2017, the Chromalox revenue and adjusted pre-tax profit would have been approximately £146m and £26m respectively. Chromalox, which has its headquarters in Pittsburgh, USA, is a well-established provider of thermal energy management solutions for industrial process heating and temperature management. Chromalox is highly complementary to our Steam Specialties business with the decision between using steam or electricity as a heating medium being driven by differing needs of the application or customer circumstances.

27 Purchase of businesses *continued*

- The acquisition of 99.96% of Gestra AG and associated businesses (Gestra) was completed on the 2nd May 2017. The acquisition method of accounting has been used. Consideration of £171.4m was paid on completion. Separately identified intangibles are recorded as part of the provisional fair value adjustment. The acquired intangibles relate to brand names and trademarks, manufacturing designs and core technology and customer relationships. The Goodwill recognised represents the skilled workforce acquired and the opportunity to achieve synergies from being part of a larger Group. The acquisition has generated £51m of revenue and £8m of adjusted pre-tax profit since acquisition. Had the acquisition been made on the 1st January 2017, the Gestra revenue and adjusted pre-tax profit would have been approximately £77m and £11m respectively. Gestra, which has its headquarters in Bremen, Germany, is a technology leader in advanced industrial boiler control systems and specialises in the design and production of valves and control systems for steam and fluid process control. Gestra is highly complementary to the Spirax Sarco Steam Specialties business and will enhance and accelerate the implementation of Spirax Sarco's strategy for growth, as a result of its well-developed capabilities in a wide range of industries and applications.
- During the period the fair value of the assets acquired as part of the acquisition of the process control valve manufacturer, Hiter Industria e Comercio de Controles Termo-Hidraulicos Ltda (Hiter) on 1st July 2016 were reassessed. The outcome of the reassessment was an increase to goodwill of £1.1 million. This is not included in the table above but is shown as an addition to goodwill in Note 14 on page 139.
- £10.3 million of acquisition costs were incurred during the year (2016: £0.5m).

	Acquisitions		
	Book value £m	Fair value adj £m	Fair value £m
2016			
Non-current assets:			
Property, plant and equipment	6.9	2.1	9.0
Intangibles	–	26.8	26.8
	6.9	28.9	35.8
Current assets:			
Inventories	6.8	(0.3)	6.5
Trade receivables	3.8	–	3.8
Other receivables	0.4	–	0.4
Total assets	17.9	28.6	46.5
Current liabilities:			
Trade payables	2.3	–	2.3
Deferred tax	–	4.8	4.8
Total liabilities	2.3	4.8	7.1
Total net assets	15.6	23.8	39.4
Goodwill			27.1
Total			66.5
Satisfied by:			
Cash paid			66.5
Deferred consideration			–
			66.5
Cash outflow for acquired businesses in the Statement of Cash Flows (page 124):			
Cash paid for businesses acquired in the period			66.5
Less cash acquired			–
Deferred consideration for businesses acquired in prior years			–
Net cash outflow			66.5

- The acquisition of the assets of the process control valve manufacturer Hiter Industria e Comercio de Controles Termo-Hidraulicos Ltda (Hiter) was completed on 1st July 2016. The acquisition method of accounting has been used. Consideration of £3.9m was paid on completion. Separately identified intangibles are recorded as part of the fair value adjustment. The goodwill recognised represents the opportunity to achieve synergies from being part of the Group and to sell to a wider customer base. Goodwill arising is not expected to be tax deductible. During 2016, Hiter generated £0.7m of revenue and a small pre-tax loss post-acquisition. Had the acquisition been made on 1st January 2016, the revenue and pre-tax profit for 2016 would have been approximately double the figures disclosed above.
- The acquisition of 100% of the share capital of Aflex Hose Limited and its subsidiary Aflex Hose USA LLC was completed on 30th November 2016. The acquisition method of accounting has been used. Consideration of £62.5m was paid on completion. Separately identified intangibles are recorded as part of the provisional fair value adjustment. The goodwill recognised represents the skilled workforce acquired and the opportunity to achieve synergies from being part of a larger Group. Goodwill arising is not expected to be tax deductible. During 2016, the acquisition generated £2.0m of revenue and £0.5m of pre-tax profit post-acquisition. Had the acquisition been made on 1st January 2016, the 2016 revenue and pre-tax profit would have been approximately twelve times the figures disclosed. Aflex is highly synergistic with, and a natural extension to, the Watson-Marlow Fluid Technology Group (WMFTG) fluid path product portfolio and further strengthens WMFTG's already strong global presence in the Biotechnology, Pharmaceutical, Industrial, Chemical and Food & Beverage sectors. Aflex's premium PTFE-lined hoses complement our FlowSmart silicone hoses and WMFTG's other fluid path products, as part of our strategy to provide a complete value-added hose and tubing range.

Notes to the Consolidated Financial Statements *continued*

27 Purchase of businesses *continued*

3. During 2016 the fair value of the assets acquired as part of the acquisition of the steam distribution business from Casaval S.A on 25th September 2015 were reassessed. The outcome of the reassessment was an increase to Goodwill of £0.5 million. This is not included in the table above but is shown as an addition to goodwill in Note 14 on page 139.
4. £0.5m of acquisition related costs were incurred during 2016. The acquired intangibles relate to manufacturing designs and core technology, brand names and trademarks, customer relationships and non-compete undertakings.

28 Derivatives and other financial instruments

The Group does not enter into significant derivative transactions. The Group's principal financial instruments comprise loans, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are credit risk, interest rate risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

The Group sells products and services to customers around the world and its customer base is extremely varied in size and industry sector. The Group operates credit control policies to assess customers' credit ratings and provides for any debt that is identified as non-collectable.

Interest rate risk

The Group borrows in desired currencies at both fixed and floating rates of interest as appropriate to the purposes of the borrowing.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, loans, facilities and finance leases as appropriate.

Foreign currency risk

The Group has operations around the world and therefore its Consolidated Statement of Financial Position can be affected significantly by movements in the rate of exchange between sterling and various other currencies particularly the US dollar and euro. The Group seeks to mitigate the effect of this structural currency exposure by borrowing in these currencies where appropriate while maintaining a low cost of debt.

The Group also has transactional currency exposures principally as a result of trading between Group companies. Such exposures arise from sales or purchases by an operating unit in currencies other than the unit's functional currency. Net cash flows between any two currencies of less than £1.0 million per annum would not usually be considered sufficiently material to warrant forward cover. Forward cover is not taken out more than 24 months in advance or for more than 90% of the next 12 months and 60% of the following 12 months' forecast exposure.

Fair values

The following table compares amounts and fair values of the Group's financial assets and liabilities:

	2017 Carrying value £m	2017 Fair value £m	2016 Carrying value £m	2016 Fair value £m
Financial assets:				
Cash and cash equivalents	152.1	152.1	119.2	119.2
Trade and other receivables	250.8	250.8	197.8	197.8
Total financial assets	402.9	402.9	317.0	317.0

28 Derivatives and other financial instruments *continued*

	2017 Carrying value £m	2017 Fair value £m	2016 Carrying value £m	2016 Fair value £m
Financial liabilities:				
Loans	524.9	524.9	91.0	91.0
Finance lease obligations	0.3	0.3	0.4	0.4
Bank overdrafts	0.5	0.5	0.4	0.4
Trade payables	51.3	51.3	29.6	29.6
Other payables	39.8	39.8	36.9	36.9
Total financial liabilities	616.8	616.8	158.3	158.3

There are no other assets or liabilities measured at fair value on a recurring or non-recurring basis for which fair value is disclosed.

Derivative financial instruments are measured at fair value. Fair value of derivative financial instruments are calculated based on discounted cash flow analysis using appropriate market information for the duration of the instruments.

Financial instruments fair value disclosure

Fair value measurements are classified into three levels, depending on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets and liabilities;
- Level 2 fair value measurements are those derived from other observable inputs for the asset or liability; and
- Level 3 fair value measurements are those derived from valuation techniques using inputs that are not based on observable market data.

We consider that the derivative financial instruments fall into Level 2.

Interest rate risk profile of financial liabilities

The interest rate profile of the financial liabilities of the Group as at 31st December was as follows:

	Total £m	Fixed rate financial liabilities £m	Floating rate financial liabilities £m	Financial liabilities on which no interest is paid £m
2017				
Euro	366.8	200.6	142.3	23.9
US dollar	140.2	0.1	124.0	16.1
Sterling	57.2	–	46.5	10.7
Renminbi	26.7	13.6	–	13.1
Other	25.9	0.3	0.1	25.5
Group total	616.8	214.6	312.9	89.3

	Total £m	Fixed rate financial liabilities £m	Floating rate financial liabilities £m	Financial liabilities on which no interest is paid £m
2016				
Euro	18.3	5.0	–	13.3
US dollar	5.7	–	2.3	3.4
Sterling	74.2	–	66.3	7.9
Renminbi	31.6	17.5	–	14.1
Other	28.5	0.6	5.2	22.7
Group total	158.3	23.1	73.8	61.4

Notes to the Consolidated Financial Statements *continued*

28 Derivatives and other financial instruments *continued*

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	2017 Carrying value £m	2016 Carrying value £m
Secured private placement	€	1.1%	2023	199.7	–
Secured bank facility	€	0.7%	2021	142.0	–
Secured bank facility	\$	2.2%	2020	123.2	–
Secured bank facility	£	1.0%	2019	40.0	58.0
Unsecured bank facility	CNY	4.2%	2018	13.6	17.5
Secured bank facility	£	1.4%	2018	5.5	7.5
Unsecured bank facility	\$	2.1%	2018	0.9	2.2
Unsecured bank facility	€	1.3%	2018	0.3	0.4
Unsecured bank facility	£	1.8%	2018	0.2	–
Finance leases	CAD	4.0%	2018-2021	0.1	0.1
Finance leases	IDR	8.3%	2017-2022	0.1	0.1
Finance leases	S\$	2.8%	2017-2021	0.1	0.1
Unsecured bank facility	Won	2.8%	2018	–	0.6
Unsecured bank facility	YEN	1.2%	2017	–	5.2
Finance leases	£	–	2017	–	0.1
Total outstanding loans				525.7	91.8

The £40.0 million bank facility maturing in 2019, the euro denominated bank facility for £142.0 million, the US dollar denominated bank facility for £123.2 million and the euro denominated private placement for £199.7 million are secured on the assets of various Group companies. Covenant tests are performed twice annually at 30th June and 31st December. The Directors have prepared an analysis and conclude that the covenants are met.

The weighted average interest rate paid during the year was 1.3% (2016: 1.6%).

Interest rate risk profile of financial assets

The interest rate profile of the financial assets of the Group as at 31st December was as follows:

	Total £m	Fixed rate financial assets £m	Floating rate financial assets £m	Financial assets on which no interest is earned £m
2017				
Sterling	27.0	–	2.4	24.6
Euro	125.0	2.8	15.9	106.3
US dollar	80.2	–	3.0	77.2
Renminbi	41.3	0.7	13.9	26.7
Other	129.4	5.1	17.4	106.9
Group total	402.9	8.6	52.6	341.7

	Total £m	Fixed rate financial assets £m	Floating rate financial assets £m	Financial assets on which no interest is earned £m
2016				
Sterling	20.8	–	0.9	19.9
Euro	78.6	–	12.1	66.5
US dollar	54.5	0.1	9.1	45.3
Renminbi	40.3	0.9	15.9	23.5
Other	122.8	7.7	14.7	100.4
Group total	317.0	8.7	52.7	255.6

Financial assets on which no interest is earned comprise trade and other receivables and cash in hand.

Floating and fixed rate financial assets comprise cash at bank or placed on money market deposit mainly at call and three month rates. The average rate of interest received on sterling deposits during the year was £nil (2016: £nil).

28 Derivatives and other financial instruments *continued*

Currency exposures

As explained on page 154, the Group's objectives in managing the currency exposures arising from its net investment overseas (in other words, its structural currency exposures) are to maintain a low cost of debt while partially hedging against currency depreciation. All gains and losses arising from these structural currency exposures are recognised in the Consolidated Statement of Comprehensive Income.

Transactional (or non-structural) exposures give rise to net currency gains and losses that are recognised in the Consolidated Income Statement. Such exposures include the monetary assets and monetary liabilities in the Consolidated Statement of Financial Position that are not denominated in the operating (or functional) currency of the operating unit involved. At 31st December 2017 the currency exposures in respect of the euro was a net monetary liability of £191.3m (2016: £3.4m net monetary asset) and in respect of the US dollar a net monetary liability of £101.1m (2016: net monetary asset £16.6m).

At 31st December 2017, the percentage of debt to net assets, excluding debt was 30% (2016: nil) for the euro, 11% (2016: nil) for the US dollar 1% (2016: 3%) for the Chinese renminbi and nil (2016: 1%) for Japanese yen.

Maturity of financial liabilities

The Group's financial liabilities at 31st December mature in the following periods:

	Trade and other payables £m	Overdrafts £m	Short-term borrowings £m	Finance leases £m	Long-term borrowings £m	Total £m
2017						
In six months or less, or on demand	89.3	0.3	17.8	0.1	27.6	135.1
In more than six months but no more than 12	1.8	0.2	2.2	0.1	51.9	56.2
In more than one year but no more than two	–	–	–	0.1	69.1	69.2
In more than two years but no more than three	–	–	–	–	28.0	28.0
In more than three years but no more than four	–	–	–	–	144.4	144.4
In more than four years but no more than five	–	–	–	–	2.1	2.1
In more than five years	–	–	–	–	202.0	202.0
Total contractual cash flows	91.1	0.5	20.0	0.3	525.1	637.0
Statement of Financial Position values	91.1	0.5	20.0	0.3	504.9	616.8

	Trade and other payables £m	Overdrafts £m	Short-term borrowings £m	Finance leases £m	Long-term borrowings £m	Total £m
2016						
In six months or less, or on demand	65.6	0.4	27.2	0.1	0.1	93.4
In more than six months but no more than 12	0.8	–	5.8	0.1	0.1	6.8
In more than one year but no more than two	0.1	–	–	0.1	58.2	58.4
In more than two years but no more than three	–	–	–	0.1	–	0.1
In more than three years but no more than four	–	–	–	–	–	–
In more than four years but no more than five	–	–	–	–	–	–
In more than five years	–	–	–	–	–	–
Total contractual cash flows	66.5	0.4	33.0	0.4	58.4	158.7
Statement of Financial Position values	66.5	0.4	33.0	0.4	58.0	158.3

Cash flow hedges

The Group uses forward currency contracts to manage its exposure to movements in foreign exchange rates. The forward contracts are designated as hedging instruments in a cash flow hedging relationship. At 31st December 2017 the Group had contracts outstanding to purchase £1.2m (2016: £nil), and €0.5m (2016: €nil) with US dollars, £1.5m (2016: £1.0m) with Danish krone, £3.8m (2016: £8.4m) with euros, £nil (2016: £0.3m) with Japanese yen, £0.6m (2016: £0.2m) with Korean won, £0.2m (2016: £0.1m) with Canadian dollars and £nil (2016: £0.1m) with Czech koruna. The fair values at the end of the reporting period were an asset of £0.2m (2016: £0.2m asset). The fair value of cash flow hedges falls into the Level 2 category of the fair value hierarchy in accordance with IFRS 7.

The fair value of derivative financial instruments is estimated by discounting the future contracted cash flow using readily available market data.

The contractual cash flows on forward currency contracts at the reporting date are shown on page 158, classified by maturity. The cash flows shown are on a gross basis and are not discounted.

Notes to the Consolidated Financial Statements *continued*

28 Derivatives and other financial instruments *continued*

	Less than 6 months £m	6 to 12 months £m	More than 12 months £m	Total £m
2017				
(Sale)/purchase contracts:				
Sterling	4.0	3.3	–	7.3
Euro	(1.6)	(1.8)	–	(3.4)
US dollar	(0.8)	(0.8)	–	(1.6)
Danish krone	(0.8)	(0.7)	–	(1.5)
Other	(0.8)	–	–	(0.8)
Total contractual cash flows	–	–	–	–
	Less than 6 months £m	6 to 12 months £m	More than 12 months £m	Total £m
2016				
(Sale)/purchase contracts:				
Sterling	5.6	4.5	–	10.1
Euro	(4.5)	(3.9)	–	(8.4)
US dollar	–	–	–	–
Danish krone	(0.5)	(0.5)	–	(1.0)
Other	(0.6)	(0.1)	–	(0.7)
Total contractual cash flows	–	–	–	–

It is anticipated that the cash flows will take place at the same time as the corresponding forward contract matures. At this time the amount deferred in equity will be reclassified to profit or loss.

All forecast transactions which have been subject to hedge accounting during the year have occurred or are still expected to occur.

A profit on derivative financial instruments of £0.2m (2016: £0.4m) was recognised in other comprehensive income during the period.

No amount (2016: £nil) was removed from equity during the period and included in the initial cost or other carrying amount of a non-financial asset or non-financial liability whose acquisition or incurrence was a hedged highly probable forecast transaction.

As at 31st December 2017 no ineffectiveness has been recognised in profit or loss arising from hedging foreign currency transactions.

Borrowing facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available at 31st December in respect of which all conditions precedent had been met at that date were as follows:

	2017 £m	2016 £m
Expiring in one year or less	39.9	14.6
Expiring in more than one year but no more than two years	70.0	52.0
Expiring in more than two years but no more than three years	–	–
Expiring in more than three years	–	–
Total Group undrawn committed facilities	109.9	66.6

Fair values of financial assets and financial liabilities

Fair values of financial assets and liabilities at 31st December 2017 are not materially different from book values due to their size or the fact that they were at short-term rates of interest. Fair values have been assessed as follows:

– Derivatives

Forward exchange contracts are marked to market by discounting the future contracted cash flows using readily available market data.

– Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

– Finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements. The estimated fair values reflect change in interest rates.

– Trade and other receivables/payables

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

28 Derivatives and other financial instruments *continued*

Sensitivity analysis

In managing interest rate and currency risks, the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings. At the year end borrowings totalled £525.7m (2016: £91.8m). At 31st December 2017, it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit after tax and equity by approximately £1.5m (2016: £nil).

For the year ended 31st December 2017, it is estimated that a decrease of one percentage point in the value of sterling weighted in relation to the Group's profit and trading flows would have increased the Group's profit before tax by approximately £1.8m (2016: £1.5m). The effect can be very different between years due to the weighting of different currency movements. Forward exchange contracts have been included in this calculation.

The credit risk profile of trade receivables

The ageing of trade receivables at the reporting date was:

	Gross 2017 £m	Impairment 2017 £m	Gross 2016 £m	Impairment 2016 £m
Not past due date	153.7	(0.4)	124.1	(0.3)
0–30 days past due date	43.0	(0.1)	35.5	–
31–90 days past due date	25.6	(0.5)	19.1	(0.4)
91 days to one year past due date	15.2	(1.5)	10.8	(3.3)
More than one year	9.6	(7.1)	8.2	(8.2)
Group total	247.1	(9.6)	197.7	(12.2)

Based on past experience, the Group believes no further impairment allowance is required for receivables that are past their due date. Other than trade receivables there are no financial assets that are past their due date at 31st December 2017.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2017 £m	2016 £m
Balance at 1st January	12.2	10.3
Additional impairment	3.1	1.9
Amounts written off as uncollectable	(1.7)	(1.0)
Amounts recovered	(0.2)	(0.4)
Impairment losses reversed	(3.7)	(0.3)
Exchange differences	(0.1)	1.7
Balance at 31st December	9.6	12.2



Spirax-Sarco Engineering plc
headquarters, Cheltenham, UK

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Company Statement of Financial Position

at 31st December 2017

	Notes	2017 £m	2016 £m
Assets			
Non-current assets			
Property, plant and equipment	11	8.2	8.2
Loans to subsidiaries	3/9	272.0	–
Investment in subsidiaries	2	269.4	217.3
Investment in Associate		–	0.9
Deferred tax assets	6	1.2	0.9
Post-retirement benefits	7	4.3	4.7
		555.1	232.0
Current assets			
Due from subsidiaries	3/9	234.1	186.3
Other current assets	4	7.7	5.3
Cash and cash equivalents		0.7	0.4
		242.5	192.0
Total assets		797.6	424.0
Equity and liabilities			
Current liabilities			
Trade and other payables	5	4.6	3.8
Current portion of long-term borrowings	10	49.3	–
Short-term borrowings		5.7	7.5
		59.6	11.3
Net current assets		182.9	180.7
Non-current liabilities			
Long-term borrowings	10	313.6	58.0
Deferred tax liabilities	6	0.7	0.8
Due to subsidiaries	9	6.4	16.5
		320.7	75.3
Total liabilities		380.3	86.6
Net assets		417.3	337.4
Equity			
Share capital	8	19.8	19.8
Share premium account		75.1	72.7
Other reserves	8	12.2	8.2
Retained earnings		310.2	236.7
Equity shareholders' funds		417.3	337.4
Total equity		417.3	337.4
Total equity and liabilities		797.6	424.0

The loss before dividends received was £22.7m (2016: £10.4m). Dividends from subsidiary undertakings of £154.6m (2016: £107.1m) are excluded from this amount.

These Financial Statements of Spirax-Sarco Engineering plc, company number 00596337 were approved by the Board of Directors and authorised for issue on 14th March 2018 and signed on its behalf by:

N.J. Anderson **K.J. Boyd** Directors

Company Statement of Changes in Equity

for the year ended 31st December 2017

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total equity £m
Balance at 1st January 2017	19.8	72.7	8.2	236.7	337.4
Profit for the year	–	–	–	131.9	131.9
Other comprehensive (expense)/income:					
Remeasurement loss on post-retirement benefits	–	–	–	(0.5)	(0.5)
Deferred tax on remeasurement loss on post-retirement benefits	–	–	–	0.1	0.1
Total other comprehensive expense for the year	–	–	–	(0.4)	(0.4)
Total comprehensive income for the year	–	–	–	131.5	131.5
Contributions by and distributions to owners of the Company:					
Dividends paid	–	–	–	(58.1)	(58.1)
Equity settled share plans net of tax	–	–	–	0.1	0.1
Issue of share capital	–	2.4	–	–	2.4
Employee Benefit Trust shares	–	–	1.9	–	1.9
Investment in subsidiaries in relation to share options granted	–	–	2.1	–	2.1
Balance at 31st December 2017	19.8	75.1	12.2	310.2	417.3

For the year ended 31st December 2016

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total equity £m
Balance at 1st January 2016	19.7	69.7	6.3	193.7	289.4
Profit for the year	–	–	–	96.7	96.7
Other comprehensive (expense)/income:					
Remeasurement gain on post-retirement benefits	–	–	–	1.0	1.0
Deferred tax on remeasurement gain on post-retirement benefits	–	–	–	(0.1)	(0.1)
Total other comprehensive income for the year	–	–	–	0.9	0.9
Total comprehensive income for the year	–	–	–	97.6	97.6
Contributions by and distributions to owners of the Company:					
Dividends paid	–	–	–	(51.9)	(51.9)
Equity settled share plans net of tax	–	–	–	(2.7)	(2.7)
Issue of share capital	–	3.0	–	–	3.0
Employee Benefit Trust shares	0.1	–	1.3	–	1.4
Investment in subsidiaries in relation to share options granted	–	–	0.6	–	0.6
Balance at 31st December 2016	19.8	72.7	8.2	236.7	337.4

Other reserves represent the Company's share-based payments, capital redemption and Employee Benefit Trust reserves (see Note 8).

The Notes on pages 163 to 169 form an integral part of the Financial Statements.

Notes to the Company Financial Statements

1 Accounting policies

The separate Financial Statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under FRS 100. Accordingly the Company has adopted FRS 101: Reduced Disclosure Framework. As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments and the presentation of a Cash Flow Statement. Where relevant, equivalent disclosures have been given in the Consolidated Financial Statements.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own Income Statement. As permitted by the audit fee disclosure regulations, disclosure of non-audit fees information is not included in respect of the Company.

The Company's accounting policies are the same as those set out in Note 1 of the Consolidated Financial Statements, except as noted below.

The Company's critical judgements and key sources of estimation uncertainty relate to the selection of key assumptions for assessing post-retirement defined benefit obligations and to the judgements relating to the need for impairment to the carrying value of investments. The defined benefit obligation judgement is consistent with the disclosures in Note 1 of the Consolidated Financial Statements.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

Loans to or from other Group undertakings and all other payables and receivables are initially recorded at fair value, which is generally the proceeds received. They are then subsequently carried at amortised cost.

2 Investments in subsidiaries

	2017 £m	2016 £m
Cost:		
At 1st January	217.3	216.7
Share options issued to subsidiary company employees	2.1	0.6
Additions	50.0	–
At 31st December	269.4	217.3

Investments are stated at cost less provisions for any impairment in value.

Additions in the year relate to investments in Spirax-Sarco Overseas Limited (£32.4m), Spirax-Sarco Investments Ltd (£15.8m), Spirax-Sarco Limited (£1.5m), Watson-Marlow LLC (£0.2m) and Spirax-Sarco Engineering LLC (£0.1m).

Details relating to subsidiary undertakings are given on pages 171 to 175. Except where stated all classes of shares were 100% owned by the Group at 31st December 2017. The country of incorporation of the principal Group companies is the same as the country of operation with the exception of companies operating in the United Kingdom which are incorporated in Great Britain. All operate in steam, electrical thermal energy solutions, fluid path technologies or peristaltic pumping markets except those companies identified as a holding company on pages 171 to 175.

3 Loans to subsidiaries

	2017 £m	2016 £m
Cost:		
At 1st January	–	–
Advances	334.5	–
Repayments	(18.0)	–
Exchange adjustment	4.8	–
At 31st December	321.3	–

The terms and conditions of loans to subsidiaries at 31st December 2017 were as follows:

	Currency	Nominal interest rate	Year of maturity	Carrying value £m
Spirax-Sarco Overseas Limited	€	1.10%	2023	198.1
Spirax-Sarco Investments Limited	\$	2.20%	2020	123.2
Total loans to subsidiaries				321.3
Due before 31st December 2018				49.3
Due after 31st December 2018				272.0

Notes to the Company Financial Statements *continued*

4 Other current assets

	2017 £m	2016 £m
Prepayments and accrued income	7.7	5.3
Total other current assets	7.7	5.3

5 Trade and other payables

	2017 £m	2016 £m
Accruals	4.6	3.8
Total trade and other payables	4.6	3.8

6 Deferred tax assets and liabilities

Movement in deferred tax during the year 2017

	1st January 2017 £m	Recognised in income £m	Recognised in OCI £m	Recognised in equity £m	31st December 2017 £m
Other temporary differences (asset)	0.9	0.3	–	–	1.2
Pensions (liability)	(0.8)	–	0.1	–	(0.7)
Company total	0.1	0.3	0.1	–	0.5

Movement in deferred tax during the year 2016

	1st January 2016 £m	Recognised in income £m	Recognised in OCI £m	Recognised in equity £m	31st December 2016 £m
Other temporary differences (asset)	0.9	–	–	–	0.9
Pensions (liability)	(0.6)	(0.1)	(0.1)	–	(0.8)
Company total	0.3	(0.1)	(0.1)	–	0.1

7 Employee benefits

Pension plans

The Company is accounting for pension costs in accordance with International Accounting Standard 19.

The disclosures shown here are in respect of the Company's defined benefit obligations. Other plans operated by the Company were defined contribution plans.

The total expense relating to the Company's defined contribution pension plans in the current year was £0.5m (2016: £0.4m).

At 31st December 2017 the post-retirement mortality assumptions in respect of the Company Defined Benefit Scheme follows 85% of SAPS S2 Light base table for males and 96% of SAPS S2 base table for females with CMI Core Projection Model 2016 improvements commencing in 2007, subject to a 1.25% p.a. long-term trend. At 31st December 2016 the post-retirement mortality assumption followed the SAPS S1 light base table, with 2015 CMI Core Projection model from 2002, with a long-term trend of 1.5% p.a. These assumptions are regularly reviewed in light of scheme specific experience and more widely available statistics.

7 Employee benefits *continued*

The financial assumptions used at 31st December were:

	Assumptions weighted by value of liabilities % per annum	
	2017 £m	2016 £m
Rate of increase in salaries	2.6	2.7
Rate of increase in pensions	2.9	3.0
Rate of price inflation	3.1	3.2
Discount rate	2.4	2.6

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions, which due to the timescale covered, may not necessarily be borne out in practice.

Fair value of scheme assets:

	2017 £m	2016 £m
Equities	9.3	16.4
Bonds	48.8	38.3
Other	1.9	4.1
Total market value in aggregate	60.0	58.8

£2.3m (2016: £14.3m) of scheme assets have a quoted market price in an active market.

The actual return on plan assets was £3.7m (2016: £9.5m).

The amounts recognised in the Company Statement of Financial Position are determined as follows:

	2017 £m	2016 £m
Fair value of scheme's assets	60.0	58.8
Present value of funded scheme's liabilities	(55.7)	(54.1)
Retirement benefit asset recognised in the Statement of Financial Position	4.3	4.7
Related deferred tax	(0.7)	(0.8)
Net pension asset	3.6	3.9

The movements in the Defined Benefit Obligation (DBO) recognised in the Statement of Financial Position during the year were:

	2017 £m	2016 £m
Defined benefit obligation at beginning of year	(54.1)	(48.1)
Current service cost	(0.1)	(0.1)
Interest cost	(1.4)	(1.8)
Contributions from members	–	–
Remeasurement loss	(1.5)	(7.1)
Actual benefit payments	2.6	2.5
Experience (loss)/gain	(1.2)	0.5
Defined benefit obligation at end of year	(55.7)	(54.1)

Notes to the Company Financial Statements *continued*

7 Employee benefits *continued*

The movements in the fair value of plan assets during the year were:

	2017 £m	2016 £m
Value of assets at beginning of year	58.8	51.7
Expected return on assets	1.5	1.9
Remeasurement gain	2.2	7.6
Contributions paid by employer	0.1	0.1
Contributions from members	–	–
Actual benefit payments	(2.6)	(2.5)
Value of assets at end of year	60.0	58.8

The estimated employer contributions to be made in 2018 are £0.1m.

The history of experience adjustments is as follows:

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Defined benefit obligation at end of year	(55.7)	(54.1)	(48.1)	(54.4)	(51.7)
Fair value of scheme's assets	60.0	58.8	51.7	57.0	53.8
Retirement benefit (liability) recognised in the Statement of Financial Position	4.3	4.7	3.6	2.6	2.1
Experience adjustment on scheme's liabilities	(1.2)	0.5	1.0	0.7	0.5
As a percentage of scheme's liabilities	2.2%	0.9%	2.0%	1.3%	1.0%
Experience adjustment on scheme's assets	2.2	7.6	(1.2)	3.1	2.7
As a percentage of scheme's assets	3.7%	13.0%	2.3%	5.4%	5.0%

The expense recognised in the Company Income Statement was as follows:

	2017 £m	2016 £m
Current service cost	(0.1)	(0.1)
Net interest on scheme's assets and liabilities	0.1	0.1
Total expense recognised in Income Statement	–	–

Statement of Comprehensive Income (OCI)

	2017 £m	2016 £m
Remeasurement effects recognised in OCI:		
Due to experience on DBO	(1.2)	0.5
Due to demographic assumption changes in DBO	(0.7)	–
Due to financial assumption changes in DBO	(0.8)	(7.1)
Return on assets	2.2	7.6
Total remeasurement (loss)/gain recognised in OCI	(0.5)	1.0
Deferred tax on remeasurement amount recognised in OCI	0.1	(0.1)
Cumulative loss recognised in OCI at beginning of year	(10.8)	(11.7)
Cumulative loss recognised in OCI at end of year	(11.2)	(10.8)

Sensitivity analysis

The effect on the defined benefit obligation at 31st December 2017 of an increase or decrease in key assumptions is as follows:

Increase/(decrease) in pension defined benefit obligation	£m
Discount rate assumption being 0.25% higher	(1.6)
Discount rate assumption being 0.25% lower	1.9
Inflation assumption being 0.25% higher	1.1
Inflation assumption being 0.25% lower	(1.1)
Mortality assumption life expectancy at age 65 being 1 year higher	1.4

7 Employee benefits *continued*

Share-based payments

Disclosures of the share-based payments offered to employees of the Company are set out below. The description and operation of each scheme is the same as outlined in the Group disclosure.

Share Option Scheme

As at 31st December 2017 the number of shares outstanding were nil, due to performance conditions in respect of all exercisable shares being met. No options have been granted since 2011.

Performance Share Plan

The relevant disclosures in respect of the Performance Share Plan grants are set out below.

	2013 Grant	2014 Grant	2015 Grant	2016 Grant	2017 Grant
Grant date	8th March	14th March	11th June	5th April	26th May
Mid market share price at grant date	2615.0p	2873.0p	3460.0p	3550.0p	5256.0p
Number of employees	12	11	15	13	12
Shares under scheme	69,174	61,154	70,290	69,890	62,356
Vesting period	3 years	3 years	3 years	3 years	3 years
Probability of vesting	62.5%	75.2%	71.5%	70.8%	73.1%
Fair value	1634.4p	2160.5p	2473.9p	2513.4p	3842.1p

Notes to the Company Financial Statements *continued*

8 Called up share capital and reserves

	2017 £m	2016 £m
Ordinary shares of 26 ¹² / ₁₃ p (2016: 26 ¹² / ₁₃ p) each		
Authorised 111,428,571 (2016: 111,428,571)	30.0	30.0
Allotted, called up and fully paid 73,600,195 (2016: 73,439,226)	19.8	19.8

73,544 shares with a nominal value of £19,800 were issued in connection with the Group's Employee Share Schemes for a consideration of £2.4m received by the Company.

At 31st December 2017 35,945 shares were held in an Employee Benefit Trust and available for use in connection with the Group's Employee Share Schemes.

12 senior employees of the Company have been granted options on Ordinary shares under the Share Option Scheme and Performance Share Plan (details in Note 7).

Other reserves in the Company Statement of Changes in Equity on page 162 are made up as follows:

	1st January 2017 £m	Change in year £m	31st December 2017 £m
Share-based payments reserve	9.6	2.1	11.7
Capital redemption reserve	1.8	–	1.8
Employee Benefit Trust reserve	(3.2)	1.9	(1.3)
Total other reserves	8.2	4.0	12.2

Share-based payments reserve

This reserve records the Company's share based payment charge that is recognised in reserves.

Capital redemption reserve

This reserve records the historical repurchase of the Company's own shares.

Employee Benefit Trust reserve

The Company has an Employee Benefit Trust which is used to purchase, hold and issue shares in connection with the Group's employee share schemes. The shares held in Trust are recorded in this separate reserve.

9 Related party transactions

	2017 £m	2016 £m
Dividends received from subsidiaries	154.6	107.1
Loans and amounts due from subsidiaries at 31st December	506.1	186.3
Amounts due to subsidiaries at 31st December	6.4	16.5

10 Financial instruments

The terms and conditions of outstanding loans at 31st December 2017 are as follows:

	Currency	Nominal interest rate	Year of maturity	Carrying value £m
Secured bank facility	£	1.0%	2019	40.0
Secured private placement	€	1.1%	2023	199.7
Secured bank facility	\$	2.2%	2020	123.2
Total outstanding loans				362.9
Current portion of long term borrowings due before 31st December 2018				49.3
Long term borrowings payable after 31st December 2018				313.6

11 Other information

Dividends

Dividends paid by the Company are disclosed in Note 11 of the Consolidated Financial Statements.

Property, plant and equipment

The Company holds freehold property with a cost of £9.3m (2016: £9.3m), accumulated depreciation of £1.1m (2016: £1.1m) and a net book value of £8.2m (2016: £8.2m).

Employees

The total number of employees of the Company at 31st December 2017 was 64 (2016: 39).

Directors' remuneration

The remuneration of the Directors of the Company is shown in the Annual Report on Remuneration 2017 on pages 88 to 98.

Auditor's remuneration

Auditor's remuneration in respect of the Company's annual audit has been disclosed on a consolidated basis in the Company's Consolidated Financial Statements as required by Section 494(4)(a) of the Companies Act 2006.

Contingent liabilities and capital commitments

The Company has no contingent liabilities or capital commitments at 31st December 2017 (2016: £nil).

Consolidated financial summary 2008-2017

	2008 £m	2009 £m	2010 £m	2011 £m	2012 [†] £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m
Revenue	502.3	518.7	589.7	650.0	661.7	689.4	678.3	667.2	757.4	998.7
Operating profit	81.0	76.5	121.4	129.5	125.7	147.0	148.1	142.8	174.1	198.9
Operating profit* (adjusted)	85.7	89.9	119.1	134.0	136.2	151.6	153.0	152.4	180.6	235.5
Operating profit margin (adjusted)*	17.1%	17.3%	20.2%	20.6%	20.6%	22.0%	22.5%	22.8%	23.8%	23.6%
Profit before taxation	85.2	76.4	123.5	132.3	124.1	145.7	144.8	139.7	171.4	192.5
Profit before taxation* (adjusted)	90.1	90.2	121.6	137.2	134.9	151.1	151.1	151.1	177.9	229.1
Profit after taxation	59.8	53.1	86.7	93.2	87.6	102.3	100.6	96.7	121.3	157.9
Dividends in respect of the year	25.7	27.6	52.6	38.1	119.5	44.5	139.9	50.6	55.8	64.4
Net assets	296.0	307.4	379.5	400.1	436.5	403.5	441.9	398.3	524.4	609.5
Earnings per share (basic)	78.0p	69.6p	112.5p	120.0p	112.2p	133.4p	132.8p	129.9p	165.0p	214.4p
Earnings per share* (adjusted)	83.4p	82.2p	109.5p	124.8p	122.2p	138.8p	140.4p	142.6p	171.5p	220.5p
Dividends in respect of the year (per share)	33.3p	36.1p	43.0p	49.0p	53.0p	59.0p	64.5p	69.0p	76.0p	87.5p
Special dividend (per share)	–	–	25.0p	–	100.0p	–	120.0p	–	–	–
Return on capital employed (Note 2)	35.5%	33.3%	42.1%	41.1%	39.4%	44.4%	44.3%	44.1%	47.9%	52.9%

* Adjusted items exclude certain items. See Note 2 on page 129.

[†] The results for 2012 have been restated to reflect IAS 19(R), prior years have not been restated.

Our global operations

Steam Specialties

EMEA

Country	Company Name	Registered Office address
Belgium	Spirax Sarco NV	Industrielaan 5, B-9052 Zwijnaarde, Belgium
Czech Republic	Spirax Sarco spol sro	Pražská 1455, 102 00 Praha, Hostivar, Czech Republic
Egypt	Spirax Sarco Egypt	33 Mourad Bek, Heliopolis, Cairo, Egypt
	Spirax Sarco Energy Solutions LLC (H)	33 Mourad Bek, Heliopolis, Cairo, Egypt
Finland	Spirax Oy	Niittytie 25 A 24, 01300 Vantaa, Finland
France	Spirax Sarco SAS	8 Avenue le Verrier, 78190 Trappes, France
Germany	Spirax Sarco GmbH Regelapparate	Reichenastr. 210, 78467 Konstanz, Germany
	HygroMatik GmbH	Lise-Meitner-Str. 3, 24558 Henstedt-Ulzburg, Germany
	Spirax-Sarco Germany Holdings GmbH (H)	Reichenastr. 210, 78467, Konstanz, Germany
	Gestra AG	Muenchener Str. 77, 28215, Bremen, Germany
	Gestra HoldCo GmbH (H)	Muenchener Str. 77, 28215, Bremen, Germany
Hungary	Spirax-Sarco Kft**	1103 Budapest Koér utca 2/A, Hungary
Ireland	Spirax-Sarco (Americas) Financing Unlimited (H)	Unit 1013, Gateway Business Park, New Mallow Road, Cork, T23 WK35, Ireland
	Spirax-Sarco (EMEA) Financing Unlimited (H)	Unit 1013, Gateway Business Park, New Mallow Road, Cork, T23 WK35, Ireland
Italy	Spirax Sarco Srl	Via Per Cinisello 18, 20834 Nova Milanese, Italy
	Colima Srl	Via Mestre 11, 20063 Cernusco Sul Naviglio, Milano, Italy
	Italgestra Srl	Via Per Cinisello 18, 20834 Nova Milanese, Italy
Kenya	Spirax Sarco East Africa Ltd	Clifton Park, Mombasa Road, Nairobi, Kenya
Morocco	Spirax Sarco Maghreb**	159 Boulevard de la Résistance, 3eme etage Mob 20.20000, Casablanca, Morocco
Netherlands	Spirax-Sarco Netherlands BV	Industrieweg 130A, 3044 AT, Rotterdam, Netherlands
	Spirax-Sarco Engineering BV (H)	Industrieweg 130A, 3044 AT, Rotterdam, Netherlands
	Spirax-Sarco Investments BV (H)	Industrieweg 130A, 3044 AT, Rotterdam, Netherlands
	Spirax-Sarco Netherlands Holdings Coöperative WA (H)	Sluisstraat 7, 7491 GA Delden, Delden, Netherlands
Norway	Spirax Sarco AS	Vestvollveien 14A, N-2019 Skedsmokorset, Norway
Poland	Spirax Sarco Sp Zoo	Jutrzenki 98, 02-230, Warszawa, Poland
	Gestra Polonia Sp Zoo	ul Schuberta 104, PL 80-172, Gdansk, Poland
Portugal	Spirax Sarco Equipamentos Ind Lda	Rua Quinta do Pinheiro, No 8 & 8A, 2794-058 Carnaxide, Portugal
	Gestra Portugal, Lda	Avenida Dr Antunes Guimaraes, Numero 1159, Porto 4100-082, Portugal
Romania	Spirax-Sarco SRL**	2-4 Traian Street, Cluj-Napoca Municipality, Cluj County, Romania
Russia	Spirax-Sarco Engineering LLC*	198188, Russian Federation, St. Petersburg, Vozrozhdeniya Street, The House 20a, lit.A. Russian Federation
South Africa	Spirax Sarco Investments (Pty) Ltd (H)	Corner Brine Avenue and Horn Street, Chloorkop Ext 23, Gauteng 1624, South Africa
	Spirax Sarco South Africa (Pty) Ltd	Corner Brine Avenue and Horn Street, Chloorkop Ext 23, Gauteng 1624, South Africa
Spain	Spirax-Sarco SAU	C/ Sant Josep, 130 08980 Sant Feliu de Llobregat, Barcelona, Spain
	Especialidades Hydra SLU	C/ Sant Josep, 130 08980 Sant Feliu de Llobregat, Barcelona, Spain
	Spirax-Sarco Engineering SLU (H)	C/ Sant Josep, 130 08980 Sant Feliu de Llobregat, Barcelona, Spain
	Gestra Espanola SA	Calle Luis Cabrera 86-88, 28002, Madrid, Spain
Sweden	Spirax Sarco AB	Telefonvägen 30, SE-126 37 Hagersten, Sweden
Switzerland	Spirax Sarco AG	Gustav-Maurer-Strasse 9, 8702 Zollikon, Switzerland
Turkey	Spirax Sarco Valf Sanayi ve Ticaret A.Ş.	Serifali Mevkii, Edep Sok No 27, 34775 Yukari Dudullu - Ümraniye, Istanbul, Turkey
United Arab Emirates	Spirax Sarco Engineering Middle East (FZO)	Saif Desk Q1-05-005/A, PO Box 514361, Sharjah, United Arab Emirates
United Kingdom	Spirax-Sarco Ltd*	Charlton House, Cirencester Road, Cheltenham, Gloucestershire, GL53 8ER, United Kingdom
	V.C.E. Ltd	Block 2, Unit 5 Threave Court, Castlehill Industrial Estate, Carlisle, ML8 5UF
	Spirax-Sarco America Ltd (H)	Charlton House, Cirencester Road, Cheltenham, Gloucestershire, GL53 8ER, United Kingdom
	Spirax-Sarco Investments Ltd* (H)	Charlton House, Cirencester Road, Cheltenham, Gloucestershire, GL53 8ER, United Kingdom
	Spirax-Sarco Overseas Ltd* (H)	Charlton House, Cirencester Road, Cheltenham, Gloucestershire, GL53 8ER, United Kingdom
	Gestra UK Ltd*	Charlton House, Cirencester Road, Cheltenham, Gloucestershire, GL53 8ER, United Kingdom

Our global operations *continued*

Steam Specialties *continued*

Asia Pacific

Country	Company Name	Registered Office address
Australia	Spirax Sarco Pty Ltd	14 Forge St., Blacktown, NSW 2148, Australia
China	Spirax-Sarco Engineering (China) Ltd	No 800 XinJun Ring Road, Pujiang Hi Tech Park, Shanghai, China
	Spirax Sarco Trading (Shanghai) Co Ltd	No 800 XinJun Ring Road, Pujiang Hi Tech Park, Shanghai, China
Hong Kong	Spirax Sarco Hong Kong Co Ltd	Unit 1507, 15th Floor, Prosperity Center, 25 Chong Yip Street, Kwun Tong, Kowloon, Hong Kong
India	Spirax-Sarco India Private Ltd	Plot No. 6, Central Avenue, Mahindra World City, Chengalpattu Taluk, Kancheepuram District 603004, India
Indonesia	PT Spirax Sarco Indonesia	Kawasan Infinia Park Blok C99, Jl. Dr Sahardjo No. 45, Manggarai Tebet, Jakarta Selatan 12850, Indonesia
Malaysia	Spirax Sarco Sdn Bhd	No 10, Temasya 18, Jalan Pelukis U1/46A, 40150 Shah Alam, Selangor, Malaysia
	Spirax Sarco Investment Limited (H)	6th Floor, Akademi Etiqa, No23 Jalan Melaka, 50100 Kuala Lumpur, Malaysia
Myanmar	Spirax Sarco Ltd**	No. 1206, 12th Floor, Sakura Tower, 339 Bogyoke Aung San Road, Kyauktada Township, Yangon, Myanmar
New Zealand	Spirax Sarco Ltd	6 Nandina Avenue, East Tamaki, Auckland 2013, New Zealand
Philippines	Spirax-Sarco Philippines Inc	2308 Natividad Building, Chino Roces Avenue Extension, Makati City, Philippines
Singapore	Spirax Sarco Pte Ltd	21 Changi South Avenue 2, #01-01 Singapore 486630, Singapore
	Gestra Singapore Pte Ltd	21 Changi South Avenue 2, #01-01 Singapore 486630, Singapore
South Korea	Spirax Sarco Korea Ltd	Steam People House, 99 Sadangro 30gil, Dongjak-gu, Seoul, Republic of Korea
Taiwan	Spirax Sarco Co Ltd	No. 9, Lane 270, Sec. 3, Beishen Road, Shenkeng District, New Taipei City 222, Taiwan
Thailand	Spirax Sarco (Thailand) Ltd	95 Rama 9 Road, Soi 59, Kwang Suanluang, Khet Suanluang, Bangkok 10250, Thailand
Vietnam	Spirax Sarco Vietnam Co Ltd	4th Floor, 180 Nguyen Van Troi Street, Ward 8, Phu Nhuan District, Ho Chi Minh City, Vietnam

Americas

Country	Company Name	Registered Office address
Argentina	Spirax Sarco SA	866 Paraguay St., 3rd Floor, Buenos Aires (1057), Argentina
Brazil	Spirax Sarco Ind e Com Ltda	Avenida Manoel Lages do Chão, 268, Bairro Portão, Cotia, São Paulo, 06705-050, Brazil
	Spirax-Sarco Servicos de Engenharia Ltda	Avenida Manoel Lages do Chão, 268, Bairro Portão, Cotia, São Paulo, 06705-050, Brazil
	Hiter Controls Engenharia Ltda	Av. Jerome Case, No 2600, Hangers B19, B20 and B21, Éden, Sorocaba, São Paulo, 18087 220, Brazil
Canada	Spirax Sarco Canada Ltd	383 Applewood Crescent, Concord, ON L4K 4J3, Canada
Chile	Spirax-Sarco Chile Ltda	Las Garzas 930, Galpón E, Quilicura, Santiago de Chile, Chile
	Inversiones Spirax-Sarco Chile Ltda (H)	Las Garzas 930, Galpón D, Quilicura, Santiago de Chile, Chile
Colombia	Spirax Sarco Colombia SAS	Carretera Panamericana No 3-150, Jamundi, Valle del Cauca, Cali, Colombia
Mexico	Spirax Sarco Mexicana, SAPI DE CV	Boulevard Alianza 30B, Parque Industrial CPA, Ciénega de Flores Nuevo León, CP 65550, Mexico
Peru	Spirax Sarco Peru SAC	Av. Guillermo Dansey 2124, Lima, Lima, Perú
United States	Spirax Sarco Inc	1150 Northpoint Blvd., Blythewood, SC 29016, United States
	Sarco International Corp (H)	2711 Centerville Road, Suite 400, Wilmington, DE 19808, United States
	Gestra USA, Inc	1150 Northpoint Blvd., Blythewood, SC 29016, United States

Chromalox

Country	Company Name	Registered Office address
Canada	Canadian Heat Acquisition Corp (H)	7051 68th Ave NW, Edmonton, Alberta, T6B 3E3, Canada
	ProTrace Engineering, Inc	Suite 205, 6204-6A Street SE, Calgary, Alberta, T2H 2B7, Canada
China	Chromalox Precision Heat Control (Shanghai) Co Ltd	88 Taigu Road, Suite A2, 4th Floor - Fenggu Building, Shanghai, 200131, China
	Chromalox Precision Heat Control (Suzhou) Co Ltd	T02, No 1801, Pangjin Road, Pangjin Industrial Park, Wujiang, Suzhou, 215200, China
France	Etirex SAS	23 Route de Chateau Thierry, Noyant-et-Aconin, Soissons, Cedex, F-02203, France
Germany	Chromalox Germany GmbH	Im Defdahl 10 C, Dortmund, 44141, Germany
Hong Kong	Chromalox Hong Kong Holdings Ltd (H)	33/F, Shui On Centre, Nos 6-8 Harbour Road, Wanchai, Hong Kong
India	Chromalox India Precision Heat & Control Private Limited	1st Floor, 6 Unicom House, A-3 Commercial Complex, New Delhi, Janakpuri, 110058, India
Mexico	ELW Industrial S. de R. L. de C.V.	Carretera Nacional, K.M. 8.5, Modulo Industrial de America, Lote #5, Nuevo Laredo, Tamaulipas, 88277, Mexico
Singapore	Chromalox Precision Heat and Control (Singapore) Pte Ltd	No 11 Woodlands Close, #05-34, Singapore, 737854, Singapore
Thailand	Chromalox (Asia Pacific) Ltd	383/2, The Village Business Centre, Unit D16-A, Moo 12, Sukhumvit Road, Nongprue, Banglamung, Chon Buri, 20151, Thailand
United Arab Emirates	Chromalox Gulf DWC, LLC	PO Box 390012, Office No: E-2-0226, Business Park, Dubai Aviation City, United Arab Emirates
United Kingdom	Chromalox (UK) Ltd	AMP House, 2nd Floor, Dingwall Road, Croydon, Surrey, CR0 2LX, United Kingdom
United States	Chromalox, Inc.	2711 Centerville Rd., Suite 400, Wilmington, DE 19808, United States
	Heat Acquisition Corp (H)	2711 Centerville Rd., Suite 400, Wilmington, DE 19808, United States

Our global operations *continued*

Watson-Marlow Fluid Technology Group

Country	Company Name	Registered Office address
Australia	Watson-Marlow Pty Ltd	Unit 15, 19-26 Durian Place, Wetherill Park, NSW 2164, Australia
Austria	Watson-Marlow Austria GmbH	3 OG/Top D 34, Leopold - Böhm - Strasse 12, 1030, Wien, Austria
Belgium	Watson-Marlow NV	Industriepark 5, B-9052 Zwijnaarde, Belgium
Brazil	Watson-Marlow Bredel Ind e Com de Bombas Ltda	Alameda Juari, 559–Centro Empresarial Tamboré, Barueri – SP, CEP: 06460-090, Brazil
Canada	Watson-Marlow Canada Inc	383 Applewood Crescent, Concord, ON L4K 4J3, Canada
Chile	Watson-Marlow Bombas Chile Ltda	Las Garzas 930, Galpón E, Quilicura, Santiago de Chile, Chile
Denmark	Watson-Marlow Flexicon A/S	Frejasvej 2, 4100 Ringsted, Denmark
France	Watson-Marlow SAS	9 Route De Galluis, Zi Les Croix, 78940 La Queue Lez Yvelines, France
Germany	Watson-Marlow GmbH	Kurt-Alder-Str. 1, 41569 Rommerskirchen, Germany
India	Watson-Marlow India Private Ltd	S No 81/7, Opp JSPM College, Pune-Mumbai Bypass Road, Tathawade, Pune, Maharashtra, 411 033, India
Ireland	Watson-Marlow Ltd	Unit 1013, Gateway Business Park, New Mallow Rd., Cork, Ireland
Italy	Watson-Marlow Srl	Via Padana Superiore 74/D, 25080 Mazzano, Brescia, Italy
Japan	Watson-Marlow Co Ltd	4-23-21 Ukima Kita-ku, Tokyo 115-0051, Japan
Malaysia	Watson-Marlow SDN BHD**	6th Floor, Akademi Etiqa No. 23 Jalan Melaka, 50100 Kuala Lumpur W.P., Malaysia
Mexico	Watson-Marlow S de RL de CV	Boulevard Allianz 30B, Parque Industrial CPA, Ciénega de Flores Nuevo León, CP 65550, Mexico
Netherlands	Watson-Marlow BV	Industrieweg 130A, 3044 AT, Rotterdam, Netherlands
	Watson-Marlow Bredel BV	Sluisstraat 7, 7491 GA, Delden, Netherlands
	Watson-Marlow Bredel Holdings BV (H)	Industrieweg 130A, 3044 AT, Rotterdam, Netherlands
	Watson-Marlow Bredel Holdings II BV (H)	Sluisstraat 7, 7491 GA, Delden, Netherlands
New Zealand	Watson-Marlow Ltd	Unit F, 6 Polaris Place, East Tamaki, Auckland 2013, New Zealand
Poland	Watson-Marlow Sp Zoo	Ul. Fosa 25, 02-768 Warszawa, Poland
Russia	Watson-Marlow LLC*	Room 19, Premises I, Shosse Entuziastov, 34, Moscow, 105118, Russian Federation
Singapore	Watson-Marlow Pte Ltd	421 Tagore Industrial Avenue, #01-13, Singapore 787805, Singapore
South Africa	Watson-Marlow Bredel SA (Pty) Ltd	Unit 5 Industrial Park, Citrus Street, Honeydew, Johannesburg, South Africa
Sweden	W-M Alitea AB	Hammarby Fabriksväg 29-31, SE-120 30 Stockholm, Sweden
Taiwan	Watson-Marlow Co Ltd	No.9 Lane 270 Sec. Beishen Road, Shenkeng District, New Taipei City 222, Taiwan
United Arab Emirates	Watson Marlow FZCO**	Office Number FZJOA2005, Jafza One, Jebel Ali Free Zone, Dubai, United Arab Emirates
United Kingdom	Aflex Hose Ltd	Spring Bank Mill Industrial Estate, Spring Bank Industrial Estate, Watson Mill Lane, Sowerby Bridge, HX6 3BW, United Kingdom
	BioPure Technology Ltd	Bickland Water Road, Falmouth, Cornwall, TR11 4RU, United Kingdom
	Watson-Marlow Ltd*	Bickland Water Road, Falmouth, Cornwall, TR11 4RU, United Kingdom
United States	Aflex Hose USA LLC	32 Appletree Lane, Pipersville, PA 18947, United States
	ASEPCO	355 Pioneer Way, Suite B, Mountain View, CA 94041 United States
	Watson Marlow Inc	37 Upton Technology Park, Wilmington, MA 01887, United States
	Watson-Marlow Flow Smart Inc	1675 South State St., Suite B, Dover, DE 19901 United States

Dormant companies

Country	Company Name	Registered Office address
Canada	Canadian Heat Holding Corp	6600-100 King Street W., 1 First Canadian Place, Toronto, Ontario, M5X 1B6, Canada
France	Heat Holding France SAS	23 Route de Chaateau Thierry, Noyant-et-Aconin, Soissons, Cedex, F-02203, France
United Kingdom	Gervase Instruments Ltd*	Charlton House, Cirencester Road, Cheltenham, Gloucestershire, GL53 8ER, United Kingdom
	Heat Holding (UK) Limited	AMP House, 2nd Floor, Dingwall Road, Croydon, Surrey, CR0 2LX, United Kingdom
	SARCO Ltd*	Charlton House, Cirencester Road, Cheltenham, Gloucestershire, GL53 8ER, United Kingdom
	Sarco Thermostats Ltd	Charlton House, Cirencester Road, Cheltenham, Gloucestershire, GL53 8ER, United Kingdom
	Spirax Manufacturing Co Ltd	Charlton House, Cirencester Road, Cheltenham, Gloucestershire, GL53 8ER, United Kingdom
	Spirax-Sarco Europe Ltd*	Charlton House, Cirencester Road, Cheltenham, Gloucestershire, GL53 8ER, United Kingdom
	Spirax-Sarco International Ltd*	Charlton House, Cirencester Road, Cheltenham, Gloucestershire, GL53 8ER, United Kingdom
United States	Electronic Control Systems, Inc.	103 Gamma Drive, Pittsburgh, PA 15238, United States
	Heat Asset Acquisition Corp.	2711 Centerville Rd., Suite 400, Wilmington, DE19808, United States
	Mexican Heat Holding Corp.	c/o RA PO Box 20380, Carson City, Nevada, 89706, United States
	Mexican Heat Holding, LLC	160 Greentree Dr., Suite 101, Dover, Delaware, 19904, United States
	Ogden Manufacturing Co.	2711 Centerville Rd., Suite 400, Wilmington, DE19808, United States

The global operations listed on pages 171 to 175 are registered companies.

In addition to these operations we have a number of other operating units, including an Associate company; a company that is part owned with a third-party trust; branches of Spirax Sarco steam or Watson-Marlow companies; and several Watson-Marlow businesses that operate via Spirax Sarco steam business companies.

Notes

- All subsidiaries in the tables on pages 171 to 175 are indirect subsidiaries of Spirax-Sarco Engineering plc, unless indicated*. All subsidiaries listed are 100% owned by the Group, except as follows:

Company	% owned by the Group
Econotherm (UK) Limited	38.9%
Gestra AG	99.96%
Spirax Sarco Egypt	98.867%
Spirax Sarco Energy Solutions LLC, Egypt	98.992%
Spirax Sarco Korea Ltd	97.5%
Spirax-Sarco Philippines Inc	99.998%
Spirax Sarco Services South Africa (Pty) Ltd	48.51%. (51.49% is owned by a third-party trust, The Tomorrow Trust)
Spirax Sarco (Thailand) Ltd	99.995%

- In addition to the subsidiaries in the tables on pages 171 to 175, we have the following operations:

Steam Specialties:

Country	Operating as a branch of
Cambodia	Spirax Sarco Pte Ltd, Singapore
Denmark	Spirax-Sarco Limited, UK
Ghana	Spirax-Sarco Limited, UK
Ireland	Spirax-Sarco Limited, UK
Japan	Spirax-Sarco Limited, UK
Sri Lanka	Spirax-Sarco India Private Ltd, India
United Arab Emirates	Spirax-Sarco Limited, UK

Watson-Marlow Fluid Technology Group:

Country	Operating as a branch of
Switzerland	Watson-Marlow Limited, UK
Country	Operating via
Watson-Marlow Argentina	Spirax Sarco SA, Argentina
Watson-Marlow China	Spirax-Sarco Engineering (China) Ltd
Watson-Marlow Korea	Spirax Sarco Korea Ltd
Watson-Marlow Indonesia	PT Spirax-Sarco Indonesia
Watson-Marlow Thailand	Spirax Sarco (Thailand) Ltd
Watson-Marlow Vietnam	Spirax Sarco Vietnam Co Ltd

This complete list of our global operations, including subsidiaries, forms part of the audited Financial Statements. For more information see Note 2 in the Company Financial Statements.

- UK registered subsidiaries exempt from audit:

Gestra UK Ltd (company no. 10639879), Spirax-Sarco America Ltd (company no. 07829847), Spirax-Sarco Investments Ltd (company no. 00100995), Spirax-Sarco Overseas Ltd (company no. 01472201) and V.C.E Ltd (company no. SC126116) qualify to take the statutory audit exemption as set out within section 479A of the Companies Act 2006 for the period ended 31st December 2017. Spirax-Sarco Engineering plc will guarantee the debts and liabilities of the companies claiming the statutory audit exemption at the balance sheet date in accordance with section 479C of the Companies Act 2006.

Key

* Direct subsidiary owned by Spirax-Sarco Engineering plc

** Commenced trading after 31st December 2017

(H) Holding company

Officers and advisers

Secretary and registered office

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General Counsel and Company Secretary
Spirax-Sarco Engineering plc
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Cheltenham
Gloucestershire GL53 8ER

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Website: www.spiraxsarcoengineering.com

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Deloitte LLP

Financial adviser

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Financial PR

Citigate Dewe Rogerson

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HSBC Bank PLC

Corporate brokers

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Website: www.shareview.co.uk

Solicitors

Baker & McKenzie LLP

Important dates

Annual General Meeting	15th May 2018
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Final dividend**

Ordinary shares quoted ex-dividend	26th April 2018
Record date for final dividend	27th April 2018
Final dividend payable	25th May 2018

** Subject to shareholder approval at the AGM.

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Cover image: Obadah Zaher (Research Team Leader) and Jagoda Cieslik (Year in Industry Student, Research & Development) reviewing a steam system's health using a SIMS™ software and energy monitoring solution from Spirax Sarco.