Outperforming our markets

Spirax-Sarco Engineering plc
Annual Report and Accounts 2014

About Spirax-Sarco Engineering plc

Outperforming our markets

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. We apply our unique industry expertise to our products to create bespoke engineering solutions for our customers around the world.

From the food and beverage industries to water treatment plants, we help our customers to implement environmentally friendly solutions for energy and water savings, process efficiency, product quality and improvements in plant health, safety and regulatory compliance.

We have a long history of delivering shareholder value and growth that outperforms our markets.

2014 key figures

Revenue £m KPI

	£m	organic growth %
2014	678.3	4
2013	689.4	4
2012	661.7	5
2011	650.0	9
2010	589.7	9

Return on capital employed* % KPI

* Based on adjusted operating profit.

2014	44.3
2013	44.4
2012	39.4
2011	41.1
2010	42.1

- Organic sales KPI increased by over 4%†
- Adjusted operating profit ahead in all segments at constant currency
- Operating margin up 50 bps, despite stiff currency headwind
- Strong result in Watson-Marlow
- £91 million return of capital, 120.0p per share special dividend

† Organic measures are at constant currency and exclude acquisitions

Adjusted operating profit £m KPI

	£m	margin %
2014	153.0	22.5
2013	151.6	22.0
2012	136.2	20.6
2011	134.0	20.6
2010	119.1	20.2

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

2014	5.4
2013	4.4
2012	5.5
2011	6.0

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

Our Group KPIs can be found in detail on pages 26–27

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Online Annual Report and Accounts

Our 2014 Annual Report and Accounts is available within the Investor Relations section of the Group's website: www.spiraxsarcoengineering.com
The online Annual Report and Accounts is fully searchable and downloadable.

Chairman's statement

"I am pleased to report further progress in 2014 in what remained a challenging economic environment and against considerable currency headwinds."

Bill Whiteley
Chairman

Key points in this section:

- Sales increased by 5% at constant currency to £678.3 million
- Unfavourable currency movements reduced sales on translation by 6.4%
- Operating profit increased by 12% at constant currency to £153.0 million
- Operating profit margin rose to a record 22.5%
- Increase in the total ordinary dividend of 9% to 64.5p per share and a special dividend of 120.0p per share

Performance

Sales increased by 5% at constant currency to £678.3 million, including a small contribution of nearly 1% from the acquisition of BioPure in January 2014. Unfavourable currency movements reduced sales on translation by 6.4% leaving reported sales down 2% compared with sales of £689.4 million in 2013. We achieved good organic sales growth in Watson-Marlow and in the Americas, with modest growth in Asia Pacific and Europe, Middle East and Africa (EMEA).

Operating profit increased by 12% at constant currency to £153.0 million, with a strong improvement in Watson-Marlow, good gains in the Americas and a further advance in EMEA and in Asia Pacific. At reported exchange rates, operating profit was ahead 1%, having been impacted by a negative currency impact of £15 million. The operating profit margin rose to a record 22.5% from 22.0%, despite the stiff currency headwind. Net finance costs increased and the contribution from our Associate company in India was 32% lower, giving an increase in pre-tax profit at constant exchange rates of 12% to £151.1 million; a small advance on the prior year reported pre-tax profit. Adjusted earnings per share rose by 1% to 140.4p (2013: 138.8p) and by 13% at constant currency.

We have today announced that the Group has established a wholly-owned company in India and that we expect to start direct sales in mid-2015. We have also sold the Group's 49.3% interest in Spirax Marshall Private Limited in India to our local partners, with both parties now free to trade under their own respective names, inside and outside India.

Cash and dividends

Cash inflow was again strong with good cash conversion and we finished the year with net cash of £52 million.

The interim dividend, which was paid in November 2014, was raised by 8% to 19.5p per share (2013: 18.0p per share). The Board is recommending an increase in the final dividend to 45.0p per share (2013: 41.0p) payable on 29th May 2015 to shareholders on the register at 1st May 2015. The total ordinary dividend for the year is therefore 64.5p per share, an increase of 9% over the 59.0p per share for the prior year.

Following a review of the Company's capital requirements and recognising the Group's significant cash generation capability, the Board is also recommending a return of capital to shareholders of £91 million by way of a special dividend of 120p per share in respect of 2014 (2013: nil). The dividend will be payable on 15th July 2015 to shareholders on the register at 12th June 2015. This return represents approximately 4% of the market capitalisation of the Company and the Board is recommending that this is combined with an appropriate share consolidation to maintain, as far as possible, the comparability of the share price before and after the special dividend.

A full review of our financial performance commences on page 30.

Employees

On behalf of the Board, I thank all our employees around the world for their dedication, hard work and individual contributions to these good results. Our people are our most valuable asset and it is through the application and skills of our employees, in our 70 operating units, that we achieve success for all key stakeholders in our business and the communities in which we work.

Governance and Board changes

In May 2014, the Board was pleased to announce the appointment of Jamie Pike as an independent Non-Executive Director and Senior Independent Director, bringing his broad industrial and international business experience to the Board. Jamie replaced Gareth Bullock who stepped down at the AGM in May 2014, having completed the nine-year maximum tenure for assured independence. The Board would like to thank Gareth for his significant contribution and thoughtful counsel over many years. In consequence of Mr Bullock stepping down, Dr Krishnamurthy Rajagopal took over as Chairman of the Remuneration Committee.

The Board continues to support the on-going improvements in corporate governance and reporting, and was pleased that the Group's 2013 Annual Report was recognised in the top ten for "Excellence in Reporting in the FTSE 250" at the Building Public Trust Awards. The Board is ultimately responsible for ensuring a successful and sustainable business, and operates to the highest level of ethical and corporate governance standards and best practices to achieve this. The work of the Board and its Committees is clearly set out in the

Annual Report (commencing on page 56), and follows a comprehensive explanation of our business model, the six elements of our business strategy, risk management and key performance indicators, and the linkage between these and with Executive Director remuneration.

Prospects

Our Spirax Sarco steam specialties and Watson-Marlow niche pumps and associated fluid technology businesses serve numerous different applications across a wide and diverse range of industries on a direct sales basis utilising the knowledge and experience of our 1,300 sales and service engineers. This direct sales approach, with an increasing sector focus, delivers genuine value to customers in the form of energy savings and emission reductions, water savings, productivity gains, quality improvements and solutions to difficult pumping and fluid control problems. Steam is used as the heat source in many industrial processes and a high proportion of sales come from customers' operating and maintenance spending. Our markets therefore reflect general economic conditions and in particular the rates of growth in industrial production. All these factors, together with the implementation of our growth strategy to pursue a relentless focus on customer service, market development, product development and excellence in manufacturing, mean that we are able to outperform our market growth, whilst retaining considerable resilience.

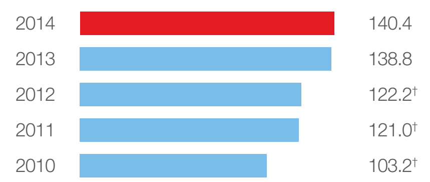
Overall, market conditions in 2014 were lacklustre, with industrial production growth slowing through the second half of the year in both developed and developing markets. We achieved good trading results in part due to a strong performance in Watson-Marlow, favourable mix and tight overhead controls. Our assumption is that, overall, the world economy will be no better in the current year than that seen in 2014. If recent exchange

Earnings per share* p

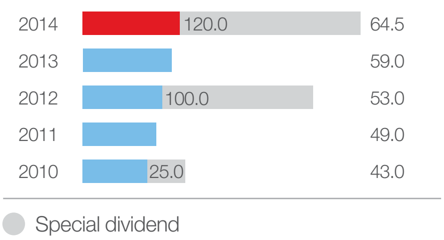
KPI

* Based on adjusted operating profit.

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



Dividend per share p



rates prevail for the full year, there would still be a small translation headwind to sales of 2% in 2015, as the impact of the weaker euro outweighs the benefits of the stronger dollar and related currencies. We are increasing investment and adding resources to develop the business as we execute our growth strategy, and focus on our priorities for generating our own growth and outperforming our markets. These factors, together with our fundamental strengths, give the Board confidence that we will achieve further progress in 2015.

Bill Whiteley
Chairman

4th March 2015

Unless otherwise stated, all references are to adjusted profit, which excludes certain non-operational items as set out in note 2 on page 120.

We confirm that to the best of our knowledge:

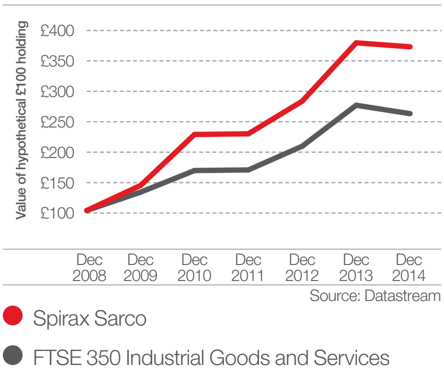
- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.
- The Annual Report and Accounts and Financial Statements for 2014, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.
- The Strategic report was approved by the Board on 4th March 2015.

Signed by:

Bill Whiteley
Chairman

on behalf of the Board of Directors
4th March 2015

TSR performance growth



How and where we operate

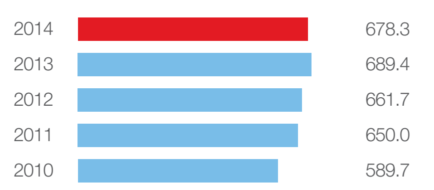
How we are organised

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

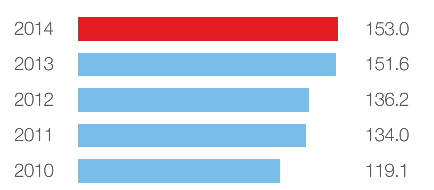
Spirax-Sarco Engineering plc

Our operational scale

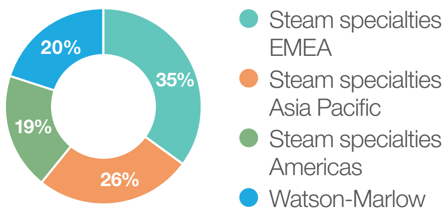
Revenue £m KPI



Adjusted operating profit £m KPI



Group revenue by key segment %

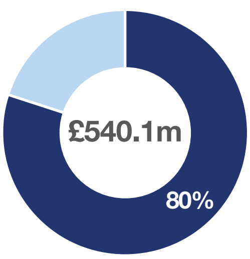


Read more on pages 08–09 and 30–45

spirax sarco
First for Steam Solutions

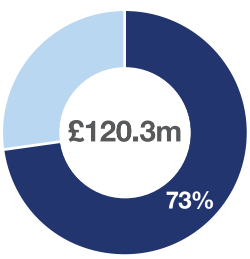
WATSON MARLOW
Fluid Technology Group

Revenue £m

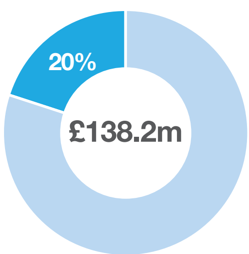


Adjusted operating profit* £m

* Before corporate expenses

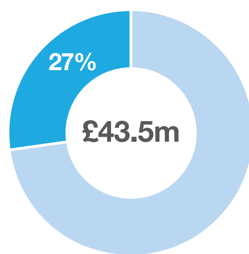


Revenue £m



Adjusted operating profit* £m

* Before corporate expenses



Read more on pages 30–45

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

Our diversified presence and portfolio

70 operating units* in 41 countries

Direct sales presence in 55 countries and on six continents†

* Operating companies, branches and associates.
† Global operations at time of publication, March 2015. (Operating units established in Egypt and Peru after 31st December 2014.)

Our core products and services

Steam products

Engineering consultancy

Pumps and fluid path technology

Key facts

4,750+ employees

3,500+ product lines

100,000+ customers

Our market segments

Our diverse range of customers, end markets and industrial applications help to insulate the Group from seasonal and cyclical demand.

Serving recession-resistant 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, recession-resistant end markets, including: foods, beverages, pharmaceuticals, healthcare, water treatment and power generation.

Significant maintenance and operations revenue

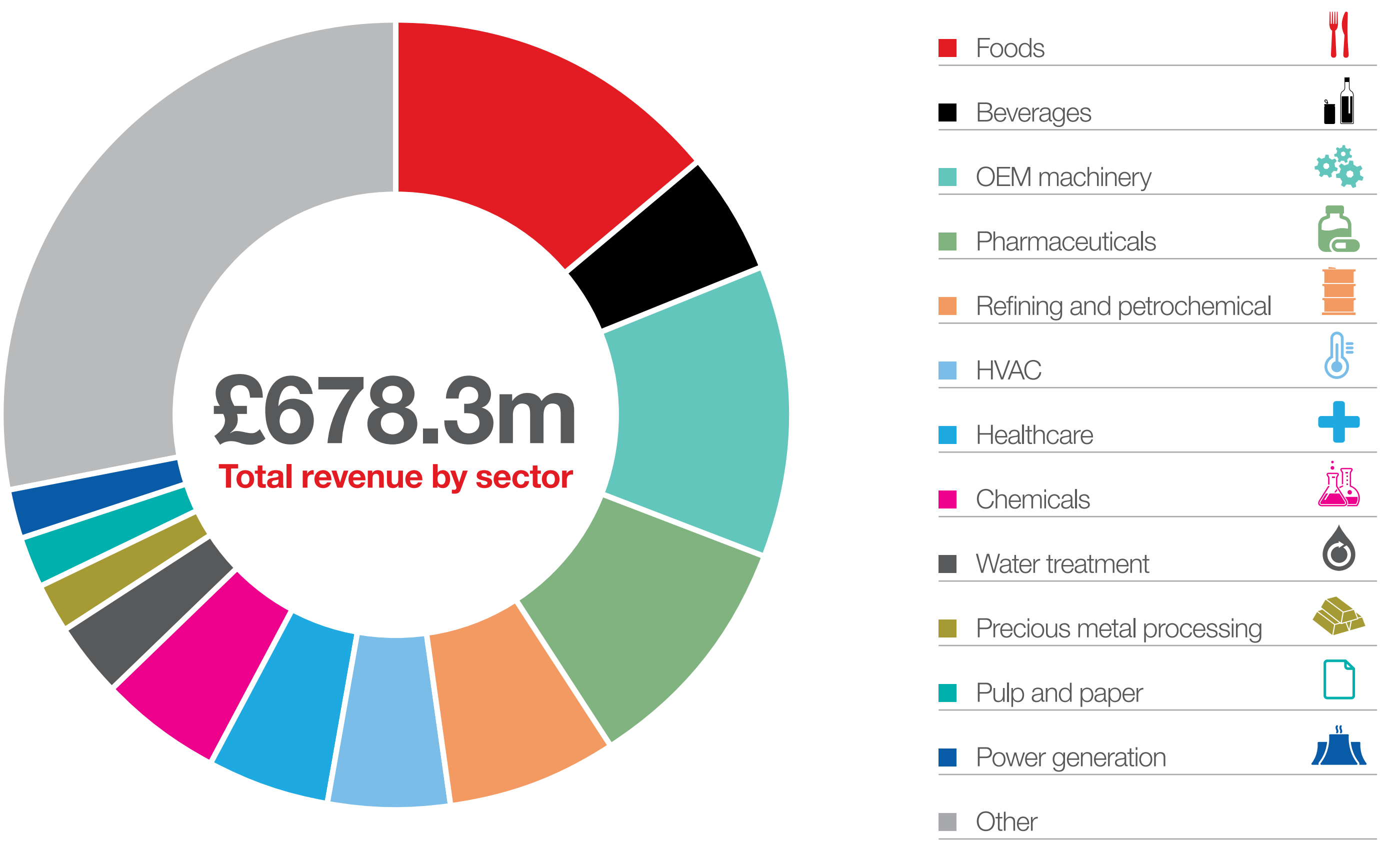
To maintain operational efficiency, production output and product quality, regular maintenance and operations spending is required by our customers.

> 85%*

of Group revenue is derived from our customers' annual maintenance and operational budgets, ensuring the resiliency of our business in times of difficult economic conditions.

* Based on Spirax Sarco internal estimates.

Revenue by key industry sector* %



Foods

Steam is widely used in the production of packaged foods for blanching, cooking, baking, packaging and sterilising.

Beverages

Steam is essential for brewing and distilling processes. It is used to protect product quality and flavour, and ensure compliance with industry standards.

OEM machinery

We work with manufacturers to optimise the performance of a diverse range of equipment, including mixers, reactors, paper and packaging machines, dryers, sterilisers and clinical diagnostic equipment.

Pharmaceuticals

Clean steam reduces the risk of product and process contamination, and our peristaltic pumps enable precise flow control and fluid isolation in the pharmaceutical industry.

Refining and petrochemical

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

HVAC

Our 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.

Healthcare

Our products have a wide range of applications in hospitals and clinics for space heating, hot water production, humidification and sterilisation.

Chemicals

Steam is widely used as an energy source in chemical production and product processing.

Water treatment

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

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.

Pulp and paper

Our 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 divisional structure and performance at a glance

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

spirax sarco
First for Steam Solutions

Our Spirax Sarco steam specialties business 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, installation, commissioning and maintenance. Our products and services help our customers 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

Europe, Middle East and Africa (EMEA)

		Change	Constant currency
Revenue	£236.2m	-3%	+2%
Operating profit	£45.9m	-5%	+4%
Operating margin	19.4%	-30 bps	+30 bps

Asia Pacific

		Change	Constant currency
Revenue	£177.7m	-3%	+2%
Operating profit	£46.4m	-3%	+4%
Operating margin	26.1%	-20 bps	+50 bps

Americas

		Change	Constant currency
Revenue	£126.2m	-4%	+8%
Operating profit	£28.0m	+7%	+31%
Operating margin	22.2%	+240 bps	+400 bps

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.

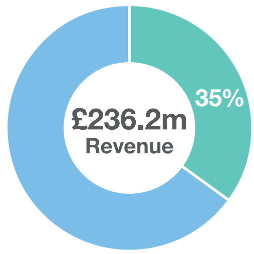
Our pumps are ideally suited for a wide variety of applications from biopharmaceutical processes that demand sterility and precision to highly corrosive slurries typically seen in precious metal processing. The Watson-Marlow Group comprises seven established brands, each with its own area of expertise,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

For more information visit:
www.watson-marlow.com

Watson-Marlow

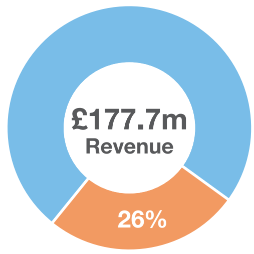
		Change	Constant currency
Revenue	£138.2m	+6%	+13%
Operating profit	£43.5m	+10%	+20%
Operating margin	31.5%	+120 bps	+190 bps

No. of operating units* at year end	24 operating units New operating company established in the Netherlands during 2014
Direct sales presence at year end	29 countries
Key industries	Foods; OEM machinery; Pharmaceuticals; Healthcare
Performance summary	Organic sales grew by 2%, despite challenging market conditions. Currency movements were unfavourable reducing sales on translation by 5%, with reported sales 3% down. Operating profit increased by 4% at constant currency, reflecting the sales increase, continued price management actions, favourable mix and control of costs. We made good progress in our larger more developed markets in Germany, Italy, Spain and the UK, growing overall sales and profit by more than the segment average.



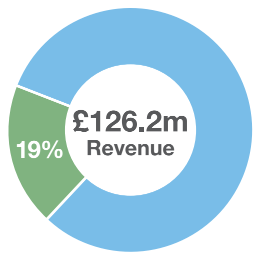
Read more on pages 32–33

No. of operating units* at year end	12 operating units
Direct sales presence at year end	15 countries
Key industries	HVAC; Foods; Beverages; Refining and petrochemical
Performance summary	Organic sales increased by 2% but at reported exchange rates sales reduced by 3% due to unfavourable currency movements. Economic conditions in the region have been mixed, with continued expansion in some smaller markets such as Indonesia and Malaysia but with overall industrial production growth slowing sharply in the second half year. In China, sales were flat and profit slightly lower at constant currency but sales increased and profits were well ahead in Korea.



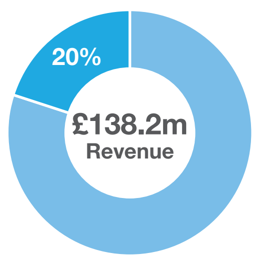
Read more on pages 34–35

No. of operating units* at year end	6 operating companies
Direct sales presence at year end	11 countries
Key industries	Foods; Refining and petrochemical; HVAC; Pharmaceuticals
Performance summary	Organic sales increased by 8% at constant currency, with sales ahead in North America and a good advance in Latin America. All currencies were weaker against sterling and reported sales show a 4% decline. Market conditions were positive in North America but very different in South America with overall negative industrial production. Operating profit increased by 31% at constant currency, an increase of 7% at reported exchange rates, and the profit margin improved to 22.2%.



Read more on pages 36–37

No. of operating units* at year end	26 operating units BioPure Technology Ltd acquired during 2014
Direct sales presence at year end	25 countries
Key industries	Pharmaceuticals; Foods; Water treatment; OEM machinery
Performance summary	Sales increased by nearly 13% at constant currency, including a contribution of 4% from the acquisition of BioPure, and were 6% ahead at reported exchange rates. Operating profit increased by 20% at constant currency and 10% at reported exchange rates, reflecting higher sales, a good first-time contribution from BioPure and unusually favourable product mix. Operating margin improved to a very strong 31.5%.



Read more on pages 38–39

* Operating companies, branches and associates.

Our products and markets

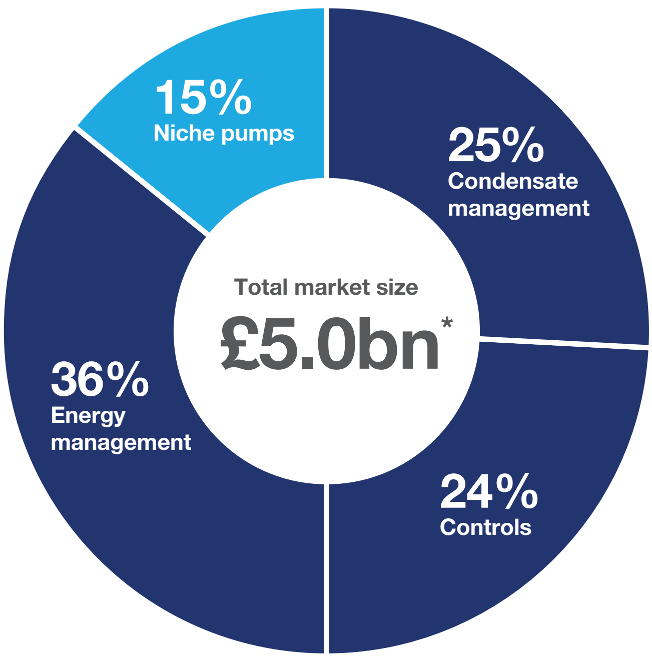
Through focusing on our strategy we are gaining share in a market that continues to grow.

Growing in a growing market

We currently estimate the total size of our addressable market to be £5.0 billion. Our addressable market continues to expand as a result of both internal and external growth drivers. External drivers, such as population growth and national economic development, contribute to general long-term market growth while internal drivers, such as new product development and acquisitions, allow us to extend the size of our addressable market.

Understanding our marketplace

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



Condensate management

Market size:
£1.2 billion

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

Our market share:
25%*

Controls

Market size:
£1.2 billion

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

Our market share:
11%*

Energy management

Market size:
£1.8 billion

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

Our market share:
5%*

Niche pumps
and associated equipment

Market size:
£0.8 billion

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

Our market share:
18%*

* Based on Spirax Sarco internal estimates.

External growth drivers

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 and 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 is 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.

Outperforming our markets

Our sales grew by 5% at constant currency during 2014 versus a global Industrial Production growth rate of 2.8%*

£5.0bn

Estimated size of our total addressable market

14%

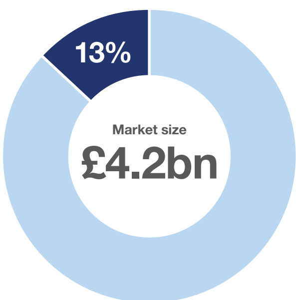
Our estimated global share of our total addressable market

*Source: CHR economics (latest estimate).

How we are increasing our market share

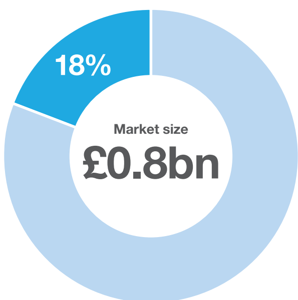
Increasing our market share is an essential element of our growth strategy. We gain market share through our ability to solve problems for our customers, which other suppliers cannot, and by winning new installations that then become the base for future revenue. As we focus on our new strategy for growth, we will further enhance our competitive edge and continue to take market share.

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

Outperforming our markets

Outperforming our markets by broadening our global presence and winning new customers

Clean steam sterilisation standards

HTM 2031
EN 285

Our new Spirax Sarco Middle Eastern company helps Saudi Arabian hospital achieve internationally recognised clean steam standards.

During 2014, Spirax Sarco was asked by a contractor to complete an audit and validation of the steam system of a Saudi Arabian hospital, with particular focus on the quality of the steam generated for sterilisation purposes within the hospital.

The thorough best practice survey identified several issues that had the potential to affect steam quality at the hospital, including poor quality boiler feed water, traditional steam boilers and carbon steel piping.

Following the survey, Spirax Sarco recommended the installation of a new clean steam system, designed to ensure maximum energy efficiency and compliance with international clean steam sterilisation standards HTM 2031 and EN 285. The hospital recognised the advantages of the proposed steam system and commissioned the manufacture and installation of a complete turnkey clean steam solution.

The new steam system includes a reverse osmosis water treatment system to ensure high quality boiler feed water; packaged water pre-heating and degassing units for optimum energy efficiency; packaged clean steam generators; high grade stainless steel piping; separators and air vents to optimise steam dryness and remove non-condensable gases; and all other associated steam and condensate equipment. The total value of the order to Spirax Sarco Middle East was £700,000.

Once designed, the packaged solution was built at our Spirax Sarco manufacturing facility in Milan, Italy and the steam system installation commenced during autumn 2014. Once the installation is complete, the hospital will produce clean steam of the highest quality.

Through broadening our global presence and expanding our direct sales presence in the Middle East via a new sales company, we have been able to win new customers and increase revenue, helping us achieve growth that outperforms our markets.

Outperforming our markets by expanding our offering

Energy bill reduction
£ per year

£760,000

CO_2 savings
tonnes per annum

1,340

Spirax Sarco Korea helps a customer to recover heat from hydrocarbon resin manufacturing process, reducing their annual energy bill by £760,000 per year.

The Yeosu plant of Kolon Industries Inc., in South Korea, specialises in the manufacture of hydrocarbon resins, which are used in a wide variety of applications including adhesive tape, printer ink, hygiene products and road markers. During a site survey, Spirax Sarco identified an opportunity for the customer to make significant energy savings by recovering latent heat from waste gases and using this to generate steam.

At the end of the hydrocarbon resin manufacturing process, high temperature solvent (270°c) is returned to a solvent/ resin separating drum. Spirax Sarco recommended the installation of a gas to hot water plate heat exchanger after the separating drum to recover waste heat from any non-condensable gases that remain after the solvent separation process.

Hot water is now fed into the plate heat exchanger and is raised above boiling temperature. The hot water is then used to generate 3.5 bar(g) steam at 148°C.

Through installing our packaged solution to recover latent heat from the waste gases, the customer has been able to generate 1.75 tonnes of steam per hour. The steam is then used on a separate process line, reducing the need for primary steam generation, giving an estimated cost saving of £760,000 per year. The project, which cost approximately £345,000, had a payback period for the customer of less than six months.

In addition to significant cost savings, the customer is projected to reduce energy consumption by 10,500MWh per year, with CO_2 savings of 1,340 tonnes per annum.

Through expanding our offering to include thermal energy management, we are increasingly able to offer our customers a more extensive range of solutions to reduce energy consumption and increase process efficiency. In doing so, we capture a greater proportion of the customer's capex spend and increase our installed product base, helping us achieve growth that outperforms our markets.

Outperforming our markets *continued*

Outperforming our markets by applying our expertise

Customer benefits:
Improved efficiency and product quality

Spirax Sarco Argentina helps a biodiesel manufacturer to increase steam system efficiency and improve product quality.

Viluco S.A., part of Grupo Lucci, has a soya crushing and biodiesel production plant in the northwest region of Argentina. Finding it difficult to maintain an optimum temperature throughout the production process, leading to product damage and wastage, Viluco asked Spirax Sarco to conduct a steam system audit to identify the cause of the problem and to recommend a solution to improve steam system efficiency, reliability and safety.

The audit identified several problems, notably: the 17 bar(g) boiler was working at just 11 bar(g); numerous pieces of equipment were operating above the steam pressure parameters recommended by manufacturers; condensate removal was poor; and heat recovery systems were being bypassed.

Applying their expertise to an understanding of plant processes, our engineers designed a solution to upgrade the customer's steam system. The solution began with the recommendation to increase the boiler's operation to 17 bar(g), for optimum steam generation capacity, and the replacement of the plant's ineffective pressure reducing station by a three-stage pressure reducing system, ensuring that installed equipment could operate within the parameters specified by the manufacturer. To optimise water and energy efficiency through better management of condensate, the solution included the installation of two Spirax Sarco Pivotrol® pumping packages; a separate condensate return line for each part of the plant; the fitting of six new steam trapping stations; and the installation of two packaged plate heat exchanger units to maximise energy recovery from flash steam, allowing the return of hot condensate to the boiler water feed tank. The solution also included the installation of various other ancillary products such as separators; five end of line air eliminator and vacuum breaker systems; and six non-condensable gas eliminations systems.

Following the steam system improvements, Viluco has reported that they are experiencing greater system efficiency and significantly higher production levels than previously achieved, with much less wastage. Viluco are so impressed with Spirax Sarco's solution that they are discussing the possibility of further work, including an on-going preventative maintenance contract and further energy efficiency improvements.

From an initial £4,100 (US$6,500) contract to complete a steam system audit, Spirax Sarco engineers applied their expertise to deliver a £309,000 (US$490,000) solution which significantly increased production capacity and process efficiency for the customer. Through offering our customers an unrivalled service through the application of our expertise, we develop strong, long-term relationships with our customers, helping us achieve growth that outperforms our markets.

Outperforming our markets by developing new products and taking market share

Customer benefits:

Reliable dosing, low maintenance and pulse-free flow

Qdos pumps from Watson-Marlow replace diaphragm pumps in electroplating application.

At its manufacturing facility near Düsseldorf, Germany, BIA Kunststoff- und Galvanotechnik operates four electroplating machines to produce more than 450,000 metal-plated plastic parts every day, for use in the automotive industry. Until recently the company used diaphragm pumps to dose process-critical additives into its electroplating machines. However, the diaphragm pumps failed to consistently provide the essential level of precision required when transporting and dosing the additives; needed frequent and costly maintenance and downtime as highly concentrated acids damaged pump components; and produced a flow with a high level of pulsation which negatively affected the quality of the substances being transported.

According to Mr Zabel, Maintenance Manager at the plant, the company had been looking for alternatives to diaphragm pumps for a long time and "struck gold" when introduced to Qdos pumps from Watson-Marlow. "In May 2013 we decided to test the new Qdos dosing pump," he said. "We were impressed with the results right from the start. Qdos provides 100% precision. Typically we transport volumes of 100ml/min; and when we set the Qdos to 100ml it transported precisely that amount, even along a route that was more than 50 metres long in places."

In contrast to diaphragm pumps, the Qdos pump also works without any accessories, such as seals or check valves, making installation easier, and operates with a pulse free flow. Further crucial advantages of the Qdos pump are the long maintenance intervals, short down times and low maintenance costs. The only wearing part in the pump is the patented ReNu pump head, which can be replaced as a complete part within a few minutes and does not require tools or any special training.

"We still haven't been able to see how easy it is to replace the pump head because we simply haven't needed to yet," said Mr Zabel. "We installed the first Qdos pumps in May 2013 and they haven't caused us any problems since, even though they are in constant use six days a week."

Qdos pumps from Watson-Marlow have now been installed in two of the four electroplating machines – making a current total of 12 pumps – with more certain to follow.

Through developing new products we are able to take market share from other pump types, helping us achieve growth that outperforms our markets.

Our business model

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

Creating value through meeting customer needs

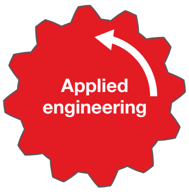
Meeting the needs of our customers by helping them to solve their difficult productivity and process challenges, improve their operational sustainability and comply with increasingly stringent health, safety and environmental requirements, is at the core of what we do. Our customers' needs are at the 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 engineering packages; arrange installation of our engineered solutions; and help our customers to maintain and replace our installed equipment to ensure optimum efficiency in their industrial systems.

Competitive strengths

Customer closeness

The expertise of our sales and service engineers and their ability to help our customers solve difficult productivity, control and energy efficiency problems enable us to build deep, long-term relationships that are central to assisting our customers to achieve operational 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 engineering solutions to achieve enhanced and sustainable operating efficiencies.

Wide product range

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

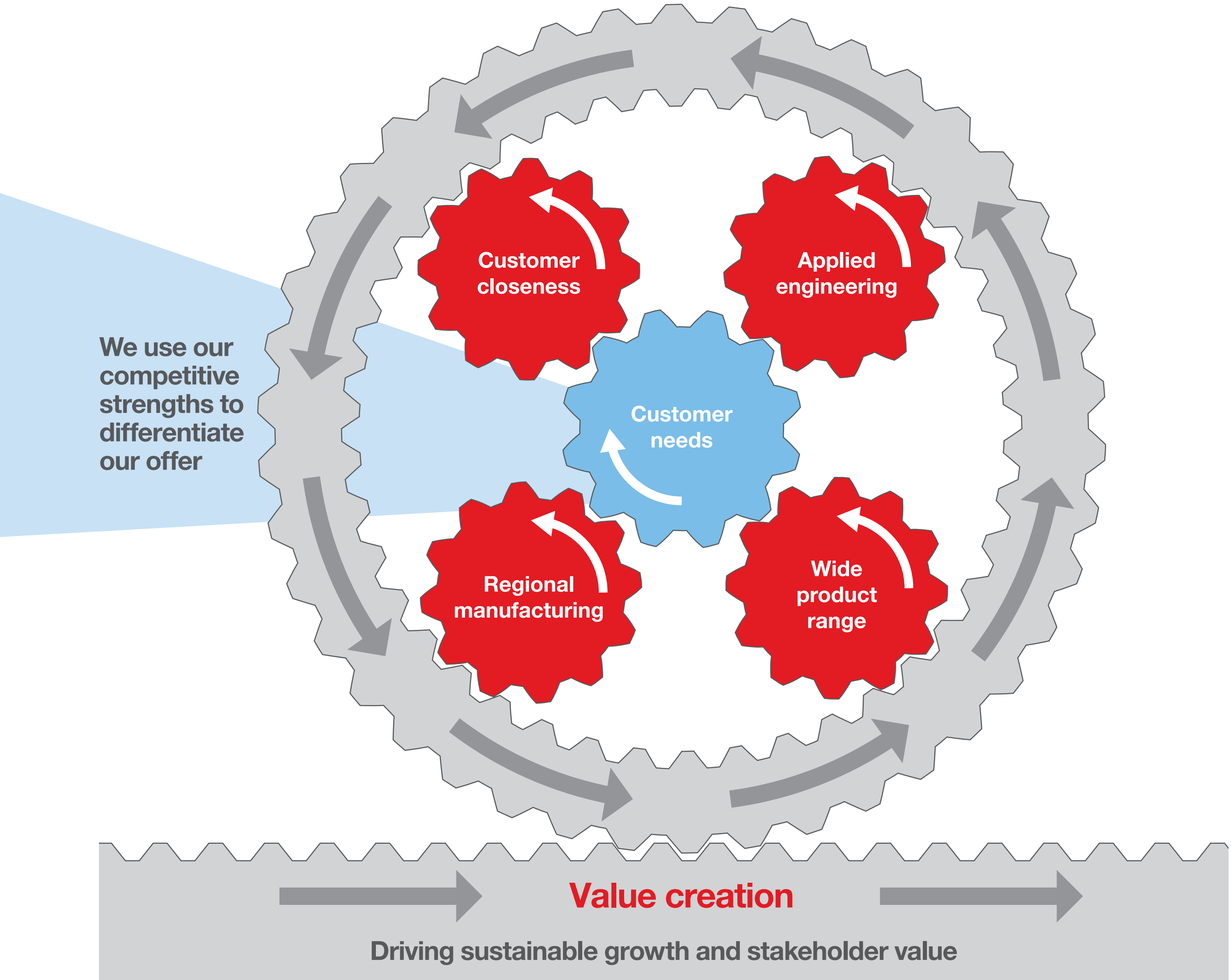
Regional manufacturing

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

How we maximise value

We maximise value by focusing on our new strategy for growth.

Read more on pages 18–25



Key beneficiaries of our value creation during 2014

Suppliers

Over **£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 customers 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

£187,000 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

Over **£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

£46 million paid as dividends to shareholders during 2014.

Dividends per share of **64.5p**.

Earnings per share of **140.4p**.

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 75–97

Our strategy

Our revised strategy outlines six key strategic priorities for the Group. We believe that focusing on these priorities will help us to continue to achieve growth that outperforms our markets.

"Our strategy is focused on delivering self-generated growth that outperforms our markets."

Nick Anderson
Group Chief Executive

Our six-part Group strategy

1	Increase direct sales effectiveness through sector focus	**Read more on page 20**
2	Develop the knowledge and skills of our expert sales and service teams	**Read more on page 21**
3	Broaden our global presence	**Read more on page 22**
4	Leverage R&D investments	**Read more on page 23**
5	Optimise supply chain effectiveness	**Read more on page 24**
6	Operate sustainably and help improve our customers' sustainability	**Read more on page 25**

During the first half of 2014 we undertook an extensive strategic review, as a result of which we have refined and evolved a more customer-centric strategy. The objectives of the strategy are 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. This strategy builds on the foundation of our robust, direct sales business model that has proved resilient through the business cycle.

The Group strategy reflects the key elements of the Spirax Sarco steam business strategy, the Watson-Marlow niche peristaltic pumps and associated fluid path technology business strategy, and the Group acquisition strategy, which are summarised on the following page. The Group strategy is outlined on pages 20 to 25, including an explanation of why we are focusing on each element of the strategy, how we are implementing it, results to date and next steps.

Spirax Sarco steam specialties business strategy

During 2014 we completed an extensive strategic review in the steam specialties business, with participation by over 300 employees from 38 operating companies, across all divisions. Nearly 200 "voice of the customer" interviews were conducted, with customers chosen from all key geographical markets and industries, to ensure that the needs of the customer remained central to the development of the new strategy.

The purpose of the newly developed "Customer first" strategy is to ensure the on-going and future success of the steam specialties business through increasing alignment throughout the organisation and providing a clearer customer focus and a better defined offer which will enable us to more effectively address the extended steam and thermal energy management market. We believe that by putting the needs of the customer first and focusing on our value propositions to them we will find opportunities to grow the business and outperform our competitors.

The Spirax Sarco vision is "to be recognised by customers as the world leader in steam and thermal energy solutions". While maintaining our pre-eminence in steam specialties, we will increase our expertise and offerings in the field of thermal energy management solutions. We will help steam users to implement improvements in the control, re-use, recovery and storage of thermal energy in steam, utilities and related waste streams. Such solutions will help our customers to manage energy more efficiently, cut costs and increase their environmental sustainability. While we already offer thermal energy management solutions, we will continue to invest in product development and furthering the knowledge and skills of our engineers to ensure that we can more effectively address this growing market.

We have identified several highly attractive industries that we believe have the potential to provide the greatest return on investment. While we will continue to serve a diverse range of industries, the priority industries will increasingly become the focus of Group investments.

We will continue to implement improvements to achieve global excellence in our supply chain and will further develop the knowledge and skills of our employees, ensuring that we can consistently outperform our competitors and offer outstanding service to our customers.

Watson-Marlow Fluid Technology Group strategy

Watson-Marlow has moved beyond its traditional peristaltic pump business through selective product and market sector diversification, highlighted by the additions of MasoSine (sinusoidal pumps), Flexicon (filling systems and associated equipment), BioPure (aseptic tubing connection systems), and non-pump transfer tubing development. Our Watson-Marlow direct sales companies employ a market sectorised approach to successfully leverage these new and associated products and to grow sales of our peristaltic pumps.

Our strategy for growth has five key elements:

Rapid geographical expansion
We will expand our global direct sales presence, increasing our focus on emerging markets. Our dedicated direct sales teams drive deeper market penetration than can be achieved using third-party distributors and we develop a better understanding of customer needs, generating faster sales growth and a higher market share.

Market sector sales focus
We will continue to develop our focused market sector approach through our direct sales operations, to drive organic sales growth. We will increasingly sectorise our sales teams to address our key industry sectors: biopharmaceutical, industrial, environmental, mining, food & beverage and OEM.

Accelerate development of breakthrough new products
We will grow the performance envelope of peristaltic pumps to gain market share against other positive displacement pump types, while investing in new product development to expand market sector penetration. Continual development of our product range will also focus on value engineering and cost reduction.

Excellence in manufacturing
We will strengthen our Make-to-Order/ Fast Fulfilment Cycle strategy, to improve delivery times and reduce costs. We will train our people in business improvement techniques and introduce automated IT solutions for repetitive administrative tasks and automated engineering solutions for high volume production activities.

Selective product and market sector diversification
We will selectively seek synergistic value-added niche pump and associated fluid path equipment acquisitions that will allow us to leverage sales of existing and new products through our direct market sector strategy.

Group acquisition strategy

The aim of the Group acquisition strategy is to create significant shareholder value. We will do this by supplementing the organic growth of the Group; expanding the capabilities of our steam specialties and niche peristaltic pumping and associated fluid path technology businesses, through new technologies, skills or geographic coverage; and increasing our addressable market into adjacent related sectors.

Acquisition targets are likely to have most of the following characteristics:

- benefit from a direct sales business model (giving us a strong value add)
- sell to our core target industries
- the potential for geographic growth or technology expansion
- provide products or services where there is a high cost of non-performance to the customer
- the ability to achieve market leadership
- strong maintenance and repair orders
- be non-diluting to Group margins.

We have dedicated acquisition personnel within our Group Business Development function, who work closely with the Group's executive team to ensure that an effective due diligence process is followed, so that all prospective acquisitions are appraised, risk assessed and appropriately valued.

For all significant acquisitions, we ask our Corporate Advisers to provide an independent view and recommendation to the Board. Once Board approval for an acquisition has been gained, an Executive Director is assigned to act as a sponsor for the acquisition and has overall responsibility for the delivery of the acquisition objectives. Sponsors ensure that the acquisition is properly planned, resourced and executed.

Once acquired, we develop businesses by adding value through the application of the direct sales model; facilitating the internationalisation of businesses which are not yet global; and supporting growth through further investment.

Our strategy in action

In this section we outline our strategic priorities and demonstrate how we are implementing them across the Group.

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 are 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 foods, beverages, healthcare and refining & petrochemicals, 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.

Results to date

This is a new strategic priority for the Group, officially launched at the start of Q3 2014. Our General Managers are currently implementing the required changes within our operating companies which will increase the sectorisation of our sales forces. Where sales force sectorisation has already been implemented, such as in our Watson-Marlow companies and in Spirax Sarco Inc., USA, we have seen the effectiveness of our direct sales model increase as our customers experience outstanding service and benefit from our heightened expertise.

Next steps

We will continue to increase our focus on our key industries through implementing the structural changes needed to align our sales forces more closely with our priority areas. Furthermore, we will focus our R&D investments into developing products to allow us to more effectively address our identified industries.

Lorraine Wiseman
President of Spirax Sarco Inc. (USA)

In practice

Spirax Sarco Inc., USA (SSI) recently began a comprehensive reorganisation of its sales force to directly align with industry segments. We are focusing our talent development, recruitment and resource allocation around several key industries and tailoring our market development plans to focus on specific types of customers and customer needs. The sectorisation of our sales force is beginning to deliver results. PepsiCo recently recognised SSI as a "Supplier of the Year" due to our knowledge and understanding of their systems and our ability to improve their processes. Through sectorising our sales force we will be better able to meet the needs of customers and position the Company to deliver growth.

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 customers' 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 45 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.

Results to date

We have 1,300 sales and service engineers located worldwide, who are widely recognised by our customers as offering unrivalled expertise. During 2014 we opened new training centres in Turkey and Indonesia, and refurbished our training centre in Tokyo, Japan. We also added 36 new training courses to our e-library and increased the average number of training days per customer facing employee. (For more information see page 49.)

Next steps

During 2015, two new training centres, currently under construction, will be opened in Malaysia and the Philippines and two of our existing training centres, in Singapore and Argentina, will undergo refurbishment. During 2016, a new training centre will be opened in France. We plan to add a further 30 courses to our e-library during 2015 and will continue to invest in developing the knowledge and skills of our people.

Spirax Sarco
South Korea Training Centre

In practice

Map key

● Training centres

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.

Results to date

During the last five years we have opened a total of 15 new territories for direct sales for the Spirax Sarco steam specialties business or Watson-Marlow, including establishing Spirax Sarco sales offices in Peru and Panama and Watson-Marlow companies in India, Austria and Malaysia.

Next steps

We will continue to identify geographical markets that provide opportunities for us to expand our global presence. In particular we are looking to establish a greater direct sales presence in areas of Africa and hope to establish a Spirax Sarco direct sales presence in three additional African countries during 2015.

Martin Johnston
Sales and Marketing Director, Asia Pacific, Watson-Marlow Fluid Technology Group

In practice

Watson-Marlow recently established an operating company in Singapore to create a regional hub in Southeast Asia. Spirax Sarco's local infrastructure was used; notably premises, logistics, warehousing and computer systems, and the Company was established as a legal entity via Spirax Sarco. The business has grown rapidly as we have won market share by demonstrating the benefits of our pumps over alternatives such as air operated diaphragm, progressive cavity, piston, lobe, and gear pumps. Our sales force has been sectorised by industry within the country, allowing us to deliver high quality, specialised technical support to customers, build relationships and ultimately maximise sales.

4 Leverage 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 significantly 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.

Results to date

Spirax Sarco has extended product capabilities and also responded to our customers' needs for more real-time data about their steam systems by expanding our range of monitoring products and increasing electro-mechanical, electronic and software specialist skills. Within Watson-Marlow, a focus on accelerating new product development has increased new product launches year-on-year.

Next steps

We will increasingly focus on supporting our local operating companies to build their capability to sell our expanded range of products, to ensure that our new products build traction in the marketplace, and will implement a more sector specific approach to R&D. Within Watson-Marlow, all aspects of the product development process will be reviewed and aligned throughout the Group, from idea creation to product launch, to facilitate the flow of ideas and techniques more readily across the business.

Richard Green
Group Product Manager, Watson-Marlow Fluid Technology Group

In practice

Central to Watson-Marlow's strategy for growth is developing breakthrough products that will grow sales and market share against other positive displacement pump types. The Qdos product range was developed in Falmouth, UK to target diaphragm metering pumps in chemical metering applications in the water, wastewater and industrial process sectors. The Qdos 30 pump was launched in September 2012 and we extended the range with the larger Qdos 60 pump in 2014. Since its introduction the Qdos product range has increased our addressable market by £150 million and in the short time since launch Watson-Marlow's overall cased pump sales have increased by approximately 23%.

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 major 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, to identify inefficiencies, ensure that best practice is shared and to better align our manufacturing and sales organisations.

Results to date

During the second half of 2014 plans were established to roll out the lessons learned from the EMEA stock optimisation review to the rest of the steam specialties business. By the end of 2014, a further 10 operating companies joined the programme and started to implement changes to their stock holdings.

Next steps

Supply chain optimisation remains a focus for the Group, driving continuous service and efficiency improvements in both our manufacturing and sales operations. We will continue to roll out the stock optimisation programme across the Group. As targets are reached, further opportunities across the supply chain will be identified, ensuring that we consistently deliver the highest possible levels of service to our customers.

Ian Farnworth
Group Supply Chain Director

In practice

A focus on delivering higher standards of customer service recently led to a stock optimisation review throughout the EMEA division. The review identified optimum stock levels and established a process for measuring the relationship between customer service and stock management. Each operating company appointed a stock optimisation "champion" and using cross-functional teams these champions have helped to deliver stock holdings that are more aligned with customer requirements. As a result of the stock optimisation review, the EMEA division recorded a 650 bps improvement in service measures during 2014.

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 environment, our customers, our communities and our supply chain. Through setting strategic objectives in each of these areas we are continuously improving our sustainability and the sustainability of our customers' processes and operations.

Results to date

During 2014 we commenced a Group sustainability review, completed a materiality assessment of sustainability topics and redefined our key sustainability objectives. We also achieved a 2% reduction in our CO_2e intensity to 50.8 tonnes per £m of inflation adjusted turnover, at constant currency (2013: 51.8) and maintained our inclusion in the FTSE4Good Sustainability Index.

Next steps

The strategic review will continue during 2015. Sustainability champions will establish cross-functional teams to identify the next steps to take to further enhance our performance and improve data collection and reporting for each of the Group's sustainability objectives. We will continue to invest management time into driving our Group sustainability agenda and will seek to further engage employees, across the Group, to ensure that they understand and reflect our commitment to sustainability.

Mark Wyatt
Group Environment, Health and Safety (EHS) Executive

In practice

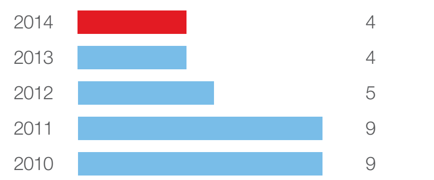
A core component of our sustainability agenda is to ensure the health and safety of our employees, contractors and visitors. Spirax Sarco Inc., USA, has implemented a Behavioural Based Safety (BBS) programme. Following the tremendous success of that programme we have begun to roll it out across our manufacturing organisations. This year we established a mentoring system to guide our companies in implementing BBS, launched a new incident investigation process, and established two-weekly health and safety review meetings between all our manufacturing organisations.

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.

1. Revenue growth % organic

KPI



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 18–25)
1 2 3 4 5 6

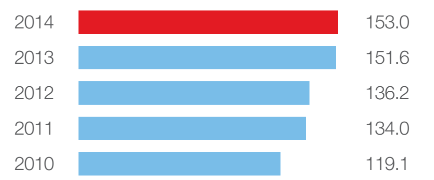
Direct link Indirect link

Progress in 2014
Organic sales increased by over 4%. Growth was strongest in Watson-Marlow, with all geographic regions ahead. In the steam specialties business, the Americas saw good overall organic sales growth and sales were modestly ahead in EMEA and 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.

2. Adjusted operating profit* £m

KPI



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 18–25)
1 2 3 4 5 6

Direct link Indirect link

Progress in 2014
Adjusted operating profit increased by 12% at constant currency. Watson-Marlow had a very strong year and there were operating profit increases at constant currency in each of the steam specialties segments in the Americas, Asia Pacific and EMEA.

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.

3. Operating profit margin* %

KPI

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

Link to strategy (pages 18–25)
1 2 3 4 5 6

Direct link Indirect link

Progress in 2014
Operating profit margin was very good, rising to a record 22.5% from 22.0%, despite the stiff currency headwind. We benefited from continued price management actions, improvements in our internal supply chain, broadly flat raw material costs and generally favourable business and product mix.

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.

* Based on adjusted operating profit. Adjusted operating profit excludes certain non-operational items as set out in note 2 on page 120.

4. Return on capital employed (ROCE)* %

KPI

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 18–25)

1 2 3 4 5 6

Direct link Indirect link

Progress in 2014

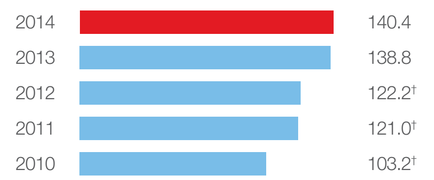
Following the marked improvement in 2013, the overall return on capital employed was broadly unchanged at 44.3% (2013: 44.4%) as a result of unfavourable currency movements which masked an underlying improvement in ROCE.

Link to remuneration

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

5. Basic earnings per share (EPS)* p

KPI



Definition

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

Link to strategy (pages 18–25)

1 2 3 4 5 6

Direct link Indirect link

Progress in 2014

Basic adjusted earnings per share increased by 13% at constant currency to 140.4p, including a small benefit from the reduction in the average number of shares in issue, due to the full-year effect of the share consolidation in mid-2013.

Link to remuneration

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

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

KPI

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 18–25)

1 2 3 4 5 6

Direct link Indirect link No link

Progress in 2014

Our accident rate increased slightly to 5.4 accidents per 1,000 employees. During the latter half of 2014 we made significant changes to the way we manage H&S across the Group. As a result of these improvements, our accident rate was significantly lower during the second half of the year.

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.

* Based on adjusted operating profit.

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

Risks and risk management

> "In 2014 we undertook a comprehensive risk review and present our updated findings in this report."

Nick Anderson
Chairman, Risk Management Committee

Board | **Audit Committee**

Reports to | Works with

Risk Management Committee

Oversees risk management processes and procedures and monitors mitigating actions put in place by the Group

Top down review

External risk review

Carried out at regular intervals

Risk assurance

Internal audit and external auditor

Group-wide risk register

Maintained and reviewed by the Committee

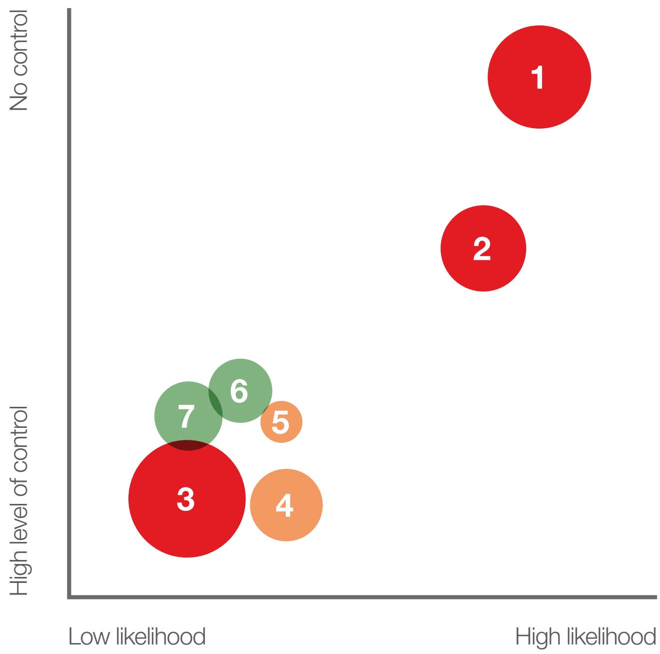
Bottom up review

Group operating companies

A more detailed overview of the role, responsibilities and actions of the Risk Management Committee in 2014 can be found on pages 72–74 of our Governance report

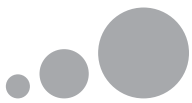
Risk likelihood, control and impact

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 29.

- low priority
- medium priority
- high priority



impact of the risk

A summary of the principal risks, their link to our strategy and an explanation of how the Group mitigates each risk are set out in the following table. The direction of change during the year is illustrated by the arrow in the "Change" column and an explanation is provided below the table. Please note that the "Change" column shows the change in the risk and not the mitigation of the risk. There may be other risks and uncertainties which 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	Change*	Link to strategy (pages 18–25)	Key mitigation
1	**Economic and political instability:** Economic and political instability creates risks for our locally based direct operations.	↑	3	• Compliance with Group Treasury Policy • Strong internal controls • Resilient business model
2	**Significant exchange rate movements:** The Group reports its results and pays dividends in sterling. Operating and manufacturing companies trade in local currency.	↑	3	• Regional manufacturing strategy and local currency sales • Forward cover where appropriate and in line with the Group Treasury Policy • Focus on reducing manufacturing costs • Local price management practices
3	**Loss of manufacturing output at any Group factory:** Loss of manufacturing output at any important plant risks serious disruption to sales operations.	→	3, 5, 6	• Strategic location of the main eight manufacturing plants across the world • 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 insurance audits/inspections and business interruption insurance
4	**Breach of legal and regulatory requirements:** The Group is subject to many different laws and regulations. Breaching these laws and regulations could have serious consequences.	→	2, 6	• Significant improvements to our compliance programme • Robust internal controls, policies and procedures • Established strong ethical culture • Review of commercial arrangements and regulatory requirements • Maintain local quality accreditations
5	**Non-compliance with health, safety and environmental legislation:** The Group places great emphasis on health, safety and environmental issues so as to avoid the risk of major problems.	→	3, 5, 6	• Compliance with legislation and codes of best practice • Regular audits, checks and reporting • On-going training • Appointment of Group Environment, Health and Safety Executive
6	**Defined benefit pension deficit:** Defined benefit pension schemes carry risks in relation to investment performance, security of assets, longevity and inflation.	↓	6	• Use of independent professional advisers and custodians • Pension scheme de-risking strategy • Use of Mercer "Dynamic De-Risking Solution"
7	**Failure to respond to technological developments or customer needs:** The Group has significantly increased R&D resources in recent years.	→	4, 6	• Maintain market knowledge and monitor competitor developments • Maintain investment in R&D programmes • Appropriate intellectual property registrations and enforcement • Regular updating of technical and product improvement roadmaps

↑ Increased risk → No change to risk ↓ Decreased risk

* Explanation of change in risk:

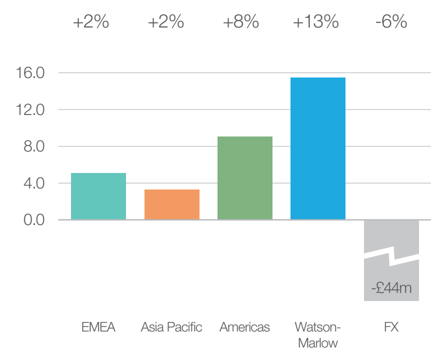
Risk 1	Political instability in the Ukraine and Egypt.
Risk 2	Sterling strengthened against all currencies used by the Group.
Risk 6	Significant reduction in deficit on actuarial basis.

Group Chief Executive's report

"The good results in 2014 again demonstrate the fundamental strengths and resilience of our business, with record profits and margin improvement achieved against an unhelpful economic background and a stiff currency headwind."

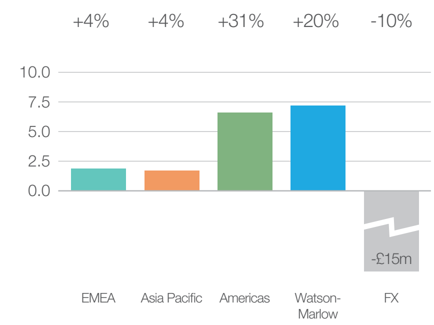
Nick Anderson
Group Chief Executive

Segment revenue changes* £m



* Rates of change at constant currency.

Segment operating profit changes* £m



* Based on adjusted profit at constant currency.

Unless otherwise stated, all references are to adjusted profit, which excludes certain non-operating items as set out in note 2 on page 120.

Introduction

The good results in 2014 again demonstrate the fundamental strengths and resilience of our business, with record profits and margin improvement achieved against an unhelpful economic background and a stiff currency headwind. Our direct sales business model leverages the skills and experience of our 1,300 sales and service engineers across the world, to generate solutions to customers' energy and water savings, emissions, productivity, quality and cost problems. In so doing, we reinforce the trusting, long-term relationships that we have with our customers and further build our installed base, which underpins the resiliency of our business that also benefits from the high replacement element to our sales.

During 2014, we undertook an extensive strategic review that confirmed both the quality of our business and identified how we could do better what we already do well. This evolutionary strategy is captured in our six strategic priorities:

- **Increase direct sales effectiveness through sector focus**, enhancing our customer value propositions;
- **Develop the knowledge and skills of our expert sales and service teams**, enabling them to better understand our customers' processes and apply engineered solutions to their steam and niche pumping and fluid path problems;
- **Broaden our global presence**, achieving a first-to-market advantage from early entry into new markets;
- **Leveraging R&D investments**, widening our range of new products and solutions, which is crucial to the long-term growth and sustainability of our business;
- **Optimise supply chain effectiveness**, enhancing product availability, increasing flexibility, reducing costs and optimising customer service;
- **Operate sustainably and help improve our customers' sustainability**, which is at the core of our business operations.

Our focus is on generating our own growth and outperforming our markets. Our direct sales approach provides opportunities for us to unlock unrecognised customers' needs, which is especially valuable in an environment of subdued and slowing global industrial production growth. Our business is very resilient but not immune to any market weakness.

We are actively engaged in the implementation of our growth strategy across the organisation, with the pace of strategy roll out increasing as we progress priority projects. In addition, we have strengthened our acquisition strategy and sharpened our target search criteria with the aim of expanding the capabilities of our core steam specialties and Watson-Marlow businesses, extending geographic coverage and increasing our addressable markets into related areas.

Market environment

Steam provides the heat source across a wide range of industries and niche peristaltic pumps are used across a range of sectors. This wide spread, coupled with the fact that a large proportion of our revenue is derived from customers' operating and maintenance spend, means that our markets tend to reflect the rates of growth in industrial production both in individual markets,

regionally and worldwide. The nature of our business is that we generally lag movements in economic conditions by a couple of quarters. Global industrial production growth picked up modestly in the second half of 2013 and into 2014 but has been slowing again since the latter half of 2014 in both developed and emerging markets.

Whilst the price of oil may influence the cost of energy to our customers, the correlation of the price of oil to our sales is weak; payback on energy cost savings being 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 customers to identify improvements to their steam systems, and peristaltic pump and associated fluid path systems. Typical benefits, other than energy savings, include reduced CO_2e emissions, water savings, productivity improvements, efficiency improvements, reduced quality costs and regulatory compliance.

Market conditions in Europe weakened steadily through the year, with year-on-year growth in industrial production close to zero by the year end. This included negative growth all year in France and Italy, and steadily slowing growth in Germany but with a continued positive reading in the UK and indeed Spain.

In the Americas, industrial production growth continued at a healthy pace in North America throughout the period, in contrast to negative growth through the period in South America, including in Brazil and Argentina where economic conditions remain difficult.

In Asia Pacific, industrial production growth was positive but slowed markedly in the second half of 2014 due to the widely reported deceleration in China and negative growth in Korea in the final quarter. Market conditions were, however, good in Australia and some of our smaller operations in Indonesia and the Philippines.

Progress in 2014

Group sales increased by just over 5% at constant currency to £678.3 million, comprising organic sales growth of over 4% and nearly 1% from the acquisition of BioPure Technology Limited in January 2014. Growth was strongest in Watson-Marlow, with all geographic regions ahead. In the steam specialties business, the Americas segment saw good overall organic sales growth, with progress in North America and a good gain in Latin America, the latter including the benefit of currency-related price increases in Argentina. Organic sales were modestly ahead in Europe, Middle East and Africa (EMEA), with growth in most of the larger operations, and in Asia Pacific, with Korea performing well.

Sales of £678.3 million show a reduction of nearly 2% compared with sales of £689.4 million in 2013, due to unfavourable currency movements that impacted sales by 6.4% on translation. Sterling was stronger against every one of our reporting currencies, compounded by significant currency weakness in a number of our smaller markets. These stiff currency headwinds have now largely abated and if recent exchange rates prevail for the full year, sales in 2015 would show a further net reduction of 2% on translation into sterling versus 2014 average exchange rates.

Watson-Marlow's brand has been changed to Watson-Marlow Fluid Technology Group, reflecting the evolution of the business from a manufacturer of niche peristaltic pumps and tubing, to its current position as a world leader in niche peristaltic pumps and associated fluid path technologies. Organic sales growth in Watson-Marlow of 9% was spread across virtually all product lines, with new products continuing to make a valuable contribution. There were increases in both project work and base business, with progress in most industry sectors except precious metals mining, where sales were down on the prior year. Geographically, growth was strongest in Asia, from a relatively smaller base, as we further penetrate developing markets, and sales were well ahead in North America and EMEA. The acquisition of BioPure added a further 4% to sales, taking total constant currency growth of Watson-Marlow to 13%.

Organic sales increased by 3.4% in our steam specialties business, with higher than average increases in controls and energy management that are of increasing strategic focus. Higher sales came from improved base business, reflecting sustained demand from customers' operating and maintenance activities, while project work remained broadly flat due to a continued lack of confidence by customers to invest in higher value expansion, productivity and energy saving projects. Geographically, organic growth was led by the Americas, with sales up in North America and well ahead in Latin America; the latter supported by some currency-driven pricing gains in Argentina. Organic sales rose modestly in EMEA, due in part to project work in Italy, and rose in Asia Pacific due largely to Korea. Sales were flat in China as industrial overcapacity in many sectors and government initiated anti-corruption measures across the country, reduced overall levels of project work.

Record operating profit and margins were achieved in 2014. Group operating profit of £153.0 million was 12% higher at constant currency, with a strong currency headwind reducing the reported increase to 1% over the prior year operating profit of £151.6 million. Watson-Marlow performed very strongly and there were operating profit increases at constant currency in each of the steam specialties segments in the Americas, Asia Pacific and EMEA.

There was a strong increase in operating profit margin, rising to 22.5% from 22.0%, despite the stiff currency headwind. The Group benefited from continued price management actions and broadly flat raw material and component costs. Improvements in our internal supply chain enabled a reduced level of subcontract costs and increased efficiency, and generally business and product mix was favourable versus the prior year. We continued to invest in product and market development for the long term, however, we tightened controls of overheads through the second half of the year, as the world economic growth outlook moderated. Our business is seasonally biased to the second half and, as expected, this was slightly accentuated in 2014 by shipment of the larger than normal backlog built up in the first half year.

Market outlook

We continue to benefit from the many improvements made to our business in recent years and expect further benefits for all stakeholders over the coming years as we implement growth strategies across all aspects of our business to drive outperformance against our markets.

Industrial production growth prospects have been scaled back for 2015. However, we have an outstanding growth record and a direct sales business model that offers opportunities for self-help, whilst deriving a large proportion of revenues from customers' operating and maintenance budgets, giving a high degree of resilience to our business in more difficult economic conditions. We are increasing investment and adding resources in support of our growth strategy and we are confident that, through these actions, we can continue to outperform our markets and deliver further improvements in our business.

Steam specialties:
Europe, Middle East and Africa (EMEA)

"Organic sales grew by 2% to £236.2 million and operating profit increased by 4% at constant currency to £45.9 million. Currency movements were unfavourable reducing sales by 5% and operating profit by 9%."

Neil Daws
Executive Director, EMEA

Revenue

£236.2m

(2013: £244.3m)
-3% at reported exchange rates
+2% at constant currency

Revenue £m

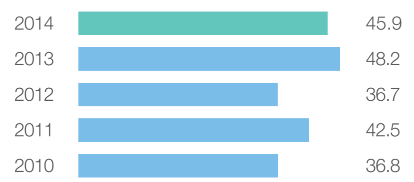
Operating profit

£45.9m

(2013: £48.2m)
-5% at reported exchange rates
+4% at constant currency

Operating profit* £m

* Based on adjusted operating profit

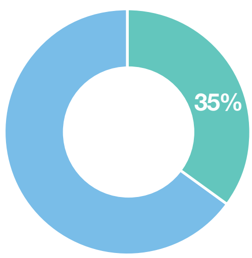


Operating margin %

19.4%

(2013: 19.7%)
-30 bps at reported exchange rates
+30 bps at constant currency

Group revenue %



Our division at a glance

- Number of operating units: 24
- Direct sales presence: 29 countries
- Average number of employees: 2,225

Market overview

Industrial production growth in EMEA improved towards the end of 2013, albeit to only relatively low levels of around 2%, and this was sustained through to the middle of 2014. However, since then industrial production growth progressively slowed, approaching zero at year end, making for overall challenging market conditions. Russia and Ukraine account for just over 1% of Group sales and events there, together with the imposition of sanctions, caused increased market uncertainty and some loss of customer confidence in associated markets in Germany and the Nordic areas. Heightened security risks and Ebola had an impact on a number of our smaller markets in Africa. Market conditions in France were very poor but in contrast there has been some improvement in Spain and conditions have remained positive in the UK. Overall, large project business saw a decline, although quote levels are encouraging.

Progress in 2014

In EMEA, organic sales grew by 2% to £236.2 million. Currency movements were unfavourable reducing sales on translation by 5%, with reported sales therefore 3% down compared with the £244.3 million in 2013. We made good progress in our larger more developed markets in Germany, Italy, Spain and the UK, growing overall sales and profit by more than the segment average and increasing margins. Italy did particularly well, winning a number of large projects and the UK did well to grow sales again, following the strong advance in 2013. France was the only one of our larger more developed markets to see a decline in sales, reflecting the poor market conditions, although we are creating a new training centre in France to boost our capability and technical standing. Our operations in the Nordic areas performed well increasing sales and profit, as did Poland and Turkey.

Overall, project business was down in the year, including a large drop in the refining and petrochemicals sector in Russia that impacted our business there and which necessitated local cost-saving measures and a switch in sales focus to more resilient areas. Lower project work was also reflected in the Middle East, with the non-repeat of large hospital projects in the prior year. Generally quote logs in EMEA remain at an encouraging level.

Operating profit increased by 4% at constant currency to £45.9 million reflecting the sales increase, the benefit of continued price management actions, favourable mix and tight control of costs, especially in the second half year as the economic environment turned down. Our manufacturing operations in France and Italy did well, improving service levels and profit, but our UK steam specialties factory saw lower demand, especially through the quieter late summer period. Generally, we benefited from stable purchase costs for materials that mitigated the impact of unfavourable currency movements, which were large in a number of countries with the average exchange rate for the Russian rouble -22%, Turkish lira -16% and South African rand -15%. This was reflected in the overall reported profit, which declined by 5% from the prior year's £48.2 million. The operating profit margin for EMEA at 19.4% (2013: 19.7%) was slightly lower but improved by 30 bps at constant currency.

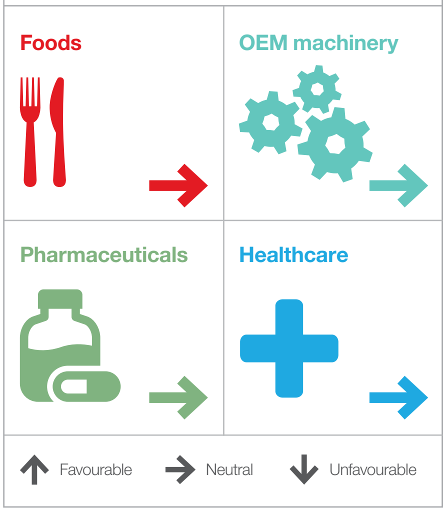
Strategy update

We continued to develop our markets, establishing a new operating company in the Netherlands and transitioning to a full operating company in the UAE and Egypt, the latter commencing local trading in January 2015. We achieved good improvements in stock management, delivery performance and customer service levels, which should underpin our largely self-generated growth initiatives. Resource has been added in a number of areas, including wider supply chain skills.

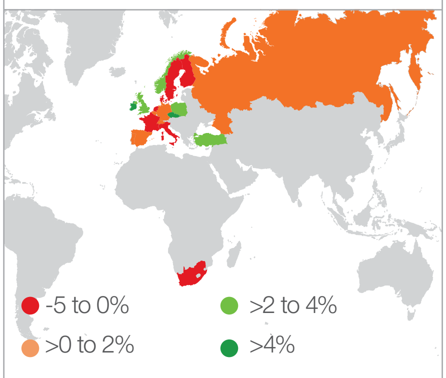
Outlook

We remain positive and continue to identify areas where we can grow and improve our business in EMEA. Markets remain challenging with continued unfavourable currency movements and developing events in Ukraine and Russia creating uncertainty in a number of markets with strong trading links to Russia, as well as heightened security concerns in Africa and the Middle East. In February 2015, we took actions to reduce costs in our UK manufacturing plant and will incur a one-off cost of £1.0 million within ordinary trading in 2015, but this will be more than compensated by the on-going reduction in overheads during the remainder of the year.

Key markets



Industrial production growth rate 2014*



* Compared with the prior year. (Source: CHR Economics)

Steam specialties: Asia Pacific

"Economic conditions in the region were mixed. Organic sales increased by 2% but at reported exchange rates sales reduced by 3% to £177.7 million due to unfavourable currency movements versus sterling in all currencies. Operating profit increased by 4% at constant currency."

Klaus Rümler
Divisional Director, Asia Pacific

Revenue

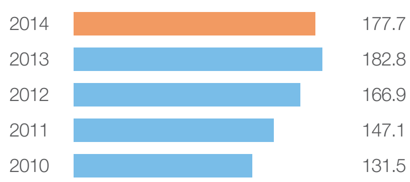
£177.7m

(2013: £182.8m)

-3% at reported exchange rates

+2% at constant currency

Revenue £m



Operating profit

£46.4m

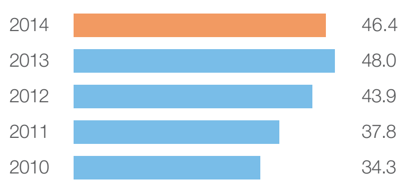
(2013: £48.0m)

-3% at reported exchange rates

+4% at constant currency

Operating profit* £m

* Based on adjusted operating profit



Operating margin %

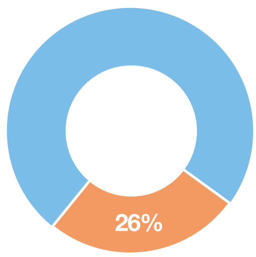
26.1%

(2013: 26.3%)

-20 bps at reported exchange rates

+50 bps at constant currency

Group revenue %



Our division at a glance

- Number of operating units: 12
- Direct sales presence: 15 countries
- Average number of employees: 1,045

Market overview

The economic conditions in the region have been mixed, with continued expansion in some smaller markets such as Indonesia and Malaysia but with overall industrial production growth slowing sharply in the second half year. In our largest market in China, economic growth slowed but was also more balanced as the government works to partly offset the decline of capital investments that have accounted for almost half of GDP, with more consumption driven growth. Independent estimates of Chinese industrial production growth indicated a slowdown to mid-single digits by the end of 2014, reflecting the overcapacity in many industries, reduced foreign direct investment and the impact of the Government's anti-corruption campaign, although the latter is a welcome and positive development for the medium and longer term. Industrial production growth turned negative in Korea in the fourth quarter and there was political turmoil in Thailand following the coup d'état in May. Generally in the region, pricing and competitive pressures remain and are greater than elsewhere, although our direct sales approach and fundamental strengths enabled us to outperform our markets.

Progress in 2014

Organic sales increased by 2% but at reported exchange rates sales reduced by 3% from £182.8 million to £177.7 million due to unfavourable currency movements versus sterling in all currencies. As expected, sales growth was stronger in the second half as a number of large projects in Korea were shipped and the usual order build from the first half year was unwound. However, we were not immune from the general economic slowdown across much of the region in the second half year.

Our business in Korea performed very well, achieving higher sales, especially in the refining and petrochemical and power industries for export projects, and through a strong focus on smaller and mid-sized energy saving and process improvement opportunities. Our Korean sales team did well with steam system services and with sales into general industry, although there were some project delays and postponed investment in the shipbuilding sector. Profit was well ahead in Korea reflecting the higher sales and favourable product mix.

In China, sales were flat and profit slightly lower at constant currency. Project work related to customers' capital investment, which has been significant in this country approaching 50% of our sales in prior years, declined reflecting the industrial overcapacity in the markets we serve, as well as delays caused by the government's anti-corruption drive. This was compensated for by refocusing on customers' energy efficiency, process improvement and maintenance activities, where sales increased. The growth in overheads slowed markedly but wage pressures continued, which was partially offset by efficiency improvements and an on-going increase in the proportion of local manufacture, as production is expanded in line with our regional manufacturing strategy.

Elsewhere in Asia Pacific, we made good progress in Japan against a significant 13% currency headwind, with very effective price management and, similarly, did well in Australia, growing sales and profit at constant currency. Our new company in Indonesia became fully operational during the year, completing a myriad of approvals, and we focused on market development, intensive training of our expanding sales team and building customer relationships. In the Philippines, our business performed well in its first full year as an operating company and we did well in Thailand, against a difficult market background.

Overall in Asia Pacific, operating profit increased by 4% at constant currency reflecting favourable mix, price management and increased regional manufacture, partially offset by increased market development costs, investment in new IT systems and expanded office facilities in a number of operations. Unfavourable currency movements meant that operating profit of £46.4 million (2013: £48.0 million) was 3% lower at reported exchange rates. The operating profit margin was broadly unchanged at 26.1% (2013: 26.3%) and ahead 50 bps at constant currency.

Strategy update

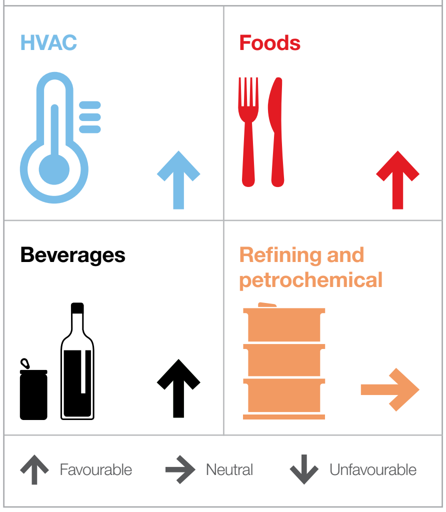
Markets in Asia Pacific continue to exhibit good long-term growth characteristics. Our strategy, as elsewhere in the world, is focused on self-generated growth based on making improvements to our sales effectiveness, with increasing sectorisation and enhanced delivery performance. Broadening our market presence remains a priority, with new operations in new territories adding to the aggressive development of those established in recent years. Our regional manufacturing strategy and optimisation of the wider supply chain, is focused on local product availability, cost effectiveness and flexibility.

Outlook

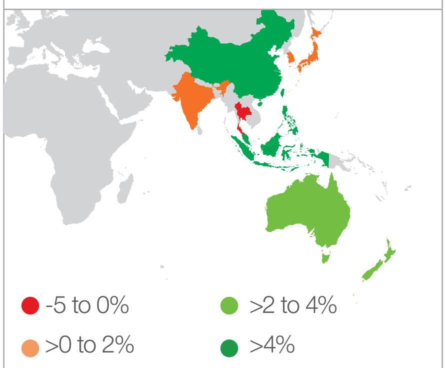
Overall, regional industrial production growth has progressively slowed and economic uncertainty persists in our largest market in China. However, we remain positive about the medium and long-term growth prospects, with good exposure to the more resilient sectors such as foods and healthcare. We expect to benefit from our investments in market development, especially in Indonesia, and from a focus on key industries such as foods, beverages and healthcare, where there are positive dynamics from a growing and ageing population.

We have announced today the establishment of a wholly owned company in India that is expected to commence direct sales operations around mid-2015. This exciting start-up will include world-class manufacturing and training facilities and is central to our strategy of accelerating growth in this important market. The 49.3% shareholding in our long-standing Associate company in India, Spirax Marshall Private Limited, has been sold to our local partner for £6.5 million and both parties will in future be free to trade under their respective names within and outside India.

Key markets



Industrial production growth rate 2014*



* Compared with the prior year. (Source: CHR Economics)

1. Strategic report
2. Governance
3. Financial statements
4. Corporate information

Steam specialties: Americas

> "Operating profit was up 31% at constant currency, although unfavourable currency movements meant that the operating profit of £28.0 million increased by 7% at reported exchange rates. The operating profit margin improved to 22.2%."
>
> **Alberto Grandi**
> Divisional Director, Americas

Revenue
£126.2m

(2013: £132.0m)

-4% at reported exchange rates

+8% at constant currency

Revenue £m

Operating profit
£28.0m

(2013: £26.1m)

+7% at reported exchange rates

+31% at constant currency

Operating profit* £m

* Based on adjusted operating profit

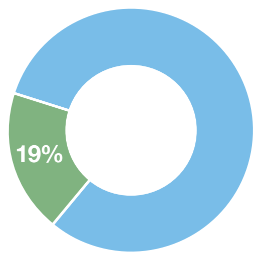
Operating margin %
22.2%

(2013: 19.8%)

+240 bps at reported exchange rates

+400 bps at constant currency

Group revenue %



Our division at a glance
- Number of operating units: 6
- Direct sales presence: 11 countries
- Average number of employees: 829

Market overview
Market conditions remained positive in North America through the year with good growth in industrial production in the USA, although in Canada the falling oil price impacted the oil tar sands sector. The position in South America was very different, with overall negative industrial production in all four quarters, including in our important markets in Brazil and Argentina. Additionally in Brazil, the corruption issues at Petrobras impacted project work in the sector and dented economic confidence in the country. Elsewhere, economic conditions were mixed in some of our smaller markets and there was generally a reduction in large projects across the region.

Progress in 2014
Sales in the Americas increased by 8% at constant currency, with sales ahead in North America and a good advance in Latin America, although the latter benefited from local currency gains in Argentina from dollar-based pricing. All currencies were weaker against sterling, including the Brazilian real -12% and Canadian dollar -11%, and the Argentine peso suffered a significant devaluation of 35%, which meant that sales of £126.2 million (2013: £132.0 million) in the Americas showed a decline of 4% at reported exchange rates.

In North America, sales efforts were focused towards our target areas, where we achieved sales growth, and away from less attractive lower margin project and service work, which registered a decline. These actions resulted in a favourable mix and much improved profit and margin performance, albeit at the expense of some top-line growth. This was underpinned by improved delivery performance, focused price management and close control of overhead costs, as we carefully implement important changes in the USA to expand the total available market, leveraging our direct sales resource to uncover and capture unrecognised customer needs.

In Latin America, market conditions continued to be difficult in our two largest markets in Brazil and Argentina, although in Mexico, market conditions improved. Sales and profit in Brazil were flat at constant currency, with lower levels of project work in the refining and petrochemicals sector, reflecting a significant decline at Petrobras. Profit in Brazil benefited from a positive sales mix into beverages, pulp and paper, and chemicals, and from continued cost controls. Trading conditions in Argentina were challenging, with the currency devaluing, high cost inflation and regulatory hurdles. Despite this, sales into the domestic and export markets were modestly ahead in dollar terms and operating profit was well ahead, even at reported exchange rates, aided by dollar-based pricing.

Elsewhere in Latin America, our recently established company in Chile did exceptionally well in its first full year of trading, building the knowledge of our direct sales team and winning a large bakery project. In Mexico, the relocation to our new manufacturing plant, offices and training centre was completed in the second quarter and efficiency gains began to be captured.

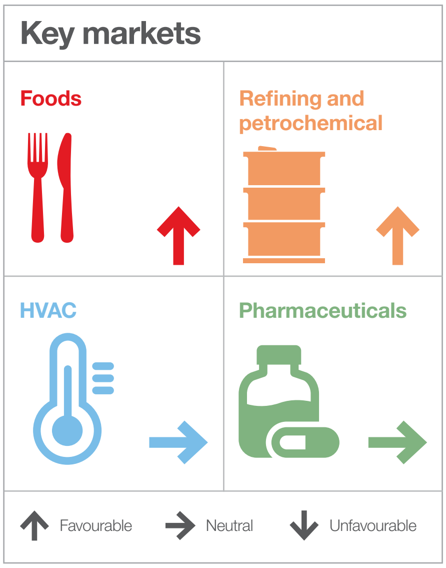
Overall in the Americas, operating profit increased by 31% at constant currency. Unfavourable currency movement, including the devaluation in Argentina, meant that the operating profit of £28.0 million (2013: £26.1 million) increased by 7% at reported exchange rates. The underlying profit increase reflects a positive sales mix, flat material costs, effective price management, dollar-based pricing in Argentina and overhead controls. The operating profit margin improved to 22.2% (2013: 19.8%), with good gains in both North America and Latin America.

Strategy update

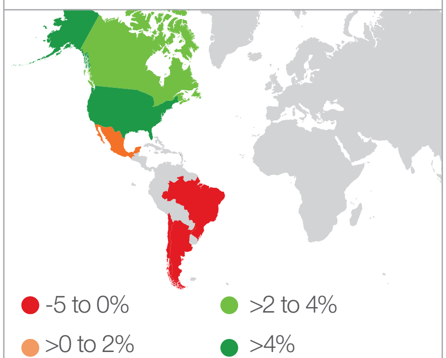
As mentioned above, our new operating company in Chile made an excellent start and a new company in Peru commenced local trading in January 2015, continuing the expansion of our direct presence. Self-generated growth is a strategic focus for all companies, including a gradual alignment of sales along a sector basis and intensified training. Regional manufacturing was extended, with the completion of the new world-class facility in Mexico that was designed to comply with the highest environmental and sustainability standards and became fully operational in April 2014. The sustainability of our business was enhanced, with improvements in profitability, increased return on capital employed and improved employee welfare following the introduction of Behaviour Based Safety, initially in the USA.

Outlook

North America accounts for well over half of the sales in the Americas and market conditions remain positive in the USA, where we expect to benefit from the changes being made to effectively increase our total addressable market. In Mexico, the market is improving but elsewhere in Latin America, industrial production growth is negative in Brazil, where the focus is on self-generated growth, and in Argentina, where the economic environment is difficult and further currency turmoil cannot be ruled out; elections there later in 2015 create additional uncertainty.



Industrial production growth rate 2014*

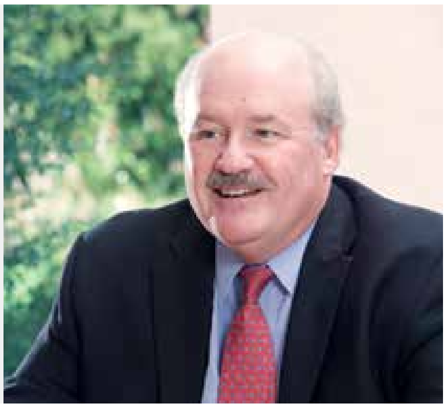


* Compared with the prior year. (Source: CHR Economics)

Watson-Marlow

"Sales increased by nearly 13% at constant currency, including a contribution of 4% from the acquisition of BioPure in January 2014. Operating profit increased by 20% at constant currency to £43.5 million and was 10% ahead at reported exchange rates."

Jay Whalen
Executive Director, Watson-Marlow

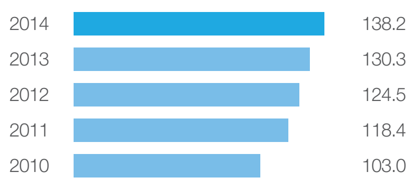


Revenue
£138.2m
(2013: £130.3m)

+6% at reported exchange rates

+13% at constant currency

Revenue £m



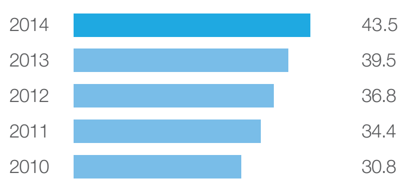
Operating profit
£43.5m
(2013: £39.5m)

+10% at reported exchange rates

+20% at constant currency

Operating profit* £m

* Based on adjusted operating profit

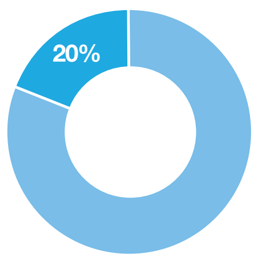


Operating margin %
31.5%
(2013: 30.3%)

+120 bps at reported exchange rates

+190 bps at constant currency

Group revenue %



Our division at a glance
- Number of operating units: 26
- Direct sales presence: 25 countries
- Average number of employees: 715

Market overview
Economic conditions in the various regions of the world were the same as for the steam specialties business. Market conditions reflect the different spread of industries served by our Watson-Marlow niche peristaltic pumps and associated fluid path technologies business. Water and wastewater markets were particularly strong, with good growth in the Americas and Asia as pent-up demand was released, underpinned by good progress with new product releases and market share gains in metering applications. General industrial markets were strong, as was OEM in medical device and clinical diagnostic applications. Our largest sector biopharmaceutical, accounting for around a third of sales, was boosted by the acquisition of BioPure Technology Limited. Food and beverage markets were generally more difficult but strong growth continued in Asia. Precious metal mining stabilised against the background of a global decline in capital expenditure in the industry. Generally, pricing pressures remain in most sectors, especially in a lower inflation environment.

Progress in 2014
Sales increased by nearly 13% at constant currency, including a contribution of 4% from the acquisition of BioPure in January 2014. Sales of £138.2 million were 6% ahead of £130.3 million in the comparable period at reported exchange rates, reflecting unfavourable currency movements that reduced sales on translation by 6%. Organic sales growth was achieved in all regions and was widespread across the product range, with a strong advance in Flexicon filling systems and Watson-Marlow core pumps and tubing. New product releases contributed well, including extensions to the new Qdos chemical metering pump range. Overall, there was an increase in both base business and project work. There was a seamless integration of

BioPure into the Group and we achieved a smooth transition from BioPure's distribution to our direct sales in the USA.

In the EMEA region, sales growth was widespread, although sales were down in Russia. There was good growth in France and Germany, and a strong performance in Scandinavia. We continued to benefit from our focused market sector approach across our key industry sectors, driving a better understanding of how we add value to our customers' businesses. Growth was strongest in the Asia Pacific region, although from a relatively smaller base in these developing markets. There was good growth in China and Korea but in Australia, sales were marginally down reflecting the difficulties faced by the local mining sector. The Americas region contributed well, driven by the USA where the OEM and industrial sectors were strong, although our business in Brazil was broadly flat, due to the downturn in the mining sector and weakening industrial production impinging investment.

Watson-Marlow's operating profit increased by 20% at constant currency to £43.5 million (2013: £39.5 million) and was 10% ahead at reported exchange rates. The profit increase reflects the higher sales, a good first-time contribution of £1.6 million from BioPure and unusually favourable product mix. The operating profit margin improved from 30.3% to a very strong 31.5%.

Strategy update

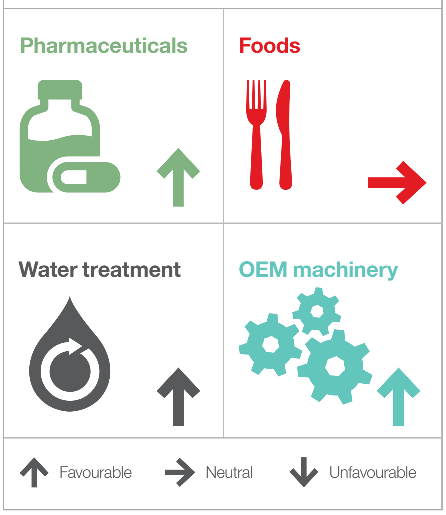
A number of small individual distributors were converted to direct sales during the year across five product lines in six countries and product development was increased across all product lines, with the emphasis on increasing the addressable market size. Our Global Excellence in Manufacturing (GEM) programme was stepped up, with a number of plants increasing their proficiency level.

Watson-Marlow's brand has been changed to Watson-Marlow Fluid Technology Group. This change better reflects the evolution of the business from a manufacturer of niche peristaltic pumps and tubing, to its current position as a world leader in niche peristaltic pumps and associated fluid path technologies. Our business now encompasses seven distinct brands which, combined, deliver complete fluid technology solutions to the biopharmaceutical, industrial, food and beverage, mining, environmental and OEM market sectors. This change recognises our progressive product and market diversification, and follows the recent acquisition of BioPure, which signalled our strategic move to offer a wider range of solutions to the biotechnology and pharmaceutical markets. Our Watson-Marlow direct sales companies employ a market sectorised approach to successfully leverage these new and related products to grow sales of our niche peristaltic pumps and associated fluid path technologies.

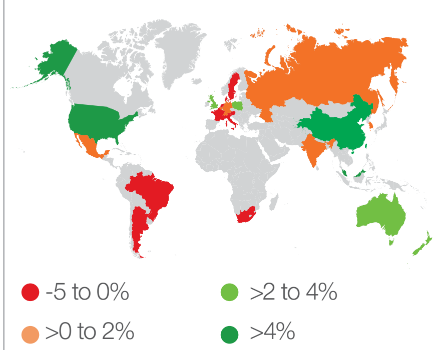
Outlook

Our market in the USA continues to grow, although there is much slower growth and more uncertainty in many other markets in Europe and Latin America in particular. The precious metals mining sector is expected to remain sluggish, with low levels of project activity. Our focus remains on growing sales through the expansion of our addressable markets, the development of new innovative products that take market share from other pump types and aggressive geographical expansion of our sector-based direct sales presence, complemented by related niche acquisitions. We expect to increase investment in product and market development, and will have higher system support costs in the current year to support this growth strategy. The currency headwinds have largely abated and at current exchange rates, there would be a small negative impact of 1% in 2015 versus average rates in 2014.

Key markets



Industrial production growth rate 2014*



* Compared with the prior year. (Source: CHR Economics)

Financial review

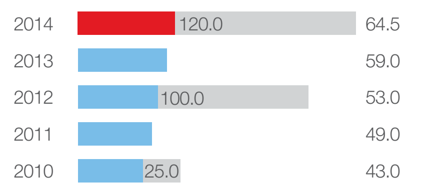
> "Good results were achieved in 2014. Growth was strongest in Watson-Marlow, with organic sales ahead 9%, boosted by a good first-time contribution from BioPure Technology Limited. Organic sales increased by over 3% in the steam specialties business, led by an 8% increase in the Americas."

David Meredith
Finance Director

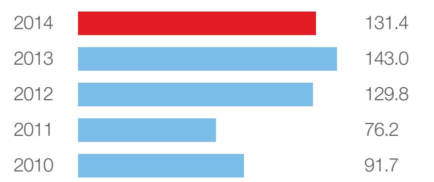
Key highlights

- The Board has proposed a final dividend of 45.0p per share. Together with the interim dividend this gives a total Ordinary dividend of 64.5 per share, an increase of 9%
- Adjusted basic earnings per share increased by 13% at constant currency to 140.4p
- Return on capital employed of 44.3p
- Good cash flow and return of capital to shareholders via a special dividend of 120.0p per share

Dividend per share p



Adjusted operating cash flow £m



Unless otherwise stated, all references are to adjusted profit, which excludes certain non-operating items as set out in note 2 on page 120.

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 and acquisition and disposal costs, together with the tax effects of these items (as set out in note 2 on page 120). Organic measures are at constant currency and exclude acquisitions.

We were pleased that our 2013 Annual Report was recognised in the top ten in "Excellence in reporting in the FT250" at the Building Public Trust Awards. The Annual Report for 2014 has been prepared in line with developing best practice to present an integrated, complete and concise picture of the Group and the performance for the year, with the Board taking care that it is "fair, balanced and understandable". At the heart of the Annual Report is an explanation of our strategy for sustainable growth, how this is delivered through our business model and the linkage to risk management, key performance indicators, corporate governance and Executive Directors' remuneration. We have enhanced the Sustainability report section, with clear reporting of our progress across five key sustainability areas. There was particular focus during the year on employee health and safety, with a reduction in the accident rate in the second half, and the appointment of a new senior executive position for Group Environmental, Health and Safety. More of our operating units achieved accreditation to ISO14001 during the year and we now have over 70% of our employees in accredited operations.

Good results were achieved in 2014. Sales of £678.3 million (2013: £689.4 million) were ahead 5% at constant currency, comprising organic sales growth of over 4% and a contribution of nearly 1% from acquisitions, which was more than offset by unfavourable currency movements that reduced sales on translation by 6.4%. At reported exchange rates, sales declined by less than 2%. Growth was strongest in Watson-Marlow, with organic sales ahead 9%, boosted by a good first-time contribution from BioPure Technology Limited acquired in January 2014. Organic sales increased by over 3% in the steam specialties business, led by an 8% increase in the Americas, with sales ahead in North America and a good advance in Latin America benefiting from some strong currency-related price increases in Argentina. In EMEA and Asia Pacific, organic sales growth was more modest at 2%.

Currency movements were strongly negative with a £44.1 million or 6.4% sales translation headwind in 2014. Sterling was stronger against every currency in which we operate, including 5% against both the euro and dollar, and there were individually weak currencies in a number of developing markets, including the Argentine peso -35% against sterling on average, the Russian rouble -22%, Turkish lira -16%, South African rand -15%, Brazilian real -12% and Canadian dollar -11%. These headwinds have largely abated, although if recent exchange rates prevailed for the full year, there would still be a 2% negative sales translation impact in 2015.

Operating profit increased by 1% from £151.6 million to £153.0 million and by over 12% at constant currency. The statutory operating profit was £148.1 million (2013: £147.0 million). In addition to a significant impact of £11.3 million from exchange translation, there was a negative exchange transaction impact of £4.1 million, creating a total operating profit currency headwind of 10.2% or £15.5 million for the year. This impact was spread across all segments with EMEA -£4.1 million, Asia Pacific -£3.3 million, the Americas -£4.8 million and Watson-Marlow -£3.2 million.

The factors driving the underlying operating profit increase of 12% in 2014 were:

- Benefit and modest leverage from the organic sales increase of over 4%;
- The continued focus on price management and business mix;
- Favourable product mix in both the steam specialties and Watson-Marlow businesses;
- The benefit of broadly flat costs for materials reflecting subdued prices for raw materials, castings, forgings and other components;
- Close control of overhead costs, especially in the second half year, as industrial production growth slowed in both developed and developing markets.

The operating profit margin improved from 22.0% to 22.5% despite the unfavourable currency headwind, reflecting the above factors and the very strong margin performance in Watson-Marlow.

Early in 2015, we took cost reduction actions in our steam specialties manufacturing operation in the UK, resulting in a reduction of 43 permanent positions, representing around 7% of the Cheltenham manufacturing workforce. There is a one-off cost of £1.0 million that will be included within adjusted operating profit in the first half, which will be more than compensated in 2015 by the on-going annualised £2.0 million reduction in overhead, with a further modest full-year effect benefiting 2016.

Interest

Net interest cost increased from £2.3 million to £3.0 million. Net finance costs under IAS19 in respect of the Group's defined benefit pension schemes increased by £0.2 million to £2.9 million. Net bank interest deteriorated by £0.5m due to the full-year effect on cash balances in 2014 of the £78 million special dividend paid in July 2013, variations in interest rates and the location of cash balances and borrowings.

Associates

The Group's after tax share of the profits of Associates was significantly lower at £1.2 million (2013: £1.7 million) due to a disappointing 32% decline in the profits from our 49.3% share of Spirax Marshall in India. The Group's initial 30% interest in the Econotherm heat pipe technology start-up was increased in two stages during the year to 39% and further progress was made in commercialising this innovative heat transfer technology.

Pre-tax profit

The profit before tax at £151.1 million was 12% ahead at constant exchange rates. Unfavourable currency movements meant that at reported exchange rates, the pre-tax profit was fractionally ahead of the prior year. The statutory profit before tax was £144.8 million (2013: £145.7 million) and includes those non-operating items, listed below, that have been excluded from the adjusted profit:

- A charge of £4.1 million (2013: £4.0 million) for the amortisation of acquisition-related intangible assets;
- Acquisition and disposal costs of £0.8 million (2013: £0.6 million);
- A charge of £1.5 million (2013: £0.8 million) against the Associate profit comprising £0.5 million (2013: £0.7 million) for the amortisation of acquisition-related intangible assets and £1.0 million for the impairment of goodwill and other assets in respect of the sale of the Group's 49.3% holding in our Associate company Spirax Marshall in India (2013: £0.1 million in respect of the disposal of the HVAC business of Eirdata).

Taxation

The tax charge on the adjusted profit before tax, excluding Associates' profit (which is presented on an after-tax basis), was virtually unchanged at 29.9% (2013: 29.8%). The Group comprises around 70, mainly small, operating units in over 40 countries, which reflects the business model that requires a direct sales presence, with local sales engineers providing solutions direct to end-users wherever possible, holding local stocks for optimum customer service levels and invoicing in local currency. The Group's overall tax rate essentially reflects the blended average of the tax rates in the many different tax jurisdictions in which we operate and make profits.

Earnings per share

The Group's strategy is directed at sustainable growth in shareholder value, with consistent growth in earnings and dividends per share. Adjusted basic earnings per share increased by 1% to 140.4p (2013: 138.8p) and by 13% at constant currency, including a small benefit from the reduction in the average number of shares in issue, due to the full-year effect of the share consolidation in mid-2013. The statutory earnings per share decreased by less than 1% to 132.8p (2013: 133.4p). The fully diluted earnings per share were not materially different in either year.

Financial review *continued*

Dividends

The Board is proposing a final dividend of 45.0p per share (2013: 41.0p per share) payable on 29th May 2015 to shareholders on the register at 1st May 2015. Together with the interim dividend of 19.5p per share (2013: 18.0p), the total Ordinary dividend is therefore 64.5p per share, which is an increase of 9% on the 59.0p total Ordinary dividend in 2013. This extends our dividend record to 47 years, with a compound annual increase of 11% over that period; the increase over the last 10 years has been 12% pa and over the last five years also 12% pa.

In addition, having reviewed the capital requirements of the Company and recognising the Group's significant cash generation capability, the Board is proposing a return of capital to shareholders of £91 million in the form of a special dividend of 120p per share in respect of 2014 (2013: nil). If approved at the AGM, the special dividend will be paid on 15th July 2015 to shareholders on the register at 12th June 2015. This is equivalent to approximately 4% of the market capitalisation of the Company and, as is common with a significant return of capital to shareholders, the Board is recommending that this is combined with an appropriate share consolidation. This is intended to maintain, as far as possible, the share price, earnings per share and dividends per share, before and after the special dividend, and to remove the impact of the special dividend on employee equity-based incentives. It is anticipated, therefore, that the market price of each Ordinary share will remain at a broadly similar level following the special dividend and share consolidation.

The total dividend in respect of 2014, combining both the Ordinary and special dividends, will therefore be 184.5p per share.

Acquisitions and disposals

We continue to actively search for suitable acquisitions opportunities that meet our strict criteria, in order to supplement our organic growth strategy. Acquisitions fall into three broad 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.

Our strong balance sheet and debt capacity provides us with considerable flexibility.

On 6th January 2014, we announced the acquisition of BioPure Technology Limited for £8.2 million. BioPure specialises in the design and production of advanced single-use tubing connector systems for the biopharmaceutical industry, operating as part of our Watson-Marlow Fluid Technology business. The first-time contribution from BioPure was ahead of our expectations, with a very smooth integration in to our Watson-Marlow sector-based sales structure.

Econotherm continues to make progress in commercialising their innovative heat pipe technology. In May 2014, the Group invested a further £150,000 and in December 2014, an additional £250,000 into the business, taking our interest in this Associate company to 39%.

On 22nd May 2014, we completed the purchase of the thermocompressor business of Transvac Systems Limited for £0.9 million. Good progress has been made in bringing in-house this acquired technology, which can improve steam system efficiency and is well-suited to our technical sales approach. This acquisition also included jet heaters and steam jet syphons.

We have announced today that the Group has established a wholly-owned company in India that will commence direct sales around mid-year 2015, operating from a new site in Chennai where investment of £11 million in a manufacturing plant, warehouse, training centre and offices has commenced. On 1st March 2015, we sold the Group's 49.3% interest in Spirax Marshall Private Limited for £6.5 million to our Indian partners and both parties are now free to trade under their own respective names inside and outside India. Spirax Sarco retains sole rights to the Spirax Sarco brands and product nomenclatures. The disposal proceeds were broadly in line with the net tangible asset value. To reflect the impending sale of the business, our investment in this Associate company as at 31st December 2014 was categorised as an asset held for sale and an impairment charge of £1.0 million was recognised, largely in respect of goodwill relating to an increase in our shareholding in 2008 from 40% to 49.3%. This impairment charge is included within the statutory results for 2014 but has been excluded from the adjusted trading results, as explained earlier. The Group's results for 2015 will reflect our 49.3% share of the after tax profits of the Associate company for January and February 2015 of £0.2 million (2014 full year £1.3 million) and an expected modest trading loss in our newly established direct sales operation. We anticipate an increasing contribution to Group sales and profits from India in future years.

Research and development

In the steam specialties business, our research and development programme was refined to more fully align with the sales growth strategy. We continue to focus on a smaller number of larger opportunities centred on our key areas of interest in controls and thermal energy management, where we have overall smaller market shares and larger addressable markets. New product development projects are expected to increasingly reflect the needs of customers in specific industries, reflecting the gradual move to a more industry sector-based sales approach.

In our Watson-Marlow niche peristaltic pump and associated fluid path technologies business, we continue to follow the successful strategy of focusing on increasing the addressable market size, with innovative products that take market share from other positive displacement pump types. There were extensions to the new Qdos pump range, together with tube and hose developments, where Watson-Marlow is at the forefront of technological advances.

Overall the Group's total investment in research and development was £9.6 million (2013: £9.6 million).

Capital employed

Total capital employed increased by less than 1% to £346 million. At constant exchange rates the increase was just 2%.

Tangible fixed assets increased by 3% at constant currency to £177 million, with increased investment in land and buildings, including in respect of additional land adjacent to our existing plant in Shanghai, China, and in a new site at Chennai in India. Both these sites will now be developed, with a new facility in India scheduled to be completed in early 2016, and a significant plant extension in China scheduled for completion in 2017. We will continue to invest in capital expenditure projects that deliver good returns through increased efficiency, reduced costs and flexibility in support of our wider supply chain strategy. At the end of 2014, the combined heat and power plant in Cheltenham was brought on stream, which will reduce our energy usage, reduce our CO_2e emissions and improve our sustainability.

Total working capital increased by 2% at constant currency to £170 million. This was due to an increase in trade receivables of 9%, reflecting the higher level of project work shipped in the final two months of the year, particularly in Asia Pacific. We continue to roll out improved stock management techniques aimed at optimising stock levels across both manufacturing units and sales operations in support of sales growth. Inventory levels reduced by 3% at constant currency, which compares with an increase in sales of 5% on the same basis. The overall ratio of working capital to sales nudged up to 25.0% (2013: 24.7%) reflecting the higher debtors.

Capital employed	**2014 £000**	2013 £000
Property, plant and equipment	176,668	174,218
Inventories	98,007	104,164
Trade receivables	155,696	145,380
Prepayment and other current assets/(liabilities)	(84,134)	(79,284)
Capital employed	**346,237**	**344,478**
Intangibles and investment in Associate/assets held for sale	101,959	97,398
Post-retirement benefits	(75,779)	(72,043)
Deferred tax	18,529	18,619
Provisions and long-term payables	(1,561)	(1,318)
Net cash	52,493	16,400
Net assets	**441,878**	**403,534**
Adjusted operating profit	**152,950**	**151,626**
Average capital employed	**345,358**	**341,775**
Return on capital employed	**44.3%**	**44.4%**

Return on capital employed

This is one of our most important key performance indicators and forms a meaningful element of Executive Directors' annual bonuses. Effective deployment and efficient use of fixed assets, together with close control of debtors and optimisation of inventories, drive improved levels of capital employed. Following the marked improvement in 2013, the overall return on capital employed was virtually unchanged at 44.3% (2013: 44.4%). The improvement in adjusted operating profit was contained to just 1% due to the considerable currency headwind, excluding which operating profit was ahead over 12%. Average capital employed (using the average of opening and closing sterling balance sheet values for the period) also increased by 1%, although this was much less affected by currency movements and therefore masked an underlying improvement in return on capital employed.

Financial review *continued*

Post-retirement benefits

The net post-retirement benefit liability under IAS19 shows a small increase to £75.8 million (2013: £72.0 million). The value of assets held by the Group's various defined benefit pension arrangements (around 90% of which are held in the main UK defined benefit pension schemes) increased by 12%, reflecting returns on assets again above the scheme assumptions and deficit reduction contributions of £3.4 million into the UK schemes in the year. However, assessed liability values increased by 11% reflecting the continuing fall in yields on AA Corporate Bonds, the use of which is mandated under IAS19 to determine the present value of post-retirement benefit outflows. The main UK schemes were closed to new members in 2001 but have remained open to future service accrual. These schemes have been managed for the last three years 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 were ceased with effect from October 2014. This actuarial position compares with a deficit of £42 million, as at 31st December 2013, under IAS19.

Cash flow and treasury

2014 was another good year for cash flow, founded on a high conversion of profit into cash through close control of working capital, whilst continuing to invest in capital expenditure projects in support of business growth and margin improvement.

Adjusted operating cash flow was £131.4 million (2013: £143.0 million). Cash conversion was 86%, down from 94% for the prior year partly due to an increase of £4.6 million in capital expenditure to £31.3 million, as we invested in a new site in India and in additional land adjacent to our existing plant in China. We would expect capital expenditure in the current year to increase again to over £35 million. Working capital absorbed £14.5 million (2013: £7.3 million), due to an increase in trade debtors reflecting the greater proportion of project work in the last two months of the year. Our business is vertically integrated with high value added, where we purchase raw materials in the form of castings, forgings and components, and manufacture, test, hold inventories of finished product and sell direct to end-users wherever possible. This business model means that our working capital largely comprises debtors and inventories, with a relatively low value of trade creditors but also delivered a 44.3% return on capital employed.

Taxation paid was £41.9 million, which was similar to the previous year and close to the tax charge in the profit & loss account, with tax paid in virtually every one of the 40 countries in which the Group has operating units. Free cash flow of £89.4 million (2013: £101.1 million) was therefore generated and available for dividends to shareholders, acquisitions and other corporate uses.

Dividend payments were £45.1 million reflecting the increase in the Ordinary dividend, partially offset by the reduction in the number of shares in issue following the share consolidation. Total dividend payments in the prior year were £120.0 million and included £78.3 million in respect of the 2012 special dividend paid in July 2013. Pension deficit reduction cash contributions and provision movements were lower at £4.9 million (2013: £7.0 million) due to the cessation of such contributions following the triennial actuarial valuation of the main UK schemes completed during 2014. There was an outflow of £10.0 million for acquisitions, largely comprising the purchase of BioPure in January 2014. There was an inflow of £2.2 million in respect of share capital comprising an inflow of £5.2 million for shares issued under the Group's various employee share schemes and an outflow of £3.0 million for shares bought back and lodged in the Group's Employee Benefit Trust, to provide shares for future vesting of awards under the Group's long-term performance share plan.

Adjusted cash flow	2014 £000	2013 £000
Operating profit	152,950	151,626
Depreciation and amortisation	22,703	22,707
Adjustments (including share plans)	1,615	2,700
Working capital changes	(14,523)	(7,345)
Net capital expenditure (including software and R&D)	(31,331)	(26,693)
Cash from operations	**131,414**	**142,995**
Net interest	(53)	417
Tax paid	(41,915)	(42,318)
Free cash flow	**89,446**	**101,094**
Net dividends paid	(45,109)	(119,992)
Pension deficit reduction payments and provisions	(4,870)	(6,985)
Restructuring costs paid	–	(1,623)
Proceeds from issue of shares/buy-back	2,218	(582)
Acquisitions	(9,984)	(5,601)
Cash flow for the year	**31,701**	**(33,689)**
Exchange movements	4,392	(1,587)
Opening net cash	16,400	51,676
Net cash at 31st December	**52,493**	**16,400**

We therefore generated an increase in net cash of £31.7 million during the year. Currency movements increased net cash balances by £4.4 million, giving closing net cash of £52.5 million at 31st December 2014, compared with £16.4 million a year earlier.

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 renminbi 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.

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 generates high returns on capital and our priority is to maximise reinvestment in the business to generate further returns in the future. We also prioritise the search for suitable acquisitions that can expand our geographic reach, deepen our market penetration, broaden our product range or add to our addressable markets in related areas. 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 and have today announced a £91 million return via a special dividend of 120p per share. This is equivalent to approximately 4% of the Company's share capital and, as is common with a significant return of capital, is being combined with an appropriate share consolidation. The purpose of the share consolidation is to maintain, as far as possible, the comparability of the share price before and after the special dividend and to remove the impact of the special dividend on employee equity-based incentives.

Sustainability report

"We are investing to improve the sustainability of our operations because it is the right thing to do for the long-term prospects of our business, our key stakeholders and the environment."

Nick Anderson
Group Chief Executive

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

Operating sustainably and helping to improve our customers' sustainability

Creating a more sustainable way of life

Innovating and manufacturing products to improve the sustainability and competitiveness of our customers' operations.

Managing our own social and environmental impacts.

Creating a sustainable way of life: the business case

As an organisation, we believe that we have an ethical responsibility to manage our economic, environmental and social impacts, while helping our customers and suppliers to do the same.

We also believe that it makes good business sense to do so; a focus on sustainability drives behaviours that cut costs and increase operational efficiency, while creating new business opportunities and mitigating risk. Sustainability enhances our competitive edge, helps us achieve growth that outperforms our markets and deliver shareholder value.

Sustainability: core to our strategy for growth

Sustainability is one of the six key strategic priorities 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.

As a global business, we recognise that in an increasingly resource constrained and competitive world, we have an obligation to create a more sustainable way of life, an aim that is reflected in the standards we set ourselves every day.

Managing sustainability

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

CEO
Responsible for Company'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

Sustainability: a strategic review

During 2014, we continued to invest management time into developing and furthering our sustainability agenda. We commenced a sustainability review, facilitated by an external consultant, Carbon Clear, with the aim of enhancing our Group sustainability strategy.

The review began with a materiality assessment of sustainability topics, using the guidelines outlined by the Global Reporting Initiative – namely assessing the impacts (positive or negative) that each topic has the potential to exert on the business, the extent to which we have power to influence performance and outcomes, and their significance to stakeholders. As a result of this assessment we have broadened our sustainability strategy to encompass five core areas: our workplaces, our environment, our customers, our communities and our supply chain. We have also redefined our key sustainability objectives, as outlined below.

The sustainability review will continue into 2015. We have identified sponsors for each of our sustainability objectives and will form cross-functional teams to review current performance, reporting metrics and future development opportunities. Where necessary, we will implement more reliable data collection processes to ensure that we are monitoring and recording progress accurately against each of our objectives. Finally, we will focus on employee engagement to ensure widespread commitment to achieving our objectives across the Group.

In summary: progress to date

- Sustainability materiality assessment completed with an external consultant
- Sustainability strategy broadened to include five core areas
- Sustainability objectives redefined

Next steps

- Strategic sustainability review to be continued in 2015
- Further refinements to be made

Understanding and focusing on material sustainability areas

1. Our workplaces

- To achieve H&S excellence through engagement, empowerment and fostering good behaviours, while targeting zero accidents
- To provide for the on-going training and development of our people
- 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

2. 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

3. Our customers

- To provide products and services that improve the sustainability of our customers' operations through helping them to improve plant efficiency and productivity, reduce energy and water use and maintain product quality

4. Our communities

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

5. Our supply chain

- To embed sustainability criteria into our purchasing processes

Sustainability report *continued*

Our workplaces

Objective

To achieve health and safety (H&S) excellence through engagement, empowerment and fostering good behaviours, while targeting zero accidents

Target: Zero accidents

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

Total number of accidents with over seven days of lost time

Total number of accidents with over three days of lost time

"We are empowering our people to take action to mitigate risk and strengthening the H&S culture across the Group."

Mark Wyatt
Group Environment, Health and Safety (EHS) Executive

Performance in 2014

Looking after the health and wellbeing of our people is a key priority for the Group. We are striving to achieve excellence in our H&S performance, ensuring that our workplaces are safe for our employees, contractors and visitors. We seek to promote a H&S culture throughout the organisation, through employee engagement, empowerment and the fostering of good behaviours.

The Group Chief Executive and Board have overall responsibility for H&S, and review H&S matters at least bi-annually. During 2014, we appointed Mark Wyatt as Group EHS Executive. Mark has responsibility for the day-to-day management of EHS across the Group, facilitates the sharing of best practice and ensures that appropriate processes are in place for collecting and reporting H&S data. At a local level, H&S officers and committees record and report data and review H&S performance, while General Managers have ultimate responsibility for ensuring the implementation of H&S policies and procedures within their operating companies.

All H&S accidents, near misses and incidents of occupational diseases are recorded locally and reported monthly, with RIDDOR recordable accidents and incidents being reported immediately to the Group EHS Executive. A follow-up report is expected within two days of the accident report, detailing improvements made to prevent a repeat of the incident.

All of our operating companies are expected to adhere to the Group H&S Policy. Each operating company is also expected to have a more detailed local policy in place. Appropriate H&S management systems are in effect in all our operating companies, with eight of our 15 manufacturing sites certified to OHSAS 18001 (2013: seven).

During 2014, our over seven days of lost time accident rate increased slightly to 5.4 per 1,000 employees and the total number of over seven day accidents increased by five to 26 incidents. The H&S benchmark that we use is the RIDDOR over seven day accident rate in the UK manufacturing sector, which was 3.99 accidents per 1,000 employees in 2013/2014. We are disappointed not to have achieved a below industry average accident rate during 2014.

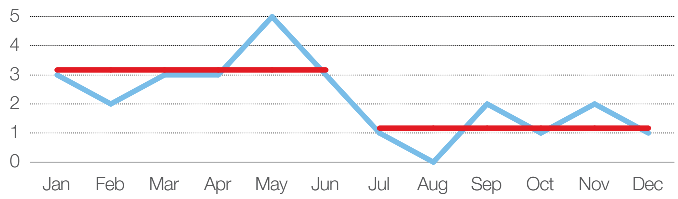
Although the total number of accidents that resulted in over seven days of lost time increased during 2014, we saw a significant difference between the first and second halves of the year. During the first six months of the year, a total of 19 over seven day lost time accidents occurred, an average of three per month, while during the latter six months of the year just seven such accidents occurred, an average of one per month. If we are able to maintain the much lower accident rate achieved during the latter half of 2014, our accident rate during 2015 will be significantly below the industry average benchmark.

During 2014, the total number of accidents that resulted in over three days of lost time fell slightly to 31 accidents (2013: 32). Since 2011, the total number over three day lost time accidents has fallen by 14%.

During the latter half of 2014, in particular, we made significant changes to the way we manage H&S across the Group and we believe that our significantly reduced serious accident rate during the second half of the year is reflective of the increased focus on H&S and a result of initiatives that have been introduced.

During 2014 we established an improved Group accident investigation process. The process standardises a common approach across the Group and allows each operating company to thoroughly investigate incidents to identify the root cause of an accident, using a "5 Why" approach. A "strengths of defences" matrix has been established to capture good H&S practices and improve defences with the aim of preventing future risks. A corrective action matrix has also been established, which is tracking corrective actions to completion. These matrices are regularly reviewed by the Group EHS executive, to ensure that strong H&S defences have been identified and implemented.

Accidents with over seven days of lost time per 1,000 employees during 2014



Two-weekly H&S review meetings/conference calls have been established and these are attended by H&S officers from all of our manufacturing sites. Details of all incidents and near misses are shared during the meetings and all of our sites are expected to quickly implement changes to ensure that no recurrence of the incident occurs in their locality.

We have continued to roll out our Behavioural Based Safety (BBS) programme across our manufacturing sites and have established a mentoring system with Spirax Sarco Inc., USA – the first Group company to establish BBS – mentoring the manufacturing companies in Mexico, Argentina and Brazil, and the Group EHS Executive mentoring our other manufacturing organisations. Four manufacturing companies adopted BBS during 2014 and we will continue to roll out the programme during 2015.

H&S awareness training is a key component of BBS. All our manufacturing facilities hold regular EHS training sessions. For example, every month the entire workforce at the Spirax Sarco manufacturing facility in the USA participate in an EHS training session which is delivered by the EHS leader. "Tool box talks" are held at Spirax Sarco UK's manufacturing site, while our Spirax Sarco operating company in France holds a three-day training event for field engineers annually, which includes EHS awareness training.

Spirax Sarco Inc.'s BBS programme and monthly EHS training event are two of the key drivers that have helped the Company to achieve over one year without a lost time accident. In celebration, they recently held an award dinner for employees with prizes given for commitment to the Company's health and safety programmes.

Central to our Group H&S programme is the empowerment of employees to identify and report potential hazards in the workplace and to exercise their right to withdraw from unsafe work areas. In this way, we seek to prevent accidents before they occur. During 2015 we will launch a new H&S excellence vision that will be based on a leading indicator programme. The programme will include an employee concern reporting system, further H&S training, an enhanced near miss reporting system and an action tracking system. The leading indicator programme will prevent the occurrence of incidents, driving down lagging indicators such as the accident rate, making our workplaces safer.

Our workplaces

Objective

To provide for the on-going training and development of our people

Target: 10 days of training per customer facing employee

Average number of formal training days per customer facing employee

Performance in 2014

Recruiting high calibre employees and developing their skills is essential for the long-term sustainability of the business. The knowledge and skills of our customer facing sales and service engineers is one of our key differentiators and is central to our ability to offer value to customers. It is also one of the six strategic priorities through which we are driving growth and delivering shareholder value.

The Group Human Resources Director has ultimate responsibility for ensuring the professional development of our people, he is supported in this by the Group Head of Learning and Talent. At a local level, the Company's management structure provides for mentoring and the professional development of all our employees.

Our engineers are expected to participate in on-going training and we provide opportunities for them to do so, through a combination of classroom based, online and on-the-job learning. Our engineers receive intensive training to build their knowledge of products and applications, and accumulate significant experience over typically many years.

We have 45 training centres worldwide, which are used by both our employees and our customers. We also have an extensive e-learning library which contains courses on a wide variety of topics, such as condensate removal, customer service, project management and problem solving.

During 2014, we slightly increased the average number of formal training days per customer facing employee and added 36 new e-learning courses to our library.

Our Spirax Sarco Leadership Academy prepares promising employees for future leadership positions within the Group. Since launching in 2011, 42 of our future leaders have attended a two-week Advanced Management Programme, run by the Ashridge Business School, 15 of those during 2014.

In addition to supporting the professional development of our people, we provide training on our Core Values, the environment, health and safety, and anti-bribery and corruption, ensuring that our employees understand their personal responsibility in these areas.

Read more on page 21

Sustainability report *continued*

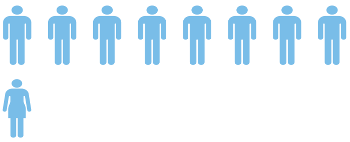
Our workplaces

Objective

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

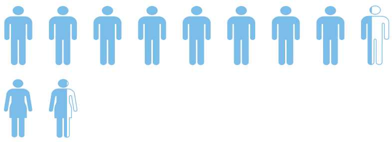
Target: 25% women on our Board as opportunities arise

Board gender diversity



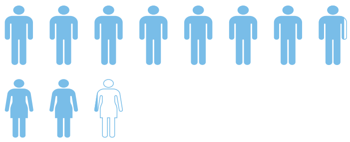
Males: 8 Females: 1

Senior management gender diversity



Males: 348 Females: 68

Total workforce gender diversity



Males: 3,792 Females: 1,005

"We promote all aspects of equality and actively develop diverse management teams with different backgrounds and experiences, contributing to our highly successful global business."

Frank Richardson
Group Human Resources Director

Performance in 2014

We recognise that diversity of gender, age, culture, experience and expertise serve to enhance our ability to govern and operate the business effectively and ethically.

We are fully committed to the principle of equal opportunity in employment and ensure that 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 are also committed to maintaining workplaces free from discrimination, victimisation, harassment or bullying.

As an international business with a direct sales presence in 55 countries worldwide, diversity is an integral part of our operations. For example, the General Managers of our operating companies represent over 35 nationalities. Diversity is also a feature of our Board of Directors, with Board members variously having British, American and Dutch citizenship and an overseas citizenship of India.

We give full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities. We have practices in place to facilitate the continuing employment of those who may become disabled during the period in which they are employed by the Company, and disabled persons are entitled to the same opportunities for training, career development and promotion as all other Company employees.

Spirax-Sarco Engineering plc is a member of the Business Disability Forum, an organisation that offers help and support to companies that are striving to increase their disability awareness, through giving practical advice and sharing best practice.

Achieving an even balance between the genders is a common challenge within the engineering sector as internationally there remains a preponderance of males with engineering qualifications, as well as entrenched gender stereotyping associated with technical careers. Through our work in the community we are trying to address this imbalance and encourage students, irrespective of gender, to consider engineering as a career (see page 54). Graduate recruitment is a key area of focus through which we are seeking to address the gender imbalance in our business. For example, during 2014 Spirax Sarco UK recruited four engineering graduates; two males and two females. We also work with universities to offer "Year in Industry" placements to engineering students and attend Graduate Engineering shows. Through contact with young engineers we aim to spread the message that Spirax Sarco is a great place to work and an equal opportunities employer.

The Group supports 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 also recognise the rights of children and reject the use of forced or compulsory labour.

We communicate regularly with our employees through a variety of channels, such as face-to-face meetings and employee surveys. Our aim is to ensure that all our employees are informed about, and are engaged in, their part of the business locally, while having a wider understanding of the Group and its future direction. Such communication channels also provide opportunities for employees to air grievances or raise concerns which can then be reviewed and appropriately addressed.

Our workplaces

Objective

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

Target: Zero incidents of bribery or corruption

"We will not tolerate breaches of our Anti-Bribery and Corruption Policy; any suspected infringements will be thoroughly investigated."

Andy Robson
General Counsel and Company Secretary

Performance in 2014

Our Core Values of respect, accountability, passion, integrity and delivery, provide the foundation upon which we make our decisions, drive innovation and manage our global operations. The practice of our Core Values makes us more competitive in the marketplace and a better company to work for.

In addition to our Core Values, our Group Management Code articulates the standards that we expect everyone in the Group to meet, including the requirement to comply with laws, regulations and Group policies; the rejection of bribery and corruption; the promotion of ethical business practices; the fair treatment of customers; the confidentiality of information; and respect for our people, communities and the environment.

It is Group policy to conduct business free from bribery and corruption. We will not enter into contractual relationships with third parties who are known to engage in corrupt practices and we will not be involved in giving or receiving bribes or favours. In accordance with Group policy, we do not make political donations.

We raise employee awareness of our Core Values and the Group Management Code through our induction processes, the requirement for all employees to sign up to the Group Management Code and training.

All Directors, senior managers and employees who have regular contact with customers or suppliers must take part in anti-bribery and corruption training and pass an online test to demonstrate their understanding of the Group's Anti-Bribery and Corruption Policy and its implementation. Since its introduction in 2012, over 3,500 employees have completed this training. In this way the Group ensures that it has implemented adequate procedures to comply with the Bribery Act 2010.

It is the responsibility of all employees to alert their manager to any breach of Group policies or procedures. If an employee has reasonable grounds for believing that the Group Management Code is being breached and does not receive a satisfactory response, or feels unable to voice the matter with his or her manager, he or she is able to contact the Company Secretary in Cheltenham and provide full details. The Company Secretary will ensure that the allegation is properly investigated and the employment of the person contacting the Company Secretary will be protected appropriately.

Our environment

Objective

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

Target: All our operating companies to achieve ISO 14001: 2004 by the end of 2016

Employees working in operations with ISO 14001 %

Performance in 2014

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, including waste management and energy consumption. This year we have further increased the total number of our employees who work in operations covered by ISO 14001 to 73% (2013: 66%). We have set a rigorous target for all our operating companies to achieve ISO 14001: 2004 by the end of 2016.

We recognise that clean water is a valuable resource that should be managed effectively. While excellent water management practices are in place locally in some of our operating companies, it is our aim to improve water management across the Group. We do not currently collect water use data at a Group level, but it is our intention to commence Group-wide data collection during 2015. Once a water consumption baseline is established, we will actively monitor and manage performance at a Group level and set water use reduction targets.

Reducing the amount of waste generated by our operations and the quantity of waste sent to landfill is an important component of managing our environmental sustainability. Recycling schemes are in operation across the Group and we have dedicated contractors to pro-actively manage waste. In addition to working hard to manage waste once it is generated, we seek to prevent the creation of waste within our operations. For example, through reducing the quantity of packaging materials and using sustainably sourced and recycled materials wherever possible when shipping our products around the Group and to customers, we prevent the creation of waste and reduce landfill.

Although we have been monitoring waste production and recycling for some time, we do not currently have robust Group-wide waste management and recycling data; it is our intention to improve our data collection processes during 2015.

Sustainability report *continued*

Our environment

Objective

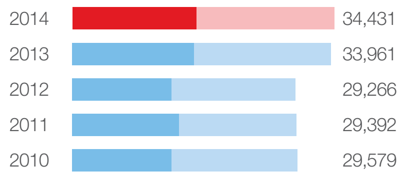
To minimise the environmental impacts of our operations by managing energy consumption with the aim of reducing carbon emissions

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

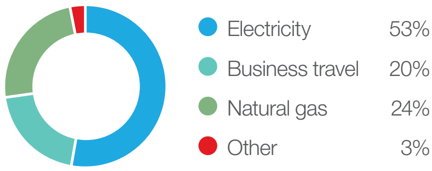
Total Group CO_2e emissions (scope 1 and 2) tonnes

Scope 1 Scope 2



Greenhouse gas (GHG) emissions inventory*

* Scope 1 and 2 emissions



"We are investing in energy efficient equipment and systems to improve our CO_2e emissions intensity."

Mark Wyatt
Group Environment, Health and Safety (EHS) Executive

Performance in 2014

To demonstrate our commitment to measuring, managing and disclosing our emissions, our CO_2e 2014 emissions data have been audited by TÜV Nord UK, who have provided limited assurance as follows:

"TÜV NORD UK 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 2014 to 31st December 2014 (inclusive) are: 16,273 tCO_2e for Scope 1 and 18,158 tCO_2e for Scope 2.

TÜV NORD UK
London
March 2015"

While our total Scope 1 and Scope 2 CO_2e emissions increased marginally this year, we reduced our CO_2e emissions intensity by 2% to 50.8 tonnes per £m of inflation adjusted sales at constant currency.

We have employed 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 2014 this included Spirax Marshall Private Ltd and Econotherm. Also excluded from the footprint boundary are emission sources from operating companies established during 2014 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 2014 to calculate our total CO_2e emissions figures.

Several important steps were taken during 2014 to improve energy management across the Group. For example, Spirax Sarco Korea became our first operating company to obtain ISO 50001, an energy management standard which enables organisations to more efficiently manage energy.

To improve energy management and reduce carbon emissions at the Spirax Sarco manufacturing and R&D site in Cheltenham, UK, the most energy intensive of our operations, during 2014 we commissioned and installed both a Building Energy Management System (BEMS) and a Combined Heat and Power plant (CHP). The BEMS enables the identification of areas of high energy consumption or inefficiency within the plant which can then be targeted to increase efficiency. The CHP plant simultaneously generates usable heat and power (electricity) in a single process. It employs a gas engine to drive an alternator and the resulting electricity is used on site. The heat produced during power generation is recovered and used to raise steam, which is used in our production and testing facilities.

In addition, Spirax Sarco South Africa installed solar panels and energy saving lighting, to generate renewable energy and reduce energy use on site.

Objective

To provide products and services that improve the sustainability of our customers' operations through helping them to improve plant efficiency and productivity, reduce energy and water use and maintain product quality

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

Performance in 2014

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

Reducing CO_2e emissions is one of the key drivers that our customers have for improving their on-site energy management. We estimate that the Spirax Sarco energy management products sold during 2014 will reduce our customers' CO_2e emissions by 4.8 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 taking revised emission factors into account. The calculation is based on a selected range of energy saving products, for which we can quantify savings with reasonable accuracy. Many of our other 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.

The design and unique action of our pumps, as well as the greater efficiency that our customers can achieve as a result of the application of our pumps to their processes, can provide substantial energy savings over other pump types. For example, our MasoSine pumps are designed to gently handle highly viscous products such as raw silicone gum, used in industrial applications. Alternative pump technologies require large electrical motors to handle viscous fluids, which results in a high demand on electrical power. MasoSine pumps are unaffected by high viscosity and use smaller motors compared with other established technologies, requiring less energy to run.

In addition to improving energy efficiency and reducing our customers' CO_2e emissions, our products and services often help to reduce water consumption. For example, within the mining industry the application of a peristaltic pump from Watson-Marlow results in an average water saving of over 70%, in comparison with common centrifugal pumps. For our steam customers, our products and services can reduce water consumption in many ways, for example through improving the management of condensate and returning it to the boiler house; capturing and utilising flash steam, which would otherwise be lost to atmosphere; or improving the quality of boiler feed water, thus reducing the need for boiler "blow-down".

STAPS wireless steam trap monitor

Customer case studies:

Spirax Sarco, China helps Jiangxi Xinglin Baima Pharmaceutical Company Ltd reduce annual coal consumption by 200 tonnes

With a desire to increase energy efficiency and reduce associated costs, the Jiangxi Xinglin Baima Pharmaceutical Company, located in Nanchang, China, recently asked Spirax Sarco to complete an energy survey of their steam system.

The survey found that inappropriately selected and poorly sized steam traps were resulting in steam leakage and a build-up of condensate in the steam system, reducing plant efficiency. Our knowledgeable engineer was able to identify and install the most appropriate type and size of steam traps throughout the steam system to optimise efficiency.

The new steam traps have now been in use for one year. During that time daily coal consumption has been reduced by over 6% saving 200 tonnes of coal in a year. As a result of these impressive improvements in energy efficiency, the pharmaceutical company won an award from the Nanchang Energy Saving Office.

MasoSine pumps save orange juice manufacturer 28,000kWh electricity per year

The energy saving benefits of our MasoSine pumps were central to an orange juice manufacturer's recent decision to purchase two SPS 500 pumps to move highly viscous fruit juices at their manufacturing site in the USA.

Our customer had considered alternative pump types, each of which required a 45kW electrical motor to power the pump to enable it to handle the highly viscous fluids. When our sales engineer demonstrated the ability of a MasoSine pump to handle fluids using only a 31kW electrical motor, the benefits of our pumps were clear.

Assuming 1,000 operating hours a year (four hours/day, five days/week, 50 weeks/year) each MasoSine pump installed at the factory saves the customer 14,000kWh of electricity and reduces CO_2 emission by 7,000kg.

Sustainability report *continued*

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

STEMnet event for local school pupils, Cheltenham

"Community engagement is more than charitable donations, it is giving our talents and time to make people's lives better."

Klaus Rümler
Divisional Director, Asia Pacific

Performance in 2014

As a responsible business we recognise the importance of positively affecting the communities in which we operate. Through providing employment that fairly remunerates people for the work they do, we contribute to the economic wellbeing of individuals, families and the local economies of the areas in which we operate. We supplement this through making charitable donations and engaging in our local communities.

The Spirax Sarco Group Charitable Trust (Trust) makes donations in accordance with the Group Charitable Donations Policy and focuses its donations in the following areas: education; social services for the less advantaged, disabled or abused; healthcare; the arts; the environment; and disaster relief.

During 2014, the Trust made 44 donations, ranging from £150 to £20,000. Charitable donations were made to a geographically widespread and diverse range of charities. For example, the Trust donated £10,000 to the Cheltenham Open Door charity which offers relief to people of a rootless way of life, and made a sizable donation to Masagna UK's "Mentor Ebola Initiative" which is focused on educating local communities to prevent practices that spread the virus.

In addition to donations made by the Trust, a further £47,000 (2013: £64,000) was donated to charitable causes by our operating companies during 2014.

The following principles guide our charitable donations. Donations should:

- benefit the largest possible number of people
- benefit people in our local area
- be given to registered charities
- assist with disaster relief, particularly where our employees or their families might be affected, regardless of location in the world
- not be given to any cause which conflicts with our Ethics Policy
- not be given to political parties.

We encourage our employees to be involved in contributing their time and resources towards improving the quality of life in the communities in which they live and work, and support them in their efforts. Our employees frequently undertake independent fundraising initiatives and raise significant funds for charitable causes that have particular importance to them. For example, this year a group of six Spirax Sarco employees participated in a 24-hour relay race in Shanghai, China to raise money for a charity that provides free operations for children born with a cleft lip or palate. The six runners (five males and one female) between them ran 325km in just 24 hours. Spirax Sarco China donated the race entrance fee and made a contribution to the charity after the race.

As a Group we place particular emphasis on education, particularly in the fields of science and engineering. For example, every year Spirax Sarco UK sponsors the Cheltenham Science Festival and designs a stand, which is manned by our employees, through which it engages children in the science of steam and its modern applications. The Company also hosts STEMnet (Science, Technology, Engineering and Mathematics Network) events for local school pupils at our Cheltenham site. During 2014, Spirax Sarco Korea held free classes for university students whose major is in mechanics, chemical or other engineering-related fields, at their live-steam training facility in Seoul.

Charitable giving is currently organised locally by our operating companies. However, under the direction of Klaus Rümler, Divisional Director, the Asia Pacific division of Spirax Sarco is taking steps to better co-ordinate community engagement across the region. As well as increasing reporting and data collection, Klaus has set community engagement targets and during 2015 will begin a programme of education to raise awareness of the importance of community engagement across our operating companies in the Asia Pacific region.

Our supply chain

Objective

To embed sustainability criteria into our purchasing processes

"We are systematically working with our suppliers to develop a more sustainable supply chain."

Ian Farnworth
Group Supply Chain Director

Performance in 2014

Embedding sustainability criteria into our purchasing processes is central to ensuring the sustainability of our supply chain. Our Supplier Development Guide (Guide) outlines the expectations that we have for our suppliers, particularly in relation to their employees.

Key components of the Guide include:

The employer is chosen

- Suppliers should not use forced, bonded or non-voluntary prison labour; employees should be free to choose to work for, or leave the employment of the supplier

Employment relationships

- Suppliers should establish recognised employment relationships with their employees that are in accordance with national law and good practice
- Suppliers' employees should be provided with an easy to read contract of employment with clarity in relation to wage levels

Suppliers' treatment of employees

- Under no circumstances should suppliers abuse or intimidate employees
- Suppliers should have a grievance/appeal procedure that is clear and easy to understand

Discrimination

- Suppliers should have a policy of equality for all in the workplace with no discrimination on the basis of race, caste, religion, nationality, age, gender, marital status, sexual orientation, disability, union membership or political affiliation

Law

- Suppliers should always work within the laws of their country

Health and safety

- Suppliers should have appropriate H&S policies and procedures and these should be demonstrable in the workplace
- Suppliers should monitor compliance with a H&S policy
- Suppliers should provide employees (at the supplier's expense) with all necessary H&S equipment, eg gloves, masks, helmets
- Working conditions should be comfortable and hygienic, employees should have regular breaks and have access to water suitable for drinking and washing
- Suppliers should identify specific hazards, eg substances or equipment, and should implement processes to minimise risk

We also expect our suppliers to adhere to the UN Guiding Principles on Business and Human Rights and the Core Conventions of the International Labour Organisation and we will not countenance the use of child labour in our supply chain.

In addition to requiring our suppliers to demonstrate high standards in their employment practices, we expect our suppliers to take steps to mitigate their environmental impacts, reject bribery and corruption, maintain product quality and source responsibly.

Pre-qualification questionnaires, annual supplier reviews and on-site visits allow us to assess and monitor suppliers' performance against our required standards. If suppliers are found to fall short of our standards we try to work with them to implement better practices; if they are unwilling, or fail, to improve, we seek to source from an alternative supplier.

During 2014, we established a new Supplier Code that builds upon the key components of the Guide and outlines a more extensive set the non-negotiable minimum standards that we expect our suppliers to adhere to. The new Supplier Code will be rolled out across the Group during 2015. For more information see page 69.

FTSE4Good

Spirax-Sarco Engineering 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.

Our governance

Andy Robson
General Counsel and
Company Secretary

Neil Daws
Executive Director
EMEA

Jay Whalen
Executive Director
WMFTG

Trudy Schoolenberg
Independent
Non-Executive
Director

Krishnamurthy Rajagopal
Independent
Non-Executive
Director

Clive Watson
Independent
Non-Executive
Director

David Meredith
Finance Director

Jamie Pike
Independent
Non-Executive
Director
Senior Independent
Director

Bill Whiteley
Chairman

Nick Anderson
Group Chief
Executive

Chairman's introduction

Governance is at the core of our business

"The highest standards of corporate governance are ingrained in our culture allowing our shareholders to be confident that what we do, we do right."

Bill Whiteley
Chairman

Key points in this section:

- Our shareholders' perceptions
- Full compliance with the UK Corporate Governance Code
- Changes recommended by shareholder representative bodies implemented
- Promoting Group values
- Strengthening and refreshing our compliance programme

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.

[1] **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 2012 applied throughout our financial year ended 31st December 2014.

What governance means to us

We believe that good governance is about being honest, transparent and accountable in the way we run our business. In 2014 we asked external advisers, Investor Perceptions Ltd, to carry out a study to clarify what our shareholders think about us. One of the main findings was that shareholders like our reliability and consider that we are a safe pair of hands. High praise indeed and the Board intends to make sure that we live up to those expectations. To me, good governance and strong ethical values are absolutely essential to a long-term reliable business.

In this section of the Annual Report and Accounts, we set out our approach to governance, 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 2012[1] (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 Rules and Transparency Rules 7.2.6 can be found on page 100.

Turning to the Remuneration report, on pages 76 and 77, 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 2014 sets out the details of executive compensation throughout 2014, which will be subject to the normal advisory vote at the 2015 AGM. At the AGM we will also seek shareholder approval for the renewal of our Performance Share Plan.

Key actions during the year

During 2014 we continued our active dialogue with our principal investors and shareholder representative bodies to ensure that we understand their views. Indeed, we carried out a review of the annual analysis conducted by Institutional Shareholder Services Inc., The Investment Association (formerly IVIS) and Pensions & Investment Research Consultants Ltd. As a direct result of their comments, we have introduced a cap on non-audit fees paid to the auditor of 70% of the average audit fees over the last three years, automatic audit tendering no later than every 10 years, a general statement on matters discussed at the Board to ensure shareholders have adequate information and we have fully disclosed in our Sustainability report employee and health/safety KPIs. Finally, whistle-blowing has been fully reviewed by the Audit Committee and a new whistle-blowing policy issued, compliant with the Whistle-blowing Arrangements Code of Practice issued by the British Standards Institute and Public Concern at Work. We have also improved employee access to the whistle-blowing process by the introduction of a multi-lingual independent hotline.

As a Board, we have ultimate responsibility for the Group's performance and for overseeing the management of risk. The Board and the Risk Management Committee will ensure that new processes are in place for the on-going monitoring of risk management and internal controls from 1st January 2015 as a result of Code changes published in September 2014.

We acknowledge that shareholders look to us to promote the long-term success of the Group and, as Chairman, I recognise that it is my role to provide the leadership to enable it to do so effectively. Building on the externally-facilitated independent review by Dr Tracy Long of Boardroom Review Ltd in 2012, the Board carried out a full anonymous self-appraisal in 2014. As a result of this review, it was decided that, where possible, Committee meetings would be held on separate days to the Board meetings to allow for more in-depth discussion and the number of meetings between all Directors and shareholders would be increased, to their mutual advantage. We are looking forward to Dr Long engaging with us for a second time by carrying out an independent Board effectiveness review in 2015.

The Board takes seriously its responsibility for promoting the Group's 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 has long been at the centre of the Group's values. In 2014 we again improved our compliance programme. Over 3,500 employees have taken our anti-bribery training using a specialised "anti-bribery@work" programme. We will shortly be introducing a biennial refresher examination.

To ensure our suppliers comply with human rights principles, we introduced a Supplier Code which is written to international standards such as the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, the Core Conventions of the International Labour Organisation and the 10 Principles of the United Nations Global Compact.

In striving to achieve excellence in our health and safety performance, we appointed a Group Environment, Health and Safety Executive.

Good corporate governance is part of our everyday life at Spirax Sarco.

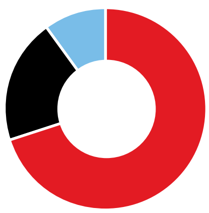
I look forward to meeting you at our AGM on Monday, 11th May 2015.

Focus on our Board

Core expertise

Engineering	9	Operational	3
International	5	Sales and marketing	3
Finance	3	Senior management	3

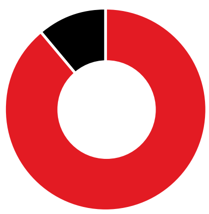
Nationality



British[1, 2]	7
American[1]	2
Dutch	1

1 N.J. Anderson holds dual British and American citizenship.
2 K. Rajagopal also holds an overseas citizenship of India.

Gender



Male	8
Female	1

Full Board biographies can be found on pages 60–61

Board of Directors

Bill Whiteley

BSc, FCMA (66)

Chairman

Committees
Nomination (Chairman)

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

Areas of experience
Senior management, engineering, 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.

Nick Anderson

BSc Engineering, MBA (54)

Group Chief Executive

Committees
Nomination, Risk Management (Chairman)

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, Nick 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, Nick held senior positions with Alcoa Aluminio in Argentina and the Foseco Minsep Group plc in Brazil.

Jamie Pike

MBA, MA, MIMechE (59)

Independent Non-Executive Director
Senior Independent Director

Committees
Audit, Nomination, Remuneration

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 Lafarge Tarmac Limited, Tyman plc and RPC Group.

David Meredith

FCMA, CGMA (55)

Finance Director

Committees
Risk Management

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 (61)

Independent Non-Executive Director

Committees
Audit, Nomination, Remuneration (Chairman)

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.

Neil Daws

CEng, FIMechE (52)

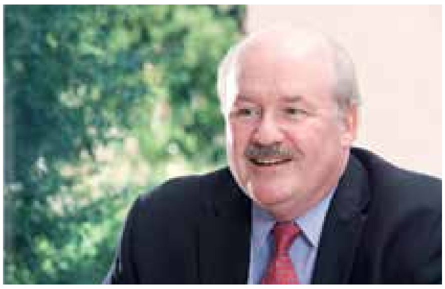
Executive Director, EMEA

Committees
Risk Management

Appointed to the Board
June 2003

Areas of experience
Manufacturing, engineering, product development sales, 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 (58)

Executive Director, WMFTG

Committees
Risk Management

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 (56)

Independent Non-Executive Director

Committees
Audit, Nomination, Remuneration

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 (57)

Independent Non-Executive Director

Committees
Audit (Chairman), Nomination, Remuneration

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.

Note:
Mark Vernon retired as Group Chief Executive in January 2014 and Gareth Bullock retired as an independent Non-Executive Director and Senior Independent Director in May 2014.

Corporate governance report

Board activities in 2014

The Board embeds governance practices throughout the Group so that they are an integral part of running a successful business. In the diagram below we have set out how the Board spent its time during 2014. The Board agendas are linked to the fundamentals of a trusted brand, a clear strategic plan, strong leadership, motivated employees and satisfied customers, together with the necessary checks and balances. We focus on long-term plans for our businesses, the issues that matter on the ground, and what our management and people are doing day-to-day. The Board spends 20% of its time ensuring the Group's operations and risk management controls are effective. In 2014 the Board devoted 35% of its time to the steam business and pump business strategies, the Group 2020 plan and the Group corporate strategy. During 2014 the Board also regularly reviewed the Group's performance and satisfied itself that, despite difficult 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 planning meeting in June. The Board also regarded engagement with shareholders on governance, remuneration and trading as a significant issue.

The Board adopted a Human Rights Policy to support our values, which is explained in the Sustainability report on page 50.

Director development

Directors attend formal training seminars to update their knowledge and duties. The Board is regularly notified of changes to relevant laws and regulations. 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 enable a review of new product development, regional operations, business strategies and employee development.

An induction pack is provided to new appointees to the Board and induction procedures include site visits, briefings by senior managers and meetings with major shareholders.

Fair, balanced and understandable

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

Compliance with the Code

The governance rules which applied to the Group for 2014 are found in the Code. The Group's compliance in 2014 with each provision of the Code is set out in detail on the Group's website, www.spiraxsarcoengineering.com, under the Governance section.

The Group complies with every provision of the Code including provision B.1.2 (balance of the Board between Executive and Non-Executive Directors). Following the retirement of Mark Vernon and Gareth Bullock, and the appointment of Jamie Pike as an independent Non-Executive Director, we deliberately moved to a position of compliance as the number of independent Non-Executive Directors, excluding the Non-Executive Chairman, now equals the number of Executive Directors.

The Board is committed to the Code provisions on board diversity and has set measurable objectives to monitor progress. Diversity is discussed in more detail in the Nomination Committee's report on pages 70 and 71.

Board focus during 2014

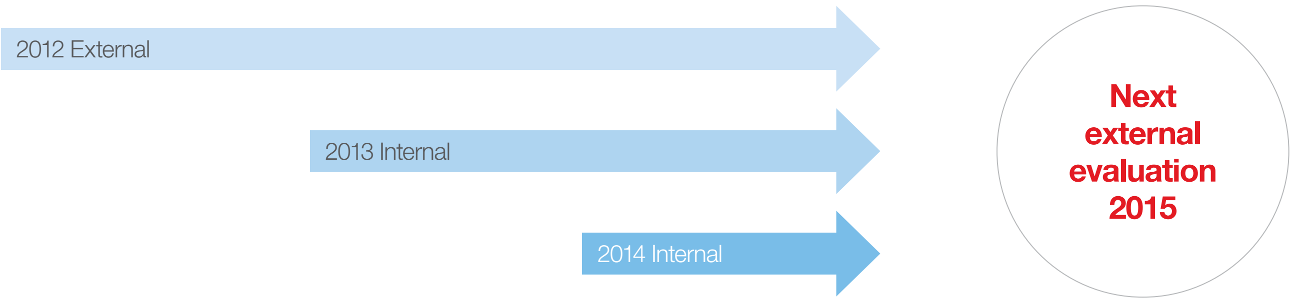
Strategy	35%
Operations and risk	20%
Governance and shareholders	15%
Finance	10%
New product development	10%
People and succession	10%

Board effectiveness

In 2012, we commissioned an independently facilitated Board effectiveness review conducted by Dr Tracy Long of Boardroom Review Ltd, in accordance with the provisions of the Code. We intend to carry out a follow-up review with Dr Long in 2015. The Board effectiveness review for 2013 focused on monitoring progress with Dr Long's recommendations and this was taken a step further in 2014 when we conducted our own Board effectiveness evaluation. As a result, the Board actioned the following in 2014:

- Detailed strategic business and corporate planning in June 2014
- Reviewed succession planning and development of senior managers
- Actively engaged in diversity through the deployment of diversity training for all UK employees and was involved in senior succession planning, including the appointment of females in the roles of Head of Group Marketing, UK Head of Human Resources, EMEA Strategic Programme Manager and Group Head of Compensation and Benefits
- Formalised Committee feedback to the Board
- Reviewed the schedule of Board and Committee meetings across the year and, wherever possible, ensured that Committee meetings are held on a different day from the Board meetings to ensure that there is adequate time for important matters to be fully and properly discussed.

Board evaluation cycle



Board attendance

Details of the number of Board and Committee meetings, and individual attendance by Director for 2014, are set out in the table below.

	Board	Audit Committee	Nomination Committee	Remuneration Committee	Risk Management Committee
Number of meetings	**7**	**3**	**2**	**3**	**2**
W.H. Whiteley	7	N/A	2	N/A	N/A
N.J. Anderson	7	N/A	2	N/A	2
D.J. Meredith[1]	6	N/A	N/A	N/A	2
N.H. Daws	7	N/A	N/A	N/A	2
J.L. Whalen	7	N/A	N/A	N/A	2
G.R. Bullock[2]	2	0	1	1	N/A
K. Rajagopal	7	3	2	3	N/A
J. Pike[3]	4	1	0	1	N/A
G.E. Schoolenberg	7	3	2	3	N/A
C.G. Watson[4]	7	3	2	2	N/A

[1] Absence due to illness.
[2] Retired 20th May 2014.
[3] Appointed 1st May 2014.
[4] Absence due to prior commitment.
N/A means not applicable.

Corporate governance report *continued*

Governance structure

The Board Committees and functions are listed below, together with an overview of their activities and the main person responsible. The Terms of Reference for the Committees are published on the Group's website, www.spiraxsarcoengineering.com, under the Governance section.

Group Board

Bill Whiteley
(Chairman)

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

Responsibility

Audit Committee	Nomination Committee	Risk Management Committee	Remuneration Committee
Monitors integrity of financial statements Ensures significant issues have been addressed Reviews effectiveness of internal controls and external auditor.	Recommends Board appointments Reviews succession plans.	Ensures risk management is meaningful, relevant and focused on improving the business Risk scenario planning: China and EMEA Risk review compliance.	Recommends remuneration strategy and framework to attract, retain and reward senior executives Determines annual Executive Director and senior executive remuneration Approves Performance Share Plan (PSP) awards Determines the remuneration policy set out in the Remuneration policy report 2014.

Further information on each of the Committees' activities during the 12-month period to 31st December 2014 is set out in pages 66 to 97.

Group 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 2014 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 63. 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.

Roles and responsibilities

Key Board matters

The approval of corporate and strategic business plans

The approval of the annual and interim results

Interim management statements

Acquisitions/disposals

Major capital expenditure

Director appointments

Major 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

Audit Committee

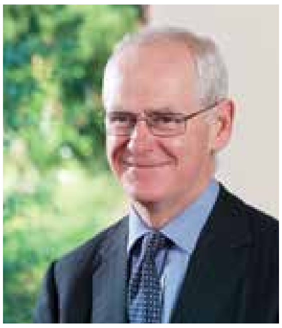
"The transition to Deloitte LLP as the Group's auditor proceeded seamlessly and, on the back of this change, we now regularly assess the auditor's effectiveness which we will use as the basis for reporting to shareholders."

Clive Watson
Chairman, Audit Committee

Membership and attendance

Committee member	Attendance
Number of meetings	3
C.G. Watson	3
G.R. Bullock[1]	0
J. Pike[2]	1
K. Rajagopal	3
G.E. Schoolenberg	3

1 Retired 20th May 2014.
2 Appointed 1st May 2014.



How the Committee spent its time during the year

Finance and tax reviews	20%
Corporate governance	15%
External audit	15%
Internal audit	15%
Results review	15%
Risk management and controls	15%
Information security	5%

Role of the Committee

The key responsibility of the Committee is to review the effectiveness of the Group's financial reporting and internal controls. The Terms of Reference for the Committee are set out in detail on the Group's website, www.spiraxsarcoengineering.com, under the Governance section.

Summary of the key Committee activities in 2014

- Financial statements
- Auditor effectiveness and audit process
- Human rights
- Restructure of finance team
- Internal audit

Read more on pages 67–69

Matters considered

In 2014, the following matters were considered by the Committee and, where applicable, by the Board or other Committees:

Global competition and markets	**Return of capital to shareholders**	**Share plans and similar arrangements**
Reprioritisation of principal risks	**Acquisitions/disposals**	**Operating company reviews**
Annual forward plan	**Audit tender and appointment of Deloitte LLP**	**Anti-bribery and corruption**

Review of 2014

The Committee met three times in 2014.

Both the internal and external auditors attend its meetings and have direct access to the Committee Chairman.

The Committee reviews the effectiveness of the internal audit and tracks the findings and the responsiveness of management to any issues identified. 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, pension valuation and risk management.

The Group has complied with the provisions of the Competition & Market Authority (CMA) Order issued by the CMA in September 2014.

Auditor

Following shareholder approval at the 2014 AGM, Deloitte LLP was appointed as the Company's external auditor as of 20th May 2014. We explained the tender and appointment process relating to Deloitte's appointment in full in the 2013 Annual Report and Accounts. This appointment will be subject to on-going monitoring and will run for a maximum period of 10 years before being tendered.

Responding to recent amendments to the UK Corporate Governance Code 2012 (Code) that focus attention on the robustness of the audit process and how the external audit process has been assessed by audit committees, the Committee revised its Terms of Reference to include an assessment of external audit effectiveness.

Significantly, the Committee has changed its processes so that external audit effectiveness is now regarded as an on-going matter.

The effectiveness of the independent external audit was assessed by the Committee following a review from all audited operating units, the Group Finance team and feedback from Directors and senior management. The assessment included a questionnaire covering audit quality and client service.

Further, in anticipation of forthcoming EU legislation and responding to recommendations from shareholders, the Committee has adopted a cap on non-audit fees paid to the external auditor of 70% of the average of audit fees charged in the last three years. The Committee noted that non-audit fees have historically been well below this cap.

Restructure of finance team

In light of the increasing complexity and size of the Group's business, the Finance Director undertook a review of the finance function. The new organisation equips the Group for the future in terms of financial skills, resource and technology. The Committee reviewed and approved the changes.

Internal audit

The Committee focused on the plan of work for the internal audit team and scrutinised the internal audit report to ensure any deficiencies in operations were remedied. The internal audit process is explained on page 73.

Information security

Whilst the Group does not consider that it is a high risk for information theft and assesses itself as a low value opportunity for cyber-attack, it recognises that cyber-crime is a growing threat to all businesses and is taking the appropriate measures to remain secure. As a result of an increased focus in this area a small number of attacks, primarily in countries where cyber-crime is more common, were detected and prevented before being able to affect the security of our systems during the year.

Appropriate measures are in place across the Group in this area and include:

- Identification of information assets at risk to ensure relevant protection is in place
- Anti-virus software, provided by third-party experts, regularly updated to detect and prevent attack infection of our systems by unwanted and potentially malicious code
- Email filtering, provided by third-party experts, to reduce the risk of software attacks
- Cyber-security testing to assess our systems and help provide solutions to prevent possible future attack. The testing, carried out by the Commercial Arm of the Government Communications Headquarters, covers threat modelling and vulnerability analysis. A report is provided covering areas such as poor password control, poor configuration of software or hardware, and the strength of defences in place such as anti-virus software and security patching. Any identified risks are addressed and a re-test performed to ensure the issues have been fully resolved

Audit Committee *continued*

- A single third party, who is Government and Ministry of Defence certified, to provide, monitor, and manage our global network, in line with industry best practice
- Information security audits and an Information Systems risk register to manage, mitigate and prevent risks
- Processes and procedures to prevent incidents affecting our information systems and to continuously improve our policies and procedures.

In addition an on-going programme of education for key business leaders and Information Systems staff in prevention, detection and control of cyber-attacks has been rolled out.

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) Taxation

There is judgement involved in the estimation of the Group's tax charge, in assessing the risk of successful challenge by local tax authorities and the recoverability of deferred tax assets. The Committee considered reports by the Company, including those relating to transfer pricing arrangements.

The Committee also considered the appropriateness of recognition of deferred tax assets, including those relating to brought forward tax losses in the UK as a result of accelerated pension payments, noting that such payments ceased from October 2014. The Committee reviewed, and is comfortable with, the forecasts and assumptions supporting utilisation of these losses.

(ii) The carrying value of goodwill

The Committee focused on the carrying value of goodwill, including the sensitivity analysis and agreed with the conclusion reached that no impairments were required, other than in relation to the goodwill carried in respect of the Group's Associate Company, Spirax Marshall, in India. The Committee agreed with the conclusion that in this case the goodwill should be impaired to nil value reflecting the impending sale of this business.

(iii) Inventories

These 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.

(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 that from independent external advisers and is comfortable that the key assumptions are reasonable.

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

The Committee carried out a full assessment and review to ensure the new more exacting 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.

Whistle-blowing

The Group is committed to promoting a safe and effective culture for employees to raise genuine concerns. To this end, and as a matter of best practice, in 2014 the Committee reviewed all whistle-blowing cases that had occurred over the previous three years, together with actions taken, and refreshed the Whistle-blowing Policy. The Committee also oversaw the implementation of a multi-lingual whistle-blowing helpline to ensure that employees can freely access an independent third party.

Review of financial statements

During 2014 the Committee considered many components of 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
- Reviews of the budget and operational plan
- Review of information security.

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

Fair, balanced and understandable report and accounts

One of the key governance requirements is for the Annual Report and Accounts to be fair, balanced and understandable. The co-ordination and review of the Group-wide input into the Annual Report and Accounts 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 and Accounts 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
- Comprehensive review by the senior management team.

The Directors' statement on a fair, balanced and understandable Annual Report and Accounts is set out on page 62.

The Committee also reviewed a benchmarking exercise of the Company's 2013 Annual Report and Accounts against a sample of 50 FTSE 350 companies, which produced a number of recommendations to improve this year's Annual Report and Accounts: separate approval of the Strategic report; explanation of management of human rights in the supply chain; enhanced disclosure on audit effectiveness.

Human rights in the supply chain

In 2014, the Group made a renewed commitment 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. The new Group Environment, Health and Safety Executive will, in the future, ensure compliance by all suppliers with the Spirax Sarco Supplier Code, which 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. The Code is written to international standards such as the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, the Core Conventions of the International Labour Organisation and the 10 Principles of the United Nations Global Compact.

Committee plans for 2015

- Financial statements
- Effectiveness assessment
- On-going monitoring of risks
- Review opinion and management actions.

Nomination Committee

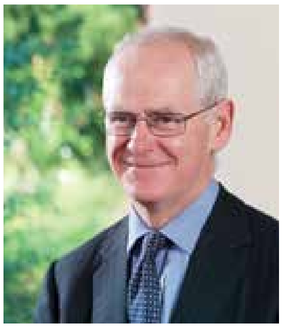
"We aim for a strong, well balanced and diverse Board and senior management, equipped with professional skills and experience."

Bill Whiteley
Chairman, Nomination Committee

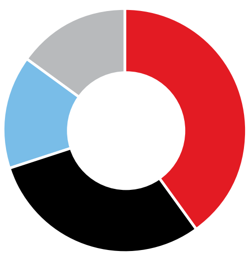
Membership and attendance

Committee member	Attendance
Number of meetings	2
W.H. Whiteley	2
N.J. Anderson[1]	2
G.R. Bullock[2]	1
J. Pike[3]	0
K. Rajagopal	2
G.E. Schoolenberg	2
C.G. Watson	2

[1] Appointed to Committee 16th January 2014.
[2] Retired 20th May 2014.
[3] Appointed 1st May 2014.



How the Committee spent its time during the year



Recruitment	40%
Succession planning	30%
Board and Committee composition	15%
Diversity	15%

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 2014

- Recommended to the Board the appointment of Jamie Pike as an independent Non-Executive Director and Senior Independent Director
- Succession planning
- Diversity

Read more on page 71

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 2014

We recommended the appointment of Nick Anderson as Group Chief Executive. This appointment was part of the Group's on-going succession planning and followed a comprehensive nomination process.

Gareth Bullock advised the Board that he did not intend to seek re-election at the AGM after completing nine years as an independent Non-Executive Director and Senior Independent Director, which is the maximum period of tenure for assured independence as set out in the Code. In consequence of Gareth Bullock stepping down, the Committee recommended to the Board that Krishnamurthy Rajagopal take over as Chairman of the Remuneration Committee.

The Committee engaged in a planned succession process to appoint Jamie Pike as an independent Non-Executive Director and Senior Independent Director, with the appointment being approved by shareholders at our 2014 AGM.

Korn Ferry, who do not have any other connection with the Company, assisted with the appointments of Nick Anderson and Jamie Pike.

We have given increased focus to leadership development through robust succession planning and a strengthened performance management culture. We seek to ensure that we have a high-performing workforce and that we better identify tomorrow's leaders. We have a management development plan for those individuals demonstrating high potential fulfilled 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 formed part of the strategic planning meeting held in June 2014.

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 through gender, age and cultural diversity and it is our policy to consider overall Board balance and diversity when appointing new Directors. As illustrated on page 59, the diverse range and nationalities 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 therefore we are confident that this target can be achieved. We ensure that, when vacancies arise, women candidates for Board positions are actively encouraged as part of the recruitment process. Board appointments are, in the final analysis, made on merit.

We will also encourage the progress of women in senior positions throughout the Group and, during 2014, women were appointed as Head of Group Marketing, UK Head of Human Resources, EMEA Strategic Programme Manager, Head of Compensation and Benefits and Head of Learning and Talent. We are also constantly improving the intake of female professionals to ensure a better talent pipeline for senior leadership roles in the future.

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

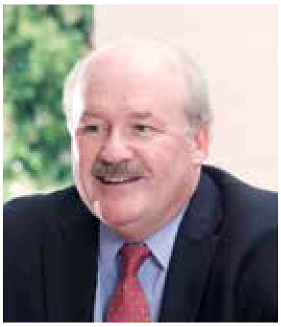
Risk Management Committee

"We seek to identify, manage and mitigate risks to protect our business."

Nick Anderson
Chairman, Risk Management Committee

Membership and attendance

Committee member	Attendance
Number of meetings	2
N.J. Anderson	2
D.J. Meredith	2
N.H. Daws	2
J.L. Whalen	2



The following executives are also members of the Committee: Divisional Director, Americas (Alberto Grandi), Divisional Director, Asia Pacific (Klaus Rümler), 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).

How the Committee spent its time during the year

Risk management framework	20%
Anti-bribery	15%
Group policies	15%
Internal controls	15%
Sanctions and embargo compliance	15%
Business continuity	10%
Competition compliance	10%

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 2014

- Group risk register and principal risks review
- Scenario planning
- Sanctions
- Global insurance programme
- Historical review

Read more on pages 73–74

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 these risks 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 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 on 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 on the Group's performance.

The principal risks and the product of the 2014 review are set out on pages 28 and 29.

Internal controls

The Board 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.

There is an on-going review process for identifying and managing risks faced by the Group which has been in place from 2013 and up to the date of the Annual Report and Accounts. The review covers and assesses the effectiveness of all material controls, including financial, operational and compliance controls and risk management systems. This ensures that proper accounting records have been maintained, financial information used within the business is reliable and the consolidated accounts preparation and financial reporting process comply with all relevant regulatory reporting requirements. The system of internal controls is designed to manage, rather than eliminate, the risk of failure to achieve the business objectives.

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

In pursuing these objectives, 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 Annual Report and Accounts with the Code provisions on internal controls.

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.

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 made in the operating companies audited during the year.

As explained by the Chairman, in his introduction to Governance on pages 58 and 59, we have built on our strong anti-corruption culture and our Anti-Bribery and Corruption Policy, which includes specific policies and a comprehensive training programme called "anti-bribery@work". The programme, which is available in 14 different languages, was successfully rolled out across the entire Group in 2013 and 2014, resulting in over 3,500 employees having participated. We also ensure that all relevant new appointees undertake the training. The training will be refreshed on a biennial basis. The Group Legal function also makes face-to-face presentations throughout the Group on business ethics.

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. We also followed up on compliance with our Competition Policy, which was introduced in 2012, to ensure the Group conducts its business in accordance with the competition laws of all the countries in which it operates.

Risk Management Committee *continued*

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:

Group risk register review

We eliminated some of the lower impact/likelihood risks on the risk register and reduced the number of risks from 21 to 14, to enable resources to be focused on the most important risks. We have made sure that our mitigation actions remain robust and implemented changes to improve mitigation of the risks where necessary. The Committee's analysis of the risks affecting the Group are shown in the "bubble" diagram on page 28. This analysis informed the determination of the principal risks set out on page 29.

Principal risks

We reviewed to determine whether the risks themselves have changed during 2014, and for the purposes of reprioritisation. Our view of the changes are set out in the principal risks table on page 29. We have removed one principal risk shown in our 2013 Annual Report and Accounts (Failure to realise acquisition objectives). The Committee will assist the Board in complying with significant changes to the Code's requirements on risk management and internal controls, effective 1st January 2015. The key change is Board monitoring throughout the year rather than an annual review.

Historical review

We carried out a historical review to determine if the principal risks and risks on the risk register relate to the events that actually occurred in the last three years and if there was effective mitigation. In the main, the Committee considered that the predictions were correct and the risks were managed effectively.

Serious incident procedure

We implemented a Serious Incident Procedure to ensure that the Group is well-positioned in responding to serious incidents which require extraordinary action.

Sanctions policy

We updated the Sanctions Policy and Guide to ensure compliance with UN, USA, European and UK laws and regulations.

Global insurance programme

We reviewed and improved our global insurance cover.

Remuneration Committee

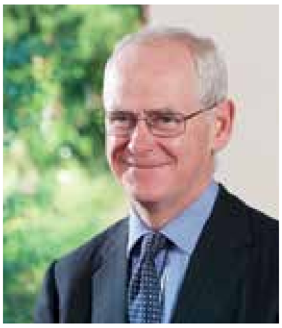
"Alignment between our strategy, the interests of shareholders and Executive Directors by rewarding excellent long-term performance is our goal."

Krishnamurthy Rajagopal
Chairman, Remuneration Committee

Membership and attendance

Committee member	Attendance
Number of meetings	3
K. Rajagopal	3
G.R. Bullock[1]	1
J. Pike[2]	1
G.E. Schoolenberg	3
C.G. Watson[3]	2

[1] Retired 20th May 2014.
[2] Appointed 1st May 2014.
[3] Absence due to prior commitment.



How the Committee spent its time during the year

Implementing pay policy	35%
Bonus target setting	15%
PSP target setting	15%
Bonus achievement	10%
Determining pay policy	10%
PSP achievement	10%
Directors' contracts	5%

Role of the Committee

The Committee determines executive remuneration policies and sets targets for medium and long-term performance-based incentive schemes. It also monitors compliance with the Remuneration policy 2014.

Summary of the key Committee activities in 2014

- Set bonus and LTIP performance targets
- Ensured compliance with Remuneration policy 2014
- Reviewed Executive Director pay and benefits

Read more on pages 76–97

Remuneration Committee *continued*

Dear Shareholder

On behalf of the Board, I am pleased to present our Remuneration report for 2014. I am happy to confirm that the implementation of Executive Director remuneration, in 2014, complied fully with our Remuneration policy agreed by shareholders at the AGM in May 2014. We also comply with the Government (Department for Business, Innovation and Skills) reporting regulations on Directors' pay, introduced in October 2013.

This report has been split into three sections:

- Statement by the Chairman of the Committee
- An Annual report on remuneration 2014 which explains how the Remuneration policy has been implemented during the year ended 31st December 2014
- The approved Remuneration policy which describes and explains the components of the Company's Remuneration policy, unchanged from 2013.

We will seek your support for the Annual report on remuneration, in the form of an advisory vote, at the AGM on 11th May 2015.

We would like to thank shareholders for their support of the Annual report on remuneration 2013 and the Remuneration policy 2014. At the AGM on 20th May 2014, the advisory vote on the Annual report on remuneration 2013 received 99.4% of the votes in favour and the binding vote on the Remuneration policy 2014 received 98.5% of the votes in favour. The Remuneration policy was implemented immediately following the AGM. We have continued to actively seek and take into account the views of shareholders when reviewing Executive Director remuneration. 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.

Executive Director salary reviews 2015

Salaries were reviewed in accordance with the Remuneration policy taking into account Company and individual performance, wider workforce comparisons and market benchmarking.

In line with policy, Nick Anderson's salary on appointment was set below what would normally be paid for this position and below the market median, with the intention, subject to performance, of realignment over the next two or three years. Considering this and Nick's strong performance in his first year as Group Chief Executive, the Committee agreed to an initial increase in his salary of 4.2%, which is higher than the average increase for the broader UK employee population this year of around 2%.

Jay Whalen also received a 4.2% increase, which is higher than the USA average increase of 3%. Jay is now permanently located in the USA and revised market data was obtained for a divisional head of a UK parent located in the USA to ensure Jay's remuneration is competitive in that market. Jay's performance in achieving consistently good results at WMFTG was considered as excellent by the Board.

Both Nick Anderson's and Jay Whalen's salaries remain below market median.

Business performance

As noted in the Chairman's statement on pages 2 and 3, the Company made further progress in 2014 with Group revenue up 5% and pre-tax profit up 12%, both at constant currency, contributing to earnings per share (EPS) growth of 13% at constant currency, or 1% at reported exchange rates, and a Return on Capital Employed (ROCE) of 44.6% (as determined under the annual bonus plan rules). Over the three-year period ending in 2014, the Company delivered a total shareholder return (TSR) of 65.2%. A 9% increase in the total dividend for the year (excluding the special dividend), extends our dividend record to 47 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". Maximum payout in 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 2014 (given as a single figure for each Director on page 78) reflects the progress made by the Company during 2014, as well as over the last three years.

Annual bonuses are based on adjusted operating profit and ROCE targets. The Group profit achievement of £153,509,000 (as determined under the annual bonus plan rules) was 1.5% below the plan target and the ROCE achieved of 44.6% was 1.1% above the 44.1% plan target. These achievements resulted in a 55.76% 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 79 and 80.

Continuing difficult macro-economic conditions have resulted in some of the demanding performance targets in the PSP only being partially met. Shares awarded in the PSP up to 2013 vest based on growth of two measures TSR (60%) and EPS (40%) over the three-year plan period. Performance on the EPS measure resulted in a nil vesting. A 65.2% increase in TSR in the three years to 2014 triggered a 55.1% award for the TSR element. The total number of shares vesting under both elements was therefore 33.06% of the total shares awarded. (Details of bonus and PSP awards can be found on pages 80 and 81.)

Board changes in 2014

As reported in the 2013 Annual Report and Accounts, Nick Anderson was appointed Group Chief Executive in January 2014. In light of his new appointment, the Committee reviewed Nick's contract and remuneration package to ensure compliance with the Remuneration policy and, in line with that policy, his salary on appointment was set below median and below what would normally be paid for this position. It is the Committee's intention that all new appointments to the Board, or significant changes to the scale, scope or responsibilities of existing Executive Directors, will result in new contracts being agreed in accordance with the policy. For more information see Service agreements and termination policy on pages 94 and 95.

Committee change in 2014

As previously reported, Gareth Bullock stepped down as Chairman of the Committee in December 2013. He also retired as an independent Non-Executive Director and Senior Independent Director in May 2014. Jamie Pike was appointed as an independent Non-Executive Director and Senior Independent Director in May 2014 and has joined the Remuneration Committee.

Our Remuneration policy and links to strategy

The elements of Executive Director remuneration are described and explained in the Policy table on pages 90 to 92. The principal aims of the Committee, as it reviews and establishes remuneration policy, are outlined below:

1) To maintain a competitive remuneration package that will attract, retain and motivate Executive Directors of the calibre required to meet the Group's strategic objectives both in the short and long term.

2) To align the interests of shareholders and Executive Directors. This will be achieved through the use of long-term incentives, which reward TSR and EPS growth, and by requiring Executive Directors to build a significant shareholding themselves, ensuring that they are directly exposed to the same degree of gains or losses as all other shareholders.

3) To support the achievement of the Group's strategic priorities to:

   - 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
   - Operate sustainably and help improve our customers' sustainability.

   For more details of the strong connection between strategy and remuneration, and the description of performance measures and relevant targets, see the Policy table on pages 90 to 92.

4) To align Executive Director remuneration with financial KPIs. For more details see the description of performance measures and relevant targets on pages 90 to 92.

5) To ensure that superior awards are only paid for exceptional performance against challenging targets. Base salary is reviewed annually and takes into account the scale, scope and responsibility of Executive Director roles; the skills and experience of individuals; wider workforce comparisons; and market benchmarking, within a defined external comparator group.

The annual bonus plan and PSP reward financial performance, both absolute and relative, to ensure that there is clear and demonstrable pay for performance.

The Committee believes that the current Remuneration policy, implemented during 2014 and outlined in this Remuneration report, offers a fair and competitive package for Executive Directors: rewarding performance while supporting the interests of shareholders.

Changes for 2015

Performance Share Plan

The current Performance Share Plan rules expire on 15th March 2015 and the new rules will be put to shareholders for approval at the AGM.

Krishnamurthy Rajagopal
Chairman, Remuneration Committee

4th March 2015

Annual report on remuneration 2014

1.0 Annual report on remuneration 2014

This section sets out the Directors' remuneration for the financial year ended 31st December 2014.

The following information has been audited by Deloitte LLP:

- Single total figure of remuneration
- Pension
- Scheme interests awarded between 1st January 2014 and 31st December 2014
- Payments to past Directors
- Loss of office payments
- Directors' shareholdings.

1.1 Single total figure of remuneration (audited)

	Salary/Fees		Benefits		Annual bonus		PSP/Options[1]		Pension		ESOP[2]		Total	
	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**
Executive Directors														
M.E. Vernon[3]	£500,000	**£21,154**	£236,863	**£59,168**	£476,200	**£0**	£229,806	**£191,572**	£150,281	**£26,730**	N/A	**N/A**	£1,593,150	**£298,624**
N.J. Anderson[4]	£287,669	**£468,442**	£12,815	**£16,782**	£273,947	**£261,203**	£77,846	**£136,777**	£71,917	**£115,443**	£2,050	**£1,468**	£726,244	**£1,000,115**
D.J. Meredith	£307,000	**£317,000**	£19,519	**£19,387**	£292,387	**£176,759**	£140,332	**£156,759**	£96,340	**£105,980**	£2,079	**£1,468**	£857,657	**£777,353**
N.H. Daws	£280,000	**£288,000**	£17,627	**£17,523**	£259,075	**£168,077**	£122,247	**£144,151**	£70,000	**£72,000**	£2,079	**£1,468**	£751,028	**£691,219**
J.L. Whalen[5]	£250,955	**£258,599**	£25,909	**£24,591**	£198,054	**£168,891**	£77,250	**£128,893**	£105,261	**£143,753**	N/A	**N/A**	£662,150	**£724,727**
Chairman and Non-Executive Directors														
W.H. Whiteley	£143,000	**£150,000**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	£143,000	**£150,000**
G.R. Bullock[3]	£55,000	**£20,000**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	£55,000	**£20,000**
J. Pike[6]	N/A	**£31,954**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**£31,954**
K. Rajagopal	£44,500	**£54,500**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	£44,500	**£54,500**
G.E. Schoolenberg	£44,500	**£46,000**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	£44,500	**£46,000**
C.G. Watson	£53,000	**£54,500**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	N/A	**N/A**	£53,000	**£54,500**

1 The 2014 column relates to PSP awards. The 2013 column relates to PSP awards for all Executive Directors, with the exception of J.L. Whalen where it relates to share options granted prior to his appointment to the Board.
2 Matching shares awarded during the year.
3 2014 remuneration calculated to date of retirement from the Board. M.E. Vernon retired on 15th January 2014 and G.R. Bullock retired on 20th May 2014.
4 N.J. Anderson was appointed Group Chief Executive on 16th January 2014.
5 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 and Accounts.
6 Remuneration calculated from date of appointment to the Board on 1st May 2014.

Salary/fees

The following table sets out the 2014 base salary increase for each of the Executive Directors compared to 2013.

Executive Directors	2014	2013	Increase
M.E. Vernon[1]	£500,000	£500,000	0.0%
N.J. Anderson[2]	£475,000	£320,000	48.4%
D.J. Meredith	£317,000	£307,000	3.3%
N.H. Daws	£288,000	£280,000	2.9%
J.L. Whalen	£258,599	£250,955	3.1%

1 M.E. Vernon's salary did not increase due to his retirement on 15th January 2014.
2 N.J. Anderson's 2013 salary refers to his role as Chief Operating Officer. The 48.4% increase in salary reflects N.J. Anderson's appointment as Group Chief Executive on 16th January 2014.

The increases for the Executive Directors were similar to the average increase for UK employees for 2014 and also took into account market positioning, Company and individual performance and returns to shareholders over the period.

The following table sets out the 2014 fees for the Chairman and Non-Executive Directors. Pay for the Chairman and Non-Executive Directors does not vary with performance.

Chairman and Non-Executive Directors	Basic fees	Additional fees	Total fees
W.H. Whiteley	£150,000	N/A	£150,000
G.R. Bullock[1]	£46,000	£2,000	£48,000
J. Pike[1]	£46,000	£2,000	£48,000
K. Rajagopal[2]	£46,000	£8,500	£54,500
G.E. Schoolenberg	£46,000	N/A	£46,000
C.G. Watson[2]	£46,000	£8,500	£54,500

1 G.R. Bullock received £2,000 (pro-rated) in respect of his duties as Senior Independent Director up to his retirement on 20th May 2014. J. Pike received £2,000 (pro-rated) in respect of his duties as Senior Independent Director with effect from 21st May 2014.

2 K. Rajagopal received £8,500 in respect of his role as Chairman of the Remuneration Committee. C.G. Watson received £8,500 in respect of his role as Chairman of the Audit Committee.

Benefits (excluding pension)

Benefits	M.E. Vernon	N.J. Anderson	D.J. Meredith	N.H. Daws	J.L. Whalen
Company car and associated running costs or cash alternative allowance	£957	£16,376	£18,432	£16,776	£15,156
Private health insurance	£18	£406	£406	£406	£9,435
Telecommunications and computer equipment	£0	£0	£549	£341	£0
Mobility-related benefits:					
– Tax Treaty Adjustment payment (not tax equalisation, see page 91)	£58,192	N/A	N/A	N/A	N/A
– Tax advice[1]	£11,750	N/A	N/A	N/A	£12,350
Life assurance[1]	£30	£732	£488	£444	£398
Long-term disability insurance[1]	£82	£2,014	£1,344	£1,221	£1,096

1 Not taxable therefore not included in Single total figure of remuneration.

Pension

Full details of the pension benefits are set out at section 1.2 on pages 82 and 83.

Annual bonus

Executive Directors participate in the annual bonus plan. The annual bonus plan rewards Executive Directors for financial performance both at Group level and, where appropriate, for the division for which they are responsible. Targets are reviewed annually to ensure continuing alignment with strategy. Bonus levels are determined following the year end by the Committee based on performance against targets. Bonus is payable entirely in cash for the financial year ended 31st December 2014. In accordance with the share ownership guidelines, Nick Anderson and Jay Whalen will use that part of their 2014 annual bonus over 60% of base salary (net of tax) to buy shares within 12 months of receipt of bonus.

Any bonus payment is based entirely on the achievement of challenging financial measures, which have been chosen as they are clearly aligned with the Company's strategy. The mix of performance measures is tailored to the specific role of the Executive Director:

Group roles: Group operating profit (65%) + Group ROCE (35%)

Divisional roles: Group operating profit (35%) + Group ROCE (35%) + divisional operating profit (30%)

The above 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 the impact of the start-up of the new operation in India.

Bonus payments are subject to clawback for up to three years following payment. Circumstances 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	2014 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%)

Annual report on remuneration 2014 *continued*

Achievement of target performance results in a bonus of 60% of salary, increasing to 100% of salary for maximum performance.

2014 was a good year for the Group which delivered earnings growth, increased operating profit margin and increased dividends to shareholders. The annual bonus payments to Executive Directors ranged between 55.76% and 65.31% of target.

The annual bonus has stretching targets that the Committee determines each year for the Executive Directors, in order to incentivise above target performance.

The table below summarises the achieved performance in 2014 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 2014	Actual performance[1]	Below target	Target	Above target	Maximum
Group operating profit	£153.5m	✓			
Group ROCE	44.6%			✓	
EMEA operating profit[2]	£45.9m	✓			
Watson-Marlow operating profit	£46.2m			✓	

[1] To comply with the annual bonus plan rules these metrics use, as a base, the actual adjusted operating profit of £152,950,000 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.

Group operating profit

The Group plan profit target for 2014 was set at £155.8 million. Entry point at which bonus payment starts was set at the 2013 profit which, on the same basis of calculation and exchange rate, was £145.2 million or 6.8% below plan. Maximum bonus profit target was £165.1 million or 6.0% above plan.

Group ROCE

The Group ROCE target was 44.1% with a total 600 bps accrual range around the ROCE target.

Divisional operating profit – EMEA

For Neil Daws profit target was set at £46.2 million with the entry point 10% below target and the maximum 10% above target.

Divisional operating profit – Watson-Marlow

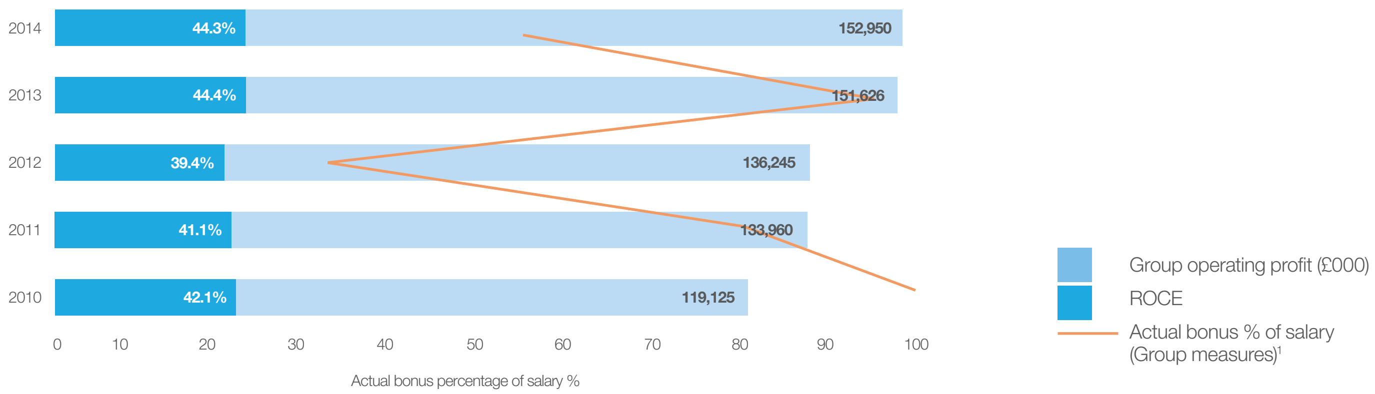
On a similar basis the profit target for Jay Whalen was set at £44.0 million with a range 10% either side of target.

As a result of this performance in 2014, the following bonuses were achieved:

Executive Directors	Bonus achieved	Bonus (% of salary)
N.J. Anderson	£261,203	55.76%
D.J. Meredith	£176,759	55.76%
N.H. Daws	£168,077	58.36%
J.L. Whalen	£168,891	65.31%

Group operating profit/ROCE

The following graph provides a five-year summary of bonus outcomes against the performance of Group operating profit and ROCE. This illustrates the strong historical alignment between pay and performance.



[1] Calculated in accordance with the metrics on pages 79 and 80.

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.

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 measures, 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.

Performance is measured over a three-year period.

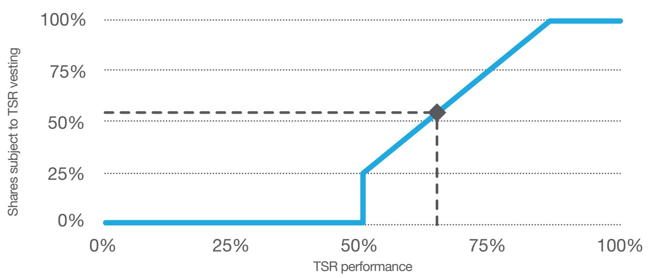
Clawback provisions apply for PSP awards made from 2012 onwards.

PSP awards vesting over 2012–2014

In 2012 the Executive Directors received share awards under the PSP, with vesting subject to EPS growth and relative TSR performance. The diagrams below set out details of the performance measures and targets that applied, along with the actual performance during the period 1st January 2012 to 31st December 2014.

Relative TSR performance (60% of PSP award)

Over the three-year period to 31st December 2014, the Company delivered a TSR of 65.2%. This ranked at the 55th percentile relative to the comparator group.

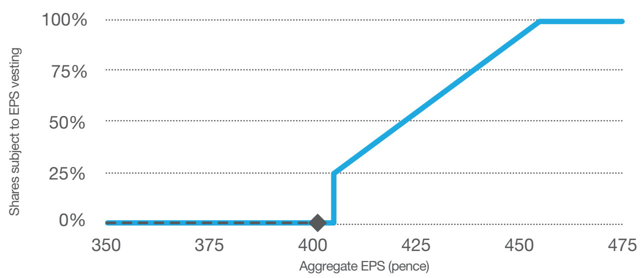


	TSR	Payout
Threshold	Median	25%
Maximum	Upper quartile	100%
Actual	55th percentile	55%

The comparator group for the purpose of measuring relative TSR performance comprises 25 similar companies, namely BAE Systems, Bodycote, Chemring Group, Cobham, 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. For 2013 Dialight has been added. For awards made in 2014 the comparator group has been 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 2014, the Company delivered aggregate adjusted EPS of 401.4p. Adjusted EPS was 121.0p in 2011 (restated for IAS 19R) and so this equated to growth of approximately 5.1% per annum over the three years.



	Performance	Payout
Threshold	405.9p	25%
Maximum	454.6p	100%
Actual	401.4p	0%

EPS is derived from the audited Annual Report and Accounts 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 2012 PSP awards, actual performance for the combined relative TSR and aggregate EPS resulted in 33.06% of shares vesting.

Executive Directors	Award	Vested	Lapsed	Value on vesting[1]
M.E. Vernon[2]	23,029	0	23,029	N/A
N.J. Anderson	12,961	4,285	8,676	£136,777
D.J. Meredith	14,855	4,911	9,944	£156,759
N.H. Daws	13,659	4,516	9,143	£144,151
J.L. Whalen	12,213	4,038	8,175	£128,893

[1] Based on share price on date of vesting (3192.0p).
[2] M.E. Vernon retired on 15th January 2014. The performance period was pro-rated to date of retirement, resulting in a nil vesting.

Annual report on remuneration 2014 *continued*

Spirax-Sarco Engineering plc Share Option Schemes

In 2011, Jay Whalen received share options with vesting subject to an increase in EPS of more than 9% greater than the increase in the UK RPI over the three-year period from 1st January 2011 to 31st December 2013. The auditor (KPMG Audit Plc at that time) confirmed the performance measure had been met and the 7,500 share options became exercisable on 18th March 2014. The value of the share options on that date was £217,725, based on a share price of 2903.0p, less an exercise cost of £140,475. The figure disclosed represents a correction to that disclosed in the 2013 single figure table.

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.

1.2 Pension (audited)

Mark Vernon and Jay Whalen are members 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. Both Mark Vernon's and Jay Whalen's final average salary is higher than the salary ceiling as at 31st December 2014. Mark Vernon retired from the Company on 15th January 2014, but has not yet commenced his pension.

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

	Age attained at 31.12.14	Accrued pension at 31.12.13	Accrued pension at 31.12.14	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]
M.E. Vernon	61	£20,796	£22,235	£1,439	£1,094	£21,880
J.L. Whalen	58	£43,851	£49,202	£5,351	£4,624	£92,480

1 Net of inflation at a rate of 1.7% per annum.
2 This year the value of pension has been calculated based on a factor of 20 in line with that required under the disclosure regulations.
3 This is a non-contributory plan so M.E. Vernon and J.L. Whalen paid zero contributions into the plan over the year.

The following additional information is provided:

- 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, both members have the right to draw their accrued pension at any time after their 65th birthday with no reduction. Both members have the right to commence their pension earlier if they meet 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, Mark Vernon benefited from an amount in lieu of contributions to a UK defined contributions plan. The total amount made by the Group was £4,850. 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 £51,273.

David Meredith is a member of an HMRC registered, contributory defined benefit scheme, the Spirax-Sarco Executives Retirement Benefits Scheme. 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, with final pensionable salary defined as basic annual salary over the last 12 months of service. David Meredith accrues pro-rata additional service at a rate which gives a further two and a half years of service at age 62½ based on 1/60th accrual. At retirement he is entitled to commute a proportion of his pension for a tax-free cash lump sum payment within HMRC limits.

Details of David Meredith's pension are as follows:

	Age attained at 31.12.14	Accrued pension at 31.12.13	Accrued pension at 31.12.14	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	55	£149,003	£158,325	£9,322	£5,299	£105,980

1 Net of inflation at a rate of 2.7% per annum.
2 This year the value of pension has been calculated based on a factor of 20 in line with that required under the disclosure regulations.
3 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.

The following additional information relating to David Meredith's pension is provided:

- Death in service: a spouse's pension equal to one-half of pension, based on pensionable service to the date of death, is payable. On death after payment of the pension commences, a spouse's pension of one-half of pension entitlement at the date of death, ignoring commutation and any early retirement actuarial reduction, is payable. In addition David Meredith's pension is guaranteed to be paid for five years from retirement.
- Early retirement rights: David Meredith may retire on an actuarially reduced pension on early retirement with the Company's consent. No consent is required for retirement on or after age 60 and no early retirement reduction is applied to the scale pension on retirement at or after age 60.
- Pension increases in payment: pensions are subject to annual increases in line with the annual rise in the RPI subject to a maximum of 5% per annum. The Trustees and the Company have the discretion to apply a greater increase.
- Other discretionary benefits: there are currently no discretionary practices which apply to David Meredith's pension benefits.

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, which in the year ended 31st December 2014 amounted to £72,000.

Nick Anderson receives 25% of his basic salary in lieu of pension benefits, which in the year ended 31st December 2014 amounted to £115,443.

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 (2873.0p). Awards were made on 14th March 2014.

Executive Director	PSP award	Face value (£)	Last day of the performance period	Vesting at threshold performance
N.J. Anderson	16,533 shares	£474,993	31.12.16	25%
D.J. Meredith	11,034 shares	£317,007	31.12.16	25%
N.H. Daws	10,024 shares	£287,990	31.12.16	25%
J.L. Whalen	8,963 shares	£257,507	31.12.16	25%

In respect of the PSP awards made to Executive Directors in 2014, 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 2014 the comparator group has been expanded to 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)

Nick Anderson, David Meredith and Neil Daws are participants in the HMRC approved ESOP. During the year ended 31st December 2014 they purchased 53 partnership shares each, were awarded 53 matching shares each and received 4, 122 and 35 dividend shares respectively.

1.4 Payments to past Directors (audited)

There have been no payments to former Directors during the year ended 31st December 2014.

1.5 Payments for loss of office (audited)

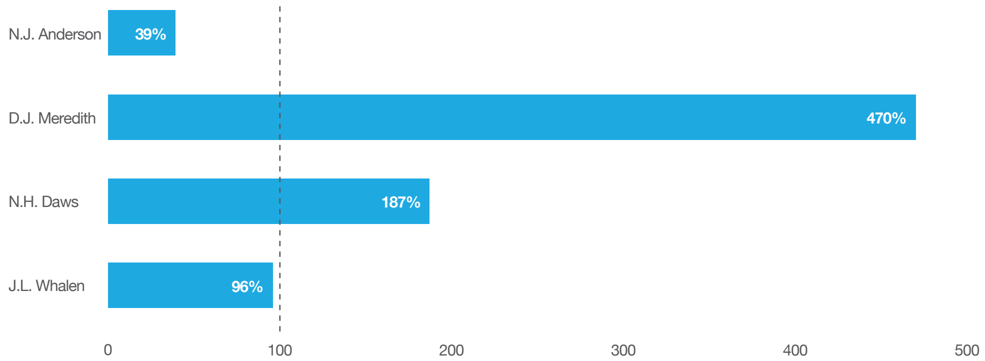
During the year ended 31st December 2014 there have been no payments made to Directors for loss of office.

Annual report on remuneration 2014 *continued*

1.6 Statement of Directors' shareholding and share interests (audited)

Progress towards share ownership guideline

The following chart sets out the Executive Directors' progress towards the Company's share ownership guidelines 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 2014 as a percentage of 2014 base salary.



Share ownership guideline is 100% of base salary.

Outstanding share interests

The following table summarises the total interests of the Directors in shares of the Company as at 31st December 2014. These cover beneficial and conditional interests. No Director had any dealing in the shares of the Company between 31st December 2014 and 4th March 2015.

	Beneficial[1]	PSP awards[2]	Nil Cost Options[3]	ESOP shares[4]	Total 31.12.14 (or date of retirement if earlier[5])	Total 04.03.15[6]
W.H. Whiteley	11,443	N/A	N/A	N/A	11,443	11,443
M.E. Vernon[5]	80,549	67,242	N/A	N/A	147,791	N/A
N.J. Anderson	6,213	39,666	N/A	252	46,131	37,455
D.J. Meredith	45,882	37,629	4,586	5,976	94,073	84,129
N.H. Daws	17,003	34,390	16,735	1,757	69,885	60,742
J.L. Whalen	8,635	30,736	N/A	N/A	39,371	31,196
G.R. Bullock[5]	1,203	N/A	N/A	N/A	1,203	N/A
J. Pike	2,750	N/A	N/A	N/A	2,750	2,750
K. Rajagopal	1,925	N/A	N/A	N/A	1,925	1,925
G.E. Schoolenberg	962	N/A	N/A	N/A	962	962
C.G. Watson	2,537	N/A	N/A	N/A	2,537	2,537

1 Shares include any owned by connected persons.
2 Subject to the performance measures as set out on page 85.
3 Explained in note 1 to the PSP table on page 85.
4 Not subject to performance measures.
5 M.E. Vernon retired on 15th January 2014. G.R. Bullock retired on 20th May 2014.
6 The decrease in shareholding at 4th March 2015 for N.J. Anderson, D.J. Meredith, N.H. Daws and J.L. Whalen is as a result of 33.06% of the 2012 PSP award vesting and the balance of the award therefore lapsing. Full details are set out on page 81.

Spirax-Sarco Engineering plc Share Option Schemes (Option Schemes)

Only Jay Whalen had interests under the Option Schemes, summarised below.

No options were granted to Executive Directors during the financial year ended 31st December 2014 and no options held by Executive Directors lapsed during the year. The options held by Jay Whalen were granted before his appointment to the Board. The performance measure required an increase in EPS of more than 9% greater than the increase in the UK RPI over the three-year period from 1st January in the year the grant was made. The auditor (KPMG Audit plc at that time) confirmed that the performance measure had been met. There are no interests to disclose in relation to the other Executive Directors.

The mid-market price of the shares on 31st December 2014 was 2876.0p. During the period from 1st January 2014 to 31st December 2014 the mid-market share price ranged between 2561.0p and 3101.0p.

	Balance 01.01.14	Granted	Exercised	Lapsed	Balance 31.12.14	Option price (p)	2014 gain arising on exercise (£)	Date from which first exercisable	Expiry date
J.L. Whalen	7,500	0	7,500	0	0	1873.0	75,804	18.03.14	18.03.21

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
	18.03.11[1]	01.09.11[1]	06.03.12[2]	08.03.13[3]	01.01.14	04.03.14[1,6]	04.03.14[1,6]	14.03.14[4,5]	31.12.14
M.E. Vernon[6]	25,093	–	23,029	19,120	67,242	13,883	53,359	–	–
N.J. Anderson	–	8,500	12,961	10,172	31,633	2,544	5,956	16,533	39,666
D.J. Meredith	15,323	–	14,855	11,740	41,918	4,586	10,737	11,034	37,629
N.H. Daws	13,347	–	13,659	10,707	37,713	3,995	9,352	10,024	34,390
J.L. Whalen	–	–	12,213	9,560	21,773	–	–	8,963	30,736

1 The mid-market prices of the shares on 18th March 2011 and 1st September 2011 were 1860.3p and 1845.0p respectively. 29.93% of the PSP awards vested on 4th March 2014 as the performance measures applicable to those PSP awards were partly met. During the performance period 1st January 2011 to 31st December 2013, the EPS performance of the Company resulted in 74.8% vesting of this element. However, the TSR performance of 70.9% fell below the median of the comparator group. For N.J. Anderson, D.J. Meredith and N.H. Daws, the PSP awards vested in the form of nil cost options (detailed below). M.E. Vernon's PSP award (7,510 shares) vested in the form of shares. The mid-market price of the shares on 4th March 2014 was 3060.0p.

	Vested 04.03.14	Exercised	Balance 31.12.14	2014 gain arising on exercise (£)	Date from which first exercisable	Expiry date
N.J. Anderson	2,544	2,544	0	72,046	04.03.14	04.03.21
D.J. Meredith	4,586	0	4,586	–	04.03.14	04.03.21
N.H. Daws	3,995	0	3,995	–	04.03.14	04.03.21

2 The mid-market price of the shares on 6th March 2012 was 2006.0p. The period over which performance measures are measured is 1st January 2012 to 31st December 2014. Details of the performance measures attached to these PSP awards are set out on page 81. (Figures corrected due to an administrative error.)

3 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. There are two performance measures governing vesting of this PSP award: 60% 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 25 companies for 25% of this portion of the PSP award to vest, increasing to full vesting for ranking at the upper quartile; 40% 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 mid-market price of the shares on 14th March 2014 was 2873.0p. This was applied in determining the number of shares subject to the PSP awards granted on 14th March 2014. The period over which performance measures are measured is 1st January 2014 to 31st December 2016. Details of the performance measures attached to these PSP awards are set out on page 83.

5 The 2012 TSR comparator group is set out on page 81. The peer group for 2013 is the same as 2012, apart from the inclusion of Dialight. The 2014 TSR comparator group has been changed to the full FTSE 350 Industrial Goods and Services Supersector.

6 In accordance with the PSP rules, M.E. Vernon's retirement on 15th January 2014 triggered the vesting of the 2012 and 2013 awards, with the performance period being pro-rated to date of retirement. This resulted in a nil vesting of the 2012 award and 100% vesting (6,373 shares) of the 2013 award.

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

The interests of eligible Executive Directors are set out below.

	Balance 01.01.14	Partnership shares purchased[1]	Matching shares awarded[1]	Dividend shares[2]	Balance 31.12.14	Period of qualifying conditions[3]
N.J. Anderson	142	53	53	4	252	3 years
D.J. Meredith	5,748	53	53	122	5,976	3 years
N.H. Daws	1,616	53	53	35	1,757	3 years

1 Partnership shares were purchased, at a price of 2808.0p, and matching shares were awarded on 7th October 2014. The mid-market price of the shares on that date was 2770.0p.

2 107 dividend shares were received on 30th May 2014, on which date the mid-market price of the shares was 2859.0p. 54 dividend shares were received on 7th November 2014, on which date the mid-market price of the shares was 2870.0p.

3 Partnership shares are not subject to qualifying conditions. No matching shares or dividend shares were released from the ESOP or forfeited during the year ended 31st December 2014.

Annual report on remuneration 2014 *continued*

1.7 Directors' service agreements and letters of appointment

Chairman and Non-Executive Directors

The Chairman and Non-Executive Directors have letters of appointment with the Company for a period of three years, subject to annual re-election at the AGM. Appointments may be terminated by the Company or individual with one month's notice. The appointment letters for the Chairman and Non-Executive Directors provide that no compensation is payable on termination, other than accrued fees and expenses.

Directors' terms of service

The tables below set out the dates on which each Director was initially appointed, their latest service agreement or letter of appointment and their notice period. All Directors are subject to election (if newly appointed in the year) or re-election at the next AGM.

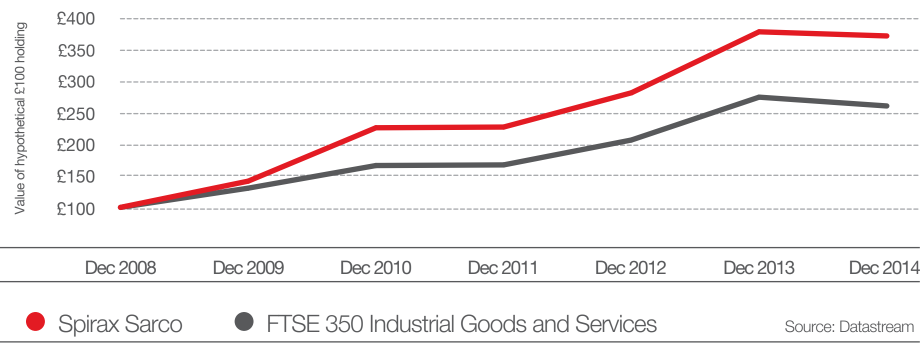
Executive Director	Original appointment date	Current agreement	Expiry date	Notice period
N.J. Anderson	15.03.12	13.12.13	16.01.26	12 months
D.J. Meredith	19.06.92	17.08.12	18.08.24	12 months
N.H. Daws	01.06.03	25.09.12	01.07.27	12 months
J.L. Whalen	15.03.12	17.04.12	28.05.21	12 months

Chairman and Non-Executive Directors	Original appointment date	Letter	Expiry date	Notice period
W.H. Whiteley	26.07.02	15.05.12	30.06.15	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	12.07.12	31.07.15	1 month
C.G. Watson	17.07.09	15.05.12	16.07.15	1 month

1.8 TSR performance graph

The 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 six 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.

Historical five-year TSR performance



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
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 2014 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.

		2014 increase	2013 increase
Salary	Group Chief Executive[1]	-4.6%	2.0%
	General employee population	2.0%	2.1%
Benefits	Group Chief Executive[1, 2]	-28.2%	3.1%
	General employee population	2.0%	2.1%
Bonus	Group Chief Executive[1]	-45.1%	207.7%
	General employee population	-51.4%	243.0%

1 In 2013 the Group Chief Executive was M.E. Vernon. With effect from 16th January 2014, the Group Chief Executive was N.J. Anderson.
2 Excludes one-off repatriation payment made in 2013 to M.E. Vernon and Tax Treaty Adjustment payments made in 2013 and 2014 to M.E. Vernon.

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.

	2014	2013	Change
Total pay spend	**£233m**	£232m	0.2%
Headcount	**4,797**	4,725	1.5%
Profit before tax	**£145m**	£146m	-0.6%
Dividends payable	**£49m**	£44m	9.9%
Special dividend payable	**£91m**	N/A	N/A

1.11 Statement of implementation of Remuneration policy in 2015

Base salaries effective January 2015

For 2015, the Executive Directors' salaries have been increased by an average of 3.4%. Increases for the broader UK employee population were on average 2.0%, increasing to 5.0% 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: £495,000 (4.2%)
– D.J. Meredith: £326,500 (3.0%)
– N.H. Daws: £293,750 (2.0%)
– J.L. Whalen: £268,250 (4.2%)

Fees effective January 2015

The Chairman's fee has been increased by 5.0% and the Non-Executive Directors' base fee by an average of 2.2% in 2015.

Base fees:

– Chairman: £157,500
– Non-Executive Directors: £47,000

Additional fees:

– Senior Independent Director: £2,000
– Audit/Remuneration Committee Chairmen: £8,700

Benefits

No change.

Annual bonus

No change has been made to the maximum opportunity under the annual bonus plan. The performance measures and their respective weightings also remain unchanged.

Bonus targets for the current year 2015 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 2015. In respect of the bonus for 2014 we have retrospectively disclosed the targets on page 80.

Annual report on remuneration 2014 *continued*

Spirax-Sarco Performance Share Plan (PSP)

EPS growth calculation

From 2015 EPS will be measured on a point-to-point basis rather than an aggregate basis as is the case currently (see page 140). The targets will be unchanged, requiring a compound annual growth rate of RPI +3% to RPI +9% per annum. This change has been made to focus on growth in EPS over the medium to long-term improvements and reduce the risk of one year's performance over-influencing the outcome of three award cycles in either direction.

Expiry and renewal of PSP

The current PSP expires on 15th March 2015.

New rules for a replacement PSP, the Spirax-Sarco 2015 Performance Share Plan (2015 PSP), will be put to shareholders for approval at the AGM. The key changes to the PSP are as follows:

- Holding period: Committee discretion to grant awards subject to a holding period. Where a holding period is attached to an award, the default holding period is two years. The Committee does not intend to apply a holding period to PSP awards granted in 2015 but will keep the application of this provision under review for future grants
- Malus and clawback: the PSP already covered both malus (reduction in the amount of deferred and as yet unpaid compensation) and clawback (reimbursement of compensation that has already been paid). We have updated the provisions to ensure they can be applied during a holding period
- Treatment of good leavers: new provisions have been introduced so that, in the future, the Committee can choose the most appropriate timing of vesting considering the individual circumstances of a good leaver. Currently, we calculate performance at the point employment ceases and settle awards on a time pro rata basis. We prefer to move to a default “wait and see” approach for good leavers during the performance period as this provides a longer-term interest in performance after a participant’s departure and also reduces some of the costs associated with operating the PSP. We will retain the time pro rata adjustment, and early vesting is maintained in the case of death or at the Committee's discretion.

Pensions

No change.

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

No change.

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

Operation of the Remuneration Committee in 2014

Membership and attendance

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

During 2014, the Committee was chaired by Krishnamurthy Rajagopal, and the members comprised Gareth Bullock (up to 20th May 2014), Jamie Pike (from 1st May 2014) Trudy Schoolenberg and Clive Watson, all of whom are independent Non-Executive Directors.

In 2014 the Committee met three times and all members attended each meeting, with the exception of Gareth Bullock, who attended one of the two meetings held prior to his retirement, and Clive Watson, who was absent from one meeting due to a prior commitment. Jamie Pike attended the one meeting held following his appointment.

Advisers to the Committee

During 2014 the Committee sought advice and information from Bill Whiteley, the Chairman, Nick 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 Towers Watson. Towers Watson 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. Towers Watson’s fees in respect of these services totalled £65,000 in 2014. In addition, Towers Watson work with management on other matters relating to remuneration with the approval of the Committee. A separate advisory team within 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 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 2014, Herbert Smith Freehills 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 2014, shareholders approved the Annual report on remuneration 2013 and Remuneration policy report 2014. The table below shows the results in respect of the resolutions, which required a simple majority (ie 50%) of the votes to be cast to be in favour in order for the resolutions to be passed.

	Votes for	%	Votes against	%	Votes withheld
Annual report on remuneration 2013	60,062,377	99.4	339,801	0.56	513,953
Remuneration policy report 2014	56,203,099	98.5	880,848	1.54	3,834,218

Approval

This Annual report on remuneration 2014 has been approved by the Board of Directors of Spirax-Sarco Engineering plc and signed on its behalf by:

Krishnamurthy Rajagopal
Chairman, Remuneration Committee

4th March 2015

Remuneration policy report 2014

2.0 Remuneration policy report 2014

Please note that the Remuneration policy report 2014 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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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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Remuneration policy report 2014 *continued*

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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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.

Mark Vernon served as a Non-Executive Director at Senior plc during 2013, for which he received and retained total fees of £40,400.

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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Remuneration policy report 2014 *continued*

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 2014 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.

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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Remuneration policy report 2014 *continued*

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.

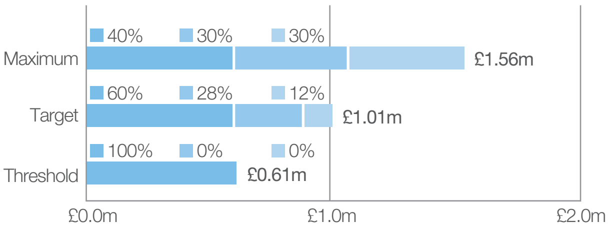
The scenarios, informed by the current application of our pay policy, are defined as follows:

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%

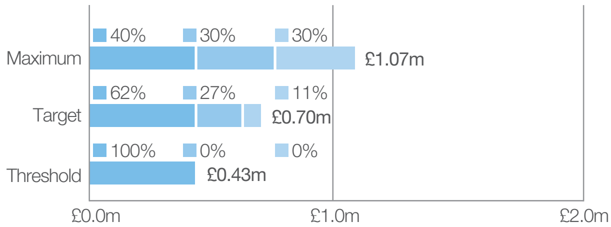
[1] A level of 25% vesting for "on target" performance is equivalent to threshold performance under the PSP, which the Committee believes to be a fair assumption for on target performance given the approach taken to setting performance targets.

Total remuneration by performance scenario

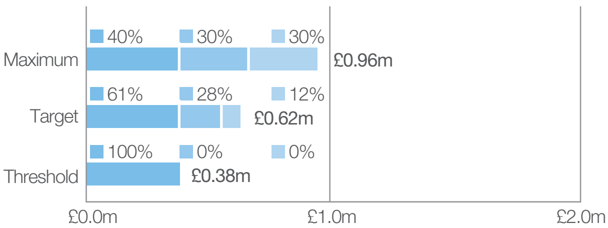
Nick Anderson (Group Chief Executive)



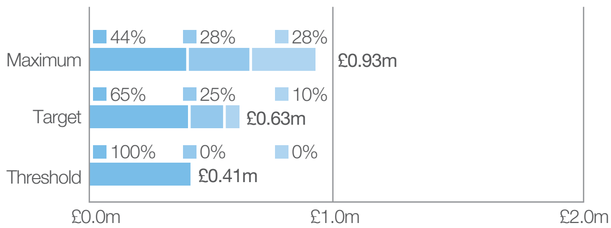
David Meredith (Finance Director)



Neil Daws (Executive Director EMEA)



Jay Whalen (Executive Director WMFTG)



Fixed Annual bonus PSP

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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 Nick 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

"Good legal and compliance practice improves our business for the benefit of our shareholders."

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 8 and 9 of the Strategic report.

Future development

An indication of likely future developments in the Group is given in the Strategic report.

Strategic report

From the beginning of the Annual Report and Accounts to page 55 you will find the Strategic report.

Risk management and principal risks

A description of risk management and the principal risks facing the business is on pages 28 and 29.

Constructive use of AGM

We are delighted when our shareholders attend our AGM. Those who are unable to attend are encouraged to vote using the proxy card mailed to them.

In 2014, 59.23% of the proxy votes received were lodged electronically through the CREST system.

The Chairman and other Board members answer questions raised by shareholders. Shareholders are invited to vote on the resolutions by way of a polled vote. The results are announced instantaneously using the Equiniti "Vote Now" polling system and via the Group's website, www.spiraxsarcoengineering.com, and the London Stock Exchange. Following the AGM, the Group Chief Executive will give a presentation about the previous year and generally about the Group's future plans. The Board is then available to answer questions and meet informally with individual shareholders. Shareholders are also invited to view our Steam Technology Centre.

The Notice of Meeting convening the AGM, to be held on Monday, 11th May 2015, and an explanation of the resolutions sought, is set out in the enclosed Circular.

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 109.

Dividend

The Directors are proposing the payment of a final dividend of 45.0p (2013: 41.0p) which, together with the interim dividend of 19.5p (2013: 18.0p), makes a total distribution for the year of 64.5p (2013: 59.0p). If approved at the AGM, the final dividend will be paid on 29th May 2015 to shareholders on the register at the close of business on 1st May 2015.

Special dividend and share consolidation

Following a review of the Company's capital requirements, the Board is recommending a return of capital to shareholders of £91 million in the form of a special dividend of 120.0p per share in respect of 2014 (2013: nil) which, if approved at the AGM, will be paid on 15th July 2015 to shareholders on the register at the close of business on 12th June 2015.

As is common with a significant return of capital to shareholders, the Board recommends that this is combined with an appropriate share consolidation. This is intended to maintain, as far as possible, the comparability of the share price, earnings per share and dividends per share before and after the special dividend, and to remove the impact of the special dividend on employee equity-based incentives. It is anticipated, therefore, that the market price of each Ordinary share should remain at a broadly similar level following the special dividend and share consolidation.

Directors' interests

The interests of the Directors in the share capital of Spirax-Sarco Engineering plc as at 31st December 2014 are set out on page 84.

Substantial shareholdings

The voting rights (including CFDs) in the table have been notified to the Company under the requirements of the UK Listing Authority's Disclosure Rules and Transparency Rules DTR 5, which represent 3% or more of the voting rights attached to issued shares in the Company as at 27th February 2015 and 31st December 2014. So far as can be ascertained, the holdings are beneficially held.

	As at 31.12.14		As at 27.02.15	
Substantial shareholdings	**Number of Ordinary shares**	**% of issued share capital**	**Number of Ordinary shares**	**% of issued share capital**
BlackRock Inc	8,009,409	10.57	8,924,167	11.77
Aberdeen Asset Management PLC	3,714,090	4.90	4,006,288	5.28
Mondrian Investment Partners Ltd	3,554,208	4.69	3,910,783	5.16
Schroders	3,921,208	5.17	3,305,510	4.36
Allianz Global Investors	3,100,718	4.09	3,304,431	4.36
Sprucegrove Investment Management	3,345,789	4.41	3,295,889	4.35
Baillie Gifford & Co	2,386,993	3.15	2,384,793	3.15

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. As previously announced, Nick Anderson was appointed as Group Chief Executive with effect from 16th January 2014 and Gareth Bullock retired as Non-Executive Director and Senior Independent Director at the conclusion of the AGM on 20th May 2014. Jamie Pike was appointed as an independent Non-Executive Director with effect from 1st May 2014 and took over as Senior Independent Director on 20th May 2014 following Gareth Bullock's retirement.

All Directors will seek re-election at the AGM and will do so thereafter on an annual basis at each future 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 60 and 61.

Conflicts

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.

Regulatory disclosures *continued*

Share capital

As at 27th February 2015 there were no treasury shares held by the Company. Details of shares issued during the year are set out in note 23 on page 132.

As at 31st December 2014 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 2014 was 75,795,877.

PSP and Employee Benefit Trust

In December 2014 the Company instructed Computershare Trustees (Jersey) Limited, as trustee of the Spirax-Sarco Engineering Employee Benefit Trust (EBT), to purchase 100,000 shares to satisfy awards under the PSP. At 31st December 2014, 216,513 of these shares were held in the EBT. Dividends on shares in the EBT are waived.

Significant contracts

The Company is not a party to any significant agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid.

There are provisions in the Executive Directors' service agreements which state that following a takeover or change of control, if the Executive Director's employment is terminated then both salary/benefits and a sum in respect of lost future bonus opportunity become payable as a lump sum.

The Strategic report contains all the information required to comply with Section 414(c) of the Companies Act 2006 and there are no contractual arrangements that need to be disclosed which are essential to the business of the Group.

Disclosure of information to auditor

As at the date of the approval of this Annual Report and Accounts, 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 up to the conclusion of the AGM on 20th May 2014 was KPMG Audit Plc, following which Deloitte LLP was appointed.

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, is 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 116. The amount of R&D expenditure capitalised, and the amount amortised, in the year, are given in note 13 on page 126.

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 (2013: nil).

Greenhouse gas emissions

Details of our greenhouse gas emissions can be found on page 52 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 40 to 45. In addition note 31 on page 145 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 and Accounts.

Pages 98 to 101 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 4th March 2015.

Scope of the reporting in this Annual Report and Accounts

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 2014 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 and Accounts 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	Not applicable
(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 100
(11)	Provision of services by a controlling shareholder	Not applicable
(12)	Shareholder waivers of dividends	Regulatory disclosures, page 100
(13)	Shareholder waivers of future dividends	Not applicable
(14)	Agreements with controlling shareholders	Not applicable

Andy Robson
General Counsel and Company Secretary

4th March 2015

Spirax-Sarco Engineering plc
Registered no. 596337

Statement of Directors' responsibilities

"Our Annual Report and Accounts: a true and fair view of the state of affairs of the Group."

Board of Directors

The Directors are responsible for preparing the Annual Report and Accounts and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year in accordance with IFRSs 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
- 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, without limitation, those regarding the financial condition, results, operations and businesses of Spirax-Sarco Engineering plc and its strategy, plans and objectives and the markets and economies in which it operates, are forward-looking statements. These forward-looking statements, which reflect management's assumptions made on the basis of information available to it at this time, involve known and unknown risks, uncertainties and other important factors which could cause the actual results, performance or achievements of Spirax-Sarco Engineering plc or the markets and economies in which we operate 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.

Accordingly, 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. It should be noted that schedule 10A contains limits on the liability of the Directors of Spirax-Sarco Engineering plc so that 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 IFRSs 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
- The Annual Report and Accounts and Financial statements, taken as a whole, are fair, balanced and understandable and provide 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 4th March 2015 and is signed on its behalf by:

David Meredith
Finance Director

Financial statements

John Senior
Group Financial Controller

David Meredith
Finance Director

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 31 December 2014 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 (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs 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 Consolidated statement of changes in equity, the Statement of changes in equity, the Cash flow statements and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs 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

As required by the Listing Rules we have reviewed the Directors' statement contained within the Regulatory disclosures section of the Governance report that the Group is a going concern. We confirm that:

- we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

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.

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:

Risk	How the scope of our audit responded to the risk
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. Additionally, there is a risk in the judgement involved in determining the extent of revenue to be recognised on fixed price contracts. There is management judgement in determining the revenue to be recognised and in particular in estimating the stage of completion and the costs to complete the contract at the balance sheet date. 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 revenue cycles and at all significant components we produced revenue flow-charts. 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, which spanned the year end to assess whether revenue was recognised by reference to the stage of completion of the contract in accordance with the Group's revenue recognition policy.
Inventory obsolescence Inventory of £98 million at 31 December 2014 (31 December 2013: £104 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 18 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.

Risk	How the scope of our audit responded to the risk
Defined benefit pension plan assumptions At 31 December 2014 the net retirement benefit liability recognised in the statement of financial position was £76 million (31 December 2013: £72 million). There is a risk relating to the judgements made by management in valuing the defined benefit pension plans 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 27 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, and determined whether the key assumptions are reasonable. Key assumptions assessed included future mortality, discount rate, inflation and salary increases. 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 checked the arithmetic accuracy of the pension calculation models. Additionally we benchmarked key assumptions against other listed companies to check for any outliers in the data used.
Goodwill impairment At 31 December 2014 the carrying value of goodwill was £48 million (31 December 2013: £46 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 due to the material amounts recorded on the consolidated statement of financial position and the number of judgements in determining the recoverable amounts. Key assumptions include growth rates, discount rates applied and the 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 13 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. We also challenged the appropriateness of assumptions and forecasts used to conclude on asset impairment including a specific review and challenge of 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 11 CGU groups and we checked the CGU groupings to 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.
Taxation The tax risk concerns the judgements and estimates applied in the determination of tax balances, in particular in relation to provisions for liabilities attributed to specific uncertain tax positions linked to the Group's corporate arrangements. *Refer to note 1 for the Group's accounting policy for taxation and note 8 for the financial disclosure.*	In conjunction with taxation audit specialists we assessed the assumptions and judgements concerning the adequacy of tax provisions for uncertain tax positions by viewing the latest correspondence from the various tax authorities and drawing on the experience of our tax specialists in respect of similar situations.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 68.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Last year the previous auditor's report included a risk relating to development costs and software costs which is not in our report this year. For the 2014 audit we did not consider these items to be risks that had the greatest impact on our strategy. New risks identified in our report that were not included in the previous auditor's report include revenue recognition, inventory obsolescence and defined benefit pension plan assumptions.

Independent auditor's report *continued*

to the members of Spirax-Sarco Engineering plc only

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 £7.3 million which is 5% of statutory profit before tax. In 2013 the previous auditors set materiality at £10.5 million on the basis of 7% of statutory profit before tax.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £145,000 (in 2013 the threshold used by the previous auditor was £400,000), 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. We considered acquisitions made during 2014 and included BioPure Technology Limited as a full scope audit. Based on that assessment, we focused our Group audit scope primarily on the audit work at 25 components. 21 of these were subject to a full audit, whilst four 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 25 components represent the principal business units and account for 93% of the Group's total assets, 80% of the Group's revenue and 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 25 components was executed at levels of materiality applicable to each individual component which was lower than Group materiality ranging from £0.1 million to £3.6 million.

In 2013, the previous auditors focused their work at 17 components where audits for Group reporting purposes were performed. These components accounted for 74% of Group revenue, 72% of profit before tax and 79% of total assets. Analytical procedures were performed at a further four components covering 4% of revenue, 4% of profit before tax and 4% of total assets.

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 have established a programme of planned component visits that has been designed so that the 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 the part of the Corporate Governance Statement relating to the Company's compliance with 10 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. 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

4th March 2015

Statement of financial position

at 31st December 2014

	Notes	The Group 2014 £000	The Group 2013 £000	Parent company 2014 £000	Parent company 2013* Restated £000
Assets					
Non-current assets					
Property, plant and equipment	12	176,668	174,218	7,930	7,626
Goodwill	13	47,682	45,765	–	–
Other intangible assets	13	48,123	44,594	–	–
Prepayments		402	162	–	–
Loans to subsidiaries	14	–	–	37,500	39,157
Investment in subsidiaries	15	–	–	160,577	160,671
Investment in associate	16	377	7,039	1,399	220
Deferred tax assets	17	35,941	34,472	936	936
		309,193	306,250	**208,342**	208,610
Current assets					
Inventories	18	98,007	104,164	–	–
Trade receivables	31	155,696	145,380	–	–
Due from subsidiaries		–	–	140,247	149,920
Other current assets	19	23,973	19,880	1,299	1,643
Taxation recoverable		4,420	3,709	–	–
Associate held for sale	16	5,777	–	248	–
Bank deposits	28	24,437	32,901	–	–
Cash and cash equivalents	28	117,981	84,417	78	–
		430,291	390,451	**141,872**	151,563
Total assets		**739,484**	696,701	**350,214**	360,173
Equity and liabilities					
Current liabilities					
Trade and other payables	20	90,754	86,108	2,084	2,234
Bank overdrafts	28	461	1,809	–	1,465
Short-term borrowing	28	40,070	39,338	35,000	34,000
Current portion of long-term borrowings	28	298	298	–	–
Current tax payable		22,175	16,927	–	–
		153,758	144,480	**37,084**	37,699
Net current assets		**276,533**	245,971	**104,788**	113,864
Non-current liabilities					
Long-term borrowings	28	49,096	59,473	47,000	55,000
Deferred tax liabilities	17	17,412	15,853	519	428
Post-retirement benefits	27	75,779	72,043	(2,596)	(2,141)
Provisions	22	556	720	–	–
Long-term payables		1,005	598	–	–
Due to subsidiaries		–	–	9,695	8,300
		143,848	148,687	**54,618**	61,587
Total liabilities		**297,606**	293,167	**91,702**	99,286
Net assets	2	**441,878**	403,534	**258,512**	260,887
Equity					
Share capital	23	19,622	19,568	19,622	19,568
Share premium account		65,067	59,954	65,067	59,954
Other reserves	23	(6,486)	11,474	3,129	4,768
Retained earnings		362,796	311,737	170,694	176,597
Equity shareholders' funds		440,999	402,733	258,512	260,887
Non-controlling interest		879	801	–	–
Total equity		**441,878**	403,534	**258,512**	260,887
Total equity and liabilities		**739,484**	696,701	**350,214**	360,173

* Restated see note 9.

These accounts of Spirax Sarco Engineering plc, company number 00596337 were approved by the Board of Directors on 4th March 2015 and signed on its behalf by:

N J Anderson **D J Meredith** Directors

Consolidated income statement

for the year ended 31st December 2014

	Notes	Adjusted 2014 £000	Adjustments 2014 £000	Total 2014 £000	Adjusted 2013 £000	Adjustments 2013 £000	Total 2013 £000
Revenue	2	**678,277**	**–**	**678,277**	689,388	–	689,388
Operating costs	3	**(525,327)**	**(4,855)**	**(530,182)**	(537,762)	(4,586)	(542,348)
Operating profit	2	**152,950**	**(4,855)**	**148,095**	151,626	(4,586)	147,040
Financial expenses		**(5,229)**	**–**	**(5,229)**	(4,268)	–	(4,268)
Financial income		**2,246**	**–**	**2,246**	1,968	–	1,968
	5	**(2,983)**	**–**	**(2,983)**	(2,300)	–	(2,300)
Share of profit of associates		**1,151**	**(1,469)**	**(318)**	1,730	(756)	974
Profit before taxation	6	**151,118**	**(6,324)**	**144,794**	151,056	(5,342)	145,714
Taxation	8	**(44,857)**	**636**	**(44,221)**	(44,542)	1,148	(43,394)
Profit for the period		**106,261**	**(5,688)**	**100,573**	106,514	(4,194)	102,320
Attributable to:							
Equity shareholders		**106,015**	**(5,688)**	**100,327**	106,298	(4,194)	102,104
Non-controlling interest		**246**	**–**	**246**	216	–	216
Profit for the period		**106,261**	**(5,688)**	**100,573**	106,514	(4,194)	102,320
Earnings per share	10						
Basic earnings per share		**140.4p**		**132.8p**	138.8p		133.4p
Diluted earnings per share		**139.5p**		**132.0p**	137.8p		132.4p
Dividends	11						
Dividends per share				**64.5p**			59.0p
Special dividend per share				**120.0p**			–
Dividends paid during the year (per share)				**60.5p**			155.0p

Adjusted figures exclude certain non-operational items as detailed in note 2. All amounts relate to continuing operations.

The notes on pages 114 to 151 form an integral part of the accounts.

Consolidated statement of comprehensive income

for the year ended 31st December 2014

	Notes	The Group 2014 £000	2013 £000
Profit for the year		**100,573**	102,320
Items that will not be reclassified to profit or loss			
Remeasurement loss on post-retirement benefits	27	**(5,159)**	(2,866)
Deferred tax on remeasurement loss on post-retirement benefits	27	**(258)**	(1,074)
		(5,417)	(3,940)
Items that may be reclassified subsequently to profit or loss			
Foreign exchange translation differences	23	**(15,155)**	(12,875)
Non-controlling interest foreign exchange translation differences		**22**	(49)
Profit on cash flow hedges net of tax	31	**(232)**	48
		(15,365)	(12,876)
Total comprehensive income for the year		**79,791**	85,504
Attributable to:			
Equity shareholders		**79,523**	85,337
Non-controlling interest		**268**	167
Total comprehensive income for the year		**79,791**	85,504

Consolidated statement of changes in equity

for the year ended 31st December 2014

The Group

	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)**
Profit on cash flow hedges reserve	**–**	**–**	**(232)**	**–**	**(232)**	**–**	**(232)**
Total other comprehensive (expense) for the year	**–**	**–**	**(15,387)**	**(5,417)**	**(20,804)**	**22**	**(20,782)**
Total comprehensive income 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**

Other reserves represent the Group's translation, cash flow hedge and capital redemption reserves (see note 23).

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 2013

The Group

	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 2013	19,536	56,172	28,098	331,945	435,751	798	436,549
Profit for the year	–	–	–	102,104	102,104	216	102,320
Other comprehensive (expense)/ income							
Foreign exchange translation differences	–	–	(12,875)	–	(12,875)	(49)	(12,924)
Remeasurement loss on post retirement benefits	–	–	–	(2,866)	(2,866)	–	(2,866)
Deferred tax on remeasurement loss on post-retirement benefits	–	–	–	(1,074)	(1,074)	–	(1,074)
Profit on cash flow hedges reserve	–	–	48	–	48	–	48
Total other comprehensive (expense) for the year	–	–	(12,827)	(3,940)	(16,767)	(49)	(16,816)
Total comprehensive income for the year	–	–	(12,827)	98,164	85,337	167	85,504
Contributions by and distributions to owners of the Company							
Dividends paid	–	–	–	(120,792)	(120,792)	(164)	(120,956)
Equity settled share plans net of tax	–	–	–	2,420	2,420	–	2,420
Issue of share capital	66	3,782	–	–	3,848	–	3,848
Employee Benefit Trust Shares	(34)	–	(3,797)	–	(3,831)	–	(3,831)
Balance at 31st December 2013	19,568	59,954	11,474	311,737	402,733	801	403,534

Statement of changes in equity

for the year ended 31st December 2014

Parent company

	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**

Statement of changes in equity

for the year ended 31st December 2013

Parent company

	Share capital £000	Share premium account £000	Other reserves £000	Retained earnings £000	Total equity £000
Balance at 1st January 2013	19,536	56,172	6,969	120,136	202,813
Profit for the year	–	–	–	174,934	174,934
Other comprehensive (expense)/ income					
Remeasurement gain on post-retirement benefits	–	–	–	431	431
Deferred tax on remeasurement gain on post-retirement benefits	–	–	–	(86)	(86)
Total other comprehensive income for the year	–	–	–	345	345
Total comprehensive income for the year	–	–	–	175,279	175,279
Contributions by and distributions to owners of the Company					
Dividends paid	–	–	–	(120,792)	(120,792)
Equity settled share plans net of tax	–	–	–	1,974	1,974
Issue of share capital	66	3,782	–	–	3,848
Employee Benefit Trust Shares	(34)	–	(3,797)	–	(3,831)
Investment in subsidiaries in relation to share options granted	–	–	1,596	–	1,596
Balance at 31st December 2013	19,568	59,954	4,768	176,597	260,887

Other reserves represent the parent company's share-based payments, capital redemption and Employee Benefit Trust reserves (see note 23).

Cash flow statements

for the year ended 31st December 2014

	Notes	The Group 2014 £000	The Group 2013 £000	Parent company 2014 £000	Parent company 2013 £000
Cash flows from operating activities					
Profit before taxation		**144,794**	145,714	**41,318**	178,962
Depreciation, amortisation and impairment		**26,799**	26,678	**–**	–
Dividends received		**–**	–	**(44,912)**	(186,059)
Share of profit of associates		**318**	(974)	**–**	–
Equity settled share plans		**2,374**	3,315	**(5)**	1,974
Net finance income/(expense)		**2,983**	2,300	**37**	(836)
Operating cash flow before changes in working capital and provisions		**177,268**	177,033	**(3,562)**	(5,959)
Change in trade and other receivables		**(20,032)**	(8,704)	**344**	(1,388)
Change in amounts due from subsidiaries		**–**	–	**10,244**	(13,984)
Change in amounts due to subsidiaries		**–**	–	**1,395**	(17,786)
Change in inventories		**1,111**	(3,573)	**–**	–
Change in provisions and post-retirement benefits		**(4,870)**	(6,985)	**(608)**	(2,423)
Change in trade and other payables		**4,398**	3,309	**(150)**	1,424
Cash generated from operations		**157,875**	161,080	**7,663**	(40,116)
Interest paid		**(2,299)**	(1,551)	**(1,656)**	(186)
Income taxes paid		**(41,915)**	(42,318)	**–**	–
Net cash from operating activities		**113,661**	117,211	**6,007**	(40,302)
Cash flows from investing activities					
Purchase of property, plant and equipment		**(27,032)**	(20,451)	**–**	–
Proceeds from sale of property, plant and equipment		**2,980**	1,777	**–**	–
Purchase of software and other intangibles		**(4,647)**	(5,240)	**–**	–
Development expenditure capitalised		**(2,632)**	(2,779)	**–**	–
Acquisition of businesses		**(9,984)**	(5,601)	**(399)**	–
Bank deposits		**9,038**	(32,901)	**–**	–
Interest received		**2,246**	1,968	**1,520**	1,652
Dividends received		**796**	964	**44,912**	99,798
Net cash used in investing activities		**(29,235)**	(62,263)	**46,033**	101,450
Cash flows from financing activities					
Proceeds from issue of Share Capital		**5,223**	3,848	**5,223**	3,848
Employee Benefit Trust Share purchase		**(3,005)**	(4,430)	**(3,005)**	(4,430)
Repaid borrowings		**(8,995)**	(4,383)	**(7,000)**	(500)
New borrowings		**–**	57,506	**–**	55,000
Change in finance lease liabilities	28	**(241)**	(353)	**–**	–
Dividends paid (including minorities)		**(45,905)**	(120,956)	**(45,715)**	(120,792)
Net cash used in financing activities		**(52,923)**	(68,768)	**(50,497)**	(66,874)
Net change in cash and cash equivalents		**31,503**	(13,820)	**1,543**	(5,726)
Net cash and cash equivalents at beginning of period		**82,608**	99,445	**(1,465)**	4,261
Exchange movement	28	**3,409**	(3,017)	**–**	–
Net cash and cash equivalents at end of period		**117,520**	82,608	**78**	(1,465)
Bank deposits	28	**24,437**	32,901	**–**	–
Borrowings and finance leases	28	**(89,464)**	(99,109)	**(82,000)**	(89,000)
Net cash	28	**52,493**	16,400	**(81,922)**	(90,465)

Notes to the accounts

1 Accounting policies

Basis of preparation

The parent company and consolidated accounts 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 accounts 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, taxation 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 13.

The judgements made in respect of taxation are those in assessing the amount of exposure to challenges from tax authorities with regard to liabilities in relation to corporate and indirect taxation. Judgement is also required in assessing the recoverability of deferred tax assets. More detail is given in the taxation accounting policy on page 118 below.

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 117 below.

The key estimates and underlying assumptions are reviewed on an ongoing 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 pages 1 to 55. In addition, note 31 to the financial statements discloses details of the Group's financial risk management and credit facilities.

The consolidated accounts 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 2014 adjustments included a write down to fair value of Spirax Marshall Ltd as disclosed in note 2.

During the year, the Group has applied IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 (as revised in 2011) Separate Financial Statements, IAS 28 (as revised in 2011) Investment in Associates and Joint Ventures, IFRS 7 Financial Instruments Disclosures, IAS 32 Financial Instruments Presentation and IAS 39 Financial Instruments Recognition and Measurement. Their adoption has not had a material impact on the disclosures or amounts reported in these accounts. 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 following standards and relevant interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and some of which were pending endorsement by the EU). IFRS 9 Financial Instruments, IFRS 10 (amended), IFRS 12 (amended) and IAS 18 (amended Investment Entities, IFRS 11 (amended) Joint ventures, IFRS 15 revenue from contracts, IAS 1 (amended) Disclosure initiatives, IAS 16 and IAS 38 (amended) Depreciation and amortisation. IAS 19 (amended) Employee Contributions and IAS 27 (amended) Separate Financial Statements. The cumulative impact of these standards, with the exception of IFRS 15, for which we have not done a detailed assessment, is not expected to be significant.

1 Accounting policies *continued*

Basis of accounting

(i) Subsidiaries

The Group accounts 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 accounts of subsidiaries are included in the consolidated accounts 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 accounts 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 commences until the date that significant influence ceases.

(iii) Transactions eliminated on consolidation

Intra Group balances, and any unrealised gains and losses or income and expenses arising from intra Group transactions, are eliminated in preparing the accounts. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity.

(iv) Company

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own income statement.

Notes to the accounts *continued*

1 Accounting policies *continued*

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 accounts 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 hedge 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%	Office equipment	12.5–33.3%
Plant and machinery	10–12.5%	Motor vehicles	20%
Office furniture and fittings	10%	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 13 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 13.

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%	Manufacturing designs and core technology	6–15%
ERP systems and software	12.5–20%	Non compete undertakings	20–50%
Brand names and trademarks	5–20%		

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 corporate governance on page 101.

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 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 more than 90% 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 accounts *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 accounts. 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 options granted to subsidiary employees

The parent company grants share options 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 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**	

Analysis by location of operation 2013

	Gross revenue £000	Inter-segment revenue £000	Revenue £000	Total operating profit £000	Adjusted operating profit £000	Adjusted operating margin %
Europe, Middle East & Africa	286,551	42,240	244,311	47,057	48,205	19.7%
Asia Pacific	187,916	5,142	182,774	48,033	48,033	26.3%
Americas	138,676	6,642	132,034	24,243	26,119	19.8%
Steam Specialties business	613,143	54,024	559,119	119,333	122,357	21.9%
Watson-Marlow	130,325	56	130,269	37,940	39,502	30.3%
Corporate expenses				(10,233)	(10,233)	
	743,468	54,080	689,388	147,040	151,626	22.0%
Intra Group	(54,080)	(54,080)				
Total	689,388	–	689,388	147,040	151,626	22.0%
Net finance expense				(2,300)	(2,300)	
Share of profit of associates				974	1,730	
Profit before tax				145,714	151,056	

Net revenue generated by Group companies based in the USA is £109,879,000 (2013: £108,937,000), in China is £74,266,000 (2013: £76,807,000), in the UK £69,889,000 (2013: £71,438,000) and the rest of the world £424,243,000 (2013: £432,206,000).

Notes to the accounts *continued*

2 Segmental reporting *continued*

The total operating profit for the period includes non-operational items, as analysed below:

2014

	Amortisation and impairment 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)**

2013

	Amortisation and impairment of acquisition-related intangible assets £000	Acquisition and disposal costs £000	Total £000
Europe, Middle East & Africa	(629)	(519)	(1,148)
Asia Pacific	–	–	–
Americas	(1,780)	(96)	(1,876)
Steam Specialties business	(2,409)	(615)	(3,024)
Watson-Marlow	(1,562)	–	(1,562)
Total non-operational items	(3,971)	(615)	(4,586)

Impairment of acquisition related intangible assets was £nil (2013: £145,000). The 2013 charge was in relation to the disposal of the HVAC business of Eirdata in Ireland.

Share of profit of associates

The share of profit of associates analysed between adjusted income and total (including non-operational items) is as follows:

	2014 Adjusted £000	2014 Total £000	2013 Adjusted £000	2013 Total £000
Europe, Middle East & Africa	**(172)**	**(367)**	(205)	(663)
Asia Pacific	**1,323**	**49**	1,935	1,637
Americas	**–**	**–**	–	–
Steam Specialties business	**1,151**	**(318)**	1,730	974
Watson-Marlow	**–**	**–**	–	–
Total share of profit of associates	**1,151**	**(318)**	1,730	974

Adjusted share of profit of associates excludes amortisation and impairment of acquisition-related intangible assets of £1,125,000 (2013: £756,000) and in 2014 excludes an impairment of tangible assets in respect of Spirax Marshall in India of £344,000 (2013: £nil).

Net financing income and expense

	2014 £000	2013 £000
Europe, Middle East & Africa	**(2,310)**	(1,848)
Asia Pacific	**1,215**	796
Americas	**(326)**	(418)
Steam Specialties business	**(1,421)**	(1,470)
Watson-Marlow	**(5)**	(51)
Corporate	**(1,557)**	(779)
Total net financing expense	**(2,983)**	(2,300)

2 Segmental reporting *continued*

Net assets

	2014 Assets £000	Liabilities £000	2013 Assets £000	Liabilities £000
Europe, Middle East & Africa	**203,729**	**(94,959)**	215,933	(96,942)
Asia Pacific	**136,592**	**(22,831)**	119,704	(22,038)
Americas	**103,318**	**(33,244)**	102,575	(25,278)
Watson-Marlow	**113,066**	**(17,060)**	102,989	(15,210)
	556,705	**(168,094)**	541,201	(159,468)
Liabilities	**(168,094)**		(159,468)	
Deferred tax	**18,529**		18,619	
Current tax payable	**(17,755)**		(13,218)	
Net cash	**52,493**		16,400	
Net assets	**441,878**		403,534	

Non-current assets in the UK were £102,889,000 (2013: £103,589,000).

Capital additions and depreciation, amortisation and impairment

	2014		2013	
	Capital additions £000	Depreciation, amortisation and impairment £000	Capital additions £000	Depreciation, amortisation and impairment £000
Europe, Middle East & Africa	15,301	10,476	10,532	11,859
Asia Pacific	8,657	5,144	6,602	4,707
Americas	4,159	5,335	6,770	5,912
Watson-Marlow	11,271	5,844	7,323	4,200
Group total	39,388	26,799	31,227	26,678

Capital additions include property, plant and equipment of £26,876,000 (2013: £21,835,000) and other intangible assets of £12,512,000 (2013: £9,392,000) of which £5,233,000 (2013: £1,373,000) relates to acquired intangibles from acquisitions in the period. Capital additions split between the UK and rest of the world are UK £20,902,000 (2013: £12,154,000), rest of the world £18,486,000 (2013: £19,073,000). Depreciation, amortisation and impairment includes the profit on disposal of fixed assets of £473,000 (2013: £467,000).

3 Operating costs

	2014 Adjusted £000	Total £000	2013 Adjusted £000	Total £000
Change in stocks of finished goods and work in progress	**5,764**	**5,764**	(364)	(364)
Raw materials and consumables	**165,686**	**165,686**	179,574	179,574
Staff costs (note 4)	**232,806**	**232,806**	232,449	232,449
Depreciation, amortisation and impairment	**22,702**	**26,799**	22,707	26,678
Other operating charges	**98,369**	**99,127**	103,396	104,011
Total operating costs	**525,327**	**530,182**	537,762	542,348

Total depreciation and amortisation includes amortisation of acquisition-related intangible assets of £4,096,000 (2013: £3,826,000). Operating costs include exchange difference benefits of £747,000 (2013: £375,000 cost). Other operating charges include acquisition and disposal costs of £759,000 (2013: £615,000).

Notes to the accounts *continued*

4 Staff costs and numbers

The aggregate payroll costs of persons employed by the Group were as follows:

	2014 £000	2013 £000
Wages and salaries	**181,808**	184,152
Social security costs	**34,428**	32,713
Other pension costs	**16,570**	15,584
Total payroll costs	**232,806**	232,449

The average number of persons employed by the Group (including Directors) during the year was as follows:

	2014	2013
United Kingdom	**1,345**	1,315
Overseas	**3,452**	3,410
Group average	**4,797**	4,725

5 Net financing income and expense

	2014 £000	2013 £000
Financial expenses		
Bank and other borrowing interest payable	**(2,310)**	(1,551)
Net interest on pension scheme liabilities	**(2,919)**	(2,717)
	(5,229)	(4,268)
Financial income		
Bank interest receivable	**2,246**	1,968
	2,246	1,968
Net financing expense	**(2,983)**	(2,300)
Net pension scheme financial expense	**(2,919)**	(2,717)
Net bank interest	**(64)**	417
Net financing expense	**(2,983)**	(2,300)

6 Profit before taxation

Profit before taxation is shown after charging:

	2014 £000	2013 £000
Depreciation of owned tangible fixed assets	**18,986**	18,502
Depreciation of tangible fixed assets held under finance leases	**298**	298
Hire of plant and machinery	**238**	221
Profit on disposal of property, plant and equipment	**473**	467
Other operating leases	**4,864**	5,146
R&D	**9,259**	8,860

Auditor's remuneration	2014 £000	2013 £000
Audit of these financial statements	**140**	126
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**862**	943
Interim agreed upon procedures	**22**	–
Audit-related assurance services	**40**	85
Taxation compliance services	**38**	207
Other tax advisory services	**62**	288
All other services	**73**	194
Total auditor's remuneration	**1,237**	1,843

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 2014 on pages 78 to 89. 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 27).

	2014 £000	2013 £000
Salaries and short-term benefits	**2,623**	3,821
Post-retirement benefits	**464**	387
Share-based payments	**308**	722
Total Directors' remuneration	**3,395**	4,930

8 Taxation

	2014 £000	2013 £000
Analysis of charge in period		
UK corporation tax		
Current tax on income for the period	**2,440**	1,538
Adjustments in respect of prior periods	**945**	136
	3,385	1,674
Double taxation relief	**(851)**	(1,538)
	2,534	136
Foreign tax		
Current tax on income for the period	**42,233**	40,169
Adjustments in respect of prior periods	**247**	(989)
	42,480	39,180
Total current tax charge	**45,014**	39,316
Deferred tax – UK	**(179)**	2,127
Deferred tax – Foreign	**(614)**	1,951
Tax on profit on ordinary activities	**44,221**	43,394

Reconciliation of effective tax rate

	2014 £000	2013 £000
Profit before tax	**144,794**	145,714
Tax using the UK corporation tax rate of 21.5% (2013: 23.25%)	**31,131**	33,879
Effect of higher/(lower) overseas tax rates	**8,605**	8,131
Associated companies	**(391)**	(382)
Non-deductible expenditure	**2,904**	1,833
Under/(Over) provided in prior years	**770**	(761)
Other reconciling items	**1,202**	694
Total tax in income statement	**44,221**	43,394
Effective tax rate	**30.5%**	29.8%

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 £3,366,000 (2013: £7,302,000) covering all employees in the UK defined benefit schemes.

Reductions in the UK corporation tax from 26% to 24% (effective from 1st April 2012) and to 23% (effective 1st April 2013) were substantively enacted on 26th March 2012 and 3rd July 2012 respectively. Further reductions to 21% (effective from 1st April 2014) and 20% (effective from 1st April 2015) were substantively enacted on 2nd July 2013. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31st December 2014 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

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.

Notes to the accounts *continued*

9 Parent company

The loss before dividends received dealt with in the accounts of Spirax-Sarco Engineering plc was £5,420,000 (2013: £11,125,000). Dividends from subsidiary undertakings of £44,097,000 (2013: £185,244,000) and dividends from associate companies of £815,000 (2013: £964,000) are excluded from this amount.

The 2013 parent company statement of financial position has been restated to include a freehold property transferred to the parent from a UK subsidiary company in 2012. The value of the restatement is £7,626,000 and increases property, plant and equipment and reduces amounts due from subsidiaries.

10 Earnings per share

	2014	2013
Profit attributable to equity shareholders (£000)	**100,327**	102,104
Weighted average shares in issue	**75,532,018**	76,566,689
Dilution	**455,530**	549,341
Diluted weighted average shares in issue	**75,987,548**	77,116,030
Basic earnings per share	**132.8p**	133.4p
Diluted earnings per share	**132.0p**	132.4p
Adjusted profit attributable to equity shareholders (£000)	**106,015**	106,298
Basic adjusted earnings per share	**140.4p**	138.8p
Diluted adjusted earnings per share	**139.5p**	137.8p

The dilution is in respect of unexercised share options and the Performance Share Plan.

11 Dividends

	2014 £000	2013 £000
Amounts paid in the year		
Final dividend for the year ended 31st December 2013 of 41.0p (2012: 37.0p) per share	**30,960**	28,942
Special dividend for the year ended 31st December 2013 of nil (2012: 100.0p) per share	**–**	78,260
Interim dividend for the year ended 31st December 2014 of 19.5p (2013: 18.0p) per share	**14,755**	13,590
Total dividends paid	**45,715**	120,792
Amounts arising in respect of the year		
Interim dividend for the year ended 31st December 2014 of 19.5p (2013: 18.0p) per share	**14,755**	13,590
Proposed final dividend for the year ended 31st December 2014 of 45.0p (2013: 41.0p) per share	**34,134**	30,903
Proposed special dividend for the year ended 31st December 2014 of 120.0p (2013: nil)	**91,024**	–
Total dividends arising	**139,913**	44,493

The proposed dividends are subject to approval in 2015. They are therefore not included as liabilities in these accounts.

12 Property, plant and equipment

	The Group				
	Land and buildings				
	Freehold £000	Leasehold £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**

	The Group				
	Land and buildings				
	Freehold £000	Leasehold £000	Plant and machinery £000	Fixtures, fittings, tools and equipment £000	Total £000
Cost or deemed cost:					
At 1st January 2013	107,470	18,468	141,901	64,593	332,432
Exchange adjustments	(2,149)	63	(1,795)	(846)	(4,727)
	105,321	18,531	140,106	63,747	327,705
Additions	4,941	1,696	8,114	7,084	21,835
Disposals	(68)	(82)	(5,041)	(2,442)	(7,633)
At 31st December 2013	110,194	20,145	143,179	68,389	341,907
Depreciation:					
At 1st January 2013	20,270	1,308	92,771	43,247	157,596
Exchange adjustments	(346)	(79)	(962)	(671)	(2,058)
	19,924	1,229	91,809	42,576	155,538
Charged in year	1,600	1,114	9,708	6,378	18,800
Disposals	(53)	(61)	(4,431)	(2,104)	(6,649)
At 31st December 2013	21,471	2,282	97,086	46,850	167,689
Net book value:					
At 31st December 2013	88,723	17,863	46,093	21,539	174,218

Included in the above are finance leases with a net book value of £827,000 (2013: £1,068,000).

The parent company holds freehold property with a cost of £8,781,000, accumulated depreciation of £851,000 and a net book value of £7,930,000.

Notes to the accounts *continued*

13 Goodwill and other intangible assets

	The Group				
	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**

	The Group				
	Acquired intangibles £000	Development costs £000	Computer software £000	Total intangibles £000	Goodwill £000
Cost or valuation:					
At 1st January 2013	39,201	18,438	31,706	89,345	46,834
Exchange and other adjustments	(489)	(123)	(293)	(905)	(612)
	38,712	18,315	31,413	88,440	46,222
Additions	1,373	2,779	5,240	9,392	828
Disposals	–	–	(196)	(196)	(324)
At 31st December 2013	40,085	21,094	36,457	97,636	46,726
Amortisation and impairment:					
At 1st January 2013	14,552	11,279	19,803	45,634	979
Exchange adjustments	(638)	(104)	(127)	(869)	(18)
	13,914	11,175	19,676	44,765	961
Amortisation and impairment	3,971	2,005	2,369	8,345	–
Disposals	–	–	(68)	(68)	–
At 31st December 2013	17,885	13,180	21,977	53,042	961
Net book value:					
At 31st December 2013	22,200	7,914	14,480	44,594	45,765

Development

All capitalised development costs arise from internal product development.

13 Goodwill and other intangible assets *continued*

Acquired intangibles

The disclosure by class of acquired intangibles assets is shown in the tables below.

	The Group				
	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 2014	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**

Additions comprise intangibles arising from acquisitions during the year £4,395,000 (note 30) and transfers from associates held for sale £838,000.

	The Group				
	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 2013	24,088	6,474	5,662	2,977	39,201
Exchange and other adjustments	(337)	(61)	(55)	(36)	(489)
	23,751	6,413	5,607	2,941	38,712
Additions	662	–	–	711	1,373
At 31st December 2013	24,413	6,413	5,607	3,652	40,085
Amortisation and impairment:					
At 1st January 2013	6,651	3,047	2,574	2,280	14,552
Exchange adjustments	(267)	(149)	(130)	(92)	(638)
	6,384	2,898	2,444	2,188	13,914
Amortisation and impairment	2,178	941	561	291	3,971
At 31st December 2013	8,562	3,839	3,005	2,479	17,885
Net book value:					
At 31st December 2013	15,851	2,574	2,602	1,173	22,200

Notes to the accounts *continued*

13 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.

	2014 Goodwill £000	2013 Goodwill £000
Spirax-Sarco Mexicana	**8,151**	8,636
Flexicon A/S Denmark	**7,531**	7,888
MasoSine	**6,587**	7,062
BioPure Technology Ltd	**4,100**	–
Spirax Sarco Inc USA	**3,290**	3,098
M & M product unit	**2,841**	3,046
Alitea product unit	**2,412**	2,596
UK Supply product unit	**1,844**	1,977
Spirax Inter Valf Turkey	**1,538**	1,576
Spirax-Sarco S A S France	**1,244**	1,334
Watson-Marlow South Africa	**839**	872
Other cash-generating units	**7,305**	7,680
Total goodwill	**47,682**	45,765

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 11–16% (2013: 10–14%).
- Short-term growth rates vary between 2.5–7.0% depending on detailed forecasts (2013: 2.5–6.5%). The short-term is defined as not more than five years.
- Long-term growth rates are set using IMF forecasts and vary between 1.0–6.0% (2013: 1.0–6.0%).
- No impairments were identified as a result of this exercise.

The principal value in use assumptions for the three largest cash-generating units were as follows:

Cash-generating unit	Pre-tax Discount Rate	Short-term Growth Rate	Long-term Growth Rate
Spirax-Sarco Mexicana	15.6%	7.0%	3.8%
Flexicon A/S Denmark	11.0%	4.0%	3.0%
MasoSine	12.3%	3.0%	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.

14 Loans to subsidiaries

	Parent company	
	2014 £000	2013 £000
Cost:		
At 1st January	**40,199**	65,197
(Repayment)/loans	**(1,657)**	(24,998)
At 31st December	**38,542**	40,199
Amounts written off:		
At 1st January and 31st December	**(1,042)**	(1,042)
Net book value:		
At 31st December	**37,500**	39,157

15 Investment in subsidiaries

	Parent Company 2014 £000	Parent Company 2013 £000
Cost:		
At 1st January	**161,665**	49,651
Share options issued to subsidiary company employees	**934**	1,596
New investment	**–**	110,418
Reclassifications during the year	**(1,028)**	–
At 31st December	**161,571**	161,665
Amounts written off:		
At 1st January and 31st December	**(994)**	(994)
Net book value:		
At 31st December	**160,577**	160,671

Investments are stated at cost less provisions for any impairment in value.

Details relating to subsidiary undertakings are given on the inside back cover. Except where stated all classes of shares were 100% owned by the Group at 31st December 2014. 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 SL, Spirax-Sarco Engineering BV, Spirax-Sarco Germany Holdings GmbH, Spirax-Sarco Netherlands Holdings Cooperative W.A. Spirax-Sarco Italy Holdings Srl and Spirax-Sarco Investments BV which are investment holding companies.

16 Associates

	Associate held for sale 2014 £000	Other associate 2014 £000	Associates 2013 £000
Cost of investment	**3,194**	**1,399**	4,194
Share of equity	**3,607**	**(1,022)**	2,845
Adjustment to fair value	**(1,024)**	–	–
Total investment in associate	**5,777**	**377**	7,039
Summarised financial information			
Revenue	**19,494**	**485**	23,593
Profit for the period	**2,686**	**(512)**	2,786
Current assets	**5,873**	**304**	6,177
Non-current assets	**9,754**	**571**	10,325
Current and non-current liabilities	**3,186**	**410**	2,759

Details of the Group's associate at 31st December 2014 are as follows:

Name of associate	Country of incorporation and operation	Proportion of ownership interest and voting power held	Principal activity
Spirax-Marshall Ltd (held for sale)	India	49.3%	Manufacturing and selling
Econotherm (UK) Ltd	UK	38.9%	Manufacturing and selling

The investment in Spirax-Marshall Ltd has been adjusted to fair value as it was held for sale as at 31st December 2014. The £1,024,000 adjustment includes goodwill impairment of £672,000 and a loss on sale of £352,000. The sale was completed on 1st March 2015.

The Group increased its investment in Econotherm (UK) Ltd by £149,000 in May 2014 and by £250,000 in December 2014. The Group's share of Econotherm's equity increased to 33.9% in May and to 38.9% in December.

Notes to the accounts *continued*

17 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	The Group					
	Assets		Liabilities		Net	
	2014 £000	2013 £000	**2014 £000**	2013 £000	**2014 £000**	2013 £000
Accelerated capital allowances	**3,987**	1,467	**(5,291)**	(5,280)	**(1,304)**	(3,813)
Provisions	**4,037**	5,566	**(920)**	(430)	**3,117**	5,136
Losses	**3,173**	2,770	**–**	(8)	**3,173**	2,762
Inventory	**3,002**	1,698	**(2,049)**	(636)	**953**	1,062
Pensions	**19,466**	20,248	**(1,763)**	(2,255)	**17,703**	17,993
Other temporary differences	**2,276**	2,723	**(7,389)**	(7,244)	**(5,113)**	(4,521)
Tax assets/(liabilities)	**35,941**	34,472	**(17,412)**	(15,853)	**18,529**	18,619

Movement in deferred tax during the year 2014

	The Group					
	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**

Movement in deferred tax during the year 2013

	The Group					
	1st January 2013 £000	Recognised in income £000	Recognised in OCI £000	Recognised in equity £000	Acquisitions £000	31st December 2013 £000
Accelerated capital allowances	(3,578)	(235)	–	–	–	(3,813)
Provisions	5,114	56	(34)	–	–	5,136
Losses	4,434	(1,719)	47	–	–	2,762
Inventory	1,359	(311)	14	–	–	1,062
Pensions	21,480	(2,413)	(1,074)	–	–	17,993
Other temporary differences	(5,113)	544	(16)	117	(53)	(4,521)
Group total	23,696	(4,078)	(1,063)	117	(53)	18,619

Movement in deferred tax during the year 2014

	Parent company				
	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)**
Parent company total	**508**	**(10)**	**(81)**	**–**	**417**

17 Deferred tax assets and liabilities *continued*

Movement in deferred tax during the year 2013

	Parent company				
	1st January 2013 £000	Recognised in income £000	Recognised in OCI £000	Recognised in equity £000	31st December 2013 £000
Other temporary differences (asset)	824	100	–	12	936
Pensions (liability)	–	(342)	(86)	–	(428)
Parent company total	824	(242)	(86)	12	508

18 Inventories

	The Group	
	2014 £000	2013 £000
Raw materials and consumables	**35,366**	35,759
Work in progress	**14,954**	15,622
Finished goods and goods for resale	**47,687**	52,783
Total inventories	**98,007**	104,164

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.

19 Other current assets

	The Group		Parent company	
	2014 £000	2013 £000	**2014 £000**	2013 £000
Other receivables	**13,025**	11,480	**83**	–
Prepayments and accrued income	**10,948**	8,400	**1,216**	1,643
Total current assets	**23,973**	19,880	**1,299**	1,643

20 Trade and other payables

	The Group		Parent company	
	2014 £000	2013 £000	**2014 £000**	2013 £000
Trade payables	**27,670**	30,135	**–**	–
Bills of exchange payable	**201**	190	**–**	–
Social security	**2,839**	4,384	**–**	–
Other payables	**25,976**	24,443	**–**	87
Accruals	**34,068**	26,956	**2,084**	2,147
Total trade and other payables	**90,754**	86,108	**2,084**	2,234

21 Obligations under finance leases

	The Group			
	Minimum lease payments		Present value lease payment	
	2014 £000	2013 £000	**2014 £000**	2013 £000
Amount payable				
Within 1 year	**300**	315	**298**	298
1–5 years inclusive	**531**	814	**529**	770
After 5 years	**–**	–	**–**	–
	831	1,129	**827**	1,068
Less future finance charges	**(4)**	(61)	**–**	–
Total obligations under finance leases	**827**	1,068	**827**	1,068

Finance lease obligations are further disclosed in note 28.

Notes to the accounts *continued*

22 Provisions

	The Group	
	Warranty and other provisions	
	2014 £000	2013 £000
Provisions at 1st January	**720**	991
Exchange adjustments	**(29)**	112
	691	1,103
Utilised in the year	**(135)**	(383)
Provisions at 31st December	**556**	720

Provisions include non-current product warranties charged against profit from operations that are expected to be incurred in the next three years.

23 Called up share capital and reserves

	The Group		Parent company	
	2014 £000	2013 £000	**2014 £000**	2013 £000
Ordinary shares of 25 $^{25}/_{26}$p (2013: 25 $^{25}/_{26}$p) each				
Authorised 115,555,590 (2013: 115,555,590)	**30,000**	30,000	**30,000**	30,000
Allotted, called up and fully paid 75,579,364 (2013: 75,374,081)	**19,622**	19,568	**19,622**	19,568

286,315 shares with a nominal value of £74,332 were issued in connection with the Group's Employee Share Schemes for a consideration of £5,223,000 received by the Company.

In December 2014 the parent company purchased 100,000 shares representing 0.1% of called up share capital with a nominal value of £25,962 for consideration of £3,004,751. The shares were placed in an Employee Benefit Trust to be used in connection with the Group's Employee Share Schemes.

At 31st December 2014 216,513 shares were held in an Employee Benefit Trust and available for use in connection with the Group's Employee Share Schemes.

187 senior employees of the Group have been granted options on Ordinary shares under the Share Option Scheme and Performance Share Plan (details in note 27).

Other reserves in the Consolidated statement of changes in equity on page 110 are made up as follows:

The Group	**1st January 2014 £000**	Change in year £000	**31st December 2014 £000**
Translation reserve	**13,742**	(15,155)	**(1,413)**
Cash flow hedge reserve	**(303)**	(232)	**(535)**
Capital redemption reserve	**1,832**	–	**1,832**
Employee Benefit Trust reserve	**(3,797)**	(2,573)	**(6,370)**
Total other reserves	**11,474**	**(17,960)**	**(6,486)**

Parent company	**1st January 2014 £000**	Change in year £000	**31st December 2014 £000**
Share-based payments reserve	**6,733**	934	**7,667**
Capital redemption reserve	**1,832**	–	**1,832**
Employee Benefit Trust reserve	**(3,797)**	(2,573)	**(6,370)**
Total other reserves	**4,768**	**(1,639)**	**3,129**

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.

23 Called up share capital and reserves *continued*

Cash flow hedge 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.

24 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:

	The Group	
	2014 £000	2013 £000
Capital employed		
Property, plant and equipment	**176,668**	174,218
Prepayments	**402**	162
Inventories	**98,007**	104,164
Trade receivables	**155,696**	145,380
Other current assets	**23,973**	19,880
Tax recoverable	**4,420**	3,709
Trade and other payables	**(90,754)**	(86,108)
Current tax payable	**(22,175)**	(16,927)
Capital employed	**346,237**	344,478
Average capital employed	**345,358**	341,775
Operating profit	**148,095**	147,040
Adjustments (note 2)	**4,855**	4,586
Adjusted operating profit	**152,950**	151,626
Return on capital employed	**44.3%**	44.4%

25 Capital commitments

	The Group		Parent company	
	2014 £000	2013 £000	**2014 £000**	2013 £000
Capital expenditure contracted for but not provided	**1,657**	1,217	**–**	–

All capital commitments related to property, plant and equipment.

26 Operating lease obligations

	The Group	
	2014 £000	2013 £000
Commitments under non-cancellable leases due as follows:		
Within 1 year	**4,449**	4,412
1–5 years inclusive	**6,976**	9,513
After 5 years	**403**	641
Total operating lease obligations	**11,828**	14,566

Operating leases are primarily in respect of property, plant and equipment.

Notes to the accounts *continued*

27 Employee benefits

Retirement benefit obligations – the Group

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 £9,074,000 (2013: £7,373,000). 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 50% 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 page 44.

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 about 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 136.

The financial assumptions used at 31st December were:

	Assumptions weighted by value of liabilities % per annum			
	UK pensions		Overseas pensions and medical	
	2014	2013	**2014**	2013
Rate of increase in salaries	**3.5**	4.0	**3.3**	3.3
Rate of increase in pensions	**2.9**	3.1	**1.7**	1.7
Rate of price inflation	**3.0**	3.4	**2.3**	2.3
Discount rate	**3.7**	4.5	**3.6**	4.5
Medical trend rate			**5.0**	5.0

27 Employee benefits *continued*

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	
	2014 £000	2013 £000	**2014 £000**	2013 £000	**2014 £000**	2013 £000
Fair value of schemes' assets	**313,556**	278,147	**37,588**	35,684	**351,144**	313,831
Present value of funded schemes' liabilities	**(351,289)**	(322,929)	**(57,227)**	(45,739)	**(408,516)**	(368,668)
(Deficit) in the funded schemes	**(37,733)**	(44,782)	**(19,639)**	(10,055)	**(57,372)**	(54,837)
Present value of unfunded schemes' liabilities	**–**	–	**(18,407)**	(17,206)	**(18,407)**	(17,206)
Retirement benefit liability recognised in the balance sheet	**(37,733)**	(44,782)	**(38,046)**	(27,261)	**(75,779)**	(72,043)
Related deferred tax asset	**7,825**	8,956	**9,878**	9,037	**17,703**	17,993
Net pension liability	**(29,908)**	(35,826)	**(28,168)**	(18,224)	**(58,076)**	(54,050)

	UK pensions		Overseas pensions and medical		Total	
	2014 £000	2013 £000	**2014 £000**	2013 £000	**2014 £000**	2013 £000
Equities	**176,595**	142,603	**21,447**	20,613	**198,042**	163,216
Bonds	**126,723**	74,710	**8,728**	8,678	**135,451**	83,388
Other	**10,238**	60,834	**7,413**	6,393	**17,651**	67,227
Total market value in aggregate	**313,556**	278,147	**37,588**	35,684	**351,144**	313,831

The actual return on plan assets was £35.9 million (2013: £30.9 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	
	2014 £000	2013 £000	**2014 £000**	2013 £000	**2014 £000**	2013 £000
Defined benefit obligation at beginning of year	**(322,929)**	(288,566)	**(62,945)**	(64,699)	**(385,874)**	(353,265)
Current service cost	**(5,522)**	(5,859)	**(2,030)**	(2,352)	**(7,552)**	(8,211)
Past service cost	**–**	–	**56**	–	**56**	–
Interest cost	**(14,331)**	(12,917)	**(2,638)**	(2,441)	**(16,969)**	(15,358)
Contributions by members	**(629)**	(633)	**–**	–	**(629)**	(633)
Remeasurement (loss)/gain	**(27,497)**	(25,433)	**(10,511)**	5,189	**(38,008)**	(20,244)
Actual benefit payments	**9,550**	9,835	**2,580**	2,431	**12,130**	12,266
Experience (loss)/gain	**10,069**	644	**975**	(1,515)	**11,044**	(871)
Currency loss	**–**	–	**(1,121)**	442	**(1,121)**	442
Defined benefit obligation at end of year	**(351,289)**	(322,929)	**(75,634)**	(62,945)	**(426,923)**	(385,874)

The movements in the fair value of plan assets during the year were:

	UK pensions		Overseas pensions and medical		Total	
	2014 £000	2013 £000	**2014 £000**	2013 £000	**2014 £000**	2013 £000
Value of assets at beginning of year	**278,147**	249,668	**35,684**	30,934	**313,831**	280,602
Expected return on assets	**12,496**	11,414	**1,554**	1,227	**14,050**	12,641
Remeasurement gain	**23,907**	14,714	**(2,102)**	3,535	**21,805**	18,249
Contributions paid by employer	**7,927**	11,553	**3,421**	3,643	**11,348**	15,196
Contributions paid by members	**629**	633	**–**	–	**629**	633
Actual benefit payments	**(9,550)**	(9,835)	**(2,580)**	(2,431)	**(12,130)**	(12,266)
Currency gain	**–**	–	**1,611**	(1,224)	**1,611**	(1,224)
Value of assets at end of year	**313,556**	278,147	**37,588**	35,684	**351,144**	313,831

Notes to the accounts *continued*

27 Employee benefits *continued*

The estimated employer contributions to be made in 2015 are £7,312,000.

The history of experience adjustments is as follows:

	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
Defined benefit obligation at end of year	**(426,923)**	(385,874)	(353,265)	(323,327)	(303,338)
Fair value of schemes' assets	**351,144**	313,831	280,602	251,402	239,910
Retirement benefit liability recognised in the balance sheet	**(75,779)**	(72,043)	(72,663)	(71,925)	(63,428)
Experience adjustment on schemes' liabilities	**11,044**	(871)	(126)	5,797	(984)
As a percentage of schemes' liabilities	**2.6%**	0.2%	0.0%	1.8%	0.3%
Experience adjustment on schemes' assets	**21,805**	18,249	13,561	(12,041)	10,454
As a percentage of schemes' assets	**6.2%**	5.8%	4.8%	4.8%	4.4%

The expense recognised in the Group income statement was as follows:

	UK pensions		**Overseas pensions and medical**		**Total**	
	2014 £000	2013 £000	**2014 £000**	2013 £000	**2014 £000**	2013 £000
Current service cost	**(5,522)**	(5,859)	**(2,030)**	(2,352)	**(7,552)**	(8,211)
Past service cost	**–**	–	**56**	–	**56**	–
Net interest on schemes' liabilities	**(1,835)**	(1,503)	**(1,084)**	(1,214)	**(2,919)**	(2,717)
Total expense recognised in income statement	**(7,357)**	(7,362)	**(3,058)**	(3,566)	**(10,415)**	(10,928)

The expense is recognised in the following line items in the Group income statement:

	2014 £000	2013 £000
Operating costs	**(7,496)**	(8,211)
Net financial expenses	**(2,919)**	(2,717)
Total expense recognised in income statement	**(10,415)**	(10,928)

Statement of comprehensive income (OCI)

	UK pensions		**Overseas pensions and medical**		**Total**	
	2014 £000	2013 £000	**2014 £000**	2013 £000	**2014 £000**	2013 £000
Remeasurement amount recognised in OCI	**6,479**	(10,075)	**(11,638)**	7,209	**(5,159)**	(2,866)
Deferred tax on remeasurement amount recognised in OCI	**(1,296)**	2,015	**1,038**	(3,089)	**(258)**	(1,074)
Cumulative loss recognised in OCI at beginning of year	**(57,952)**	(49,892)	**(9,279)**	(13,399)	**(67,231)**	(63,291)
Cumulative loss recognised in OCI at end of year	**(52,769)**	(57,952)	**(19,879)**	(9,279)	**(72,648)**	(67,231)

Sensitivity analysis

The effect on the defined benefit obligation at 31st December 2014 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	**(14,000)**	**(3,000)**	**(17,000)**
Discount rate assumption being 0.25% lower	**19,000**	**3,000**	**22,000**
Inflation assumption being 0.25% higher	**11,000**	**1,000**	**12,000**
Inflation assumption being 0.25% lower	**(11,000)**	**(1,000)**	**(12,000)**

The average age of active participants in the UK schemes at 31st December 2014 was 51 years and in the overseas schemes 50 years.

27 Employee benefits *continued*

Pension plans – parent company

The parent company is accounting for pension costs in accordance with International Accounting Standard 19.

The disclosures shown here are in respect of the parent company's defined benefit obligations. Other plans operated by the Parent Company were defined contribution plans.

The total expense relating to the parent company's defined contribution pension plans in the current year was £150,000 (2013: £49,000).

The post-retirement mortality assumptions in respect of the parent company Defined Benefit Scheme follows the SAPS light tables, with improvements based on the 2009 CMI Core Projections with a 1.5% long-term trend. This basis gives a life expectancy of 24 years and 26 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.

The financial assumptions used at 31st December were:

	Assumptions weighted by value of liabilities % per annum	
	UK pensions	
	2014	2013
Rate of increase in salaries	**3.5**	3.9
Rate of increase in pensions	**2.9**	3.1
Rate of price inflation	**3.0**	3.4
Discount rate	**3.7**	4.5

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.

	UK pensions	
	2014 £000	2013 £000
Equities	**28,577**	25,232
Bonds	**25,954**	14,522
Other	**2,426**	14,026
Total market value in aggregate	**56,957**	53,780

The actual return on plan assets was £5.4 million (2013: £4.9 million).

The amounts recognised in the consolidated statement of financial position are determined as follows:

	UK pensions	
	2014 £000	2013 £000
Fair value of scheme's assets	**56,957**	53,780
Present value of funded scheme's liabilities	**(54,361)**	(51,639)
Retirement benefit asset recognised in the statement of financial position	**2,596**	2,141
Related deferred tax	**(519)**	(428)
Net pension asset	**2,077**	1,713

Notes to the accounts *continued*

27 Employee benefits *continued*

The movements in the defined benefit obligation (DBO) recognised in the statement of financial position during the year were:

	UK pensions	
	2014 £000	2013 £000
Defined benefit obligation at beginning of year	**(51,639)**	(49,650)
Current service cost	**(171)**	(248)
Interest cost	**(2,271)**	(2,197)
Contributions from members	**(83)**	(10)
Remeasurement (loss)	**(3,361)**	(2,768)
Actual benefit payments	**2,457**	2,740
Experience (loss)/gain	**707**	494
Defined benefit obligation at end of year	**(54,361)**	(51,639)

The movements in the fair value of plan assets during the year were:

	UK pensions	
	2014 £000	2013 £000
Value of assets at beginning of year	**53,780**	49,594
Expected return on assets	**2,370**	2,239
Remeasurement gain/(loss)	**3,060**	2,705
Contributions paid by employer	**202**	1,972
Contributions from members	**2**	10
Actual benefit payments	**(2,457)**	(2,740)
Value of assets at end of year	**56,957**	53,780

The estimated employer contributions to be made in 2015 are £119,000.

The history of experience adjustments is as follows:

	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
Defined benefit obligation at end of year	**(54,361)**	(51,639)	(49,650)	(47,200)	(52,594)
Fair value of scheme's assets	**56,957**	53,780	49,594	44,745	45,055
Retirement benefit (liability) recognised in the balance sheet	**2,596**	2,141	(56)	(2,455)	(7,539)
Experience adjustment on scheme's liabilities	**707**	494	(6)	7,357	(1)
As a percentage of scheme's liabilities	**1.3%**	1.0%	0.0%	15.6%	0.0%
Experience adjustment on scheme's assets	**3,060**	2,705	2,250	(2,579)	2,320
As a percentage of scheme's assets	**5.4%**	5.0%	4.5%	5.8%	5.1%

The expense recognised in the parent company income statement was as follows:

	UK pensions	
	2014 £000	2013 £000
Current service cost	**(252)**	(248)
Net interest on scheme's assets/(liabilities)	**99**	42
Total income recognised in income statement	**(153)**	(206)

Statement of comprehensive income (OCI)

	UK pensions	
	2014 £000	2013 £000
Remeasurement (loss)/gain recognised in OCI	**406**	431
Deferred tax on remeasurement amount recognised in OCI	**(81)**	(86)
Cumulative loss recognised in OCI at beginning of year	**(12,727)**	(13,072)
Cumulative loss recognised in OCI at end of year	**(12,402)**	(12,727)

27 Employee benefits *continued*

Share-based payments – The Group

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 2014 on pages 78 to 89. The charge to the income statement in respect of share-based payments is made up as follows:

	2014 £000	2013 £000
Share Option Scheme	**131**	564
Performance Share Plan	**1,453**	1,974
Employee Share Ownership Plan	**790**	777
Total expense recognised in income statement	**2,374**	3,315

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 from 1995 to 2001 the performance condition is an increase in EPS of more than 6% 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 and including the 2002 options, the increase in EPS was revised to 9% greater than the increase in the UK Retail Price Index over a three-year consecutive period and 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 by Towers Watson, using the Present Economic Value (PEV) valuation methodology. The relevant disclosures in respect of the share option scheme grants are set out below.

	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**
2004 grant (541.9p)	15,500	–	(15,500)	–	–
2005 grant (686p)	32,933	–	(6,762)	–	26,171
2006 grant (960p)	30,650	–	(5,875)	–	24,775
2007 grant (1019.6p)	51,075	–	(16,531)	–	34,544
2008 grant (959.0p)	49,568	–	(10,400)	–	39,168
2009 grant (765.0p)	40,500	–	(11,000)	–	29,500
2010 grant (1366.0p)	120,500	–	(38,170)	–	82,330
2011 grant (1873.0p)	306,000	–	(113,201)	(6,000)	186,799
	646,726	–	**(217,439)**	(6,000)	**423,287**
Weighted average exercise price	£14.36	–	£14.63	£18.73	£14.16
Weighted average contractual life remaining					4.6 years

Performance conditions in respect of all exercisable shares have been met. The number of shares exercisable at 31st December 2014 is 423,287 (2013: 646,726). The weighted average share price during the period was £28.69 (2013: £26.57).

Notes to the accounts *continued*

27 Employee benefits *continued*

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. For the 2014 award, the Remuneration Committee have changed the weighting between the TSR and EPS elements to 40% TSR and 60% EPS.

Shares awarded under the Performance Share Plan have been valued by Towers Watson, using the Monte Carlo simulation valuation methodology. The relevant disclosures in respect of the Performance Share Plan grants are set out below.

	2010 Grant	2011 Grant	2012 Grant	2013 Grant	**2014 Grant**
Grant date	26th March	18th March	9th March	8th March	**14th March**
Mid market share price at grant date	1366.0p	1873.0p	2106.0p	2615.0p	**2873.0p**
Number of employees	5	5	89	105	**124**
Shares under scheme	99,983	78,588	179,980	168,708	**170,521**
Vesting period	3 years	3 years	3 years	3 years	**3 years**
Probability of vesting	69.5%	69.2%	66.5%	62.5%	**75.2%**
Fair value	949.4p	1296.1p	1400.5p	1634.4p	**2160.5p**

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 by Towers Watson, using the Present Economic Value (PEV) valuation methodology. The relevant disclosures in respect of the Employee Share Ownership Plans are set out below.

	2010 Grant	2011 Grant	2012 Grant	2013 Grant	**2014 Grant**
Grant date	1st October	1st October	1st October	1st October	**1st October**
Exercise price	1808.7p	1832.0p	2100.3p	3018.0p	**2821.33p**
Number of employees	955	1,012	1,017	1,015	**1,064**
Shares under scheme	41,584	45,327	41,703	29,610	**34,204**
Vesting period	3 years	3 years	3 years	3 years	**3 years**
Expected volatility	25.0%	25.0%	25%	25%	**20%**
Risk free interest rate	0.6%	0.6%	0.2%	0.4%	**0.6%**
Expected dividend yield	2.5%	2.5%	2.5%	2.5%	**2.5%**
Fair value	1922.6p	1934.6p	2228.5p	3208.1p	**2948.3p**

The accumulation period for the 2014 ESOP ends in September 2015, therefore some figures are projections.

27 Employee benefits *continued*

Share-based payments – parent company

Disclosures of the share-based payments offered to employees of the parent company are set out below. The description and operation of each scheme is the same as outlined in the Group disclosure set out above.

Share Option Scheme

The equity settled share options issued to employees of the parent company are charged in the parent 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
2005 grant (686p)	1,862	–	(1,862)	–	–
2007 grant (1019.6p)	2,131	–	(2,131)	–	–
2008 grant (959p)	1,228	–	–	–	1,228
2009 grant (765.0p)	–	–	–	–	–
2010 grant (1366.0p)	4,000	–	–	–	4,000
2011 grant (1873.0p)	10,500	–	(5,101)	–	5,399
	19,721	**–**	**(9,094)**	**–**	**10,627**
Weighted average exercise price	£15.09		£14.30		£15.77
Weighted average contractual life remaining					5.5 years

Performance conditions in respect of all exercisable shares have been met. The number of shares exercisable at 31st December 2014 is 10,627 (2013: 19,721).

Performance Share Plan

The relevant disclosures in respect of the Performance Share Plan grants are set out below.

	2010 Grant	2011 Grant	2012 Grant	2013 Grant	**2014 Grant**
Grant date	26th March	18th March	9th March	8th March	**14th March**
Mid market share price at grant date	1366.0p	1873.0p	2106.0p	2615.0p	**2873.0p**
Number of employees	5	5	9	12	**11**
Shares under scheme	99,983	78,588	84,230	69,174	**61,154**
Vesting period	3 years	3 years	3 years	3 years	**3 years**
Probability of vesting	69.5%	69.2%	66.5%	62.5%	**75.2%**
Fair value	949.4p	1296.1p	1400.5p	1634.4p	**2160.5p**

Notes to the accounts *continued*

28 Analysis of changes in net cash

	The Group			
	At 1st January 2014 £000	Cash flow* £000	Exchange movement £000	At 31st December 2014 £000
Current portion of long-term borrowings	(298)			(298)
Non-current portion of long-term borrowings	(59,473)			(49,096)
Short-term borrowings	(39,338)			(40,070)
Total borrowings	**(99,109)**	**9,236**	**409**	**(89,464)**
Comprising:				
Borrowings	(98,041)	8,995	409	(88,637)
Finance leases	(1,068)	241	–	(827)
	(99,109)	9,236	409	(89,464)
Cash and cash equivalents	84,417	30,184	3,380	117,981
Bank overdrafts	(1,809)	1,319	29	(461)
Net cash and cash equivalents	**82,608**	**31,503**	**3,409**	**117,520**
Bank deposits	32,901	(9,038)	574	24,437
Net cash	**16,400**	**31,701**	**4,392**	**52,493**

The present value of finance lease payments are shown in note 21 on page 131.

* £1,008,000 of cash was acquired as part of the purchase of BioPure Technology Limited during the year.

29 Related party transactions

The Group	**2014 £000**	2013 £000
Sales to associated companies	**1,002**	569
Dividends from associated companies	**815**	964
Amounts due from associated companies at 31st December	**21**	52

Parent Company	**2014 £000**	2013 £000
Dividends received from subsidiaries	**44,912**	186,059
Dividends received from associates	**815**	964
Loans and amounts due from subsidiaries at 31st December	**179,479**	189,077
Amounts due to subsidiaries at 31st December	**9,295**	8,300

30 Purchase of businesses

2014

	Acquisitions Book value £000	Fair value adj £000	Fair value £000
Non-current assets			
Property, plant and equipment	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 113):	
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 is 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.

Notes to the accounts *continued*

30 Purchase of businesses *continued*

2013

	Acquisitions Book value £000	Fair value adj £000	Fair value £000
Non-current assets			
Intangibles	–	1,373	1,373
Total assets	–	1,373	1,373
Current liabilities			
Deferred tax	–	53	53
Total liabilities	–	53	53
Total net assets	–	1,320	1,320
Goodwill	–	–	828
Total	–	–	2,148
Satisfied by			
Cash paid	–	–	473
Deferred consideration	–	–	1,675
	–	–	2,148
Cash outflow for acquired businesses in the Cash Flow statements			
Cash consideration (for the current year and deferred consideration on prior years' acquisitions)			5,601
Net cash outflow			5,601

1 The acquisition of the business and assets of the steam specialties business, PT Petrolog MYM, based in Indonesia was completed on 30th August 2013. The acquisition method of accounting has been used. Fixed consideration of £1,675,000 will be paid over the next five years. Separately identified intangibles are recorded as part of the fair value adjustment. The goodwill recognised represents the opportunity to take direct control of the sale of the Group's product and services in the Indonesian market. No deferred tax liability has been created in respect of intangible assets acquired because tax relief will be available over the assets' useful life.

2 The acquisition of the distribution rights of Watson-Marlow Bredel products in Austria and Sweden was made on 1st October 2013. The acquisition method of accounting has been used. Consideration of £473,000 was paid on completion. 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 existing products to the acquired customer base to fully utilise the Group's applications expertise to expand sales.

31 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 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:

	2014		2013	
	Carrying value £000	**Fair value £000**	Carrying value £000	Fair value £000
Financial assets				
Cash and cash equivalents	**117,981**	**117,981**	84,417	84,417
Bank deposits	**24,437**	**24,437**	32,901	32,901
Trade and other receivables	**168,721**	**168,721**	156,860	156,860
Total financial assets	**311,139**	**311,139**	274,178	274,178

	2014		2013	
	Carrying value £000	**Fair value £000**	Carrying value £000	Fair value £000
Financial liabilities				
Bank loans	**88,637**	**88,637**	98,041	98,041
Finance lease obligations	**827**	**831**	1,068	1,132
Bank overdrafts	**461**	**461**	1,809	1,809
Trade payables	**27,670**	**27,670**	30,135	30,135
Other payables	**25,976**	**25,976**	25,041	25,041
Total financial liabilities	**143,571**	**143,575**	156,094	156,158

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 accounts *continued*

31 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:

2014

	The Group			
	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**

2013

	The Group			
	Total £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Financial liabilities on which no interest is paid £000
Euro	17,071	–	331	16,740
US dollar	3,994	–	–	3,994
Sterling	100,829	1,068	90,465	9,296
Other	34,200	–	9,054	25,146
Group total	156,094	1,068	99,850	55,176

2014

	The Parent			
	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**	**–**
Parent company total	**82,000**	**–**	**82,000**	**–**

2013

	The Parent			
	Total £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Financial liabilities on which no interest is paid £000
Sterling	90,552	–	90,465	87
Parent company total	90,552	–	90,465	87

The benchmark rates for the floating rate financial liabilities are LIBOR.

31 Derivatives and other financial instruments *continued*

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	**2014 Carrying value £000**	2013 Carrying value £000
Unsecured bank facility	€	2.0%	2015	**461**	318
Unsecured bank facility	Won	3.5%	2015-2017	**2,625**	3,604
Unsecured bank facility	YEN	1.2%	2015	**4,012**	4,308
Unsecured bank facility	£	1.5%	2015	**15,000**	4,000
Secured bank facility	£	1.3%	2015	**–**	30,000
Secured bank facility	£	1.1%	2015	**20,000**	30,000
Unsecured bank facility	£	–	2014	**–**	1,465
Unsecured bank facility	TRL	–	2014	**–**	13
Unsecured bank facility	€	–	2014	**–**	13
Secured bank facility	£	1.0%	2017	**47,000**	25,000
Unsecured bank facility	RAND	–	2017	**–**	1,129
Finance leases	S$	3.0%	2015-2016	**32**	–
Finance leases	£	–	2015-2016	**795**	1,068
Total outstanding loans				**89,925**	100,918

The £47 million bank facilities maturing in 2017 are secured on the assets of various Group companies. Covenant tests are performed twice annually at 30th June and 31st December. The Directors have prepared an analysis and conclude that the covenants are met.

The £20 million bank facility maturing in 2015 is secured by the bank deposits of another Group company.

The weighted average interest rate paid during the year was 1.2% (2013: 1.3%).

Interest rate risk profile of financial assets

The interest rate profile of the financial assets of the Group as at 31st December 2014 was as follows:

2014

	The Group		
	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**

2013

	The Group		
	Total £000	Floating rate financial assets £000	Financial assets on which no interest is earned £000
Sterling	15,101	–	15,101
Euro	55,957	13,981	41,976
US dollar	27,008	268	26,740
RMB	67,966	50,068	17,898
Other	108,146	25,898	82,248
Group total	274,178	90,215	183,963

Notes to the accounts *continued*

31 Derivatives and other financial instruments *continued*

2014

	The Parent		
	Total £000	**Floating rate financial assets £000**	**Financial assets on which no interest is earned £000**
Sterling	**1,299**	**–**	**1,299**
Other	**–**	**–**	**–**
Parent company total	**1,299**	**–**	**1,299**

2013

	The Parent		
	Total £000	Floating rate financial assets £000	Financial assets on which no interest is earned £000
Sterling	1,643	–	1,643
Other	–	–	–
Parent company total	1,643	–	1,643

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 (2013: 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 2014 the currency exposures in respect of the euro was a net monetary asset of (£335,000) (2013 net monetary liability: £706,000) and in respect of the US dollar a net monetary asset of £422,000 (2013: net monetary liability £696,000).

At 31st December 2014, the percentage of debt to net assets, excluding debt was 0.1% (2013: 0.08%) for the euro and nil (2013: nil) for the US dollar.

Maturity of financial liabilities

The Group's financial liabilities at 31st December 2013 mature in the following periods:

2014

	The Group					
	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**

31 Derivatives and other financial instruments *continued*

2013

	The Group					
	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	54,578	1,814	39,487	149	693	96,721
In more than six months but no more than 12	–	–	–	149	346	495
In more than one year but no more than two	114	–	–	298	56,653	57,065
In more than two years but no more than three	109	–	–	298	906	1,313
In more than three years but no more than four	104	–	–	174	516	794
In more than four years but no more than five	99	–	–	–	–	99
In more than five years	94	–	–	–	–	94
Total contractual cash flows	55,098	1,814	39,487	1,068	59,114	156,581
Balance sheet values	55,176	1,809	39,338	1,068	58,703	156,094

2014

	The Parent					
	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**

2013

	The Parent					
	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	87	1,465	34,000	–	–	35,552
In more than six months but no more than 12	–	–	–	–	–	–
In more than one year but no more than two	–	–	–	–	55,000	55,000
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	87	1,465	34,000	–	55,000	90,552
Balance sheet values	87	1,465	34,000	–	55,000	90,552

Cash flow hedge

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 2014 the Group had contracts outstanding to purchase £5,923,000 and €2,014,000 with US dollars, £900,000 with Korean Won, £291,000 with Singapore dollars and £120,000 with Japanese Yen. The fair values at the end of the reporting period were £232,000 (2013: £48,000). 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.

Notes to the accounts *continued*

31 Derivatives and other financial instruments *continued*

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:

	The Group	
	2014 £000	2013 £000
Expiring in one year or less	**24,009**	11,577
Expiring in more than two years but no more than three	**64,644**	18,535
Total Group undrawn committed facilities	**88,653**	30,112

	The Parent	
	2014 £000	2013 £000
Expiring in one year or less	**10,000**	6,000
Expiring in more than two years but no more than three	**63,000**	18,535
Parent company undrawn committed facilities	**73,000**	24,535

Fair values of financial assets and financial liabilities

Fair values of financial assets and liabilities at 31st December 2014 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 using year-end exchange rates
- 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.

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 £89,925,000 (2013: £100,918,000). At 31st December 2014, it is estimated that a general increase of one percentage point in interest rates would reduce the Group's profit after tax and equity by approximately £50,000 (2013: £300,000).

For the year ended 31st December 2014, 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 £2,400,000 (2013: £2,000,000). 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.

31 Derivatives and other financial instruments *continued*

The credit risk profile of trade receivables

The ageing of trade receivables at the reporting date was:

	Gross 2014 £000	**Impairment 2014 £000**	Gross 2013 £000	Impairment 2013 £000
Not past due date	**108,348**	**(112)**	100,132	(28)
0–30 days past due date	**25,043**	**(102)**	23,653	(52)
30 days to one year past due date	**25,143**	**(2,624)**	23,814	(2,139)
More than one year	**7,093**	**(7,093)**	6,792	(6,792)
Group total	**165,627**	**(9,931)**	154,391	(9,011)

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 2014.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2014 £000	2013 £000
Balance at 1st January	**9,011**	9,554
Movement in impairment	**920**	(543)
Balance at 31st December	**9,931**	9,011

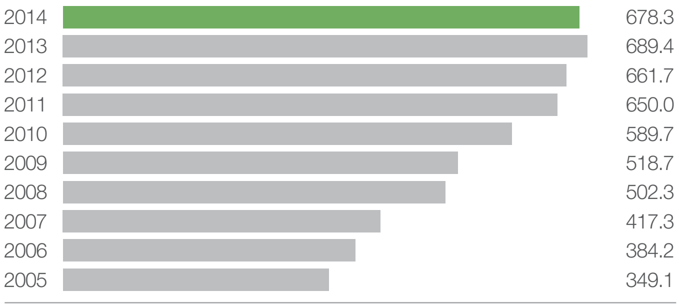
Financial Summary 2005–2014

	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012† £000	2013 £000	2014 £000
Revenue	349,100	384,249	417,317	502,316	518,705	589,746	649,991	661,723	689,388	**678,277**
Operating profit	55,170	61,941	68,336	81,028	76,522	121,396	129,498	125,714	147,040	**148,095**
Operating profit* (adjusted)	55,345	62,291	68,720	85,669	89,938	119,125	133,960	136,245	151,626	**152,950**
Operating profit margin (adjusted)*	15.9%	16.2%	16.5%	17.1%	17.3%	20.2%	20.6%	20.6%	22.0%	**22.5%**
Profit before taxation	56,959	65,344	72,163	85,162	76,415	123,493	132,341	124,093	145,714	**144,794**
Profit before taxation* (adjusted)	57,134	65,694	72,796	90,146	90,196	121,613	137,169	134,948	151,056	**151,118**
Profit after taxation	38,187	44,066	49,190	59,788	53,091	86,654	93,238	87,642	102,320	**100,573**
Dividends in respect of the year	18,318	20,038	22,754	25,668	27,569	52,624	38,072	119,469	44,493	**139,913**
Net assets	198,246	199,722	242,965	296,006	307,364	379,524	400,120	436,549	403,534	**441,878**
Earnings per share (basic)	50.0p	57.7p	64.7p	78.0p	69.6p	112.5p	120.0p	112.2p	133.4p	**132.8p**
Earnings per share* (adjusted)	50.2p	58.1p	65.5p	83.4p	82.2p	109.5p	124.8p	122.2p	138.8p	**140.4p**
Dividends in respect of the year (per share)	23.8p	26.5p	29.9p	33.3p	36.1p	43.0p	49.0p	53.0p	59.0p	**64.5p**
Special dividend (per share)	–	–	–	–	–	25.0p	–	100.0p	–	**120.0p**
Return on capital employed (note 24)	30.4%	32.2%	33.6%	35.5%	33.3%	42.1%	41.1%	39.4%	44.4%	**44.3%**

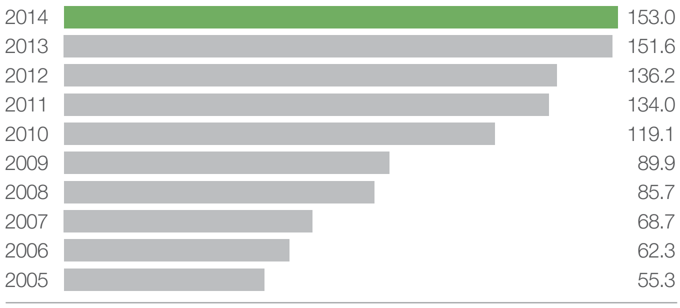
* Adjusted items exclude non-operating items (see note 2 on page 120).

† The results for 2012 have been restated to reflect IAS 19(R), prior years have not been restated.

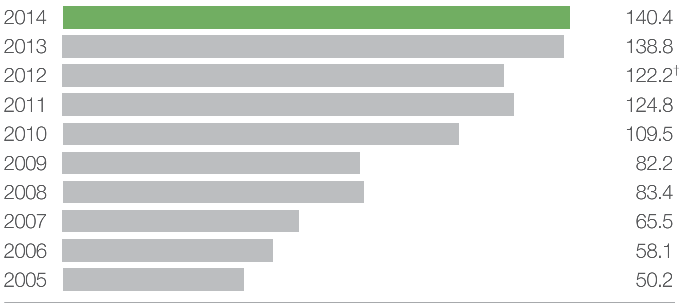
Revenue £m



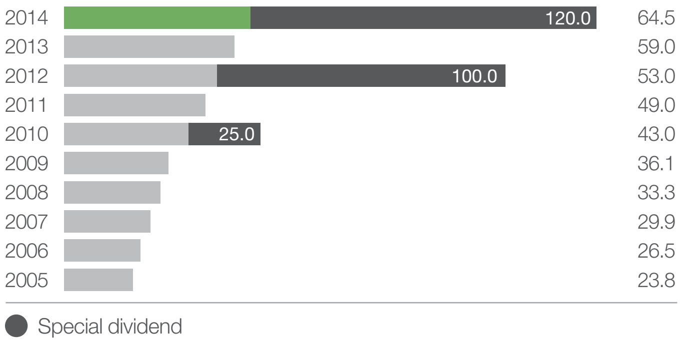
Operating profit (adjusted)* £m



Earnings per share (adjusted)* p



Dividends per share p



Our global operations

Steam specialties

EMEA

Belgium
Spirax-Sarco N V

Czech Republic
Spirax Sarco spol sro

Denmark
Spirax-Sarco Ltd (Branch)

Egypt
Spirax Sarco Energy Solutions LLC

Finland
Spirax Oy

France
Spirax-Sarco SAS

Germany
Spirax-Sarco GmbH
HygroMatik GmbH
Spirax-Sarco Germany Holdings GmbH

Ireland
Spirax-Sarco Ltd (Branch)

Italy
Spirax-Sarco Srl
M & M International Srl
Colima Srl
Spirax-Sarco Italy Holdings Srl

Middle East
Spirax Sarco Middle East Ltd

Netherlands
Spirax-Sarco Engineering BV
Spirax-Sarco Investments BV
Spirax-Sarco Netherlands BV
Spirax-Sarco Netherlands Holdings Coöperatieve WA

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

Spain
Spirax Sarco SA
Spirax-Sarco Engineering SL

Sweden
Spirax-Sarco AB

Switzerland
Spirax-Sarco AG

Turkey
Spirax Inter Valf Sanayi ve Ticaret Ltd Sirketi

United Kingdom
Spirax-Sarco Ltd
Spirax-Sarco America Ltd
Spirax-Sarco Investments Ltd
Spirax-Sarco Overseas Ltd

Asia Pacific

Australia
Spirax-Sarco Pty Ltd

China
Spirax Sarco Engineering (China) Ltd

Hong Kong
Spirax Sarco Hong Kong Company Ltd

India
Spirax Marshall Private Ltd (49.3%)
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 (Private) Ltd

South Korea
Spirax-Sarco (Korea) Ltd (97.5%)

Taiwan
Spirax Sarco Co Ltd

Thailand
Spirax Sarco (Thailand) Ltd

Americas

Argentina
Spirax Sarco SA

Brazil
Spirax Sarco Ind e Com Ltda

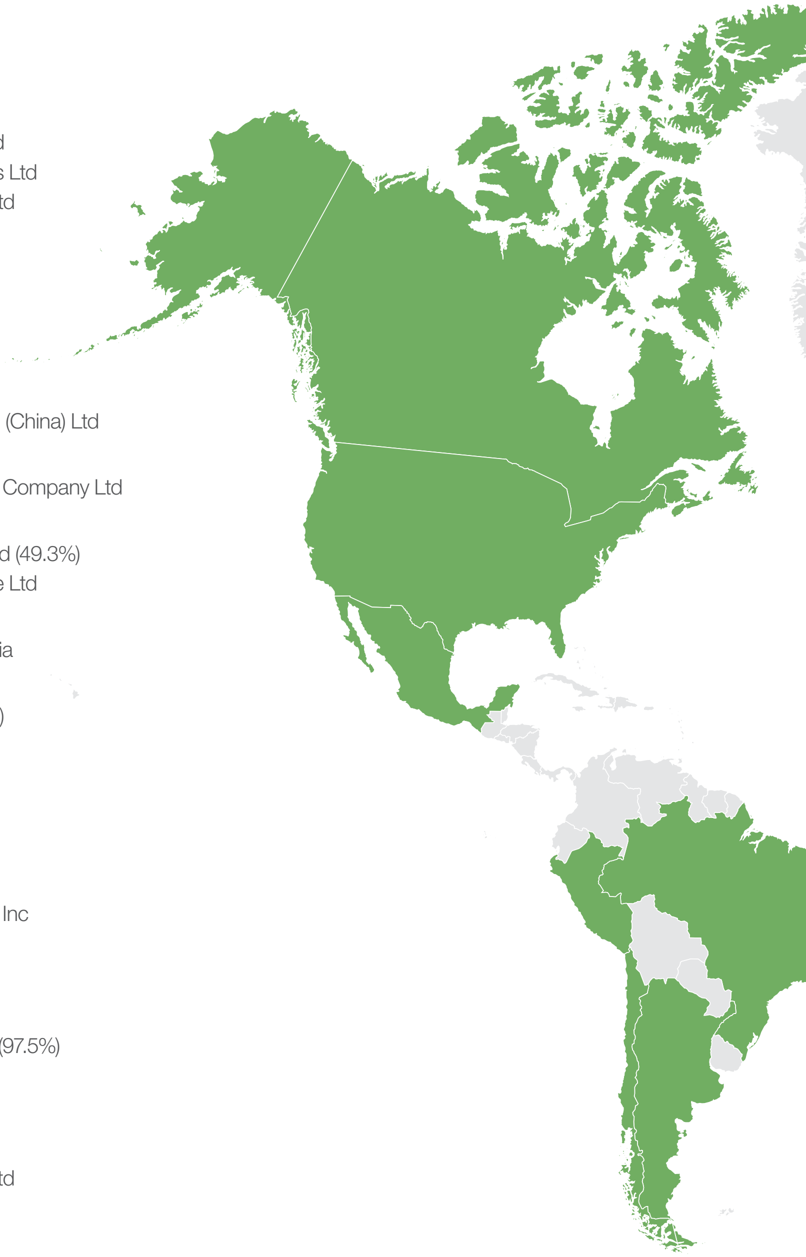
Canada
Spirax Sarco Canada Ltd

Chile
Spirax-Sarco Chile Ltda

Mexico
Spirax-Sarco Mexicana SAPI DE CV

Peru
Spirax Sarco Peru SAC

USA
Spirax Sarco Inc
Sarco International Corp



Watson-Marlow Fluid Technology Group

Austria
Watson-Marlow Austria GmbH

Argentina
Watson-Marlow Argentina, operating via Spirax Sarco SA

Australia
Watson-Marlow Pty Ltd

Belgium
Watson-Marlow N V

Brazil
Watson-Marlow Bredel Ind e Com de Bombas 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

Malaysia
Watson-Marlow Malaysia, operating via Spirax-Sarco Sdn Bhd

Mexico
Watson-Marlow S de RL de C V

Netherlands
Watson-Marlow Bredel BV
Watson-Marlow Bredel Holdings BV
Watson-Marlow BV

New Zealand
Watson-Marlow Ltd

Poland
Watson-Marlow Sp Zoo

Russia
Watson-Marlow LLC

Singapore
Watson-Marlow Pte Ltd

South Africa
Watson-Marlow Bredel S A (Pty) Ltd

South Korea
Watson-Marlow Korea, operating via Spirax-Sarco (Korea) Ltd

Sweden
WM Alitea A B

Switzerland
Watson-Marlow Ltd (Branch)

United Kingdom
Watson-Marlow Ltd
BioPure Technology Ltd

USA
Watson Marlow Inc

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Gloucestershire GL53 8ER

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Rothschild

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Citigate Dewe Rogerson

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HSBC Bank PLC

Corporate brokers

Bank of America Merrill Lynch

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* Calls to this number cost 8p per minute plus network extras
Lines open 8.30 am to 5.30 pm, Monday to Friday

Website: www.shareview.co.uk

Solicitors

Herbert Smith Freehills LLP

Important dates

Annual General Meeting	11th May 2015

Final dividend**

Ordinary shares quoted ex-dividend	30th April 2015
Record date for final dividend	1st May 2015
Final dividend payable	29th May 2015

Special dividend**

Record date for special dividend	12th June 2015
Existing Ordinary shares marked ex-entitlement to special dividend	15th June 2015
Special dividend payable	15th July 2015

** Subject to shareholder approval at the AGM.

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