Spirax-Sarco Engineering plc
Annual Report 2015

About Spirax-Sarco Engineering plc

Implementing our strategy for growth

Spirax-Sarco Engineering plc is a multi-national industrial engineering group that has its headquarters in Cheltenham, England.

The Group comprises two world-leading engineering businesses: Spirax Sarco for steam specialties and Watson-Marlow for niche peristaltic pumps and associated fluid path technologies. From the Food & Beverage industry to water treatment plants, we apply our sector expertise to provide our customers with bespoke, value-added and environmentally friendly engineered solutions for energy and water savings, reduced emissions, process efficiency, product quality and improvements in plant health, safety and regulatory compliance.

In order to continue to outperform our markets we are focusing on self-generated growth opportunities through further strengthening our direct sales business model and implementing our strategy for growth.

2015: Our year in review

January 2015

- Spirax Sarco Peru commenced trading
- Spirax Sarco Egypt commenced trading

Feb

March 2015

- Associate company Spirax Marshall (India) sold for **£6.6m**
- Steam specialties UK manufacturing restructured

April 2015

- Watson-Marlow acquired Asepco (USA) for **£7.2m**
- Spirax Sarco received a Queen's Award for Enterprise in Innovation

May

June 2015

- Closure of small Spirax Sarco meter manufacturing facility in the USA

July 2015

- Watson-Marlow acquired MasoSine manufacturing and distribution business in Japan for **£2.8m**
- Watson-Marlow Chile commenced trading
- Spirax Sarco India commenced trading

August 2015

- M&M International (Italy) sold for **£6.7m**

September 2015

- Spirax Sarco acquired Colombian steam distribution business from Casaval SA for **£8.5m**
- Watson-Marlow Taiwan commenced trading

Oct

November 2015

- Watson-Marlow acquired Flow Smart Inc. (USA) for **£5.7m**

Dec

Read more on **page 5**

A snapshot of 2015

For the year ended 31st December 2015

- Organic sales increased 2%*
- Record operating margin of 22.8%
- Another strong performance in Watson-Marlow
- Robust cash generation, 95% cash conversion
- Dividend increased by 7%

* Organic measures are at constant currency and exclude acquisitions and disposals.

2015 key figures

KPI **Revenue** £m

	£m	organic growth %
2015	667.2	2
2014	678.3	4
2013	689.4	4
2012	661.7	5
2011	650.0	9

KPI **Return on capital employed** %

	%
2015	44.1
2014	44.3
2013	44.4
2012	39.4
2011	41.1

KPI **Adjusted operating profit** £m

	£m	margin %
2015	152.4	22.8
2014	153.0	22.5
2013	151.6	22.0
2012	136.2	20.6
2011	134.0	20.6

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

	Number
2015	3.3
2014	5.4
2013	4.4
2012	5.5
2011	6.0

Throughout this report, we use a symbol **KPI** to indicate measures that are main Group KPIs.

Our Group KPIs can be found in detail on **pages 24–25**

Strategic Report

Governance Report

Financial Statements

Corporate Information

Chairman's statement

"I am pleased to report a solid set of results in 2015 against a background of progressive deterioration in the rate of global industrial production growth."

Bill Whiteley
Chairman

Key points in this section:

- Organic sales increased by 2% to £667.2 million*
- Adjusted operating profit increased by 4% at constant currency to £152.4 million*
- Unfavourable currency movements reduced sales and operating profit by 4%
- Adjusted operating profit margin improved to a record 22.8%
- Increase in the total Ordinary dividend of 7% to 69.0p per share

* Unless otherwise stated, all profit measures exclude certain non-operational items, as set out and explained in the Financial review and in Note 2 on page 130. Organic measures are at constant currency and exclude acquisitions and disposals.

Performance

Organic sales increased by nearly 2% to £667.2 million. Additional sales from acquisitions were broadly matched by a reduction from the disposal of M&M International (M&M) in the period, with a net contribution of 0.5%. Currency movements were again unfavourable, reducing sales on translation by 4%, leaving reported sales down 2% compared with sales of £678.3 million in 2014. We achieved strong 9% organic sales growth in our Watson-Marlow Fluid Technology Group (WMFTG or Watson-Marlow) spread across all regions, while the Spirax Sarco steam specialties business was flat, with progress in Europe, Middle East and Africa (EMEA) and the Americas offset by a decline in Asia Pacific.

Adjusted operating profit increased by 4% at constant currency to £152.4 million. Profit was strongly ahead in Watson-Marlow. In the steam specialties business, there was good progress at constant currency in EMEA, largely offset by a reduction in Asia Pacific; the Americas was flat. Unfavourable currency movements reduced Group operating profit by 4%, leaving reported profit broadly flat compared with operating profit of £153.0 million in 2014. The adjusted operating profit margin improved by 40 bps at constant currency, to a record 22.8%.

Net finance costs reduced from £3.0 million to £1.5 million but the total income from Associates reduced from £1.2 million to £0.2 million due to the sale in March 2015 of our investment in India, ahead of the start-up of our wholly owned direct sales operation. The Group adjusted pre-tax profit was therefore £151.1 million, 4% ahead at constant currency. Adjusted basic earnings per share was ahead 2% at 142.6p (2014: 140.4p) and was up 6% at constant currency, in part due to the number of shares in issue being reduced by 3.6% with effect from 15th June 2015, following the special dividend and associated share consolidation of 28 existing Ordinary shares into 27 new Ordinary shares.

The pre-tax profit on a statutory basis was £139.7 million (2014: £144.8 million) and includes a number of non-operational items explained more fully in Note 2. The statutory basic earnings per share was 129.9p (2014: 132.8p).

Cash and dividends

Cash generation was robust, with very good cash conversion and we finished the year with net cash of £5 million, despite the payment of £91 million on 15th July 2015 in respect of the special dividend for 2014 of 120p per share.

The interim dividend for 2015, which was paid on 6th November 2015, was raised by 6.7% to 20.8p per share (2014: 19.5p per share). The Board is recommending an increase in the final dividend of 7.1% to 48.2p per share (2014: 45.0p), with a total of £35 million payable on 27th May 2016 to shareholders on the register at 29th April 2016. The total Ordinary dividend for the year, subject to approval by shareholders at the AGM on 10th May 2016 of the final proposed dividend, is therefore 69.0p per share, an increase of 7.0% over the 64.5p per share for the prior year. The proposed dividend is in line with the Group's dividend policy, which is to progressively increase the dividend to appropriately reflect the underlying trading performance, the maintenance of a healthy dividend cover, the level of cash generation and the capital requirements of the business.

Governance and Board changes

In October 2015, we announced that David Meredith will retire at the conclusion of the AGM on 10th May 2016 after nearly 24 years as Group Finance Director and after a total of 27 years of service to the Group. On behalf of our shareholders the Board acknowledges with gratitude the significant contribution to the Group's growth and prosperity made by David over multiple economic cycles. During his time with the Company, David's knowledge and experience have been instrumental in helping to guide the business through significant changes and challenges, earning him the highest respect from shareholders, the Board and colleagues. We understand David's desire to step down after such a long and successful period of service and wish him the very best in this new chapter of his life.

KPI

Earnings per share* p

	p
2015	142.6
2014	140.4
2013	138.8
2012	122.2†
2011	121.0†

* Based on adjusted operating profit.

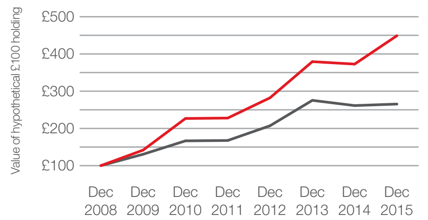
† 2012 restated for IAS 19(R), earlier years adjusted on an estimated basis.

Dividend per share p

	Special dividend	p
2015		69.0
2014	120.0	64.5
2013		59.0
2012	100.0	53.0
2011		49.0

Special dividend

TSR performance growth



Spirax Sarco

FTSE 350 Industrial Goods and Services

As previously announced, we are pleased that Kevin Boyd will join the Company on 11th April 2016 and succeed David as Group Finance Director and Executive Director on 11th May 2016. Kevin is both a Chartered Accountant and a Chartered Engineer and is currently Group Finance Director of Oxford Instruments plc, the leading provider of high technology instrumentation, with sales broadly spread around the world across a number of sectors and listed on the London Stock Exchange. He is a highly experienced Finance Director with a strong international track record. Previous experience included Group Finance Director of Radstone Technology plc and before that he held senior finance positions with TI Group (now Smiths Group plc). Kevin is a Non-Executive Director of EMIS Group plc.

During the year an independent Board effectiveness review was undertaken by Dr Long CBE of Boardroom Review Ltd. Following this review, we have placed increased emphasis on Board succession planning to ensure the Board is refreshed in accordance with the Code. By starting this work now, we will achieve a phased approach for the succession of key roles over the next few years, with adequate handover periods to ensure a smooth transition. We are committed to appropriate engagement with shareholders throughout the process.

Employees

On behalf of the Board, I thank all our employees in the 57 countries around the world in which we have a direct presence. Our strategy for growth recognises that people are our most important asset and through their dedication, hard work and personal advancement, we achieve success for all stakeholders in the business.

We value and celebrate the individual contributions to the solid results in 2015.

Prospects

Steam as a heat source, and niche pumps and associated fluid path technologies, are widely used across different industry sectors, geographic regions and customers. This leads to our markets being strongly influenced by the level of industrial production and changes in its rate of growth during the year, with a typical time-lag of a few quarters. Global industrial production growth progressively slowed from mid-2014, reaching no growth by the end of 2015, with the deceleration noticeably more marked in emerging markets. The likely path of global industrial production growth remains uncertain, with successive projected upturns being continually pushed back.

We have historically outperformed our markets, increasing sales ahead of general market growth, whilst exhibiting considerable resilience in more difficult economic conditions. Our strategy is focused on self-generated growth, to reduce our reliance on the market. Our strategic initiatives are targeted at increasing the effectiveness of our highly trained direct sales force, broadening our geographic presence, leveraging our new product development and optimising our supply chain. We are investing resources into these strategic priorities and developing a more sector-aligned organisation.

In 2016, we will benefit from the full-year effect of the actions taken in 2015 to reduce costs and will reinvest these benefits in the execution of our strategy for growth, including the creation of the new Spirax Academy. If recent exchange rates prevail for the remainder of the year, sales will increase by 3% on translation into sterling compared to 2015.

We have a robust and resilient business model and, provided there is no material deterioration in trading conditions, the Board expects to make progress in 2016.

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 2015, 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 2018. For the full Viability statement, see page 111.
- The Strategic Report was approved by the Board on 2nd March 2016.

Signed by:

Bill Whiteley
Chairman

on behalf of the Board of Directors
2nd March 2016

How and where we operate

How we are organised

We comprise two businesses: Spirax Sarco for steam specialties and Watson-Marlow for niche peristaltic pumps and associated fluid path technologies.

Spirax-Sarco Engineering plc

spirax sarco
First for Steam Solutions

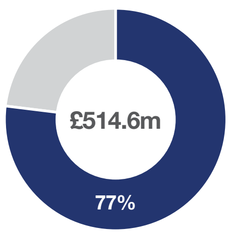
Spirax Sarco is the global leader in the supply of engineered solutions for the design, maintenance and provision of efficient industrial and commercial steam systems.

The Spirax Sarco offering is very wide, from single products through to complete turnkey bespoke packages that can include design, fabrication, commissioning and maintenance. Our products and services help our end users to improve operational efficiency, maintain product quality, reduce energy and water use, and comply with health, safety and environmental legislation.

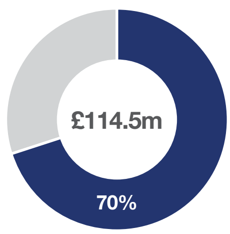
For more information visit: **www.spiraxsarco.com**

Read more on **pages 6–9**

Revenue £m



Adjusted operating profit* £m



* Before corporate expenses of £10.0m. See Note 2.

WATSON MARLOW
Fluid Technology Group

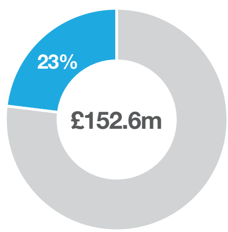
Watson-Marlow Fluid Technology Group specialises in the design and manufacture of world-leading niche peristaltic pumps and associated fluid path technologies.

Our pumps are ideally suited for a wide variety of applications from biopharmaceutical processes that demand sterility and precision to highly corrosive slurries typically seen in precious metal processing. The Watson-Marlow group comprises nine established brands, each with its own area of expertise, but together offering our customers an unrivalled breadth of pumping solutions.

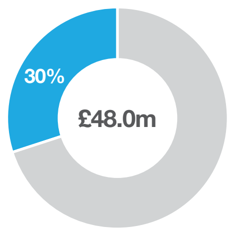
For more information visit: **www.wmftg.com**

Read more on **pages 10–13**

Revenue £m



Adjusted operating profit* £m



* Before corporate expenses of £10.0m. See Note 2.

We operate in a diverse portfolio of industrial sectors with revenue streams balanced across all key global economies.

Read more on **pages 5, 19 and 21**

Our diversified presence and portfolio†

77 operating units* in 43 countries
Direct sales presence in 57 countries and on six continents

† Global operations at the time of publication, March 2016. (Spirax Sarco operating company began trading in Vietnam after 31st December 2015.)

* Operating companies, branches and Associate.

Summary

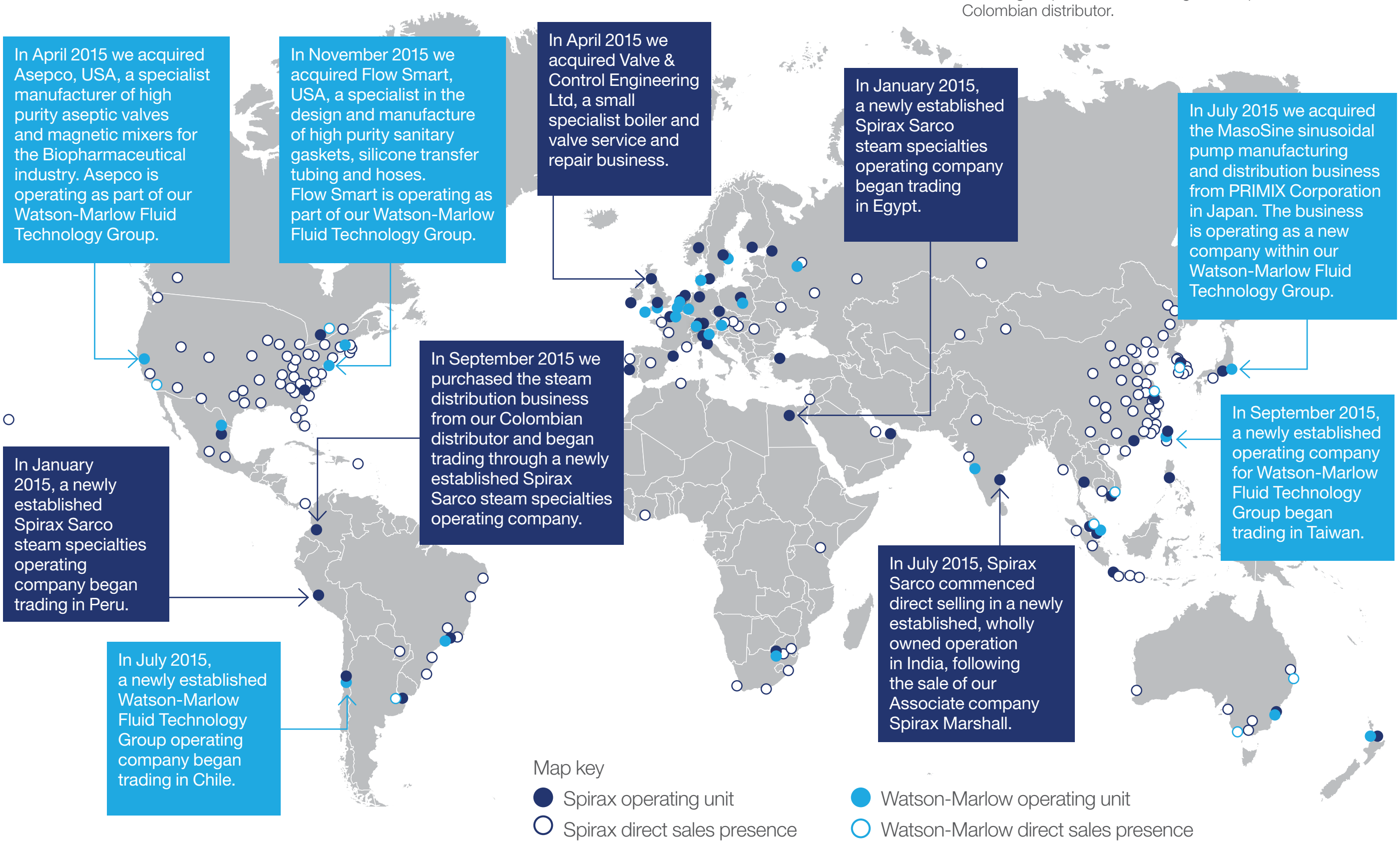
Expanding our business in 2015:

5 acquisitions

7 new start-ups*

2 disposals

* Including acquired distribution rights in Japan and Colombian distributor.



Our core products and services

Steam products

Engineering consultancy

Pumps and fluid path technology

Key facts

4,800+ employees

3,500+ product lines

100,000+ customers

Spirax Sarco steam specialties business: improving industrial and commercial steam systems

What we do:

Design innovative products and packages

Manufacture most of the products we sell

Sell our products and services

New steam systems

In large capital projects, such as the construction of new hospitals or factories, our expert sales engineers work with end users, their design consultants, or their contractors, to advise on, design or supply complete new steam systems.

Steam system audits

Detailed steam system audits, carried out by our sector specialist steam engineers, identify opportunities for improved efficiency in our end users' processes, including energy and water savings. Audits can identify the cause of known problems or uncover unrecognised needs.

Engineered solutions

Working directly with our customers, our sales engineers apply our deep applications and systems knowledge, breadth of products and expertise to create bespoke engineered solutions for energy and water savings, process efficiency, product quality and improvements in plant health, safety and regulatory compliance.

Maintenance, repair and operations

To maintain operational efficiency, production output and product quality, regular maintenance spending is required by our end users. We supply the replacement products required to keep our end users' steam systems operating at an optimum level and also offer service contracts.

Training

We offer training to our end users' technical and maintenance staff in 40 training centres worldwide, the majority of which contain live steam systems. Our training courses equip our end users with the skills required to run their steam systems as efficiently and effectively as possible.

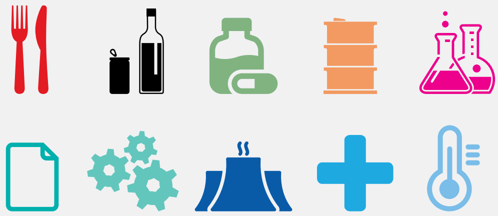
Direct sales

Our customers:

Where is steam used?

Steam is widely used across a diverse range of industries and in most manufacturing processes for heating, curing, cooking, cleaning and drying. Industries using steam in this way include Food & Beverage, Pharmaceutical & Biopharmaceutical, Oil & Petrochemical, Chemical, and Pulp & Paper.

Steam is also widely used in hospitals and buildings for space heating, humidification and sterilisation, and to provide a reliable source of hot water at a constant temperature.



For more information about how and where steam is used, see **page 21**

Why is steam used?

Steam is a preferred heat transfer fluid in most industrial processes because of its high energy content (steam can hold five or six times as much energy as an equivalent mass of water).

Steam is highly controllable and can be generated at high pressures to give high temperatures. Temperature can be controlled throughout a steam system by controlling pressure.

Steam is a highly efficient heat transfer medium. When steam reaches the point of use, the condensation process efficiently transfers heat to the product being heated.

Steam can surround or be injected into a product being heated. It can fill any space at a uniform temperature and will supply heat by condensing at a constant temperature; eliminating temperature gradients.

Steam can be easily and cost effectively distributed to the point of use because it naturally flows from high to low pressure, meaning that costly circulating pumps are not required.

Steam is clean, sterile, non-hazardous and environmentally sound, and water is relatively inexpensive and plentiful.

Steam is convenient; it can be used for multiple purposes on a site from process applications, to space heating, sterilisation or hot water generation.

The value we add:

How our products, solutions and services benefit our end users

Improving
- Product quality
- Production output
- Efficiency
- Plant monitoring
- Profitability

Reducing
- Energy use and costs
- Water use and costs
- CO_2 emissions
- Waste
- Production times
- Maintenance downtime

Meeting
- Statutory rules/regulations
- Industry standards
- H&S requirements

Spirax Sarco case study

Implementing our strategy for growth by sectorising our sales force and offering our customers industry specific knowledge and expertise

Spirax Sarco engineered solution reduces steam system pressure to help Spanish brewery improve beer quality, increase productivity and lower costs

Compañía Cervecera de Canaris (CCC), part of the SABMiller Group, is a large Spanish based brewery. Located in the Canary Islands, the company produces its own beer brands Dorada and Tropical, and under licence Carlsberg, as well as distributing several other well-known brands.

Within the brewing process, boiling the wort is a crucial stage that serves various functions including sterilisation, the removal of volatile materials, concentration of the wort and reduction of pH levels. Hops are also added to the wort during boiling, which takes place in large stainless steel "kettles". Boiling lasts approximately 60-90 minutes and is monitored by measuring the evaporation rate, which should be no more than 4% per hour for optimum beer quality.

CCC was experiencing instability in the production process with periods of excessively vigorous wort boiling, resulting in evaporation rates of 7%. These periods of overheating and excessive boiling caused sugars within the wort to burn and caramelise, darkening the wort, affecting its flavour and resulting in product spoilage. The caramelised sugars coated the heating surfaces, increasing the frequency of shut down for cleaning and reducing productivity.

An expert sales engineer from Spirax Sarco, with extensive experience within the Brewing industry, was asked to identify the cause of heating instability and to design a solution. He found that the steam, at 5.5 bar(g) pressure, which was being used to heat the kettles, was regulated by a control valve that opened at a fixed rate, allowing steam at a higher pressure than required to heat the kettles.

Spirax Sarco designed a bespoke pressure control loop for installation before the process equipment. The engineered solution enables the steam system to self-regulate the pressure, and hence the temperature, of the steam to an optimum level prior to it reaching the kettles.

The solution also included steam flow metering equipment to monitor steam use and efficiency, as well as various ancillary products such as thermodynamic steam traps and pipeline connector steam trapping stations to optimise steam system efficiency.

In addition to designing and commissioning the solution, Spirax Sarco ensured that heat transfer is optimised by testing the steam in accordance with steam sterilisation standard EN285, to confirm steam dryness and incondensable gas content is satisfactory for the application.

Following the installation of the engineered solution from Spirax Sarco, the wort evaporation rate was reduced to less than 4%, improving beer quality and brewery productivity, and reducing product spoilage. Maintenance downtime has been reduced by 90%, energy use has fallen by 20% and steam consumption and costs have also been reduced. In addition, better steam system metering has improved steam consumption knowledge, allowing more accurate steam cost assignation, and facilitated the customer's ability to test different steam conditions to identify the most efficient conditions for boiling the wort.

Key customer benefits

- Improved beer quality
- Increased productivity from lower evaporation rates, reduced product spoilage and less maintenance downtime
- Reduced energy use, steam consumption and lower costs

Watson-Marlow Fluid Technology Group:
solving difficult pumping problems

What we do:

Design innovative products (in our nine distinct brands)

Manufacture our wide range of products

Sell our products and services

Peristaltic and niche pumps

We supply positive displacement (peristaltic) pumps for fluid handling in a range of industries including Mining & Precious Metal Processing, Water & Wastewater and Pharmaceutical; sinusoidal MasoSine pumps which deliver low shear, gentle pumping for delicate products in a range of industries, including Food & Beverage; and Flexicon aseptic liquid filling and capping systems which are particularly suited to the Biopharmaceutical industry.

Tubing

We supply a wide range of tubing which complements our peristaltic pumps and is suitable for use across a wide range of industries. For example, our Marprene tubing has high chemical resistance to acids and alkalis, making it suitable for use in chemical dosing applications, while our Pumpsil platinum-cured silicone tubing offers full traceability ideal for single-use Biopharmaceutical applications.

Single-use and fluid path technologies

Our BioPure brand supplies a range of single-use fluid path components, such as clamps, valves and connectors, to the Pharmaceutical and Biotechnology industries. Our Asepco brand supplies Biopharmaceutical customers with weirless radial diaphragm valves for tank bottoms and in line process applications. Our Flow Smart brand supplies high purity sanitary gaskets, silicone transfer tubing and reinforced silicone hoses for the Bioprocessing and Pharmaceutical industries.

Maintenance, repair and operations

We supply all the replacement parts required to keep our end users' pumping systems operating efficiently.

Sector-specific advice

Our expert engineers offer sector-specific advice to help our end users overcome their difficult pumping challenges through selecting the most appropriate pumps for their applications.

Direct sales

Our customers:

Hygienic applications

In peristaltic pumps the pump does not touch the fluid, making them ideal for hygienic applications where clean fluids must not be contaminated. A sterile tube makes a sterile pump.

Watson-Marlow pumps and filling machines are widely used in the Biotechnology, Pharmaceutical, and Food & Beverage industries.

For more information about how and where our products are used, see **page 21**

Single-use applications

Single-use is a growing trend in the Biotechnology and Pharmaceutical industries. Our cleanroom manufactured products reduce risk of contamination, enable the manufacture of single-use assemblies and improve the ease of our end users' validation processes.

Dirty applications

In peristaltic pumps the fluid does not touch the pump, making them ideal for dirty or abrasive fluids – such as slurries, pigments, chemicals and effluent – which would contaminate or damage other pump types.

Our high performance tubing offers excellent long-term performance as it is variously designed for resistance to chemicals, abrasive fluids and oils, greases or detergents.

Watson-Marlow pumps and tubing are widely used in the Mining & Precious Metal Processing, Water & Wastewater and Chemical industries.

For more information about how and where our products are used, see **page 21**

The value we add:

How our products and services benefit our end users

Improving

- Pumping accuracy
- Pump reliability
- Efficiency
- Productivity
- Ease of validation
- Maintenance

Reducing

- Whole life-cycle costs
- Maintenance downtime
- Chemical use and costs
- Water use and costs
- Energy use and costs
- Pumping time
- Risk of batch contamination

Meeting

- Statutory rules/regulations
- Industry standards (particularly around hygiene)

Watson-Marlow case study

Implementing our strategy for growth by expanding along the fluid path and providing single-use technologies

asepticSU™ single-use technology, from Watson-Marlow Fluid Technology Group, eliminates the need for cleaning validation and simplifies traceability at Cancer Research's research unit in Hertfordshire, UK.

A Cancer Research facility in Hertfordshire, UK, is among a growing number of clinical trial sites that have adopted asepticSU™ single-use fluid path technology from Watson-Marlow Fluid Technology Group. Used in conjunction with two of our Flexicon FP50 automated filling and stoppering machines, asepticSU™ has helped the charity's Biotherapeutics Development Unit (BDU) to eliminate the need for cleaning validation and simplified traceability of applied product contact components.

The BDU is an important facility in which the development and production of novel "Investigational Medicinal Products" for Phase 1 clinical trials takes place. Deputy Production Manager, John Emerson explained, "Put simply, we are a clinical trial supply unit within the charity, and we have our own filling lines in a sterile environment. As a result, exploiting the benefits of disposable, single-use technology such as asepticSU™ made perfect sense."

Single-use technology transforms the way filling lines are used, ensuring systems are kept clean and free from contamination. Sterility is guaranteed as all parts are provided to the customer double bagged and pre-sterilised using a validated gamma irradiation process. This eliminates the need for costly laminar air flow assembly areas, autoclaves and labour for the on-site assembly and sterilisation of filling accessories. Once the filling process is complete, users simply remove the asepticSU™ unit and replace it with a new one for a sterile, contamination-free changeover.

At the centre of asepticSU™ is Watson-Marlow's Accusil platinum cured silicone tubing, the only silicone tubing optimised for Flexicon fillers. Engineered specifically for post-irradiation dispensing stability and manufactured in Watson-Marlow's ISO 14644-1 Class 7 certified cleanroom, under tight tolerances, Accusil is also post-cured for lowest extractables and features laser etched lot data. Importantly, the tubing helps to ensure superior filling accuracy of ±0.5%, thereby preventing costly overfilling.

Pumping accuracy is essential. "We fill vials between 2 and 50ml, although 5ml is probably our most common size," said Mr Emerson. "A batch is usually 5 or 10 litres, which means filling 1,000 or 2,000 5ml vials. It is important we don't overfill."

Watson-Marlow's understanding of the unique requirements of the Biopharmaceutical industry and ability to advise on and provide appropriate and sterile single-use products along the fluid path, were central to Cancer Research's decision to purchase the asepticSU™ technology.

"Thanks to the adoption of asepticSU™ we have benefited in a number of ways from its inherent design characteristics," confirms Mr Emerson. "As the liquid being filled is not in contact with any mechanical parts, permanent pipework or the external environment, there is no risk of cross-contamination. In terms of traceability, all of the documentation is provided with the validation pack from Watson-Marlow, which makes our job much simpler. We order using a single part number, which simplifies inventory management, and the system arrives pre-configured so we are ready to go. Everything is fully integrated with standard connections, so set-up time is virtually zero."

Key customer benefits

- Cleaning validation eliminated
- Traceability simplified
- Filling accuracy enhanced
- Set-up time reduced

Our business model

Our resilient direct sales business model positions us well to create long-term value for our key beneficiaries.

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. Our customers' needs are at the heart of our business model and it is through meeting those needs that we create value.

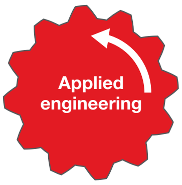
To meet our customers' needs we: manufacture high-quality products; advise customers on the most effective application of these products; design bespoke engineered packages; arrange installation of our engineered solutions; and help our end users to maintain and replace our installed equipment to ensure optimum efficiency in their industrial systems.

For more information about the benefits of our direct sales approach and our routes to market, see **pages 16–17**

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.



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 engineered 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.

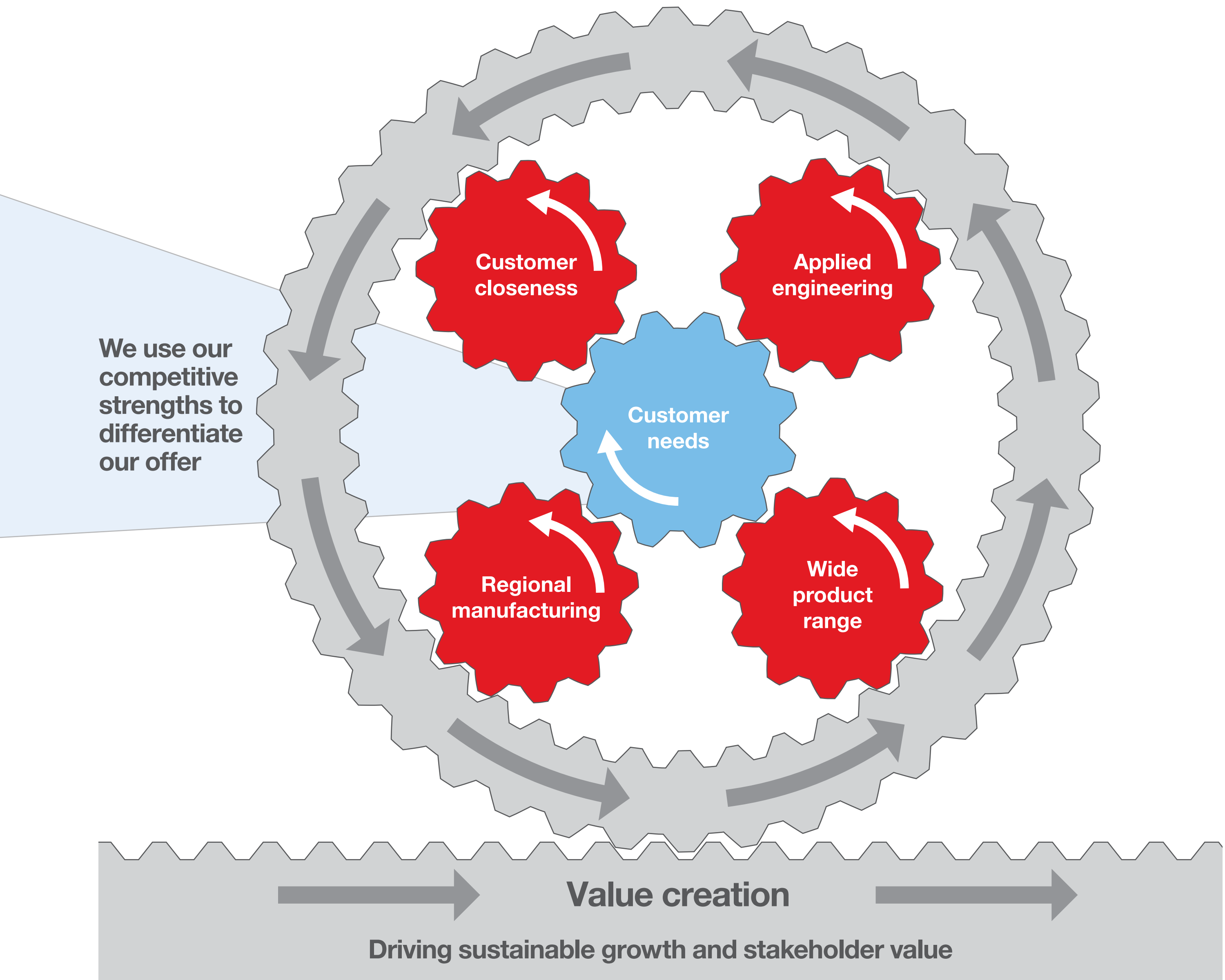
Regional manufacturing

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 manufacturing plants across the world, in Europe, North America, Latin America and Asia.

How we maximise value

We maximise value by focusing on our strategy for growth.

Read more on **pages 22–31**



Key beneficiaries of our value creation during 2015

Suppliers

Nearly **£300 million** paid to suppliers of materials and services.
By manufacturing regionally, using local and national suppliers, the beneficiaries of our value creation are geographically widespread.

Employees

Nearly **£200 million** paid in wages and salaries. We provide jobs and salaries in developed, emerging and developing economies, creating local purchasing power.

Customers

Our end users benefit from our products and services which help them to reduce energy and water use; improve process efficiency, product quality, and health and safety performance; and achieve regulatory compliance.

Communities

£199,000 plus employee time donated to charitable causes worldwide.
Our communities also indirectly benefit from the value that we create for all our stakeholders, across our value chain.

Governments

Approximately **£200 million** paid in taxes (corporation tax, employment taxes and net VAT) to national governments.
Through paying taxes we support the development of public infrastructure, healthcare and educational provision.

Shareholders

£140.3 million paid as dividends to shareholders during 2015 including a special dividend of **£91.0 million**.

How we reward our value creation

Our Remuneration Policy creates a strong alignment between the creation of value and Executive Director remuneration.

Read more on **pages 86–108**

Our business model in action:
customer closeness and applied engineering

Our Spirax Sarco and Watson-Marlow businesses are anchored on the philosophy of understanding the detail of our customers' processes and applying properly engineered solutions to assist steam and pump users to meet their challenges of improving process quality and efficiency, increasing throughput, and reducing energy and water consumption and plant emissions.

Our direct sales model

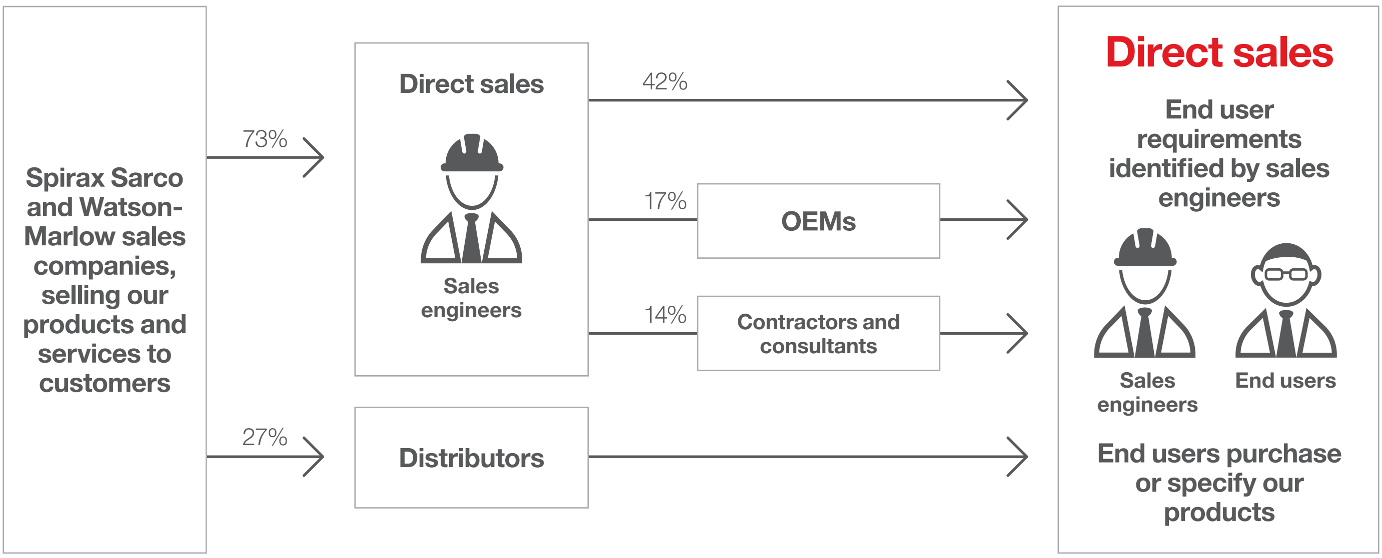
At the heart of our customer value proposition is the deep application and systems knowledge of our direct sales and support engineers. The investment in our direct sales teams allows us to talk directly with end users and be proactive in understanding their requirements. By talking directly to our end users and having extensive sector-specific industry knowledge, we are able to uncover problems, identify unrecognised needs and develop solutions to improve our end users' productivity, operational efficiency and sustainability.

Our sales force is a major investment

Our sales and service engineers are highly skilled in both product applications and in systems understanding and troubleshooting. We invest heavily in training our sales and service people as we recognise that their knowledge and skill is a key differentiator and a barrier to entry to competitors. We monitor the return on investment in our sales and service engineers and remain confident that the business they self-generate is making targeted financial returns. Our sales and service engineers, as the face of our businesses, reinforce brand loyalty and goodwill.

Routes to market

Approximately 73% of Group revenue is generated directly and the remaining 27% is generated indirectly from sales to distributors. Our direct sales model plays an important role in all routes to market as our sales engineers call on end users and sell the benefits of our products, solutions and services. End users may then purchase directly from us, 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

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 this 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 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 which 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.

Instrumental in creating added value and self-generated growth opportunities

Our markets: top line growth

Our closeness to our customers ultimately helps to insulate the Group from much seasonal and cyclical demand.

Some frequently asked questions:

Q: What is your view on global industrial production growth rates?

Our businesses serve very diverse markets across a wide range of different industries, geographic regions, customers and products. As steam and pumps are so widely used across many applications, our markets broadly reflect changes in global economic conditions and, in particular, movements of industrial production growth rates.

Global industrial production growth, which we typically lag by a few quarters, has progressively slowed over the past year to currently very low levels. At the end of 2015, year-on-year industrial production growth was around zero, with a decline in non-OECD markets. The slowdown in industrial production growth has been particularly marked in China and other emerging markets where we have long had a strong presence, with recessionary conditions in Latin America and Russia. This slowdown has also been evident in the developed markets of North America and Europe, although industrial production growth rates in the latter have been relatively stable albeit at levels of growth of less than 1%.

For more information about our risks see **pages 32–33**

For our Viability statement see **page 111**

Q: What do you expect to happen to industrial production growth rates?

Prospects for global industrial production are uncertain, following successive periods where projected improvements have been pushed back. However, we will be focusing on realising the benefits of our strategy, with emphasis on self-generated growth.

Q: Are you affected by low oil price?

Whilst the price of oil may influence the cost of energy to our end users, the correlation between the price of oil and our sales is relatively weak as payback on energy cost savings is only one of a wide range of motivations for customers to trade with us. Our direct sales business model means that our sales engineers work closely with end users to identify improvements to their steam systems, and peristaltic pump and associated fluid path systems. Typical benefits, other than energy savings, include reduced carbon emissions, water savings, productivity improvements, efficiency improvements, reduced costs and regulatory compliance. While lower energy prices will increase the payback period on some projects, the productivity and process improvements that our solutions offer still provide significant incentive for our customers to buy from us.

While the impacts of the low oil price are relatively muted, we are not immune. During 2015 we saw a negative impact in Korea and Canada in particular, as well as Brazil and China, for different local reasons. Overall, we estimate that the weaker Oil & Petrochemical sector and lower energy prices reduced our sales growth rate by around 1% during 2015.

Q: How confident are you of achieving future growth?

We are confident in our ability to grow, despite the difficult global trading conditions, for the following reasons:

1. Long-term market drivers remain positive for global industrial production growth.
2. Lower levels of large project work are largely offset by growth in our day-to-day business, reflecting increased demand from end users' replacement and maintenance spending, from which we derive a large proportion of our revenues and better margin business.
3. A large proportion of Group revenue is derived from defensive, less cyclical industries.
4. We remain focused on staying close to our customers and targeting self-generated growth opportunities which come from our ability to identify our end users' unrecognised needs, solve their difficult challenges, which many suppliers cannot, and gain market share by winning new installations that then become the base for future revenue.

1. 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 & Petrochemical 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 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 geographical penetration and grown our market share

2. Significant income from maintenance and operations expenditure

85%*

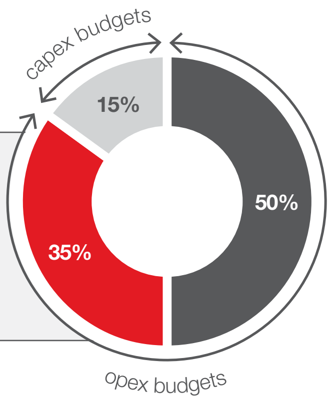
of Group revenue is generated from annual maintenance and operational budgets, rather than large projects from capex budgets, which are more likely to be cut during periods of slower growth.

By staying close to our customers, we are in a good position to self-generate growth from smaller, and typically better margin, projects.

* Based on Spirax Sarco internal estimates.

Customer capex vs opex spend*

We target smaller projects from opex budgets and self-generate new business through our deep understanding of customers' needs and our service ethos



- **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 £75k

As our sales engineers walk our end users' plants and identify and provide solutions to meet their unrecognised needs we self-generate business.

* Based on Spirax Sarco internal estimates.

4. 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 challenges.

3. Serving less cyclical industries

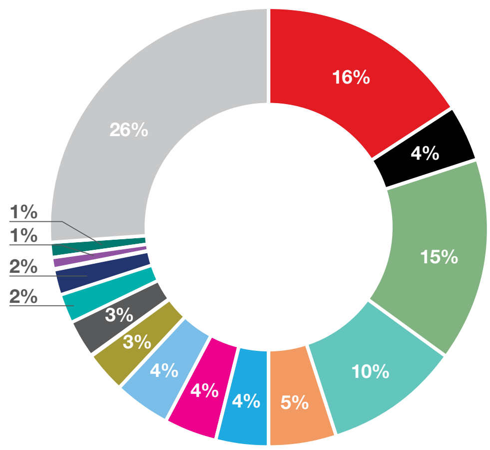
We have an excellent balance between higher-growth end markets and those that are more "defensive" and resilient.

50%*

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

* Based on Spirax Sarco internal estimates.

Revenue by key industry sector* %



Food	Buildings (HVAC)
Beverage	Mining & Precious Metal Processing
Pharmaceutical & Biopharmaceutical	Water & Wastewater
OEM Machinery	Pulp & Paper
Oil & Petrochemical	Power Generation
Healthcare	Textiles
Chemical	Rubber & Plastic
	Other

* Based on Spirax Sarco internal estimates.

* Approximately 18% of sales are through channels with little visibility of end industry. These sales have been allocated across key industries on a pro-rata basis. 2015 data reflects redefined sales analysis. Increase in the Pharmaceutical & Biopharmaceutical sector reflects acquisitions and increased visibility around OEM sales. OEM sales to identifiable end industries have been allocated to those industries. Sales to OEM customers account for approximately 17% of Group sales.

Our products and markets: in more detail

We continue to grow our market share by focusing on our strategy for growth.

Our market share at a glance

£5.0bn*

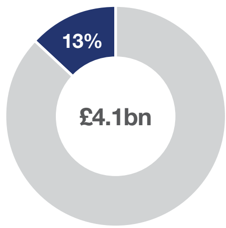
Estimated size of our total addressable market

14%

Our estimated global share of our total addressable market

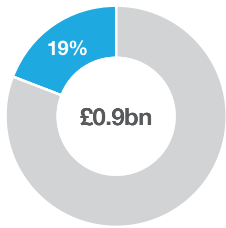
* Based on Spirax Sarco internal estimates.

spirax sarco
First for Steam Solutions



Steam specialties market
Spirax Sarco market share

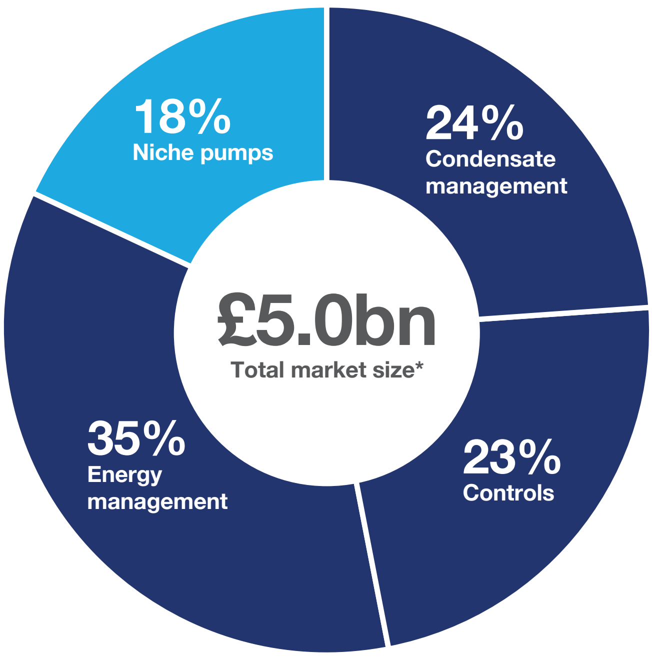
WATSON MARLOW
Fluid Technology Group



Niche pumps market
Watson-Marlow market share

Understanding our marketplace

Our global addressable market comprises four key areas and we provide products and services in each.



* Based on Spirax Sarco internal estimates.

The revised market size reflects underlying changes in market segment sizes, changes in the scope of the addressable market as a result of acquisitions, divestments and product development, and the impact of exchange movements. Market share includes annualised revenue from acquisitions made during 2015 and excludes revenue from businesses that were sold during 2015.

Condensate management

Market size:
£1.2 billion

Our typical products:
- Steam traps
- Condensate return pumps
- Isolation valves

Our market share
24%*

Controls

Market size:
£1.1 billion

Our typical products:
- Automatic control valves
- Pressure regulators
- Temperature controls

Our market share
12%*

Energy management

Market size:
£1.8 billion

Our typical products:
- Metering products
- Boiler house products
- Heat transfer packages
- Energy services

Our market share
6%*

Niche pumps
and associated equipment

Market size:
£0.9 billion

Our typical products:
- Positive displacement pumps
- Tubing
- Filling machines

Our market share
19%*

* Based on Spirax Sarco internal estimates.

Operating across a wide and balanced range of industries

Food

Steam is widely used in the processing of foods for blanching, cooking, baking, packaging, cleaning and sterilising. Our pumps and associated equipment are used to meter ingredients, deliver food to process lines and treat 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.

Pharmaceutical & Biopharmaceutical

Clean steam reduces the risk of product and process contamination, and our peristaltic pumps, valves and single-use components enable precise flow control and fluid isolation in the Pharmaceutical and Biopharmaceutical industries.

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.

Oil & Petrochemical

Our steam system products and services enable optimum performance in steam and condensate systems, and reduce energy use during oil and petrochemical production.

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.

Chemical

Steam is 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.

Buildings (HVAC)

Our steam products are used to provide space heating, humidification and hot water to create comfortable working conditions for employees and visitors in public and private buildings.

Mining & Precious Metal Processing

Peristaltic pumps reduce water, energy and chemical use and increase reliability and productivity while moving and processing highly abrasive ores and slurries.

Water & Wastewater

Peristaltic pumps are used to accurately dose chemicals during water treatment processes and efficiently transfer viscous and abrasive slurries.

Pulp & Paper

Our steam 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.

Power Generation

Superheated steam is an ideal fluid to transfer chemical energy in fuel into electrical energy through steam turbines. Steam is also used to distribute and re-use waste heat formed during the power generation process.

Our strategy:
doing better what we already do well

"Last year we extensively reviewed, revised and presented the Group strategy. During 2015 we remained focused on implementing our strategy for growth across the Group."

Nicholas Anderson
Group Chief Executive

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 26**

2 Develop the knowledge and skills of our expert sales and service teams
Read more on **page 27**

3 Broaden our global presence
Read more on **page 28**

4 Leverage our R&D investments
Read more on **page 29**

5 Optimise supply chain effectiveness
Read more on **page 30**

6 Operate sustainably and help improve our customers' sustainability
Read more on **page 31**

Self-generated growth

Our six Group strategic themes reflect the key elements of the Spirax Sarco steam business strategy, the Watson-Marlow Fluid Technology Group strategy, and the Group acquisitions strategy, which are summarised on the following page. The objective of our strategy is to deliver self-generated growth that outperforms our markets. To accomplish this, we are focusing on our strategic themes, which are designed to increase the effectiveness of our direct sales organisation, leverage our strengths in key sectors, take advantage of the most attractive opportunities, expand our addressable markets and align and direct our resources more effectively to improve business performance.

Through implementing our strategy we are further strengthening our direct sales business model and enhancing our ability to self-generate growth, which we achieve as we work closely with our end users to identify their unrealised needs and provide products and solutions to solve their difficult operational challenges.

To find out how we are implementing our strategy for growth, see **pages 26–31**

Spirax-Sarco Engineering plc

Our six strategic themes:

Our six strategic themes reflect the key elements of our individual business strategies, accompanied and underpinned by our Group acquisitions strategy. Our Group acquisitions strategy aims to create shareholder value by supplementing organic growth with targeted and returns-focused strategic acquisitions.

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First for Steam Solutions

- To be the world leader in steam *and* thermal energy solutions
- Intensify customer focus through enhanced Customer Value Propositions
- Focus on priority industries
- Increase R&D effectiveness
- Achieve global excellence in our supply chain
- Strengthen our competitive advantage through enhanced knowledge and skills

Read more on **pages 26–31**

WATSON MARLOW

Fluid Technology Group

- Enhance market sector sales focus
- Achieve rapid geographical expansion
- Accelerate development of breakthrough products
- Attain excellence in manufacturing
- Selective product and market sector diversification

Read more on **pages 26–31**

Group acquisitions strategy

- Create significant shareholder value through supplementing organic growth
- Expand the capabilities of our niche businesses through new technologies, skills or geographic coverage
- Increase our addressable market into adjacent related sectors

Our key performance indicators

We use a range of quantitative financial and non-financial key performance indicators to monitor the Group's progress against our objectives of delivering consistent, profitable and sustainable growth and shareholder value.

KPI

1. Organic revenue growth %

	%
2015	2
2014	4
2013	4
2012	5
2011	9

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 strategy (pages 26–31)

1 2 3 4 5 6

Direct link Indirect link

Progress in 2015

Organic sales increased by 2%. The strongest growth was again in Watson-Marlow where we achieved growth in all geographic regions. Organic sales in the steam specialties business were flat; we achieved continued modest sales growth in EMEA and made a small advance in the Americas but organic sales were lower in Asia Pacific.

Link to remuneration

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 risk (pages 32–33)

1 2 3 4 5 6 7

Direct link Indirect link No link

KPI

2. Adjusted operating profit* £m

	£m
2015	152.4
2014	153.0
2013	151.6
2012	136.2
2011	134.0

Definition

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

Link to strategy (pages 26–31)

1 2 3 4 5 6

Direct link Indirect link

Progress in 2015

Adjusted operating profit was 4% ahead at constant currency. Watson-Marlow again performed strongly and in the steam specialties business, profits grew by double-digits at constant currency in EMEA, the Americas was flat and Asia Pacific registered an operating profit reduction at constant currency.

Link to remuneration

Group operating profit is the other 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 risk (pages 32–33)

1 2 3 4 5 6 7

Direct link Indirect link

KPI

3. Operating profit margin* %

	%
2015	22.8
2014	22.5
2013	22.0
2012	20.6
2011	20.6

Definition

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

Link to strategy (pages 26–31)

1 2 3 4 5 6

Direct link Indirect link

Progress in 2015

The operating profit margin expanded to a record 22.8%, benefiting from the modest sales growth, the focus on price management, efficiency gains and cost savings actions, particularly in the UK and USA early in 2015, and a second year of broadly flat costs for materials. Business mix was generally favourable across the steam specialties business.

Link to remuneration

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 risk (pages 32–33)

1 2 3 4 5 6 7

Direct link Indirect link

Remuneration measures: Bonus measure Performance share plan measure

For full details about our remuneration measures read more on pages 86–108

* Based on adjusted operating profit. Adjusted operating profit excludes certain non-operational items as set out and explained in the Financial review and in Note 2 on page 130.

KPI

4. Return on capital employed (ROCE)* %

	%
2015	44.1
2014	44.3
2013	44.4
2012	39.4
2011	41.1

Definition

ROCE 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 strategy (pages 26–31)

1 2 3 4 5 6

Direct link Indirect link

Progress in 2015

ROCE edged lower to 44.1% due to a 90 bps impact from our start-up in India. Excluding this, ROCE improved by 70 bps reflecting our close control of the various components of capital employed and improvement in the operating profit margin.

Link to remuneration

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

Link to risk (pages 32–33)

1 2 3 4 5 6 7

Direct link Indirect link

KPI

5. Basic earnings per share (EPS)* p

	p
2015	142.6
2014	140.4
2013	138.8
2012	122.2†
2011	121.0†

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 strategy (pages 26–31)

1 2 3 4 5 6

Direct link Indirect link

Progress in 2015

Basic earnings per share increased by 6% at constant currency, benefiting from the higher pre-tax profit, small reduction in the tax rate and a reduction of 3.6% in the number of shares in issue from 15th June 2015, following the share consolidation in conjunction with the special dividend paid in July 2015.

Link to remuneration

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

Link to risk (pages 32–33)

1 2 3 4 5 6 7

Direct link Indirect link

KPI

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

	Number
2015	3.3
2014	5.4
2013	4.4
2012	5.5
2011	6.0

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 strategy (pages 26–31)

1 2 3 4 5 6

Direct link Indirect link No link

Progress in 2015

Our over seven day lost time accident rate fell significantly to 3.3 accidents per 1,000 employees, a 38% improvement, reflecting a fall in the total number of accidents to 16 (2014: 26). The improved performance follows increased focus on H&S and proactive management of H&S risks.

Link to remuneration

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 risk (pages 32–33)

1 2 3 4 5 6 7

Direct link Indirect link No link

* Based on adjusted operating profit.

† 2012 restated for IAS 19(R), earlier years adjusted on an estimated basis.

Our strategy in action

In this section we demonstrate how we are implementing and making progress against each of our six strategic themes.

1 Increase direct sales effectiveness through sector focus

Why we are focusing on this

It is not our products alone that provide value to customers. The extensive application and systems knowledge of our direct sales and support people is at the heart of our Customer Value Propositions. Through expanding the sector focus of our direct sales force we will enhance our Customer Value Propositions and increase our sales effectiveness.

How we are doing it

We have identified several priority industries, such as Food & Beverage, Healthcare and Oil & Petrochemical, to act as a focus for investment and sales force sectorisation. Our priority industries have been chosen for their potential return on investment and for our already strong competitive position within these markets. We are also increasing our focus on thermal energy management within those priority sectors, with the goal of making our Spirax Sarco steam specialties business the customers' first choice provider for steam solutions and thermal energy management.

In practice

Spirax Sarco Mexico sectorises its sales force

Until recently, Spirax Sarco Mexico's sales and service engineers worked geographically across five regions. During 2015 the company completed an extensive reorganisation and sectorisation of its sales force. The process began with a comprehensive analysis of steam users and market segments by a wide range of factors including geographical location, market size and sales. The optimum number of sales engineers required to effectively address each market sector was identified, analysis of the sales force was undertaken to determine how each sales engineer could be utilised most effectively, the sales force was restructured and weekly training sessions established to deepen the sector specific knowledge of the sales engineers. Sectorisation of the sales force has already seen results, with segment specialists offering improved customer service and sales in target industries growing.

Results to date

- Approximately a quarter of Spirax Sarco operating companies completed the sectorisation of their sales force during 2015
- £1.6 million investment approved to consolidate the manufacture of "clean steam" products in a state-of-the-art, ISO 14644-1 Class 7 cleanroom facility in Cheltenham, UK

Next steps

- Continue to implement sales force sectorisation across our businesses
- Complete the "clean-steam" manufacturing facility to enhance our manufacturing capability, widen our product offering and provide a showcase for customers from the Food & Beverage, Pharmaceutical and Biotechnology industries

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

Why we are focusing on this

Continually improving the competency, technical skills and in-depth application knowledge of our sales and service engineers is central to our direct sales business model. Understanding our end users' processes and applying appropriately engineered solutions to their steam or niche pumping problems are pivotal to our business success. Through continually investing in the professional development of our people, we develop a level of expertise that is unrivalled by our competitors.

How we are doing it

We train our customer facing employees in our 48 state-of-the-art training centres located around the world, most of which are equipped with live steam or pumping installations that facilitate hands-on training. Our engineers also undergo extensive on-the-job training and mentoring. We have developed a wide range of training materials and tools that are internet-based and available through our training centres, to facilitate the on-going professional development of all our engineers.

Read more on **page 58**

In practice

Spirax Sarco Malaysia opens new state-of-the-art training centre

During 2015, Spirax Sarco Malaysia opened a new state-of-the-art training centre, equipped with live steam installations. The training centre is now being used to further develop the expertise of our sales engineers and other customer facing employees, as well as providing training to our end users' technical and maintenance staff.

The training centre, which is part of a new office and warehouse complex, was opened by Nicholas Anderson (pictured centre) on 24th June. The fit out of the four-storey building, which also includes offices, a warehouse and a cafeteria, was project managed by Ciara O'Sullivan (pictured left), during a six month overseas secondment as part of her two-year sponsored graduate placement with Spirax Sarco. Following the success of her secondment, Ciara has now secured a permanent position with the Company.

Identifying and recruiting high calibre employees and then developing their skills is a core component of our strategy for growth.

Results to date

- New training centres opened in Malaysia, the Philippines and France during 2015
- 40 new or upgraded courses added to our e-learning library during 2015
- Spirax Sarco recognised for excellence at 2015 National E-Learning Awards, UK

Next steps

- Establish a Spirax Sarco Academy during 2016, to oversee delivery of the learning and development programmes of the Spirax Sarco steam specialties business' customer facing staff
- Complete installation and open a new Spirax Sarco training centre in India

Our strategy in action *continued*

3

Broaden our global presence

Why we are focusing on this

Our strong global presence is a result of decades of investment in building easily recognisable brands that symbolise expertise and reliability. We achieve a first-to-market advantage from early entry into new markets and profit from the growth opportunities that the emerging markets represent.

How we are doing it

Our strong infrastructure around the world is enabling us to branch into neighbouring markets. We generally enter new markets through establishing a direct sales presence in the country through the creation of a sales office or the installation of one or more sales engineers. Occasionally, we purchase our distributor to allow us a foothold in an emerging market. Leveraging our existing strong infrastructure, we are also pioneering the introduction of Watson-Marlow into much of the developing world, demonstrating the superior technology and lower life-cycle costs of peristaltic and niche pumps.

In practice

Spirax Sarco commences direct sales in India

During 2015 our Spirax Sarco steam specialties business commenced direct selling in a newly established, wholly owned operation in India, following the sale of our 49.3% interest in our Associate company Spirax Marshall in March. We are constructing a world-class manufacturing plant, warehouse, sales offices and state-of-the-art training facilities in Chennai, which are due for completion in Q2 2016, and have established two further regional sales offices in Mumbai and Delhi. We currently employ around 40 people, including sales and service engineers, and are actively strengthening this team in line with business growth.

By establishing a direct sales presence, and manufacturing and holding stock locally, we have created the flexibility required to take advantage of the good medium and long-term growth prospects in this important developing economy.

Results to date

- Four new Spirax Sarco steam specialties operating units commenced trading during 2015 in Egypt, Peru, India and Colombia
- Three new Watson-Marlow operating units commenced trading during 2015 in Japan, Taiwan and Chile
- A Spirax Sarco direct sales presence established in the Ivory Coast and Algeria

Next steps

- Continue to identify geographical markets that provide opportunities to expand our global presence
- Increase Spirax Sarco sales coverage in India
- Increase Spirax Sarco presence in North Africa and the Middle East
- Continue to broaden the presence of Watson-Marlow in Asia Pacific and the Middle East

4 Leverage our R&D investments

Why we are focusing on this

Our ability to deliver an increasingly wider range of solutions to reduce energy and water usage, lower plant emissions and improve plant productivity and efficiency, rests with our commitment to new product development. We believe that investing in R&D is crucial to the long-term sustainability and success of the Group.

How we are doing it

We have increased our R&D investments in recent years and will leverage these investments to generate sales growth, with shorter time-to-market of new products and solutions in such areas as thermal energy management, controls, condensate management and new pumping technologies and systems. Product development will increasingly be aligned to sector requirements. Where appropriate, we will look to make acquisitions in related areas that deliver new products and technologies and expand our addressable markets.

In practice

Spirax Sarco receives a Queen's Award for Enterprise in Innovation

During 2015 Spirax-Sarco Engineering plc received a Queen's Award for Enterprise in Innovation – the UK's highest accolade for business success – for the design and manufacture of a novel flowmeter.

The Spirax Sarco TVA flowmeter is a revolutionary alternative to traditional steam flow measurement, combining reliable, accurate and cost-effective steam metering with quick and easy installation, across a range of industries worldwide. The flowmeter, which incorporates a proprietary sensor and unique mathematical algorithms, was developed in Cheltenham, UK and tested in our world-class technology centre and steam laboratory.

Annually, we invest around £10 million in R&D across the Group and are focused on providing products that help our end users to improve their process efficiencies and meet their sustainability targets.

Results to date

- SIMS (Spirax Intelligent Monitoring Systems) energy and monitoring platform and STMS (Steam Trap Management System) software completion
- Watson-Marlow Bredel launched Apex 28/35 pumps to help Water & Wastewater end users reduce maintenance costs
- BioPure launched PureSU, to help Bioprocessing end users control their whole fluid path

Next steps

- Continue to improve process development to reduce time-to-market and strengthen the pipeline of breakthrough new products
- Release of Steam Quality Station for continuous monitoring of steam quality, in the Pharmaceutical, Healthcare and Food & Beverage industries
- Innovative product launches from Watson-Marlow during 2016

Our strategy in action *continued*

5

Optimise supply chain effectiveness

Why we are focusing on this

Our direct sales business model, with extensive product ranges and short order books, requires a regional manufacturing strategy with plants throughout the world to optimise customer service and minimise costs. Through optimising effectiveness, we are developing our entire supply chain to enhance product availability, increase flexibility, reduce costs and improve service levels in support of sales growth.

How we are doing it

We have strategically located our manufacturing plants in Europe, North America, Latin America and Asia, to optimise supply chain efficiency. During 2014 we appointed a Group Supply Chain Director to provide management across the supply chain, identify inefficiencies, share best practice and better align our manufacturing and sales organisations. During 2015 we further expanded the Group Supply Chain function, adding a Group Supply Chain Sourcing Manager and a Group Supply Chain Operations Manager.

Read more on **page 59**

In practice

Global Excellence in Manufacturing, Watson-Marlow tubing manufacture

Global Excellence in Manufacturing (GEM) is Watson-Marlow Fluid Technology Group's way of working, our operating system, the way we manage our operations and our daily work. It brings together best practice in manufacturing from within and outside the Group and drives continuous improvement across the supply chain. GEM is focused on meeting the needs of our customers and is people driven. It is process orientated, data led and supportive of sustainable growth. GEM improvements can either be individual bright ideas which are reviewed, agreed and implemented, or larger business led projects requiring capital expenditure. Since 2012, GEM has resulted in over £1 million of savings, added nearly 15,000 hours to capacity, improved customer service and increased sales.

For example, pump roller press automation at our Falmouth site reduced the length of time required to assemble 1,000 rollers from three hours to 20 minutes. This created over 500 hours of extra capacity in labour savings during 2015.

Results to date

- Supply Chain Strategy launched, focused on delivering excellence in our supply chain
- "Demand driven planning" systems deployed; strong improvements in delivery performance and inventory optimisation
- Supply chain agility actions delivered, compressing lead times and enabling greater responsiveness

Next steps

- Continue to execute our Supply Chain Strategy
- Further strengthen our supply chain community, delivering greater synergy and effectiveness
- Deliver continuous improvement across all Operational Excellence metrics

6 Operate sustainably and help improve our customers' sustainability

Why we are focusing on this

Sustainability is at the core of our business operations, driving our strategy to innovate and manufacture products that improve the sustainability and competitiveness of our customers' operations, while improving our own operational efficiency, reducing our environmental impacts and improving the quality of life of our employees, their families and the communities in which we operate. In a resource constrained and competitive world we have an obligation to create a more sustainable way of life and to ensure the long-term sustainability of our business.

How we are doing it

Our approach to sustainability encompasses five primary areas of emphasis: our workplaces, our supply chain, our environment, our customers and our communities. Through setting strategic objectives in each of these areas we are continuously improving our sustainability and the sustainability of our customers' processes and operations.

Read more on **pages 54–63**

In practice

Horizon 2020 is an EU Research and Innovation programme that seeks to maintain Europe's competitiveness on the global stage. Within Horizon 2020, the SPIRE (Sustainable Process Industry through Resource and Energy Efficiency) initiative seeks to achieve a significant overall efficiency improvement of up to 40% in CO_2e footprints through reduced consumption of fossil fuels and raw materials.

During 2015 Spirax Sarco Ltd, UK, secured SPIRE funding of €558k over three years through the SYMBIOPTIMA Project*. The main objective is to lead the development of a "Smart Thermal Energy Grid" capability, utilising existing and new Spirax technologies including SIMS (Spirax Intelligent Monitoring Systems) technology. The Smart Thermal Energy Grid will allow clusters of industrial facilities to collaborate for optimal use of energy. Operating within a consortium of 15 European organisations Spirax Sarco is also acting as Project Co-ordinator, liaising directly with the EC on behalf of the consortium.

* This project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 680426.

Results to date

- Executive sponsor allocated to each strategic sustainability objective
- Sustainability benchmarking exercise completed
- Significant improvements in H&S performance
- 13% reduction in our global carbon emissions during 2015

Next steps

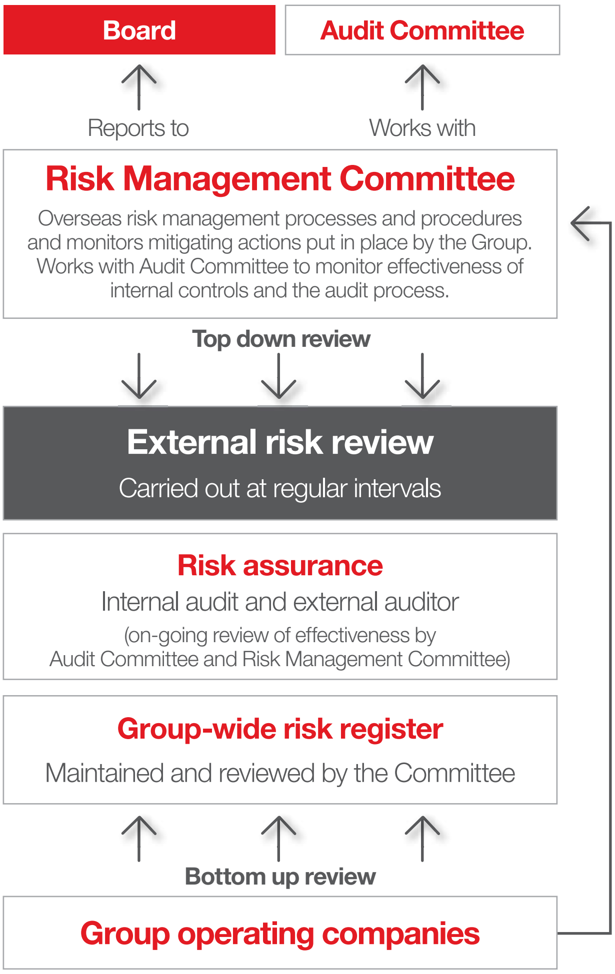
- Continue to invest management time in furthering our sustainability agenda
- Group-wide roll-out of our refined sustainability strategy
- Focus on improving our and our end users' energy efficiency

Risk and risk management

"In 2015 we made changes to our risk management framework to ensure it was fully integrated across the business."

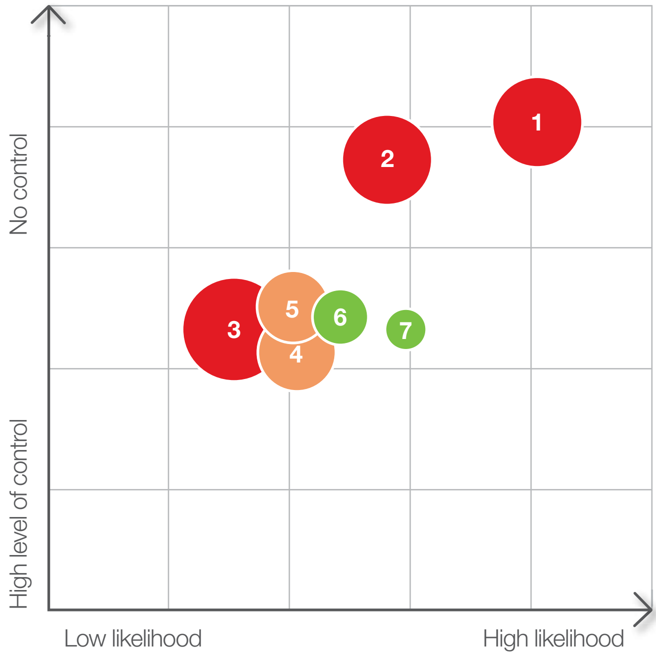
Nicholas Anderson
Chairman, Risk Management Committee

Managing risks



Risk likelihood, control and impact

The diagram below shows the Committee's analysis of the principal risks affecting the Group, before mitigation.



The numbers relate to the principal risks outlined on **page 33**

Viability statement

As required, this year we have produced a Viability statement which takes account of our current position and principal risks.

A more detailed overview of our risk culture, appetite and tolerance together with the role, responsibilities and actions of the Risk Management Committee in 2015 can be found on **pages 81–83** of our Governance Report

Our Going concern and Viability statements can be found on **page 111**

Summary of the key areas of focus for 2016:

- On-going monitoring of risk management and internal controls
- Risk Management Committee to act as "Ethics Overview Committee"
- Roll out further anti-bribery and corruption training

A summary of the principal risks, their link to our strategy and an explanation of how the Group mitigates each risk is set out in the following table. The direction of change from 2014 is illustrated by the arrow in the "Change" column and an explanation is provided within the table. The ranking has moved since 2014 following a review by the Risk Management Committee. There may be other risks and uncertainties that are unknown to the Group or which could become material in the future. These risks may cause the Group's results to vary materially from historic and expected results.

	Principal risk and why it is relevant	Year-on-year change*	Link to strategic themes (pages 26–31)	Key mitigation and Executive member sponsor
1	**Economic and political instability:** Economic and political instability creates risks for our locally based direct operations, including the impact of regime changes. * No change.	→	Direct link: 3 Indirect link: 5 No link: 1, 2, 4, 6	• Compliance with Group Treasury Policy • Scenario planning • Strong internal controls • Resilient business model with 10% of Group sales in higher risk areas • EXECUTIVE SPONSOR: Nicholas Anderson
2	**Significant exchange rate movements:** The Group reports its results and pays dividends in sterling. Operating and manufacturing companies trade in local currency. * No change.	→	Direct link: 3 Indirect link: 5 No link: 1, 2, 4, 6	• Spread of manufacturing across currency areas • Forward cover where appropriate and in line with the Group Treasury Policy • Focus on reducing manufacturing costs • EXECUTIVE SPONSOR: David Meredith
3	**Loss of manufacturing output at any Group factory:** Loss of manufacturing output at any important plant risks serious disruption to sales operations. * No change.	→	Direct link: 5 Indirect link: 3, 6 No link: 1, 2, 4	• Business continuity planning and disaster recovery plans • Stocks of components and finished products in sales companies • Regular and comprehensive back-up of IT systems • Use of audits/inspections and business interruption insurance • Proactive approach to people management to ensure open communications • Appropriate building construction with sprinkler systems or alternatives • EXECUTIVE SPONSORS: Jay Whalen, Ian Farnworth
4	**Defined benefit pension deficit:** Defined benefit pension schemes carry risks in relation to investment performance, security of assets, longevity and inflation. * Volatility of equity and bond yields.	↑	Indirect link: 6 No link: 1, 2, 3, 4, 5	• Use of independent professional advisers and custodians • Pension scheme de-risking strategy in place • Use of Mercer "Dynamic De-Risking Solution" • EXECUTIVE SPONSOR: David Meredith
5	**Breach of legal and regulatory requirements:** The Group is subject to many different laws and regulations in various countries. Breaching these laws and regulations could have serious consequences. * Roll-out of compliance programme completed.	↓	Direct link: 5, 6 Indirect link: 1, 2, 3, 4	• Regular updates on Corporate Governance and Stock Exchange rules • Established strong ethical culture • Review of commercial arrangements undertaken with external advice • Procedures in place to maintain accreditations • Effective monitoring of litigation • EXECUTIVE SPONSOR: Andy Robson
6	**Non-compliance with health, safety and environmental legislation:** A major health, safety or environmental incident could cause total or partial closure of a manufacturing facility. * Accelerated EHS programme.	↓	Direct link: 6 Indirect link: 1, 2, 3, 4, 5	• Increased focus by Board and Executive Committee • Compliance with legislation and codes of best practice • Regular audits, site checks and reporting • On-going training • Employee concerns recorded and investigated • EXECUTIVE SPONSOR: Ian Farnworth
7	**Product specification failure:** Failure to meet customers' specific technical requirements could result in disruption and potential loss to an end user's plant or facility. * Increased complexity of products and solutions.	↑	Direct link: 1, 2, 5 Indirect link: 3, 4, 6	• Extensive internal and field testing of new products prior to launch • On-going capital investment in latest manufacturing technology • Batch referencing of products for identification and isolation of problems • Testing policy and procedures in place across manufacturing sites • EXECUTIVE SPONSORS: Jay Whalen, Ian Farnworth

* Explanation of changes in risk.

↑ Increased risk → No change to risk ↓ Decreased risk

Our 2015 performance in detail

Image: Steam trap rig, Spirax Sarco training centre, Turkey

In this section

Our divisional performance at a glance 2015

Our focus on key economic areas allows us to understand and respond rapidly to market and customer demands.

spirax sarco
First for Steam Solutions

Europe, Middle East and Africa (EMEA)

Revenue	Operating profit	Operating margin
£219.4m	£42.7m	19.5%
Change -7%	Change -7%	Change +10 bps
Constant currency +1%	Constant currency +11%	Constant currency +170 bps

Asia Pacific

Revenue	Operating profit	Operating margin
£171.8m	£44.7m	26.0%
Change -3%	Change -4%	Change -10 bps
Constant currency -4%	Constant currency -7%	Constant currency -90 bps

Americas

Revenue	Operating profit	Operating margin
£123.4m	£27.1m	22.0%
Change -2%	Change -3%	Change -20 bps
Constant currency +1%	Constant currency 0%	Constant currency -20 bps

WATSON MARLOW
Fluid Technology Group

Watson-Marlow

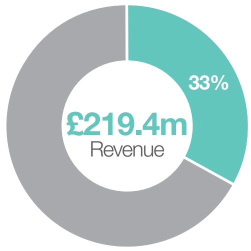
Revenue	Operating profit	Operating margin
£152.6m	£48.0m	31.4%
Change +10%	Change +10%	Change -10 bps
Constant currency +13%	Constant currency +10%	Constant currency -80 bps

No. of operating units* at year end: 24
One new operating company commenced trading (Egypt) and one disposal (M&M, Italy) during 2015

Direct sales presence at year end: 32 countries

Key industries: Food; Oil & Petrochemical; Pharmaceutical & Biopharm; Chemical

Performance summary Organic sales up 2%; sales growth in most operations. UK modestly lower and Russia down; positive start in Egypt. Currency headwinds reduced sales 8%; M&M disposal 1% reduction. Operating profit up 11%; currency headwinds reduced profit by 16%. Headcount reduced in UK manufacturing; £0.6 million net benefit in 2015. Profit margin up 10 bps – cost control, price management, efficiency improvements, flat material costs off-set currency impact. Remain positive despite continued market challenges.



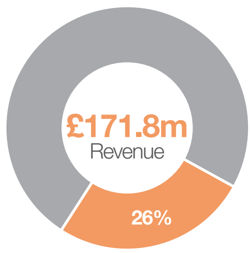
Read more on **pages 42–43**

No. of operating units* at year end: 13
One new operating company commenced trading (India) and one disposal (Spirax Marshall, India) during 2015

Direct sales presence at year end: 16 countries

Key industries: Buildings (HVAC); Food; Beverage; Oil & Petrochemical

Performance summary Sales down 4%; China's economic slowdown impacted whole region. Encouraged by demand stabilisation in H2 2015. China sales and profit marginally up; large projects down, self-generated projects up. Korea sales and profit down; large projects down, some shipments delayed to 2016. Sales and profit well ahead in Japan, down in Australasia, mixed in South East Asia. Operating profit down 7%; significant H2 improvement versus H1. Direct sales in India since July; pre-trading and start-up losses of nearly £2 million. Positive long-term outlook despite current economic uncertainty.



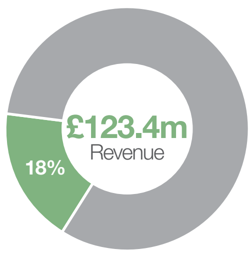
Read more on **pages 44–45**

No. of operating units* at year end: 8
One new operating company commenced trading (Peru) and one acquisition (Casaval SA, Colombia) during 2015

Direct sales presence at year end: 10 countries

Key industries: Food; Oil & Petrochemical; Buildings (HVAC); Pharmaceutical & Biopharm

Performance summary Sales up 1%; North America 2% down, Latin America 5% up. North America – weak distribution markets; closed meter manufacturing plant. Latin America – sales up in all operations, except Brazil; new operations in Colombia and Peru. Good progress implementing strategy; success with direct key accounts in USA. Significant currency fluctuations; overall 3% reduction in sales. Operating profit flat; cost saving actions offset by investments for growth. Remain positive on the region despite slowing industrial production growth rates.



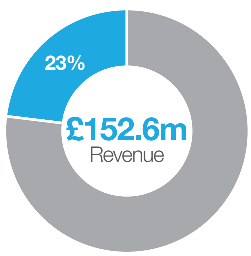
Read more on **pages 46–47**

No. of operating units* at year end: 31
Two new operating companies commenced trading (Chile and Taiwan) and three acquisitions (Asepco, USA; MasoSine manufacturing and distribution business, Japan; Flow Smart, USA) during 2015

Direct sales presence at year end: 29 countries

Key industries: Pharmaceutical & Biopharm; Water & Wastewater; Food; Mining & Precious Metal Processing

Performance summary Organic sales up 9%, plus 4% from three 2015 acquisitions. Strong growth in all geographic regions. Biopharm, OEM, Food & Beverage sectors all up strongly. Good first-time contribution from Asepco. Operating profit up 10%; margin edged down by investments for growth and some dilution from acquisitions. New direct sales operations in Japan, Taiwan and Chile. Active product development pipeline supports future growth.



Read more on **pages 48–49**

* Operating companies, branches and Associate.

Group Chief Executive's report

"The Group achieved another solid financial result in 2015, demonstrating the continued strength and resilience of our strong direct sales business model."

Nicholas Anderson
Group Chief Executive

Key points in this section:

- Considerable progress in our strategy for growth
- Background of slowing industrial production growth rates and currency headwinds
- Organic sales increased by 2%, continued strong growth in Watson-Marlow
- Adjusted operating profit 4% ahead at constant currency
- Reinvesting cost saving benefits in the execution of our strategy for growth

Introduction

The Group achieved another solid financial result in 2015, demonstrating the continued strength and resilience of our strong direct sales business model, achieved against the background of a progressive slowing in global industrial production growth to very low levels and also further currency headwinds. Additionally, we made considerable progress in our strategy for growth, continued our market development, took actions to improve efficiency and reduce costs, opened six new geographic sales companies, completed five acquisitions and made two strategic disposals.

Our direct sales approach in both our steam specialties and Watson-Marlow businesses, through our team of over 1,300 highly skilled and experienced sales and service engineers, is effective in uncovering opportunities to improve customers' steam systems and fluid path processes. This "self-generated" element to our business, combined with the high proportion of sales that derive from end users' maintenance and operating budgets, makes our business highly resilient, especially in the difficult market conditions we have seen in many markets this year. Importantly, our sales and service engineers generate solutions for customers' problems and deliver benefits to end users in the shape of reduced energy usage and lower CO_2 emissions, water savings, increased productivity, improved quality, better reliability, reduced costs, reduced chemical use and enhanced regulatory compliance.

Strategy implementation

Effective implementation of our strategy for growth has been a priority through the year and in 2016, we will be reinvesting the benefits from our cost reduction actions into the execution of our strategy. Our strategic objective is to outperform our markets by delivering self-generated growth, which we achieve through focusing on our six strategic themes:

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

Notable progress in implementing our strategy has been made in:

- intensifying, expanding and accelerating the training and development of our sales engineers to ensure that we are even more effective in identifying and generating opportunities to improve customers' steam systems and niche pumping systems. In particular, work commenced on the creation of a new Spirax Academy that in 2016 will be the centre for the global training, mentoring and development of our employees, commencing with our direct sales force;
- the refinement and implementation of Customer Value Propositions to ensure that we adequately anticipate and meet the requirements of customers;
- delivering a greater sector focus on selected target industries, particularly in Food & Beverage, Healthcare, Oil & Petrochemical, Chemical and OEM customers, with appropriate sectorisation that will be an on-going feature for many years;
- increasing the focus on attractive product areas, including controls and thermal energy management;
- continued innovative product developments
- ensuring we have the correct structure, resources and skills to improve the effectiveness of our end-to-end supply chain;
- continued geographic expansion, with six new direct sales companies

established in the year, including a major strategic investment in India; and

- continuing to improve our sustainability practices, including reducing our global carbon emissions by 13% in 2015.

We have concentrated on the alignment of the entire organisation behind our strategic themes. Improvements have been made to our health and safety management processes, and our risk management processes have also been enhanced and integrated further into the everyday business.

Market environment

Steam is used in a huge range of manufacturing processes for heating, curing, cooking, drying and cleaning, across a diverse range of different industries, including Food & Beverage, Pharmaceutical, Oil & Petrochemical, Chemical and Pulp & Paper. Steam is also used in hospitals and buildings for space heating, humidification and sterilisation, and to provide a reliable source of hot water at constant temperature. Likewise, peristaltic and niche pumps are also used across a wide range of similar industries to address difficult pumping problems. This wide spread of industry sectors and relatively large proportion of revenues that derive from end users' maintenance and operating budgets, means that our markets tend to track the growth in industrial production, although generally with a small lag of one or two quarters. Our exposure to large capital projects is limited, accounting for approximately 15% of our revenues, with a higher concentration of these projects in emerging markets. Overall, there was a further small decline in this segment of the market due to delays in approval and delivery of projects, and generally fewer projects undertaken by customers.

As we have previously noted, the impact on our business from the sharp fall in the price of oil is relatively muted but we are not immune, having seen a negative impact in Korea and Canada in particular, as well as in Brazil and China for different local reasons. Overall, we estimate that the weaker Oil & Petrochemical sector and lower energy prices, reduced Group sales growth by around 1% in 2015.

Global industrial production growth rates started to ease from the middle of 2014 and have progressively slowed through 2015, ending the year at virtually a global standstill. This has happened across all geographic regions, with emerging markets seeing the sharpest deceleration in industrial production growth.

In EMEA, industrial production growth slowed only modestly in 2015 and has been relatively stable since the Spring, although at low levels of growth of less than 1% overall. This includes a sharp deterioration in economic conditions in Russia, a slowing trend to zero growth in the UK but increasing industrial production growth in France, Italy and Spain, albeit following at least two years of decline in each case.

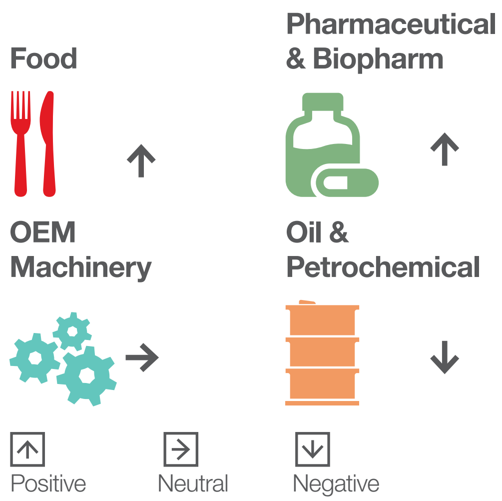
Asia Pacific has experienced a marked slowdown in industrial production growth driven by a strong deceleration in China as well as an industrial recession in South Korea. Elsewhere, market conditions have been mixed but with good economic growth in India.

In the Americas, industrial production growth slowed markedly and unexpectedly in the USA and Canada from the healthy pace seen in 2014. South America remained in an industrial recession throughout the year, with a deteriorating position in the largest market in Brazil. We have strong, long-standing businesses across Latin America with local manufacturing that has helped to insulate us against the impact of currency weakness but we are not immune from the severe economic turmoil in the region.

Progress in 2015

Organic sales increased by 2%. The strongest growth was again in Watson-Marlow where we achieved growth in all geographic regions. Organic sales in the steam specialties business were flat; we

Key market performance



- Our markets are strongly influenced by industrial production growth rates as steam and niche pumps and associated fluid path technologies are widely used across industry sectors
- Progressive slowing in global industrial production growth to very low levels during 2015
- Sales growth achieved in our strategic focus sectors including Food & Beverage
- Good performance in the Pharmaceutical & Biopharmaceutical sector, strengthened by acquisitions
- Strategic focus on OEM customers delivered results in key sectors
- Oil & Petrochemical markets globally challenging in 2015

Group Chief Executive's report *continued*

achieved continued modest sales growth in EMEA and we made a small advance in the Americas but organic sales were lower in Asia Pacific, mostly due to Korea, although China was marginally ahead.

Group sales at £667.2 million were down 2% at reported exchange rates (2014: £678.3 million), with unfavourable currency movements reducing sales on translation by 4%, due to the weakness of the euro, again compounded by significant currency weakness in a number of emerging markets. This was mitigated by the benefit to sales on translation from the strength of the US dollar and Chinese RMB against sterling. Currency movements have been quite volatile for some time, making projections increasingly uncertain. However, if recent exchange rates prevail for the full year, sales in 2016 would be 3% higher on translation into sterling compared to 2015, with the benefit from the weakness of sterling being mitigated by the further weakness in a number of emerging market currencies. Sales of the five small acquisitions during the year were partially offset by the disposal of M&M, leaving a small net contribution to sales of £3 million or around 0.5% of sales growth. The effect of these in 2016 would be a similar small net contribution to sales growth.

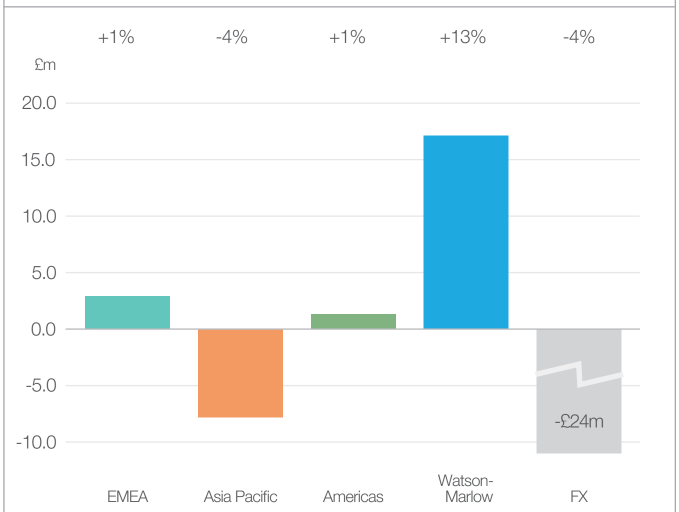
Watson-Marlow, which accounted for 23% of Group revenues, grew sales by 10% at reported exchange rates and by 13% at constant currency, including a 4% contribution from the three acquisitions completed during the year. Growth was achieved across all geographic regions, with the strongest growth in EMEA followed by the Americas. We benefited from positive conditions in our key Biopharmaceutical market, our strongly sector focused sales approach, sales of innovative new products and good traction from the successful integration of acquisitions in recent years.

In our steam specialties business, which accounted for 77% of Group revenues, organic sales were flat overall. At reported exchange rates, sales were down 5% due to unfavourable currency movements that reduced sales by 4% and a small impact from the disposal of M&M. We again saw a small decline in large project sales but made gains in our strategic target industries and product groups. Our business remains very resilient, reflecting the high proportion of sales that are derived from our end users' operating and maintenance spend. Geographically, in EMEA we achieved a modest organic sales increase, with widespread gains and strong progress in a number of our smaller markets but with a decline in Russia. In the Americas, the small sales advance was due to progress in Latin America, despite the economic difficulties, with a modest 2% decline in organic sales in North America, although with an improving trend in the USA in the second half-year. In Asia Pacific, organic sales were lower, mostly due to Korea where sales were down for the year against a very good performance in 2014; sales in China were marginally ahead, with industrial overcapacity reducing the level of project work.

Group adjusted operating profit of £152.4 million was 4% ahead of the prior year at constant currency. The operating profit at reported exchange rates was almost flat as the negative impact of the weakness of the euro and a number of emerging market currencies was only partially offset by the relative strength of the dollar. Watson-Marlow again performed strongly and in the steam specialties business, profits grew by double-digits at constant currency in EMEA, the Americas was flat and Asia Pacific registered an operating profit reduction at constant currency.

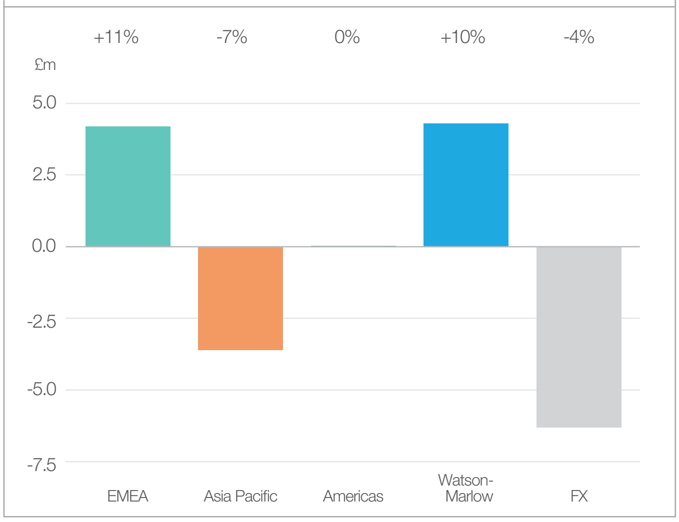
The Group operating profit margin expanded to a record 22.8% (2014: 22.5%). We continued to benefit from overall broadly flat material and component input costs, whilst increasing resources to

Segment revenue changes* £m



* Rates of change at constant currency.

Segment operating profit changes* £m



* Based on adjusted profit at constant currency.

improve our purchasing processes and coordination across the Group. Actions to reduce costs in our steam specialties UK manufacturing plant were taken in Q1 generating a modest net benefit to profit in 2015, with a full-year effect in 2016. We have continued to make investments to implement our strategic themes in the areas of sales force development, market development and product development but have exercised tight control over costs in the face of the progressive slowing in the rate of overall global industrial production growth. In addition, we have borne costs of approaching £2 million to establish our new wholly owned direct sales operation in India that commenced trading in July 2015. Our usual seasonal second half-year profit bias was accentuated by the cost reduction benefits coming through as the year progressed and the shipment of the normal backlog built up in the first half-year. In 2016, we will be increasing investment in the implementation of our strategy for growth, reinvesting the benefits from our cost saving actions in 2015.

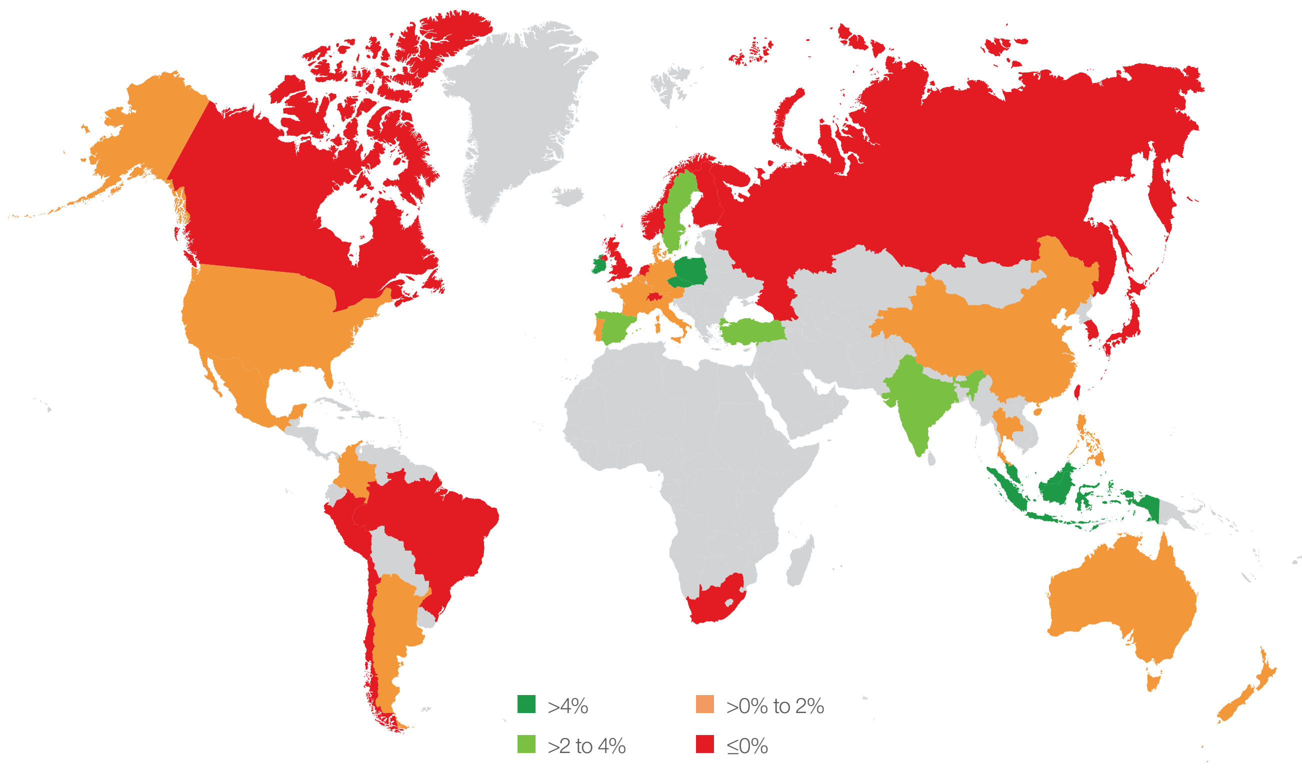
Market outlook

We have made good progress in implementing our strategic themes across our two businesses, which we expect to enhance our growth prospects, facilitating self-generated growth and making us less reliant on external market conditions.

Global industrial production growth slowed progressively through the year, with successive projected improvements being continually pushed back. At the end of 2015, year-on-year global industrial production growth was around zero, with a decline overall in non-OECD markets.

Prospects for global industrial production growth in 2016 are uncertain but we will be focusing on realising the benefits from the implementation of our strategy, with the emphasis on self-generated growth. We have a strong direct sales business model, which combined with a large proportion of our revenues being derived from end users' maintenance and operating budgets, gives us a high degree of resilience in difficult economic conditions. We have continued to invest in our business for the long term and remain confident that the improvements we have made, and continue to make to our business, will enable us to outperform our markets and deliver benefits to all stakeholders.

Industrial production growth rate 2015*



* Compared with the prior year. (Source: *Global Industrial Production Watch*, CHR Economics, February 2016)

Steam specialties:
Europe, Middle East and Africa

"Organic sales grew by over 2% to £219.4 million and operating profit increased by 11% at constant currency to £42.7 million. Currency movements were unfavourable reducing sales by 8% and profit by 16%."

Neil Daws
Executive Director, EMEA

Revenue

£219.4m (2014: £236.2m)

-7% at reported exchange rates

+1% at constant currency

Revenue £m

	£m
2015	219.4
2014	236.2
2013	244.3
2012	232.8
2011	250.1

Operating profit

£42.7m (2014: £45.9m)

-7% at reported exchange rates

+11% at constant currency

Operating profit* £m

	£m
2015	42.7
2014	45.9
2013	48.2
2012	36.7
2011	36.8

* Before corporate expenses.

Market overview

Overall industrial production growth in EMEA was lower in 2015 than in 2014, although it remained positive throughout the year at very low levels of growth. In our larger markets, industrial production growth slowed quite sharply in the UK and Germany but accelerated in France, Italy and Spain. Russia, which accounts for around 1% of steam business sales, was in an industrial recession throughout the year reflecting the impact of sanctions. Markets in Eastern Europe were more positive but in our smaller markets in the Nordic area and in Africa, conditions were mixed. Project business was again lower, due to a decline in larger projects, with delayed decision making by customers.

Progress in 2015

In EMEA, organic sales grew by over 2% to £219.4 million. Currency movements were very unfavourable impacting sales on translation by 8% reflecting the euro weakening by 10% against sterling and the 32% devaluation of the rouble average exchange rate. The disposal of M&M in July 2015 reduced sales by 1%, leaving reported sales down 7% from the £236.2 million in 2014. Sales were ahead in virtually all operations, including our larger markets

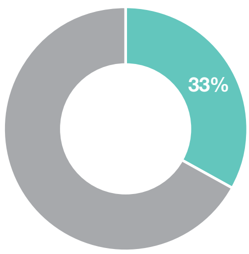
Operating margin

19.5% (2014: 19.4%)

+10 bps at reported exchange rates

+170 bps at constant currency

Group revenue %



Our division at a glance

24 operating units*

32 countries with a direct sales presence

2,114 employees (average)

* Operating companies, branches and Associate.

in France, Germany, Italy and Spain, with good growth in South Africa, Turkey and our recently established operation in the Netherlands. The UK could not repeat the growth achieved over the two prior years and sales were modestly down as sales to the NHS declined sharply. Business levels were down in Russia, reflecting lower sales into the Food & Beverage and Chemical sectors in particular. Our new operation in Egypt made a very positive start.

Our businesses performed well in 2015 and overall operating profit was ahead 11% at constant currency to £42.7 million. We benefited from the higher sales, which included continued price management actions, and costs were closely controlled whilst continuing to invest in our strategic themes. Operating profits increased at constant currency in virtually all operations and were well ahead in South Africa, Turkey, Benelux and the Middle East. We took action early in the year to cut costs in our manufacturing operation in the UK. Headcount was reduced by 8% at a cost of £1.0 million, yielding annualised savings of £2.2 million from the start of the second quarter. The net benefit in 2015 was therefore £0.6 million, which positively impacted profit in the second half-year, with a further year-on-year benefit in 2016. Overall, material costs were subdued and operational improvements resulted in increased efficiency and lower costs, including reduced energy costs from the Combined Heat and Power plant that came on stream at the start of the year. In addition, service levels increased and stock levels were reduced. Profits from our manufacturing operations in Europe were overall ahead, despite a fall in demand on our factories in Europe. Unfavourable currency movements reduced operating profit by 16%, including both translation and a significant exchange transaction effect in our European companies from purchases of product from our UK manufacturing plant. This was reflected in an overall decline of 7% in profit from the prior year's £45.9 million at reported exchange rates. The operating profit margin for EMEA at 19.5% (2014: 19.4%) was slightly ahead, despite the significant currency impact, as a result of the many operational improvements.

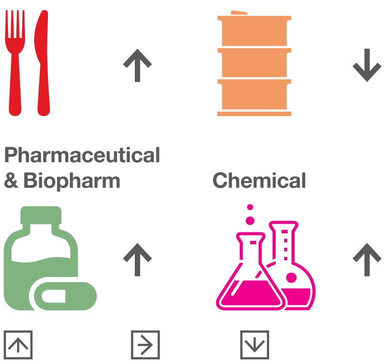
Strategy update

We have been very active in EMEA progressing many aspects of strategy deployment. Our young operating companies in the Netherlands and the Middle East performed well, as did our new operation in Egypt, with further market developments at an advanced stage for 2016. The development of the knowledge and skills of our direct sales force was a particular focus, in preparation for the introduction of the new Spirax Academy. Good progress was made in our strategic sectors of Food & Beverage, Healthcare, Chemical and OEM, as well as in the on-going process of sectorisation of our sales teams. Improvements were made in the management of health and safety, with a resultant significant reduction in lost time accidents. Strategic developments in our supply chain included improvements to the process for the introduction of new products to reduce time to market, increased resources to drive improvements in purchasing, planning and supply chain, and better stock quality management leading to increased delivery performance and lower inventory levels. All these changes underpin our strategic drive to generate more of our own growth and to outperform our markets.

Outlook

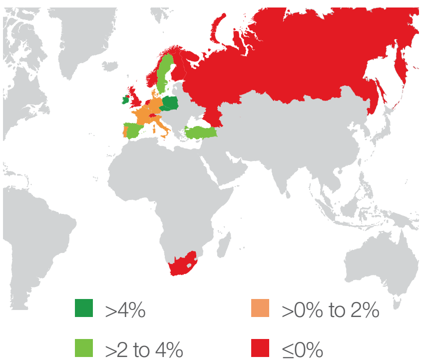
Our markets remain challenging, with industrial production growth rates overall positive, although at very low levels of growth. We are not assuming any meaningful improvement in market conditions but remain well-placed to capitalise on any pick-up in market sentiment. We have a robust business model, a diverse spread of end markets and good exposure to some of the more resilient sectors such as Food & Beverage. We remain positive and are confident that our strategy will continue to identify opportunities for growth. 2016 will also benefit from the full-year effect of the cost savings in the UK from the headcount reductions and one-off costs in early 2015. We will continue to carefully balance the investment in strategic initiatives with close cost control.

Key market performance



- Overall industrial production growth rates very low during 2015
- Industrial production slowed sharply in the UK and Germany but accelerated in France, Italy and Spain
- Industrial recession in Russia impacted sales into the Food & Beverage and Chemical markets
- Good progress made in our strategic sectors of Food & Beverage, Healthcare, Chemical and OEM

Industrial production growth rate 2015*



* Compared with the prior year. (Source: *Global Industrial Production Watch*, CHR Economics, February 2016)

Steam specialties:
Asia Pacific

* Appointed 1st March 2016.

"The slowdown in industrial production growth continued through 2015. Organic sales declined by 4% to £171.8 million and operating profit reduced by 7% at constant currency to £44.7 million."

Paul Lee*
Divisional Director, Asia Pacific

Revenue

£171.8m (2014: £177.7m)

-3% at reported exchange rates

-4% at constant currency

Revenue £m

	£m
2015	171.8
2014	177.7
2013	182.8
2012	166.9
2011	147.1

Operating profit

£44.7m (2014: £46.4m)

-4% at reported exchange rates

-7% at constant currency

Operating profit* £m

	£m
2015	44.7
2014	46.4
2013	48.0
2012	43.9
2011	37.8

* Before corporate expenses.

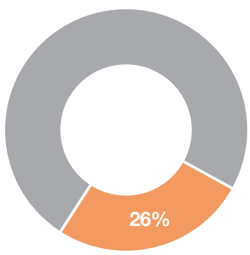
Operating margin

26.0% (2014: 26.1%)

-10 bps at reported exchange rates

-90 bps at constant currency

Group revenue %



Market overview

The slowdown in industrial production growth in the second half of 2014, continued through 2015. There were pockets of industrial production growth in some of our smaller markets but overall conditions were dominated by the industrial recession in Korea and the well-publicised slowdown in China, driven by excess capacity in many sectors. Project business in the region, especially large projects, was well down on the prior year with project postponements reflecting the more difficult investment climate in many Asian markets, including in the Oil & Petrochemical and Palm Oil sectors, and also in Food & Beverage and in hospitals, many of which are state owned. Against this background, our focus switched, with good effect, to generally smaller self-generated projects and end user maintenance work, and we noted an encouraging stabilisation in overall demand in the second half of the year. Pricing was reasonable in most markets and there was no price increase in China.

Progress in 2015

Organic sales declined by 4% to £171.8 million reflecting some relative improvement in the second half-year, with a lower rate of decline than in the first half-year. Sales were impacted by

Our division at a glance

14 operating units*†

15 countries with a direct sales presence

1,067 employees (average)

* Operating companies, branches and Associate.

† At time of publication (including Spirax Sarco Vietnam, established 1st January 2016).

project delays and we finished the year with a larger order book than at the end of 2014. Exchange movements were overall positive, adding 1% to sales on translation due to the 6% strengthening of the RMB versus sterling, largely offset by currency weakness in most other smaller markets. Reported sales were therefore 3% below the prior year sales of £177.7 million.

In China, sales and profits were marginally ahead at constant currency. Project work, which historically comprised approaching 50% of our business in China, was again down on the prior year but was successfully compensated by generating increased levels of smaller projects targeting process improvements, energy efficiency and maintenance savings for end users. Increasing localisation of manufacture, in line with our regional manufacturing strategy, has reduced costs and mitigated local wage inflation, also improving customer delivery performance which will be further enabled by the £13 million plant expansion project that is expected to be completed in early 2017. We remain positive about the prospects for our business in China; the short-term economic indicators are not very encouraging but the move to a more consumer driven economic model will benefit our key customer sectors in the longer term.

Sales were down and profits somewhat lower in Korea, where we were unable to repeat the strong performance in 2014. As expected, the traditionally high level of projects in prior years, some destined for the oil refining industry in the Middle East, were not sustained. This, combined with a small number of delayed project shipments, impacted sales for the year. The order book taken into the new year was consequently higher.

Elsewhere in Asia Pacific, we were pleased with the further good progress in Japan, where we achieved higher sales and markedly improved profits, despite currency headwinds increasing landed costs of imported product. This reflects the significant investment in developing the knowledge and skills of our Japanese direct sales force over recent years. Sales and profits were also ahead in Indonesia. In Australasia, we saw a decline in performance against a difficult market background, reflecting lower government spending on hospitals and reduced investment in the Food & Beverage industry from the prolonged drought and global dairy prices.

Our strategically important investment in our new wholly owned direct sales operation in India took a significant step forward and commenced trading from 1st July 2015, contributing a small amount to sales from a zero base. It has taken longer than expected to achieve all the regulatory approvals but good progress has been made and the £12 million project to create a new world class manufacturing plant, training centre and offices will be completed in April 2016. Pre-trading and start-up operating losses approaching £2 million were incurred and are included in the adjusted operating results for the Asia Pacific region.

Overall in Asia Pacific, operating profit reduced by 7% at constant currency to £44.7 million, with over a third of this decline caused by the start-up investment in India. As expected, the second half in Asia Pacific showed a significant improvement on the 17% profit reduction in the first half-year, as strong cost controls enabled full gearing of the second half sales volumes. Excluding India, second half profits were flat on the prior year. Currency movements were overall favourable, increasing operating profit by 4%, leaving operating profit down nearly 4% at reported exchange rates compared with operating profits of £46.4 million in the prior year. The operating profit margin at 26.0% was just 10 bps lower (2014: 26.1%), due to the much improved performance in the second half-year.

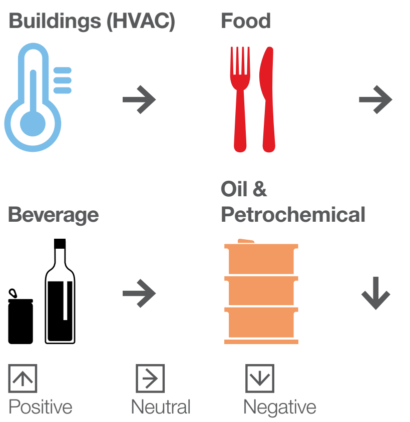
Strategy update

We continue to aggressively enter into new markets, with increased local sales resource in a number of markets including Myanmar and Cambodia, and a new operating company in Vietnam that commenced local direct sales on 1st January 2016. The on-going and progressive sectorisation of sales teams was taken forward, with an increased focus on our strategic industry sectors. Significant business system upgrades were completed during the year and supply chain resources added in the region, with the aim of increasing local product availability, cost effectiveness and flexibility.

Outlook

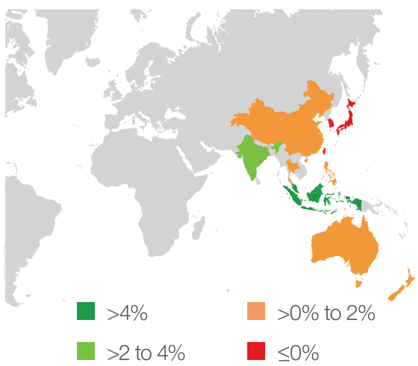
Overall, industrial production growth in Asia Pacific progressively slowed through 2015 and the immediate future trajectory is uncertain, dependant in large part on the outlook in China, which directly and indirectly drives regional economic activity. However, we are clear that there are good medium and long-term opportunities that we are increasingly well placed to address through the further development of our direct sales business model, focus on key strategically important industry sectors, such as Food & Beverage and Healthcare, and improvements to our supply chain, combined with continued geographic market development.

Key market performance



- Overall, industrial production growth slowed throughout the year, with industrial recession in Korea and slowdown in China but with small pockets of growth elsewhere
- Project postponements impacted across a number of sectors, including Oil & Petrochemical, Palm Oil, Food & Beverage and Healthcare
- Focus switched to smaller self-generated projects and end user maintenance work, to good effect
- Future industrial production growth rates uncertain but good medium to long-term growth opportunities

Industrial production growth rate 2015*



* Compared with the prior year. (Source: *Global Industrial Production Watch*, CHR Economics, February 2016)

Steam specialties: Americas

"Sales increased by 1% at constant currency to £123.4 million, with a modest 2% reduction in sales in North America and a 5% increase in Latin America."

Sheldon Banks
Divisional Director, Americas

Revenue

£123.4m (2014: £126.2m)

-2% at reported exchange rates

+1% at constant currency

Revenue £m

	£m
2015	123.4
2014	126.2
2013	132.0
2012	137.5
2011	134.4

Operating profit

£27.1m (2014: £28.0m)

-3% at reported exchange rates

0% at constant currency

Operating profit* £m

	£m
2015	27.1
2014	28.0
2013	26.1
2012	26.2
2011	27.4

* Before corporate expenses.

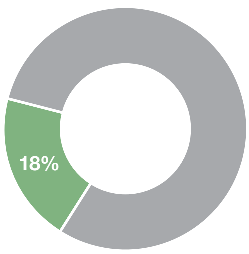
Operating margin

22.0% (2014: 22.2%)

-20 bps at reported exchange rates

-20 bps at constant currency

Group revenue %



Market overview

The healthy pace of industrial production growth in 2014 in North America, slowed markedly through 2015 reflecting the direct effects of the steep fall in oil prices, the six-month strike in the refineries and four-month strike in California ports, and the wider indirect effects on industrial confidence in the USA and Canada of the slowdown in global growth. Economic conditions in South America were overall very difficult for a second year, with our largest market in Brazil suffering a deepening industrial recession.

Progress in 2015

Sales in the Americas increased by 1% at constant currency to £123.4 million, with a modest 2% reduction in sales in North America and a 5% increase in Latin America. We achieved a good increase in our strategic focus sectors, in particular in Food & Beverage, largely offsetting weakness in our Oil & Petrochemical business. There were significant currency fluctuations in the region and an overall 3% net reduction in sales on translation reflecting all currencies weakening against sterling except the US dollar, which appreciated 8%. In particular, the Brazilian real depreciated by nearly 25%

Our division at a glance

8 operating units*

10 countries with a direct sales presence

823 employees (average)

* Operating companies, branches and Associate.

and although the average exchange rate for the Argentinian peso was 7% weaker for the year, the currency devalued by 25% in December 2015. At reported exchange rates, sales in the Americas were down 2% (2014: £126.2 million).

In North America, we continue to make good progress with the implementation of changes to our business that are aimed at strengthening our direct sales approach in the USA. Our more proactive sales resources are increasingly working with customers, on a sector basis, to grow the total market by unearthing and developing hitherto unrecognised opportunities to provide solutions for customers' steam systems. We continue to support and develop our well-established distribution network, which will remain an important channel to the market. Sales were 2% lower, partly due to reduced metering business as part of the closure of our small EMCO metering manufacturing plant in Colorado and the reorganisation of our energy management and metering activities, where a focused, technically skilled, sales support and development team remains in place. The lower sales from distributor de-stocking were mitigated by success with key accounts. Operating profits in North America were modestly lower at constant currency, reflecting increased sales resources, largely offset by the metering unit cost savings and favourable mix.

In Latin America, our businesses performed well, growing sales by 5% in very difficult economic conditions, with all our operations increasing sales at constant currency except Brazil. As expected, the second half-year deteriorated in Brazil and sales were down mid-single digit for the year, as major customers froze capital expenditure, which we mitigated through increased sales in our target industries and growth in services. Our new operation in Colombia commenced trading in October, having acquired the steam specialties business of our former distributor. Our business in Mexico performed strongly and in Argentina, profits were ahead from higher sales into the domestic market, where there were a number of good project wins, and benefiting from dollar-based pricing. We completed an extension to our plant in Argentina and we are now well-placed to capitalise on our greater capacity for packaged solutions. Operating profits in Latin America were marginally ahead at constant currency, benefiting from the increased sales and close control of overheads in an inflationary environment.

Overall in the Americas, operating profit of £27.1 million was flat at constant currency, following the significant 31% profit increase in 2014. Currency movements were overall unfavourable, reducing operating profit by 3% at reported exchange rates versus £28.0 million in 2014. The operating profit margin was 22.0% (2014: 22.2%) reflecting our strategic investments and inflationary cost pressures in Latin America, mitigated by cost saving actions in the USA and Brazil in particular. One-off, mostly non-cash, closure costs of £3.8 million in respect of the metering unit were incurred that have been excluded from the adjusted operating profit but charged against profit in the statutory results for the Americas segment and the Group.

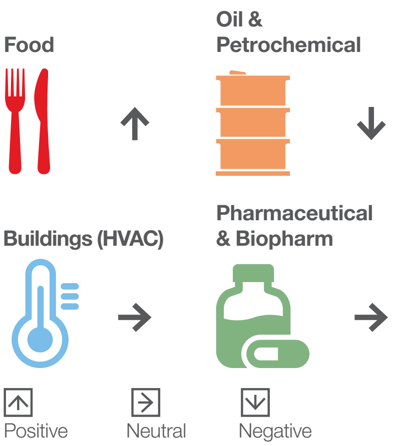
Strategy update

Geographic expansion has continued, with the creation of a new direct sales operating company in Peru that commenced trading during the year. Market development resources were added in Chile and also in Colombia, following the purchase of the steam specialties business of our former distributor. We invested significant time in training during the year in further developing solution selling and key account management, and in the creation of subject matter experts, as we focus increasingly sectorised sales teams on target markets in Food & Beverage, Buildings, Chemical, and Oil & Petrochemical. We have benefited from sharing best practice and workshops covering new products, including controls, meters and the boilerhouse. Improvements were made in health and safety processes, with a reduction in lost time accidents. Supply chain initiatives were also progressed, with an improvement in stock management.

Outlook

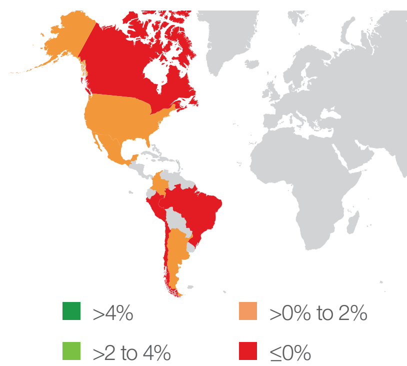
Industrial production growth in North America continues on a downward trend, as does Latin America where the industrial recession is deepening, especially in Brazil where the economy is suffering the fall-out from a toxic cocktail of political and economic events. Our focus, and the thrust of our strategy, is on outperforming our markets. We are confident that the significant changes being made in the USA and increased effectiveness of our direct sales approach in all markets, will generate additional sales growth. 2016 will benefit by £0.5 million from the non-repeat of EMCO metering losses in 2015 and also benefit from the many process and efficiency improvements. Following the devaluation in December 2015, Argentina may see a deterioration in short-term market conditions but could be more positive in the medium term.

Key market performance



- Industrial production slowed markedly in North America, difficult economic conditions in South America
- Good increase in sales in strategic focus sectors, particularly Food & Beverage
- Weakness in Oil & Petrochemical market
- Increasingly sectorised sales teams focusing on target markets of Food & Beverage, Buildings, Chemical, and Oil & Petrochemical

Industrial production growth rate 2015*



* Compared with the prior year. (Source: *Global Industrial Production Watch*, CHR Economics, February 2016)

Watson-Marlow

"Sales increased by nearly 13% at constant currency to £152.6 million. Organic sales increased by 9% and acquisitions contributed a further 4%."

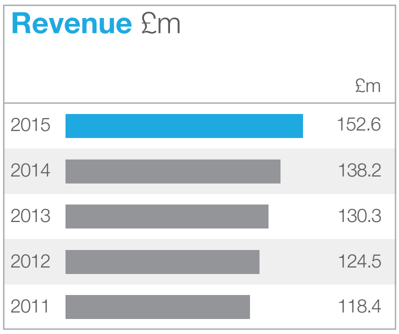
Jay Whalen
Executive Director, Watson-Marlow

Revenue

£152.6m (2014: £138.2m)

+10% at reported exchange rates

+13% at constant currency

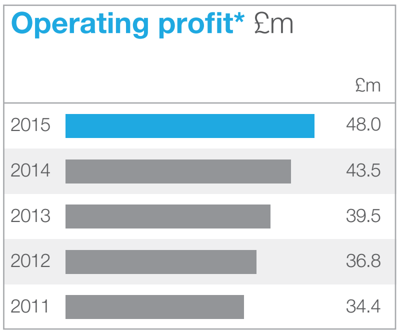


Operating profit

£48.0m (2014: £43.5m)

+10% at reported exchange rates

+10% at constant currency



* Based on adjusted operating profit.

Market overview

General economic conditions and industrial production growth in the various regions of the world were the same as for the steam specialties business. Our Watson-Marlow niche peristaltic pumps and associated fluid path technologies business serves a diverse range of sectors, the largest of which is Biopharmaceutical that now accounts for almost 45% of sales. Biopharmaceutical has remained a good market, with continued investment by customers and new sales synergy opportunities as we have integrated the BioPure, Asepco and Flow Smart acquisitions. Food & Beverage markets have been positive and OEM activity has been strong, with a good number of projects won. General industrial markets were modestly lower, reflecting the slowing industrial production growth in most parts of the world. Water & Wastewater markets were more difficult following the particularly strong growth in the prior year. Finally, Mining & Precious Metal Processing was also more difficult against a background of uncertainty in the industry. Overall project work increased, largely through smaller and mid-sized projects, with a reduction in large project sales, particularly in Water & Wastewater.

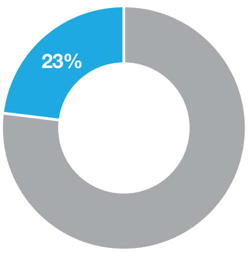
Operating margin

31.4% (2014: 31.5%)

-10 bps at reported exchange rates

-80 bps at constant currency

Group revenue %



Our division at a glance

31 operating units*

29 countries with a direct sales presence

803 employees (average)

* Operating companies, branches and Associate.

Progress in 2015

Sales increased by nearly 13% at constant currency to £152.6 million. Organic sales increased by 9% and the acquisition of Asepco in April 2015, the Japanese PRIMIX business in July 2015 and Flow Smart in November 2015 contributed a further 4% to sales. Net currency movements were unfavourable, reducing sales by 2% on translation, with most currencies weakening against sterling, mitigated by gains from the stronger dollar. Sales at reported exchange rates were over 10% ahead of the prior year sales of £138.2 million. Growth was achieved across virtually the entire product range, supported by new product introductions over recent years. Strongest growth was in BioPure in its second full year in the Group, with expanded plant investment in Portsmouth installed and commissioned at the end of the year to increase capacity, followed by strong Alitea growth in the OEM sector and MasoSine in Food & Beverage. Tubing sales expanded double-digit. Asepco made a good first-time contribution, exceeding expectations, and the integration into the Group has progressed exceptionally well. The MasoSine manufacturing and distribution business in Japan, acquired in July 2015, performed well and forms the platform for future growth in what is an under-developed market for us. It is early days for Flow Smart, acquired in November, but early indications are very encouraging.

Sales growth was achieved in all geographic regions. Strongest growth was in EMEA with widespread improvements from our focused direct sales approach across our key industry sectors. Sales were well ahead in both developed markets, especially in Austria, Italy, the Netherlands and Sweden, and in emerging markets, including Russia. In the Americas, our largest operation in the USA achieved steady growth across all core sectors, with the exception of general industrial where large projects in 2014 were not repeated. In Latin America, sales were well ahead at constant currency due to Mexico and Argentina; in Brazil, a decline in Mining and Water & Wastewater markets was compensated by growth in Food & Beverage. Organic sales in Asia Pacific were modestly ahead due to Korea, Malaysia and Singapore, and broadly flat in China due to fewer projects in Biopharmaceutical and Food & Beverage.

Watson-Marlow's operating profit of £48.0 million (2014: £43.5 million), increased by 10% at both constant currency and at reported exchange rates, with exchange losses on translation being broadly matched by exchange transaction gains on the transfer of product manufactured predominantly in Europe to the USA and elsewhere. The operating profit margin edged 10 bps lower to 31.4% (2014: 31.5%), as we continue our strategy of investing in product development and market expansion for future growth. In addition, the dilutionary effect of acquisitions completed in 2015, as well as the expected non-repeat of the unusually favourable product mix that we saw in 2014, also contributed to the 80 bps margin decline at constant currency.

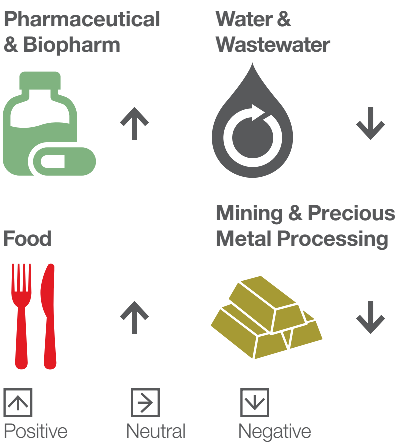
Strategy update

Our strategy has been consistently executed through the year, with progress across the range of strategic initiatives. The primary thrust of our actions is aimed at market development and product development, supported by our Global Excellence in Manufacturing (GEM) programme that is effective in delivering continuous improvement and cost reduction. Further small distributors were converted to direct sales across five product lines in six countries, increasing focus and growing our addressable market. Additional sales engineers were added to support growth and to develop emerging markets in Asia and Latin America in particular. New sales operations were established in Chile and Taiwan, and we completed preparations for further expansion in 2016 in a number of other locations. We continue to drive a market sectorised approach to leverage skilled sales resources and detailed application knowledge. Product development remains a key driver of sales growth, as we apply carefully targeted and innovative products to grow the addressable market of our niche pumps and associated fluid path technologies and expand our market share. We very successfully extended the implementation of a global ERP solution and around 70% of our business is now being transacted through the new system. Significant effort has been invested in people development and in improving health and safety processes.

Outlook

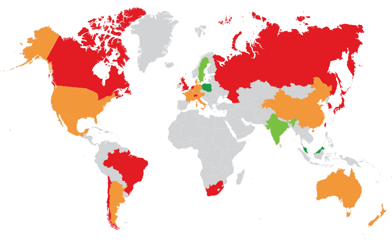
Our markets reflect general levels of industrial production growth and the level of investment in our core focus sectors, in particular Biopharmaceutical, Food & Beverage and OEM that are expected to be more resilient; Mining & Precious Metal Processing is expected to remain difficult with low levels of project activity. We continue to generate our own opportunities for growth by the expansion of our addressable markets through product development, taking market share from other pump types, and market development, on a sector basis in both developed markets and in new markets, as we aggressively expand our geographic footprint.

Key market performance



- Progressively slowing industrial production, with a global rate around zero and a decline in non-OECD markets
- Good growth in Biopharmaceutical market, strengthened by acquisitions
- Food & Beverage sales positive and strong OEM sales
- Mining & Precious Metal Processing weaker, amidst sector uncertainty

Industrial production growth rate 2015*



* Compared with the prior year. (Source: *Global Industrial Production Watch*, CHR Economics, February 2016)

Financial review

"A solid financial result was achieved in 2015, organic sales grew by 2% overall, with 9% organic growth in Watson-Marlow and organic sales flat in the steam specialties business."

David Meredith
Finance Director

Key points in this section:

- The Board has proposed a final dividend of 48.2p per share, giving a total Ordinary dividend of 69.0p per share, an increase of 7%
- Adjusted basic earnings per share increased by 6% at constant currency to 142.6p
- Return on capital employed of 44.1%
- Robust cash generation, 95% cash conversion

The Group reports under International Financial Reporting Standards (IFRS) and also uses adjusted figures where the Board believes that this gives a more representative indication of the underlying performance. Unless otherwise stated, adjusted figures are used throughout and exclude the amortisation and impairment of acquisition-related intangible assets, the costs of closing our metering manufacturing facility in the USA, acquisition and disposal costs and recycled exchange losses on the disposals of M&M and the Group's 49.3% interest in our Associate company Spirax Marshall in India, together with the tax effects of these items.

A solid financial result was achieved in 2015 against the background of a progressive slowing in the rate of industrial production growth. Sales at reported exchange rates declined 2% to £667.2 million (2014: £678.3 million). Organic sales grew by 2% overall, with Watson-Marlow registering unusually strong 9% organic growth, widely spread across the business, including another strong performance in EMEA. Organic sales were flat in the steam specialties business, with a modest 2% advance in EMEA and a small 1% gain in the Americas, being offset by a 4% organic sales decline in Asia Pacific. There was a small net contribution to sales of 0.5% from five small acquisitions and one disposal, with a similar small full-year net benefit expected in 2016. Finally, the Group disposed of its 49.3% interest in our Associate company Spirax Marshall in India in March 2015 for £6.6 million, prior to establishing a wholly owned direct sales and manufacturing business that commenced trading on 1st July 2015.

Currency movements were volatile, with a net unfavourable translation impact on sales of 4%. The euro weakened 10% against sterling and a number of emerging market currencies weakened significantly, including the Russian rouble -32% and Brazilian real -24%, which were mitigated by the 8% strengthening of the dollar against sterling. In December, the Argentinian peso devalued by around 25%. Currency movements have started the new year on a more positive note and if recent exchange rates prevail for the full year, there would be a 3% exchange gain to sales on translation versus 2015.

Adjusted operating profit of £152.4 million (2014: £153.0 million) was marginally lower at reported exchange rates but 4% ahead at constant currency due to continued good profit growth in Watson-Marlow. Operating profit was marginally ahead at constant currency in the steam specialties business and 1% ahead excluding the impact of the disposal of M&M, with a strong improvement of 11% in EMEA, flat profit overall in the Americas and a decline of 7% in Asia Pacific. The Group benefited from the modest sales growth, the focus on price management, efficiency gains and cost savings actions, particularly in the UK and USA early in 2015, and a second year of broadly flat costs for materials. Business mix was generally favourable across the steam specialties business but in Watson-Marlow, the unusually favourable mix in 2014 was not repeated in 2015. Acquisitions contributed 4% to sales growth and 3% to profit growth in Watson-Marlow.

Currency movements were overall negative, reducing operating profit by over 4% on translation, with a similar pattern of impact as against sales. Exchange transaction effects broadly netted out. There were gains in Watson-Marlow of £1.6 million, primarily from the lower landed costs in the USA of product imported from Europe; Asia Pacific of £0.7 million, mainly from lower landed costs in China; and the Americas of £0.6 million, principally from gains in the USA and also Argentina where we benefit from dollar-denominated exports. These were offset by an unfavourable impact of £3.0 million in EMEA, primarily from the weaker euro increasing landed costs.

The adjusted operating profit margin improved to 22.8% from 22.5%.

The statutory operating profit was £142.8 million (2014: £148.1 million).

Interest

Net interest cost reduced from £3.0 million to £1.5 million. Net bank interest improved by £0.9 million, reflecting higher average cash balances and the benefit of a lower renegotiated interest margin on UK debt facilities. The profile of average net cash balances will fall in 2016 due to the full-year effect of the special dividend of £91 million paid in July 2015. Net finance costs under IAS19 in respect of the Group's defined benefit pension schemes reduced by £0.6 million to £2.3 million. It is expected that pension net finance costs in 2016 will be similar to those in 2015.

Associates

In March 2015, the Group disposed of its 49.3% interest in Spirax Marshall in India, prior to establishing our own wholly owned manufacturing and direct sales company in India that commenced trading on 1st July 2015. Spirax Marshall contributed £1.3 million profit after tax to the Group for the full year 2014, which reduced to £0.3 million for the final two months of trading in early 2015. We also have a 38.9% interest in Econotherm heat pipe technology business, where our share of losses reduced from £0.2 million to £0.1 million, as we continue to make progress in commercialising this innovative technology. In total, the Group's after tax share of the profits of Associates was £0.2 million (2014: £1.2 million).

Pre-tax profit

The adjusted profit before tax of £151.1 million (2014: £151.1 million) was fractionally ahead at reported exchange rates. Currency movements were again unfavourable, reducing pre-tax profit by £6.2 million or 4%; pre-tax profit therefore improved by 4% at constant currency. The statutory profit before tax was £139.7 million (2014: £144.8 million) and includes those non-operating items, listed below, that have been excluded from the adjusted profit:

- a charge of £4.7 million (2014: £4.1 million) for the amortisation of acquisition-related intangible assets;
- acquisition and disposal costs of £0.8 million (2014: £0.8 million);
- a charge of £3.8 million (2014: nil) in respect of the closure of our small metering manufacturing facility in Longmont, Colorado, USA; and
- a charge of £0.3 million (2014: nil) related to the disposal of M&M in respect of exchange translation losses from prior years, reclassified from equity to the profit and loss account in the current period under IAS21.

Non-operating items in 2015 of a net £1.8 million for Associates, principally relates to Spirax Marshall in India, in respect of exchange translation losses from prior years, reclassified from equity to the profit and loss account in the current period under IAS21. In 2014, there was a charge of £1.5 million for Associates in respect of the amortisation of acquisition-related intangible assets and the impairment of goodwill and other assets, also in respect of Spirax Marshall, in India, ahead of the sale of the Group's 49.3% holding in this Associate company in 2015.

Taxation

The tax charge on the adjusted profit before tax, excluding Associates' profit (which is presented on an after-tax basis), edged lower to 29.8% (2014: 29.9%). The Group's overall tax rate essentially 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 70, mainly small, operating units reflecting our local direct sales business model. I would anticipate a broadly similar tax rate in 2016 and future years.

Earnings per share

Adjusted basic earnings per share increased by 2% to 142.6p (2014: 140.4p) and by 6% at constant currency. Earnings per share benefited from a reduction of 3.6% in the number of shares in issue from 15th June 2015, following the share consolidation of 28 existing Ordinary shares into 27 new Ordinary shares, in conjunction with the 120p per share special dividend paid in July 2015. This will have a full-year benefit to earnings per share in 2016. The statutory earnings per share was 129.9p (2014: 132.8p). The fully diluted earnings per share was not materially different in either year.

Dividends

The Board is proposing a final dividend of 48.2p per share for 2015 (2014: 45.0p per share) payable on 27th May 2016 to shareholders on the register at 29th April 2016. Together with the interim dividend of 20.8p per share (2014: 19.5p), total Ordinary dividends are therefore 69.0p per share, which is an increase of 7.0% on Ordinary dividends of 64.5p in 2014. Our dividend record extends to 48 years, with a compound annual increase of 11% over that period; in line with the 11% per annum increase over the last 10 years.

The total dividends paid during the year were 185.8p or £140.3 million, including the special dividend of 120p per share or £91.0 million. This compares with 60.5p or £45.7 million paid in 2014.

Acquisitions and disposals

Acquisitions are an important complement to our strategy for growth. Dedicated resource is focused on identifying opportunities to add attractive businesses that closely match our strategic, industrial and commercial requirements. We have a strong balance sheet and considerable debt capacity, giving us significant flexibility. We have been active in 2015 and made five small acquisitions at a total cost of £25 million that each fulfil one or more of our three broad acquisition categories:

- 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 9th April 2015, we announced the acquisition of Asepco Corporation for £7.2 million. Asepco is a manufacturer of high purity aseptic valves and magnetic mixers for the Biopharmaceutical industry and advances Watson-Marlow's fluid path strategy in the important Biopharmaceutical sector. The business is being integrated into the WMFTG business and has performed ahead of expectations since acquisition.

Valve and Control Engineering Limited (VCE) was acquired on 14th April 2015 for £0.8 million and was successfully integrated into our steam specialties sales business in the UK. Operating in Scotland, the business manages customers' annual boiler inspections and recertifications, opening up a potentially interesting new stream of service opportunity.

On 5th July 2015, we announced the acquisition of the MasoSine manufacturing and distribution business from PRIMIX Corporation in Japan for £2.8 million. The acquisition adds new products, enables Watson-Marlow to initiate direct sales in this important market and provides a platform for future expansion in this under-developed market for Watson-Marlow. The business performed well in its first months within the Group.

On 25th September 2015, we acquired the distribution rights of the steam specialties business from Casaval S.A., in Colombia for £6.6 million and a further £1.9 million was paid for inventory. Direct sales operations throughout Colombia have been initiated. This geographic expansion of the steam specialties business also provides a hub for further developments in northern Latin America.

On 26th November 2015, we announced the acquisition of Flow Smart Inc. for

Financial review *continued*

£5.7 million from the founding shareholder and partners. Flow Smart specialises in the design and manufacture of high purity sanitary gaskets, braided silicone transfer tubing and reinforced silicone hoses for the Bioprocessing and Pharmaceutical industries. This is a further extension of the WMFTG fluid path strategy and is being integrated into Watson-Marlow's business.

As previously reported, on 1st March 2015, we sold our 49.3% holding in Spirax Marshall, an Associate company, in India for £6.6 million. We subsequently established a wholly owned sales and manufacturing company in Chennai, India that commenced trading on 1st July 2015 on a direct sales basis through our new team of sales and service engineers. The new purpose built manufacturing plant, warehouse, training centre and offices, representing an investment of over £12 million, will be completed in April 2016.

Also as previously reported, on 3rd August 2015, we disposed of M&M International Srl to Rotork plc for £6.7 million. This solenoid and piston valve company lacked strategic fit with the steam specialties business.

Acquisitions in recent prior years have performed well, in particular BioPure Technology has achieved significant sales and profit growth following its successful integration into the Watson-Marlow Fluid Technology 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. In our steam specialties business, the focus remains centred on developments in controls, energy monitoring and management, and thermal energy management. The development cycle is increasingly aligned with the priorities of our sales teams and larger application specific opportunities. We have been successful in securing major funding for a number of innovation developments through Innovate UK and European Horizon 2020 initiatives, including demonstrating a trilateral flash cycle for converting low temperature waste streams into valuable electricity, hollow micro-fibre heat exchangers and microwave-based sensors for steam applications.

In our Watson-Marlow niche peristaltic pump and associated fluid path technologies business, the drive is for truly innovative products that target attractive market opportunities and expand our addressable market by taking market share from other positive displacement pump types. Developments are being progressed across the product range, including tube and hose developments.

Overall the Group's total investment in research and development was £9.9 million (2014: £9.6 million).

Capital employed

Total capital employed was virtually unchanged at £344 million. At constant exchange rates the increase was 3%.

Tangible fixed assets reduced by 1% at constant currency to £170 million due to net disposals during the year. Significant capital expenditure projects included the new plant at Chennai in India and the extension of our plant in Shanghai, China, where work commenced late in 2015 and is scheduled for completion in early 2017.

Capital employed	**2015 £000**	2014 £000
Property, plant and equipment	169,948	176,668
Inventories	92,502	98,007
Trade receivables	152,082	155,696
Prepayments and other current assets/(liabilities)	(70,056)	(84,134)
Capital employed	**344,476**	**346,237**
Intangibles and investment in Associate	108,918	101,959
Post-retirement benefits	(73,654)	(75,779)
Deferred tax	15,306	18,529
Provisions and long-term payables	(1,554)	(1,561)
Net cash	4,823	52,493
Net assets	**398,315**	**441,878**
Adjusted operating profit	**152,437**	**152,950**
Average capital employed	**345,357**	**345,358**
Return on capital employed	**44.1%**	**44.3%**

Watson-Marlow reached significant milestones, with multiple implementations of a global ERP solution and now 70% of business is being transacted through the new system. In the steam specialties UK plant in Cheltenham, a new clean unit to manufacture products for the Pharmaceutical and other clean industries to exacting standards is now operational. We generate significant cash flow and our first priority is to reinvest in the business, taking opportunities to generate good returns from increased efficiency, reduced costs and flexibility. The combined heat and power plant in Cheltenham, saving up to £1,000 per day in energy costs from early 2015, contributed significantly to a reduction in our CO_2e emissions in 2015.

Total working capital increased by 8% at constant currency to £175 million. Trade receivables were 2% higher, with a repeat of the high level of project work shipped in the final two months of the year, particularly in Asia Pacific. Inventory levels were flat at constant currency as we continued to embed improved stock management techniques, optimising stock levels and improving customer service in support of sales growth. Creditors were lower and prepayments increased, related to leasehold property in China. The ratio of working capital to sales increased to 26.2% (2014: 25.0%) due mainly to the reduction in payables and the increase in prepayments.

Return on capital employed (ROCE)

This is one of our most important key performance indicators and forms a meaningful element of Executive Directors' annual bonuses. ROCE encompasses effective management of fixed assets and working capital, and profitability of the business. ROCE edged lower to 44.1% (2014: 44.3%) due to a 90 bps impact from the start-up of our new operation in India. Underlying ROCE improved by 70 bps reflecting our close control of the various components of capital employed and improvement in the operating profit margin.

Post-retirement benefits

The net post-retirement benefit liability under IAS19 was slightly lower at £73.7 million (2014: £75.8 million). The overall defined benefit obligation for all schemes in the Group reduced by 2%. This reflected small actuarial gains from changes in demographic assumptions and changes in financial assumptions, the latter essentially due to a slight increase in discount rates, which is driven by movements in AA

Corporate Bond yields, as mandated under IAS19. The value of assets held by the Group's various defined benefit pension arrangements (89% of which are held in the main UK defined benefit pension schemes) declined by 1%, reflecting returns on assets below the scheme assumptions. The main UK schemes 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.

The last actuarial valuation of the UK schemes, as at 31st December 2013, was completed in September 2014 and showed those schemes to be broadly in balance. As a consequence, deficit reduction cash contributions by the Company ceased with effect from October 2014.

Cash flow and treasury

Cash generation in 2015 was very strong, driven by conversion of operating profit into cash, whilst continuing to invest in capital expenditure projects that generate good returns from improvements in efficiency and cost reduction, and in support of sales growth.

Cash from operations increased to £145.5 million (2014: £132.2 million) representing a 95% cash conversion. This good improvement reflects a small working capital outflow of £1.6 million versus an outflow of £14.5 million in 2014. Capital expenditure was £30.9 million (2014: £31.3 million) and we would expect capital expenditure in the current year to increase to around £35 million as we complete the new plant in India and progress the major expansion of our plant in China. Improvements to our end-to-end supply chain are an important element of our strategy and are aimed at under-pinning future continued strong cash generation.

Taxation paid was £43.3 million (2014: £41.9 million) reflecting larger withholding taxes on an increased flow of dividends from subsidiary companies outside the UK. Tax paid was broadly in line with the tax charge in the profit and loss account and included tax paid in virtually every one of the 43 countries in which the Group has operating units. Free cash flow rose to £103.0 million (2014: £90.2 million), providing funds for dividends to shareholders and acquisitions.

Dividend payments were £140.5 million (2014: £45.1 million) and reflect payment of the increased Ordinary dividend together with the special dividend of £91.0 million paid in July 2015. Provisions movements and pension deficit reduction cash contributions show a marked improved versus the prior year due to the cessation of pension deficit contributions to the main UK schemes following the triennial actuarial valuations completed in September 2014. There was a net cash outflow of £10.2 million for acquisitions and disposals, comprising a cash cost of £23.6 million, net of an inflow of £13.3 million in respect of the two disposals. Shares issued under the Group's various employee share schemes gave a cash inflow of £4.7 million (2014: £2.2 million).

The good free cash flow generated for the year, together with the opening net cash balance of £52.5 million, was therefore utilised to fund the special dividend and acquisitions, resulting in a closing net cash balance of £4.8 million at 31st December 2015.

The Group's profit and loss account 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 RMB and Korean won. Whilst currency effects can be significant, the structure of the Group provides 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 local currency in our direct sales operating units.

Adjusted cash flow	2015 £000	2014 £000
Operating profit	152,437	152,950
Depreciation and amortisation	22,156	22,703
Equity settled share plans	3,330	2,374
Working capital changes	(1,574)	(14,523)
Net capital expenditure (including capitalised R&D)	(30,864)	(31,331)
Cash from operations	**145,485**	**132,173**
Net interest	819	(53)
Tax paid	(43,304)	(41,915)
Free cash flow	**103,000**	**90,205**
Net dividends paid	(140,484)	(45,109)
Provisions and pension deficit reduction payments	673	(4,870)
Proceeds from issue of shares	4,706	2,218
Acquisitions and disposals	(10,230)	(9,984)
Adjustments (acquisition and disposal costs and EMCO closure costs paid)	(2,056)	(759)
Cash flow for the year	**(44,391)**	**31,701**
Exchange movements	(3,279)	4,392
Opening net cash	52,493	16,400
Net cash at 31st December	**4,823**	**52,493**

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 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. We also prioritise finding suitable acquisitions that can expand our addressable market through increasing our geographic reach, deepening our market penetration and broadening our product range. Acquisition targets need to exhibit good strategic fit and meet strict commercial, economic and return on investment criteria. Where cash resources exceed expected future requirements, we will seek to return capital to shareholders, as evidenced by the cash return of £91.0 million via the special dividend of 120p per share that was paid in July 2015.

Sustainability report

Sustainability is one of the six key strategic priorities through which we are driving growth and achieving shareholder value.

"As we focus on improving the sustainability of our operations we reduce risk, increase resiliency and create opportunities for growth."

Nicholas Anderson
Group Chief Executive

Defining sustainability

As an organisation, we believe that we have a responsibility to manage our social and environmental impacts, while helping our customers, end users and suppliers to do the same. We recognise that to ensure the success, and sustainability, of our business in the long term, we must:

- manage our business for on-going financial success;
- govern our operations in accordance with all applicable laws and regulations;
- take steps to minimise any negative social or environmental impacts of our operations;
- strive wherever possible to have positive social and environmental impacts; and
- operate ethically at all times.

Our strategy for growth and the steps that we have taken to achieve on-going financial success, are outlined throughout the Strategic Report, inside front cover to page 63, and our governance structures and operation are outlined in the Governance Report, pages 64 to 113. Throughout the Sustainability report, we review the actions that we have taken to manage our social and environmental impacts and ensure that our people act ethically. We also assess our performance against our sustainability strategic objectives.

Sustainability: core of our strategy for growth

Sustainability is one of the six strategic themes through which we are driving growth and achieving shareholder value. Sustainability is at the core of our business operations, driving our strategy to innovate and manufacture products that improve the sustainability and competitiveness of our customers' operations, while managing our own social and environmental impacts.

A focus on sustainability drives behaviours that cut costs and increases operational efficiency, while creating new business opportunities and mitigating risk. Sustainability enhances our competitive edge and helps us to deliver shareholder value.

Managing sustainability

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

CEO
Responsible for the Group's sustainability strategy

Supported by
Board of Directors

Group EHS* Executive
Group Supply Director
Group HR Director
Other senior managers
Ensure policies, systems and reporting metrics are in place to achieve the Group's sustainability objectives

Divisional Directors, Regional and General Managers
Ensure the Group's sustainability policies are upheld and implemented by our operating companies

Employees and organised employee groups
Oversee and report on key aspects of sustainability within their workplaces at a local level

* Environment, Health and Safety

Sustainability: 2015 strategy update

During 2015 we continued to invest management time into developing and furthering our sustainability agenda. We allocated an executive sponsor and project leader to each of our sustainability objectives, within our five core sustainability pillars (our workplaces, our supply chain, our environment, our customers and our communities). We undertook a performance benchmarking exercise and made good progress against each of our objectives. During 2015 we expanded our supply chain pillar to include an objective on product responsibility: "To incorporate sustainability factors into our product design process, including energy efficiency, emissions, serviceability, recyclability and the availability of compliant and ethically sourced materials". For more information see page 60. Following our benchmarking exercise, we refined two of our objectives to broaden their scope. The our customers objective was widened to include a greater range of environmental impacts, and our supply chain objective to encompass the end-to-end supply chain.

In summary:

- Executive sponsor allocated to each strategic objective
- Project teams formed
- Benchmarking exercise undertaken
- Product responsibility objective added
- Progress made across all areas

Next steps

- Group-wide roll-out of the refined sustainability strategy
- Target setting
- Continuous review and progress against our objectives

Sustainability objectives

Our workplaces	– 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
Our supply chain	– 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
Our environment	– 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
Our customers	– 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
Our communities	– To engage positively with the communities in which we operate and to offer financial support to approved charities

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*

Our workplaces: 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

KPI

Accidents with over seven days of lost time per 1,000 employees

Year	Number
2015	3.3
2014	5.4
2013	4.4
2012	5.5
2011	6.0

Total number of accidents with over seven days of lost time

Year	Number
2015	16
2014	26
2013	21
2012	26
2011	28

Total number of accidents with over three days of lost time*

Year	Number
2015	24
2014	31
2013	32
2012	32
2011	36

* Includes over seven day lost time accidents

"Through focusing on leading indicators we are driving down our accident rate and strengthening our H&S culture."

Mark Wyatt
Group Environment, Health and Safety Executive

Overview

Protecting the health and promoting the wellbeing of our employees is a key priority for the Group. We are striving for H&S excellence to ensure that our workplaces are safe for our employees, contractors and visitors. We actively promote a H&S culture through employee engagement, empowerment and the fostering of good behaviours. We have a well-defined H&S management structure, with the Group Chief Executive and Board of Directors having overall responsibility for H&S performance, and appropriate management systems in place. All our operating companies are required to adhere to the Group H&S Policy and to have a more detailed local policy in place.

Performance in 2015

During 2015 our over seven days lost time accident rate fell by 38% to 3.3 per 1,000 employees and the total number of over seven day accidents fell to 16 (2014: 26). We benchmarked our performance against the Labour Force Survey's "Estimated rate of self-reported workplace non-fatal injuries with over seven days of absence, 2012/13–2014/15", in the UK manufacturing sector, a rate of 7.1 per 1,000 people.[1] Our accident rate was, therefore, significantly better than the industry average. Our total number of accidents resulting in over three days of lost time, which includes over seven day accidents, fell by 23% to 24 accidents for 2015 (2014: 31).

During 2015 we delivered 10,566 H&S training units across the Group and established a system for recording employee concerns. During the year 1,644 employee concerns were raised, these were investigated appropriately and, where necessary, corrective action taken. We enhanced our near miss reporting, investigation and corrective action implementation procedures; 213 near misses were recorded and investigated this year. Across the Group we now have 25 full time, qualified EHS professionals, as well as part time EHS employees, and during the year over 400 internal continuous improvement EHS inspections were conducted in our supply sites.

[1] During 2014 we benchmarked against the RIDDOR over seven day accident rate in the UK manufacturing sector, but comparable data is not available for 2015.

During 2015, an additional four manufacturing sites became OHSAS 18001 certified; 11 of our 18 manufacturing sites now hold the certification (2014: eight). Four of our manufacturing sites have a Behavioural Based Safety (BBS) programme in place, with the remaining sites preparing to implement their programmes.

Actions taken in 2015

During 2015 we embedded a leading indicator programme across our manufacturing facilities and established bi-weekly H&S meetings, attended by H&S personnel from all manufacturing sites. In the meetings, details of accidents are presented, along with causes and corrective actions that have been implemented, allowing all manufacturing sites to review and implement actions to reduce their similar risks. Changes have been made to the way accidents are investigated; we now use an enhanced "5 why" approach and a "strengths of defences" template, identifying root causes and putting strong corrective actions in place.

We held a three-day EHS conference, in the UK, attended by all EHS supervisors from across the steam business and EHS representatives from Watson-Marlow. The event included performance reviews, best practice sharing, BBS training events and strategy discussions.

Focused "safety moments" have been established and are presented at monthly executive meetings, and shared across the Group, and we have formalised the agenda for reporting on H&S performance to the Board of Directors.

Appropriate EHS due diligence surveys were completed during corporate acquisitions. An on-site EHS assessment was completed and an EHS start-up plan produced for our new operating company in India.

Next steps for 2016

- Continue our BBS implementation programme
- Enhance our leading indicators programme
- Generate H&S risk "heat maps" and accompanying risk reduction plans for all manufacturing sites
- Group-wide roll-out of our hand safety campaign
- Implement a H&S training plan for manufacturing sites
- Conduct an employee H&S survey and outline an improvement plan
- All manufacturing sites to hold, or be working towards, certification to OHSAS 18001 by the end of 2016*

* Excludes recent acquisitions, which are to achieve OHSAS 18001 within an agreed timeframe.

Our workplaces:
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: 25% women on our Board, as opportunities arise

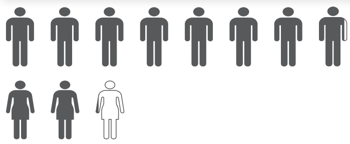
Board gender diversity

Males: 8 Females: 1

Senior management gender diversity

Males: 386 Females: 72

Total workforce gender diversity



Males: 3,821 Females: 1,040

"Diversity is an inherent characteristic of our global operations, strengthening our competitive edge and enhancing our ability to operate effectively and ethically."

Frank Richardson
Group Human Resources Director

Overview

Our employment practices are founded upon our Core Values and, in particular, the value of "respect". We recognise that if our employment decisions are based on the value of respect, our employment practices will be fair and equitable.

Diversity of gender, age, culture, experience and expertise enhance our ability to govern and operate our businesses effectively and ethically. All applicants and employees receive equal treatment during their recruitment, transfer, promotion, training and assessment of salary and benefits, irrespective of sex, race, gender reassignment, disability, sexual orientation, age, religion, beliefs, pregnancy or maternity, marriage or civil partnership.

We give full and fair consideration to applications for employment made by disabled persons, having regard to their aptitudes and abilities, and support the continuing employment of those who become disabled during their period of employment with the Company. Disabled persons are entitled to the same opportunities for training, professional development and promotion as other Company employees.

Since 2011 we have used a global grading system to provide transparency within the organisation around promotion and career opportunities; standardise compensation and benefits packages proportional to pay grade; facilitate the objective evaluation of roles and performance; and aid external benchmarking.

We are fully supportive of the human rights principles set out in the Universal Declaration of Human Rights and the Core Conventions of the International Labour Organisation. Our Group Human Rights Policy recognises that all individuals have the right to lead a dignified life, free from fear and want, and free to express independent beliefs. It also includes the right of all employees to equal opportunities and non-discriminatory treatment, security of person, a safe working environment and a fair wage. We respect the rights of children and reject the use of forced or compulsory labour, either directly or within our supply chain.

Our employees have the right of association and collective bargaining, and we maintain workplaces free from victimisation, harassment or bullying.

We communicate regularly with employees through a variety of channels, to ensure that they are informed about and engaged in their part of the business locally, while having a wider understanding of the operations and performance of the Group. We also undertake confidential employee surveys to assess our performance as an employer. Well-established grievance procedures allow employees to raise concerns and all employees have access to a multilingual whistle-blowing helpline.

Performance in 2015

Board gender diversity remains unchanged with 8 males and 1 female on the Board. Across the Group gender diversity remained relatively unchanged from the prior year with 3,821 males and 1,040 females across the whole workforce, and 386 male senior managers and 72 female senior managers. It is inherently difficult to improve performance in the area of gender diversity in the short or medium term as entrenched global gender stereotypes and global labour force structural issues result in a shortage of female engineers. We are working to address this imbalance through fair and transparent recruitment processes and compensation packages and by seeking to recruit and appoint females into senior management positions within the Group.

Actions taken in 2015

During 2015 we undertook a benchmarking exercise to review our current performance against best practice, including the UN Guiding Principles on Business and Human Rights, and have continued to promote diversity within the engineering sector through visiting schools and universities and attending graduate engineering shows, highlighting that careers in engineering are available irrespective of gender.

We have undertaken an internal review to prepare for disclosure under the forthcoming UK Gender Pay Gap Reporting requirements.

Next steps for 2016

- On-going assessment of employment practices that support our inclusion objectives
- Establish an internal HR auditing process
- Prepare to implement UK Gender Pay Gap Reporting

Sustainability report *continued*

Our workplaces: 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

"We expect employees to act with the highest standards of personal and professional integrity at all times."

Andy Robson
General Counsel and Company Secretary

Overview

Our Core Values provide the foundation on which we make decisions and manage our global operations. Our Group Management Code outlines the standards that we expect everyone in the Group to meet, including compliance with laws, regulations and Group policies; the promotion of ethical business practices; the fair treatment of customers; the confidentiality of information; and respect for people, communities and the environment.

It is Group policy to conduct business free from bribery and corruption and we will not enter into contractual relationships with third parties who are known to engage in corrupt practices. Our Anti-Bribery and Corruption Policy is available on our intranet site in 15 languages, and has also been disseminated directly to employees. We operate in compliance with competition laws and follow international sanctions, embargoes and restrictions. We do not make political donations.

Whistle-blowing facilities are in place globally to facilitate reporting of suspected breaches of ethical business practices.

Performance in 2015

During 2015 we received a small number of calls to "safecall" our third-party managed, confidential, whistle-blowing helpline. All incidents were thoroughly and appropriately investigated.

By the end of 2015, nearly 4,000 employees had completed anti-bribery and corruption training, which is available in all major languages across the Group. During 2015, 400 employees completed a biennial anti-bribery and corruption training refresher course, which was launched during the year.

Actions taken in 2015

During 2015 we completed the Group-wide roll-out of "safecall", our whistle-blowing helpline, with a local (toll-free) helpline number communicated to all employees. We undertook an ethical business practices benchmarking activity and, as a result, created a new "business ethics and values" page on our corporate website with links to core policy documents. Employee training continued, including "Doing the right thing" and anti-bribery and corruption training.

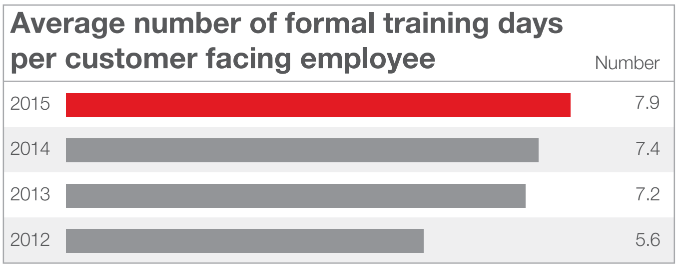
Next steps for 2016

- Establish divisional ethics officers
- Formally recognise the Risk Management Committee as the Group's "Ethics Overview Committee"

Our workplaces: training and development

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

Target: 10 days of formal training per customer facing employee



Overview

We achieve our strategy for growth by staying close to our customers, understanding their needs, and applying sector expertise to create bespoke, value-added engineered solutions. Developing the knowledge and skills of our people, including sales, customer support, product development, supply, distribution and logistics, and leadership, ensures that we continue to identify and deliver value for our customers, growth that outperforms our markets, and shareholder value.

We undertake extensive training of our employees in our 48 training centres, located worldwide, and have invested in a comprehensive e-learning library. Our sales engineers also undergo extensive on-the-job training and mentoring.

Performance in 2015

During 2015 we increased the average number of formal training days (excluding on-the-job training) for our customer facing employees to an average of 7.9 days per employee (2014: 7.4 days). We also added 40 new or improved e-learning courses to our online library. A further 15 senior managers attended a two-week Advanced Management Programme, run by the Ashridge Business School, taking the total number who have attended to 57 since the programme was launched in 2011. During 2015, 80 managers participated in our "Aspire" leadership programme, taking the number who have participated to 144 since the programme was launched in 2013, and 11 team leaders participated in our Team Leader Development Programme, taking the number who have participated to 85 since the programme was launched in 2010.

Actions taken in 2015

During 2015 we announced the launch of a new Spirax Sarco Academy, with Simon O'Brien, the former Regional General Manager for South East Asia and Japan, appointed as Principal. The Academy, which will be guided by a Board of Governors, will be established early in 2016 and will initially focus on the customer facing workforce before widening the scope to include all aspects of learning and development for our staff.

We have also interviewed and selected 12 of our employees to participate in a pilot nine-month "Initiating High Performance Programme".

Next steps for 2016

- Establish the Spirax Sarco Academy
- Complete a pilot of the Initiating High Performance Programme

Our supply chain: end-to-end

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

Target: 90%, by spend, of Group direct suppliers to have signed our Supplier Sustainability Code by the end of 2016

"As we focus on continuous improvement within our supply chain, and set high standards for ourselves and our suppliers, we improve our operational performance and sustainability."

Ian Farnworth
Group Supply Chain Director

Overview

Improving the sustainability, efficiency and effectiveness of our end-to-end supply chain is a key strategic objective for the Group. Our supply chain encompasses all the activities that transport and transform raw materials and components into a finished product that is delivered to a customer.

We manufacture globally, across 18 manufacturing sites. Our regional manufacturing strategy improves customer service by reducing lead times and ensures that products meet local specifications. It also reduces transport requirements for finished products and provides local employment in the regions in which we operate.

Embedding sustainability criteria into our purchasing processes is central to ensuring the sustainability of our supply chain. Our Supplier Sustainability Code outlines the expectations that we have of suppliers, particularly in relation to their employees and their environmental impacts.

In accordance with the Modern Slavery Act, the Supplier Sustainability Code specifies that our suppliers must not use forced, bonded or non-voluntary labour, should establish recognised employment relationships in accordance with national laws, and exercise clarity in relation to wage levels.

We expect our suppliers to ensure that their activities are safe and secure for the health of their employees, contractors, the local community and the users of their products. Suppliers should proactively prevent work-related injuries and illnesses through identifying, evaluating and limiting or mitigating risks.

Suppliers must have a health and safety policy and an implemented health and safety management system. Suppliers' facilities must be constructed and maintained in accordance with the standards set by applicable laws and regulations, and 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 the supplier 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 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 will not countenance the use of child labour. Our suppliers are also expected to take steps to mitigate their environmental impacts, improve 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 continually 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 2015

During 2015 our updated Supplier Sustainability Code was rolled out to over 750 direct material suppliers. Our top 300 suppliers received on-site audits and we assessed a further 200 suppliers using desktop surveys.

Actions taken in 2015

During 2015 we expanded the Group Supply Chain function to include a Group Supply Chain Sourcing Manager, a Group Supply Chain Operations Manager, and a Group Energy and Environmental Manager, who works with the Group EHS Executive. With the expansion of the Group Supply Chain function we are striving to optimise supply chain effectiveness and sustainability by ensuring that we have robust policies and procedures in place to support excellence in this area.

We undertook an extensive review of our supply chain, with a particular focus on manufacturing and internal supply chain effectiveness, and identified efficiency improvement opportunities, including service performance, inventory optimisation, operations planning and purchasing co-ordination. Encouraging progress is being made as we target excellence in our supply chain.

We commenced the roll-out of our new Supplier Sustainability Code to suppliers across the Group, and undertook routine supplier visits and audits.

We reviewed the requirements of the Modern Slavery Act 2015 and undertook an internal review to ensure that we have the systems in place to enable full and accurate disclosure in an annual Modern Slavery Act statement.

Next steps for 2016

- Extend the roll-out of our Supplier Sustainability Code and sustainable sourcing strategy
- Continue to execute our operational excellence programme
- Establish a steam business-wide sourcing excellence KPI

Sustainability report *continued*

Our supply chain: 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.

"Product responsibility begins with robust R&D processes and consideration of a wide range of full lifecycle sustainability factors."

Simon Sprackling
Group R&D Manager
(Steam Specialties)

Overview

Ensuring that our products are safe for our customers to use, are manufactured using ethically sourced raw materials and have limited negative and wherever possible beneficial environmental impacts, begins with robust product development processes. Our R&D processes are well-structured and incorporate best practice in the areas of design-for-manufacture and compliance with safety and environmental standards such as ISO 14001 and RoHS (Restriction of the Use of Certain Hazardous Substances). We apply eco-design principles, avoid the use of hazardous materials and place a strong emphasis on in-service performance and continuous improvement.

Performance in 2015

During 2015 we reviewed our R&D project portfolio and completed a thorough review of our R&D processes. These reviews demonstrated exceptional standards of compliance with relevant regulations and standards.

Actions taken in 2015

During 2015 we reviewed our project portfolio for alignment with environmental legislation and sustainability standards; completed a gap analysis to evaluate our current performance in the area of product design processes for sustainability; and linked sustainability factors with relevant drivers from within our quality management system to further raise the importance of sustainability within new product design.

Next steps for 2016

- To fully embed sustainability within our quality management system
- To identify clear targets in respect of sustainability performance expectations
- To continue to develop our product design and quality processes
- To identify improved processes for the assessment of new product designs against full lifecycle environmental impacts, as well as safety, performance, cost and quality

Our environment: water and waste

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

Target: All operating companies to achieve or be working towards ISO 14001: 2004 by the end of 2016*

* Excludes recent acquisitions, which are to achieve ISO 14001: 2004 within an agreed timeframe.

Employees working in operations with ISO 14001 %

	%
2015	76
2014	73
2013	66
2012	59
2011	47

Overview

Water is a valuable resource that needs to be managed effectively. We take steps to manage water use across our businesses, for example utilising rainwater harvesting at some of our manufacturing sites and grey water use for irrigation purposes.

Reducing the amount of waste generated by operations and the quantity of waste sent to landfill is an important mechanism by which we manage our environmental sustainability. Recycling schemes are widely used across the Group and we have dedicated contractors to manage waste. We also seek to prevent the creation of waste for ourselves and our customers, for example through reducing the quantity of packaging materials used and using sustainably sourced and recyclable packaging materials where possible.

Performance in 2015

ISO 14001 is an international environmental management standard which demonstrates that the environmental impacts of a business are being managed and reduced. The certification process is rigorous and requires external auditing against prescribed standards. By the end of 2015, 76% of our employees were working in operations covered by environmental management standard ISO 14001. During 2015, five operating companies achieved ISO 14001 certification for the first time, taking the total number of our operating units with certification to 25.

Actions taken in 2015

During 2015 we undertook an internal and external benchmarking exercise and best practice review of water and waste management and reporting practices. In preparation for commencing Group-wide waste generation and management and water use data collection during 2016, we established universal definitions for our waste streams and established systems for reporting on our waste and effluent management and water use.

Next steps for 2016

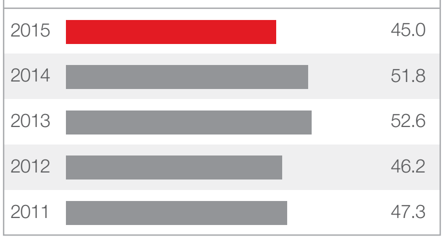
- Measure all waste stream quantities, water usage and trade effluent quarterly at manufacturing sites
- Establish a framework for approving waste vendors
- Set targets for waste reduction at manufacturing sites
- Set targets for water reduction at manufacturing sites

Our environment: energy and carbon emissions

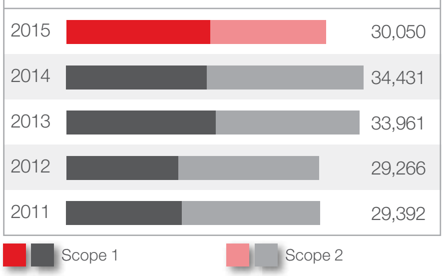
Objective: To minimise the environmental impacts of our operations by managing energy consumption with the aim of reducing carbon emissions

Target: To achieve a year-on-year reduction in our CO_2e emissions intensity

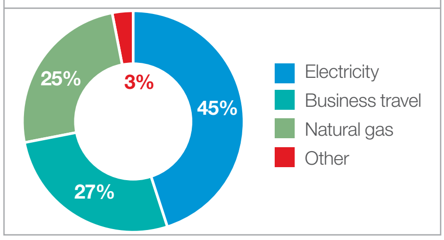
CO_2e intensity tonnes per £m of inflation adjusted sales, at constant currency



Total Group CO_2e emissions (scope 1 and 2) tonnes



Greenhouse gas emissions inventory*



* Scope 1 and 2 emissions

Overview

We recognise that we have a responsibility to address the threat of climate change by managing our energy consumption and reducing our CO_2e emissions. In accordance with national and international directives, we endeavour to continuously reduce the carbon intensity of our business and implement strategies to 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 2015 this included Spirax Marshall Private Ltd and Econotherm. Also excluded from the footprint boundary are emission sources from operating companies established during 2015 and from companies acquired during the year. 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 2015 to calculate our total CO_2e emissions figures.

Performance in 2015

Our CO_2e 2015 emissions data have been audited by TÜV UK Ltd, part of TÜV NORD Group, who have 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 2015 to 31st December 2015 (inclusive) are: 16,659 tCO_2e for Scope 1 and 13,391 tCO_2e for Scope 2.

TÜV UK Ltd
London
February 2016"

During 2015, our total scope 1 and 2 CO_2e emissions and our CO_2e emissions intensity both fell by 13%, primarily as a result of the installation of a Combined Heat and Power plant at our Cheltenham manufacturing facility.

Actions taken in 2015

In compliance with the EU's Energy Efficiency Directive, energy audits were completed within our European operating companies that meet the qualification criteria, namely the UK, France, Italy and Germany. The energy audits, which were completed by accredited assessors, identified energy saving opportunities. We have begun to review these opportunities with the intent of implementing some of the recommendations in 2016.

During 2015 several of our manufacturing units began to implement plans in preparation for accreditation to energy management standard ISO 50001. Our Watson-Marlow MasoSine operating company in Germany became our second manufacturing site, after Spirax Sarco Korea in 2014, to achieve accreditation to ISO 50001.

Installation of a Building Energy Management System (BEMS) and also a Combined Heat and Power plant were completed at our Cheltenham, UK manufacturing facility. We have begun generating electricity on site, and recovering the waste heat produced during power generation to raise steam, which is used in our production and testing facilities. Utilising the BEMS, we have begun to identify and implement energy saving opportunities, such as turning off compressors over the weekend, which is helping to improve on-site energy efficiency.

Next steps for 2016

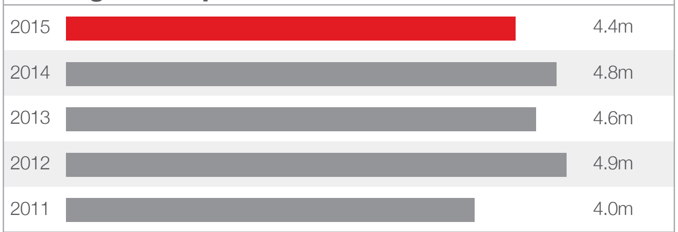
- Establish energy champions across the Group
- Establish an energy "treasure hunt" programme for manufacturing sites
- Establish quantitative CO_2e emissions reduction targets for manufacturing sites and the Group
- Establish a quantitative CO_2e intensity reduction target
- Quarterly Scope 1 and 2 emissions data collection
- Introduce a reporting and dashboard system for each operating company

Sustainability report *continued*

Our 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

Tonnes of CO_2e emissions our end users saved as a result of purchasing our energy management products



Overview

Helping our customers to reduce their environmental impacts and achieve their environmental targets through improving plant efficiency, reducing energy, water and chemical use, and maintaining product quality and hence avoiding waste, is central to our sustainability strategy and business model.

Reducing energy and, hence, CO_2e emissions is a key sustainability driver for our customers wanting to improve their operational sustainability and reduce their environmental impacts. We primarily help our end users to reduce their energy consumption and emissions by providing products and services that improve the efficiency of their steam systems and enable them to recover and reuse thermal energy. In addition, the design and unique action of our pumps can provide substantial energy savings over other pump types. For example, our MasoSine pumps, from Watson-Marlow, are designed to efficiently handle high viscosity fluids which other pump types would require large electrical motors to pump.

Our products and services frequently enable our end users to use water more efficiently and reduce total water consumption on site. For example, our steam products enable the efficient return of condensate to the boiler feed tank, preventing it from being lost to the drain; facilitate the capturing and utilisation of flash steam, which would otherwise be lost to atmosphere; and improve the quality of boiler feedwater, reducing the need for boiler "blow-down" and the loss of water that this entails. Our pumps can also provide our end users with substantial water savings. For example, within the mining industry the application of a peristaltic pump from Watson-Marlow can result in an average water saving of over 70%, in comparison with common centrifugal pumps. This can equate to savings of as much as 900,000m³ of water a year for each pump installed.

The pumping accuracy of peristaltic pumps provides considerable chemical savings for our customers, within the Water & Wastewater and other industries.

Performance in 2015

We estimate that a select range of energy management products sold during 2015 will reduce our end users' CO_2e emissions by 4.4 million tonnes annually. The methodology used to determine these savings has been independently assessed with the assistance of Ricardo-AEA Ltd. The methodology remains unchanged but is reviewed annually by Ricardo-AEA Ltd taking revised emissions 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 pressure and temperature controls, will also provide CO_2e savings but as these are not easily quantifiable they are excluded from our methodology.

Qdos pumps from Watson-Marlow help packaging manufacturer halve chemical usage

Huhtamaki Molded Fiber, a business unit within the Huhtamaki Group, located in the Netherlands, manufactures packaging, such as egg trays, fruit trays and cup carriers, from recycled paper. Qdos pumps, from Watson-Marlow, have revolutionised the dosing of a chemical lubricant during egg tray production, halving chemical use and reducing costs by over £60,000 a year, for a single application.

Farmers use automated machines to pack eggs into trays. If insufficient chemical lubricant has been used during the manufacture of the trays they stick together, preventing a robot from picking them up and feeding them into the packaging machine, causing egg breakages.

The chemical lubricant is only required on the surface of the trays, but the limitations of dosing pumps meant that Huhtamaki had to add the lubricating agent into the mixing tank, before the pulp was moulded into the carton structure. Following the installation of Qdos pumps, lubricant is now sprayed onto the surface of the trays, once they have been moulded, significantly reducing the amount of lubricant used. The unique properties of the Qdos pump – its ability to deliver a low and very accurate pulse-free flow at a relatively high pressure (7 bar) – make it the only pump on the market capable of handling the chemical in this spraying application. The application of Qdos pumps has reduced chemical lubricant usage from 240 tonnes per year in 2013, to 120 tonnes per year in 2015, despite increased production levels, a saving of 120,000 litres a year. At approximately £500/tonne, this equates to cost savings of over £60,000 per year.

Actions taken in 2015

During 2015 we reviewed our objective in this area and broadened it so that it captures a wider range of the environmental impact benefits that we offer our end users, including for example, reducing their chemical use.

We also completed a review of data collection and identified areas for future focus.

Next steps for 2016

- Continue to strengthen our Thermal Energy Management capabilities
- Review our customer sustainability reporting metrics
- Calculate annual end user water savings from the installed base of Bredel pumps from Watson-Marlow
- Establish a field test to evaluate the positive impact of Qdos pumps on end user energy use and CO_2 emissions

Our communities

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

Group Charitable Trust donations £000

	£000
2015	141
2014	140
2013	136
2012	132
2011	132

Overview

We seek to have a positive impact within our local communities through making charitable donations to worthwhile causes and engaging with our local communities in a variety of ways, including contributing time, resources and expertise, where there is a local need. Our Group Charitable Donations Policy guides our community engagement activities and focuses donation in the following areas: education; social services for the less advantaged, disabled and abused; healthcare; the arts; the environment; and disaster relief.

Performance in 2015

During 2015 the Spirax Sarco Group Charitable Trust (Trust) made 41 donations, ranging in value from £200 to £18,000 to a geographically widespread and diverse range of charities. For example, the Trust donated £6,000 to Young Gloucestershire, a charity that supports young people who are facing challenges in their lives. A further £58,000 was donated to charitable causes by our operating companies during 2015 (2014: £47,000).

Spirax Sarco Singapore provides steam system expertise to train engineers in Myanmar

During 2015, Spirax Sarco Singapore partnered with the Myanmar Engineering Society (MES) to provide steam system training to engineering students in Yangon, Myanmar.

The month long course, which included three weeks of self-study and a week of practical demonstrations and factory visits, was hosted by the Myanmar Engineering Society, with Spirax Sarco providing all training materials, stationery, time and expertise free of charge.

The course is designed to build the steam systems knowledge base in Myanmar, which is currently very low, and will prepare students for careers in industry. The course also supports the MES's energy management initiative by developing a core of steam engineers that will help to reduce steam losses, improve energy management and reduce CO_2 emissions within industry in Myanmar. Further, the knowledge gained by the engineers will help local factories to increase efficiency and improve production standards so that they become safer and more competitive for international trade. Lastly, the course will raise brand awareness and the reputation of Spirax Sarco in the country.

The first course, attended by over 30 students, was a huge success; so much so that MES plans to run the course three to four times a year in Yangon and two to three times a year in Mandalay.

Malaysian home building project

During 2015, Spirax Sarco Malaysia engaged in a home building project for an underprivileged Orang Asli (local aborigine) family, Omis and Manah.

Omis, Manah and their three children are one of approximately 12,000 Orang Asli families living in unsafe or inadequate housing conditions within Peninsula Malaysia. When Spirax Sarco arrived, the family was living in a dilapidated shack measuring just 20m² in the Orang Asli village of Kg Hulu Tamu, located on the edge of the rainforest in Batang Kali, Selangor. Working as a rubber trapper, with a monthly household income of less than MYR 900 (£138), Omis was unable to provide his family with a suitable home.

Over a three day period, a team of 25 Spirax Sarco Malaysia employees worked with EPIC Homes, a non-profit organisation, to build the family a new home. Building the home was no easy task, working in 32°C heat, with little shade, the team demonstrated great commitment to build a 40m² home, including three bedrooms, a kitchen and a living area.

To prepare for the build, the team attended a "Builder Basics Workshop" to equip them with the essential skills, safety training and knowledge to build the home.

Andy Wells, General Manager of Spirax Sarco Malaysia, commented, "This was an extremely rewarding team building exercise for Spirax Sarco, while also giving something meaningful back to the local population. With safe shelter in place, Omis can now focus on providing his family with food and ensure that his children have the necessary equipment for school."

Actions taken in 2015

During 2015 we reviewed our community engagement projects across the Group and completed a benchmarking exercise. We identified key areas of focus and the need for an improved reporting framework to drive performance and reporting in this area. We continued to engage with the local communities in which we operate, with a focus on educational provision, particularly within science and engineering.

Next steps for 2016

– Establish a Group-wide community engagement framework
– Update the Group Charitable Donations Policy
– Facilitate sharing of best practice across the Group

Our governance

1. Nicholas Anderson
Group Chief Executive

2. Bill Whiteley
Chairman

3. Jamie Pike
Independent Non-Executive Director
Senior Independent Director

4. David Meredith
Finance Director

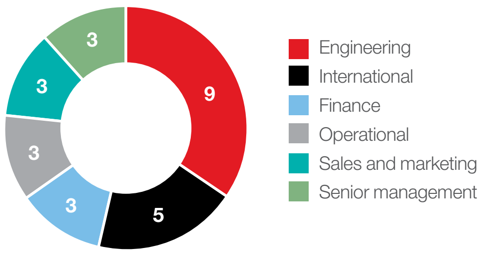
5. Neil Daws
Executive Director EMEA

6. Jay Whalen
Executive Director WMFTG

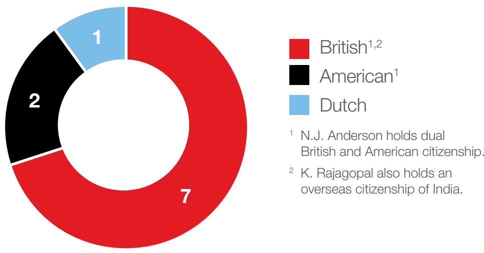
7. 8. 9. 10.

Focus on our Board

Core expertise



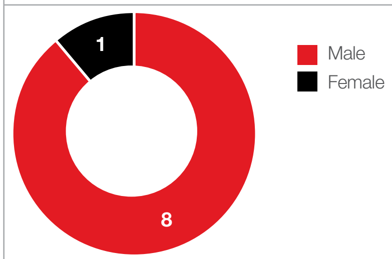
Nationality



[1] N.J. Anderson holds dual British and American citizenship.

[2] K. Rajagopal also holds an overseas citizenship of India.

Gender



7. Krishnamurthy Rajagopal
Independent
Non-Executive Director

8. Trudy Schoolenberg
Independent
Non-Executive Director

9. Clive Watson
Independent
Non-Executive Director

10. Andy Robson
General Counsel and
Company Secretary

Full Board biographies can be found on pages 68–69

In this section

Chairman's introduction

Governance is central to our business

"The Board is collectively responsible for promoting the Group's long-term success, for setting its strategic plans and ensuring a framework of prudent and effective controls."

Bill Whiteley
Chairman

Key points in this section:

- Full compliance with the UK Corporate Governance Code 2014
- External Board evaluation
- Promoting an integrated approach to risk management and internal control
- Succession planning

Our approach to governance

Governance helps us to:

- Ensure our shareholders receive a good return on their investment
- Behave with integrity as colleagues, making sure that each feels valued, motivated and rewarded
- Treat our customers, suppliers and local communities properly
- Respect the environment

Fair, balanced and understandable

In accordance with the Code, the Directors confirm that they consider that the Annual Report 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.

What governance means to us

As a Board it is our responsibility to support management with meeting its strategic aims, enabling the Group to continue to perform successfully and sustainably for our shareholders and wider stakeholders. Underpinning this is the Board's commitment to ensuring the business operates to the highest standards of corporate governance. I am pleased that an independent evaluation of the Board and our Committees, carried out during the year, confirmed that the Board operates effectively, in an open and collegiate manner.

In this section of the Annual Report, we set out our approach to governance, using the five main principles of the Corporate Governance Code 2014 (as per the diagram on page 67) and explain how the Board and its Committees are structured and what they have done during the year.

Our Governance Report explains how the Group has applied the principles and complied with the provisions of the UK Corporate Governance Code 2014 (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.

Regulatory disclosures required under the Disclosure and Transparency Rules 7.2.6 can be found on page 112.

You will find the Remuneration Report on pages 86 to 100, where Krishnamurthy Rajagopal, the Remuneration Committee Chairman, summarises our three-year Remuneration Policy that was approved by 98.5% of shareholder votes at our Annual General Meeting (AGM) in May 2014. The Annual report on remuneration 2015 sets out the details of Executive compensation throughout 2015, which will be subject to the normal advisory vote at the 2016 AGM.

Key actions during the year

During 2015 we continued our open dialogue with the investment community with a comprehensive schedule of visits, road shows and meetings undertaken by myself, the Group Chief Executive and the Finance Director. This included a visit to our Watson-Marlow Fluid Technology Group headquarters in Falmouth, UK, for a number of analysts, to assist with their understanding of our business model.

A key activity undertaken this year was an independent Board effectiveness review, carried out by Dr Long CBE of Boardroom Review Ltd. This ensures we are compliant with the requirement to undertake an external review every three years in accordance with the Code. A summary of the findings and recommendations are set out on pages 75 and 76 of this Report.

Succession planning has had increased emphasis during 2015 following the independent review undertaken by Dr Long CBE, with the need to ensure the Board is refreshed and remains compliant with the Code. We remain committed to achieving our target of at least 25% female representation on the Board, and firmly believe we will come close to achieving this in the near future. Further information is set out on page 74 in the Nomination Committee report.

With David Meredith's announcement of his wish to retire, Kevin Boyd was identified as a suitable successor. Further information on this appointment is set out in the Nomination and Remuneration Committee reports. In addition, at our strategy review meeting in June we reviewed the skills and experience of the executive team to ensure that the organisation has a pipeline of strong and capable senior managers to meet the future needs of the business.

The requirement for premium listed businesses to provide a Viability statement was introduced in 2014. The Risk Management Committee, working with the Directors, has reviewed the business model alongside the principal risks and has satisfied itself that it will be viable for three years. A copy of our statement is set out on page 111.

With the introduction of the Modern Slavery Act 2015 we have taken reasonable steps to confirm that to the best of our knowledge there is no modern slavery or human trafficking within our supply chain and we will continue to monitor measures to protect workers from abuse or exploitation in our organisation or supply chain. A Modern Slavery Act statement is available on our website www.spiraxsarcoengineering.com.

Integrated management framework

As a Board, we have ultimate responsibility for overseeing the Group's performance and for overseeing the management of risk within the Group. As a result of Code changes published in September 2014, the Board, the Risk Management Committee and the Audit Committee have put in place new processes for the on-going monitoring of risk management and internal controls to ensure that there is a more robust and integrated approach. These changes include:

- health and safety as a standing agenda item at every Board and executive management meeting
- Non-Executive Directors have sight of the agendas and key papers considered by the Risk Management Committee
- risk management and the review of internal controls is now carried out by the Risk Management Committee and the Audit Committee
- the Chairman of the Audit Committee to attend the Risk Management Committee once a year
- an on-going assessment of the effectiveness of the internal and external audit.

The Group's culture and 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.

A strong anti-corruption culture is central to the Group's values and all employees are required to undertake anti-bribery training. In June 2015 a biennial refresher examination programme was introduced into the business to ensure that we maintain this position.

To ensure that our suppliers comply with human rights principles we expect them to adhere to our Supplier Sustainability Code which is in accordance with international standards such as the OECD Guidelines for Multinational Enterprises, the Universal Declaration of Human Rights, the Core Conventions of the International Labour Organisation and the UN Guiding Principles on Business and Human Rights. More information on this can be found in our Sustainability report on page 59 and in our Audit Committee report on page 80.

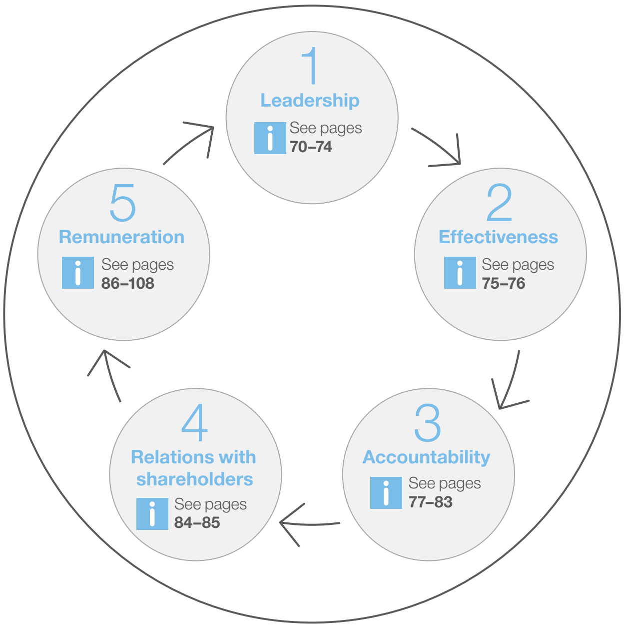
I am pleased to report that good corporate governance is integrated into everyday life at Spirax Sarco.

I look forward to meeting you at our AGM on Tuesday, 10th May 2016.

Our Corporate Governance Information is presented in accordance with the main principles of the Code

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 2014 (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.



Compliance statement

The Company is subject to the UK Corporate Governance Code, published by the Financial Reporting Council and available on their website, www.frc.org.uk. The edition of the Code published in September 2014 applied throughout our financial year ended 31st December 2015. We have complied with the Code throughout the year.

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code 2014, 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. 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 2018.

Our Viability statement can be found in full on page 111 of this Report.

Board of Directors

Bill Whiteley

BSc, FCMA (67)

Chairman

Committees

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.

External appointments

Chairman of Brammer plc and Hill & Smith Holdings PLC.

Nicholas Anderson

BSc Engineering, MBA (55)

Group Chief Executive

Committees

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.

Jamie Pike

MBA, MA, MIMechE (60)

Independent Non-Executive Director

Senior Independent Director

Committees

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, Tyman plc and RPC Group.

David Meredith

FCMA, CGMA (56)

Finance Director

Committees

RK

Appointed to the Board

June 1992

Areas of experience

- Finance and accounting
- Engineering
- International
- Pensions

Background

Before joining the Group in 1988 as Group Accountant, David Meredith trained as an accountant with Redman Heenan International, a specialist engineering group, and was appointed Accountant at their Heenan Drives Ltd subsidiary. David later joined English & American Reinsurance Company where he held finance positions.

Krishnamurthy Rajagopal

FREng, CEng, FIET, FIMechE, FIE, FCMI, PhD (62)

Independent Non-Executive Director

Committees

A N R*

Appointed to the Board

February 2009

Areas of experience

- Remuneration
- Engineering
- Senior management
- Operations

Background

On completing his Doctorate in 1980, Krishnamurthy Rajagopal held senior positions in BOC Group plc prior to being named Chief Executive of BOC Edwards and Executive Director of the BOC Group plc, before retiring in 2006. He was previously a Non-Executive Director of FSI International Inc., Foseco Ltd and Dyson Group plc.

External appointments

Chairman of UMI^3 Ltd and HHV Pumps Ltd.
Non-Executive Director of WS Atkins plc, Bodycote plc, e2v technologies plc and Porvair plc.

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 (53)

Executive Director, EMEA

Committees

RK

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 (59)

Executive Director, WMFTG

Committees

RK

Appointed to the Board

March 2012

Areas of experience

- Sales and marketing
- Engineering
- 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 pump 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.

Trudy Schoolenberg

PhD (57)

Independent Non-Executive Director

Committees

A N R

Appointed to the Board

August 2012

Areas of experience

- Engineering
- Product development
- Oil and petrochemical

Background

Prior to her current 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.

External appointments

Director of Integrated Supply Chain and Research, Development and Innovation, Decorative Paints Division of AkzoNobel. Non-Executive Director of COVA and Low & Bonar PLC.

Clive Watson

B Comm (Acc), ACA, CTA (58)

Independent Non-Executive Director

Committees

A* N R

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.

External appointments

Executive Director and Group Finance Director of Spectris plc.

Andy Robson

LLB Law, Barrister (53)

General Counsel and Company Secretary

Committees

RK

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
- IT, PPP and PFI 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 he was European General Counsel with Cendant Corporation headquartered in Baltimore, Maryland.

Leadership:
Board structure

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.

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.

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 2015 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 and Committee meetings is set out on page 72. 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 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 allocate their time to the right 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.

Division of responsibilities

Roles and responsibilities

Key Board matters

- The approval of corporate and strategic business plans
- The approval of the annual and interim results
- Trading updates
- Integrated risk management framework
- Acquisitions/disposals
- Major capital expenditure
- Director appointments
- Material litigation

Chairman

- Managing the Board
- Safeguarding governance
- Performance – with Group Chief Executive
- Shareholder contact – with Group Chief Executive and Finance Director
- Director performance
- Succession planning

Group Chief Executive

- Leadership
- The Group's short, medium and long-term performance
- Stewardship of capital, technical and human resources
- Corporate and business strategy
- Internal risk management controls
- Organisational structure

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.

Group Board
Bill Whiteley
(Chairman)

Audit Committee	Nomination Committee	Risk Management Committee	Remuneration Committee
Clive Watson (Chairman)	Bill Whiteley (Chairman)	Nicholas Anderson (Chairman)	Krishnamurthy Rajagopal (Chairman)

Responsibilities

Audit Committee	Nomination Committee	Risk Management Committee	Remuneration Committee
Monitor the integrity of Financial Statements Ensure significant issues have been addressed Review effectiveness of internal controls, risk management framework, and internal and external audit to ensure that they are robust and integrated	Recommend Board appointments Review succession plans	Ensure risk management is meaningful, relevant and focused on improving the business Risk scenario planning for China and EMEA Risk review to ensure an effective and robust management framework Keeping the Board informed	Recommend a remuneration strategy and framework to attract, retain and reward senior executives Determine annual Executive Director and senior executive remuneration Approve Performance Share Plan (PSP) awards Determine the Remuneration Policy set out in the Remuneration Policy report 2014 and subject to renewal in 2017

Further information on each of the Committees' activities during the 12-month period to 31st December 2015 is set out on **pages 73–100**

Leadership:
Board structure *continued*

Board activities in 2015

The Board ensures good governance practices are embedded throughout the Group so that 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 2015. 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 2015 the Board devoted 35% of its time to the Spirax Sarco steam and Watson-Marlow Fluid Technology Group strategies, the Group 2020 plan and with reviewing implementation progress of the Group corporate strategy. With the new requirement for the Board to ensure that the risk management framework is integrated, as well as being robust and effective, 20% of time was allocated to this.

As new product development is key to the on-going success of the business, at the meeting held in June a presentation on Product Lifecycle Management was delivered. This included a proposal for a new technology platform for products in the steam business to reduce the time taken to get a new product to market, improve efficiencies and protect key data. Approval was given by the Board for this investment. At the same meeting the Board and executive team reviewed progress with the implementation of the strategy as approved by the Board in June 2014.

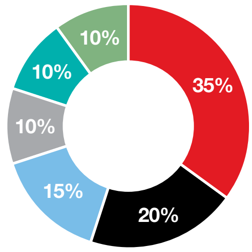
Health and safety is of fundamental importance to the business and is considered at each Board meeting.

At the June meeting the Board approved investment in a development programme enabling a number of employees across the globe to qualify in health and safety management to an international standard.

The Board recognises that cyber-crime continues to be a threat to all businesses and has ensured that additional investment has been made during the year on the information security infrastructure to upgrade and strengthen our systems. In addition, an increased level of insurance cover has been put in place to mitigate the cost to the business in the event of an attack. Further information on the work undertaken in this area is shown on page 83.

During 2015 the Board regularly reviewed the Group's performance and satisfied itself that, despite challenging trading conditions and foreign exchange headwinds, management was on track in delivering the strategic business plan. In addition, the Board concentrated its efforts on succession planning during its strategic review meeting in June. The Board also continued to engage with shareholders on governance, remuneration and trading during the period.

Board focus during 2015



Board attendance

Details of the number of Board and Committee meetings, and individual attendance by Director for 2015, are set out in the table below.

	Board	Audit Committee	Nomination Committee	Remuneration Committee	Risk Management Committee
Number of meetings	**7**	**3**	**2**	**4**	**3**
Bill Whiteley	7	N/A	2	N/A	N/A
Nicholas Anderson	7	N/A	2	N/A	3
David Meredith[1]	7	N/A	N/A	N/A	3
Neil Daws	7	N/A	N/A	N/A	3
Jay Whalen	7	N/A	N/A	N/A	3
Jamie Pike	7	3	2	4	N/A
Krishnamurthy Rajagopal	7	3	2	4	N/A
Trudy Schoolenberg	7	3	2	4	N/A
Clive Watson	7	3	2	4	N/A

N/A means not applicable.

[1] As announced, David Meredith steps down from the Board at the conclusion of the AGM on 10th May 2016 due to retirement and will be replaced by Kevin Boyd on 11th May.

Leadership:
Nomination Committee

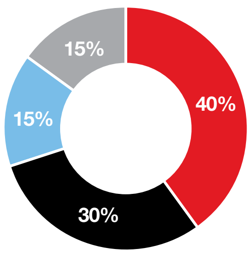
"This year succession planning has played a major part of our activity to ensure we continue to have a strong, well balanced and diverse Board and senior management team, equipped with the skills and experience to implement our strategy for growth."

Bill Whiteley
Chairman, Nomination Committee

Membership and attendance

Committee member	Attendance
Number of meetings	**2**
W.H. Whiteley	2
N.J. Anderson	2
J. Pike	2
K. Rajagopal	2
G.E. Schoolenberg	2
C.G. Watson	2

How the Committee spent its time during the year



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

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 2015:

- Recommended to the Board the appointment of Kevin Boyd as Group Finance Director and Executive Director
- Succession planning
- Reviewed tenure of Non-Executive Directors
- Reviewed Board diversity

Read more on pages 74–76

Summary of the key areas of focus for 2016:

- Instruct an independent external search agency to assist with finding suitable candidates
- Develop job descriptions for new appointments
- Board and Committee succession planning

Leadership:
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 of Board members 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 2015

This year we have reviewed the tenure of the Non-Executive Directors as part of the succession planning to ensure that a majority of independent Non-Executive Directors continues to be maintained.

The need for enhanced succession planning was also a key recommendation following the external Board evaluation carried out by Dr Long CBE of Boardroom Review Ltd in 2015. Work has therefore started, and a plan has been developed, to ensure that succession for key Board roles is phased over the next few years to ensure adequate handover periods and a smooth transition. An independent external search agency has been instructed and will advise the Committee on the suitability of candidates against a job description approved by the Committee. The Committee is committed to appropriate engagement with shareholders throughout this process. As we progress this process we anticipate that the number of Directors may fluctuate temporarily between 9 and 10. 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.

A recommendation from this review is that the Nomination Committee increases the number of scheduled meetings from 2016 onwards. The findings of the review are set out on page 76. We have identified the skills and experience required on the Board to support the implementation of our strategy for growth, and used these to create job specifications to assist with recruitment.

Following David Meredith's announcement of his wish to retire from his position as Group Finance Director and Executive Director with effect from the end of the AGM on 10th May 2016, we appointed Korn Ferry Whitehead Mann, an independent executive recruitment firm, to assist with the search for a successor. On 27th October 2015 we announced the appointment of Kevin Boyd who will join the Group on 11th April 2016 to ensure a smooth handover from David Meredith. Kevin Boyd will then be appointed to the Board on 11th May 2016 as Group Finance Director and Executive Director.

Korn Ferry Whitehead Mann provides no other services to the Group.

We encourage leadership development through robust succession planning and a strengthened performance management culture. We have a management development plan for those individuals demonstrating high potential. Training and professional development are delivered through our Leadership Academy in conjunction with Ashridge Business School and our "Aspire" programme for senior managers.

The Executive Directors meet frequently to review organisational staffing requirements against career planning of high-potential leaders. 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 2015.

The Group seeks to have Directors who, in addition to relevant technical and commercial expertise, meet the highest standards of judgement, critical thinking and openness. Furthermore, 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 65, the diverse range of nationalities and experience of our Board is particularly relevant given the broad international reach of the Group.

We are committed to a target of a minimum of 25% women on our Board as opportunities arise. This is a key element of our Board succession plan and we are confident that we will be close to this target and exceed 20% in 2016.

We also encourage the progress of women in senior positions throughout the Group and, during 2015, women were appointed as: Strategic Implementation Project Manager (EMEA), General Manager (Thailand), HR Manager (Italy), Group Energy and Environmental Manager, Senior HR Business Partner, and Operations Manager (Group Supply Chain), with a number of these being internal promotions.

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

Effectiveness

Board evaluation

In the period August to October 2015, an independent evaluation of the Board and the Board Committees was externally facilitated by Dr Tracy Long CBE of Boardroom Review Ltd, in accordance with the provisions of the Code. All Board members were interviewed, and the performance of the Board and its Committees was observed. In addition, the flow and quality of the Board and Committee information was reviewed. The objective of this evaluation was to provide insight into the effectiveness of the Board and to identify actions for improving performance.

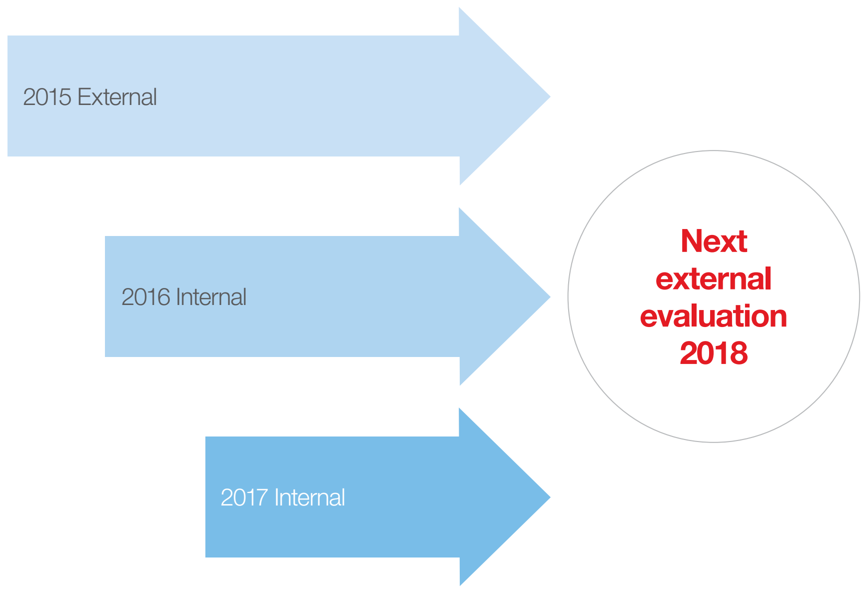
Boardroom Review Ltd provides no other services to Spirax-Sarco Engineering plc.

The overall view of the Board's performance was positive. In particular, the strength of the Board was noted and the review confirmed that there is a clear focus on priorities with a collaborative and open Board culture, supported by information of a high quality.

A number of recommendations were made to further improve the strength of the Board and to ensure that the business is prepared for the future.

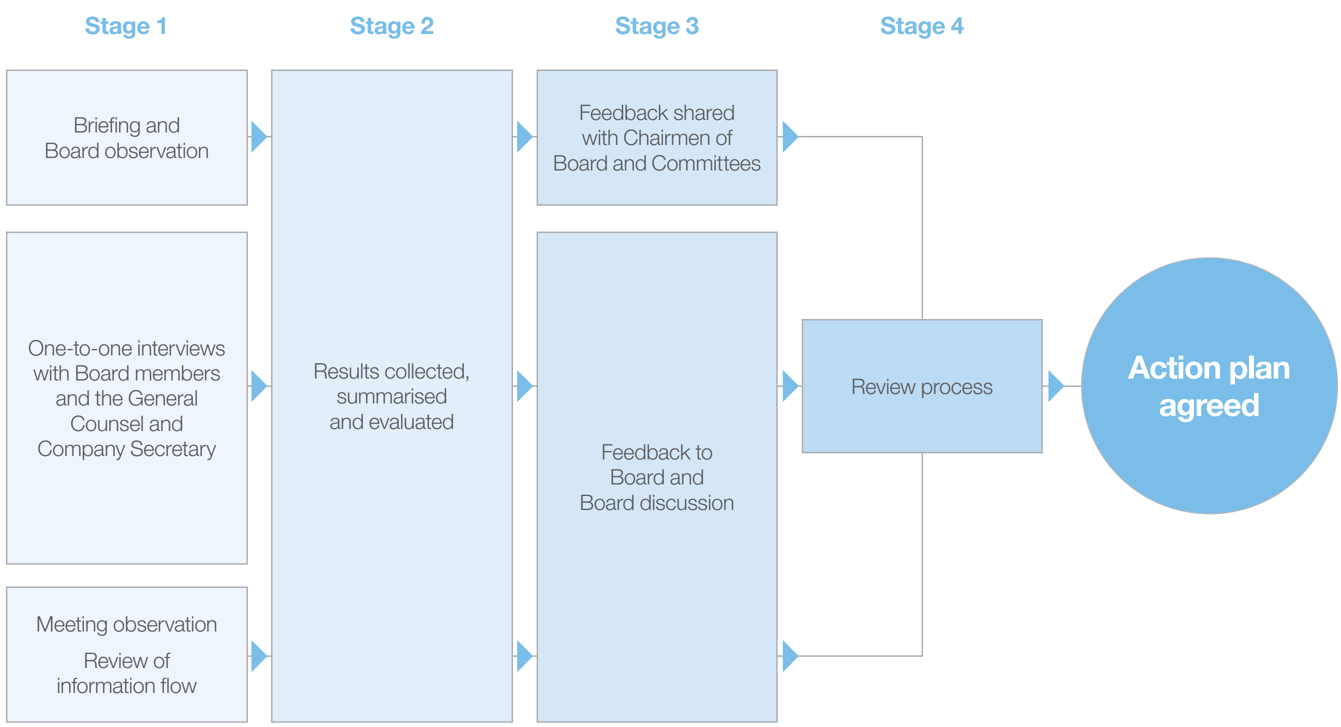
For further information see page 76

Evaluation cycle - three year



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 in the diagram below.

External evaluation process



Effectiveness *continued*

Board evaluation findings		
Summary of progress made following internal review undertaken in 2014	**Summary of 2015 recommendations following external review**	**Summary of key actions agreed following external review**
– The June 2015 Board meeting was dedicated to strategic planning – Succession planning for senior management considered at June 2015 Board meeting within strategic review – Diversity training provided for all UK employees – At each Board meeting the Chairman of each Committee summarises the matters discussed by the Committee and actions taken so that all Directors are fully aware of all important matters. – Wherever possible Committee meetings are held the day before Board meetings to ensure adequate time allocation.	Refresh the Board succession plan	A specification, timetable and process has been developed setting out the key milestones to ensure the Board continues to be fully compliant with the Code
	Review Board composition to ensure the right skills and experience exist to support the future strategy	The Nomination Committee has undertaken a rigorous review of Board and Committee composition and has developed a phased plan to ensure a smooth transition
	Forward planning of Nomination Committee meetings for 2016	Additional Nomination Committee meeting dates have now been scheduled to ensure succession planning and Board composition is progressed in 2016
	Increased visibility of Risk Management Committee activity	Risk Management Committee members to be invited to Board meetings to provide updates on specific topics Risk Management Committee agendas and minutes to be circulated to Non-Executive Directors The Chairman of Audit Committee to be invited to attend a Risk Management Committee meeting annually Non-Executive Directors to be fully involved on specific risks that need a "deep dive" analysis
	Review the maturity of internal audit function	Preparatory work for a benchmarking exercise undertaken ready for a review in 2016

A number of the 2014 actions are enduring themes which will continue to be pursued.

Further findings from the Board evaluation relating to the Board Committees are set out in the Committee reports on **pages 73–100**

Director development

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.

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 and an annual update from the corporate legal adviser.

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.

In June, the Board meeting was combined with a site visit to two of the Italian operating companies and a presentation by the management team.

Accountability: Audit Committee

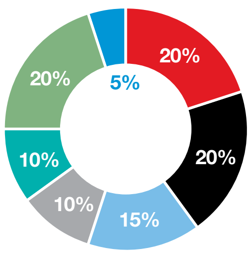
"The Committee's primary focus is to ensure the integrity of financial reporting by reviewing the controls in place and those areas where judgement is required."

Clive Watson
Chairman, Audit Committee

Membership and attendance

Committee member	Attendance
Number of meetings	**3**
C.G. Watson	3
J. Pike	3
K. Rajagopal	3
G.E. Schoolenberg	3

How the Committee spent its time during the year



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 were revised by the Committee in October 2014 to include an assessment of external audit effectiveness and are subject to regular review.

Summary of the key Committee activities in 2015:

- Financial Statements
- Auditor effectiveness and audit process
- Internal audit
- Viability statement
- Integrated risk assessment and management framework
- Multi-lingual whistle-blowing helpline
- Introduced Deloitte Academy for Directors

Read more on pages 78–79

Summary of the key areas of focus for 2016:

- Financial Statements
- Review of internal audit
- Effectiveness assessment of audit
- On-going monitoring of risks
- Risk assessment

Accountability:
Audit Committee *continued*

Matters considered

In 2015, the following matters were considered by the Committee and, where applicable, by the Board or other Committees:

Review of internal audit and effectiveness	**Anti-bribery and corruption**	**Pension scheme liability**	**Whistle-blowing**	**Performance evaluation**
Litigation update	**Annual forward plan**	**Review of principal risks**	**Risk Management Committee**	**Annual Report - fair, balanced and understandable**
External auditor and Audit Committee effectiveness	**Compliance with UK Corporate Governance Code 2014**	**Taxation**	**Viability statement**	**Integrated risk management framework**

Review of 2015

The Committee met three times in 2015.

Both John Senior (Group Financial Controller) as head of the internal audit team, and the external auditor attend the meetings and have direct access to the Committee Chairman. Following the external Board evaluation undertaken during 2015 it was recommended that the Group Chief Executive be invited to attend the Audit Committee from time-to-time and this has now been implemented.

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.

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.

The Committee received assurance on going concern, viability, pension valuation, material litigation and risk management.

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 second 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 will be 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 2015, Deloitte LLP presented their plan for the 2015 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.

The Financial Reporting Council's Audit Quality Review team selected to review the audit of the December 2014 Spirax Sarco Group Financial Statements as part of their 2015 annual inspection of audit firms. The focus of the review and their reporting is on identifying areas where improvements are required rather than highlighting areas performed to or above the expected level. The Chairman of the Audit Committee received a full copy of the findings of the Audit Quality Review team and has discussed these with Deloitte. The Audit Committee confirms that there were no significant areas for improvement identified within the report. The Audit Committee is also satisfied that there is nothing within the report which might have a bearing on the audit appointment.

During the year, the Committee reviewed and approved the proposed audit fees and terms of engagement for the 2015 audit and recommended to the Board that it proposes to shareholders that Deloitte LLP be re-appointed as the Group's external auditor for 2016 at the Annual General Meeting to be held on 10th May 2016.

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 £237,720 on non-audit services provided by Deloitte LLP (being 22.1% of the average of Group audit fees charged over the past three years). Further details can be found in Note 6 on page 133.

Internal audit

The Committee reviewed the schedule of planned internal audits undertaken in 2015 and assessed the robustness of the control framework that is in place to track and monitor progress in remedying any identified deficiencies. This comprehensive review ensures that the Committee is able to give assurances that the Group has an effective and integrated risk management framework. The internal audit process is explained on page 83.

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 significant volume of trade in the final quarter of the year, the need to focus on any new contracts was highlighted to ensure the appropriate recognition of revenue for the year ending 31st December 2015.

(ii) The carrying value of goodwill

The Committee focused on the carrying value of goodwill, including the sensitivity analysis and the key assumptions used by management, and agreed with the conclusion reached that no additional impairments were required.

(iii) Inventories

There are judgements required in assessing the proportion and value of slow-moving inventory that should be written down in value. The value of inventory was considered by the Committee to ensure that the accounting policy had been consistently applied and the level of inventory provision was appropriate.

(iv) Pensions

There are judgements 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.

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

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

(vi) Other judgements in the Financial Statements

Provisions and acquisitions were addressed. After reviewing the presentations and reports from management and consulting with the auditor, the Committee is satisfied that the Financial Statements appropriately address the critical judgements and key estimates, both in respect of 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.

Review of Financial Statements

During 2015 the Committee considered many components of the business performance in order to ensure it has a full understanding of the operations of the Group.

Key considerations made by the Committee include:

- determining the position adopted in key judgement areas including pensions, provisions, goodwill impairment and acquisitions;
- 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; and
- reviews of the budget and operational plan.

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.

Committee evaluation

During the year the Committee undertook a self-assessment of its performance using an internal questionnaire. Having considered the findings of this review it was agreed to make available the Deloitte Academy to all Directors to ensure that a comprehensive programme of training and development is available throughout the year.

The results of the external Board evaluation undertaken during the year by Dr Long CBE of Boardroom Review Ltd highlighted the effectiveness of the Audit Committee. The review also recommended the need for the Nomination Committee to engage in succession planning for the Chairman of the Committee.

The review recommended that the Audit Committee agrees the scope for an independent benchmarking assessment of the internal audit function to ensure it is capable of supporting an increasingly complex and growing business.

Fair, balanced and understandable

One of the key governance requirements 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 adopted a process of assessing 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 are 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;
- 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.

The Directors' statement on a fair, balanced and understandable Annual Report is set out on **page 66**

Accountability:
Audit Committee *continued*

Human rights in the supply chain and the Modern Slavery Act 2015

Spirax-Sarco Engineering plc maintains the highest ethical standards in our business operations, and strives to continually develop, implement, and uphold organisation-wide policies in keeping with those standards.

In 2015, the Group made further progress with a review to check and satisfy itself that proper procedures for compliance with health and safety requirements and adherence to the Group's Human Rights Policy are present in its supply chain. During the year, the Group Supply Chain function was expanded to ensure adequate resource for the management and monitoring of our suppliers.

The Group Supply Chain Director has been tasked with working with the Group Environment, Health and Safety Executive and the Group Sourcing Manager to ensure compliance by suppliers with the Spirax Sarco Supplier Sustainability Code (reviewed and updated in 2015 to include the provisions of the Modern Slavery Act 2015). This sets out the non-negotiable minimum standards that we expect our suppliers and their sub-tier suppliers to respect and to adhere to when conducting business with the Company.

In accordance with the Modern Slavery Act, our Supplier Sustainability Code specifies that our suppliers must not use forced, bonded or non-voluntary labour.

The Supplier Sustainability Code is in accordance with international standards such as the OECD Guidelines for Multinational Enterprises, the Universal Declaration of Human Rights, the Core Convention of the International Labour Organisation and the UN Guiding Principles on Business and Human Rights.

The roll-out of the updated Supplier Sustainability Code commenced during 2015, in addition to routine supplier visits and audits.

We have issued a Modern Slavery Act statement and a summary of this can be found on page 59. The full statement can be found on our website: www.spiraxsarcoengineering.com/Sustainability/Pages/our-supply-chain.aspx

Having robust policies in place to ensure that no modern slavery or human trafficking is present in our operations or within our global supply chains is a fundamental aspect of our commitment to upholding ethical standards with respect to human rights encapsulated in our existing Human Rights Policy. The Group has implemented and will continue to implement measures to protect workers from being abused or exploited in our organisation or supply chain.

Further information on the work undertaken during 2015 and targets for 2016 are set out on page 59 of this Report.

Accountability: Risk Management Committee

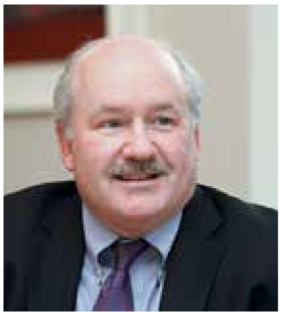
"A robust assessment of the principal risks and monitoring risk management were our priorities this year."

Nicholas Anderson
Chairman, Risk Management Committee

Membership and attendance

Committee member	Attendance
Number of meetings	**3**
N.J. Anderson	3
D.J. Meredith	3
N.H. Daws	3
J.L. Whalen	3



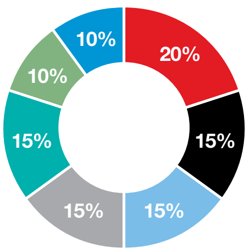


The following executives are also members of the Committee: Divisional Director (Sheldon Banks), Group Business Development Director (Ashok D'Sa), Group Human Resources Director (Frank Richardson), Steam Finance Director (Byron Thomas), Group Supply Chain Director (Ian Farnworth) and General Counsel and Company Secretary (Andy Robson). In addition, the Chairman of the Audit Committee is now invited to attend the Committee at least once per year.






How the Committee spent its time during the year



- Risk management framework
- Review of principal risks
- Internal controls
- Internal audit
- Modern Slavery Act
- Anti-bribery
- Scenario testing

Role of the Committee

The Committee ensures that the Group has risk management policies and procedures 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 2015:

- Chinese & EMEA scenario planning
- Review of historical risks
- Group risk register and principal risks review
- New Code risk provisions
- Operating company risk reports

Read more on **pages 82–83**

Summary of the key areas of focus for 2016:

- On-going monitoring of risk management and internal controls
- Anti-bribery and corruption – roll out of further enhancements including:
  - Risk Management Committee to act as "Ethics Overview Committee"
  - Establish divisional ethics officers
  - Further face-to-face ethics training (combine ethics and H&S training opportunities)
  - Create a user-friendly, plain English Code of Conduct booklet bringing all ethics policies into one document with Q&As and relevant contact information, translated into key languages

Accountability:
Risk Management Committee *continued*

Responsibilities

To identify and understand the risks facing the Group	**To assess and transfer or avoid those risks which are beyond 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 establish the authority levels within the Group, by consideration of materiality, at which decisions on acceptance and mitigation of risk are taken**

Our approach and appetite for risk

Our aim is to continue to build a sustainable business through consistent, profitable growth and to provide value to our customers and shareholders. Creating shareholder value is the reward for taking acceptable risks. The effective understanding and management of risk is fundamental to the long-term success of the Group.

The Committee has developed a risk matrix with quantified thresholds that have been approved by the Board following input and consultation with Directors and management. The relative positions of the risks and the agreed thresholds are monitored on an on-going basis to take into account the changing environment within which the Group operates.

The risk review process

We have adopted an integrated approach to our risk management, independent assurance and internal controls to ensure greater linkage across our review and assessment of risk. Internal controls and risk management are designed to limit the chance of failure to achieve corporate objectives. Independent assurance is provided by the external auditor and internal audit.

The Committee has accountability for overseeing the risk management processes and procedures, works with the Audit Committee and reports to the Board on the risks facing the Group. The Committee also monitors the mitigating actions put in place by the relevant divisions and Group companies to address the identified risks.

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, at least once a year. 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.

To ensure that risk management is fully embedded into the Group culture, in 2015 we reviewed our assessment of the principal risks using bottom-up involvement from management. Our principal risks and the product of the 2015 review are set out on pages 32 and 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

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 management have full accountability for the management of risks in their specific areas.

Internal controls

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

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.

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.

From its annual reviews, the Board believes that the system of internal controls is embedded in the business and that regular review allows for assessment of new and changing risks in the Group's business.

Internal controls can provide only reasonable and not absolute assurance against material misstatement or loss.

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

Internal audit

The Board has an established internal audit function which allows each of the Group operating companies to be audited at least every three years and those judged to be 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 audit resource is supplemented 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. Whilst there were some areas for local improvement identified in the internal audit reports, no significant matters were raised in the reports on the operating companies audited during the year.

Further work has been done to build on our strong anti-corruption culture and our Anti-Bribery and Corruption Policy. We have supplemented our "anti-bribery@work" training programme, which includes testing, with biennial refresher training that is in the process of being rolled out to all employees. To date 4,000 employees have completed the initial training and 400 employees have taken the refresher. The Group Legal function also makes face-to-face presentations throughout the Group on business ethics. In 2015, we also stepped-up our supplier compliance checks and ensured every company had in place a gifts and hospitality register. Finally, the introduction of an independent whistle-blowing hotline further strengthened our commitment to ethical business practices.

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.

Important developments in the year

Our risk management approach is subject to continuous review and updating to take account of new and developing issues which might impact our business objectives. The following actions have been undertaken during the year to address significant developments:

Scenario testing

We undertook scenario testing for China with external facilitation

Historical review

We carried out a review to determine if the principal risks on the register relate to the events that actually occurred in the last three years and if the mitigation mechanisms were effective

Principal risks

We undertook a bottom-up review of the principal risks and introduced monitoring throughout the year in accordance with changes to the Code

Modern Slavery Act

The Group has implemented and will continue to implement measures to protect workers from being abused or exploited in our organisation or supply chain, with standards set in our Supplier Sustainability Code

A statement has been prepared and is available on our website.

Our Global Excellence in Supply Chain Initiative provides a framework for on-going monitoring

Crisis management training

Having implemented a Serious Incident Procedure last year the need for training to enable senior managers to be able to respond was identified and training scheduled

Regular updates

The executive committee reviews risk at each meeting and agendas/minutes of the Risk Management Committee are circulated to all Board Directors

Cyber security

The Group recognises that cyber-crime is a growing threat to all businesses and is taking measures to remain secure. We continue to detect and prevent issues before they are able to affect the security of our systems, or impact us financially, through actions such as:

- the identification of information assets that are at risk, to ensure relevant protection is in place;
- the use of anti-virus and firewall controls, with regular updates applied;
- the use of email filtering to reduce the risk of phishing and software attacks;
- the use of third party experts for cyber-security testing to assess risks to our systems and to help to prevent future attack;
- the use of a single third party, to provide, monitor and manage our global network; in line with industry best practice;
- the use of Information security audits and an Information Systems risk register to manage, mitigate and prevent risks;
- the operation of policies, processes and procedures to prevent incidents affecting our information systems;
- a program of education for key business leaders and Information Systems staff in detection and prevention of cyber-attacks.

We also attained the first level of the UK Governments "Cyber Essentials" scheme in the UK during 2015 and will roll this out across the Group in 2016.

Relations with shareholders

Governance structure

We maintain an active dialogue with our principal investors and the investment community. During 2015 we undertook a comprehensive calendar of events, as shown in the shareholder engagement calendar on page 85. By providing regular forums for meeting and communicating with shareholders 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 interviews, investor and analyst calls, one-to-one meetings, roadshows, site tours and capital markets events. In March 2015 we held a Capital Markets Day, buy-side, at our Spirax Sarco manufacturing and R&D site in Cheltenham, UK and in October 2015 we held a Capital Markets Event, attended by sell-side analysts, at our Watson-Marlow Fluid Technology Group headquarters and manufacturing facilities in Falmouth, UK. During the year Nicholas Anderson, Group Chief Executive, and David Meredith, Finance Director, also attended shareholder roadshows, across several countries, including the UK, France, Germany, Switzerland, Canada and the USA.

At the AGM in 2015, shareholders were able to hear from and put questions to the Board on a range of matters.

Since the year end we have written to our shareholders giving them the option to receive documents such as our Annual Report electronically rather than in hard copy, helping us to reduce the impact we have on our environment and reduce costs.

Our forthcoming AGM will take place on 10th May 2016 at our UK Head Office: Charlton House, Cheltenham when 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.

Capital markets event

During September 2015 we held a Capital Markets Event at our Watson-Marlow Fluid Technology Group (WMFTG) headquarters in Falmouth, Cornwall. The event was attended by 14 sell-side analysts and was designed to enhance their understanding of this important and growing business within the Group.

The event included presentations by Jay Whalen, Executive Director of Spirax-Sarco Engineering plc and President of WMFTG, and other senior managers from Watson-Marlow about the company, new product development, sales and geographical expansion, and the company's manufacturing philosophy. The event also included a site tour of the Watson-Marlow pump factory, ISO 14644-1 Class 7 certified tubing extrusion clean room and R&D facilities. In addition, there were presentations about the Group's supply chain and Spirax Sarco's direct sales approach.

A copy of the presentations delivered at the event can be found on the corporate website, www.spiraxsarcoengineering.com within the Investors section on the Results and presentations page.

How our investors can find us

Online 2015 Report
www.spiraxsarcoengineering.com/investors/pages/results-and-presentations.aspx

Our Group website
www.spiraxsarcoengineering.com

Shareholder engagement calendar 2015

January 2015
- ✔ Broker lunch and meetings with investors, London
- ✔ Shareholder visit hosted by Spirax Sarco China
- ✔ Institutional meetings, Cheltenham

February 2015
- ✔ No events

March 2015
- ✔ Preliminary Results announcement, analyst meeting and shareholder roadshow, London
- ✔ Broker industrials conference, London
- ✔ Capital Markets Day (buy-side), Cheltenham
- ✔ Investor and analyst calls

April 2015
- ✔ Institutional meetings, Cheltenham
- ✔ Investor and analyst calls

May 2015
- ✔ AGM and trading update
- ✔ Investor and analyst calls following AGM and trading update
- ✔ Institutional meetings, Cheltenham

June 2015
- ✔ Investor and analyst calls

July 2015
- ✔ Shareholder roadshow, Europe (France, Germany and Switzerland)
- ✔ Investor and analyst calls

August 2015
- ✔ Half Year results announcement, analyst meeting and shareholder roadshow, London
- ✔ Shareholder roadshow, USA and Canada
- ✔ Investor and analyst calls

September 2015
- ✔ Institutional meetings, Cheltenham
- ✔ Investor and analyst calls
- ✔ Shareholder roadshow, Scotland
- ✔ Capital Markets Event (sell-side) Watson-Marlow Fluid Technology Group, Falmouth, UK

October 2015
- ✔ Institutional meetings, Cheltenham
- ✔ Investor and analyst calls

November 2015
- ✔ Broker mid-cap conference, London
- ✔ Trading update
- ✔ Investor and analyst calls

December 2015
- ✔ Investor and analyst calls

Remuneration:
Remuneration at a glance 2015

Our remuneration information is structured as follows:

How we performed

For more information see pages 24–25

Key performance indicator	2015 actual	2014 actual
Organic revenue growth (%)	**2**	4
Adjusted operating profit (£m)	**152.4**	153.0
Operating profit margin (%)	**22.8**	22.5
Return on capital employed (ROCE) (%)	**44.1**	44.3
Basic earnings per share (EPS) (p)	**142.6**	140.4

TSR performance

Executive Directors' remuneration and shareholdings

For more information see pages 90 and 101–108

Executive Director	Year	Single figure of remuneration (£000): Fixed	Annual bonus	PSP	Total	Value of shareholding vs policy (% of salary)
Nicholas Anderson, Group Chief Executive	2015	635.8	303.8	249.8	1,191	70
	2014	600.7	261.2	136.8	1,000	39
David Meredith, Finance Director	2015	413.6	200.4	288.4	904	507
	2014	442.4	176.7	156.8	777	470
Neil Daws, Executive Director EMEA	2015	385.2	195.8	263.0	846	231
	2014	377.5	168.0	144.1	691	187
Jay Whalen, Executive Director WMFTG	2015	470.3	207.6	234.8	913	102
	2014	426.9	168.9	128.9	725	96

Fixed | Annual bonus | PSP

See page 95

Overview of the Executive Directors' Remuneration Policy

For more information see pages 101–103

Base salary	Benefits	Pension	Annual bonus award	Performance Share Plan (PSP)
To enable the Group to attract retain and motivate high-performing Executive Directors of the calibre required to meet the Group's strategic objectives	To provide market competitive benefits To enable the Executive Directors to undertake their roles through ensuring their wellbeing and security	To offer market competitive levels of pension To attract and retain individuals with the personal attributes, skills and experience required to deliver Group strategy	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	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

Remuneration: Remuneration Committee

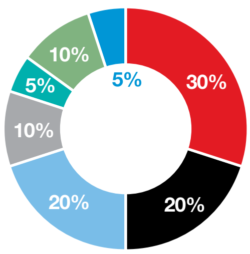
"Our remuneration framework is designed to motivate and reward performance which will maintain the long-term success of the business."

Krishnamurthy Rajagopal
Chairman, Remuneration Committee

Membership and attendance

Committee member	Attendance
Number of meetings	**4**
K. Rajagopal	4
J. Pike	4
G.E. Schoolenberg	4
C.G. Watson	4

How the Committee spent its time during the year



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 current Remuneration Policy, established and approved in 2014.

Summary of the key Committee activities in 2015:

- Set bonus and LTIP performance targets
- Ensured compliance with the approved Remuneration Policy 2014
- Reviewed Executive Director pay and benefits
- Approved remuneration package for Kevin Boyd, appointed as Group Finance Director with effect from 11th May 2016.

Read more on **pages 88–100**

Summary of the key areas of focus for 2016:

- Review Remuneration Policy for approval at the AGM 2017
- Review Executive Director pay and benefits
- Review shareholding requirements for Executive Directors
- Review holding period for the PSP scheme

Remuneration:
Statement by the Chairman of the Committee

Dear Shareholder

On behalf of the Board, I am pleased to present our Remuneration report for 2015. I am happy to confirm that the implementation of Executive Director remuneration in 2015 complied fully with our Remuneration Policy, approved by shareholders at the AGM in May 2014. We also comply with the Large and Medium Sized Companies and groups (Accounts and Reports) (Amendment) Regulations 2013 on Directors' Pay, introduced in October 2013.

In this letter I will provide a summary of business performance during the year and the resulting awards made under our performance-based incentive plans, along with details of the major decisions made by the Committee. The balance of this report is split into two sections: our 2015 Annual report on remuneration, which explains how the Remuneration Policy was implemented during the year ended 31st December 2015 followed by a copy of the approved Remuneration Policy.

Business performance and pay outcomes

As noted in the Chairman's statement on pages 2 and 3, the Company made further progress in 2015 with Group revenue up 2% and pre-tax profit up 4%, both at constant currency, contributing to earnings per share (EPS) growth of 6% at constant currency, or 2% at reported exchange rates, and a Return on Capital Employed (ROCE) of 45.3% (as determined under the annual bonus plan rules). Over the three-year period ending in 2015, the Company delivered a total shareholder return (TSR) of 58.8%. The Board is recommending an increase in the final dividend of 7.1% to 48.2p per share for the year, extending our dividend record to 48 years.

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". A maximum payout under the annual bonus plan and Performance Share Plan (PSP) is only available as a result of significant outperformance by the business. The Committee considers that the remuneration paid to Executive Directors in 2015 (given as a single figure for each Director on page 90) reflects the progress made by the Company during 2015, as well as over the last three years.

Annual bonuses are based on adjusted operating profit and ROCE targets. The Group profit achievement of £152,195,000 (as determined under the annual bonus plan rules) was 0.6% below the plan target and the ROCE achieved of 45.3% was 0.83 percentage points above the 44.5% plan target. These achievements resulted in a 61.39% bonus award for the Group Chief Executive and 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 91 and 92.

Shares awarded in the PSP vest based on relative TSR and EPS growth over the three-year plan period. Performance on the EPS measure resulted in a vesting of 50.8%. Strong TSR of 58.8% in the three years to 31st December 2015 exceeded the majority of our peers and triggered a 100% award for the TSR element. As a result, the 2013 PSP awards vested at a rate of 80.33% of the total shares awarded. (Details of bonus and PSP awards can be found on pages 92 and 93).

Changes to the Group Chief Executive's remuneration

On his promotion to Group Chief Executive, Nicholas Anderson's overall remuneration package was consciously positioned below both that of his predecessor and levels observed in the market. The Committee has kept this under review with a view to better aligning his remuneration to market median over a period of time.

As disclosed in our report last year, in 2015 the Committee approved a salary increase of 4.2%, slightly above the average of the other Executive Directors (2.8%) and the average increase for our UK employees (2.0%). This reflected both excellent performance in the role, contribution to the Group and the Committee's intention to better position salary relative to market norms.

Following a further review in December 2015, the Committee has increased the Group Chief Executive's salary to £515,000 (+4.1% on 2015) and bonus opportunity to 125%, with effect from 1st January 2016. Similar to last year, these changes reflect both the strong performance in role and of the Group, and progression over time to market norms. This increase in bonus opportunity is permitted by the existing Remuneration Policy. 112.5% of this bonus opportunity will be measured against financial performance and 12.5% against individual strategic objectives linked to five of the Group's key strategic themes. The other Executive Directors will also have a portion of their bonus based on individual strategic objectives, as explained on page 89.

In addition, the Committee approved a commensurate increase in the minimum shareholding to 125% of salary (100% in 2015). The Committee was also cognisant of the Policy which requires the Group Chief Executive to use that part of his bonus over 60% of base salary (net of tax) to buy shares until the minimum shareholding requirement has been satisfied.

Remuneration for the new Group Finance Director

During the year David Meredith announced his wish to retire from the Group with effect from 10th May 2016. On 11th May 2016 Kevin Boyd will take over as Group Finance Director and Executive Director. Kevin Boyd's remuneration package will be composed of a market median salary of £335,000, a cash contribution in lieu of pension of 25% of salary, a bonus entitlement of up to a maximum of 100% of salary and a PSP award of 100% of salary. No sign-on or buy-out payments were provided in respect of this recruitment. Mr Boyd will offer himself for election to the Board by shareholders at the AGM in 2017.

Changes for 2016

The Committee has determined that from 2016, the payment of up to 10% of an Executive Director's bonus will be based on individual strategic objectives, alongside the current financial measures. These strategic objectives will be tailored to an individual's areas of responsibility and communicated at the start of each year. Each measure will be subject to three possible achievement levels: fully achieved, partially achieved and not achieved.

Under the PSP, for awards made from 2016, the EPS element will be based on outperformance of global industrial production rates. This is the basis by which we forecast growth in our long-term strategic plan and aligns with the market dynamics of our global industry. Further information on these changes can be found on page 99.

It is within this context that during the course of 2016 the Committee will review the Remuneration Policy, which expires in 2017 and consider changes. We will take account of the Group's long-term strategic plan, feedback from shareholders, market trends and the changing economic environment. Following our review, the Policy will be put to shareholders for approval at the AGM in 2017.

Thank you for your engagement and continued support. We were pleased that the 2014 Annual Report on Remuneration received support of 97.5% at our AGM in May 2015. As a Committee we remain focused on setting demanding incentive targets to ensure pay and performance are appropriately aligned, while fully disclosing details on performance and objectives each year. At this time the Committee is satisfied that the Remuneration Policy continues to reflect the interests of shareholders and aligns Executive Director remuneration with Company strategy, while allowing the Group to attract and retain motivated and talented individuals.

Krishnamurthy Rajagopal
Chairman, Remuneration Committee

2nd March 2016

Remuneration:
Annual report on remuneration 2015

Strategic alignment

The Committee ensures that the remuneration paid to the Executive Directors is closely aligned to the Group strategy. In June 2015 at an off-site meeting the Board reviewed the Strategic Plan approved in 2014, to ensure it reflected the changing economic environment.

This 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 22.

1.0 Annual report on remuneration 2015

This section sets out the Directors' remuneration for the financial year ended 31st December 2015.

The following information has been audited by Deloitte LLP:

- Single total figure of remuneration
- Pension
- Scheme interests awarded between 1st January 2015 and 31st December 2015
- Payments to past Directors
- Loss of office payments
- Directors' shareholdings.

1.1 Single total figure of remuneration (audited)

	Salary/Fees		Benefits		Annual bonus		PSP[2]		Pension		ESOP[3]		Total	
	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**
Executive Directors														
N.J. Anderson	£468,442	**£495,000**	£16,782	**£17,085**	£261,203	**£303,881**	£136,777	**£249,869**	£115,443	**£123,750**	£1,468	**£1,552**	£1,000,115	**£1,191,137**
D.J. Meredith	£317,000	**£326,500**	£19,387	**£19,096**	£176,759	**£200,438**	£156,759	**£288,399**	£105,980	**£68,021**	£1,468	**£1,552**	£777,353	**£904,006**
N.H. Daws	£288,000	**£293,750**	£17,523	**£18,050**	£168,077	**£195,843**	£144,151	**£263,018**	£72,000	**£73,438**	£1,468	**£1,552**	£691,219	**£845,651**
J.L. Whalen[1]	£258,599	**£268,250**	£24,591	**£20,482**	£168,891	**£207,629**	£128,893	**£234,823**	£143,753	**£181,546**	N/A	**N/A**	£724,727	**£912,730**
Chairman and Non-Executive Directors														
W.H. Whiteley	£150,000	**£157,500**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	£150,000	**£157,500**
J. Pike	£31,954	**£49,000**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	£31,954	**£49,000**
K. Rajagopal	£54,500	**£55,700**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	£54,500	**£55,700**
G.E. Schoolenberg	£46,000	**£47,000**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	£46,000	**£47,000**
C.G. Watson	£54,500	**£55,700**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	£54,500	**£55,700**

[1] Paid in US dollars. All elements of J.L. Whalen's remuneration are shown in £ sterling as this is the presentation currency of the Annual Report. An average currency conversion rate of 1.53 was used.

[2] The 2015 column relates to vesting of the 2013 PSP valued at an average share price of (3058p), and the 2014 column to the vesting of the 2012 PSP award valued at (3192p). A post vesting re-evaluation will be done once the 2015 awards have vested, and an update will be disclosed in the Annual Report 2016.

[3] Matching shares awarded during the year.

Salary/Fees

The following table sets out the 2015 base salary with effect from 1st January 2015 for each of the Executive Directors compared to 2014.

Executive Directors	2015	2014	Increase
N.J. Anderson	**£495,000**	£475,000	4.2%
D.J. Meredith	**£326,500**	£317,000	2.9%
N.H. Daws	**£293,750**	£288,000	1.9%
J.L. Whalen	**£268,250**	£258,599	3.7%

Increases for the Executive Directors were similar to the average increase for UK employees in 2015 but also took into account market positioning, Company and individual performance and returns to shareholders over the period. Higher salary increases were awarded for Nicholas Anderson and Jay Whalen in view of the excellent performance of both these individuals and their contribution to the Group, and in recognition of the fact that both salaries were below the market median for such roles in our sector.

The following table sets out the 2015 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	Total fees
W.H. Whiteley	£157,500	N/A	£157,500
J. Pike[1]	£47,000	£2,000	£49,000
K. Rajagopal[2]	£47,000	£8,700	£55,700
G.E. Schoolenberg	£47,000	N/A	£47,000
C.G. Watson[2]	£47,000	£8,700	£55,700

[1] J. Pike received £2,000 in respect of his duties as Senior Independent Director.

[2] K. Rajagopal received £8,700 in respect of his role as Chairman of the Remuneration Committee. C.G. Watson received £8,700 in respect of his role as Chairman of the Audit Committee.

Benefits (excluding pension)

Benefits	N.J. Anderson	D.J. Meredith	N.H. Daws	J.L. Whalen
Company car and associated running costs or cash alternative allowance	£16,717	£18,000	£17,484	£16,345
Private health insurance	£368	£368	£368	£1,861
Telecommunications and computer equipment	–	£728	£198	£2,276
Mobility-related benefits:				
– Tax advice[1]	£7,101	–	–	£6,908
Life assurance[1]	£688	£454	£409	£373
Long-term disability insurance[1]	£1,971	£1,300	£1,169	£1,068

[1] 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 page 94.

Annual bonus

Executive Directors participate in the annual bonus plan, which rewards Executive Directors for financial performance both at Group level and, where appropriate, the division 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.

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 for up to three years following payment. Circumstances that may result in a clawback include financial misstatement, erroneous calculations determining bonus payments or gross misconduct.

The table below sets out the performance measures that each of the Executive Directors' bonus awards were subject to:

Executive Directors	2015 Measures
N.J. Anderson D.J. Meredith	Group operating profit (65%) Group ROCE (35%)
N.H. Daws J.L. Whalen	Group operating profit (35%) Group ROCE (35%) Divisional operating profit (30%)

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 the impact of the start-up company in India.

2015 was a good year for the Group which delivered earnings growth, increased operating profit margin and dividend to shareholders. The annual bonus payments to Executive Directors ranged between 61.39% and 77.40% 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 (net of tax) must be used to buy shares until the shareholding requirement has been met. This is the case with the Group Chief Executive whose shareholding requirement has now been increased to 125% of base salary.

Remuneration:
Annual report on remuneration 2015 *continued*

The table below summarises the achieved performance in 2015 in respect of each of the measures used in the determination of annual bonus, together with an indication of actual performance relative to target.

Performance assessment in 2015	Actual performance[1]	Threshold	Below target	Target	Above target	Maximum
Group operating profit	£152.2m	£146.1m	£0.9m	£153.1m	–	£160.7m
Group ROCE	45.3%	42.0%	–	44.5%	0.8%	47.0%
EMEA operating profit[2]	£42.3m	£40.0m	–	£41.7m	£0.6m	£43.8m
Watson-Marlow operating profit	£49.0m	£44.5m	–	£46.4m	£2.6m	£48.7m

[1] To comply with the annual bonus plan rules these metrics use, as a base, the actual adjusted operating profit of £152,437, for divisional operating profit performance, and exclude centrally allocated overheads from both the target measure and actual performance.

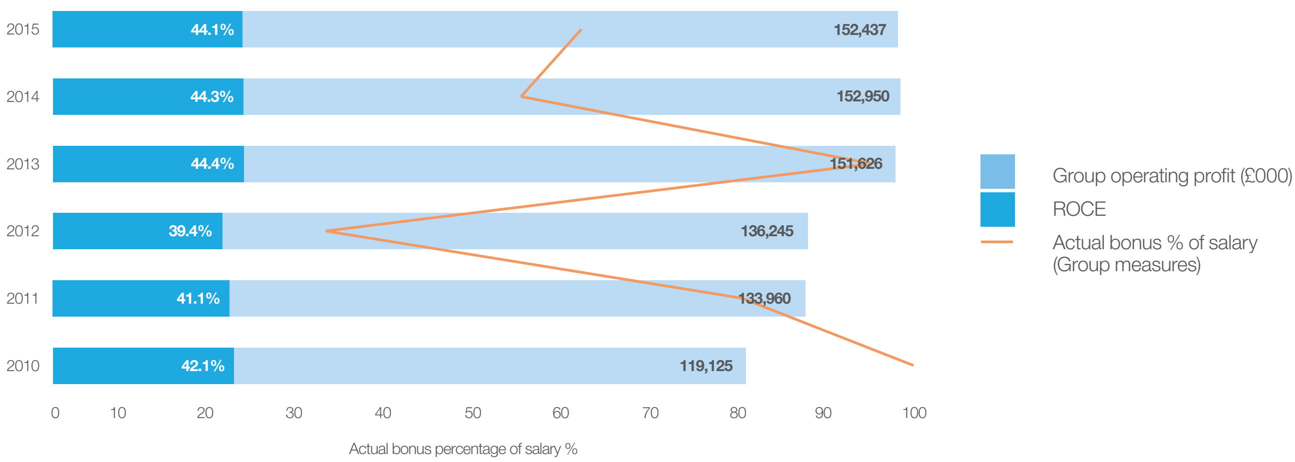
[2] Excludes performance of the UK and French manufacturing units, for which N.H. Daws is not responsible, and the impact of the start-up of the new operation in India.

As a result of this performance in 2015, the following bonuses were achieved:

Executive Directors	Bonus achieved	Bonus (% of salary)
N.J. Anderson	£303,881	61.39%
D.J. Meredith	£200,438	61.39%
N.H. Daws	£195,843	66.67%
J.L. Whalen	£207,629	77.40%

Group operating profit/ROCE

The following graph provides a six-year summary of bonus outcomes 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 include financial misstatement, erroneous calculations determining bonus payments or gross misconduct.

In normal circumstances, the maximum award under the PSP is 100% of base salary but, in exceptional circumstances, this may be increased to 150% of base salary. 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 performance relative to a comparator group

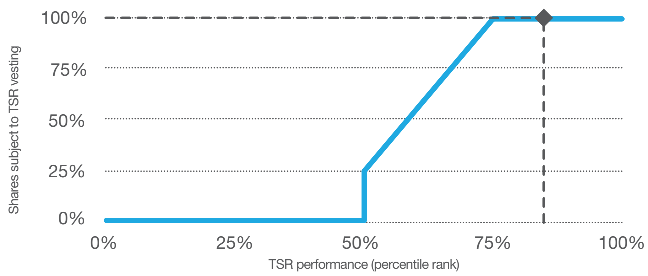
– Aggregate EPS relative to target aggregate EPS.

PSP awards vesting over 2013–2015

In 2013 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 2013 to 31st December 2015.

Relative TSR performance (60% of PSP award)

Over the three-year period to 31st December 2015, the Company delivered a TSR of 58.8%. This ranked above the upper quartile relative to the comparator group.

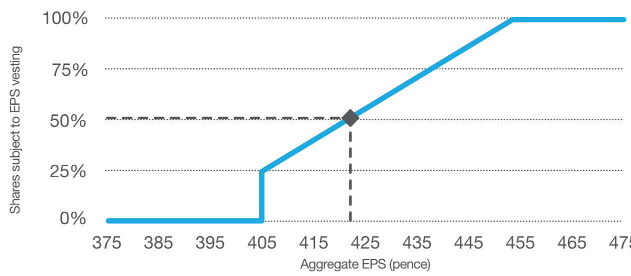


	TSR	Payout
Threshold	Median	25%
Maximum	Upper quartile	100%
Actual	85th percentile	100%

The comparator group for the purpose of measuring relative TSR performance comprises 26 similar companies, namely BAE Systems, Bodycote, Chemring Group, Cobham, Dialight, Domino Printing Sciences, Fenner, Halma, IMI, Meggitt, Melrose Industries, Morgan Advanced Material, Oxford Instruments, QinetiQ Group, Renishaw, Rexam, Rolls-Royce Holdings, Rotork, RPC Group, Senior, Smith (DS), Smiths Group, Spectris, Ultra Electronics Hdg, Vesuvius and Weir Group. Domino Printing Sciences delisted during the performance period and in accordance with the scheme rules was removed from the peer group. From 2014 the comparator group was expanded to the constituents of the FTSE 350 Industrial Goods and Services Supersector.

Aggregate EPS performance (40% of PSP award)

Over the three-year period to 31st December 2015, the Company delivered aggregate adjusted EPS of 421.8p. Adjusted EPS was 122.2p in 2012 (restated for IAS 19R) and so this equated to growth of approximately 5.3% per annum over the three years.



	Performance	Payout
Threshold	405.0p	25%
Maximum	453.8p	100%
Actual	421.8p	51%

EPS is derived from the audited Annual Report for the relevant financial year but adjusted to exclude any non-operating items shown separately on the face of the Company's profit and loss account.

In respect of the 2013 PSP awards, actual performance for the combined relative TSR and aggregate EPS resulted in 80.33% of shares vesting.

Executive Directors	Award	Vested	Lapsed	Value on vesting[1]
N.J. Anderson	10,172	8,171	2,001	£249,869
D.J. Meredith	11,740	9,431	2,309	£288,399
N.H. Daws	10,707	8,601	2,106	£263,018
J.L. Whalen	9,560	7,679	1,881	£234,823

[1] Based on an average share price over the final quarter of 2015 of (3058p).

Spirax-Sarco Engineering plc Employee Share Ownership Plan (ESOP)

Executive Directors (excluding Jay Whalen who is a USA citizen) are eligible to participate in an HMRC approved Share Incentive Plan known as the ESOP. The maximum annual investment in shares is £1,500 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.

Remuneration:
Annual report on remuneration 2015 *continued*

1.2 Pension (audited)

Jay Whalen is a member of the Spirax Sarco Inc. defined benefit plan. The benefit paid under normal retirement from the USA 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 2015.

Jay Whalen's defined benefit plan arrangements are as follows:

	Age attained at 31.12.15	Accrued pension at 31.12.14	Accrued pension at 31.12.15	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	59	£49,202	£55,360	£6,158	£6,158	£123,160

[1] Net of inflation, limited to 0% ie at a rate of 0% per annum. Inflation was negative this year so this has been limited to zero.

[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 and 5% for each year from age 60 to earliest retirement age.
- 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 USA defined contribution pension plan and to a 401k plan. The total amount contributed by the Group was $89,330.

David Meredith became a deferred member of an HMRC registered, contributory defined benefit scheme, the Spirax-Sarco Executives Retirement Benefits Scheme on 27th February 2015 and, therefore stopped accruing any pension benefits within the defined benefit scheme at that date. The benefit paid under normal retirement is a pension based on 1/60th of final pensionable salary for each year of pensionable service to 31st March 2011 and 1/80th of final pensionable salary for each year of pensionable service after 31st March 2011 to 27th February 2015, with final pensionable salary defined as basic annual salary over the last 12 months of service. David Meredith accrued pro-rata additional service at a rate which would have given a further two and a half years of service at age 62½ based on 1/60th accrual if he had remained in service until age 62½.

David transferred his pension benefits out of the defined benefit scheme in April 2015, extinguishing his benefits under the defined benefit scheme, so his actual accrued pension at 31st December 2015 was zero. Below is shown the amount he would have had if he had stayed a deferred member until 31st December 2015.

Details of David Meredith's pension are as follows:

	Age attained at 31.12.15	Accrued pension at 31.12.14	Accrued pension at 31.12.15	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]
D.J. Meredith	56	£158,325	£159,490	£1,165	£0	£0

[1] Net of inflation at a rate of 1.2% per annum. The increase in inflation was larger than the increase in benefits to 27th February 2015. The calculation has been limited to zero.

[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] D.J. Meredith paid zero contributions into the defined benefit scheme over the year having elected in 2011 to reduce the accrual rate from 1/60th to 1/80th.

In lieu of pension benefits, David Meredith now receives 25% of his basic salary in cash, which in the period 1st March 2015 to 31st December 2015 amounted to £68,021.

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. In lieu of pension benefits, Neil Daws now receives 25% of his basic salary in cash, which in the year ended 31st December 2015 amounted to £73,438.

In lieu of benefits, Nicholas Anderson receives 25% of his basic salary in cash, which in the year ended 31st December 2015 amounted to £123,750.

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 (100%) of base salary, using the share price at date of award (3446.0p). Awards were made on 11th June 2015.

Executive Director	PSP award	Face value	Last day of the performance period	Vesting at threshold performance
N.J. Anderson	14,364 shares	£494,983	31.12.17	25%
D.J. Meredith	9,475 shares	£326,508	31.12.17	25%
N.H. Daws	8,524 shares	£293,737	31.12.17	25%
J.L. Whalen	7,784 shares	£268,236	31.12.17	25%

In respect of the PSP awards made to Executive Directors in 2015, vesting is dependent on the following TSR and EPS performance measures.

Relative TSR performance (40% of PSP award)	Performance	Payout
Threshold	Median	25%
Maximum	Upper quartile	100%

For awards made in 2015 the comparator group is the constituents of the FTSE 350 Industrial Goods and Services Supersector.

Aggregate EPS performance (60% of PSP award)	Performance	Payout
Threshold	RPI +3% CAGR	25%
Maximum	RPI +9% CAGR	100%

EPS is as defined in previous years.

Spirax-Sarco Engineering plc Employee Share Ownership Plan (ESOP)

Nicholas Anderson, David Meredith and Neil Daws are participants in the HMRC approved ESOP. During the year ended 31st December 2015 they each purchased 53 partnership shares and so were each awarded 53 matching shares. They received 14, 331 and 97 dividend shares respectively.

1.4 Payments to past Directors (audited)

There were no payments to former Directors during the year ended 31st December 2015.

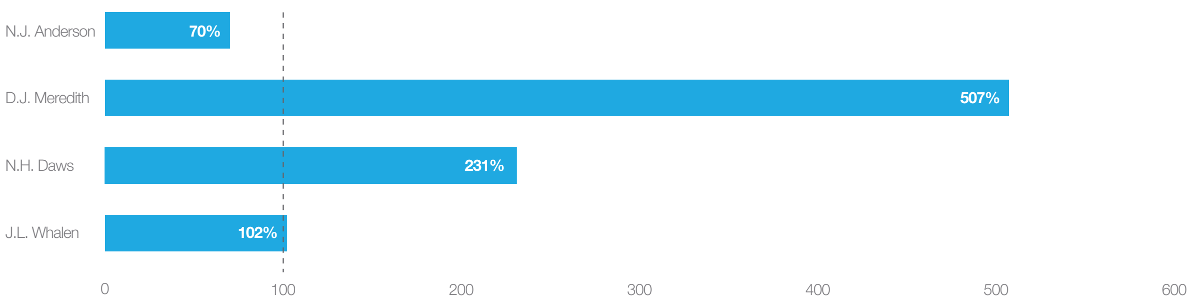
1.5 Payments for loss of office (audited)

There were no payments made to Directors for loss of office during the year ended 31st December 2015.

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 which require Executive Directors to hold shares in the Company with a value of not less than 100% of base salary. The value of the shareholding is taken at 31st December 2015 as a percentage of 2015 base salary.



Share ownership guideline is 100% of base salary.

In accordance with Policy, Executive Directors must use the part of bonus over 60% of base salary (net of tax) to buy shares until their shareholding guideline has been met. Nicholas Anderson's share ownership guideline increased to 125% of salary with effect from 1st January 2016.

Remuneration:
Annual report on remuneration 2015 *continued*

Outstanding share interests

The following table summarises the total interests of the Directors in shares of the Company as at 31st December 2015. These cover beneficial and conditional interests. No Director had any dealing in the shares of the Company between 31st December 2015 and 2nd March 2016.

	Beneficial[1]	PSP awards[2]	Nil-cost Options[3]	ESOP shares[4]	Total 31.12.15	Total 02.03.16
W.H. Whiteley	11,034	n/a	n/a	n/a	11,034	11,034
N.J. Anderson	10,315	41,069	n/a	363	51,747	51,747
D.J. Meredith	44,243	32,249	0	6,199	82,691	82,691
N.H. Daws	18,846	29,255	16,735	1,897	66,733	66,733
J.L. Whalen	8,326	26,307	n/a	n/a	34,633	34,633
J. Pike	1,687	n/a	n/a	n/a	1,687	1,687
K. Rajagopal	1,856	n/a	n/a	n/a	1,856	1,856
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 page 93.

3 Explained in note 1 to the PSP table below.

4 Not subject to performance measures.

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	Vested	Lapsed	Awarded	Balance
	06.03.12[1]	08.03.13[2]	14.03.14[3]	01.01.15	02.03.15[1]	02.0315[1]	11.06.15[4,5]	31.12.15
N.J. Anderson	12,961	10,172	16,533	39,666	4,285	8,676	14,364	41,069
D.J. Meredith	14,855	11,740	11,034	37,629	4,911	9,944	9,475	32,249
N.H. Daws	13,659	10,707	10,024	34,390	4,516	9,143	8,524	29,255
J.L. Whalen	12,213	9,560	8,963	30,736	4,038	8,175	7,784	26,307

1 The mid-market price of the shares on 6th March 2012 was 2006.0p. 33.06% of the PSP award vested on 2nd March 2015 as the performance measures applicable were partly met. During the performance period 1st January 2012 to 31st December 2014, the TSR performance of the Company resulted in 55.1% vesting of this element. However, the EPS performance fell below the required threshold resulting in 0.0% vesting of this element. The PSP award vested in the form of shares. The mid-market price of the shares on 2nd March 2015 was 3192.0p, and the actual price at vesting was 3199p. The 2012 awards vested in the form of whole shares. As noted in the previous two years, the 2010 awards that vested in 2013 and the 2011 awards that vested in 2014 took the form of nil-cost options. The following table summarises Executive Director exercises during 2015.

	Balance at 31.12.14	Exercised	Balance 31.12.15	2015 gain arising on exercise (£)	Date from which first exercisable	Expiry date
N.J. Anderson	–	–	–	–	–	–
D.J. Meredith	4,586	4,586	–	158,061	04.03.14	04.03.21
N.H. Daws	12,740	–	12,740	–	05.03.13	05.03.20
	3,995	–	3,995	–	04.03.14	04.03.21
Sub total for N.H. Daws	16,735	–	16,735	–	–	–
J.L. Whalen	–	–	–	–	–	–

2 The mid-market price of the shares on 8th March 2013 was 2615.0p. The period over which performance measures are measured is 1st January 2013 to 31st December 2015. Details of the performance measures attached to these PSP awards are set out on page 93.

3 The mid-market price of the shares on 14th March 2014 was 2873.0p. The period over which performance measures are measured is 1st January 2014 to 31st December 2016. 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 RPI +3% CAGR per annum for 25% of this portion of the PSP award to vest, increasing to full vesting for growth of RPI +9% CAGR per annum.

4 The average mid-market price of the shares on 8th June, 9th June and 10th June 2015 was 3446.0p. This was applied in determining the number of shares subject to the PSP awards granted on 11th June 2015. 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 page 93.

5 The 2013 TSR comparator group is set out on page 93. The 2014 and 2015 TSR comparator group has been changed to the full FTSE 350 Industrial Goods and Services Supersector set out on page 93.

Spirax-Sarco Engineering plc Employee Share Ownership Plan (ESOP)

The interests of eligible Executive Directors are set out below.

	Balance 01.01.15	Balance 15.06.15[1] (after share consolidation)	Partnership shares purchased[2]	Matching shares awarded[2]	Dividend shares[3]	Balance 31.12.15	Period of qualifying conditions[4]
N.J. Anderson	252	243	53	53	14	363	3 years
D.J. Meredith	5,976	5,762	53	53	331	6,199	3 years
N.H. Daws	1,757	1,694	53	53	97	1,897	3 years

[1] Excludes dividend shares received on 29th May 2015.

[2] Partnership shares were purchased, at a price of 2821.3p, and matching shares were awarded on 7th October 2015. The mid-market price of the shares on that date was 2928.0p.

[3] 97 dividend shares were received on 29th May 2015, on which date the mid-market price of the shares was 3486.0p. 288 dividend shares were received on 15th July 2015, on which date the mid-market price of the shares was 3334.0p. 57 dividend shares were received on 6th November 2015, on which date the mid-market price of the shares was 3131.0p.

[4] 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 2015.

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 re-election at the AGM, other than David Meredith who retires at the end of the AGM.

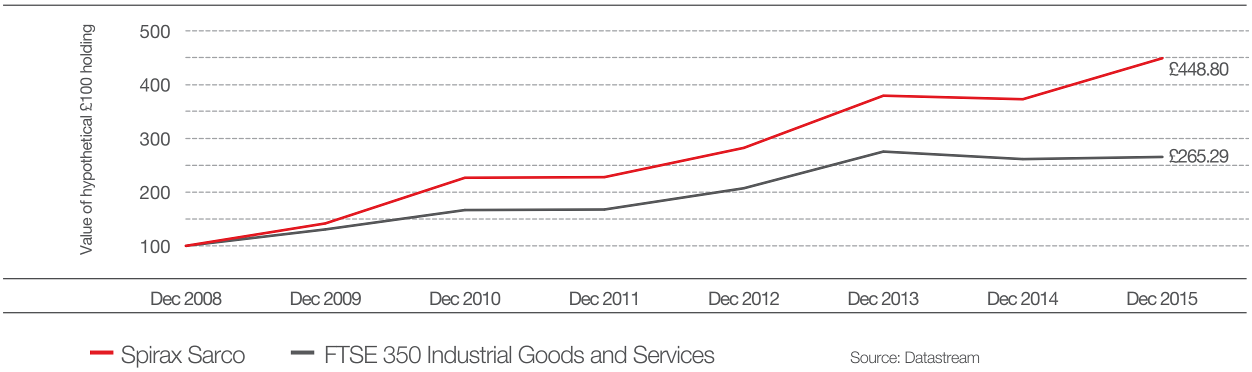
Executive Director	Original appointment date	Current agreement	Expiry date	Notice period
N.J. Anderson	15.03.12	13.12.13	16.01.26	12 months
D.J. Meredith	19.06.92	17.08.12	18.08.24	12 months
N.H. Daws	01.06.03	25.09.12	01.07.27	12 months
J.L. Whalen	15.03.12	17.04.12	28.05.21	12 months

Chairman and Non-Executive Directors	Original appointment date	Re-appointment letter	Expiry date	Notice period
W.H. Whiteley	26.07.02	30.06.15	30.06.18	1 month
J. Pike	01.05.14	04.03.14	30.04.17	1 month
K. Rajagopal	10.02.09	05.02.15	09.02.18	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

Remuneration:
Annual report on remuneration 2015 *continued*

1.8 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 over the last seven years. 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 awarded as a percentage of maximum	Value of vested PSP awards as a percentage of maximum
2015	£1,191,137	61.39%	80.33%
2014	£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%

1.9 Percentage change in remuneration of the Group Chief Executive

The following table provides a summary of the 2015 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.

		2015 change	2014 change[1]
Salary	Group Chief Executive	**4.1%**	-4.6%
	General employee population	**1.25%**	2.0%
Benefits	Group Chief Executive	**1.87%**	-28.2%
	General employee population	**2.0%**	2.0%
Bonus	Group Chief Executive	**16.1%**	-45.1%
	General employee population	**17.1%**	-51.4%

[1] Nicholas Anderson was appointed Group Chief Executive on 16th January 2014 and was paid less than his predecessor.

1.10 Relative importance of spend on pay

The table below demonstrates the relative importance of total remuneration spend relative to total employee numbers, profit before tax and dividends payable in respect of the year.

	2015	2014	**Change**
Total pay spend	**£232m**	£233m	-0.4%
Headcount	**4,790**	4,797	-0.1%
Profit before tax	**£140m**	£145m	-3.6%
Dividends payable	**£51m**	£49m	4.0%
Special dividend payable	**N/A**	£91m	–

1.11 Changes for 2016

Executive Director Remuneration

With effect from 1st January 2016, the Executive Directors' salaries have been increased by an average of 3.8%. Increases for the broader UK employee population were on average 2%, 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: £515,000 (4.1%)
- D.J. Meredith: £336,500 (3.1%)
- N.H. Daws: £302,500 (3.1%)
- J.L. Whalen: £282,000 (5.0%)

As noted in the Chairman's statement, the Group Chief Executive will receive an increase in his annual bonus opportunity, moving to 125% of base salary, with effect from 1st January 2016. This change, in combination with the increase in salary, reflects the strong individual performance demonstrated by Nicholas Anderson since his appointment two years ago and the performance of the Group as a whole. There are no changes to the bonus opportunity for the other Executive Directors.

Bonus targets for 2016 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.

From 2016, the payment of up to 10% of an Executive Director's bonus opportunity will be based on individual strategic objectives, alongside the current financial measures. These individual strategic objectives will be tailored to an individual's areas of responsibility and agreed at the start of the year. Each measure will be subject to three possible achievement levels: fully achieved, partially achieved and not achieved.

Chairman and Non-Executive Director fees

Effective from 1st January 2016, the Non-Executive Director basic fee was increased in line with the average UK employee salary increase of 2%. The fee for Committee chairmanship was increased by £300 to £9,000 and the Senior Independent Director's fee from from £2,000 to £5,000. The Chairman's fee was increased by 5%.

Spirax-Sarco Performance Share Plan (PSP)

EPS growth calculation

From 2016, the EPS element of the PSP will be 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 Spirax Sarco operates. For these reasons, 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 is of the view it makes sense to incorporate Global IP into our Long-Term Incentive Plan, as a means of better aligning the assessment of performance against our long-term strategic plan and market dynamics within our industry. The Committee has reviewed the historical and projected data (2007-2020), including Spirax Sarco's own performance, market benchmarks and analysts' consensus to determine a performance range associated with this new benchmark growth rate that remains sufficiently challenging across various market environments. Accordingly, threshold vesting will occur for exceeding IP by 2% per annum, increasing on a straight line basis to full vesting for exceeding IP by 8% per annum.

* The IP data source will be the CHR Metals Global IP index providing data, incorporating over 90% of global industrial output.

Other aspects of remuneration

There are no other planned or implemented changes of note for remuneration in 2016.

Remuneration:
Annual report on remuneration 2015 *continued*

1.12 Consideration by the Directors of matters relating to Directors' remuneration

Operation of the Remuneration Committee in 2015

Membership and attendance

Each of the Committee members is an independent Non-Executive Director and thus bring independence to all aspects of Board remuneration and the application of professional advice to matters relating to remuneration.

During 2015, the Committee was chaired by Krishnamurthy Rajagopal, and the members comprised: Jamie Pike, Trudy Schoolenberg and Clive Watson, all of whom are independent Non-Executive Directors.

In 2015 the Committee met four times and all members attended each meeting.

Advisers to the Committee

During 2015, the Committee sought advice and information from Bill Whiteley, the Chairman, Nicholas Anderson, the Group Chief Executive, and Frank Richardson, 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 were 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 £27,540 in 2015. 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 2015, 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.

1.13 Statement of voting at general meeting

At the AGM in 2015, shareholders approved the 2014 Annual Report on Remuneration. The Remuneration Policy was approved by shareholders at the AGM in 2014. The table below shows the results in respect of these resolutions, which required a simple majority (ie 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
2014 Annual Report on Remuneration (2015 AGM)	61,493,985	97.5	1,561,321	2.48	20,454
Remuneration Policy (2014 AGM)	56,203,099	98.5	880,848	1.54	3,834,218

Approval

This Annual Report on Remuneration 2015 has been approved by the Board of Directors of Spirax-Sarco Engineering plc and signed on its behalf by:

Krishnamurthy Rajagopal
Chairman, Remuneration Committee

2nd March 2016

2.0 Remuneration Policy report 2015

Please note that the Remuneration Policy report 2015 is reproduced exactly as published in the 2013 Annual Report and Accounts and as approved by shareholders at the 2014 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 20th May 2014.

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.	Reviewed annually by the Committee, taking into account: – Scale, scope and complexity of the role – Skills and experience of the individual – Wider workforce comparisons – 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. The Committee considers the impact of any base salary increase on the total remuneration package.	Reviews take into account Company and individual performance.	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%. 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.
Pension	To offer market competitive levels of pension and benefit. To attract and retain individuals with the personal attributes, skills and experience required to deliver Group strategy.	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. 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. Executive Directors who have transferred internally from overseas may continue to participate in home country pension arrangements and/or receive a cash allowance.	N/A	For DB scheme as per actuarial value. For all other arrangements the total contribution to all pension arrangements will comprise no more than 25% of base salary. No element other than base salary is pensionable.
Common benefits	To provide market competitive benefits. To enable the Executive Directors to undertake their roles through ensuring their wellbeing and security.	The Company provides common benefits including: – Company car and associated running costs or cash alternative allowance – Private health insurance – Telecommunications and computer equipment – Life assurance – Long-term disability insurance.	N/A	The aggregate maximum cash value of providing all common benefits will not exceed 20% of base salary.

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Remuneration:
Remuneration Policy report 2015 *continued*

Element	Purpose and link to strategy	Operation	Performance measures	Maximum potential value
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.	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. 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. 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. 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. Executive Directors are not entitled to tax equalisation.	N/A	Based on individual circumstances and subject to written agreement. Maximum values will not exceed the normal market practice of companies of a similar size and nature at the time of relocation.
Annual bonus	To incentivise and reward performance against selected KPIs which are directly linked to business strategy. To recognise performance through variable remuneration and enable the Company to flexibly control its cost base and react to events and market circumstances. To ensure a significant proportion of Executive Director remuneration is directly linked to business performance.	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. In 2012 and 2013, the target was 60% and the maximum was 100% of base salary. 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. Bonus is delivered in cash. Executive Directors must use that part of the bonus over 60% of base salary (net of tax) to buy shares until the shareholding guidelines have been met. Purchase to be made within 12 months of bonus receipt. Bonus is subject to clawback for up to three years following payment. Circumstances include financial misstatement, erroneous calculations determining bonus payments or gross misconduct. 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.	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. Any measure can be incorporated at the Committee's discretion provided it is clearly aligned to the Group's strategic objectives, subject to the requirement that financial measures will account for a minimum of 90% of bonus opportunity, with up to 10% being available for sustainability or other strategic measures. The weighting of each component will be chosen specifically to reflect the Executive Director's role.	Threshold: 0% of salary. Target: 75% of salary (60% in 2014). Maximum: 125% of salary (100% in 2014). Or such lower sum as determined by the Committee.

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Element	Purpose and link to strategy	Operation	Performance measures	Maximum potential value
Variable elements of Executive Director remuneration				
Performance Share Plan (PSP)	To incentivise and reward Executive Directors for delivery against long-term Group performance. To align Executive Directors' interests to those of shareholders. To drive sustainable Company performance. To retain key executive talent.	The Committee makes an annual conditional award of shares to each Executive Director. Annual participation is subject to Committee approval. 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. Performance is measured over a three-year period, starting at the beginning of the financial year in which awards are granted. Share awards made from 2012 are subject to clawback for up to three years following award. Circumstances include financial misstatement, erroneous calculations determining bonus payments or gross misconduct. Dividends are not payable on PSP awards prior to vesting.	Vesting is currently based on two performance measures, which have been chosen as they are clearly aligned with our strategic objectives: – TSR – EPS growth The Committee will review performance to ensure outcomes under the PSP are fair and reasonable.	Normal circumstances: 100% of salary. Exceptional circumstances: up to 150% of salary.
Employee Share Ownership Plan (ESOP)	To offer all eligible UK-based employees the opportunity to build a shareholding in a tax-efficient way. To align Executive Director interests to those of shareholders.	Eligible UK Executive Directors are entitled to participate in an HMRC approved Share Incentive Plan known as the ESOP. 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. Awards granted under the ESOP are not subject to clawback. The ESOP operates over a five-year period.	N/A	Maximum annual investment subject to HMRC limits or such lower sum as determined by the Board. Potential 1:1 matching share award from the Company and dividend shares (can be reinvested). 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.
Share ownership guidelines	To provide alignment with shareholder interests.	Following the date of appointment to the Board, Executive Directors are required to accumulate, over a maximum period of five years, a shareholding in the Company worth at least 100% of base salary and to maintain this level of shareholding whilst the Executive Director remains on the Board.	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.	The Chairman is paid a single fee for all responsibilities. 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. 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. 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. The Company repays the reasonable expenses that the Chairman and the Non-Executive Directors incur in carrying out their duties as Directors.	N/A	The aggregate value of fees paid to the Chairman and Non-Executive Directors will not exceed £750,000 as set out in the Articles of Association.

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Remuneration:
Remuneration Policy report 2015 *continued*

2.2 Notes to the policy table

2.2 (i) Outstanding incentive awards

Details of outstanding incentive awards granted to Executive Directors prior to the Policy coming into force, including awards granted in 2013, and details of the performance targets are set out on pages 84 to 87 of the Annual report on remuneration 2013.

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.

2.2 (ii) 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.

2.2 (iii) 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 or when 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 275% of salary, in line with the maximums stated in the policy table (up to 125% of salary for annual bonus and an award of up to 150% 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). It is the intention of the Committee that on an "expected" basis, the value of the awards being made would not exceed those being forfeited. 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.
- For Executive Director internal promotions, salary will be capped at that of the incumbent Group Chief Executive.

The Committee shall have discretion to grant one-off cash or share-based awards to Executive Directors pursuant to the Listing Rules. The Committee will exercise this discretion only in exceptional circumstances, where it determines that such an award is necessary to secure the recruitment or retention of an Executive Director and where the Committee determines that it is in the best interests of the Company to do so. Any one-off award will be subject to a maximum of 100% of salary and will be performance-related. In such circumstances, the Company will disclose a full explanation of the detail and rationale for the one-off award. The Committee does not expect to have to make any one-off awards as a matter of course, and this power has been included in the policy to cater for any exceptional and genuinely unforeseen circumstances, such as a grant to a key individual where it is vital to retain them in the business.

Details of the remuneration for any new Chairman or Executive Director appointed to the Board will be disclosed on a timely basis on the Group's website, www.spiraxsarcoengineering.com.

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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 75 to 77. 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. The Group Chief Executive's service agreement has been updated to reflect latest 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	No payment if Executive Director commits a repudiatory breach of the service agreement or for gross misconduct or in certain circumstances
	No additional termination payment if notice worked
	If notice only part worked/part on garden leave, payment in respect of unexpired period of notice
	Otherwise 12 months' base salary only
	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
	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
	No automatic entitlement to payments under the annual bonus or PSP. See page 80
	Garden leave clause
	Robust post-termination restrictions on confidentiality, non-compete, non-solicitation and non-interference with customers or suppliers
	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
Clawback	Bonus payments and PSP awards are subject to clawback for up to three years following award
	Circumstances include financial misstatement, erroneous calculations determining bonus payments or gross misconduct

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, with the power to reduce the amount to reflect performance on the part of the Executive Director which 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 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.

The Remuneration Policy report 2015 is reproduced exactly as published in the 2013 Annual Report and Accounts and as approved by shareholders at the 2014 AGM. Therefore, as the content remains the same the page numbers, examples and illustrations are necessarily historical.

Strategic Report
Governance Report
Financial Statements
Corporate Information

Remuneration:
Remuneration Policy report 2015 *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	No payment if Executive Director commits a repudiatory breach of the service agreement or for gross misconduct or in certain circumstances
	No additional termination payment if notice worked
	If notice only part worked/part on garden leave, payment in respect of unexpired period of notice
	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
	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
	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
	No automatic entitlement to payments under the current annual bonus or PSP. See below
	Garden leave clause
	Robust post-termination restrictions on confidentiality, non-compete, non-solicitation and non-interference with customers or suppliers
Clawback	Bonus payments and PSP awards are subject to clawback for up to three years following award
	Circumstances include financial misstatement, erroneous calculations determining bonus payments or gross misconduct

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 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.

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.

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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 we illustrate how the total pay opportunity for the Executive Directors varies under three performance scenarios: maximum, on target, and below threshold.

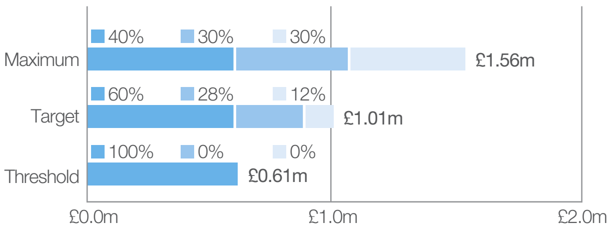
The scenarios, informed by the current application of our pay policy, are defined as follows:

Element			
Fixed pay, benefits and ESOP	Fixed pay and ESOP does not vary with performance and comprises: – Base salary effective 1st January 2014 – Benefits value based on 2013 disclosure – Pension value (DB 2013 as reported; cash allowance: rate applied to 2014 salary) – ESOP participation of up to £1,500 1:1 matching shares for eligible Executive Directors		
	Percentage of base salary		
	Below threshold	**On target**	**Maximum**
Annual bonus (% of salary)	0%	60%	100%
PSP[1] (% of salary at award)	0%	25%	100%

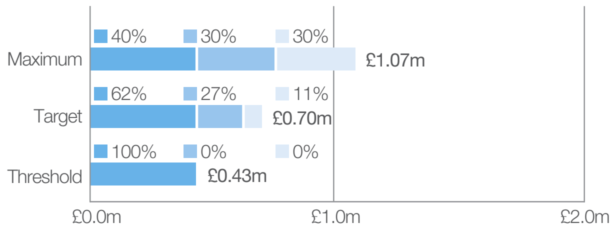
[1] A level of 25% vesting for "on target" performance is equivalent to threshold performance under the PSP, which the Committee believes to be a fair assumption for on target performance given the approach taken to setting performance targets.

Total remuneration by performance scenario

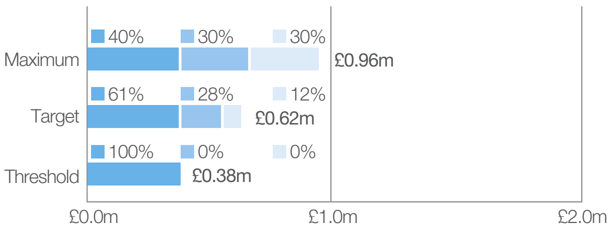
Nicholas Anderson (Group Chief Executive)



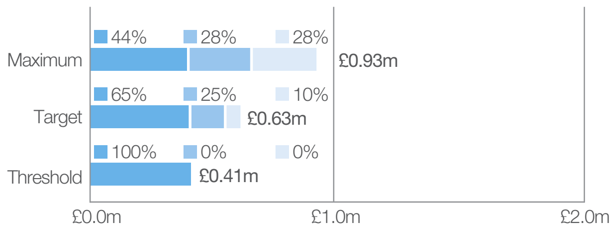
David Meredith (Finance Director)



Neil Daws (Executive Director EMEA)



Jay Whalen (Executive Director WMFTG)



Fixed Annual bonus PSP

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Remuneration:
Remuneration Policy report 2015 *continued*

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.

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. The Committee Chairman actively engages with institutional shareholders 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 shareholder representative bodies 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 review of Remuneration Policy. At the AGM in 2013, the advisory vote on the 2012 Directors' remuneration report received 96.3% in favour.

The views of shareholders have been helpful and constructive and assisted in the development of a pro-forma Executive Director service agreement which has been applied to Nicholas Anderson on his appointment as Group Chief Executive and which will apply to all new appointments. Specifically in relation to the termination arrangements, the revised service agreement restricts any termination payment to 12 months' base pay. This applies to the new Group Chief Executive service agreement and, in the event of a material change in the role, function or responsibilities, existing Executive Directors' service agreements will be reviewed and changed to meet the new standard.

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Regulatory disclosures

"We aspire to being a good corporate citizen that always follows best practice and new laws."

Andy Robson
General Counsel and Company Secretary

Principal activities

Spirax Sarco is a multi-national engineering group that is domiciled and incorporated in the UK under registration number 596337 and which is tightly focused on its two niche businesses of steam system specialties and peristaltic pumps and associated fluid path technologies. An overview of our principal activities, by business, is given on pages 4 and 5 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 63 of the Annual Report.

Risk management and principal risks

A description of risk management and the principal risks facing the business is on pages 32 and 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 2015, 50.96% 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 the 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 10th May 2016, 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 48.2p (2014: 45.0p) which, together with the interim dividend of 20.8p (2014: 19.5p), makes a total distribution for the year of 69.0p (2014: 64.5p). If approved at the AGM, the final dividend will be paid on 27th May 2016 to shareholders on the register at the close of business on 29th April 2016.

Directors' interests

The interests of the Directors in the share capital of Spirax-Sarco Engineering plc as at 31st December 2015 are set out on page 96.

Substantial shareholdings

The voting rights in the table 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 26th February 2016 and 31st December 2015. So far as can be ascertained, the holdings are beneficially held. There are no Controlling Founder Shareholders.

	As at 31.12.15		As at 26.02.16	
Substantial shareholdings	**Number of Ordinary shares**	**% of issued share capital**	**Number of Ordinary shares**	**% of issued share capital**
MFS Investment Management	4,449,993	6.06	5,838,135	7.96
Schroders plc	4,238,959	5.78	4,327,813	5.90
APG Asset Management NV	3,597,198	4.90	4,005,465	5.46
Mondrian Investment Partners Ltd	3,358,018	4.58	3,310,900	4.51
Sprucegrove Investment Management	2,668,135	3.64	2,654,445	3.62

Regulatory disclosures *continued*

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 re-election at the AGM other than David Meredith who retires at the end of the meeting. The Directors stand for re-election on an annual basis at each AGM, in accordance with the Code. The Board considers that all Directors standing for 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 68 and 69.

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 26th February 2016 there were no treasury shares held by the Company. Details of shares issued during the year are set out in Note 20 on page 143.

As at 31st December 2015 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 2015 was 73,385,583.

PSP and Employee Benefit Trust

The number of shares held in the EBT at 31st December 2015 was 147,212, for the purpose of satisfying the vesting of awards and options granted to employees under the various Company schemes.

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 were 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 development and the updating and expansion of its range of products in order to remain at the forefront of its world markets. The Group steam specialties R&D function, which is based in Cheltenham, and the Watson-Marlow Fluid Technology Group R&D function, located in Falmouth, 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 126. The amount of R&D expenditure capitalised, and the amount amortised, in the year, are given in Note 12 on page 137.

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 (2014: nil).

Greenhouse gas emissions

Details of our greenhouse gas emissions can be found on page 61 of the Sustainability report.

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 50 to 53. In addition Note 28 on page 153 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 despite the current uncertain economic outlook.

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 therefore it is appropriate to adopt the going concern basis in preparing the Annual Report.

Pages 109 to 112 form the Directors' Report for the purposes of the Companies Act 2006.

The Strategic Report and the Directors' Report were approved by the Board on 2nd March 2016.

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code 2014, 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 and 33 of the Strategic Report. 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 2018.

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; and is in alignment with the Group's bank loan terms. 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, 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. Furthermore, the Board remains confident in the Group's risk management process and the risk mitigation actions taken to address identified risks.

Regulatory disclosures *continued*

Scope of the reporting in this Annual Report

The Board has prepared a Strategic Report (including the Chairman's statement and the Group Chief Executive's report) which provides an overview of the development and performance of the Company's business in the year ended 31st December 2015 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.

For the purposes of LR 9.8.4C R, the information required to be disclosed by LR 9.8.4 R can be found in the following locations:

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 92 and 93
(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 109
(13)	Shareholder waivers of future dividends	Not applicable
(14)	Agreements with controlling shareholders	Not applicable

Andy Robson
General Counsel and Company Secretary

2nd March 2016

Spirax-Sarco Engineering plc
Registered no. 596337

Statement of Directors' responsibilities

"Our Annual Report 2015: a true and fair view of the Group."

Board of Directors

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law 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 IFRSs 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 2015 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 2nd March 2016 and is signed on its behalf by:

David Meredith
Finance Director

Financial Statements

David Meredith
Finance Director

John Senior
Group Financial Controller

In this section

Independent auditor's report

to the members of Spirax-Sarco Engineering plc only

Opinion on Financial Statements of Spirax-Sarco Engineering plc

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 2015 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 IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; 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.

The Financial Statements comprise the Statements of financial position, the Consolidated income statement, the Consolidated statement of comprehensive income, the Statements of changes in equity, the Cash flow statements and the related Notes 1 to 28 for the Consolidated Financial Statements and 1 to 11 for the Company Financial Statements. The financial reporting framework that has been applied in their preparation is applicable law and IFRS as adopted by the European Union and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within Note 1 to the Financial Statements and the Directors' statement on the longer-term viability of the Group contained within the Governance Report on page 111.

We have nothing material to add or draw attention to in relation to:

- the Directors' confirmation on page 111 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;
- the disclosures on pages 32 to 33 that describe those risks and explain how they are being managed or mitigated;
- 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 ability to continue to do so over a period of at least twelve months from the date of approval of the Financial Statements;
- the Director's explanation on page 111 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 agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

The Audit Committee has requested that while not required under International Standards on Auditing (UK and Ireland), we include in our report any significant key observations in respect of these assessed risks of material misstatement.

Risk	How the scope of our audit responded to the risk	Key observations
Revenue recognition The risk in revenue recognition focuses on the recognition of revenue for product by reference to contracted shipping terms and the transfer of ownership for product despatch and delivery spanning the year-end. There is significant volume of trade in the final quarter of the year. There is also a focus on any significant new contracts to determine the appropriate recognition of revenue. Refer to Note 1 for the Group's Revenue Recognition Policy.	We performed walkthroughs to understand the adequacy of the design and implementation of the controls relating to the revenue cycles and, at significant components, we produced revenue flow-charts to map out the end to end controls and processes in place. We reviewed the product despatch cycle 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 performed testing on a sample of contracts, including new contracts, to determine the appropriateness of the revenue recognition.	We noted no material instances of inappropriate revenue recognition arising in our testing.
Inventory obsolescence Inventory of £93 million at 31st December 2015 (31st December 2014: £98 million) is a material balance for the Group. There is risk surrounding the obsolescence of inventory in niche markets and industries where local demand fluctuates over periods. There are judgements required in determining inventory provisions as they require assessment based on past and future product usage and whether the provision is adequate to cover any obsolescence. Refer to Note 1 for the Group's inventory policy and Note 15 for the financial disclosure.	We compared the methodology applied in calculating the inventory obsolescence provisions to the Group's policy and we challenged management's judgement of the adequacy of the policy by reviewing the level of provision held across the Group. We reviewed a sample of provision calculations by recalculating the provision and testing and verifying the accuracy of the usage data to underlying documentation to confirm the accuracy of the data used in the calculation. We investigated manual override to the mechanical application of the Group inventory obsolescence provisioning policy and where applicable obtained evidence such as the order book or post year-end orders or sales to support any significant adjustments. We also considered the historical accuracy of management's provisioning for inventory through a retrospective review of the level of provision recorded in prior years compared to the actual levels of stock written off.	We noted no material inconsistencies through our testing. We concur that the level of inventory provisions is appropriate.
Defined benefit pension plan assumptions At 31st December 2015 the net retirement benefit liability recognised in the Statement of financial position was £74 million (31st December 2014: £76 million). There is a risk relating to the judgements made by management in valuing the defined benefit pension liabilities including the use of key model input assumptions including the discount rate, mortality assumption and inflation level. These variables can have a material impact in calculating the quantum of the retirement benefit liability. Refer to Note 1 for the Group's policy on defined benefit plans and Note 24 for the financial disclosure including the key assumptions used in the defined benefit pension plan valuation.	We used our internal actuarial experts to assess the key assumptions applied in determining the pension obligations for the five main schemes, and determined whether the key assumptions are reasonable. Testing covered 98% of defined benefit pension liabilities. Key assumptions assessed included future mortality, discount rate and inflation. Our assessment included reviewing available yield curves and inflation data to recalculate a reasonable range for the key assumptions. We challenged management to understand the sensitivity of changes in key assumptions and quantify a range of reasonable rates that could be used in their calculation. We tested the controls around participant data. Additionally we benchmarked key assumptions against other listed companies to check for any outliers in the data used.	From the work performed above we are satisfied that the key assumptions applied in respect of the valuation of the scheme assets and liabilities are appropriate.

Independent auditor's report *continued*

to the members of Spirax-Sarco Engineering plc only

Risk	How the scope of our audit responded to the risk	Key observations
Goodwill impairment At 31st December 2015 the carrying value of goodwill was £54 million (31st December 2014: £48 million). There is a risk relating to the key assumptions and assertions used by management to support their assessment of the carrying value of goodwill. Goodwill is a material balance on the Consolidated statement of financial position and there are a number of judgements applied in determining the recoverable amounts. Key assumptions include discount rates applied, the level of aggregation of individual cash generating units (CGUs) and the growth rates applied to forecast trading performance based on management's view of future business prospects. Refer to Note 1 for the Group's policy for intangible assets and Note 12 for the financial disclosures including the key assumptions used in management's impairment calculations.	We challenged the adequacy and reasonableness of the key assumptions used in management's impairment calculations. This included specific challenge over the forecasts underpinning the impairment assessment. In particular, our challenge focused on the discount rates and growth rates, the appropriateness of the level of aggregation of individual cash generating units (CGUs) and the methodology applied. We benchmarked the discount rates with published rates for an external peer group. In addition we used our valuation specialists within the audit team to calculate an acceptable range of discount rates and compared our range to that determined by management. We challenged the perpetuity growth rates by benchmarking against industry and GDP growth rates. There are 36 CGU groups and we checked the CGU groupings to cash inflows and information reviewed by management to make decisions about their business. We challenged the forecast cash flows used in the model against historical performance and assessed historical forecasting accuracy. We also challenged management's sensitivity analysis to assess whether it reflected a reasonable worst case scenario. Having audited the assumptions within management's impairment model, we checked the arithmetic accuracy and integrity of the model.	We concluded that the assumptions applied in the impairment models were appropriate and no additional impairments were identified from the work performed above.

Last year our report included a taxation risk in relation to provisions for liabilities attributed to specific uncertain tax position, this risk is not included in our report this year. Whilst still a significant area of audit focus, the risk in relation to taxation provisions is no longer considered to be material to the Group Financial Statements.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 78.

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.

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.

We determined materiality for the Group to be £7.0 million (2014: £7.3 million), which is 5% (2014: 5%) of statutory profit before tax.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £139,000 (2014: £145,000), 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 24 (2014: 25) components. 20 (2014: 21) of these were subject to a full audit, whilst the remaining 4 (2014: 4) 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 88% (2014: 93%) of the Group's total assets, 74% (2014: 80%) of the Group's revenue and 75% (2014: 87%) 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 £0.1 million to £3.5 million (2014: £0.1 million to £3.6 million).

At the parent entity 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.

Opinion 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; and
- 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.

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 arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited Financial Statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of Directors and auditor

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. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the 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 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 Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements. In addition, we read all the Financial and Non-financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Mark Mullins FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Reading, United Kingdom

2nd March 2016

Consolidated statement of financial position

at 31st December 2015

	Notes	2015 £000	2014 £000
Assets			
Non-current assets			
Property, plant and equipment	11	**169,948**	176,668
Goodwill	12	**54,082**	47,682
Other intangible assets	12	**54,772**	48,123
Prepayments		**5,516**	402
Investment in Associate	13	**64**	377
Deferred tax assets	14	**33,047**	35,941
		317,429	309,193
Current assets			
Inventories	15	**92,502**	98,007
Trade receivables	28	**152,082**	155,696
Other current assets	16	**20,431**	23,973
Taxation recoverable		**9,394**	4,420
Associate held for sale	13	**–**	5,777
Bank deposits	25	**–**	24,437
Cash and cash equivalents	25	**99,835**	117,981
		374,244	430,291
Total assets		**691,673**	739,484
Equity and liabilities			
Current liabilities			
Trade and other payables	17	**84,347**	90,754
Bank overdrafts	25	**3,911**	461
Short-term borrowings	25	**10,130**	40,070
Current portion of long-term borrowings	25	**298**	298
Current tax payable		**21,050**	22,175
		119,736	153,758
Net current assets		**254,508**	276,533
Non-current liabilities			
Long-term borrowings	25	**80,673**	49,096
Deferred tax liabilities	14	**17,741**	17,412
Post-retirement benefits	24	**73,654**	75,779
Provisions	19	**1,229**	556
Long-term payables		**325**	1,005
		173,622	143,848
Total liabilities		**293,358**	297,606
Net assets	2	**398,315**	441,878
Equity			
Share capital	20	**19,718**	19,622
Share premium account		**69,703**	65,067
Other reserves	20	**(18,756)**	(6,486)
Retained earnings		**326,799**	362,796
Equity shareholders' funds		**397,464**	440,999
Non-controlling interest		**851**	879
Total equity		**398,315**	441,878
Total equity and liabilities		**691,673**	739,484

These Financial Statements of Spirax-Sarco Engineering plc, company number 00596337 were approved by the Board of Directors and authorised for issue on 2nd March 2016 and signed on its behalf by:

N.J. Anderson **D.J. Meredith** Directors

Consolidated income statement

for the year ended 31st December 2015

	Notes	Adjusted 2015 £000	Adjustments 2015 £000	Total 2015 £000	Adjusted 2014 £000	Adjustments 2014 £000	Total 2014 £000
Revenue	2	**667,214**	**–**	**667,214**	678,277	–	678,277
Operating costs	3	**(514,777)**	**(9,628)**	**(524,405)**	(525,327)	(4,855)	(530,182)
Operating profit	2	**152,437**	**(9,628)**	**142,809**	152,950	(4,855)	148,095
Financial expenses		**(3,624)**	**–**	**(3,624)**	(5,229)	–	(5,229)
Financial income		**2,140**	**–**	**2,140**	2,246	–	2,246
Net financing expense	5	**(1,484)**	**–**	**(1,484)**	(2,983)	–	(2,983)
Share of profit of Associates		**177**	**(1,845)**	**(1,668)**	1,151	(1,469)	(318)
Profit before taxation	6	**151,130**	**(11,473)**	**139,657**	151,118	(6,324)	144,794
Taxation	8	**(44,983)**	**2,069**	**(42,914)**	(44,857)	636	(44,221)
Profit for the period		**106,147**	**(9,404)**	**96,743**	106,261	(5,688)	100,573
Attributable to:							
Equity shareholders		**105,960**	**(9,404)**	**96,556**	106,015	(5,688)	100,327
Non-controlling interest		**187**	**–**	**187**	246	–	246
Profit for the period		**106,147**	**(9,404)**	**96,743**	106,261	(5,688)	100,573
Earnings per share	9						
Basic earnings per share		**142.6p**		**129.9p**	140.4p		132.8p
Diluted earnings per share		**141.9p**		**129.4p**	139.5p		132.0p
Dividends	10						
Dividends per share				**69.0p**			64.5p
Special dividend per share				**–**			120.0p
Dividends paid during the year (per share)				**185.8p**			60.5p

Adjusted figures exclude certain non-operational items, as set out and explained in the Financial Review and as detailed in Note 2.
All amounts relate to continuing operations.

The Notes on pages 125 to 158 form an integral part of the Financial Statements.

Consolidated statement of comprehensive income

for the year ended 31st December 2015

	Notes	2015 £000	2014 £000
Profit for the year		**96,743**	100,573
Items that will not be reclassified to profit or loss			
Remeasurement gain/(loss) on post-retirement benefits	24	**5,717**	(5,159)
Deferred tax on remeasurement gain or loss on post-retirement benefits	24	**(657)**	(258)
		5,060	(5,417)
Items that may be reclassified subsequently to profit or loss			
Foreign exchange translation differences	20	**(14,129)**	(15,155)
Non-controlling interest foreign exchange translation differences		**–**	22
Loss on cash flow hedges net of tax	28	**(13)**	(232)
		(14,142)	(15,365)
Total comprehensive income for the year		**87,661**	79,791
Attributable to:			
Equity shareholders		**87,474**	79,523
Non-controlling interest		**187**	268
Total comprehensive income for the year		**87,661**	79,791

Consolidated statement of changes in equity

for the year ended 31st December 2015

	Share capital £000	Share premium account £000	Other reserves £000	Retained earnings £000	Equity shareholders' funds £000	Non-controlling interest £000	Total equity £000
Balance at 1st January 2015	**19,622**	**65,067**	**(6,486)**	**362,796**	**440,999**	**879**	**441,878**
Profit for the year	**–**	**–**	**–**	**96,556**	**96,556**	**187**	**96,743**
Other comprehensive (expense)/income:							
Foreign exchange translation differences	**–**	**–**	**(14,129)**	**–**	**(14,129)**	**–**	**(14,129)**
Remeasurement gain on post- retirement benefits	**–**	**–**	**–**	**5,717**	**5,717**	**–**	**5,717**
Deferred tax on remeasurement gain on post-retirement benefits	**–**	**–**	**–**	**(657)**	**(657)**	**–**	**(657)**
Loss on cash flow hedges reserve	**–**	**–**	**(13)**	**–**	**(13)**	**–**	**(13)**
Total other comprehensive income/(expense) for the year	**–**	**–**	**(14,142)**	**5,060**	**(9,082)**	**–**	**(9,082)**
Total comprehensive income/(expense) for the year	**–**	**–**	**(14,142)**	**101,616**	**87,474**	**187**	**87,661**
Contributions by and distributions to owners of the Company:							
Dividends paid	**–**	**–**	**–**	**(140,269)**	**(140,269)**	**(215)**	**(140,484)**
Equity settled share plans net of tax	**–**	**–**	**–**	**2,656**	**2,656**	**–**	**2,656**
Issue of share capital	**81**	**4,636**	**–**	**–**	**4,717**	**–**	**4,717**
Employee Benefit Trust shares	**15**	**–**	**1,872**	**–**	**1,887**	**–**	**1,887**
Balance at 31st December 2015	**19,718**	**69,703**	**(18,756)**	**326,799**	**397,464**	**851**	**398,315**

Other reserves represent the Group's translation, cash flow hedges, capital redemption and Employee Benefit Trust reserves (see Note 20).

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 2014

	Share capital £000	Share premium account £000	Other reserves £000	Retained earnings £000	Equity shareholders' funds £000	Non-controlling interest £000	Total equity £000
Balance at 1st January 2014	19,568	59,954	11,474	311,737	402,733	801	403,534
Profit for the year	–	–	–	100,327	100,327	246	100,573
Other comprehensive (expense)/income:							
Foreign exchange translation differences	–	–	(15,155)	–	(15,155)	22	(15,133)
Remeasurement loss on post-retirement benefits	–	–	–	(5,159)	(5,159)	–	(5,159)
Deferred tax on remeasurement loss on post-retirement benefits	–	–	–	(258)	(258)	–	(258)
Loss on cash flow hedges reserve	–	–	(232)	–	(232)	–	(232)
Total other comprehensive income/(expense) for the year	–	–	(15,387)	(5,417)	(20,804)	22	(20,782)
Total comprehensive income/(expense) for the year	–	–	(15,387)	94,910	79,523	268	79,791
Contributions by and distributions to owners of the Company:							
Dividends paid	–	–	–	(45,715)	(45,715)	(190)	(45,905)
Equity settled share plans net of tax	–	–	–	1,864	1,864	–	1,864
Issue of share capital	110	5,113	–	–	5,223	–	5,223
Employee Benefit Trust shares	(56)	–	(2,573)	–	(2,629)	–	(2,629)
Balance at 31st December 2014	19,622	65,067	(6,486)	362,796	440,999	879	441,878

Consolidated statement of cash flows

for the year ended 31st December 2015

	Notes	2015 £000	2014 £000
Cash flows from operating activities			
Profit before taxation		**139,657**	144,794
Depreciation, amortisation and impairment		**29,298**	27,272
Profit on disposal of fixed assets		**(452)**	(473)
Sale of businesses		**1,965**	318
Equity settled share plans		**3,330**	2,374
Net finance expense		**1,484**	2,983
Operating cash flow before changes in working capital and provisions		**175,282**	177,268
Change in trade and other receivables		**(1,889)**	(20,032)
Change in inventories		**3,500**	1,111
Change in provisions and post-retirement benefits		**673**	(4,870)
Change in trade and other payables		**(2,600)**	4,398
Cash generated from operations		**174,966**	157,875
Interest paid		**(1,321)**	(2,299)
Income taxes paid		**(43,304)**	(41,915)
Net cash from operating activities		**130,341**	113,661
Cash flows from investing activities			
Purchase of property, plant and equipment		**(26,010)**	(27,032)
Proceeds from sale of property, plant and equipment		**2,334**	2,980
Sale of businesses		**13,329**	–
Purchase of software and other intangibles		**(4,813)**	(4,647)
Development expenditure capitalised		**(2,375)**	(2,632)
Acquisition of businesses		**(23,559)**	(9,984)
Bank deposits		**24,293**	9,038
Interest received		**2,140**	2,246
Dividends received		**–**	796
Net cash used in investing activities		**(14,661)**	(29,235)
Cash flows from financing activities			
Proceeds from issue of share capital		**4,706**	5,223
Employee Benefit Trust share purchase		**–**	(3,005)
Repaid borrowings		**(79,481)**	(8,995)
New borrowings		**81,305**	–
Change in finance lease liabilities	25	**(377)**	(241)
Dividends paid (including minorities)		**(140,484)**	(45,905)
Net cash used in financing activities		**(134,331)**	(52,923)
Net change in cash and cash equivalents		**(18,651)**	31,503
Net cash and cash equivalents at beginning of period		**117,520**	82,608
Exchange movement	25	**(2,945)**	3,409
Net cash and cash equivalents at end of period		**95,924**	117,520
Bank deposits	25	**–**	24,437
Borrowings and finance leases	25	**(91,101)**	(89,464)
Net cash at end of period	25	**4,823**	52,493

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 make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. As further explained below, the most significant effect on the Financial Statements from accounting policies requiring judgement are in the areas of inventory, goodwill and pensions.

The major judgement made in respect of inventory is assessing the proportion and value of slow-moving inventory that should be written down in value. The Group applies a consistent provisioning policy across all subsidiary companies.

The judgements made in respect of goodwill are those relating to the key assumptions used to assess the value in use in the annual impairment tests. More detail about these key assumptions is disclosed in Note 12.

The judgements made in respect of pensions are those in assessing the assumptions chosen to calculate the net obligation in respect of defined benefit pensions. More detail is given in the Employee Benefits accounting policy on page 127 below.

The key 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.

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 63. 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 thousand.

The Group's income statement includes an adjustment column where certain non-operational items are included. The definition of non-operational items includes the amortisation and impairment of acquisition-related intangible assets, acquisition and disposal-related costs and exceptional restructuring costs. An analysis of non-operational items is detailed in Note 2. In 2015 adjustments included a loss on closure of a USA metering unit. In 2014 adjustments included a write down to fair value of Spirax Marshall in India.

In the current year the group has applied a number of amendments to IFRSs 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 19 Defined Benefit Plans in relation to employee contributions;
- Annual improvements to IFRSs 2010-2012 Cycle including the amendments to existing requirements for IFRS 8 Operating Segments and IAS 24 Related Party Disclosures;
- The clarifications amended under the Annual improvements to IFRSs 2011-2013 Cycle.

Otherwise the accounting policies set out below have been applied consistently to both years presented in these consolidated Financial Statements.

At the date of authorisation of these Financial Statements, The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective (and in some cases had not yet been adopted by the EU): IFRS 9 Financial Instruments; IFRS 15 Revenue from Contracts with Customers; IFRS 11 (amendments) Accounting for Acquisitions of Interests in Joint Operations; IAS 1 (amendments) Disclosure Initiative, IAS16 and IAS 38 (amendments) Clarification of Acceptable Methods of Depreciation and Amortisation; IAS 27 (amendments) Equity method in Separate Financial Statements; IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture; IFRS 10, IFRS 12 and IAS 28 (amendments) Investment Entities: Applying the Consolidation Exemption and Annual Improvements to IFRSs: 2012-2014 Cycle.

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 IFRS 15 for which we have not done a detailed assessment.

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.

Notes to the consolidated Financial Statements *continued*

1 Accounting policies *continued*

(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 balance sheet date. 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, assets and liabilities are translated at balance sheet rates and revenue and expenses are translated at average rates with the exchange differences arising being disclosed separately.

Exchange differences arising from the translation of the net investment in 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 balance sheet date 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.

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%
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.

Intangible assets

(i) Goodwill

All business combinations after 1st January 2004 are accounted for by applying the acquisition method. 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 12 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 12.

1 Accounting policies *continued*

(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	12.5–20%
Brand names and trademarks	5–20%
Manufacturing designs and core technology	6–15%
Non compete undertakings	20–50%

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 cash flow statements.

Going concern

The statement on the going concern assumption is included within the Governance Report on page 111.

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. 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 balance sheet 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) or deficit is recognised in full in the balance sheet.

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, 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 of the products.

Notes to the consolidated Financial Statements *continued*

1 Accounting policies *continued*

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 balance sheet date. 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 balance sheet date.
- 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 recognised using the balance sheet liability method, providing for 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 balance sheet date 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 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 2015

	Gross revenue £000	Inter-segment revenue £000	Revenue £000	Total operating profit £000	Adjusted operating profit £000	Adjusted operating margin %
Europe, Middle East & Africa	**253,655**	**34,215**	**219,440**	**41,427**	**42,694**	**19.5%**
Asia Pacific	**176,262**	**4,488**	**171,774**	**44,197**	**44,703**	**26.0%**
Americas	**128,934**	**5,531**	**123,403**	**21,590**	**27,112**	**22.0%**
Steam specialties business	**558,851**	**44,234**	**514,617**	**107,214**	**114,509**	**22.3%**
Watson-Marlow	**152,606**	**9**	**152,597**	**45,623**	**47,956**	**31.4%**
Corporate expenses				**(10,028)**	**(10,028)**	
	711,457	**44,243**	**667,214**	**142,809**	**152,437**	**22.8%**
Intra Group	**(44,243)**	**(44,243)**				
Total	**667,214**	**–**	**667,214**	**142,809**	**152,437**	**22.8%**
Net finance expense				**(1,484)**	**(1,484)**	
Share of profit of Associates				**(1,668)**	**177**	
Profit before tax				**139,657**	**151,130**	

Analysis by location of operation 2014

	Gross revenue £000	Inter-segment revenue £000	Revenue £000	Total operating profit £000	Adjusted operating profit £000	Adjusted operating margin %
Europe, Middle East & Africa	274,271	38,039	236,232	44,855	45,929	19.4%
Asia Pacific	182,556	4,894	177,662	46,191	46,418	26.1%
Americas	131,869	5,681	126,188	26,478	27,961	22.2%
Steam specialties business	588,696	48,614	540,082	117,524	120,308	22.3%
Watson-Marlow	138,195	–	138,195	41,428	43,499	31.5%
Corporate expenses				(10,857)	(10,857)	
	726,891	48,614	678,277	148,095	152,950	22.5%
Intra Group	(48,614)	(48,614)				
Total	678,277	–	678,277	148,095	152,950	22.5%
Net finance expense				(2,983)	(2,983)	
Share of profit of Associates				(318)	1,151	
Profit before tax				144,794	151,118	

Net revenue generated by Group companies based in the USA is £125,293,000 (2014: £109,879,000), in China is £78,649,000 (2014: £74,266,000), in the UK £66,479,000 (2014: £69,889,000) and the rest of the world £396,793,000 (2014: £424,243,000).

Notes to the consolidated Financial Statements *continued*

2 Segmental reporting *continued*

The total operating profit for the period includes non-operational items, as analysed below:

2015

	Amortisation of acquisition-related intangible assets £000	Loss on closure of USA metering unit £000	Profit on disposal of M&M less recycled exchange losses £000	Acquisition and disposal costs £000	Total £000
Europe, Middle East & Africa	**(613)**	**–**	**(297)**	**(357)**	**(1,267)**
Asia Pacific	**(506)**	**–**	**–**	**–**	**(506)**
Americas	**(1,646)**	**(3,814)**	**–**	**(62)**	**(5,522)**
Steam specialties business	**(2,765)**	**(3,814)**	**(297)**	**(419)**	**(7,295)**
Watson-Marlow	**(1,921)**	**–**	**–**	**(412)**	**(2,333)**
Total non-operational items	**(4,686)**	**(3,814)**	**(297)**	**(831)**	**(9,628)**

2014

	Amortisation of acquisition-related intangible assets £000	Acquisition and disposal costs £000	Total £000
Europe, Middle East & Africa	(427)	(647)	(1,074)
Asia Pacific	(227)	–	(227)
Americas	(1,430)	(53)	(1,483)
Steam specialties business	(2,084)	(700)	(2,784)
Watson-Marlow	(2,012)	(59)	(2,071)
Total non-operational items	(4,096)	(759)	(4,855)

Share of profit of Associates

The share of profit of Associates analysed between adjusted income and total (including non-operational items) is as follows:

	2015 Adjusted £000	**2015 Total £000**	2014 Adjusted £000	2014 Total £000
Europe, Middle East & Africa	**(116)**	**(313)**	(172)	(367)
Asia Pacific	**293**	**(1,355)**	1,323	49
Americas	**–**	**–**	–	–
Steam specialties business	**177**	**(1,668)**	1,151	(318)
Watson-Marlow	**–**	**–**	–	–
Total share of profit of Associates	**177**	**(1,668)**	1,151	(318)

Adjusted share of profit of Associates excludes amortisation and impairment of acquisition-related intangible assets of £197,000 (2014: £1,125,000) and in 2015 excludes recycled exchange losses and a final adjustment to the date of sale to the impairment of tangible assets in respect of Spirax Marshall in India of £1,648,000 (2014: £344,000).

Net financing income and expense

	2015 £000	2014 £000
Europe, Middle East & Africa	**(1,403)**	(2,310)
Asia Pacific	**1,053**	1,215
Americas	**(188)**	(326)
Steam specialties business	**(538)**	(1,421)
Watson-Marlow	**(6)**	(5)
Corporate	**(940)**	(1,557)
Total net financing expense	**(1,484)**	(2,983)

2 Segmental reporting *continued*

Net assets

	2015 Assets £000	2015 Liabilities £000	2014 Assets £000	2014 Liabilities £000
Europe, Middle East & Africa	**182,839**	**(91,248)**	203,729	(94,959)
Asia Pacific	**140,320**	**(30,401)**	136,592	(22,831)
Americas	**102,383**	**(23,955)**	103,318	(33,244)
Watson-Marlow	**123,855**	**(13,951)**	113,066	(17,060)
	549,397	**(159,555)**	556,705	(168,094)
Liabilities	**(159,555)**		(168,094)	
Deferred tax	**15,306**		18,529	
Current tax payable	**(11,656)**		(17,755)	
Net cash	**4,823**		52,493	
Net assets	**398,315**		441,878	

Non-current assets in the UK were £98,170,000 (2014: £102,889,000).

Capital additions, depreciation and amortisation

	2015 Capital additions £000	2015 Depreciation and amortisation £000	2014 Capital additions £000	2014 Depreciation and amortisation £000
Europe, Middle East & Africa	**12,970**	**11,114**	15,301	10,476
Asia Pacific	**11,031**	**5,480**	8,657	5,144
Americas	**10,396**	**4,959**	4,159	5,335
Watson-Marlow	**11,868**	**7,293**	11,271	5,844
Group total	**46,265**	**28,846**	39,388	26,799

Capital additions include property, plant and equipment of £26,291,000 (2014: £26,876,000) and other intangible assets of £19,974,000 (2014: £12,512,000) of which £12,786,000 (2014: £5,233,000) relates to acquired intangibles from acquisitions in the period. Capital additions split between the UK and rest of the world are UK £11,573,000 (2014: £20,902,000), rest of the world £34,692,000 (2014: £18,486,000). Depreciation and amortisation includes the profit on disposal of fixed assets of £452,000 (2014: £473,000).

Notes to the consolidated Financial Statements *continued*

3 Operating costs

	2015 Adjusted £000	2015 Total £000	2014 Adjusted £000	2014 Total £000
Change in stocks of finished goods and work in progress	**(691)**	**(691)**	5,764	5,764
Raw materials and consumables	**161,872**	**161,872**	165,686	165,686
Staff costs (Note 4)	**231,938**	**231,938**	232,806	232,806
Depreciation, amortisation and impairment	**24,160**	**28,846**	22,702	26,799
Other operating charges	**97,498**	**102,440**	98,369	99,127
Total operating costs	**514,777**	**524,405**	525,327	530,182

Total depreciation and amortisation includes amortisation of acquisition-related intangible assets of £4,686,000 (2014: £4,096,000). Operating costs include exchange difference benefits of £175,000 (2014: £747,000 cost). Total other operating charges include acquisition and disposal costs of £831,000 (2014: £759,000), loss on closure of USA metering unit £3,814,000 (2014: £nil) and profit on disposal of M&M less recycled exchange losses £297,000 (2014: £nil).

4 Staff costs and numbers

The aggregate payroll costs of persons employed by the Group were as follows:

	2015 £000	2014 £000
Wages and salaries	**181,865**	181,808
Social security costs	**33,670**	34,428
Other pension costs	**16,403**	16,570
Total payroll costs	**231,938**	232,806

The average number of persons employed by the Group (including Directors) during the year was as follows:

	2015	2014
United Kingdom	**1,302**	1,345
Overseas	**3,488**	3,452
Group average	**4,790**	4,797

5 Net financing income and expense

	2015 £000	2014 £000
Financial expenses		
Bank and other borrowing interest payable	**(1,293)**	(2,310)
Net interest on pension scheme liabilities	**(2,331)**	(2,919)
	(3,624)	(5,229)
Financial income		
Bank interest receivable	**2,140**	2,246
Net financing expense	**(1,484)**	(2,983)
Net pension scheme financial expense	**(2,331)**	(2,919)
Net bank interest	**847**	(64)
Net financing expense	**(1,484)**	(2,983)

6 Profit before taxation

Profit before taxation is shown after charging:

	2015 £000	2014 £000
Depreciation of owned tangible fixed assets	**19,087**	18,986
Depreciation of tangible fixed assets held under finance leases	**288**	298
Hire of plant and machinery	**588**	238
Profit on disposal of property, plant and equipment	**452**	473
Other operating leases	**3,742**	4,864
R&D	**9,939**	9,259

Auditor's remuneration	2015 £000	2014 £000
Audit of these Financial Statements	**136**	140
Amounts receivable by the Company's auditor and its Associates in respect of:		
Audit of Financial Statements of subsidiaries of the Company	**925**	862
Interim agreed upon procedures	**26**	22
Audit-related assurance services	**37**	40
Taxation compliance services	**3**	38
Other tax advisory services	**82**	62
All other services	**90**	73
Total auditor's remuneration	**1,299**	1,237

7 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 and share plans and long-term share incentive plans are shown in the Annual report on remuneration 2015 on pages 90 to 100. 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).

	2015 £000	2014 £000
Salaries and short-term benefits	**2,731**	2,623
Post-retirement benefits	**493**	464
Share-based payments	**685**	308
Total Directors' remuneration	**3,909**	3,395

Notes to the consolidated Financial Statements *continued*

8 Taxation

	2015 £000	2014 £000
Analysis of charge in period		
UK corporation tax:		
Current tax on income for the period	**1,989**	2,440
Adjustments in respect of prior periods	**(697)**	945
	1,292	3,385
Double taxation relief	**(436)**	(851)
	856	2,534
Foreign tax:		
Current tax on income for the period	**44,233**	42,233
Adjustments in respect of prior periods	**(661)**	247
	43,572	42,480
Total current tax charge	**44,428**	45,014
Deferred tax – UK	**1,059**	(179)
Deferred tax – Foreign	**(2,573)**	(614)
Tax on profit on ordinary activities	**42,914**	44,221

Reconciliation of effective tax rate

	2015 £000	2014* £000
Profit before tax	**139,657**	144,794
Tax using the UK corporation tax rate of 20.25% (2014: 21.50%)	**28,281**	31,131
Effect of higher overseas tax rates	**11,614**	10,386
Increased withholding tax on overseas dividends	**3,681**	–
Benefit of Financing structures	**(1,557)**	(1,781)
Associated companies	**205**	(391)
Non-deductible expenditure	**2,634**	2,904
Under/(Over) provided in prior years	**(1,714)**	770
Other reconciling items	**(230)**	1,202
Total tax in income statement	**42,914**	44,221
Effective tax rate	**30.4%**	30.5%

* 2014 recategorised to be consistent with 2015

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 UK corporation tax charge is calculated after deducting tax allowable deficit reduction cash contributions to the UK post-retirement benefit schemes of £nil (2014: £3,366,000) covering all employees in the UK defined benefit schemes.

The UK corporation tax rate reduced from 21% to 20% on 1st April 2015. Further reductions to 19% (effective from April 2017) and then 18% (effective from 1st April 2020) were substantively enacted on 26th October 2015. This will reduce the Company's future current tax charge accordingly. The UK deferred tax assets and liabilities at 31st December 2015 have been calculated based upon rates of 20%, 19% and 18% in respect of deferred tax expected to reverse before 1st April 2017, 1st April 2020 and after this date respectively.

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 Associates.

9 Earnings per share

	2015	2014
Profit attributable to equity shareholders (£000)	**96,556**	100,327
Weighted average shares in issue	**74,311,728**	75,532,018
Dilution	**334,712**	455,530
Diluted weighted average shares in issue	**74,646,440**	75,987,548
Basic earnings per share	**129.9p**	132.8p
Diluted earnings per share	**129.4p**	132.0p
Adjusted profit attributable to equity shareholders (£000)	**105,960**	106,015
Basic adjusted earnings per share	**142.6p**	140.4p
Diluted adjusted earnings per share	**141.9p**	139.5p

The dilution is in respect of unexercised share options and the Performance Share Plan.

10 Dividends

	2015 £000	2014 £000
Amounts paid in the year:		
Final dividend for the year ended 31st December 2014 of 45.0p (2013: 41.0p) per share	**34,089**	30,960
Special dividend for the year ended 31st December 2014 of 120.0p (2013: nil) per share	**90,951**	–
Interim dividend for the year ended 31st December 2015 of 20.8p (2014: 19.5p) per share	**15,229**	14,755
Total dividends paid	**140,269**	45,715
Amounts arising in respect of the year:		
Interim dividend for the year ended 31st December 2015 of 20.8p (2014: 19.5p) per share	**15,229**	14,755
Proposed final dividend for the year ended 31st December 2015 of 48.2p (2014: 45.0p) per share	**35,301**	34,134
Proposed special dividend for the year ended 31st December 2015 of nil (2014: 120.0p)	**–**	91,024
Total dividends arising	**50,530**	139,913

The proposed dividends are subject to approval in 2016. They are therefore not included as liabilities in these Financial Statements.

Notes to the consolidated Financial Statements *continued*

11 Property, plant and equipment

	Freehold land and buildings £000	Leasehold land and buildings £000	Plant and machinery £000	Fixtures, fittings, tools and equipment £000	Total £000
Cost or deemed cost:					
At 1st January 2015	110,976	23,989	137,649	63,045	335,659
Exchange adjustments	(3,381)	59	(3,352)	(1,680)	(8,354)
	107,595	24,048	134,297	61,365	327,305
Additions	4,066	5,375	11,577	5,273	26,291
Disposals	(4,747)	(2,887)	(19,970)	(10,107)	(37,711)
At 31st December 2015	**106,914**	**26,536**	**125,904**	**56,531**	**315,885**
Depreciation:					
At 1st January 2015	22,294	2,972	91,934	41,791	158,991
Exchange adjustments	(671)	(60)	(1,256)	(1,069)	(3,056)
	21,623	2,912	90,678	40,722	155,935
Charged in year	1,908	591	10,214	6,662	19,375
Disposals	(765)	(97)	(18,940)	(9,571)	(29,373)
At 31st December 2015	**22,766**	**3,406**	**81,952**	**37,813**	**145,937**
Net book value:					
At 31st December 2015	**84,148**	**23,130**	**43,952**	**18,718**	**169,948**

Leasehold disposals include £2,445,000 for land use rights in China reclassified to non-current prepayments.

	Freehold land and buildings £000	Leasehold land and buildings £000	Plant and machinery £000	Fixtures, fittings, tools and equipment £000	Total £000
Cost or deemed cost:					
At 1st January 2014	110,194	20,145	143,179	68,389	341,907
Exchange adjustments	(2,351)	416	(2,281)	(1,065)	(5,281)
	107,843	20,561	140,898	67,324	336,626
Additions	5,047	3,474	11,131	7,224	26,876
Disposals	(1,914)	(46)	(14,380)	(11,503)	(27,843)
At 31st December 2014	110,976	23,989	137,649	63,045	335,659
Depreciation:					
At 1st January 2014	21,471	2,282	97,086	46,850	167,689
Exchange adjustments	(527)	(55)	(1,198)	(619)	(2,399)
	20,944	2,227	95,888	46,231	165,290
Charged in year	1,784	764	9,925	6,811	19,284
Disposals	(434)	(19)	(13,879)	(11,251)	(25,583)
At 31st December 2014	22,294	2,972	91,934	41,791	158,991
Net book value:					
At 31st December 2014	88,682	21,017	45,715	21,254	176,668

Included in the above are finance leases with a net book value of £450,000 (2014: £827,000) and assets under construction of £9,486,000 (2014: £2,209,000)

12 Goodwill and other intangible assets

	Acquired intangibles £000	Development costs £000	Computer software £000	Total intangibles £000	Goodwill £000
Cost or valuation:					
At 1st January 2015	42,674	23,816	40,344	106,834	48,490
Exchange and other adjustments	(2,697)	(101)	(642)	(3,440)	(2,283)
	39,977	23,715	39,702	103,394	46,207
Additions	12,786	2,375	4,813	19,974	11,429
Disposals	(1,187)	(4,020)	(1,228)	(6,435)	(2,651)
At 31st December 2015	**51,576**	**22,070**	**43,287**	**116,933**	**54,985**
Amortisation and impairment:					
At 1st January 2015	20,217	15,566	22,928	58,711	808
Exchange adjustments	(1,235)	(67)	(495)	(1,797)	95
	18,982	15,499	22,433	56,914	903
Amortisation and impairment	4,686	2,462	2,774	9,922	–
Disposals	(1,187)	(2,547)	(941)	(4,675)	–
At 31st December 2015	**22,481**	**15,414**	**24,266**	**62,161**	**903**
Net book value:					
At 31st December 2015	**29,095**	**6,656**	**19,021**	**54,772**	**54,082**

Additions include an exchange benefit of £517,000 for acquired intangibles and £207,000 for goodwill being the difference between purchase cost and average exchange rates.

	Acquired intangibles £000	Development costs £000	Computer software £000	Total intangibles £000	Goodwill £000
Cost or valuation:					
At 1st January 2014	40,085	21,094	36,457	97,636	46,726
Exchange and other adjustments	(2,644)	90	(553)	(3,107)	(2,537)
	37,441	21,184	35,904	94,529	44,189
Additions	5,233	2,632	4,647	12,512	4,301
Disposals	–	–	(207)	(207)	–
At 31st December 2014	42,674	23,816	40,344	106,834	48,490
Amortisation and impairment:					
At 1st January 2014	17,885	13,180	21,977	53,042	961
Exchange adjustments	(1,764)	105	(454)	(2,113)	(153)
	16,121	13,285	21,523	50,929	808
Amortisation and impairment	4,096	2,281	1,611	7,988	–
Disposals	–	–	(206)	(206)	–
At 31st December 2014	20,217	15,566	22,928	58,711	808
Net book value:					
At 31st December 2014	22,457	8,250	17,416	48,123	47,682

Development

All capitalised development costs arise from internal product development.

Notes to the consolidated Financial Statements *continued*

12 Goodwill and other intangible assets *continued*

Acquired intangibles

The disclosure by class of acquired intangibles assets is shown in the tables below.

	Customer relationships £000	**Brand names and trademarks £000**	**Manufacturing designs and core technology £000**	**Non-compete undertakings and other £000**	**Total acquired intangibles £000**
Cost or valuation:					
At 1st January 2015	25,055	6,999	7,050	3,570	42,674
Exchange and other adjustments	(1,442)	(432)	(513)	(310)	(2,697)
	23,613	6,567	6,537	3,260	39,977
Additions	5,077	1,150	1,268	5,291	12,786
Disposals	(141)	(422)	(585)	(39)	(1,187)
At 31st December 2015	**28,549**	**7,295**	**7,220**	**8,512**	**51,576**
Amortisation and impairment:					
At 1st January 2015	9,958	4,213	3,480	2,566	20,217
Exchange adjustments	(543)	(318)	(411)	37	(1,235)
	9,415	3,895	3,069	2,603	18,982
Amortisation and impairment	2,159	593	1,121	813	4,686
Disposals	(141)	(422)	(585)	(39)	(1,187)
At 31st December 2015	**11,433**	**4,066**	**3,605**	**3,377**	**22,481**
Net book value:					
At 31st December 2015	**17,116**	**3,229**	**3,615**	**5,135**	**29,095**

Additions comprise intangibles arising from acquisitions during the year.

	Customer relationships £000	Brand names and trademarks £000	Manufacturing designs and core technology £000	Non-compete undertakings and other £000	Total acquired intangibles £000
Cost or valuation:					
At 1st January 2014	24,413	6,413	5,607	3,652	40,085
Exchange and other adjustments	(1,610)	(423)	(370)	(241)	(2,644)
	22,803	5,990	5,237	3,411	37,441
Additions	2,252	1,009	1,813	159	5,233
At 31st December 2014	25,055	6,999	7,050	3,570	42,674
Amortisation and impairment:					
At 1st January 2013	8,562	3,839	3,005	2,479	17,885
Exchange adjustments	(844)	(379)	(296)	(245)	(1,764)
	7,718	3,460	2,709	2,234	16,121
Amortisation and impairment	2,240	753	771	332	4,096
At 31st December 2014	9,958	4,213	3,480	2,566	20,217
Net book value:					
At 31st December 2014	15,097	2,786	3,570	1,004	22,457

12 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.

	2015 Goodwill £000	2014 Goodwill £000
Spirax-Sarco Mexicana	**7,358**	8,151
Flexicon A/S Denmark	**7,133**	7,531
MasoSine	**6,241**	6,587
BioPure Technology Ltd	**4,100**	4,100
Watson-Marlow Flow Smart, Inc, USA	**3,670**	–
Asepco, USA	**3,546**	–
Spirax Sarco Inc, USA	**3,490**	3,290
M&M product unit	**–**	2,841
Alitea product unit	**2,368**	2,412
Spirax-Sarco Colombia SAS	**2,235**	–
Watson-Marlow Japan	**1,773**	–
UK Supply product unit	**1,747**	1,844
Spirax Inter Valf Turkey	**1,303**	1,538
Spirax-Sarco SAS France	**1,179**	1,244
Watson-Marlow South Africa	**662**	839
Other cash-generating units	**7,277**	7,305
Total goodwill	**54,082**	47,682

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 10–17% (2014: 11–16%);
- Short-term growth rates vary between 2–30% depending on detailed forecasts (2014: 2–7%). The short-term is defined as not more than five years. The 30% rate is in respect of Spirax-Sarco Colombia SAS;
- Long-term growth rates are set using IMF forecasts and vary between 0.8–5.0% (2014: 1.0–6.0%); and
- No impairments were identified as a result of this exercise.

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**
Spirax-Sarco Mexicana	14.1%	4.0%	2.8%
Flexicon A/S Denmark	10.4%	3.0%	2.0%
MasoSine	11.5%	2.5%	1.3%

Sensitivity analysis shows that if long-term revenue growth assumptions are lowered by 1% and pre-tax discount rates raised 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*

13 Investments in Associates

	Associate held for sale 2015 £000	Other Associate 2015 £000	Associate held for sale 2014 £000	Other Associate 2014 £000
Cost of investment	–	1,399	3,194	1,399
Share of equity	–	(1,335)	3,607	(1,022)
Adjustment to fair value	–	–	(1,024)	–
Total investment in Associate	–	64	5,777	377
Summarised financial information:				
Revenue	3,616	846	19,494	485
Profit/(loss) for the period	594	(298)	2,686	(512)
Current assets	–	257	5,873	304
Non-current assets	–	288	9,754	571
Current and non-current liabilities	–	380	3,186	410

Details of the Group's Associate at 31st December 2015 are 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

The sale of Spirax-Marshall Ltd was completed on 1st March 2015. The initial 2014 assessment of loss on sale was reduced on completion by £142,000. At 31st December 2014, the investment was adjusted to fair value as it was held for sale. In 2014 the £1,024,000 adjustment included goodwill impairment of £672,000 and a loss on sale of £352,000.

14 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2015 Assets £000	2014 Assets £000	**2015 Liabilities £000**	2014 Liabilities £000	**2015 Net £000**	2014 Net £000
Accelerated capital allowances	**4,775**	3,987	**(5,155)**	(5,291)	**(380)**	(1,304)
Provisions	**3,489**	4,037	**–**	(920)	**3,489**	3,117
Losses	**1,477**	3,173	**(15)**	–	**1,462**	3,173
Inventory	**3,055**	3,002	**(2,120)**	(2,049)	**935**	953
Pensions	**20,013**	19,466	**(2,021)**	(1,763)	**17,992**	17,703
Other temporary differences	**238**	2,276	**(8,430)**	(7,389)	**(8,192)**	(5,113)
Tax assets/(liabilities)	**33,047**	35,941	**(17,741)**	(17,412)	**15,306**	18,529

Movement in deferred tax during the year 2015

	1st January 2015 £000	**Recognised in income £000**	**Recognised in OCI £000**	**Recognised in equity £000**	**Acquisitions £000**	**31st December 2015 £000**
Accelerated capital allowances	**(1,304)**	**1,776**	**(852)**	**–**	**–**	**(380)**
Provisions	**3,117**	**665**	**(293)**	**–**	**–**	**3,489**
Losses	**3,173**	**(1,778)**	**67**	**–**	**–**	**1,462**
Inventory	**953**	**(41)**	**23**	**–**	**–**	**935**
Pensions	**17,703**	**946**	**(657)**	**–**	**–**	**17,992**
Other temporary differences	**(5,113)**	**(54)**	**530**	**–**	**(3,555)**	**(8,192)**
Group total	**18,529**	**1,514**	**(1,182)**	**–**	**(3,555)**	**15,306**

Movement in deferred tax during the year 2014

	1st January 2014 £000	Recognised in income £000	Recognised in OCI £000	Recognised in equity £000	Acquisitions £000	31st December 2014 £000
Accelerated capital allowances	(3,813)	2,419	90	–	–	(1,304)
Provisions	5,136	(2,079)	60	–	–	3,117
Losses	2,762	426	(15)	–	–	3,173
Inventory	1,062	(395)	286	–	–	953
Pensions	17,993	(32)	(258)	–	–	17,703
Other temporary differences	(4,521)	454	–	(307)	(739)	(5,113)
Group total	18,619	793	163	(307)	(739)	18,529

At the balance sheet date, the Group has deductible temporary differences, unused tax losses and unused tax credits of £2,204,000 (2014: £3,716,000) available for offset against future profits. A deferred tax asset has been recognised in respect of £1,462,000 (2014: £3,173,000). No deferred tax asset has been recognised in respect of the remaining £742,000 (2014: £543,000) as it is not considered probable that there will be future taxable profits available. Included in unrecognised tax losses are losses of £742,000 (2014: £543,000) that will expire by 2023. Other losses may be carried forward indefinitely.

Notes to the consolidated Financial Statements *continued*

15 Inventories

	2015 £000	2014 £000
Raw materials and consumables	**30,552**	35,366
Work in progress	**13,338**	14,954
Finished goods and goods for resale	**48,612**	47,687
Total inventories	**92,502**	98,007

The write-down of inventories recognised as an expense during the year in respect of continuing operations was £2,300,000 (2014: £89,000). This comprises a cost of £3,365,000 to write-down inventory to net realisable value reduced by £1,065,000 for reversal of previous write-down reassessed as a result of customer demand.

The value of inventories expected to be recovered after more than twelve months is £14,262,000.

There is no material difference between the balance sheet value of inventories and their replacement cost. None of the inventory has been pledged as security.

16 Other current assets

	2015 £000	2014 £000
Other receivables	**10,386**	13,025
Prepayments and accrued income	**10,045**	10,948
Total current assets	**20,431**	23,973

17 Trade and other payables

	2015 £000	2014 £000
Trade payables	**23,951**	27,670
Bills of exchange payable	**–**	201
Social security	**2,546**	2,839
Other payables	**27,532**	25,976
Accruals	**30,318**	34,068
Total trade and other payables	**84,347**	90,754

18 Obligations under finance leases

	Minimum lease payments		Present value lease payment	
	2015 £000	2014 £000	2015 £000	2014 £000
Amount payable:				
Within 1 year	**298**	300	**298**	298
1–5 years inclusive	**153**	531	**152**	529
After 5 years	**–**	–	**–**	–
	451	831	**450**	827
Less future finance charges	**(1)**	(4)	**–**	–
Total obligations under finance leases	**450**	827	**450**	827

Finance lease obligations are further disclosed in Note 28.

19 Provisions

2015	Product warranty £000	Legal, contractual and other £000	Total £000
At 1st January 2015	**556**	**–**	**556**
Additional provision in the year	**–**	**679**	**679**
Utilised or released during the year	**(6)**	**–**	**(6)**
At 31st December 2015	**550**	**679**	**1,229**

2014	Product warranty £000	Legal, contractual and other £000	Total £000
At 1st January 2014	720	–	720
Additional provision in the year	–	–	–
Utilised or released during the year	(135)	–	(135)
Exchange adjustments	(29)	–	(29)
At 31st December 2014	556	–	556

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 Company 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.

20 Called up share capital and reserves

	2015 £000	2014 £000
Ordinary shares of 26 $^{12}/_{13}$p (2014: 25 $^{25}/_{26}$p) each:		
Authorised 111,428,571 (2014: 115,555,590)	**30,000**	30,000
Allotted, called up and fully paid 73,238,371 (2014: 75,579,364)	**19,718**	19,622

On 15th June 2015 a share consolidation replaced every 28 Ordinary shares of 25 $^{25}/_{26}$p each with 27 new Ordinary shares of 26 $^{12}/_{13}$p each. The share consolidation ensured that following payment of the special dividend of 120.0p per share shareholders held the same proportion of the Company's total share capital.

302,304 shares with a nominal value of £81,000 were issued in connection with the Group's Employee Share Schemes for a consideration of £4,717,000 received by the Company.

At 31st December 2015 147,212 shares were held in an Employee Benefit Trust and available for use in connection with the Group's Employee Share Schemes.

161 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).

Notes to the consolidated Financial Statements *continued*

20 Called up share capital and reserves *continued*

Other reserves in the Consolidated statement of changes in equity on page 122 to 123 are made up as follows:

	1st January 2015 £000	Change in year £000	31st December 2015 £000
Translation reserve	**(1,413)**	(14,129)	**(15,542)**
Cash flow hedges reserve	**(535)**	(13)	**(548)**
Capital redemption reserve	**1,832**	–	**1,832**
Employee Benefit Trust reserve	**(6,370)**	1,872	**(4,498)**
Total other reserves	**(6,486)**	**(12,270)**	**(18,756)**

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. In the current year recycled losses in relation to the disposal of M&M and Spirax Marshall in India were £2,125,000.

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.

21 Return on capital employed

Return on capital employed is one of the Group's key performance indicators, but is a non-statutory measure. An analysis of the components is as follows:

	2015 £000	2014 £000
Capital employed:		
Property, plant and equipment	**169,948**	176,668
Prepayments	**5,516**	402
Inventories	**92,502**	98,007
Trade receivables	**152,082**	155,696
Other current assets	**20,431**	23,973
Tax recoverable	**9,394**	4,420
Trade and other payables	**(84,347)**	(90,754)
Current tax payable	**(21,050)**	(22,175)
Capital employed	**344,476**	346,237
Average capital employed	**345,357**	345,358
Operating profit	**142,809**	148,095
Adjustments (Note 2)	**9,628**	4,855
Adjusted operating profit	**152,437**	152,950
Return on capital employed	**44.1%**	44.3%

22 Capital commitments

	2015 £000	2014 £000
Capital expenditure contracted for but not provided	**7,425**	1,657

All capital commitments related to property, plant and equipment.

23 Operating lease obligations

	2015 £000	2014 £000
Commitments under non-cancellable leases due as follows:		
Within 1 year	**4,259**	4,449
1–5 years inclusive	**10,098**	6,976
After 5 years	**684**	403
Total operating lease obligations	**15,041**	11,828

Operating leases are primarily in respect of property, plant and equipment.

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 £7,997,000 (2014: £9,074,000). 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 retirement benefit 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 US 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 balance sheet 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 setup 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 52 to 53.

US defined benefit schemes

The Group operates a pension scheme in the US which is open to new entrants 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 US, which is unfunded, as is typical for these plans.

Principal risks

The pension schemes create a number of risk exposures. Annual increases on 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 (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 148.

Notes to the consolidated Financial Statements *continued*

24 Employee benefits *continued*

The financial assumptions used at 31st December were:

	Assumptions weighted by value of liabilities % per annum			
	UK pensions		Overseas pensions and medical	
	2015	2014	**2015**	2014
Rate of increase in salaries	**3.5**	3.5	**3.3**	3.3
Rate of increase in pensions	**2.9**	2.9	**1.7**	1.7
Rate of price inflation	**3.0**	3.0	**2.3**	2.3
Discount rate	**3.8**	3.7	**3.6**	3.6
Medical trend rate			**5.0**	5.0

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 balance sheet are determined as follows:

	UK pensions		Overseas pensions and medical		Total	
	2015 £000	2014 £000	**2015 £000**	2014 £000	**2015 £000**	2014 £000
Fair value of schemes' assets	**306,921**	313,556	**39,024**	37,588	**345,945**	351,144
Present value of funded schemes' liabilities	**(345,009)**	(351,289)	**(57,309)**	(57,227)	**(402,318)**	(408,516)
(Deficit) in the funded schemes	**(38,088)**	(37,733)	**(18,285)**	(19,639)	**(56,373)**	(57,372)
Present value of unfunded schemes' liabilities	**–**	–	**(17,281)**	(18,407)	**(17,281)**	(18,407)
Retirement benefit liability recognised in the balance sheet	**(38,088)**	(37,733)	**(35,566)**	(38,046)	**(73,654)**	(75,779)
Related deferred tax asset	**6,856**	7,825	**11,136**	9,878	**17,992**	17,703
Net pension liability	**(31,232)**	(29,908)	**(24,430)**	(28,168)	**(55,662)**	(58,076)

Fair value of scheme assets:

	UK pensions		Overseas pensions and medical		Total	
	2015 £000	2014 £000	**2015 £000**	2014 £000	**2015 £000**	2014 £000
Equities	**151,214**	176,595	**22,315**	21,447	**173,529**	198,042
Bonds	**143,770**	126,723	**7,995**	8,728	**151,765**	135,451
Other	**11,937**	10,238	**8,714**	7,413	**20,651**	17,651
Total market value in aggregate	**306,921**	313,556	**39,024**	37,588	**345,945**	351,144

The actual return on plan assets was £5.7 million (2014: £35.9 million).

The movements in the defined benefit obligation (DBO) recognised in the balance sheet during the year were:

	UK pensions		Overseas pensions and medical		Total	
	2015 £000	2014 £000	**2015 £000**	2014 £000	**2015 £000**	2014 £000
Defined benefit obligation at beginning of year	**(351,289)**	(322,929)	**(75,634)**	(62,945)	**(426,923)**	(385,874)
Current service cost	**(6,063)**	(5,522)	**(2,343)**	(2,030)	**(8,406)**	(7,552)
Past service cost	**–**	–	**–**	56	**–**	56
Interest cost	**(12,704)**	(14,331)	**(2,586)**	(2,638)	**(15,290)**	(16,969)
Contributions by members	**(592)**	(629)	**–**	–	**(592)**	(629)
Remeasurement gain/(loss)	**8,263**	(27,497)	**2,336**	(10,511)	**10,599**	(38,008)
Actual benefit payments	**16,427**	9,550	**3,641**	2,580	**20,068**	12,130
Disposal of M&M	**–**	–	**484**	–	**484**	–
Experience gain	**949**	10,069	**1,403**	975	**2,352**	11,044
Currency loss	**–**	–	**(1,891)**	(1,121)	**(1,891)**	(1,121)
Defined benefit obligation at end of year	**(345,009)**	(351,289)	**(74,590)**	(75,634)	**(419,599)**	(426,923)

24 Employee benefits *continued*

The movements in the fair value of plan assets during the year were:

	UK pensions		Overseas pensions and medical		Total	
	2015 £000	2014 £000	**2015 £000**	2014 £000	**2015 £000**	2014 £000
Value of assets at beginning of year	**313,556**	278,147	**37,588**	35,684	**351,144**	313,831
Expected return on assets	**11,386**	12,496	**1,573**	1,554	**12,959**	14,050
Remeasurement gain/(loss)	**(6,296)**	23,907	**(939)**	(2,102)	**(7,235)**	21,805
Contributions paid by employer	**4,110**	7,927	**3,137**	3,421	**7,247**	11,348
Contributions paid by members	**592**	629	**–**	–	**592**	629
Actual benefit payments	**(16,427)**	(9,550)	**(3,641)**	(2,580)	**(20,068)**	(12,130)
Currency gain	**–**	–	**1,306**	1,611	**1,306**	1,611
Value of assets at end of year	**306,921**	313,556	**39,024**	37,588	**345,945**	351,144

The estimated employer contributions to be made in 2016 are £6.5 million.

The history of experience adjustments is as follows:

	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000
Defined benefit obligation at end of year	**(419,599)**	(426,923)	(385,874)	(353,265)	(323,327)
Fair value of schemes' assets	**345,945**	351,144	313,831	280,602	251,402
Retirement benefit liability recognised in the balance sheet	**(73,654)**	(75,779)	(72,043)	(72,663)	(71,925)
Experience adjustment on schemes' liabilities	**2,352**	11,044	(871)	(126)	5,797
As a percentage of schemes' liabilities	**0.6%**	2.6%	0.2%	0.0%	1.8%
Experience adjustment on schemes' assets	**(7,235)**	21,805	18,249	13,561	(12,041)
As a percentage of schemes' assets	**2.1%**	6.2%	5.8%	4.8%	4.8%

The expense recognised in the Group income statement was as follows:

	UK pensions		Overseas pensions and medical		Total	
	2015 £000	2014 £000	**2015 £000**	2014 £000	**2015 £000**	2014 £000
Current service cost	**(6,063)**	(5,522)	**(2,343)**	(2,030)	**(8,406)**	(7,552)
Past service cost	**–**	–	**–**	56	**–**	56
Net interest on schemes' liabilities	**(1,318)**	(1,835)	**(1,013)**	(1,084)	**(2,331)**	(2,919)
Total expense recognised in income statement	**(7,381)**	(7,357)	**(3,356)**	(3,058)	**(10,737)**	(10,415)

The expense is recognised in the following line items in the Group income statement:

	2015 £000	2014 £000
Operating costs	**(8,406)**	(7,496)
Net financial expenses	**(2,331)**	(2,919)
Total expense recognised in income statement	**(10,737)**	(10,415)

Notes to the consolidated Financial Statements *continued*

24 Employee benefits *continued*

Statement of comprehensive income (OCI)

	UK pensions		Overseas pensions and medical		Total	
	2015 £000	2014 £000	**2015 £000**	2014 £000	**2015 £000**	2014 £000
Remeasurement effects recognised in OCI:						
Due to experience on DBO	**949**	10,069	**1,403**	975	**2,352**	11,044
Due to demographic assumption changes in DBO	**5,357**	4,985	**(457)**	(1,517)	**4,900**	3,468
Due to financial assumption changes in DBO	**2,906**	(32,482)	**2,794**	(8,994)	**5,700**	(41,476)
Return on assets	**(6,296)**	23,907	**(939)**	(2,102)	**(7,235)**	21,805
Total remeasurement gain/(loss) recognised in OCI	**2,916**	6,479	**2,801**	(11,638)	**5,717**	(5,159)
Deferred tax on remeasurement gain or loss recognised in OCI	**(809)**	(1,296)	**152**	1,038	**(657)**	(258)
Cumulative loss recognised in OCI at beginning of year	**(52,769)**	(57,952)	**(19,879)**	(9,279)	**(72,648)**	(67,231)
Cumulative loss recognised in OCI at end of year	**(50,662)**	(52,769)	**(16,926)**	(19,879)	**(67,588)**	(72,648)

Sensitivity analysis

The effect on the defined benefit obligation at 31st December 2015 of an increase or decrease in key assumptions is as follows:

	UK pensions £000	Overseas pensions and medical £000	Total £000
Increase/(decrease) in pension deficit:			
Discount rate assumption being 0.25% higher	**(13,604)**	**(2,523)**	**(16,127)**
Discount rate assumption being 0.25% lower	**17,667**	**3,178**	**20,845**
Inflation assumption being 0.25% higher	**10,669**	**999**	**11,668**
Inflation assumption being 0.25% lower	**(9,874)**	**(924)**	**(10,798)**

The average age of active participants in the UK schemes at 31st December 2015 was 51 years and in the overseas schemes 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 2015 on pages 92 to 93. The charge to the income statement in respect of share-based payments is made up as follows:

	2015 £000	2014 £000
Share Option Scheme	**–**	131
Performance Share Plan	**2,495**	1,453
Employee Share Ownership Plan	**835**	790
Total expense recognised in income statement	**3,330**	2,374

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 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 below.

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**
2005 grant (686.0p)	26,171	–	(26,171)	–	–
2006 grant (960.0p)	24,775	–	(14,400)	–	10,375
2007 grant (1019.6p)	34,544	–	(20,000)	–	14,544
2008 grant (959.0p)	39,168	–	(14,942)	–	24,226
2009 grant (765.0p)	29,500	–	(18,000)	–	11,500
2010 grant (1366.0p)	82,330	–	(43,830)	–	38,500
2011 grant (1873.0p)	186,799	–	(83,000)	–	103,799
	423,287	–	**(220,343)**	–	**202,944**
Weighted average exercise price	£14.16	–	£13.42	–	£14.97
Weighted average contractual life remaining					4.0 years

Performance conditions in respect of all exercisable shares have been met. The number of shares exercisable at 31st December 2015 is 202,944 (2014: 423,287). The weighted average share price during the period was £32.07 (2014: £28.69).

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 up to 2013 60% 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 up to 2013 the second part, amounting to 40% 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. From 2014 the Remuneration Committee have changed the weighting between the TSR and EPS elements to 40% TSR and 60% EPS. From 2015 a change has been made to measure EPS on a point to point basis over the three year performance period.

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.

	2011 Grant	2012 Grant	2013 Grant	2014 Grant	**2015 Grant**
Grant date	18th March	9th March	8th March	14th March	**11th June**
Mid market share price at grant date	1873.0p	2106.0p	2615.0p	2873.0p	**3460.0p**
Number of employees	5	89	105	124	**101**
Shares under scheme	78,588	179,980	168,708	170,521	**140,090**
Vesting period	3 years	3 years	3 years	3 years	**3 years**
Probability of vesting	69.2%	66.5%	62.5%	75.2%	**71.5%**
Fair value	1296.1p	1400.5p	1634.4p	2160.5p	**2473.9p**

Notes to the consolidated Financial Statements *continued*

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.

	2011 Grant	2012 Grant	2013 Grant	2014 Grant	**2015 Grant**
Grant date	1st October	1st October	1st October	1st October	**1st October**
Exercise price	1832.0p	2100.3p	3018.0p	2821.33p	**2797.0p**
Number of employees	1,012	1,017	1,015	1,064	**1,038**
Shares under scheme	45,327	41,703	29,610	34,204	**34,449**
Vesting period	3 years	3 years	3 years	3 years	**3 years**
Expected volatility	25%	25%	25%	20%	**21%**
Risk free interest rate	0.6%	0.2%	0.4%	0.6%	**0.4%**
Expected dividend yield	2.5%	2.5%	2.5%	2.5%	**2.5%**
Fair value	1934.6p	2228.5p	3208.1p	2948.3p	**2931.3p**

The accumulation period for the 2015 ESOP ends in September 2016, therefore some figures are projections.

25 Analysis of changes in net cash

	At 1st January 2015 £000	**Cash flow* £000**	**Exchange movement £000**	**At 31st December 2015 £000**
Current portion of long-term borrowings	(298)			(298)
Non-current portion of long-term borrowings	(49,096)			(80,673)
Short-term borrowings	(40,070)			(10,130)
Total borrowings	**(89,464)**			**(91,101)**
Comprising:				
Borrowings	(88,637)	(1,824)	(190)	(90,651)
Finance leases	(827)	377	–	(450)
	(89,464)	(1,447)	(190)	(91,101)
Cash at bank	117,981	(15,173)	(2,973)	99,835
Bank overdrafts	(461)	(3,478)	28	(3,911)
Net cash and cash equivalents	**117,520**	**(18,651)**	**(2,945)**	**95,924**
Bank deposits	24,437	(24,293)	(144)	–
Net cash	**52,493**	**(44,391)**	**(3,279)**	**4,823**

The present value of finance lease payments are shown in Note 18 on page 142.

* £449,000 of cash was acquired as part of the purchase of Asepco Corporation and Valve and Control Engineering Ltd during the year.

26 Related party transactions

	2015 £000	2014 £000
Sales to Associated companies	**392**	1,002
Dividends from Associated companies	**–**	815
Amounts due from Associated companies at 31st December	**–**	21

27 Purchase of businesses

2015

	Acquisitions		
	Book value £000	Fair value adj £000	Fair value £000
Non-current assets:			
Property, plant and equipment	645	–	645
Intangibles	–	12,269	12,269
	645	12,269	12,914
Current assets:			
Inventories	3,528	–	3,528
Trade receivables	823	–	823
Other receivables	327	–	327
Cash	449	–	449
Total assets	5,772	12,269	18,041
Current liabilities:			
Trade payables	432	–	432
Other payables and accruals	160	–	160
Deferred tax	–	3,555	3,555
Total liabilities	592	3,555	4,147
Total net assets	5,180	8,714	13,894
Goodwill			11,222
Total			**25,116**

Satisfied by	
Cash paid	23,766
Deferred consideration	1,350
	25,116
Cash outflow for acquired businesses in the Cash flow statements (page 124):	
Cash paid for businesses acquired in the period	23,766
Less cash acquired	(449)
Deferred consideration for businesses acquired in prior years	242
Net cash outflow	**23,559**

1 The acquisition of the Asepco Corporation, a company specialising in the design and production of high purity tank and process valves and magnetically driven mixers for the Biopharmaceutical industry, based in the USA, was completed on 8th April 2015. The acquisition method of accounting has been used. Consideration of £7,005,000 was paid on completion with a further £221,000 deferred. Separately identified intangibles are recorded as part of the fair value adjustment. The goodwill recognised represents the skilled workforce acquired and the synergies that can be achieved by being part of the Spirax Group. 100% of voting rights were acquired. Goodwill arising is not expected to be tax deductible. Asepco has generated £4,300,000 of revenue and £700,000 of pre-tax profit since acquisition. Had the acquisition been made on the 1st January 2015, the revenue and pre-tax profit would have been approximately a third higher than the figures disclosed above.

2 The acquisition of Valve and Control Engineering Ltd., specialising in boiler services and certifications, based in the UK, was completed on 14th April 2015. The acquisition method of accounting has been used. Consideration of £407,000 was paid during the year with a further £350,000 deferred. This payment is dependent on future performance. Separately identified intangibles are recorded as part of the fair value adjustment. The goodwill recognised represents the skilled workforce acquired and the opportunity to sell to a wider customer base. Goodwill arising is not expected to be tax deductible. Following purchase, the business has been incorporated within the UK Sales Steam Specialties operation and made a positive but immaterial contribution to revenue and profit.

3 The acquisition of manufacturing and distribution rights of MasoSine pumps in Japan was completed on 1st July 2015. The acquisition method of accounting has been used. Consideration of £2,054,000 was paid on completion with a further £779,000 deferred. This payment is dependent on satisfactory compliance with agreed conditions. Separately identified intangibles are recorded as part of the fair value adjustment. The goodwill recognised represents the skilled workforce acquired and the opportunity to sell direct to the Japanese market. Goodwill arising is not expected to be tax deductible. The acquisition has generated £850,000 of revenue and £100,000 of pre-tax profit since acquisition. Had the acquisition been made on 1st January 2015, the revenue and pre-tax profit would have been approximately double the figures disclosed above.

Notes to the consolidated Financial Statements *continued*

27 Purchase of businesses *continued*

4 The acquisition of the steam distribution business from our Colombian distributor Casaval S.A. was completed on 25th September 2015. The acquisition method of accounting has been used. Consideration of £6,623,000 was paid on completion for the distribution rights and a further £1,935,000 for inventory. Separately identified intangibles are recorded as part of the fair value adjustment. The goodwill recognised represents the opportunity to sell a wider range of the Group's products direct to the Colombian market and the opportunity to cooperate with Casaval in the future for mutual benefit. Goodwill arising is not expected to be tax deductible. The business was merged with our existing export business in Colombia and additional sales and pre-tax profit were immaterial in 2015.

5 The acquisition of the business and assets of Flow Smart Inc., a company specialising in the design and manufacture of high purity sanitary gaskets, silicone transfer tubing and reinforced silicone hoses for the Bioprocessing and Pharmaceutical industries was completed on 24th November 2015. The acquisition method of accounting has been used. Consideration of £5,742,000 was paid on completion. Separately identified intangibles are recorded as part of the fair value adjustment. The goodwill recognised represents the skilled workforce 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 £300,000 of revenue and £100,000 of pre-tax profit since acquisition. Had the acquisition been made on 1st January 2015, the revenue and pre-tax profit would have been approximately 12 times the figures disclosed above.

£538,000 of acquisition costs were incurred in relation to these acquisitions. The acquired intangibles relate to customer relations, technology based assets and marketing based assets.

2014	Acquisitions		
	Book value £000	Fair value adj £000	Fair value £000
Non-current assets:	829	–	829
Intangibles	–	4,395	4,395
	829	4,395	5,224
Current assets:			
Inventories	283	–	283
Trade receivables	517	–	517
Cash	1,008	–	1,008
Total assets	2,637	4,395	7,032
Current liabilities:			
Trade payables	439	–	439
Deferred tax	–	739	739
Total liabilities	439	739	1,178
Total net assets	2,198	3,656	5,854
Goodwill	–	–	4,301
Total	–	–	10,155
Satisfied by			
Cash paid	–	–	10,055
Deferred consideration	–	–	100
	–	–	10,155
Cash outflow for acquired businesses in the Cash flow statements (page 124):			
Cash paid for businesses acquired in the period			10,055
Less cash acquired			(1,008)
Deferred consideration for businesses acquired in prior years			937
Net cash outflow			9,984

1 The acquisition of BioPure Technology Limited, a company specialising in the design and production of advanced single-use tubing connector systems for the Biopharmaceutical process industry, based in the UK, was completed on 6th January 2014. The acquisition method of accounting has been used. Consideration of £9,255,000 was paid on completion. Separately identified intangibles are recorded as part of the fair value adjustment. The goodwill recognised represents the skilled workforce acquired and the synergies that can be achieved by being part of the Spirax Group. 100% of voting rights were acquired. Goodwill arising is not expected to be tax deductible. BioPure Technology Limited has generated £4,885,000 of revenue and £1,654,000 of pre-tax profit since acquisition.

2 The acquisition of the UK Transvac thermocompressor business was completed on 22nd May 2014. The acquisition method of accounting has been used. Consideration of £800,000 was paid during the year with a further £100,000 being payable by the end of May 2015. The payment was dependent upon the delivery of the assets, designs and training. Separately identified intangibles are recorded as part of the fair value adjustment. The goodwill recognised represents the opportunity to sell a wider range of products to our existing customer base to fully utilise the Group's applications expertise to expand sales. Goodwill arising is expected to be tax deductible. The acquisition led to a product launch in February 2015 from which revenue and profit are anticipated.

£107,000 of acquisition costs were incurred in relation to these acquisitions. The acquired intangibles relate to customer relations, technology based assets and marketing based assets.

28 Derivatives and other financial instruments

The Group does not enter into significant derivative transactions. The Group's principal financial instruments comprise bank 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. These policies have remained fundamentally unchanged since the beginning of 2000.

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 and finance leases as appropriate.

Foreign currency risk

The Group has operations around the world and therefore its balance sheet 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:

	2015 Carrying value £000	**2015 Fair value £000**	2014 Carrying value £000	2014 Fair value £000
Financial assets				
Cash and cash equivalents	**99,835**	**99,835**	117,981	117,981
Bank deposits	**–**	**–**	24,437	24,437
Trade and other receivables	**162,468**	**162,468**	168,721	168,721
Total financial assets	**262,303**	**262,303**	311,139	311,139

	2015 Carrying value £000	**2015 Fair value £000**	2014 Carrying value £000	2014 Fair value £000
Financial liabilities				
Bank loans	**90,651**	**90,651**	88,637	88,637
Finance lease obligations	**450**	**451**	827	831
Bank overdrafts	**3,911**	**3,911**	461	461
Trade payables	**23,951**	**23,951**	27,670	27,670
Other payables	**27,532**	**27,532**	25,976	25,976
Total financial liabilities	**146,495**	**146,496**	143,571	143,575

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.

Notes to the consolidated Financial Statements *continued*

28 Derivatives and other financial instruments *continued*

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:

2015

	Total £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Financial liabilities on which no interest is paid £000
Euro	**13,803**	**214**	**302**	**13,287**
US dollar	**2,962**	**–**	**32**	**2,930**
Sterling	**93,342**	**422**	**85,758**	**7,162**
Other	**36,388**	**1,064**	**7,822**	**27,502**
Group total	**146,495**	**1,700**	**93,914**	**50,881**

2014

	Total £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Financial liabilities on which no interest is paid £000
Euro	16,173	–	461	15,712
US dollar	2,050	–	–	2,050
Sterling	90,763	795	82,000	7,968
Other	34,585	32	6,637	27,916
Group total	143,571	827	89,098	53,646

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	**2015 Carrying value £000**	2014 Carrying value £000
Unsecured bank facility	€	2.0%	2016	**13**	461
Unsecured bank facility	Won	2.6%	2016	**1,157**	2,625
Secured bank facility	Won	2.8%	2016–2017	**3,077**	–
Unsecured bank facility	YEN	1.2%	2016	**4,230**	4,012
Unsecured bank facility	£	1.5%	2015	**–**	15,000
Secured bank facility	£	1.4%	2016	**5,900**	–
Secured bank facility	£	1.1%	2015	**–**	20,000
Unsecured bank facility	€	1.3%	2016	**185**	–
Secured bank facility	£	1.0%	2017	**80,000**	47,000
Finance leases	S$	3.0%	2015–2019	**28**	32
Finance leases	£	–	2015–2017	**422**	795
Total outstanding loans				**95,012**	89,925

28 Derivatives and other financial instruments *continued*

The £80 million bank facility maturing in 2017 is 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 1.1% (2014: 1.2%).

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:

2015

	Total £000	Floating rate financial assets £000	Financial assets on which no interest is earned £000
Sterling	**11,609**	**1,989**	**9,620**
Euro	**64,015**	**22,044**	**41,971**
US dollar	**41,858**	**5,053**	**36,805**
RMB	**49,886**	**28,856**	**21,030**
Other	**94,935**	**24,492**	**70,443**
Group total	**262,303**	**82,434**	**179,869**

2014

	Total £000	Floating rate financial assets £000	Financial assets on which no interest is earned £000
Sterling	15,160	–	15,160
Euro	62,960	15,356	47,604
US dollar	27,749	3,128	24,621
RMB	93,738	72,360	21,378
Other	111,532	21,134	90,398
Group total	311,139	111,978	199,161

Financial assets on which no interest is earned comprise trade and other receivables and cash in hand.

Floating 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 (2014: nil).

Currency exposures

As explained above, 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 dealt with in the statement of total comprehensive income.

Transactional (or non-structural) exposures give rise to net currency gains and losses that are recognised in the income statement. Such exposures include the monetary assets and monetary liabilities in the Group balance sheet that are not denominated in the operating (or "functional") currency of the operating unit involved. At 31st December 2015 the currency exposures in respect of the euro was a net monetary asset of £2,337,000 (2014: £335,000 net monetary asset) and in respect of the US dollar a net monetary asset of £5,478,000 (2014: net monetary asset £422,000).

At 31st December 2015, the percentage of debt to net assets, excluding debt was nil (2014: 0.1%) for the euro and nil (2014: nil) for the US dollar.

Notes to the consolidated Financial Statements *continued*

28 Derivatives and other financial instruments *continued*

Maturity of financial liabilities

The Group's financial liabilities at 31st December mature in the following periods:

2015

	Trade and other payables £000	Overdrafts £000	Short-term borrowings £000	Finance leases £000	Long-term borrowings £000	Total £000
In six months or less, or on demand	**51,017**	**198**	**4,230**	**153**	**–**	**55,598**
In more than six months but no more than 12	**366**	**3,713**	**5,902**	**145**	**–**	**10,126**
In more than one year but no more than two	**100**	**–**	**–**	**142**	**80,607**	**80,849**
In more than two years but no more than three	**–**	**–**	**–**	**8**	**–**	**8**
In more than three years but no more than four	**–**	**–**	**–**	**2**	**–**	**2**
In more than four years but no more than five	**–**	**–**	**–**	**–**	**–**	**–**
In more than five years	**–**	**–**	**–**	**–**	**–**	**–**
Total contractual cash flows	**51,483**	**3,911**	**10,132**	**450**	**80,607**	**146,583**
Balance sheet values	**51,483**	**3,911**	**10,130**	**450**	**80,521**	**146,495**

2014

	Trade and other payables £000	Overdrafts £000	Short-term borrowings £000	Finance leases £000	Long-term borrowings £000	Total £000
In six months or less, or on demand	53,646	466	25,116	149	–	79,377
In more than six months but no more than 12	–	–	15,105	149	–	15,254
In more than one year but no more than two	–	–	–	8	1,082	1,090
In more than two years but no more than three	–	–	–	505	48,162	48,667
In more than three years but no more than four	–	–	–	8	–	8
In more than four years but no more than five	–	–	–	8	–	8
In more than five years	–	–	–	–	–	–
Total contractual cash flows	53,646	466	40,221	827	49,244	144,404
Balance sheet values	53,646	461	40,070	827	48,567	143,571

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 2015 the Group had contracts outstanding to purchase £7,304,000 and €2,438,000 with US dollars, £1,020,000 with Danish Krone, £13,134,000 with Euros and £706,000 with Japanese Yen. The fair values at the end of the reporting period were a liability of £245,000 (2014: £232,000 liability). 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 below, classified by maturity. The cash flows shown are on a gross basis and are not discounted.

2015

	Less than 6 months £000	6 to 12 months £000	More than 12 months £000	Total £000
(Sale)/purchase contracts:				
Sterling	**10,765**	**11,401**	**–**	**22,166**
Euro	**(5,828)**	**(5,513)**	**–**	**(11,341)**
US Dollar	**(4,147)**	**(4,957)**	**–**	**(9,104)**
Other	**(790)**	**(931)**	**–**	**(1,721)**
Total contractual cash flows	**–**	**–**	**–**	**–**

28 Derivatives and other financial instruments *continued*

It is anticipated that the cash flows will take place at the same time 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 loss on derivative financial instruments of £13,000 (2014: £232,000) was recognised in other comprehensive income during the period.

No amount (2014: £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 2015 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:

	2015 £000	2014 £000
Expiring in one year or less	**14,949**	24,009
Expiring in more than one year but no more than two years	**30,000**	–
Expiring in more than two years but no more than three years	**–**	64,644
Expiring in more than three years	**–**	–
Total Group undrawn committed facilities	**44,949**	88,653

Fair values of financial assets and financial liabilities

Fair values of financial assets and liabilities at 31st December 2015 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.

Notes to the consolidated Financial Statements *continued*

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 £95,012,000 (2014: £89,925,000). At 31st December 2015, it is estimated that a general increase of one percentage point in interest rates would increase the Group's profit after tax and equity by approximately £600,000 (2014: £50,000 reduction).

For the year ended 31st December 2015, 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 £1,500,000 (2014: £2,400,000). 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 2015 £000	Impairment 2015 £000	Gross 2014 £000	Impairment 2014 £000
Not past due date	**89,697**	**(165)**	108,348	(112)
0–30 days past due date	**30,233**	**(44)**	25,043	(102)
31–90 days past due date	**17,782**	**(293)**	13,047	(500)
91 days to one year past due date	**16,115**	**(1,243)**	12,096	(2,124)
More than one year	**8,570**	**(8,570)**	7,093	(7,093)
Group total	**162,397**	**(10,315)**	165,627	(9,931)

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 2015.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2015 £000	2014 £000
Balance at 1st January	**9,931**	9,011
Additional impairment	**1,747**	1,104
Amounts written off as uncollectable	**(940)**	(550)
Amounts recovered	**(370)**	(138)
Impairment losses reversed	**(410)**	(67)
Exchange differences	**357**	571
Balance at 31st December	**10,315**	9,931

Company Financial Statements

In this section

Company statement of financial position

at 31st December 2015

	Notes	2015 £000	2014 £000
Assets			
Non-current assets			
Property, plant and equipment	11	**8,297**	7,930
Loans to subsidiaries	3	**–**	37,500
Investment in subsidiaries	2	**216,702**	160,577
Investment in Associate		**1,399**	1,399
Deferred tax assets	6	**936**	936
Post-retirement benefits	7	**3,603**	2,596
		230,937	210,938
Current assets			
Due from subsidiaries		**148,260**	140,247
Other current assets	4	**4,213**	1,299
Associate held for sale		–	248
Cash and cash equivalents		**847**	78
		153,320	141,872
Total assets		**384,257**	352,810
Equity and liabilities			
Current liabilities			
Trade and other payables	5	**2,093**	2,084
Short-term borrowing	8	**5,900**	35,000
		7,993	37,084
Net current assets		**145,327**	104,788
Non-current liabilities			
Long-term borrowings	8	**80,000**	47,000
Deferred tax liabilities	6	**649**	519
Due to subsidiaries		**6,240**	9,695
		86,889	57,214
Total liabilities		**94,882**	94,298
Net assets		**289,375**	258,512
Equity			
Share capital	9	**19,718**	19,622
Share premium account		**69,703**	65,067
Other reserves	9	**6,304**	3,129
Retained earnings		**193,650**	170,694
Equity shareholders' funds		**289,375**	258,512
Total equity		**289,375**	258,512
Total equity and liabilities		**384,257**	352,810

These Financial Statements of Spirax-Sarco Engineering plc, company number 00596337 were approved by the Board of Directors and authorised for issue on 2nd March 2016 and signed on its behalf by:

N.J. Anderson **D.J. Meredith** Directors

Company statement of changes in equity

for the year ended 31st December 2015

	Share capital £000	Share premium account £000	Other reserves £000	Retained earnings £000	Total equity £000
Balance at 1st January 2015	**19,622**	**65,067**	**3,129**	**170,694**	**258,512**
Profit for the year	–	–	–	**161,523**	**161,523**
Other comprehensive (expense)/ income:					
Remeasurement gain on post-retirement benefits	–	–	–	**916**	**916**
Deferred tax on remeasurement gain on post-retirement benefits	–	–	–	**(165)**	**(165)**
Total other comprehensive income for the year	–	–	–	**751**	**751**
Total comprehensive income for the year	–	–	–	**162,274**	**162,274**
Contributions by and distributions to owners of the Company:					
Dividends paid	–	–	–	**(140,269)**	**(140,269)**
Equity settled share plans net of tax	–	–	–	**951**	**951**
Issue of share capital	**81**	**4,636**	–	–	**4,717**
Employee Benefit Trust shares	**15**	–	**1,872**	–	**1,887**
Investment in subsidiaries in relation to share options granted	–	–	**1,303**	–	**1,303**
Balance at 31st December 2015	**19,718**	**69,703**	**6,304**	**193,650**	**289,375**

for the year ended 31st December 2014

	Share capital £000	Share premium account £000	Other reserves £000	Retained earnings £000	Total equity £000
Balance at 1st January 2014	19,568	59,954	4,768	176,597	260,887
Profit for the year	–	–	–	39,492	39,492
Other comprehensive (expense)/ income					
Remeasurement gain on post-retirement benefits	–	–	–	406	406
Deferred tax on remeasurement gain on post-retirement benefits	–	–	–	(81)	(81)
Total other comprehensive income for the year	–	–	–	325	325
Total comprehensive income for the year	–	–	–	39,817	39,817
Contributions by and distributions to owners of the Company					
Dividends paid	–	–	–	(45,715)	(45,715)
Equity settled share plans net of tax	–	–	–	(5)	(5)
Issue of share capital	110	5,113	–	–	5,223
Employee Benefit Trust shares	(56)	–	(2,573)	–	(2,629)
Investment in subsidiaries in relation to share options granted	–	–	934	–	934
Balance at 31st December 2014	19,622	65,067	3,129	170,694	258,512

Other reserves represent the Company's share-based payments, capital redemption and Employee Benefit Trust reserves (see Note 9).

The loss before dividends received was £634,000 (2014: £5,420,000). Dividends from subsidiary undertakings of £162,157,000 (2014: £44,097,000) and dividends from Associate companies of £nil (2014: £815,000) are excluded from this amount.

Company statement of cash flows

for the year ended 31st December 2015

	2015 £000	2014 £000
Cash flows from operating activities		
Profit before taxation	**159,821**	41,318
Dividends received	**(162,157)**	(44,912)
Profit on sale of Associate	**(6,217)**	–
Equity settled share plans	**1,193**	(5)
Net finance expense	**385**	37
Operating cash flow before changes in working capital and provisions	**(6,975)**	(3,562)
Change in trade and other receivables	**(2,666)**	344
Change in amounts due from subsidiaries	**(6,738)**	10,244
Change in amounts due to subsidiaries	**(3,455)**	1,395
Change in provisions and post-retirement benefits	**(877)**	(608)
Change in trade and other payables	**9**	(150)
Cash generated from operations	**(20,702)**	7,663
Interest paid	**(940)**	(1,656)
Income taxes paid	**–**	–
Net cash from operating activities	**(21,642)**	6,007
Cash flows from investing activities		
Investment in subsidiaries	**(54,822)**	–
Acquisition of businesses	**–**	(399)
Interest received	**1,228**	1,520
Dividends received	**162,157**	44,912
Net cash used in investing activities	**108,563**	46,033
Cash flows from financing activities		
Proceeds from issue of share capital	**4,706**	5,223
Sale of Associate	**6,465**	–
Repayment of loan by Subsidiary	**39,046**	–
Employee Benefit Trust share purchase	**–**	(3,005)
Repaid borrowings	**(77,000)**	(7,000)
New borrowings	**80,900**	–
Dividends paid	**(140,269)**	(45,715)
Net cash used in financing activities	**(86,152)**	(50,497)
Net change in cash and cash equivalents	**769**	1,543
Net cash and cash equivalents at beginning of period	**78**	(1,465)
Net cash and cash equivalents at end of period	**847**	78
Borrowings and finance leases	**(85,900)**	(82,000)
Net debt at end of period	**(85,053)**	(81,922)

Notes to the Company Financial Statements

1 Accounting policies

The Company 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).

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.

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

	2015 £000	2014 £000
Cost:		
At 1st January	**160,577**	160,671
Share options issued to subsidiary company employees	**1,303**	934
New investment	**54,822**	–
Reclassifications during the year	**–**	(1,028)
At 31st December	**216,702**	160,577

Investments are stated at cost less provisions for any impairment in value.

Details relating to subsidiary undertakings are given on pages 174 to 175. Except where stated all classes of shares were 100% owned by the Group at 31st December 2015. 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 are in the fluid control business except Spirax-Sarco Investments Ltd, Spirax-Sarco Overseas Ltd, Spirax-Sarco America Ltd, Sarco International Corp, Watson-Marlow Bredel Holdings BV, Spirax-Sarco Engineering SLU, Spirax-Sarco Engineering BV, Spirax-Sarco Germany Holdings GmbH, Spirax-Sarco Netherlands Holdings Cooperative WA, Spirax-Sarco Investments BV, Spirax Sarco Energy Solutions LLC, Inversiones Spirax-Sarco Chile Ltd and Watson-Marlow Bredal Holdings II BV which are investment holding companies.

3 Loans to subsidiaries

	2015 £000	2014 £000
Cost:		
At 1st January	**37,500**	39,157
Repayment	**(37,500)**	(1,657)
At 31st December	**–**	37,500

Notes to the Company Financial Statements *continued*

4 Other current assets

	2015 £000	2014 £000
Other receivables	–	83
Prepayments and accrued income	**4,213**	1,216
Total current assets	**4,213**	1,299

5 Trade and other payables

	2015 £000	2014 £000
Accruals	**2,093**	2,084
Total trade and other payables	**2,093**	2,084

6 Deferred tax assets and liabilities

Movement in deferred tax during the year 2015

	1st January 2015 £000	Recognised in income £000	Recognised in OCI £000	Recognised in equity £000	31st December 2015 £000
Other temporary differences (asset)	**936**	–	–	–	**936**
Pensions (liability)	**(519)**	**35**	**(165)**	–	**(649)**
Company total	**417**	**35**	**(165)**	–	**287**

Movement in deferred tax during the year 2014

	1st January 2014 £000	Recognised in income £000	Recognised in OCI £000	Recognised in equity £000	31st December 2014 £000
Other temporary differences (asset)	936	–	–	–	936
Pensions (liability)	(428)	(10)	(81)	–	(519)
Company total	508	(10)	(81)	–	417

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 £105,000 (2014: £150,000).

The post-retirement mortality assumptions in respect of the Company Defined Benefit Scheme follows the SAPS light tables, with improvements based on the 2015 CMI Core Projections with a 1.5% long-term trend. This basis gives a life expectancy of 22 years and 25 years respectively for a male and female currently aged 65. These figures reflect the generally recognised trend of increased longevity. 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	
	2015	2014
Rate of increase in salaries	**3.5**	3.5
Rate of increase in pensions	**2.8**	2.9
Rate of price inflation	**3.0**	3.0
Discount rate	**3.8**	3.7

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:

	2015 £000	2014 £000
Equities	**19,431**	28,577
Bonds	**28,124**	25,954
Other	**4,148**	2,426
Total market value in aggregate	**51,703**	56,957

The actual return on plan assets was £0.8 million (2014: £5.4 million).

The amounts recognised in the Company statement of financial position are determined as follows:

	2015 £000	2014 £000
Fair value of scheme's assets	**51,703**	56,957
Present value of funded scheme's liabilities	**(48,100)**	(54,361)
Retirement benefit asset recognised in the statement of financial position	**3,603**	2,596
Related deferred tax	**(649)**	(519)
Net pension asset	**2,954**	2,077

The movements in the defined benefit obligation (DBO) recognised in the Statement of financial position during the year were:

	2015 £000	2014 £000
Defined benefit obligation at beginning of year	**(54,361)**	(51,639)
Current service cost	**(132)**	(171)
Interest cost	**(1,899)**	(2,271)
Contributions from members	**–**	(83)
Remeasurement gain/(loss)	**1,151**	(3,361)
Actual benefit payments	**6,177**	2,457
Experience (loss)/gain	**964**	707
Defined benefit obligation at end of year	**(48,100)**	(54,361)

Notes to the Company Financial Statements *continued*

7 Employee benefits *continued*

The movements in the fair value of plan assets during the year were:

	2015 £000	2014 £000
Value of assets at beginning of year	**56,957**	53,780
Expected return on assets	**1,996**	2,370
Remeasurement gain/(loss)	**(1,199)**	3,060
Contributions paid by employer	**126**	202
Contributions from members	**–**	2
Actual benefit payments	**(6,177)**	(2,457)
Value of assets at end of year	**51,703**	56,957

The estimated employer contributions to be made in 2016 are £113,000.

The history of experience adjustments is as follows:

	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000
Defined benefit obligation at end of year	**(48,100)**	(54,361)	(51,639)	(49,650)	(47,200)
Fair value of scheme's assets	**51,703**	56,957	53,780	49,594	44,745
Retirement benefit (liability) recognised in the balance sheet	**3,603**	2,596	2,141	(56)	(2,455)
Experience adjustment on scheme's liabilities	**964**	707	494	(6)	7,357
As a percentage of scheme's liabilities	**2.0%**	1.3%	1.0%	0.0%	15.6%
Experience adjustment on scheme's assets	**(1,199)**	3,060	2,705	2,250	(2,579)
As a percentage of scheme's assets	**2.3%**	5.4%	5.0%	4.5%	5.8%

The expense recognised in the Company income statement was as follows:

	2015 £000	2014 £000
Current service cost	**(132)**	(252)
Net interest on scheme's assets/(liabilities)	**97**	99
Total expense recognised in income statement	**(35)**	(153)

Statement of comprehensive income (OCI)

	2015 £000	2014 £000
Remeasurement effects recognised in OCI:		
Due to experience on DBO	**964**	(1,096)
Due to demographic assumption changes in DBO	**833**	1,803
Due to financial assumption changes in DBO	**318**	(3,361)
Return on assets	**(1,199)**	3,060
Total remeasurement gain recognised in OCI	**916**	406
Deferred tax on remeasurement amount recognised in OCI	**(165)**	(81)
Cumulative loss recognised in OCI at beginning of year	**(12,402)**	(12,727)
Cumulative loss recognised in OCI at end of year	**(11,651)**	(12,402)

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 set out above.

7 Employee benefits *continued*

Share Option Scheme

The equity settled share options issued to employees of the Company are charged in the Company's income statement. The relevant disclosures in respect of the share option scheme grants are set out below. No options have been granted since 2011.

	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	1	1	5
Shares under option	2,500	4,000	19,000
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
Fair value	1922.6p	1934.6p	2228.5p

The number and weighted average exercise prices of share options are as follows:

	Outstanding at start of year	**Granted during year**	**Exercised during year**	**Lapsed during year**	**Outstanding at end of year**
2008 grant (959.0p)	1,228	–	–	–	1,228
2009 grant (765.0p)	–	–	–	–	–
2010 grant (1366.0p)	4,000	–	–	–	4,000
2011 grant (1873.0p)	5,399	–	–	–	5,399
	10,627	**–**	**–**	**–**	**10,627**
Weighted average exercise price	£15.77				£15.77
Weighted average contractual life remaining					4.5 years

Performance conditions in respect of all exercisable shares have been met. The number of shares exercisable at 31st December 2015 is 10,627 (2014: 10,627).

Performance Share Plan

The relevant disclosures in respect of the Performance Share Plan grants are set out below.

	2011 Grant	2012 Grant	2013 Grant	2014 Grant	**2015 Grant**
Grant date	18th March	9th March	8th March	14th March	**11th June**
Mid market share price at grant date	1873.0p	2106.0p	2615.0p	2873.0p	**3460.0p**
Number of employees	5	9	12	11	**15**
Shares under scheme	78,588	84,230	69,174	61,154	**70,290**
Vesting period	3 years	3 years	3 years	3 years	**3 years**
Probability of vesting	69.2%	66.5%	62.5%	75.2%	**71.5%**
Fair value	1296.1p	1400.5p	1634.4p	2160.5p	**2473.9p**

Notes to the Company Financial Statements *continued*

8 Derivatives and other financial instruments

Interest rate risk profile of financial liabilities

The interest rate profile of the financial liabilities of the Company as at 31st December was as follows:

2015

	Total £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Financial liabilities on which no interest is paid £000
Sterling	**85,900**	**–**	**85,900**	**–**
Company total	**85,900**	**–**	**85,900**	**–**

2014

	Total £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Financial liabilities on which no interest is paid £000
Sterling	82,000	–	82,000	–
Company total	82,000	–	82,000	–

The benchmark rates for the floating rate financial liabilities are LIBOR.

Interest rate risk profile of financial assets

The interest rate profile of the financial assets of the Company as at 31st December was as follows:

2015

	Total £000	Floating rate financial assets £000	Financial assets on which no interest is earned £000
Sterling	**847**	**–**	**847**
Company total	**847**	**–**	**847**

2014

	Total £000	Floating rate financial assets £000	Financial assets on which no interest is earned £000
Sterling	161	–	161
Company total	161	–	161

Financial assets on which no interest is earned comprise trade and other receivables and cash at bank and in hand.

Floating rate financial assets comprise cash 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 (2014: nil).

8 Derivatives and other financial instruments *continued*

Maturity of financial liabilities

The Company's financial liabilities at 31st December mature in the following periods:

2015

	Trade and other payables £000	Overdrafts £000	Short-term borrowings £000	Finance leases £000	Long-term borrowings £000	Total £000
In six months or less, or on demand	–	–	–	–	–	–
In more than six months but no more than 12	–	–	5,902	–	–	5,902
In more than one year but no more than two	–	–	–	–	80,086	80,086
In more than two years but no more than three	–	–	–	–	–	–
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	–	–	5,902	–	80,086	85,988
Balance sheet values	–	–	5,900	–	80,000	85,900

2014

	Trade and other payables £000	Overdrafts £000	Short-term borrowings £000	Finance leases £000	Long-term borrowings £000	Total £000
In six months or less, or on demand	–	–	20,073	–	–	20,073
In more than six months but no more than 12	–	–	15,056	–	–	15,056
In more than one year but no more than two	–	–	–	–	–	–
In more than two years but no more than three	–	–	–	–	47,118	47,118
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	–	–	35,129	–	47,118	82,247
Balance sheet values	–	–	35,000	–	47,000	82,000

Borrowing facilities

The Company 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:

	2015 £000	2014 £000
Expiring in one year or less	9,100	10,000
Expiring in more than one year but no more than two years	30,000	–
Expiring in more than two years but no more than three years	–	63,000
Expiring in more than three years	–	–
Company undrawn committed facilities	39,100	73,000

Notes to the Company Financial Statements *continued*

9 Called up share capital and reserves

	2015 £000	2014 £000
Ordinary shares of $26\frac{12}{13}$p (2014: $25\frac{25}{26}$p) each		
Authorised 111,428,571 (2014: 115,555,590)	**30,000**	30,000
Allotted, called up and fully paid 73,238,371 (2014: 75,579,364)	**19,718**	19,622

On 15th June 2015 a share consolidation replaced every 28 Ordinary shares of $25\frac{25}{26}$p each with 27 new Ordinary shares of $26\frac{12}{13}$p each. The share consolidation ensured that following payment of the special dividend of 120.0p per share shareholders held the same proportion of the Company's total share capital.

302,204 shares with a nominal value of £81,000 were issued in connection with the Group's Employee Share Schemes for a consideration of £4,717,000 received by the Company.

At 31st December 2015 147,212 shares were held in an Employee Benefit Trust and available for use in connection with the Company's Employee Share Schemes.

15 senior employees of the Company have been granted options on Ordinary shares under the Share Option Scheme and Performance Share Plan (details in Note 6).

Other reserves in the Company statement of changes in equity on page 161 are made up as follows:

	1st January 2015 £000	Change in year £000	31st December 2015 £000
Share-based payments reserve	**7,667**	1,303	**8,970**
Capital redemption reserve	**1,832**	–	**1,832**
Employee Benefit Trust reserve	**(6,370)**	1,872	**(4,498)**
Total other reserves	**3,129**	**3,175**	**6,304**

10 Related party transactions

	2015 £000	2014 £000
Dividends received from subsidiaries	**162,157**	44,097
Dividends received from Associates	**–**	815
Loans and amounts due from subsidiaries at 31st December	**148,260**	177,747
Amounts due to subsidiaries at 31st December	**6,240**	9,695

11 Other information

Dividends

Dividends paid by the Company are disclosed in Note 10 of the consolidated Financial Statements.

Property, plant and equipment

The Company holds freehold property with a cost of £9,276,000 (2014: £8,781,000), accumulated depreciation of £979,000 (2014: £851,000) and a net book value of £8,297,000 (2014: £7,930,000).

Employees

The total number of employees of the Company at 31st December 2015 was 31 (2014: 29).

Directors' remuneration

The remuneration of the Directors of the Company is shown in the Directors' remuneration report on pages 86 to 108.

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 2015 (2014: £nil).

Consolidated financial summary 2006–2015

	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012† £000	2013 £000	2014 £000	2015 £000
Revenue	384,249	417,317	502,316	518,705	589,746	649,991	661,723	689,388	678,277	**667,214**
Operating profit	61,941	68,336	81,028	76,522	121,396	129,498	125,714	147,040	148,095	**142,809**
Operating profit* (adjusted)	62,291	68,720	85,669	89,938	119,125	133,960	136,245	151,626	152,950	**152,437**
Operating profit margin (adjusted)*	16.2%	16.5%	17.1%	17.3%	20.2%	20.6%	20.6%	22.0%	22.5%	**22.8%**
Profit before taxation	65,344	72,163	85,162	76,415	123,493	132,341	124,093	145,714	144,794	**139,657**
Profit before taxation* (adjusted)	65,694	72,796	90,146	90,196	121,613	137,169	134,948	151,056	151,118	**151,130**
Profit after taxation	44,066	49,190	59,788	53,091	86,654	93,238	87,642	102,320	100,573	**96,743**
Dividends in respect of the year	20,038	22,754	25,668	27,569	52,624	38,072	119,469	44,493	139,913	**50,530**
Net assets	199,722	242,965	296,006	307,364	379,524	400,120	436,549	403,534	441,878	**398,315**
Earnings per share (basic)	57.7p	64.7p	78.0p	69.6p	112.5p	120.0p	112.2p	133.4p	132.8p	**129.9p**
Earnings per share* (adjusted)	58.1p	65.5p	83.4p	82.2p	109.5p	124.8p	122.2p	138.8p	140.4p	**142.6p**
Dividends in respect of the year (per share)	26.5p	29.9p	33.3p	36.1p	43.0p	49.0p	53.0p	59.0p	64.5p	**69.0p**
Special dividend (per share)	–	–	–	–	25.0p	–	100.0p	–	120.0p	**–**
Return on capital employed (Note 24)	32.2%	33.6%	35.5%	33.3%	42.1%	41.1%	39.4%	44.4%	44.3%	**44.1%**

* Adjusted items exclude non-operating items (see Note 2 on page 130).

† The results for 2012 have been restated to reflect IAS 19(R), prior years have not been restated.

Revenue £m

Year	£m
2015	667.2
2014	678.3
2013	689.4
2012	661.7
2011	650.0
2010	589.7
2009	518.7
2008	502.3
2007	417.3
2006	384.2

Operating profit (adjusted)* £m

Year	£m
2015	152.4
2014	153.0
2013	151.6
2012	136.2
2011	134.0
2010	119.1
2009	89.9
2008	85.7
2007	68.7
2006	62.3

Earnings per share (adjusted)* p

Year	p
2015	142.6
2014	140.4
2013	138.8
2012	122.2†
2011	124.8
2010	109.5
2009	82.2
2008	83.4
2007	65.5
2006	58.1

Dividends per share p

Year	Special dividend	p
2015		69.0
2014	120.0	64.5
2013		59.0
2012	100.0	53.0
2011		49.0
2010	25.0	43.0
2009		36.1
2008		33.3
2007		29.9
2006		26.5

■ Special dividend

Our global operations

Steam specialties

EMEA

Belgium
Spirax-Sarco NV**

Czech Republic
Spirax Sarco spol sro**

Denmark
Spirax-Sarco Ltd (Branch)**

Egypt
Spirax Sarco Egypt**
Spirax Sarco Energy Solutions LLC** (H)

Finland
Spirax Oy**

France
Spirax Sarco SAS**

Germany
Spirax-Sarco GmbH**
HygroMatik GmbH**
Spirax-Sarco Germany Holdings GmbH** (H)

Ireland
Spirax-Sarco Ltd (Branch)**

Italy
Spirax Sarco Srl**
Colima Srl**

Middle East
Spirax Sarco Middle East Ltd**

Netherlands
Spirax-Sarco Engineering BV** (H)
Spirax-Sarco Investments BV** (H)
Spirax-Sarco Netherlands BV**
Spirax-Sarco Netherlands Holdings Coöperatieve WA** (H)

Norway
Spirax Sarco AS**

Poland
Spirax Sarco Sp Zoo**

Portugal
Spirax Sarco Equip Ind Lda**

Russia
Spirax-Sarco Engineering LLC**

South Africa
Spirax Sarco South Africa (Pty) Ltd**
Spirax Sarco Services South Africa (Pty) Ltd**

Spain
Spirax-Sarco SAU**
Spirax-Sarco Engineering SLU** (H)

Sweden
Spirax Sarco AB**

Switzerland
Spirax Sarco AG**

Turkey
Spirax Inter Valf Sanayi ve Ticaret Ltd Sirketi**

United Kingdom
Econotherm (39%)*
Spirax-Sarco Ltd*
Spirax-Sarco America Ltd** (H)
Spirax-Sarco Investments Ltd* (H)
Spirax-Sarco Overseas Ltd* (H)
V.C.E. Ltd**

Asia Pacific

Australia
Spirax-Sarco Pty Ltd**

China
Spirax Sarco Engineering (China) Ltd**
Spirax Sarco Trading (Shanghai) Co Ltd**

Hong Kong
Spirax Sarco Hong Kong Co Ltd**

India
Spirax-Sarco India Private Ltd**

Indonesia
PT Spirax-Sarco Indonesia*

Japan
Spirax-Sarco Ltd (Branch)**

Malaysia
Spirax Sarco Sdn Bhd**

New Zealand
Spirax Sarco Ltd**

Philippines
Spirax-Sarco Philippines Inc**

Singapore
Spirax-Sarco Pte Ltd**

South Korea
Spirax-Sarco Korea Ltd (97.5%)**

Taiwan
Spirax Sarco Co Ltd**

Thailand
Spirax Sarco (Thailand) Ltd**

Vietnam
Spirax Sarco Vietnam Co Ltd**

Americas

Argentina
Spirax Sarco SA**

Brazil
Spirax Sarco Ind e Com Ltda**

Canada
Spirax Sarco Canada Ltd**

Chile
Spirax-Sarco Chile Ltda**
Inversiones Spirax-Sarco Chile Ltda** (H)

Colombia
Spirax Sarco Colombia SAS**

Mexico
Spirax-Sarco Mexicana SAPI DE CV**

Peru
Spirax Sarco Peru SAC**

USA
Spirax Sarco Inc**
Sarco International Corp** (H)

Watson-Marlow Fluid Technology Group

Argentina
Watson-Marlow Argentina, operating via Spirax Sarco SA

Australia
Watson-Marlow Pty Ltd**

Austria
Watson-Marlow Austria GmbH**

Belgium
Watson-Marlow NV**

Brazil
Watson-Marlow Bredel Ind e Com de Bombas Ltda**

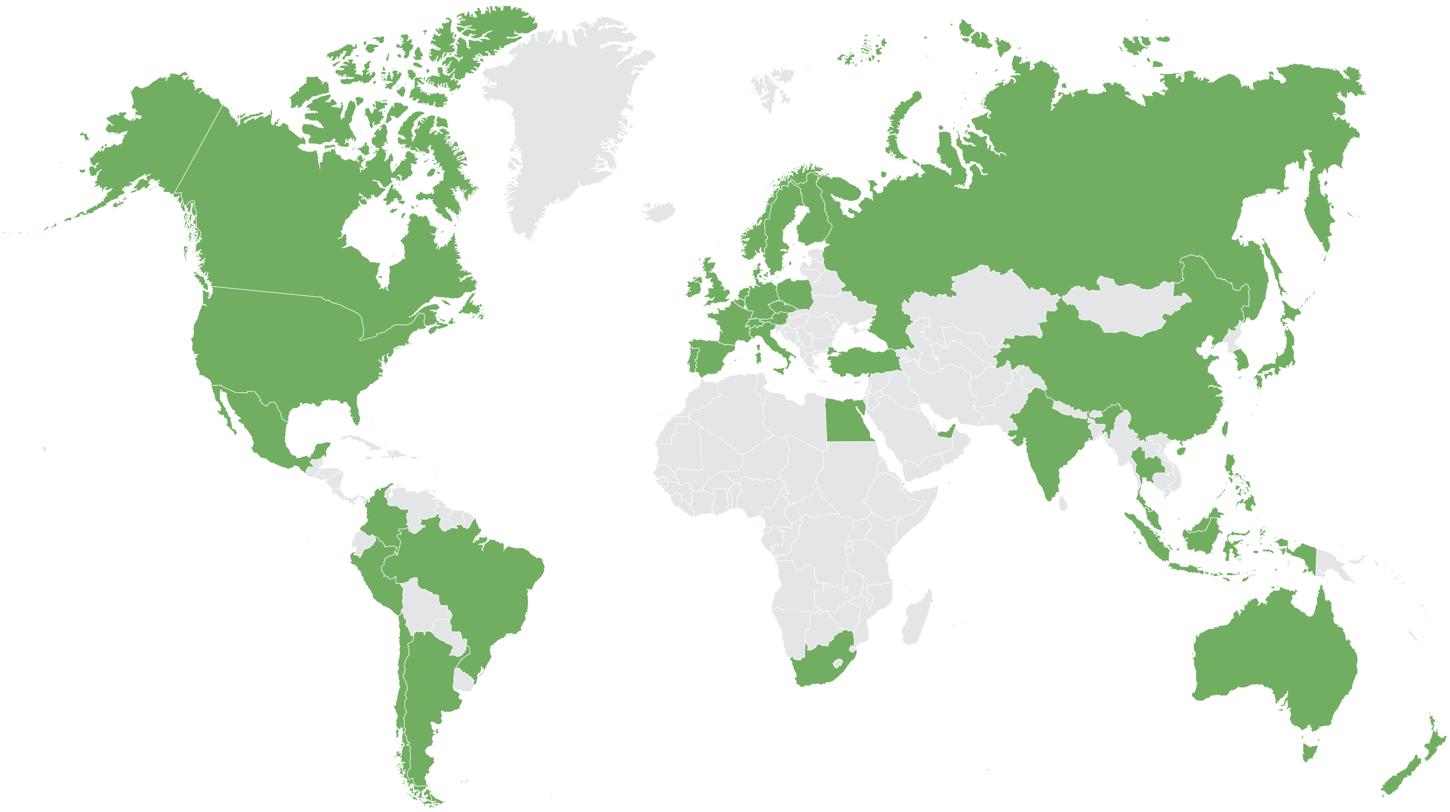
Chile
Watson-Marlow Bombas Chile Ltda**

China
Watson-Marlow China, operating via Spirax Sarco Engineering (China) Ltd

Denmark
Watson-Marlow Flexicon A/S**

France
Watson-Marlow SAS**

Germany
Watson-Marlow GmbH**



India
Watson-Marlow India Private Ltd**

Italy
Watson-Marlow Srl**

Japan
Watson-Marlow Co Ltd**

Malaysia
Watson-Marlow Malaysia, operating via Spirax-Sarco Sdn Bhd

Mexico
Watson-Marlow S de RL de CV**

Netherlands
Watson-Marlow Bredel BV**
Watson-Marlow Bredel Holdings BV** (H)
Watson-Marlow Bredel Holdings II BV** (H)
Watson-Marlow BV**

New Zealand
Watson-Marlow Ltd**

Poland
Watson-Marlow Sp Zoo**

Russia
Watson-Marlow Russia LLC**

Singapore
Watson-Marlow Pte Ltd**

South Africa
Watson-Marlow Bredel SA Pty Ltd**

South Korea
Watson-Marlow Korea, operating via Spirax-Sarco (Korea) Ltd

Sweden
W-M Alitea AB**

Switzerland
Watson-Marlow Ltd (Branch)**

Taiwan
Watson-Marlow Co Ltd**

United Kingdom
Watson-Marlow Ltd*
BioPure Technology Ltd**

USA
ASEPCO**
Watson-Marlow Flow Smart Inc**
Watson-Marlow Inc**

Dormant companies

United Kingdom
Gervase Instruments Ltd*
SARCO**
Sarco Thermostats**
Spirax Manufacturing Company Ltd**
Spirax-Sarco Europe Ltd*
Spirax-Sarco International Ltd*

Key
* Direct subsidiaries
** Indirect subsidiaries
(H) Holding companies

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.

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Baker & McKenzie LLP

Important dates

Annual General Meeting	10th May 2016

Final dividend**

Ordinary shares quoted ex-dividend	28th April 2016
Record date for final dividend	29th April 2016
Final dividend payable	27th May 2016

** Subject to shareholder approval at the AGM.

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Image: Alun Bartlett (Energy Manager) and Andrew Baddeley (Senior Sales Engineer, Spirax Sarco), Boiler House Plant Room at Musgrove Park Hospital, Somerset, UK

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