

Delivering sustainable growth



Spirax-Sarco Engineering plc
Annual Report and Accounts 2013

About us

Our vision

To deliver consistent, profitable and sustainable growth and shareholder value, and to be the customers' first choice provider of solutions for the effective use of steam and industrial fluids worldwide, as well as the global leader in the development and manufacture of peristaltic and niche pumps.

Our purpose

To help our customers implement environmentally friendly solutions for energy savings, process efficiency, product quality and improvements in plant health, safety and regulatory compliance.

Our execution

Our business model is anchored by deep customer insight and our ability to provide our customers with applied engineering solutions. Six key strategic priorities drive our business model. These are to strengthen our position, deliver solutions, broaden our global presence, grow our market share, generate growth and operate sustainably.

Our values

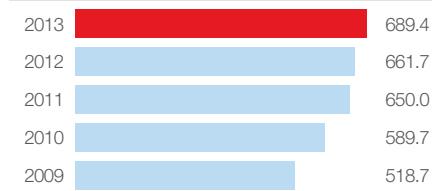
To act ethically at all times and embody our core values of respect, accountability, passion, integrity and delivery.

Strategic report

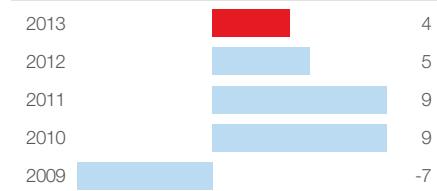
Our progress in 2013

Financial metrics

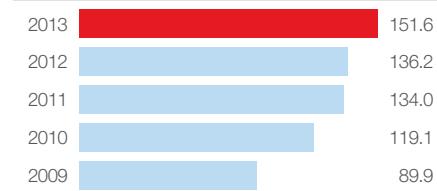
Revenue £m



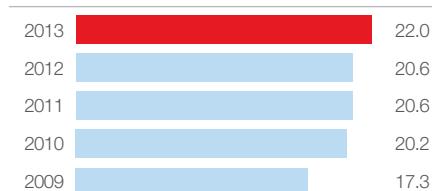
Revenue growth % organic



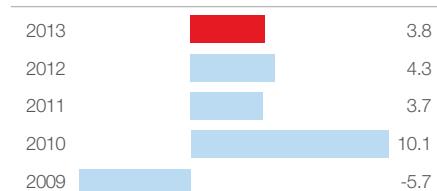
Operating profit* £m



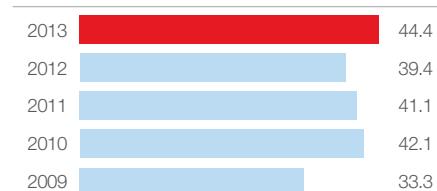
Operating profit margin* %



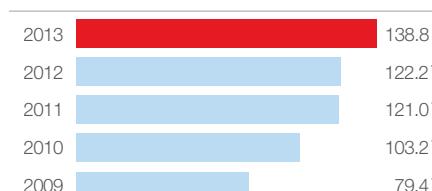
Operational efficiency change in sales per person** %



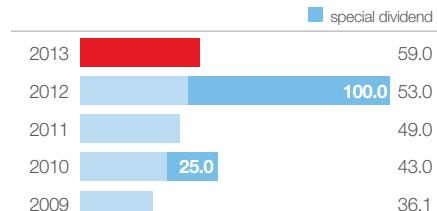
Return on capital employed %



Earnings per share* p



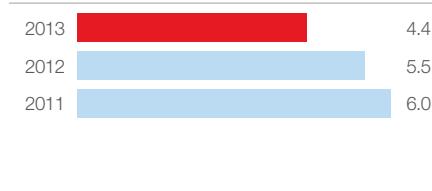
Dividends per share p



Non-financial metrics

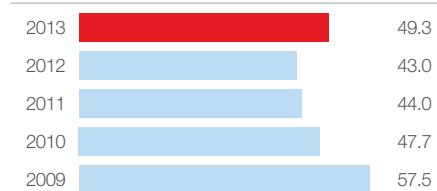
Health and safety

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



CO₂ intensity

tonnes per £m of inflation adjusted sales at constant currency



* Based on adjusted operating profit

** At constant currency

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

Our risks	Group performance at a glance	Group Chief Executive's report	EMEA	Asia Pacific	Americas	Watson-Marlow	Financial review	Sustainability report
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Strategic report continued

Welcome to our 2013 report



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Strategic report

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Governance

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Financial statements

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We have a robust business model and a clear strategic vision which are enabling us to strengthen our position as the market leader in steam systems and peristaltic and niche pumps, and to deliver sustainable growth and shareholder value.

Chairman's statement	Our business model and strategy	Our performance	Sustainability review
Our Chairman highlights the Group's financial progress and explains the structural changes to the 2013 Annual Report.	We set out our business model, summarise our strategic priorities, outline our KPIs and explain our risks.	We outline our financial results, explain our progress in 2013 and give details of our outlook.	The Group's sustainability strategy and performance are evaluated through the use of metrics and targets.
 Read more: Page 04	 Read more: Pages 12–27	 Read more: Pages 28–47	 Read more: Pages 48–55

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Strategic report continued

Chairman's statement

"I am pleased to report further good progress in 2013, achieving record sales and profit."

Bill Whiteley
Chairman



Performance and dividend

Sales increased by over 4% to £689.4 million (2012: £661.7 million). Organic sales growth was 4%, continuing the trend reported in the first half year. Sales growth was strongest in Asia Pacific, followed by Watson-Marlow and EMEA; sales in the Americas were marginally lower. Overall currency effects were negligible.

Operating profit increased by 11% to £151.6 million (2012: £136.2 million), with an outstanding improvement in EMEA. The operating profit margin rose from 20.6% to a record 22.0%. Net finance costs reduced and pre-tax profit was 12% higher at £151.1 million (2012: £134.9 million). Adjusted earnings per share increased by 14% to 138.8p (2012: 122.2p).

Cash generation was once again very strong with good cash conversion and we finished the year with a net cash balance of £16 million, which was after payment of the 100p per share special dividend of £78 million.

The interim dividend was raised by 13% to 18.0p per share, which was paid in November 2013. The Board is recommending an increase in the final dividend of 11% to 41.0p per share payable on 30th May 2014 to shareholders on the register at 2nd May 2014. The total ordinary dividend for the year is therefore increased by 11% to 59.0p per share (2012: 53.0p per share).

A full review of our financial performance commences on page 28.

The Board recognises the contribution made by our many exceptional people around the world who exemplify the Company's core values. On behalf of the Board, I would like to express our gratitude to all our employees worldwide for their hard work and commitment throughout the year and for their individual contributions, which together culminated in the good results achieved in 2013.

Prospects

We have a robust and resilient business model built around our direct sales approach, delivering solutions to meet our customers' energy saving, process efficiency and sustainability challenges, with a high proportion of sales coming from customers' operating and maintenance budgets. Steam is universal as an energy source, used in processes in a diverse range of industries across the world, and our markets therefore reflect general economic activity and rates of industrial production.

Our assumption is that markets will continue to exhibit low levels of growth but with modest overall improvement through 2014. We remain focused on our strategic priorities to generate our own growth, through broadening our global presence, capitalising on our investment in new products and innovation, increasing market share and delivering application specific solutions through our teams of highly trained sales and service engineers. Our fundamental strengths and growth strategies give the Board confidence that the Group will make further progress in 2014, although stronger sterling and currency weakness in a number of emerging markets has provided a strong headwind in the early months of this year.

Governance and Board changes

The Board is ultimately responsible for ensuring that the Group successfully implements its strategies and achieves its objectives of generating shareholder value through consistent and sustainable growth in earnings and dividends. The Board and its Committees operate to the highest ethical standards and corporate governance practices, and demonstrates transparency through fair, balanced and understandable reporting. Our full governance review commences on page 56.

During 2013, Mark Vernon announced his intention to retire as Group Chief Executive

on 15th January 2014. On behalf of the Board and shareholders, I would like to convey our sincere thanks to Mark for his significant contribution in guiding the Company through a challenging economic period and meaningfully improving on the Group's record of strong and consistent growth, and we wish him well on his retirement back home in his native America.

The Board was delighted to appoint Nick Anderson as Group Chief Executive in January 2014. Nick joined the Company in September 2011, bringing his broad experience in the industrial engineering industry to the Group, with an emphasis on international business operations and sales management.

Structure of the Annual Report and Accounts

The Board welcomes the move to improve corporate reporting and the 2013 Annual Report and Accounts fully embraces the new regulatory and disclosure requirements. The Annual Report and Accounts now leads with a Strategic report explaining our market place, our business model, our strategy and our performance in a clear and integrated way. The Governance section explains the detailed work of the Board and its Committees, and presents a Remuneration policy report for consideration by shareholders at the Annual General Meeting on 20th May 2014. We hope that you enjoy reading this Annual Report and Accounts and that it is helpful to your understanding of our business.

Our structure

Spirax-Sarco Engineering plc



First for Steam Solutions



Watson-Marlow Pumps Group

EMEA

Asia Pacific

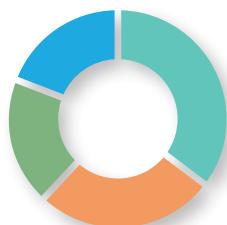
Americas

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

As a heat source, steam is the natural choice in most industrial processes due to its high heat-carrying capacity, controllability, sterility and efficiency as a heat transfer fluid. With our specialist knowledge, technical expertise and wide range of products and services, as well as our extensive global presence, Spirax Sarco is uniquely positioned to provide a broad range of environmentally friendly engineered solutions to the many industries using steam.

Our customers face a variety of challenges including high energy costs, pressure to improve the operating efficiency and capacity of existing processes, and the need to comply with increasingly stringent health, safety and environmental legislation. Our direct sales force is highly trained in product application, system performance and the troubleshooting of 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 extensive product range includes steam traps; pressure and temperature control valves; condensate recovery pumps; strainers; separators; humidifiers; flow meters; boiler controls; prefabricated trap manifolds; and heat transfer and recovery packages.



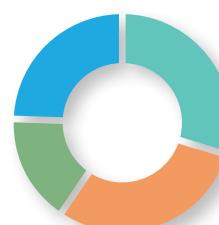
Revenue by business

Steam specialties EMEA	£244.3m
Steam specialties Asia Pacific	£182.8m
Steam specialties Americas	£132.0m
Watson-Marlow Pumps	£130.3m
Total	£689.4m

Watson-Marlow is the global leader in peristaltic pumps, specialising in the design and manufacture of the most advanced peristaltic and niche pumps, and tubing. Our pumps are ideally suited for a wide variety of applications ranging from biotechnology and pharmaceutical processes that demand sterility and precision, to the gentle low-shear requirements of delicate food processing, to highly corrosive or erosive slurries typically seen in precious metal processing.

The Watson-Marlow Pumps Group comprises seven established brands, each with its own area of expertise, but together offering our customers an unrivalled breadth of pumping solutions: Watson-Marlow Pumps (peristaltic tube pumps); Watson-Marlow Tubing (precision tubing for pumping and single-use applications); Bio Pure Hygienic Connectors (connectors for pumping and single-use applications); Bredel (heavy duty industrial hose pumps); Alitea (high-precision peristaltic pumps for OEM customers); Flexicon (aseptic filling and capping systems); and MasoSine (gentle low-shear pumps).

Our pumps are the ideal solution in a wide variety of difficult pumping applications and are highly accurate, controllable and virtually maintenance free. Our direct field sales force works closely with our customers to reduce their life-cycle pumping costs and improve plant operations.



Operating profit by business

Steam specialties EMEA	£48.2m
Steam specialties Asia Pacific	£48.0m
Steam specialties Americas	£26.1m
Watson-Marlow Pumps	£39.5m
Corporate expenses	£(10.2m)
Total	£151.6m

Strategic report continued

Our marketplace

Global trends

With 64 operating units* in 39 countries and a direct sales presence in over 50 countries worldwide, we are an organisation with a truly global reach. As a global Company, our operations are affected by a number of world megatrends, such as population growth, ageing populations, increasing global energy consumption, the economic rise of the East and climate change.

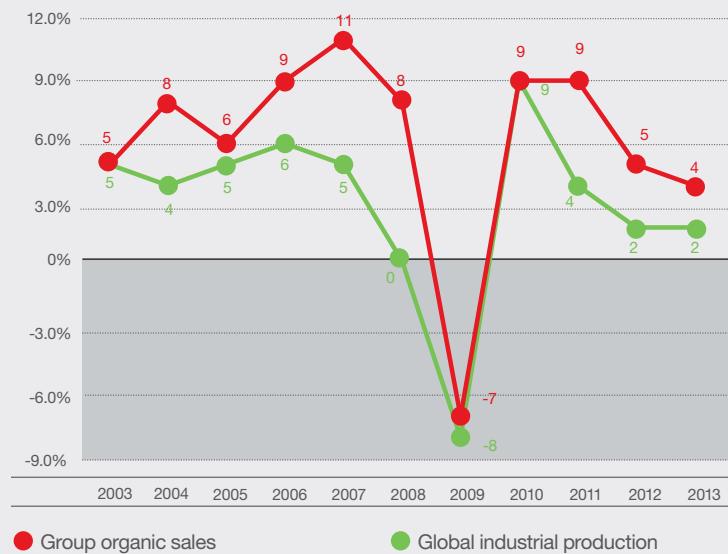
We predominantly view these megatrends as long-term drivers for growth. For example, population growth will stimulate increased consumption and, hence, a demand in all our major industries; ageing populations will increase demand for healthcare and pharmaceutical products; an increase in global energy consumption will drive investment in the oil and petrochemical industry in the short term and energy management solutions in the short, medium and long term; the economic rise of the East is opening new markets and increasing consumer demand; while national and international climate change mitigation strategies are encouraging companies to reduce their carbon footprint by managing energy more effectively, thereby increasing demand for our energy management products and services.

As steam is so widely used across industry, our markets tend to reflect changes in industrial production. Our sales have consistently increased ahead of our markets as we have expanded our addressable markets, extended our geographic penetration and grown our market share.

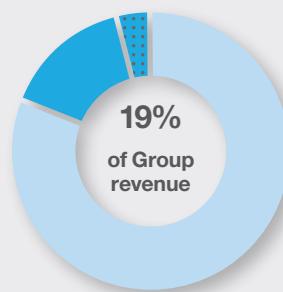
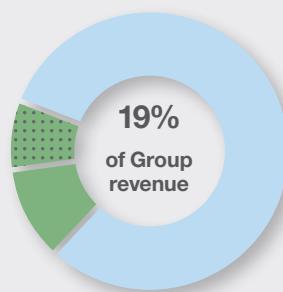
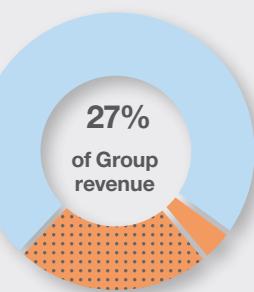
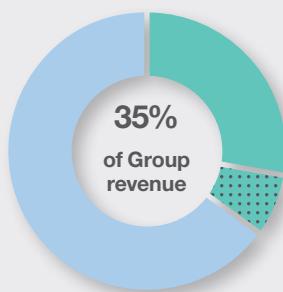
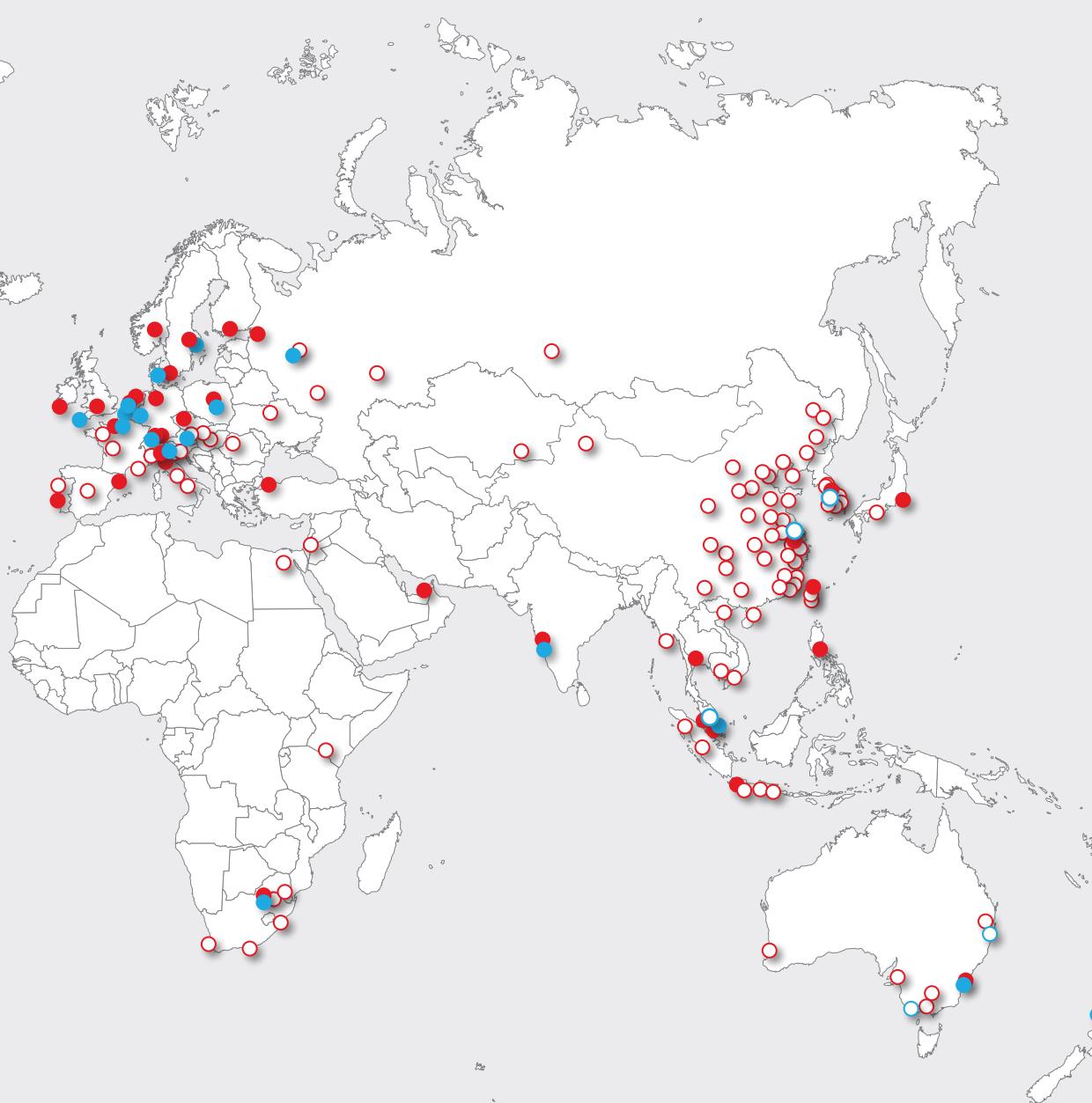
Our global operations



Group organic sales and global industrial output %



*Operating units include operating companies, branches and associates.



Our risks	Group performance at a glance

Group Chief Executive's report	EMEA

Asia Pacific	19%
Emerging markets	

Americas	19%
Emerging markets	

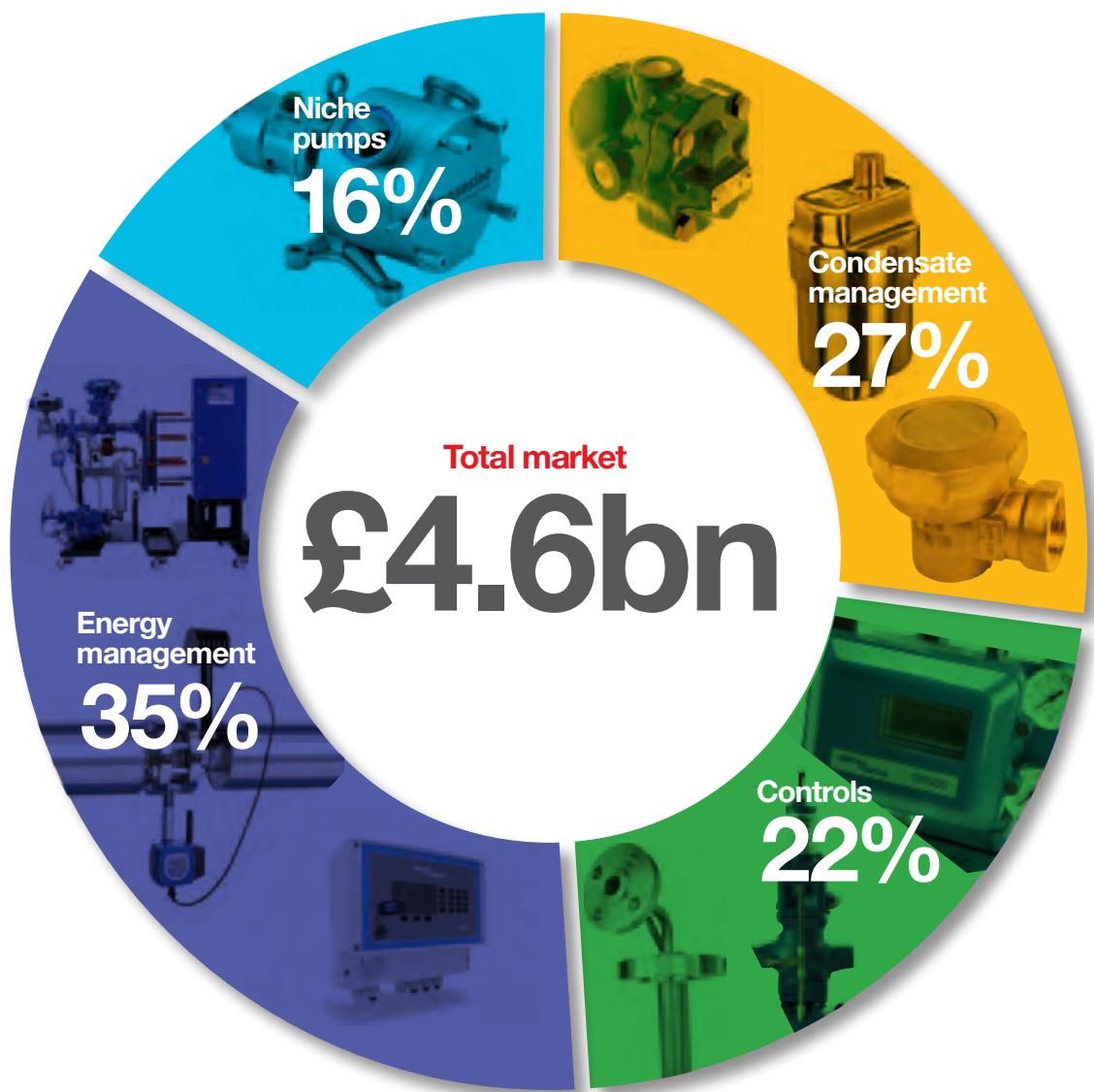
Watson-Marlow	19%
Emerging markets	

Strategic report continued

Our marketplace *continued*

We estimate that our total addressable market is £4.6 billion, with the steam specialties market representing £3.9 billion and Watson-Marlow £0.7 billion. Our total market share is 15%, with a 14% share of the global steam specialties market and an 18% share of the peristaltic and niche pumps market.

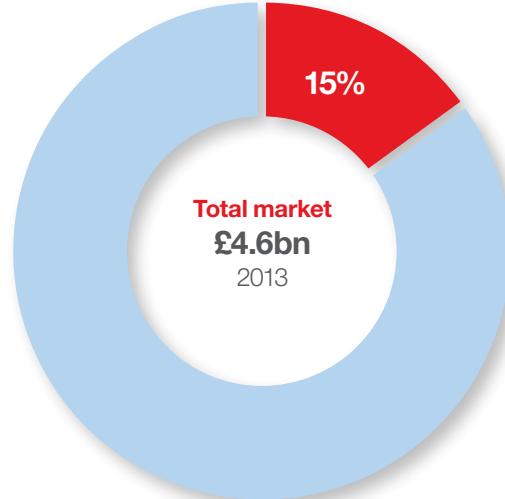
Within the steam specialties market we recognise three principal segments, comprising 84% of our total market opportunity. Firstly, traditional condensate management products such as steam traps, condensate return pumps and isolation valves; secondly, controls, including automatic control valves, pressure regulators and temperature controls; thirdly, energy management products, consisting principally of our metering products, boiler house products, heat transfer packages and energy services. Our addressable niche pump market represents the final 16% of the total market.



Growing our market share

Growing our market share is an essential element of our growth strategy and we have made good gains during the last five years. 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.

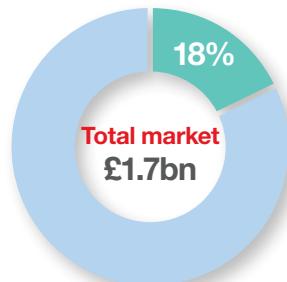
We also view market expansion as an essential element in creating future growth opportunities. We attribute approximately half of our addressable market growth during the past five years to new product development and acquisitions.



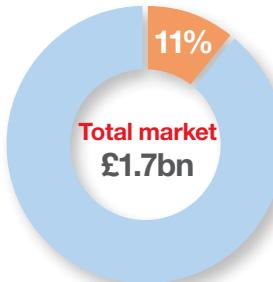
Good regional balance

Group revenues are well spread geographically, with a good balance in regional market share; a key factor in the resiliency of our business.

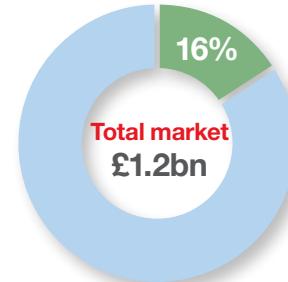
EMEA



Asia Pacific



Americas



█ Market size █ Market share

Our risks	Group performance at a glance	Group Chief Executive's report	EMEA	Asia Pacific	Americas	Watson-Marlow	Financial review	Sustainability report
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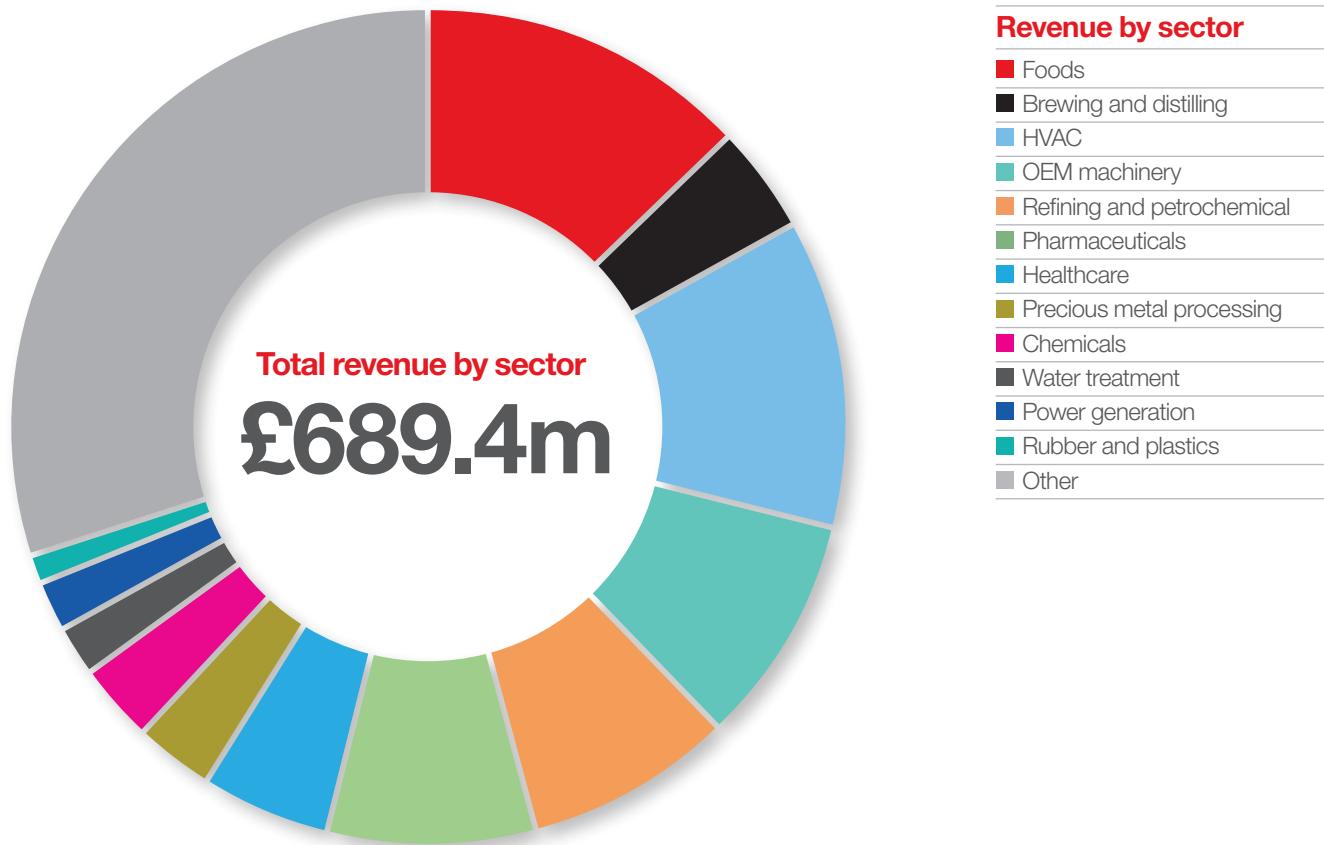
Strategic report continued

Our marketplace continued

Our diverse markets

We serve a wide range of industries and have a great diversity of end markets and customers. Diversity is one of the core strengths of the Group and insulates us from much seasonal and cyclical demand. We have an excellent balance between higher-growth end markets and those that are more “defensive” and recession proof. More than 50% of the Group’s revenue is derived from these defensive end markets, including: foods, beverages, HVAC, pharmaceuticals, healthcare, chemicals, water treatment and power generation.

Within the steam specialties business, approximately 50% of revenue is derived from the replacement of our installed product base. To maintain operational efficiency, production output and product quality, regular maintenance spending is required by our customers. In the Group as a whole, more than 85% of our revenues are derived from our customers’ annual maintenance and operational budgets, ensuring the resiliency of our business in times of recession.



Foods

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

Brewing and distilling

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

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.

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.

Refining and petrochemical

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

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.

Healthcare

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

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.

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.

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.

Rubber and plastics

Our products facilitate temperature control of exothermic process reactors, critical to the manufacture of modern composite materials.

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Strategic report continued

Our business model

We have built a resilient business model that has enabled the business to prosper, despite the challenging global economic environment over the past few years, and that positions us well to deliver continued good organic revenue growth. We benefit from the diversity of our end-user markets and customers, broad product range, our wide geographic spread and significant presence in emerging markets, high replacement content in our revenue streams, and a large base of industrial steam systems installed around the world that require continual upkeep and improvement.

Our business model relies on the fundamental aspects of expertise, solutions and sustainability, in delivering value to our customers. We employ a technical, direct sales approach that allows us to better understand customer plant operating issues and to implement appropriate environmentally friendly engineering solutions.

Customer closeness

Our ability to help our customers solve difficult productivity, control and energy efficiency problems enables us to build deep, long-term relationships that are central in assisting our customers to achieve operational sustainability. We expect our local sales and service engineers, who comprise more than one quarter of our total workforce, to be knowledgeable of the processes and operating issues of individual customer's manufacturing plants and facilities.

 Read more:
pages 14–15

Applied engineering

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

 Read more:
pages 16–17

Wide product range

Our commitment to new product development is critical to our long-term success and we have invested heavily in the past five years to widen our range of products and pre-fabricated engineered packages. 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.

 Read more:
pages 18–19

Regional manufacturing

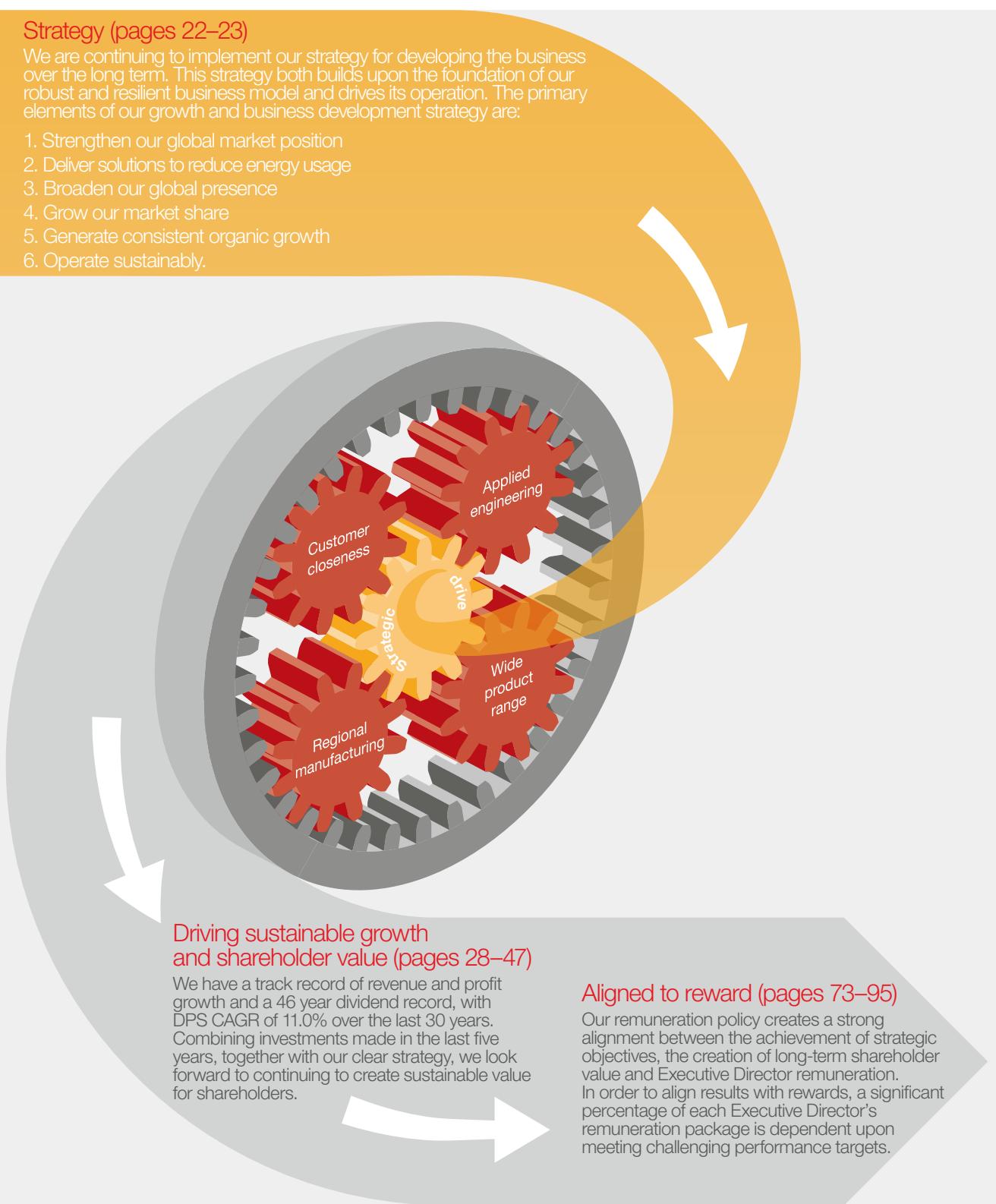
We operate on very short order books that are typically less than six weeks. Local availability of a wide range of products that meet applicable regional design codes is critical to our business model and, we believe, enhances top-line revenue growth. We have strategically located our major manufacturing plants in all key world geographic regions including Europe, North America, Latin America and Asia.

 Read more:
pages 20–21

Strategy (pages 22–23)

We are continuing to implement our strategy for developing the business over the long term. This strategy both builds upon the foundation of our robust and resilient business model and drives its operation. The primary elements of our growth and business development strategy are:

1. Strengthen our global market position
2. Deliver solutions to reduce energy usage
3. Broaden our global presence
4. Grow our market share
5. Generate consistent organic growth
6. Operate sustainably.



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Strategic report continued

Our business model in action

Customer closeness



“Developing strong relationships with our customers is essential. Word of mouth recommendations are vital in the communities where I work, in the Midwestern United States – and not just regarding the products, but the people too. In Wisconsin, for example, there’s a strong pulp and paper mill industry. If one mill has enjoyed success with a Bredel pump, for instance, it only takes a casual chat over a cup of coffee on a Saturday morning for word to spread. If we’ve done our job right, we’ll get a glowing report.”

Kurt Krummrich

District Sales Manager for the Industrial Division
at Watson-Marlow Pumps Group, USA



Customer closeness helps Watson-Marlow to improve process efficiency in the paper industry

At Watson-Marlow we work closely with our customers to understand and overcome their process challenges and problems. Within the paper industry, the sector expertise of our sales engineers enables them to offer customers the most appropriate pump for each application. For example, during paper dyeing it is critical that multiple colours of dye are metered precisely onto paper rolls; if the colour of a roll falls outside of an acceptable tolerance range it must be scrapped and the process begun again, costing time and money. Selecting the right pump for the application reduces downtime and wastage.

The sector-specific knowledge, which arises from working closely with our customers, enables our engineers to

practically demonstrate the value of peristaltic pumps to a particular industry. For example, in non-peristaltic pump types dye comes in contact with pump components, increasing the need for regular maintenance. Maintenance crews often become covered in dye as the pumps are taken apart and reassembled. In our peristaltic pumps, the unique design means that the liquid being pumped flows through tubes and does not come into contact with pump components. Maintaining our pumps is clean and quick; extracting and replacing the tubing takes only minutes to complete. Our paper mill customers benefit from our industry-specific knowledge of their processes and applications, as well as the metering accuracy and ease of maintenance supplied by our pumps.

Our risks	Group performance at a glance	Group Chief Executive's report	EMEA	Asia Pacific	Americas	Watson-Marlow	Financial review	Sustainability report
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Strategic report continued

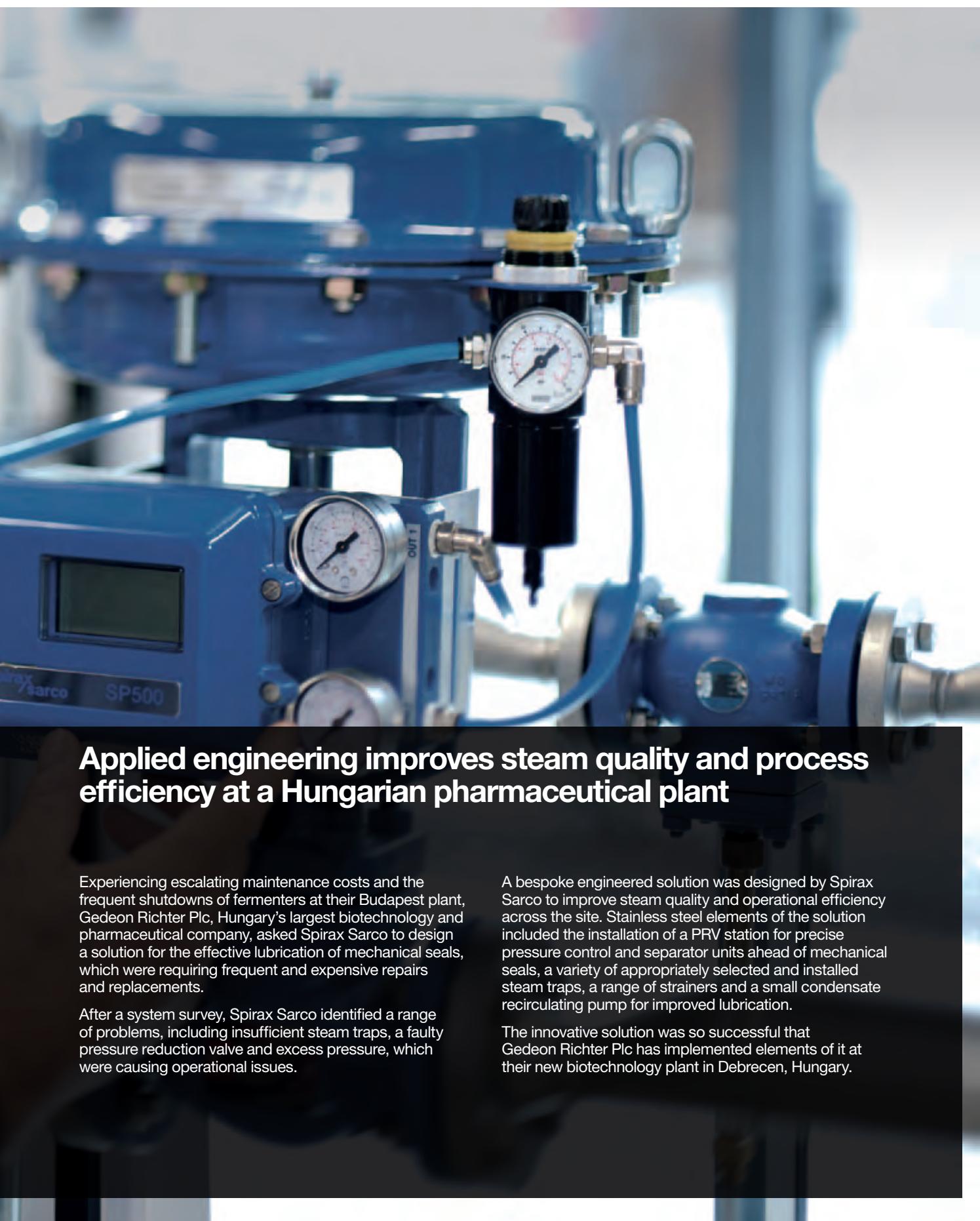
Our business model in action *continued*

Applied engineering



“Our ability to design and install engineered solutions, which improve process efficiency, sets us apart from our competitors and adds value to our customers, who appreciate our expertise.”

György Balkányi
Sales Manager, Spirax Sarco Hungary



Applied engineering improves steam quality and process efficiency at a Hungarian pharmaceutical plant

Experiencing escalating maintenance costs and the frequent shutdowns of fermenters at their Budapest plant, Gedeon Richter Plc, Hungary's largest biotechnology and pharmaceutical company, asked Spirax Sarco to design a solution for the effective lubrication of mechanical seals, which were requiring frequent and expensive repairs and replacements.

After a system survey, Spirax Sarco identified a range of problems, including insufficient steam traps, a faulty pressure reduction valve and excess pressure, which were causing operational issues.

A bespoke engineered solution was designed by Spirax Sarco to improve steam quality and operational efficiency across the site. Stainless steel elements of the solution included the installation of a PRV station for precise pressure control and separator units ahead of mechanical seals, a variety of appropriately selected and installed steam traps, a range of strainers and a small condensate recirculating pump for improved lubrication.

The innovative solution was so successful that Gedeon Richter Plc has implemented elements of it at their new biotechnology plant in Debrecen, Hungary.

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Strategic report continued

Our business model in action *continued*



Spirax Sarco FREME heat recovery package

FREME (Flash Recovery Energy Management Equipment) is an innovative packaged system that recovers all of the energy in condensate and flash steam and uses it to preheat boiler feed water. This reduces the amount of work a boiler needs to do to raise steam, increasing boiler efficiency, reducing energy costs, eliminating the need to dump condensate and reducing water supply and treatment costs.

Spirax Sarco FREME heat recovery package



Spirax Sarco's heat recovery packages help ReFood UK Ltd save over 100MWh per day and £80,000 per year

At ReFood UK Limited's anaerobic digester facility in Doncaster, 45,000 tonnes of food waste are broken down each year. The methane produced, as a result of the process, is used to run a series of combined heat and power engines that generate heat and electrical energy. A surplus of hot water is generated by the engines and three Spirax Sarco heat recovery packages have been installed to utilise the waste heat and carry out three separate heating roles at the plant.

The first heat recovery package raises the temperature of the site's boiler feed water, the second heats water to feed the site's general-purpose hot water tank and the third maintains the temperature of circulating water that is used to prevent oils and fats in the food waste from solidifying in the tanks.

The three heat recovery packages recover valuable waste heat that would otherwise be lost to the atmosphere, save energy and contribute to the production of renewable energy.

Strategic report continued

Our business model in action *continued*

Regional manufacturing



A worker in a white Spirax Sarco shirt and hard hat is seen from behind, operating a large industrial machine. The shirt has the company name 'spirax/sarco' printed on it. The background is a dark, industrial setting.

Manufacturing output by destination



- EMEA
- Asia Pacific
- Americas
- Spirax Sarco factory

Chart area is proportional to revenue



Spirax Sarco invests £5 million in a new factory, offices and training centre in Mexico

During 2013, construction began on a new factory, offices and steam technology training centre on a 25,000m² site in Monterrey, Mexico. The factory, which became operational during early 2014, is double the size of the previous factory and has the capacity to increase production from 30,000 to 90,000 parts per month.

The new facilities represent a key investment in our regional manufacturing strategy and will create a competitive advantage in the local market due to a higher availability of products and lower manufacturing costs. The factory currently supplies the home market and exports to the USA and Canada, but with the increased manufacturing capacity it is well positioned to fulfil specific product requirements for Central and South America.

Environmental sustainability was central to the design of the new facilities. Skylights are increasing natural light in buildings, a geothermal cooling system is providing air conditioning and solar panels are helping to meet the site's electricity needs. Rainwater harvesting is providing water for bathrooms and, once treated, for water fountains, while grey water (generated by hand washing) is used to irrigate the gardens. Green roofs have been planted and the grounds have been landscaped. An initiative called "Taking root in Spirax" was launched to engage the local workforce in the sustainability concept. The company has bought dozens of small trees which are now being cared for by the employees until they are big enough to plant outside.

Strategic report continued

Our strategy

Six key strategic priorities drive our business model:

1. Strengthen position



2. Deliver solutions



3. Broaden presence

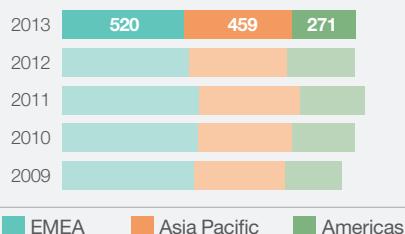


Strengthen our global market position

Our ability to help our customers solve difficult productivity, control and energy efficiency problems builds deep, long-term relationships that are central to our business model. This demands that our sales and service engineers are intimate with our customers' operating issues and that they are skilled in steam or niche pumping systems knowledge and cost-effective product applications.

To continually improve the competency and technical skills of our sales and service engineers, we have developed a wide-ranging online university curriculum and other internet-based training tools, as well as formal classroom training that is available in our 42 training centres located throughout the world. We have also installed global information collection and sharing software to improve our ability to share application knowledge across our global sales network.

Number of sales and service engineers by region



Progress in 2013

We have added sales resource in key regions, particularly in the emerging markets in Asia Pacific and continued to invest in the training of our sales and service engineers. During 2013 we launched a Group-wide "e-learning" programme, with approximately 50 online courses, directed at enhancing the knowledge and skills of our sales and service engineers.

Outlook

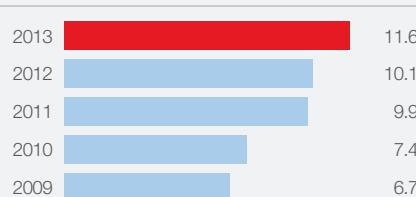
We will continue to strengthen our global position during 2014 with the appropriate expansion of our direct sales force. Through the creation of 30 additional bespoke "e-learning" courses we will further develop the skills of our direct sales people.

Deliver solutions to reduce energy usage

Our customers are increasingly calling upon our sales and service engineers to provide energy audits aimed at reducing energy and water usage, lowering plant emissions and improving energy efficiency. While audits typically cover the thermal aspects of plant energy usage, we are developing capabilities to help our customers manage other areas of energy consumption, including plant compressed air usage, boiler and HVAC efficiency.

Our ability to deliver an increasingly wider range of solutions rests with our commitment to new product development. We have significantly increased our investments during the last five years to widen our range of products and applications and to develop unique energy recovery solutions. Innovative peristaltic pumping developments are delivering new solutions in previously unaddressed applications.

R&D expenditure £m



Progress in 2013

We have maintained the significant investment in R&D established in recent years. We have focused on helping our customers to meet their sustainability targets and improve their process efficiencies. Revenue from our energy management solutions has increased by over 30% since 2008.

Outlook

We will continue to maintain our R&D spend at its current higher level. Going forward we will see the benefit of our investments as we develop new products and extend our product ranges to meet the evolving needs of our customers.

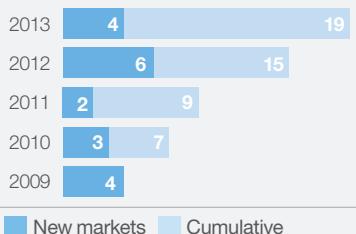
Broaden our global presence

Our strong global presence is a result of decades of effort and investment to build global brands that are easily recognisable and symbolise expertise and reliability. We have a long-standing presence in many key developing markets. Our strong infrastructure around the world is helping us to more quickly branch out into neighbouring markets that, in most cases, are at an earlier stage of economic development.

We are also pioneering the introduction of peristaltic pumps in much of the developing world, demonstrating their superior technology and lower life cycle cost benefits. Continued investment in the development of emerging markets and in market penetration of mature markets, forms the basis of long-term growth opportunities for the Group.

We look to make acquisitions that deliver market access or widen our product range or add technological capability.

Opening of new geographic territories*



 New markets Cumulative

Progress in 2013

We have continued to broaden our global presence and added three new operating companies in 2013: Spirax Sarco Middle East, Spirax Sarco Indonesia and Watson-Marlow Austria. We also began direct selling in Peru and Panama, for the steam specialties business, and in Malaysia for Watson-Marlow.

Outlook

We will continue to establish new operating companies as demand reaches a crucial threshold. We perceive opportunities for further development in new and emerging markets and seek to strengthen our presence in our mature markets.

* 2009–2012 figures restated to include the opening of new territories for WMPG

4. Grow share



Grow market share

Our direct sales approach allows us to leverage our brands into new products and applications. As we widen our product portfolio, we are making it easier for our customers to buy from us, resulting in an increasing spend on our products and engineered packages for small-scale maintenance improvement activities and capital projects.

A wider range of new products in areas such as energy management, controls, condensate management and new pumping technologies and systems, have contributed about 20% to the organic sales growth in the past five years. We are also transitioning our Watson-Marlow selling organisation in Europe to a more sectorised, technical, direct sales approach that results in faster rates of growth.

Percentage of sales from key initiatives %

2013	73	27
2008	72	28
2003	84	16

Traditional initiatives Key initiatives

Progress in 2013

We have developed a number of new products during 2013, including the STAPS wireless steam trap monitoring system, which offers an alternative to manual steam trap surveys and hard wired monitoring systems. Significant revenue has been derived from key product initiatives, such as the Qdos pump, launched by Watson-Marlow in 2012.

Outlook

Our one-stop shop customer approach, wide product range, packaged solutions and direct selling model have positioned us well for continuing future growth.

5. Generate growth



Generate consistent organic growth

Our knowledge of our customers' processes and operational issues enables us to deliver unique engineering solutions. In so doing, we also instil confidence that in turn strengthens our overall customer relationships and builds our installed base. We continually strive to strengthen our customer relationships through problem solving and supplying a wider range of products and services.

Investing in local manufacturing facilities has enabled us to expand our manufacturing footprint closer to the point of sale. The combination of our skilled local sales and service expertise, close customer relationships and off-the-shelf availability of our extensive range of steam system and pump products, enhance our ability to generate consistent top-line revenue growth.

Revenue £m

2013	689.4
2012	661.7
2011	650.0
2010	589.7
2009	518.7

Progress in 2013

During 2013 we invested £5 million in a new manufacturing facility in Mexico, which became operational in early 2014. On-going investment to develop the skills of our sales people and to strengthen relationships with our customers, have resulted in a successful year of revenue growth during 2013.

Outlook

Our new facility in Mexico will improve efficiency and our ability to meet demand in the Americas. The skills of our customer facing employees mean that we are well positioned to capitalise on any improvement in economic conditions.

6. Operate sustainably



Operate sustainably

Our approach to sustainability encompasses five primary areas of emphasis: good corporate governance, financial health, employee well-being, community engagement and environmental stewardship. We believe that effective management in each of these areas is essential to long-term sustainability. Further, our business is centred on providing environmentally-friendly solutions to our customers, helping them to improve the efficiency of their plant operations and reduce their energy and water usage.

We have exceptional people who share our core values of respect, accountability, passion, integrity and delivery. We maintain professionally challenging and safe workplaces and provide for on-going training and development. Our corporate values are the foundation upon which we base our decisions and actively manage our global operations.



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 been independently assessed and have met stringent environmental, social and governance criteria. Spirax-Sarco Engineering plc has been a constituent of the FTSE4Good Index since 2009.

Progress in 2013

During 2013 we appointed a senior Group HS&E executive to monitor sustainability performance across the Group and appointed a third-party organisation to provide limited assurance of our CO₂e emissions data. We increased the average number of formal training days per customer facing employee and donated £200,000 to charity.

Outlook

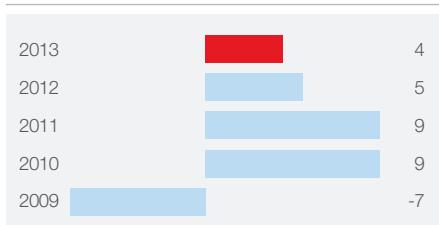
During 2013 we received third-party assurance of our CO₂e emissions data. We intend to maintain the momentum generated by this process through investing in further carbon management strategies.

Strategic report continued

Our key performance indicators

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

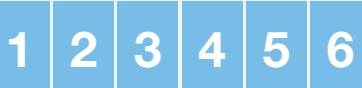
Revenue growth % organic



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 22–23)



Direct link Indirect link

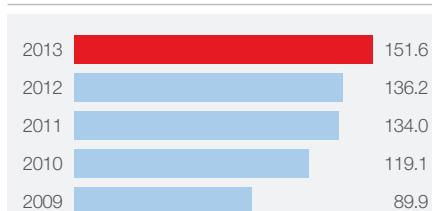
Progress in 2013

Organic sales increased by 4%. Growth was strongest in Asia Pacific, followed by Watson-Marlow and EMEA; sales in the Americas were marginally lower. Emerging markets again generally did well and there was a good contribution from new products.

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.

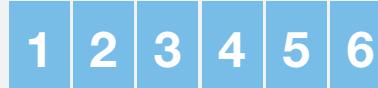
Operating profit* £m



Definition

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 22–23)



Direct link Indirect link

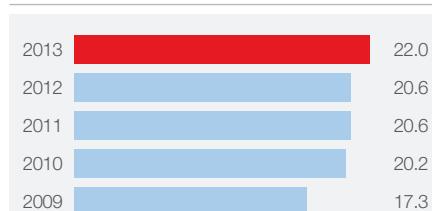
Progress in 2013

Adjusted operating profit increased by 11% and by 10% at constant currency. Profits grew in all our segments at constant currency, with an outstanding improvement in 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.

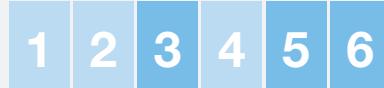
Operating profit margin* %



Definition

Operating profit margin is defined as operating profit expressed as a percentage of revenue from continuing operations.

Link to strategy (pages 22–23)



Direct link Indirect link

Progress in 2013

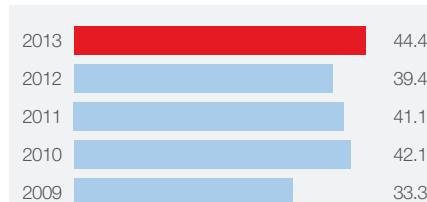
The operating profit margin jumped from 20.6% to a record 22.0%. The cost of raw materials and components was broadly flat, we benefited from a greater focus on price management and we fully realised the full-year cost savings from the restructuring in 2012.

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

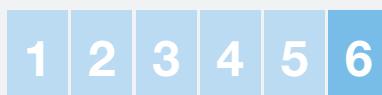
Return on capital employed (ROCE)* %



Definition

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

Link to strategy (pages 22–23)



█ Direct link █ Indirect link

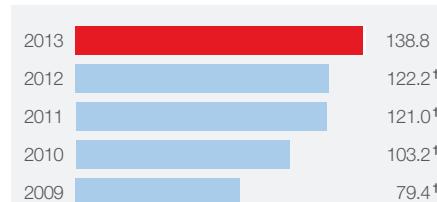
Progress in 2013

This important measure of overall performance shows a marked increase to a record 44.4% resulting from a combination of the 11% rise in operating profit and a small reduction in average capital employed.

Link to remuneration

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

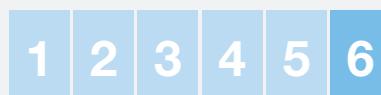
Basic earnings per share (EPS)* p



Definition

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

Link to strategy (pages 22–23)



█ Direct link █ Indirect link

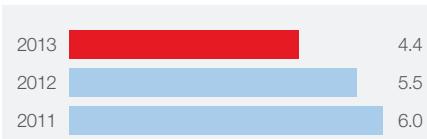
Progress in 2013

Basic adjusted earnings per share increased by 14%, reflecting the growth in profit and the reduction in shares in issue following the special dividend of 100.0p per share and the associated 26 for 27 share consolidation.

Link to remuneration

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

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



Definition

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

Link to strategy (pages 22–23)



█ Direct link █ Indirect link █ No link

Progress in 2013

Our accident rate has reduced by 20% during the year and we are now close to the industry benchmark. Actions included beginning to roll out a Behavioural Based Safety programme across all our manufacturing sites.

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.

Strategic report continued

Our risks

Principal risks

A summary of the principal risks, their likely impact and an explanation of how the Group mitigates each risk is set out in the table below. The direction of change in particular risks during the year is explained in the "Principal Risk" column and illustrated by the arrow in the "Change" column. Please note that the "Change" column shows the change in the risk and not the mitigation of the risk. We have also set out the relevance of the risk to our strategy.

Principal risk	Change	Impact	Mitigation	Relevance to strategy
Economic and political instability: The Group operates worldwide. Economic and political instability creates risks for our locally based direct operations. The Group has reviewed country, credit, liquidity and currency risks and, in particular, those arising from European debt issues.	→	Fluctuations in profit from significant currency movements Reduced profit due to impact on customers with economic problems Potential redenomination of local currency, devaluation and high inflation	Compliance with Group Treasury Policy Strong internal controls with internal audit and appropriate insurance Resilient business model (see pages 12–21) Senior managers in the EMEA division undertook a Eurozone Scenario Planning Workshop, externally facilitated by PA Consulting Group, which considered the impact of countries leaving the Eurozone. The objective was to improve the Group's preparedness in respect of this risk. The toolkit developed is to be deployed by other operating companies The operations in Argentina were profitable despite a general devaluation in Argentina. This is mainly due to the move of the business to the US dollar.	Broaden our global presence
Significant exchange rate movements: The Group reports its results and pays dividends in sterling. Operating companies, including manufacturing, trade in local currency.	↑	Exchange rate movements impact landed costs, and therefore gross profits, depending upon the country of origin. Non-sterling receipts are translated into sterling on consolidation	Regional manufacturing strategy to spread manufacturing across a number of currency areas, and consideration of exchange rate exposures in the manufacturing strategy Forward cover where appropriate and in line with the Treasury Policy. However, this has only a relatively short-term effect (up to two years) after which the underlying currency cost base and exchange rates apply Focus on reducing manufacturing costs including sourcing materials, where appropriate, from cheaper areas such as China and India.	Strengthen our global market position Generate consistent organic growth
Loss of manufacturing output at any Group factory: In relation to the steam business, the Group manufactures most of the products we sell in eight main factory units which supply our sales operations worldwide. Loss of manufacturing output at any important plant risks serious disruption to sales operations. In Watson-Marlow Pumps Group, pump and tubing manufacturing are separated.	→	Reduced sales and profit due to inability to meet customer orders Loss of market share Damage to reputation	Group manufacturing strategy to regionalise manufacturing base and increase resilience Business continuity planning and disaster recovery plans Stocks of components and finished products in sales companies Regular and comprehensive back-ups of IT systems Use of insurance audits/inspections and business interruption insurance.	Operate sustainably Strengthen our global market position
Breach of regulatory requirements: The Group operates in a large number of countries across the world and is subject to many different laws and regulations, including the UK Bribery Act, the US Foreign and Corrupt Practices Act, health and safety, competition laws and local quality regulations. Breaching these laws and regulations could have serious consequences.	→	Fines and regulatory action and resultant reduced profit Damage to reputation Diversion of management time	Significant improvements to our compliance programme including (i) participation by over 2,800 employees in anti-bribery training ("anti-bribery@ work"), (ii) issue of Sanctions, Embargoes and Restrictions Policy and Guide, and (iii) the intended roll-out of a Behavioural Based Safety programme Robust internal controls, policies and procedures and Group Management Code Established strong ethical culture supported by communication and training Review of commercial arrangements and regulatory requirements with appropriate professional advice Maintain local quality accreditations.	Operate sustainably Strengthen our global market position

Following the reprioritisation of the principal risks in 2013 by the Risk Management Committee, we have added one new principal risk (Significant exchange rate movements) and removed one principal risk shown in our 2012 Annual Report and Accounts (Risk of product failure).

The way in which the Risk Management Committee reviews and controls our risk management processes and procedures is set out in the Risk Management Committee report on pages 70 to 72.

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	Change	Impact	Mitigation	Relevance to strategy
Non-compliance with health, safety and environmental legislation: The Group places great emphasis on health, safety and environmental issues in relation to our employees and operations, and those of our customers, suppliers and communities so as to avoid the risk of major health, safety or environmental problems.	→	Damage to reputation Reduced profit due to fines, compensation and clean-up costs Enforcement action by regulatory authorities	Compliance with legislation and codes of best practice Regular audits, checks and reporting to management and the Board on health, safety and environmental issues On-going training Appointment of a Group Health, Safety and Environment executive and improvement in health and safety awareness across the Group.	Operate sustainably Strengthen our global market position Broaden our global presence
Defined benefit pension deficit: Defined benefit pension schemes carry risks in relation to investment performance, security of assets, longevity and inflation. Total defined benefit pension liabilities represent approximately 52% of total Group assets This risk has reduced further in the year as a result of the operation of the Mercer "Dynamic De-Risking Solution".	↓	Increase in liabilities Increase in pension costs and cash contributions Fluctuations in pension fund asset and liability values	Use of independent professional advisers and custodians for defined benefit pension schemes Pension scheme de-risking strategy to automatically reduce equity exposure and increase matching assets at pre-agreed trigger points Use of Mercer "Dynamic De-Risking Solution".	Operate sustainably
Failure to respond to technological developments or customer needs: The Group has significantly increased R&D resources and risks this being ineffective if we fail to respond to development and customer needs or if we fail to manage and protect our intellectual property.	→	Failure to achieve expected return on the R&D investment Reduced profit Loss of market share Loss of intellectual property	Maintain market knowledge and monitor competitor developments, making effective use of our direct field sales force Maintain investment in R&D programmes in order to satisfy customers' technical requirements Maintain appropriate intellectual property registrations, taking enforcement action where appropriate Regular updating of technical and product improvement roadmaps.	Operate sustainably Generate consistent organic growth Deliver solutions to reduce energy usage
Failure to realise acquisition objectives: The Group's strategy is focused on organic growth complemented by acquisitions. We risk failing to achieve the expected return on investment if acquisitions are not properly identified, executed and integrated.	→	Failure to achieve expected return on investment Assumption of unexpected liabilities	Evaluation of potential targets against Strategic Plan and acquisition criteria Project management disciplines Appropriate due diligence by Group personnel and external advisers covering commercial, legal, accounting, environmental, market and technical issues The Group has expanded its acquisitions team to strengthen its due diligence process.	Grow market share Deliver solutions to reduce energy usage



Increased risk



No change to risk



Decreased risk

Our risks	Group performance at a glance	Group Chief Executive's report	EMEA	Asia Pacific	Americas	Watson-Marlow	Financial review	Sustainability report
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Strategic report continued

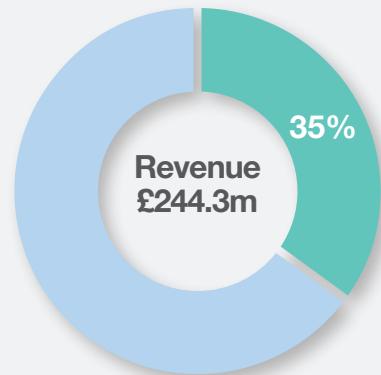
Group performance at a glance

The Group comprises the Spirax Sarco steam specialties business and Watson-Marlow peristaltic and niche pumps. The Spirax Sarco steam specialties business is split into three regional divisions: Europe, Middle East and Africa (EMEA); Asia Pacific; and Americas.

Revenue was £559.1 million for the Spirax Sarco steam specialties business and £130.3 million for Watson-Marlow pumps in 2013.

Steam specialties

Europe, Middle East and Africa (EMEA)



Highlights

Organic sales increased by 3% despite difficult economic conditions. Operating profit rose by an outstanding 26% at constant currency and the margin rose to a record 19.7%. The margin was underpinned by an increased focus on price management, restructuring benefits and improved performance from the consolidated manufacturing site in Cheltenham. There was good sales growth in the UK, Africa and the Middle East.

Revenue

£244.3m

Change

+5%

Operating profit

£48.2m

Change

+31%

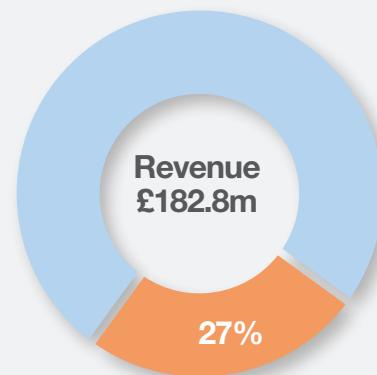
Operating margin

19.7%

Change
+390bps

Steam specialties

Asia Pacific



Highlights

Organic sales increased by 8% with good growth in controls, flow metering and services. Market conditions remained favourable in China where our business performed strongly and our business in Korea delivered another good result. We continued to add sales resource expanding our direct sales presence in the Philippines and Indonesia. Overall, operating profit was up 6% at constant currency.

Revenue

£182.8m

Change

+10%

Operating profit

£48.0m

Change

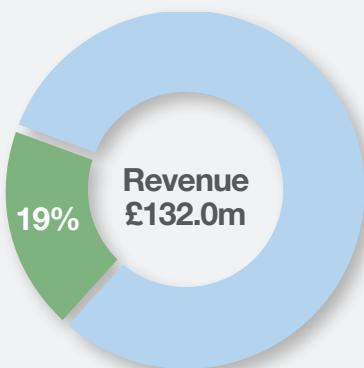
+9%

Operating margin

26.3%

Change
+0bps

Steam specialties Americas

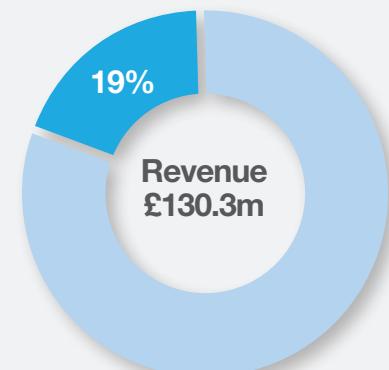


Highlights

Organic sales were broadly flat with growth in Latin America but with lower sales in North America due to the non-repeat of large projects in the USA and lower project activity in Canada. Operating profit was up 6% at constant currency and the operating profit margin returned to almost 20%, with a good contribution from cost reductions and efficiencies in the USA.

Revenue	£132.0m	Change
		-4%
Operating profit	£26.1m	
		+0%
Operating margin	19.8%	
		+70bps

Watson-Marlow Peristaltic and niche pumps



Highlights

Organic sales increased by 4%, with growth in biopharm and food & beverage markets but with a difficult comparison in the second half year due to several large non-repeating projects. Underlying demand was sustained and we ended 2013 with a strong order book. The new Qdos and Apex products contributed significantly and we continued to add sector-focused sales resource. Operating profit increased by 7% at constant currency.

Revenue	£130.3m	Change
		+5%
Operating profit	£39.5m	
		+7%
Operating margin	30.3%	
		+70bps

Group Chief Executive's report

"Group sales increased to £689.4 million, with organic sales growth of nearly 4%. Our focus remains on creating our own growth opportunities through the implementation of our growth strategy."

Nick Anderson
Group Chief Executive



Key highlights

- Organic sales grew by nearly 3.5% in the steam specialties business and by 4% for the Watson-Marlow pumps business
- Operating profit increased by 11% to £151.6 million and at constant exchange rates, operating profit was ahead 10%
- Sales in emerging markets expanded to 42% of Group revenue and emerging markets accounted for 45% of Group operating profit in 2013
- Group operating profit margin reached a record 22.0%

Introduction

This is a truly exceptional Company, with many fundamental strengths. The success and strong performance during recent years, despite a challenging global economic environment, demonstrates that our strategy, robust business model and talented organisation delivers superior value to our shareholders. As I take over as Group Chief Executive, my priority is to continue to leverage our strengths and build on this solid base.

The skills and applications knowledge of our people, especially our direct sales and service engineers, is central to our ability to provide customers with solutions to their energy efficiency, productivity, quality and sustainability issues. We manage the business for the long term and continually invest in widening our addressable markets, expanding our market penetration and extending our geographic presence, especially into newly emerging markets. Our focus on solution selling underpins our growth in both emerging and developed markets.

In recent years we have improved processes and significantly increased our investment in research and development resources, which is central to our ability to expand the size of our addressable market. I would expect new products to make an increasing contribution to sales growth in the future.

We have increased regional manufacturing to enhance local availability of an unrivalled range of products, improving customer service and supporting sales growth. We will look to increase supply chain effectiveness, by optimising our global distribution network and leveraging manufacturing efficiencies.

Global environment

Global industrial production provides a reasonable indicator for the conditions in our markets. We entered 2013 with very low

rates of industrial production growth that had been progressively slowing through the previous year. The first half of 2013 saw a continuation of this trend but with some acceleration in growth through the second half of the year. For the full year, growth in industrial production was, overall, broadly the same as the prior year's growth. The outlook for 2014, however, is a little more positive. We have a robust and resilient business model but we are not immune from economic swings, which our markets can lag by up to nine months, although our focus remains on creating our own growth opportunities through the implementation of our growth strategy.

Market conditions remained weak across most of Europe, with overall industrial production flat year-on-year, although with recent indications of improvement in market conditions towards the end of the year. Markets in North America remained challenging and in developed markets generally, project activity was slow with lower demand for higher value, energy saving and process efficiency improvement projects; routine maintenance spending by customers was modestly higher.

Emerging market conditions were mixed, with stable growth in China and improvement in parts of Southeast Asia and Eastern Europe. In Latin America, there was an improving trend in economic conditions entering 2013, which flattened in the second half. Currency pressures in Argentina erupted in early 2014, with a knock-on effect in a number of other emerging market currencies, creating a degree of market uncertainty.

Progress in 2013

Group sales increased by over 4% from £661.7 million to £689.4 million. Organic sales growth was nearly 4% for the year, repeating the growth achieved in the first half year. Growth was led by Asia Pacific,

with China continuing its strong progress, followed by Watson-Marlow. Modest sales growth was achieved in EMEA, despite the difficult economic background, and sales in the Americas were marginally lower due to North America, mitigated by growth in Latin America. Overall, sales in emerging markets expanded to 42% of Group revenue from 40% in 2012. Favourable currency movements at the half year were steadily eroded by the strengthening of sterling and weakness in a number of emerging market currencies, particularly in the fourth quarter of 2013. If current exchange rates prevail through 2014, sales would be reduced by around 5% on translation into sterling versus 2013.

In the steam specialties business, organic sales grew by nearly 3.5%. Sales of our traditional condensate management products were higher with increased sales of traps and valves, which reflected the solid underlying demand from the core maintenance and operating expenditures of our customers. In general, demand for higher value energy saving and plant improvement projects has been soft. Metering sales increased nicely, driven by the introduction of innovative and technologically advanced products over the past two years, with particular success in EMEA and Asia Pacific. Sales of controls products grew well, with progress in all regions, and energy services also did well. Following the exceptionally strong growth in heat exchange packages in 2012, the non-repeat of several large projects meant that heat exchange package sales were down in 2013.

R&D in the steam specialties business continued to benefit from the higher level of investment and resource in recent years, which was maintained through 2013, as well as the improvement in processes and techniques. Focus was directed onto fewer, higher incremental sales value opportunities

where we can best leverage new product sales. We expect that the investment and improvements will generate an increasing contribution to future sales growth from new products.

In the Watson-Marlow pumps business, organic sales grew 4% with a particularly tough second half comparison due to several large non-repeating wastewater treatment and mining projects shipped in the second half of the prior year. There was particularly good progress in Europe where an increase in the direct sales channel and greater focus through further sectorisation of the sales teams, delivered solid growth. New products contributed strongly, with the new Qdos pump making a particular impact. The higher level of R&D resource in Watson-Marlow has been maintained, with innovative new products that continue to expand the performance envelope that increases the addressable market, displacing other pump types.

The Group has added resource and intensified the search for suitable acquisition candidates, focusing on expanding our addressable markets through new products and technologies, direct market access and complementary businesses. Our strong balance sheet and debt capacity provides us with considerable flexibility.

We achieved a good increase in operating profit of 11% from £136.2 million to £151.6 million. Using constant exchange rates, operating profit was ahead 10%. Following the exaggerated seasonal bias in 2012 of profits to the second half year of 43:57, 2013 returned to a more normal pattern of 45:55. Emerging markets accounted for 45% of Group operating profit in 2013, in line with the prior year. This reflects the significant profit improvement achieved in the developed markets of Europe.

The Group operating profit margin jumped from 20.6% to a record 22.0%. The cost of raw materials and components was broadly flat, reflecting subdued world metals prices plus our on-going initiatives to improve the operation of our supply chain. We fully realised the benefits from the greater focus on price management and margin, as well as from the restructuring of our European sales companies that delivered a year-on-year cost reduction of £3.5 million. Profits rebounded from the low levels in the prior year in our European steam specialties manufacturing operations in Europe, particularly in the UK where we achieved further efficiency improvements from the consolidated site. We continue to invest in geographic expansion and market penetration in emerging markets, which remains a strategic priority.

Market outlook

We have an outstanding business model and over recent years have made significant and far-reaching improvements to our performance through a time of great economic uncertainty. This has been achieved whilst at the same time investing heavily in our manufacturing capability and capacity, in our R&D resources and processes, in our people development and in our expanding network of direct sales and service engineers.

Our markets are heavily influenced by the level of industrial production. We are not immune from economic tides but our business is resilient, having a high proportion of sales drawn from customers' maintenance and operating budgets and with less exposure to the capital cycle. Our focus is on our strategic actions to out-perform our markets and we are well positioned to leverage the investments we have made to achieve growth and improvements in our business.

Our risks	Group performance at a glance	Group Chief Executive's report	EMEA	Asia Pacific	Americas	Watson-Marlow	Financial review	Sustainability report
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Strategic report continued

Europe, Middle East and Africa

"Organic sales increased by 3% to £244.3 million despite continuing difficult economic conditions. Operating profit increased by an outstanding 26% at constant currency."

Neil Daws
Executive Director



Progress in 2013

Sales in EMEA increased by 5% to £244.3 million (2012: £232.8 million). We achieved organic sales growth of 3% and favourable exchange rate movements added 2% to sales due to the stronger euro, partially offset by weakness in the South African rand and Turkish lira. Operating profit more than recovered the dip in 2012 and rose strongly by 31% to £48.2 million (2012: £36.7 million), and at constant exchange rates the increase was 26%. The operating profit margin expanded significantly from 15.8% to 19.7%; with only a small benefit from exchange rate movements.

Economic conditions remained difficult across most of our markets and, in particular, industrial production overall in Europe was flat for the year. After starting the year in decline, industrial production progressively improved and was positive in the fourth quarter for the first time in

two years. Our business tends to lag the economic cycle by several quarters and our markets were again weak but stable and we achieved modest growth from our customers' core maintenance and plant operations. Project work for energy saving and plant improvements was down, in part due to the non-repeat of several large orders in the prior year, and we continued to see project delays as customers deferred committing to larger value opportunities.

Emerging markets in EMEA produced good growth in both sales and profits. Sales were strongly ahead in the Middle East following our increased investment in sales resource in the region, culminating in the creation of our latest operating company in the UAE. The Czech Republic did well, delivering a large steam injector project at a major steel mill and sales were ahead in Turkey. Business levels stabilised in Russia following the decline in refining and petrochemicals activity in the prior year and we anticipate

improvements in this important market from increased focus on our core business. Our business in South Africa performed well, increasing sales and reducing costs.

In our developed markets in EMEA, which account for broadly 80% of segment sales, we achieved a very small sales increase but profits were significantly higher as we realised the full-year benefit of the restructuring actions in 2012 and increased our focus on pricing and margin. In our large more mature markets in France, Germany, Italy, Spain and the UK, overall sales were marginally ahead, largely due to the strong performance in the UK, and profits were sharply higher in all five operations. Elsewhere, in Scandinavia profits were also well ahead but sales were modestly down as we refocused on the more attractive sections of the market.

Revenue

£244.3m

+5%

(2012: £232.8m)

Operating profit

£48.2m

+31%

(2012: £36.7m)

Operating margin

19.7%

+390bps

(2012: 15.8%)

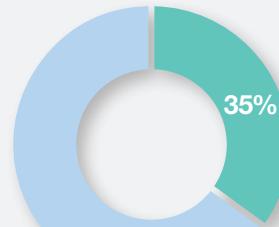
Revenue £m

2013	244.3
2012	232.8
2011	250.1
2010	230.0
2009	225.5

Operating profit £m

2013	48.2
2012	36.7
2011	42.5
2010	36.8
2009	35.6

Percentage of Group revenue



(2012: 35%)

As expected, the trading performance in our European manufacturing operations rebounded strongly. In particular, we realised a significant improvement in profit from the single consolidated site in the UK through efficiency and process improvements, and cost reductions. The final piece of investment was completed when the new distribution centre in Cheltenham became fully operational in April 2013 and we now have for the first time an integrated manufacturing plant from receipt of raw materials and components, to the warehousing and despatch of finished goods. R&D expenditure was maintained at the much higher level of investment reached over recent years.

Market overview

The Group's most mature business operations are centred in Europe. At year end, the EMEA region comprised 22 operating companies. During 2013 we established an operating company in the Middle East, located in Dubai, which started trading in November. Within the EMEA region our most important markets are foods, beverages, pharmaceuticals, institutions and OEM customers supplying these industries.

During 2013 our markets across Europe remained stubbornly flat amid continued challenging economic conditions and low investment confidence driven by on-going concerns surrounding the debt crisis. Only critical maintenance spending remained robust throughout the first half year, although trend indicators suggest some signs of progress during the second half year. Elements of our business are late cycle and any improvement in business conditions will have a lagged effect.

Our biggest single operation within the Eurozone is the UK, which rebounded into solid positive growth on a strengthening economy and as some large projects came to fruition during 2013. Belgium, Sweden and our humidification business in Germany also posted positive growth, helping to off-set general weakness in most other European markets.

Markets in France, Italy and Germany showed no sign of improvement, and Iberia remained significantly depressed. The Nordics lacked signs of positive investment during 2013 and we faced significant competitive pressure in the region. Project business declined slightly in Russia, the Czech Republic and Turkey, in markets where we have seen steady growth in recent years. However, export markets throughout much of Eastern Europe remained positive, as did much of the Middle East.

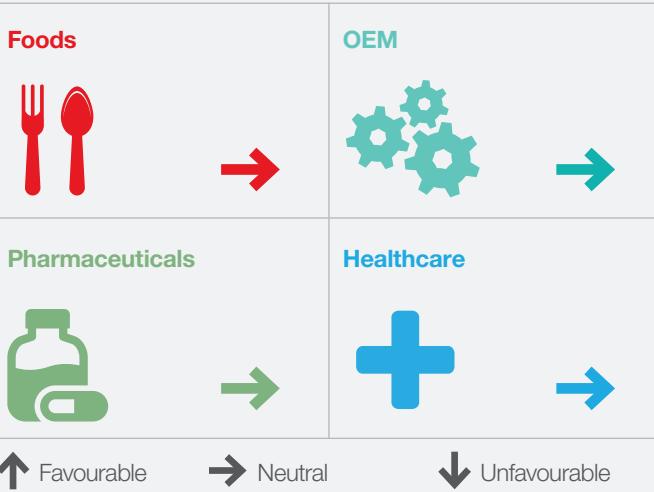
Strategy and outlook

Quotation logs are healthy and economic indicators turned marginally positive as we entered 2014 and we hope to see some of this reflected in our markets in 2014.

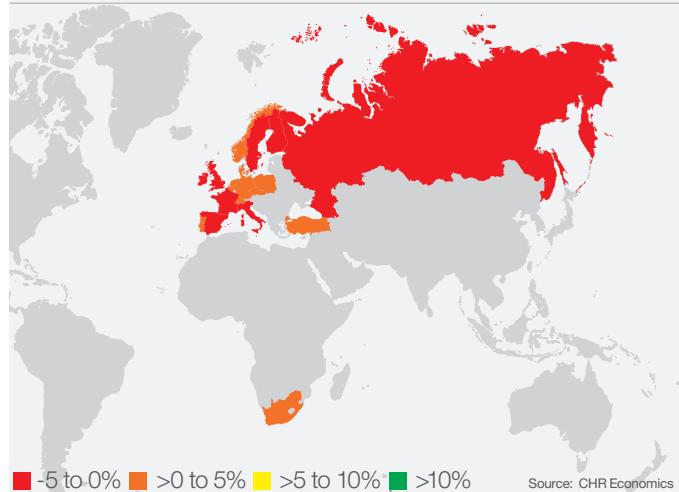
Through our direct sales model we provide customers with a wide range of solutions for energy saving and process productivity. Our investments in training our people and widening our service offering mean that we are well placed to take advantage of any improvement in markets.

We remain committed to growing our presence and investing in emerging markets in Eastern Europe, Russia, the Middle East and Africa, despite some slowdown in major project activity in 2013. The demand for improved infrastructure in these markets remains and we expect some strengthening of project activity during 2014.

Key markets



Industrial production growth rate 2013*



Strategic report continued

Europe, Middle East and Africa *continued*

Spirax Sarco provides Saudi Arabian hospital with a clean steam solution

At a university teaching hospital in Saudi Arabia, a new intensive care unit (ICU) is being constructed. Spirax Sarco was asked to design a system to supply steam humidification, a reliable domestic hot water supply and hot water for use in the building's heating system. The bespoke solution needed to utilise an existing high-temperature water supply from a central boiler plant.

A building consultant had suggested inserting a flash vessel into the existing hot water system to generate steam for humidification. Spirax Sarco identified several problems with this approach. For example, water lost from the flash steam vessel would need to be replaced by cold water, reducing boiler efficiency and increasing energy usage; and the flash steam produced would contain boiler water chemicals and so be of insufficient quality for use in a hospital environment.

Spirax Sarco recommended installing a water to clean steam generator and stainless steel humidifiers to provide clean, efficiently generated steam for humidification purposes. The steam generated would be of a good enough quality to meet a number of international standards, such as EN285 (the European standard for steam quality for use in sterilisation) and the ASHRAE standard for acceptable indoor air quality. A packaged plate heat exchanger was installed to provide a source of heat for the air heating system and a range of products were added to the existing water supply to ensure a constant source of domestic hot water.

In addition to providing a fully functional and bespoke engineered solution that meets the ICU's humidification, heating and domestic water needs, Spirax Sarco enabled the university to purchase a complete package from a reputable single source. Further, the solution that was installed will require less maintenance and offer substantial energy savings, compared with alternative solutions. The university was so impressed that they have asked Spirax Sarco to install the same system in a new cardiac centre and in a new teaching hospital.



Asia Pacific

"We achieved a good sales increase in Asia Pacific, rising by 10% to £182.8 million. Organic sales increased by 8% with good growth in controls, flow metering and services."

Klaus Rümler
Divisional Director



Progress in 2013

We achieved a good sales increase in Asia Pacific, rising by 10% to £182.8 million (2012: £166.9 million). Exchange movements were generally favourable adding 2% to sales on translation into sterling due to the Chinese RMB and the Korean won both strengthening by 4% against sterling, partially offset by the weakening of the Australian dollar and Japanese yen. Organic sales therefore increased by 8%, with continued progress in traditional products and good growth in controls, flow metering and services. Market conditions remained favourable in China but elsewhere were mixed. The widespread applications for industrial steam, in particular in food & beverage and healthcare, provides good resilience to our business in Asia. Operating profit increased by 9% to £48.0 million (2012: £43.9 million) and at constant currency the increase was 6%. The operating profit margin was unchanged

at 26.3% (2012: 26.3%) as the benefit from the additional sales volume was offset by the costs of transitioning to a fully-fledged operating company in the Philippines and in preparation for our new company in Indonesia that commenced trading in January 2014, following the acquisition of our largest distributor.

Our steam specialties business in China is the largest sales and profit contributor in the Group, accounting for 10% of Group sales in 2013, and again performed strongly, although the pace of industrial production growth eased and some projects were delayed. Our business derives largely from sectors linked to domestic Chinese consumption, particularly food & beverages, pharmaceuticals, textiles and healthcare, all of which have been resilient. We continue to add sales resource, expanding our extensive network of sales offices to 43 and deepening our penetration of the market. In line with our regional manufacturing

strategy, production at our plant in Shanghai continues to increase rapidly across an expanding range of products. This is primarily to meet local demand and also to support regional demand in Southeast Asia, increasing flexibility and improving customer service.

Our business in Korea again performed well with record sales and profits despite a more difficult economic environment where industrial production was negative for most of the year. As expected, second half sales were much stronger in Korea as a number of large projects were completed. Elsewhere, we grew sales in Japan in a challenging market but had to contend with the impact of higher landed costs of imported products from the significant currency weakness. We continued to invest in market development, adding sales resource in both the more established and newly emerging markets.

Revenue
£182.8m

(2012: £166.9m)

+10%

Operating profit
£48.0m

(2012: £43.9m)

+9%

Operating margin
26.3%

+0bps

(2012: 26.3%)

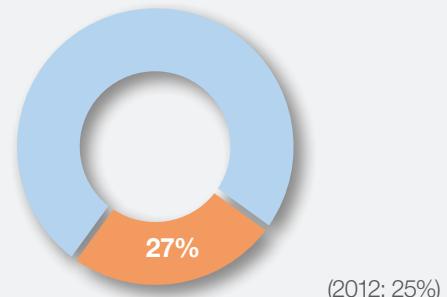
Revenue £m

2013	182.8
2012	166.9
2011	147.1
2010	131.5
2009	104.7

Operating profit £m

2013	48.0
2012	43.9
2011	37.8
2010	34.3
2009	23.1

Percentage of Group revenue



Strategic report continued

Asia Pacific continued

Market overview

The Group has invested heavily in developing the important Asia Pacific region over the past 20 years. Today this region generates 33% of total steam specialties business sales and the Group's business operations in China and Korea are continuing to be two of the largest in the Group. We have 11 operating companies and one associate in the region and additionally have a good, direct sales presence in newly emerging markets such as Vietnam and Cambodia. In the past three years, our headcount has increased significantly as we have added important sales and sales support people throughout the region and have increased our manufacturing footprint.

Market conditions were strong in China, as we benefited from our direct sales approach to domestic consumer industries and from our continued investment in geographic coverage, localised manufacturing and sales of a broader range of engineering solutions.

We see good growth potential in most of Southeast Asia and are taking additional steps to increase our direct selling presence in some of these still small, but important, emerging markets. Elsewhere in the region, our Australian and New Zealand markets were more flat but careful cost control provided us with good profit.

Within the Asia Pacific region, our most important industry sector is foods & beverages. It is easily our single largest sector and comprises a much higher

percentage of sales in Asia Pacific than it does elsewhere for the Group. This industry segment is continuously growing in a number of countries as we see a movement towards better product quality and higher food safety standards, which foster higher quality manufacturing equipment. We also saw good levels of customer spending at the refineries and petrochemical plants and higher levels of activity in pharmaceuticals.

Strategy and outlook

We see very good mid-term growth opportunities throughout Asia Pacific due to the rapidly growing demand in local consumption. Our business model particularly benefits from our direct end-user approach in foods & beverages, healthcare facilities, pharmaceuticals and textiles, the chemical industry, rubber and tyre and also in public buildings (HVAC). We therefore see continued good potential for organic growth.

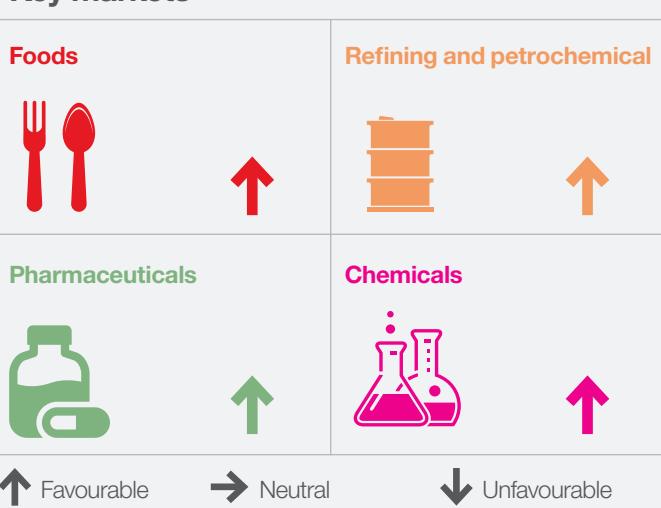
We employ a direct sales model throughout the region and we see additional growth opportunities by increasing market share and geographic reach, as our people become more highly skilled in selling the broad range of engineering solutions already existing in our product portfolio. New and increasing demand for energy reduction, process efficiency improvements, cost reduction, reduced carbon footprint and emissions, requires our people to be flexible and highly qualified. Our business model is based on highest quality advice and support

to customers. A key strategic priority is therefore the training for our customer facing staff. This differentiates us from other companies in the market. We will further focus and invest in training and staff recruitment.

Our local manufacturing strategy will further help us to improve customer service and drive costs down. It also helps us manage our own carbon footprint. We have made good progress in controlling stock and target further improvements during 2014.

Our expectations for 2014 are further growth and good trading margins. This growth will come from general economic growth, demand for energy saving and process improvements, our own sales initiatives and our newly developed operations.

Key markets



Industrial production growth rate 2013*





Hospital emergency averted by a rapid response from Spirax Sarco Australia

On a Wednesday afternoon in July, at a private hospital in Victoria, one of the hospital's two hot water calorifiers (water heating units) imploded due to a rupture of the internal steam heating tubes. Fortunately, the hospital's second calorifier was able to maintain the hospital's hot water supply, but the fear was that if one could fail, so could the second.

Spirax Sarco was asked to assess the damage and ensure that a back-up water heating solution was installed as quickly as possible. Spirax Sarco's expert engineers found that the calorifier was too extensively damaged to repair and recommended the installation of an Ausiheat 2 heat exchanger package, to replace the damaged calorifier.

The Ausiheat arrived in Spirax Sarco's Melbourne office on Friday and was in place in the hospital by Friday evening. By the following evening the hospital had a fully operational back-up hot water supply.

Before long, the second calorifier began to show signs of failure, causing it to be shut down, and the Ausiheat 2 became the hospital's sole water supply. The Ausiheat's exceptional performance and ability to handle the peak loads in the hospital, impressed the hospital's engineering staff to such an extent that they requested that Spirax Sarco install a second Ausiheat 2 heat exchanger package, to provide a back-up hot water supply. Once installed, the two Ausiheat 2 heat exchanger packages only occupied one-third of the space of the two old-style hot water storage calorifiers.

As well as the packages' exceptional performance and Spirax Sarco's rapid response and problem solving capability, the hospital was impressed by the after-service support offered by Spirax Sarco. The hospital engineers now feel confident that the hospital's hot water supply is secure for the foreseeable future.

Strategic report continued

Americas

“Sales were broadly flat at constant currency, with growth in all our operations in Latin America, offset by lower sales in North America due to non-repeating projects. Operating profit increased by 6%.”

Alberto Grandi
Divisional Director



Progress in 2013

Sales in the Americas declined by 4% to £132.0 million (2012: £137.5 million), although excluding unfavourable exchange rate movements, particularly in Argentina and Brazil, sales were broadly flat. Overall, sales of traditional products were ahead reflecting resilient demand from core maintenance and operations spending by customers. We made further good progress with controls, although sales of heat exchange packages and services were lower due to the non-repeat of large projects and generally subdued project activity. Operating profit was flat at £26.1 million (2012: £26.2 million) but at constant exchange rates was ahead 6%. The operating profit margin advanced from 19.1% to 19.8% due to cost reduction actions and efficiency improvements, including a small reduction in headcount.

In North America, economic conditions were reasonable but sales were lower due to the non-repeat of two large service contracts in the USA and significantly lower project activity related to the Alberta Tar Sands in Canada. Operating profit was only marginally lower having benefited from cost reductions and from a good increase in contribution from our new packages fabrication facility in South Carolina. In the USA, the new President of our business started in the fourth quarter and the focus is on the development and improvement of our business performance as we take actions to improve our market approach and better segment our business.

In Latin America, market conditions were generally positive, with industrial production returning to growth in the second quarter after more than a year of decline, but this flattened out in the second half. We achieved sales growth in all our operations and our new company in Chile performed well in its

first year. Our business in Argentina had a very good year against the background of a fragile economy that finally succumbed in the fourth quarter, with significant currency weakness that continued in 2014 and that will no doubt impact the local economy. The export of ball valves, in dollars, from our centre of excellence in Argentina, helps to mitigate the impact of the currency devaluation. Brazil, our largest company in the region, returned to growth and we made further progress in Mexico, where the new manufacturing plant will be fully operational in the second quarter of 2014 and will be integrated into our Americas regional manufacturing strategy. Overall in Latin America, operating profits were nicely ahead.

Revenue

£132.0m

(2012: £137.5m)

-4%

Operating profit

£26.1m

(2012: £26.2m)

+0%

Operating margin

19.8%

(2012: 19.1%)

+70bps

Revenue £m

	2013	2012	2011	2010	2009		2013	2012	2011	2010	2009	
Revenue	132.0	137.5	134.4	125.2	104.6	£m	Operating profit	26.1	26.2	27.4	24.3	13.9
(2012: £137.5m)							(2012: £26.2m)					

Percentage of Group revenue



(2012: 21%)

Market overview

The Group's involvement in the major markets in the Americas dates back many years; over 100 years in the USA and 60 years in Latin America. As a result, the Group has a strong share of these established markets. However, this is balanced by more recent investment in the developing economies in the region, where there are good opportunities to achieve rapid growth through strengthening our market share and marketing a more extensive range of products and services.

Market share is highest in those markets where the Group established a presence early in the cycle of industrial development. This applies notably in Argentina and Brazil and more recently in Mexico. By contrast, there are many competitors based in North America.

The oil and petrochemical industry is a key market for the Group throughout the region, but the importance of other key market segments varies with the economic climate and trends in consumer spending. For example, in North America district heating of government buildings and university campuses underpins a strong HVAC market, whereas in Latin America the food, beverages and pharmaceuticals industries continue to invest in improving their processes and their energy efficiency, and are therefore key targets for the Group in this region.

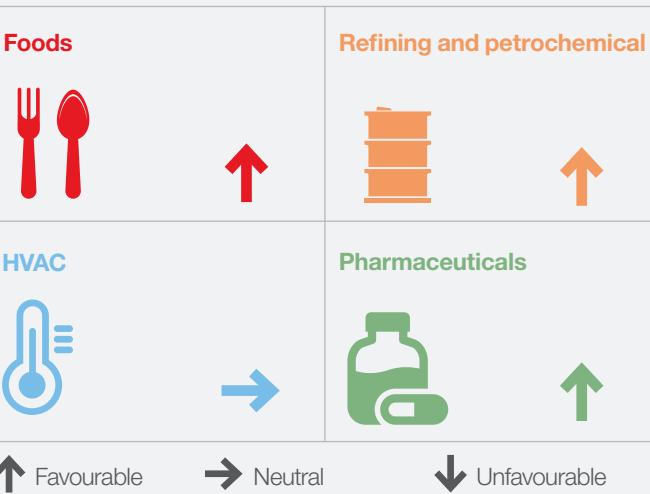
Market conditions were at best neutral throughout the Americas in 2013. In North America, business confidence was undermined by continuing uncertainties relating to Government spending and as a result there was less project work. This has been accentuated over recent years by more specific influences, notably the reduction in energy costs following the development of shale gas in the USA and the impact of a less buoyant oil price on Tar Sands projects in Canada. In Latin America, as the year progressed it became clear that earlier growth projections had been too optimistic, particularly in Brazil and Mexico. However, this was partially offset by continuing industrial development in markets such as Colombia and Chile, where we are investing to keep pace with continuing increases in domestic consumption.

We see continuing opportunities to strengthen our market position through expanding our geographical sales coverage, as we are doing in Mexico and Chile, and in various other markets in Latin America. We also continue to invest in generating consistent organic growth and improving our competitiveness through the further development of our regional manufacturing strategy, as evidenced by our new factory in Mexico.

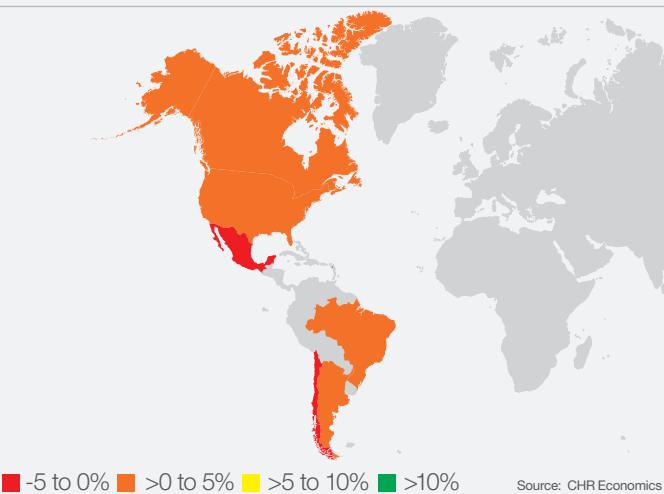
Strategy and outlook

Even in our more mature markets the continuing desire of equipment users to reduce their carbon footprint provides opportunities to grow the core business by offering a more complete range of steam related products and services. Our priority in these markets is therefore to invest in streamlining that capability, as evidenced by the new fabrication facility in the USA, which enables us to expand our portfolio of pre-fabricated engineered packages for heat transfer applications.

Key markets



Industrial production growth rate 2013*



Our risks	Group performance at a glance	Group Chief Executive's report	EMEA	Asia Pacific	Americas	Watson-Marlow	Financial review	Sustainability report
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Strategic report continued

Americas *continued*

Spirax Sarco Mexico saves Nestlé energy and reduces water consumption by 28,000m³ per year

When specialist engineers from Spirax Sarco audited the steam system at Nestlé's instant coffee plant in Toluca, Mexico, they were asked to develop and install a solution to recover 100% of condensate from distiller bells and to increase steam system efficiency.

The audit found that condensate was being lost as a result of back pressure being imposed on the condensate line by a flash steam recovery vessel. Spirax Sarco installed an automatic pump trap to overcome the back pressure, enabling the existing flash vessel to function correctly. Flash steam, generated in the flash vessel, is now used to preheat water before it enters a newly installed Easiheat™ unit, which is producing hot water for the plant. The condensate from both the flash vessel and the Easiheat™ unit is now returned to the boiler house (saving energy, water, and water treatment chemicals) where it is used to generate steam.

The solution cost Nestlé £76,000 but is saving £67,000 per year. In addition, it is reducing energy consumption at the plant by 6,700 gigajoules per annum and is saving 147 tonnes of CO₂ emissions each year. Furthermore, improved steam system efficiency has reduced water consumption by as much as 28,513m³ per year.

Mr Ricardo Morales, Energy Manager at Nestlé Mexico, explained, "We are making investments to increase our energy efficiency. Each year in Nestlé Mexico we have the objective of saving around 4% in the use of energy and water. The participation of Spirax Sarco is key to improving the energy efficiency of our company in matters relating to steam production and distribution, condensate recovery, heat exchange and delivering expert training to our staff."



Watson-Marlow

"Organic sales increased by 4% against a tough comparison in the prior year, with the new Qdos and Apex products making a meaningful contribution. The operating profit margin strengthened further to 30.3%."

Jay Whalen
Executive Director



Progress in 2013

Sales increased by 5% to £130.3 million (2012: £124.5 million) and were ahead 4% at constant exchange rates. Sales growth slowed in the second half, against a particularly difficult comparison due to several large non-repeating projects that shipped in the prior year, but demand continued and we ended 2013 with a strong order book. There was good growth across most product lines with a meaningful contribution from the new Qdos and Apex products but the larger capacity Bredel hose pump sales were lower due to the reduced project activity in the wastewater treatment and mining segments. Watson-Marlow operating profit increased by 7% to £39.5 million (2012: £36.8 million), with an overall neutral effect from exchange rate movements. The operating profit margin strengthened further to 30.3% (2012: 29.6%).

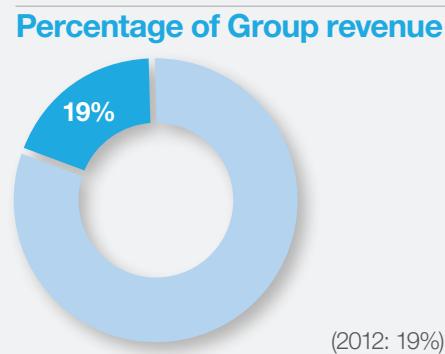
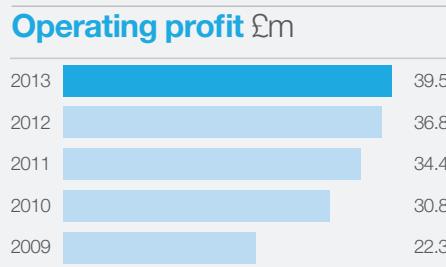
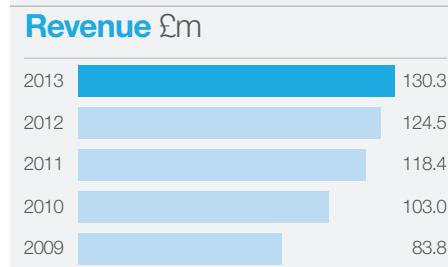
Trading conditions were strong in the biopharmaceutical market, which is our largest sector, in both North America and in Europe, with positive investment trends by customers in the industry. Food & beverage markets were ahead with good activity in Latin America and also now Asia Pacific. Mining (precious metals) markets have been difficult in South Africa and Australia but this was mitigated by inroads made in Russia and Brazil. Water and wastewater markets continued to be under pressure due to restrictions on government finances in many countries, although mitigated by increased market penetration from our new Qdos pump and with early indications of improving conditions in the USA. Overall, there was a lower level of projects across most markets but generally more positive base business demand.

Sales were higher in all geographic regions. Despite an unfavourable economic background, sales growth was robust across EMEA, which accounts for almost 40% of total Watson-Marlow sales, with virtually all operations contributing. We reaped the benefit of our strategic actions over the last three years to increase industry sector focus in the sales teams, continue our conversions to direct sales and expand our network of direct sales operations, with new companies added in Austria and Poland during 2013. Growth was strong in Eastern Europe, particularly Russia.

Revenue
£130.3m +5%
(2012: £124.5m)

Operating profit
£39.5m +7%
(2012: £36.8m)

Operating margin
30.3% +70bps
(2012: 29.6%)



Strategic report continued

Watson-Marlow continued

Sales in Asia Pacific were ahead and our newer operations in India, Singapore and Malaysia all performed well. Our more established operations in China and Korea made good progress in the food & beverage sector but saw lower levels of project work. We continue to add sector-focused direct sales resource across the Asia Pacific region to increase our market presence and widen the addressable market as we present the whole life-cycle cost benefits of peristaltic and niche pumps in these under-developed markets.

Sales growth was strong in Latin America driven by success with new products and underpinned by additional sector-focused sales resource. North America was unable to match the very good performance in the prior year that included a number of large non-repeating projects but base business was nicely ahead across most sectors. The Americas account for almost 40% of total Watson-Marlow sales.

Product development has been a key driver of our sales growth and we continue to add resource focused on expanding the capability, functionality and performance of our niche pump and tubing to reduce the total-cost-of-ownership for our customers. These developments grow our addressable market as we displace other pump types in more applications. The revolutionary Qdos peristaltic metering pump with its ReNu pumphead is a particular success, exceeding expectations, alongside the new Apex hose pump, and new product developments also in Altea, Flexicon and MasoSine.

Market overview

The Watson-Marlow pumps business was acquired in 1990 and since then has grown from contributing 4% of sales that year to 19% of Group sales in 2013. Recent acquisitions have played a key role in expanding our addressable markets by increasing our applications capability in the important biopharmaceutical and foods & beverages industries. New product development has expanded our addressable markets particularly in industrial, OEM and water and wastewater markets.

Our Watson-Marlow pumps business is centred in Europe and the United States, together comprising about 80% of total pump sales, about evenly split, but we continue to expand into emerging markets in Asia, Eastern Europe and Latin America with good results. Our core markets are biopharmaceutical, (which represents about one-third of total pump sales), OEM, water and wastewater, mining (precious metals), foods & beverages and general industrial. These applications are ideal for our pumps, which are unequalled in the pumping of hygienic fluids and, alternatively, abrasive or aggressive fluids or slurries.

The market conditions for Watson-Marlow Pumps in 2013 were largely similar to the steam specialties business from a geographical perspective. Maintenance and project spending for biopharmaceuticals increased, but capital spending on wastewater treatment (particularly in the USA) and mining slowed.

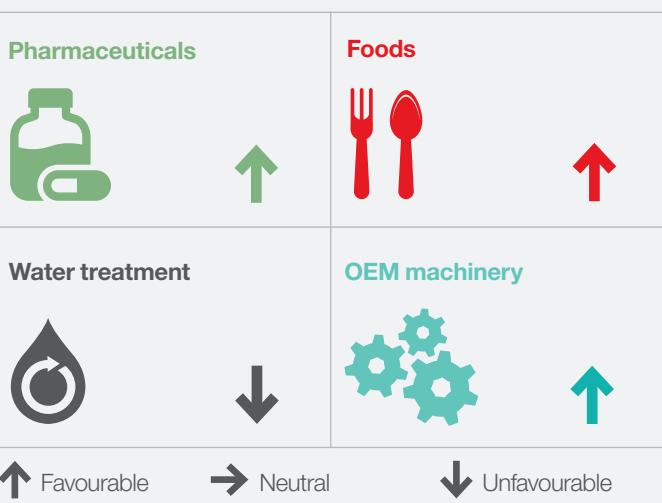
Strategy and outlook

We continue to focus on strategically delivering growth through the penetration of emerging markets, where we see excellent opportunities for growth as we pioneer the introduction of peristaltic pumps. We aim to grow our market share within emerging regions as we demonstrate the peristaltic pump's superior technology and lower life-cycle cost benefits, for applications in biopharmaceuticals, precious metals processing, food production and chemical dosing in water and wastewater treatment. We will also focus on the sectorisation of our field sales force to ensure our engineers have the specific market and applications knowledge to add value to customers.

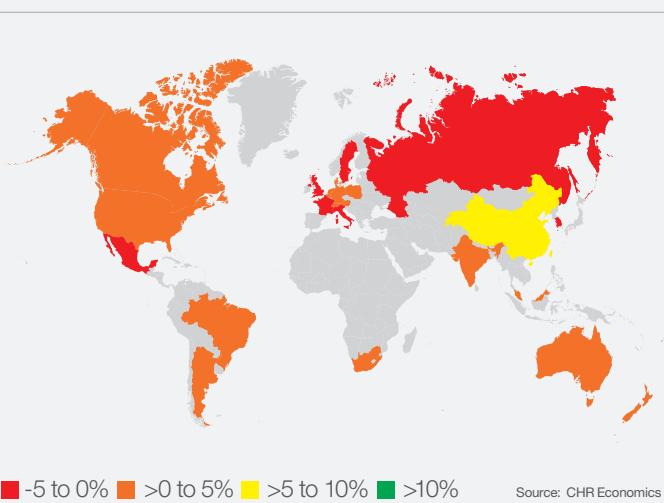
We have achieved significant success through transitioning from distributor sales to a value-added direct sales approach in our more mature European markets and we will continue this process in more markets in Asia, Europe and Latin America.

Further, we will continue to expand the ranges of recently introduced new pumps, with revolutionary new pumping technology, which continues our strategy of increasing our addressable markets by taking market share from other positive displacement pump types. We will also selectively seek acquisitions of synergistic value-added niche pumps and associated equipment that will allow us to leverage sales of new and existing products through our direct and market sector sales channels.

Key markets



Industrial production growth rate 2013*





Qdos metering pumps solve turbidity testing dilemma for Welsh Water

At the Pontsticill Water Treatment Works in the Brecon Beacons National Park regular turbidity testing is undertaken as a means of assessing water quality. Turbidity is a measure of the cloudiness of a fluid, caused by the suspension of particles. While some suspended particles will settle quickly if a sample is left to stand, others will not settle or will require a long period of time to do so, causing the liquid to appear turbid. In drinking water, a high turbidity level increases the risk that people may develop gastrointestinal problems.

Until recently turbidity testing at the Pontsticill Water Treatment Works relied on bellows pump technology. However, the bellows pumps introduced air into the samples, giving false or unreliable readings. Marek Cegielski, a process scientist and manager at Dŵr Cymru Welsh Water, explained, "This is a clean water site and the quality of sample is very important. In the past we have tried other types of turbidity monitoring devices, such as dip probes, but without much success. We have even used bubble traps in conjunction with our bellows pumps, but we still fell short of 100% reliability."

However, the installation of a Qdos 30 metering pump is now ensuring consistently accurate readings. "Our main requirement is for a constant, pulse-free flow," says Mr Cegielski. "Previously we had tried fitting back valves to bellows pumps to stop the pulsing but in truth we could not properly buffer the effect and still ended up with false readings." The Qdos 30 pump is providing Dŵr Cymru Welsh Water with a steady, pulse-free flow speed of 280 ml/min, completely free from air or flow variation.

"So far, so good, as far as we are concerned – when new technology comes along that has a clear advantage over existing market solutions, then we are always willing to give it a try," concludes Mr Cegielski. "If our existing Qdos 30 continues to meet expectations then we will place an order for a further three pumps."

Strategic report continued

Financial review

"We achieved good results in 2013, producing record sales, profit and margins. Sales increased by just over 4%, with strongest growth in Asia Pacific, and adjusted operating profit increased by 11%, with an outstanding performance in EMEA."

David Meredith
Finance Director



Key highlights

- The Board has proposed a final dividend of 41.0p per share. Together with the interim dividend this gives a total Ordinary dividend of 59.0p per share, an increase of 11%
- Adjusted basic earnings per share increased by 14% to 138.8p
- Return on capital employed reached a record 44.4%
- Adjusted operating cash flow rose by £13.2 million or 10% to £143.0 million

Spirax Sarco reports its results under International Financial Reporting Standards (IFRS) and in addition uses adjusted figures as key performance indicators as the Board believes that these are more representative of the underlying performance. Unless otherwise stated adjusted figures are used throughout and in 2013 they excluded the amortisation and impairment of acquisition-related intangible assets and acquisition and disposal costs, together with the tax effects of these items. Additionally in 2012, they included contingent consideration fair-value adjustments and one-off exceptional restructuring charges of £7.2 million largely related to headcount reductions in our European operations, the benefit of which has been seen in our EMEA results. 2012 results have been restated to reflect the adoption of IAS 19(R) Employee Benefits.

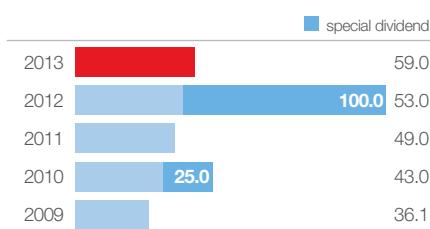
This Annual Report and Accounts has been prepared in line with the latest requirements for integrated reporting and the Board has taken care to ensure that it is "fair, balanced and understandable". The Annual Report clearly sets out our resilient and robust business model, and explains how our strategy is implemented through the business model, with the aim of delivering long-term sustainable, profitable growth and the creation of value for shareholders. Our key performance indicators have been carefully selected and we show the link from strategy through to Directors' remuneration. The section on risk management has been enhanced and the work of the various Board committees is detailed in the Governance section, including the new Remuneration policy report that will be the subject of a binding vote by shareholders at the Annual General Meeting on 20th May 2014. Sustainability is part of our strategy and we report a number of non-financial measures including the Group's employee serious accident rate, which

shows a year-on-year improvement, and the Group's CO₂ intensity, which shows a reversal in 2013 after several years of good reductions. Investment in a combined heat and power plant for our manufacturing unit in Cheltenham has been approved for 2014, which will reduce energy usage and improve resilience.

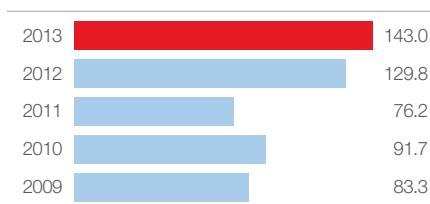
We achieved good results in 2013, producing record sales, profit and margins. Sales increased by just over 4% to £689.4 million (2012: £661.7 million). Organic sales increased by nearly 4%, with the strongest growth in Asia Pacific followed by more modest growth in Watson-Marlow and EMEA. In the Americas, progress in Latin America was broadly offset by a decline in North America. Favourable currency gains in the first half year were progressively eroded by the strengthening of sterling and were negligible for the full year. A number of emerging market currencies were weak in 2013 including the Brazilian real, South African rand and Argentine peso, the latter devalued by 13% in the final quarter and by significantly more in early 2014. If current exchange rates prevail through 2014, sales would be reduced by around 5% on translation into sterling versus 2013.

Operating profit increased by 11% to £151.6 million (2012: £136.2 million) and by 10% at constant exchange rates. Favourable currency movements produced an overall gain of 1% or £1.7 million to operating profit versus the prior year. Segmentally, there were exchange gains in EMEA of £1.7 million and Asia Pacific of £1.6 million, a neutral position in Watson-Marlow and an unfavourable £1.6 million in the Americas. The most significant factors driving the overall increase in operating profit in 2013 were:

Dividends per share p



Adjusted operating cash flow £m



- The beneficial effect on profit from the higher sales, particularly in emerging markets where overall sales growth was robust
- The focus on price management and business mix, particularly in EMEA
- The broadly flat costs of materials, reflecting subdued prices for base metals that underlie the cost of castings, forgings and other parts and components purchased through the year
- A further benefit of £3.5 million from the full-year effect of the restructuring actions that were largely completed at the end of 2012, fully capturing the expected total benefit of £5.5 million
- The significant improvement in profit from our steam specialties manufacturing operations in Europe and in particular the cost savings and efficiency gains delivered from the consolidated site in Cheltenham
- The growing contribution from new products, especially in Watson-Marlow, reflecting the significantly increased investment in product development and processes over the last five years or so
- The increase in market development investments, with additional direct sales resource in emerging and newly emerging markets
- The adoption of IAS 19(R) Employee Benefits, increased overheads by £0.4 million in respect of pension scheme fund management fees that are now recorded within overheads.

The operating profit margin jumped from 20.6% to a record 22.0%.

Interest

Net interest cost reduced by £0.9 million to £2.3 million (2012: £3.2 million restated). The adoption of IAS 19(R) Employee Benefits for 2013 significantly changed the accounting for investment returns in respect of defined benefit pension schemes. Investment returns are now assessed based on bond returns for an assumed 100% holding in bonds, in place of the previous method that used a blended investment return based on actual assets being held by the pension schemes. 2012 net interest has accordingly been restated to show an additional cost of £3.6 million under IAS 19(R). Net interest in respect of the Group's defined benefit pension schemes improved by £0.2 million versus the prior year, mainly due to the increase in asset values in 2012 that produced an improved

assumed return on assets for 2013. Net bank interest was £0.6 million better due to the good cash flow and despite the payment of the £78 million special dividend mid-year.

Associates

The Group's after-tax share of the profits of Associates was down 8% at £1.7 million (2012: £1.9 million) and was broadly unchanged at constant exchange rates. The Group's 49.3% share of Spirax-Marshall in India was ahead but this was offset by a small loss in respect of the Group's 30% interest in the Econotherm heat pipe technology start-up.

Pre-tax profit

The profit before tax increased by 12% to £151.1 million (2012: £134.9 million) and at constant exchange rates the increase was 11%. The statutory profit before tax takes into account certain non-operating items listed below and rose by 17% to £145.7 million (2012: £124.1 million restated):

- A charge of £4.6 million (2012: £4.1 million) in respect of the amortisation of acquisition-related intangible assets, £0.8 million of which related to Associates (2012: £0.3 million)
- A goodwill impairment charge of £0.1 million on the disposal of the HVAC business of Eirdata
- Acquisition and disposal costs of £0.6 million (2012: £0.3 million)
- Contingent consideration fair value consideration costs were nil (2012: credit of £0.6 million)
- One-off exceptional restructuring costs were nil (2012: £7.2 million). The large majority of the 2012 costs were paid in that year but a residual £1.6 million of these costs were a cash outflow in 2013.

Taxation

The tax charge on the adjusted pre-tax profit, excluding Associates, was marginally higher at 29.8% (2012: 29.7% restated). The Group's direct sales business model means that we are structured with many, largely small, operating entities spread worldwide, addressing our customers directly with a local sales team and local stocks. Our tax rates essentially reflect the blended average of the many different tax jurisdictions in which we operate. During the year we reorganised the funding of several of our European companies under the legislation introduced by the UK Government that will have a modest tax benefit in future years.

Earnings per share

The Group's prime financial objective is to provide enhanced value to shareholders through the consistent growth in earnings per share and dividends per share. Adjusted basic earnings per share increased by 14% to 138.8p (2012: 122.2p) primarily reflecting the 12% rise in pre-tax profit. The marginally higher tax rate detracted from earnings per share growth but this was more than outweighed by the 3.7% reduction in the number of shares in issue from mid-year following the 26 for 27 share consolidation linked to the special dividend. This will have a further small full-year benefit to earnings per share growth in 2014. The statutory basic earnings per share increased by 19% to 133.4p (2012: 112.2p restated) reflecting the adjusted profit increase and also the non-repeat of the one-off exceptional restructuring costs in 2012. The fully diluted earnings per share were not materially different in either year.

Dividends

The Board has proposed a final dividend of 41.0p per share, which is an increase of 11% from 37.0p in the prior year. Together with the interim dividend of 18.0p per share (2012: 16.0p), this gives a total Ordinary dividend of 59.0p per share for the year, an increase of 11% over the total of 53.0p per share in 2012. Our dividend record is extended to 46 years that has a compound annual growth rate of 11% over that period. If approved by shareholders at the Annual General Meeting on 20th May 2014, the final dividend will be paid on 30th May 2014 to shareholders on the register at 2nd May 2014.

A special dividend of 100.0p per share was paid on 3rd July 2013 in respect of 2012. Including this special dividend, total dividend payments in 2013 amounted to £121 million or 155.0p per share.

Acquisitions and disposals

During the year additional resource was added to the team as we intensified our search for suitable acquisition candidates. Our acquisition strategy is interwoven with our growth strategy and our focus is largely directed at expanding addressable markets, adding new products and technologies for our existing businesses and extending direct market access, although we remain interested in complementary businesses that are adjacent to our main markets. Our strong balance sheet and debt capacity provides us with considerable flexibility.

Our risks	Group performance at a glance	Group Chief Executive's report	EMEA	Asia Pacific	Americas	Watson-Marlow	Financial review	Sustainability report
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Strategic report continued

Financial review continued

On 22nd January 2013, the Group announced the acquisition of a 30% stake in Econotherm UK Ltd for £1.0 million, with an option to acquire the remaining equity. Econotherm specialises in the design and manufacture of heat pipes and associated heat exchangers for industrial waste heat recovery and other industrial applications, utilising unique and patented technology. This start-up technology business made a loss in the year ahead of an expected ramp-up in sales.

On 26th July 2013, the Group announced an agreement to acquire the business and assets of PT Petrolog MUM, our steam specialties distributor in the Java region of Indonesia, for a total consideration of £1.7 million. Indonesia is an expanding market with good future growth prospects that will be enhanced by our direct sales approach. As expected, following a short transition period, our new subsidiary commenced trading in January 2014.

In April 2013, the Group disposed of the HVAC business of Eirdata for £0.6 million that reduced sales in the year by approaching £1 million. We retained the Eirdata Energy Advisory Services business, which contributes to our solutions selling and energy management value propositions.

On 6th January 2014, the Group announced the acquisition of UK-based Bio Pure Technology Limited for £8.5 million. Bio Pure specialises in the design and production of advanced single-use tubing connector systems for the biopharmaceutical industry, where there is already a strong commercial relationship with Watson-Marlow jointly promoting products to shared customers. The acquisition strengthens Watson-Marlow's presence in the rapidly growing single-use biopharmaceutical market, complementing our existing range of Flexicon peristaltic filling systems.

Research and development

Investment in product development was maintained at the higher level established over recent years. In the steam specialties business, there was a reduction in the number of new or updated products released during the year as we focused on fewer, potentially higher value projects. Resources are focused on supporting our strategic growth initiatives and product launches during the year included an innovative continuous wireless steam trap monitoring system, desuperheaters, several important flowmeters and various control valve releases. In the Watson-Marlow peristaltic and niche pumps business, the Qdos pump that utilises revolutionary

pulseless pumping technology made significant progress in its first full year after launch and the Bredel Apex range gained real traction in the second half of the year. We expect that new products will make a greater contribution to sales growth than in prior years.

Capital employed

The focus on capital employed was increased in 2013 and in particular the continued roll-out of systems to optimise stock levels to improve delivery performance and customer service. Overall, total capital employed increased by £5 million to £344 million; at constant exchange rates the increase was 4.5%.

The net book value of fixed assets (excluding intangible assets) increased by £2 million or 1% at constant exchange rates to £174 million, with capital expenditure of £27 million at 118% of depreciation. The most significant investments were the construction of a new manufacturing plant in Mexico that will be fully operational by April 2014 and the start of a major project to modernise the core IT systems in all of Watson-Marlow's operations. We have continued to add production equipment in China as we expand output and to upgrade our machining capability in our main regional manufacturing locations. Our energy costs have been increasing, particularly in the UK where we have expanded product development and testing facilities, and we have approved the investment in energy saving projects that are being implemented in 2014, which will also have a positive impact on our energy intensity and CO₂e measures. Overall, we expect capital expenditure to be a little higher in 2014.

Total working capital at £170 million was up 8% at constant exchange rates. Inventory rose by 4% at constant exchange rates and we achieved a further small reduction in stock weeks whilst also improving the balance of stocks held to support higher levels of customer service. The overall balance of debtors and creditors increased by £9 million largely due to a rise in debtors. The ratio of working capital to sales was marginally lower at 24.7% (2012: 24.8%).

Return on capital employed

This important measure of overall performance shows a marked increase to a record 44.4%, more than recovering the dip to 39.4% in the prior year. The improvement results from a combination of the 11% rise in the adjusted operating profit to £151.6 million and a small reduction in average capital employed (using the average of opening and closing sterling balance sheets for 2013 and 2012).

Post-retirement benefits

The net post-retirement benefit liability shown on the balance sheet was marginally lower at £72.0 million (£54.1 million net of deferred tax). Asset values rose by 12% as investment returns again exceeded scheme assumptions and deficit reduction contributions of nearly £7 million were made to the main UK schemes. However, liability value increased by 9% largely due to unfavourable changes in financial assumptions. The majority of the Group's defined benefit pension liabilities relate to the main UK schemes that were closed to new members in 2001. For the past two years these have been managed under a dynamic de-risking strategy whereby asset

	2013 £000	2012 £000
Capital employed		
Property, plant and equipment	174,218	174,836
Inventories	104,164	103,690
Trade receivables	145,380	145,686
Prepayments and other current assets/(liabilities)	(79,284)	(85,140)
Capital employed	344,478	339,072
Intangibles and investment in Associate	97,398	97,268
Post-retirement benefits	(72,043)	(72,663)
Deferred tax	18,619	23,696
Provisions and long-term payables	(1,318)	(2,500)
Net cash	16,400	51,676
Net assets	403,534	436,549
Return on capital employed		
Adjusted operating profit	151,626	136,245
Average capital employed	341,775	345,812
Return on capital employed	44.4%	39.4%

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.

At the last triennial valuations of the UK schemes as at 31st December 2010, deficit reduction contributions of approximately £8 million per year were agreed that progressively reduce in steps to nil by 2018. The latest triennial valuations as at 31st December 2013 are currently in progress.

Cash flow and Treasury Policy

We achieved another year of good cash flow in 2013 generating greater operating cash inflows with good cash conversion. Adjusted operating cash flow rose by £13.2 million or 10% to £143.0 million essentially due to the profit increase for the year, as reflected through a high cash conversion rate of 94%; a relatively small cash outflow of £7.3 million in respect of working capital was mitigated by a small reduction of £3.0 million in capital expenditure.

Taxation paid increased by £4.4 million to £42.3 million with corporation tax paid in virtually every one of the 39 countries in which the Group has subsidiaries. Free cash flow therefore rose by £9.4 million to £101.1 million. Dividend payments were £120.0 million, comprising £78.3 million in respect of the 100.0p per share special dividend for 2012 paid in July 2013 and £42.5 million in respect of core Ordinary dividends per share paid that increased by 9% in the year net of Associate company dividends received of £1.0 million. Pension deficit reduction contributions and provisions were a cash outflow of £7.0 million and the balance of £1.6 million restructuring costs were paid having been charged against profit in 2012. There was an outflow of £5.6 million for acquisitions, largely relating to the deferred consideration in respect of our acquisition in Mexico in 2010, including an accelerated final instalment brought forward from 2014. There was a net cash outflow of £0.6 million comprising a payment in November of £4.6 million in respect of shares bought back and lodged in an Employee Benefit Trust to provide shares for the future vesting of awards under the Group's long-term performance share plan, net of an inflow from the issue of shares under the Group's various employee share schemes.

	2013 £000	2012 £000
Adjusted cash flow		
Operating profit	151,626	136,245
Depreciation and amortisation	22,707	21,241
Adjustments (including share plans)	2,700	2,559
Working capital changes	(7,345)	(546)
Net capital expenditure (including R&D)	(26,693)	(29,691)
Cash from operations	142,995	129,808
Net interest paid	417	(206)
Tax paid	(42,318)	(37,941)
Free cash flow	101,094	91,661
Net dividends paid	(119,992)	(37,887)
Pension deficit reduction payments and provisions	(6,985)	(6,974)
Restructuring costs paid	(1,623)	(5,569)
Buy-back/Proceeds from issue of shares	(582)	4,028
Acquisitions	(5,601)	(4,501)
Cash flow for the year	(33,689)	40,758
Exchange movements	(1,587)	(1,351)
Opening net cash	51,676	12,269
Net cash at 31st December	16,400	51,676

The net cash outflow for the year was therefore £33.7 million, which together with an unfavourable currency movement effect on translation of £1.6 million, gave a closing net cash balance of £16.4 million at 31st December 2013, compared with £51.7 million a year earlier.

The Group has a direct sales business model, which dictates that we have a large number of operating companies dealing on a local level directly with customers, trading in local currencies. Our trading results and balance sheet can therefore be affected by relative movements in exchange rates, the most significant of which are the euro, dollar, Chinese renminbi and Korean won. Mitigating this exposure is the wide spread of our business across many different countries and currencies, the partial natural hedge that we have from our cost base also being in local currencies (people are our largest cost) and our regional manufacturing strategy that balances the concentration of manufacturing from any one currency base. We have a rigorously applied Treasury Policy and do not undertake complex derivative transactions, typically using simple forward contracts to manage exposures to known cash flows where this can provide an appropriate degree of certainty for landed costs.

Capital structure

We continue to follow a policy of maintaining a strong balance sheet to protect the business and to provide flexibility of funding for our growth, either through organic expansion, capital investment or acquisitions. Our emphasis is to reinvest in the business, where we believe that capital can be put to most effective use in the generation of increased future returns. We also seek to make appropriate acquisitions that make strategic, commercial and economic sense, and where we can see that good returns can be achieved. However, where cash resources exceed future expected requirements, we will generally seek to return excess cash to shareholders.

A return of capital to shareholders of £78 million was made in the form of a special dividend of 100.0p per share paid in July 2013. This was equivalent to approximately 4% of the market capitalisation of the Company at the time and, as is common with a significant return of capital to shareholders, was accompanied by a share consolidation on the basis of 26 new Ordinary shares for every 27 existing Ordinary shares. The purpose of the share consolidation was to seek, as far as possible, to maintain 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.

Strategic report continued

Sustainability report

“Enhancing the sustainability of our operations is a key strategic priority for the Group. Good progress has been made against our sustainability objectives during 2013.”

Nick Anderson
Group Chief Executive



Sustainability is one of the six key strategic priorities through which we are driving growth and achieving shareholder value, while managing our environmental and social impact.

We recognise the importance of corporate sustainability and believe that sustainability is synonymous with resiliency. A sustainable business is one that can survive shocks and economic challenges because it has been managed with an eye to both the present and the future.

Our sustainability strategy is focused on three core areas: our business, our communities and our environment. Within these three broad areas we have identified eight key objectives:

Our business:

- To govern the business ethically and uphold our core values
- To achieve consistent and sustainable growth and shareholder value
- To maintain professionally challenging and safe workplaces
- To provide for the on-going training and development of our people

Our communities:

- To engage positively with the communities in which we operate
- To offer financial support to approved charities through the Spirax Sarco Group Charitable Trust

Our environment:

- To manage and minimise the environmental impacts of our operations
- To help our customers to achieve their sustainability targets.

Achieving our sustainability objectives requires a clear and well-defined management structure. The Group Chief Executive has overall responsibility for the Company's sustainability strategy and is fully supported by the Board of Directors. We have a senior Group Health, Safety and Environment executive who ensures that appropriate policies, systems and reporting metrics are in place to achieve the Group's sustainability objectives. Regional and general managers have responsibility for ensuring that the Group's sustainability policies are upheld and implemented by our operating companies, and at a local level individuals and groups are organised to oversee and report on key aspects of sustainability within their workplaces.

During 2013 we focused on developing the mechanisms by which we share best practice across the Group. For example, in September 2013 a health, safety and environment (HSE) conference was held at Spirax Sarco, USA, attended by delegates from the Spirax Sarco HSE user group. The conference provided an opportunity for attendees to learn more about the Behavioural Based Safety programme that is in operation in the USA (see page 52) and to discuss how the programme is to be rolled out across the Group. Our environmental targets were also discussed, as were strategies for achieving them.

To ensure that we are recording, measuring and reporting key sustainability metrics accurately, and to provide transparency in our sustainability reporting, during 2013 we appointed Carbon Clear, an independent third-party organisation, to help us achieve limited assurance of our carbon emissions data, with assurance provided by TÜV (see page 54).

During 2014 we will continue to invest management time into developing and furthering our sustainability agenda. We recognise that we have an ethical responsibility to manage our economic, environmental and social impacts, but also believe that it makes good business sense to do so. A focus on sustainability drives behaviours which cut costs and increase operational efficiency, while also creating new market and business opportunities and mitigating risks. Put simply, we believe that sustainability enhances our competitive edge, ensuring financial progress and the delivery of shareholder value.



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

Our business:

Objective:

To govern the business ethically and to uphold our core values

We believe that good governance is essential to the success and sustainability of our business. We define good governance as managing the business transparently and in accordance with best practice, the UK Corporate Governance Code 2012, the UK Stewardship Code and all applicable laws and regulations. During 2013, we were delighted to receive a nomination for a Transparency in Governance Award, by the Institute of Chartered Secretaries and Administrators, within the category: FTSE250 Best Board Disclosure.

In July the strength of our governance and business performance was further recognised when Watson-Marlow won a prestigious PwC 2013 West of England Business of the Year award. The award recognised various aspects of business achievement such as financial performance, product and service innovation, business management, future prospects and contribution to the region.

Our core values of respect, accountability, passion, integrity and delivery provide the foundation upon which we make decisions, drive innovation and manage our global operations. During 2013, 1,000 of our employees and senior managers participated in "Doing the Right Thing" training, designed to increase understanding of the core values and anti-discrimination law, and to improve diversity awareness. All employees have responsibility for ensuring that the Group operates ethically and have an obligation to report breaches of Company policy. The Group will not permit retaliation of any kind against employees for making good faith reports about an actual or suspected violation of Group policy.

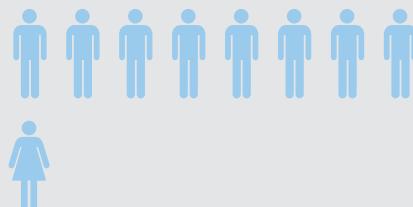
We communicate regularly with our employees through a variety of channels and undertake employee surveys. Our aim is to ensure that all employees are informed about, and engaged in, their part of the business locally while having a wider understanding of the Group and its future direction.

Our Group Management Code articulates the standards that we expect everyone within the Group to meet. It includes 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 of bribery or corruption. The Group will not enter into contractual relationships with third parties who are known to participate in corrupt practices and will not engage in the giving or receiving of bribes. We do not make political donations.

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. We recognise that all individuals have the right to lead a dignified life, free from fear and want, and free to express independent beliefs. Our Group Human Rights Policy 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 endeavour to ensure that our direct operations and any interactions with business partners do not make us complicit in Human Rights violations and seek suppliers who meet the same high standards we set for our own businesses.

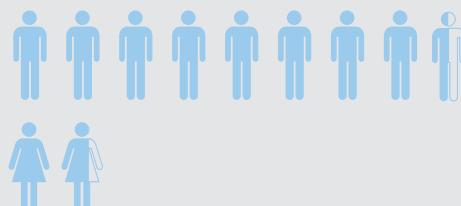
Equal opportunities

Board gender diversity



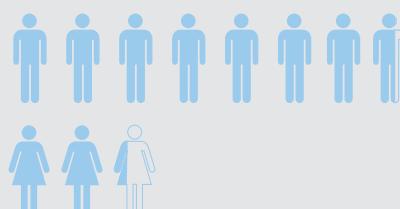
Males: 8 Females: 1

Senior management gender diversity



Males: 449 Females: 84

Total workforce gender diversity



Males: 3,794 Females: 1,025

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

Target: 25% female Board members by 2016.

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.

We give full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities. We have procedures 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 career development as all other employees.

During 2013 Spirax-Sarco Engineering plc became 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.

Our risks	Group performance at a glance	Group Chief Executive's report	EMEA	Asia Pacific	Americas	Watson-Marlow	Financial review	Sustainability report
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Strategic report continued

Sustainability report continued

Our business continued:

Objective:

To achieve consistent and sustainable growth and shareholder value

Managing our business sustainability has a positive impact on our financial performance. Through reducing energy consumption and managing waste we optimise process efficiency, resulting in greater cost efficiencies. For example, by managing our energy consumption, we not only lower our energy bill but we also reduce outlay on carbon taxes (incurred through the UK's Carbon Reduction Commitment Scheme and Climate Change Levy).

A focus on sustainability is a core component of our risk mitigation strategy (see pages 26–27). Weak environmental, social or governance performance can have a significant, negative impact on a company's reputation and can incur a subsequent financial cost. By managing all aspects of our business with our sustainability objectives in mind, we mitigate the risk of breaching regulatory requirements, avoid non-compliance with health, safety and environmental legislation and manage our corporate reputation, contributing to the sustainability and long-term financial viability of our business.

The wellbeing of our employees is a key sustainability objective. We recognise our responsibility to treat our employees with respect and to provide safe and professionally challenging workplaces. We believe that high standards of safety and employee engagement can mean less time lost to absence and lower voluntary employee turnover. This also helps us to recruit the best and most talented people. We take seriously our governance, social and environmental responsibilities.

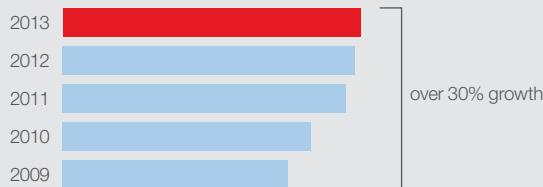
We believe that a focus on sustainability helps us to access new markets for existing products and gain market share, as well as acting as a catalyst for the innovation of new products and services. The strategic integration of sustainability helps us to anticipate the needs of our customers who are increasingly turning to us for help to meet their sustainability targets. A core strength of our direct sales business model is that our expert sales and service engineers can walk our customers' plants and identify ways to improve their operational efficiency and reduce their energy consumption, carbon emissions or water use.

Through investing in R&D we continuously improve our product range and develop new products to meet our customers' needs, thereby ensuring the long-term viability of our business. During 2013, the new Qdos 30 metering pump from Watson-Marlow won a Vaaler Award, from Chemical Processing, in the USA. The award recognises products and services that can significantly improve plant operations and economics.

Our wide product range, ability to design bespoke engineered applied solutions, and the expert knowledge of our people help to build trust, enhance our reputation and ensure that we provide outstanding customer service. Through helping our customers to meet their sustainability targets we develop customer loyalty which, in turn, helps us to deliver long-term sustainable growth and shareholder value.

Financial performance

Sales from energy management products £m



While many of our products and services aid effective energy management, we have identified a specific range as falling within the energy management sector of our marketplace (see page 8). These include our metering products, boilerhouse products, heat transfer packages and energy services. We recognise a direct link between the sales of energy management products and three of our strategic objectives: deliver solutions to reduce energy usage; grow market share and achieve sustainability. As a result of our strategic focus and investments, during the last five years sales of our energy management products have increased by more than 30% at constant currency.

Our energy management products form a core component of many of our engineered solutions. During the last five years we have invested in R&D to enhance existing energy management products and to develop new, unique energy recovery packages, ensuring that we deliver effective solutions to our customers.

We have been able to grow our market share through widening our range of products, including energy metering and heat recovery packages, which have contributed meaningfully to our sales growth.

As we continue to increase our capacity to solve our customers' process issues, improve their productivity and help them meet their sustainability targets, particularly in relation to energy management, we are investing in the sustainability of our business.



A Spirax Sarco heat transfer package

Our business continued:

Objective:

To maintain professionally challenging and safe workplaces

Our people are one of our greatest assets. Looking after their health and wellbeing is a key priority for the Group. We remain committed to improving our health and safety (H&S) record and to maintaining a safe environment for our employees, visitors and subcontractors worldwide.

Our goal is to embed a health and safety culture across the Group through providing our employees with the training and tools needed to recognise and understand both the importance of H&S practices and how to proactively mitigate H&S risk. This year we began to roll out a Behavioural Based Safety (BBS) programme across all our manufacturing sites. BBS was first implemented in our operating company in the USA. The success of this programme (see page 52) has resulted in the decision to adopt it across the Group. We anticipate a steady improvement in our H&S performance over the next few years as a result of the cultural change brought about by the programme.

Our H&S management and governance structure is well developed. As with the other elements of our sustainability strategy, the Board and Group Chief Executive have overall responsibility for H&S. The Board formally reviews H&S matters at least bi-annually and is supported by a H&S Executive, appointed during 2013, who monitors H&S practices across the Group, facilitates the sharing of best practice and ensures that appropriate processes are in place for collecting and reporting H&S data.

All H&S accidents and near misses are recorded at a local level and reported regularly to the Board. All RIDDOR recordable accidents and incidents are reported immediately, with a follow up report within two days detailing improvements made to prevent a repeat of the accident.

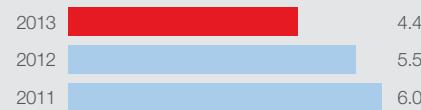
All of our operating companies are expected to adhere to the Group H&S Policy, and to have local H&S policies in place. The Group Policy is reviewed annually and outlines minimum expected H&S standards for each of our operating companies. Our operating companies define local strategies and objectives which are reviewed and approved by local management teams.

Each of our operating companies has its own occupational H&S management system in place with documents that define the local H&S policy and procedures. The occupational health and safety systems of our operating companies generally follow the requirements of the OHSAS 18001 standard, but not all operating companies have yet been assessed and certified. By the end of 2013 seven of our operating companies had OHSAS 18001 certification in place (2012: five) and we aim to increase this number year-on-year.

In addition to the H&S policies, procedures and management systems that we have in place, annual H&S risk assessments are conducted within each operating company. Regular staff training also occurs, including daily H&S briefings in our manufacturing plants, and we provide our employees with personal protective equipment. Taken together, these actions, policies and procedures help to minimise risk in our workplaces. Through ensuring that our people are safe, we protect one of our most valuable assets and contribute to the sustainability of our business.

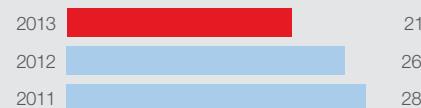
Health and safety (H&S)

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



The over seven day lost time accident rate decreased by 20% during 2013.

Total number of accidents with over seven days of lost time per 1,000 employees



The total number of over seven day accidents decreased by 19% during 2013.

Target

We want all of our employees to return home safely at the end of each day. As such, we have a long-term target of zero accidents. In the short term, however, our H&S targets are to achieve a year-on-year reduction in our over seven day accident rate and to achieve a better than benchmark H&S record. The H&S benchmark that we use is the RIDDOR over seven day accident rate in the UK manufacturing sector, which was 4.0 accidents per 1,000 employees in 2012/2013.

We have made good progress during the last three years and have reduced our accident rate by 27% and are now close to the H&S industry benchmark. We are taking action to reduce our accident rate further, including the adoption of BBS and the sharing of best practice across the Group.

Group H&S management structure



Strategic report continued

Sustainability report continued

Our business continued:

Objective:

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

Average number of formal training days per customer facing employee



Whatever their position within the Company, all employees are encouraged to develop their skills. We support applications for training and professional development from workers from the factory floor through to senior managers and Directors.

The knowledge and skills of our customer facing sales and service engineers is a key differentiator and is central to our ability to offer value to our customers. Ensuring that our sales and service engineers have unrivalled industry expertise is crucial to achieving our first strategic objective of strengthening our global market position through local expertise and customer insight.

We spend approximately two years training all new engineers. Once trained, our engineers are expected to participate in on-going training and professional development and we provide opportunities for them to do so. During 2013 we launched a Group-wide "e-learning" programme, with approximately 50 online courses currently available, directed at enhancing the knowledge and skills of our sales and service engineers. By the end of 2014 we plan to add a further 30 courses to the programme. While we view "e-learning" as an important mechanism for the on-going training of our engineers, it is designed to supplement, and not replace, traditional classroom based and on-the-job training. We have over 40 state-of-the-art training centres worldwide, in which we train both our people and our customers.

We increased our average number of formal (classroom based) training days per customer facing employee by nearly 30% during 2013.

Talent management is essential to prepare promising employees for leadership and senior management positions within the Group and to ensure the long-term sustainability of our business. During 2011 we launched our Spirax Sarco Leadership Academy. During 2013, 15 of our future leaders attended a two week Advanced Management Programme, run by the Ashridge Business School. The course covers such topics as: effective people management; driving growth and innovation; and delivering results. By investing in the professional development of our future managers we meet their ongoing development needs while equipping them to support the long-term success of the business.

In addition to supporting and facilitating the professional development of our people, we provide training to ensure that they have the necessary knowledge to uphold the Company's core values. During 2013, 1,000 of our employees participated in "Doing the Right Thing" training (see page 49) and since launching our "anti-bribery@work" online course during 2012, over 2,800 customer facing employees and senior managers have participated in the training.

Case study:

Behavioural Based Safety and Wellness Programme, Spirax Sarco USA.



During 2011 Spirax-Sarco Inc, USA, launched a Behavioural Based Safety and Wellness Programme. The programme aims to engage all employees in H&S, enabling them to better identify and eliminate risks; to drive cultural and behavioural change; and to incentivise staff to live a healthier lifestyle.

Core components of the programme include:

1. A "start with safety" culture
2. Regular and formal reviews of all accidents, near misses, risks and risk behaviours
3. Ongoing training for all employees
4. The identification of job specific "safe behaviours"
5. A combination of both leading and lagging indicator KPIs.

The company has seen significant success; the reportable accident rate has fallen by over 40% from 2010 to 2013. However, perhaps even more significant has been the phenomenal reduction in the number of "light duty days" which have fallen from 925 in 2010 to 230 during 2013. In addition, by 31st December 2013 the company had completed 483 days without a lost time incident.

Kris Brown, Safety Supervisor at Spirax Sarco USA, stated, "Behavioural Based Safety was a natural progression for us. Over the years our employees have become excellent at identifying hazards and safety issues. The next logical step was to help employees to start to identify positive H&S behaviours that not only they exhibit but their fellow co-workers as well. One of the keys of Behavioural Based Safety is to identify behaviours, positive or negative, that have an impact on health, safety and wellness, and address them in a manner reflective of our core values."

Chip Stokes, Vice President Supply of Spirax Sarco, USA stated, "Our efforts in Behavioural Based Safety and Wellness is a significant part of the foundation we are building to support our journey for organisational excellence. We have a passion to foster a safety-first culture that encourages all levels of the organisation to take a proactive role in continuously improving our health and wellness. This allows everyone to be part of creating an environment that motivates us to take care of each other. It is part of Spirax Sarco's DNA to do the right thing for our greatest asset: our people."

Our communities:

Objective:

To engage positively with the communities in which we operate

We are committed to improving the social and economic conditions of the communities in which we operate. We recognise that the most effective way of doing this is through managing the business effectively to ensure its on-going success and providing employment that fairly remunerates people for the work that they do. However, we also seek to positively engage in our local communities, particularly through improving educational access and helping disadvantaged children.

For example, Spirax Sarco UK is a sponsor of the annual Cheltenham Science Festival. Each year the Company designs a stand, which is manned by our employees, through which it engages local people and, in particular, school children in the science of steam and its modern applications. The theme of the stand in 2013 was "the elements".



During 2013 our MasoSine business in Germany (part of the Watson-Marlow Pumps Group) donated several old computers to a local school. The computers, which were fully depreciated, had reached the end of their serviceable life for MasoSine, but were gratefully received by the school, which has limited access to IT equipment.

Furthermore, throughout 2013 MasoSine offered several school children, aged 13 to 14, the opportunity to undertake a week-long work experience placement within the company, as well as offering a six month internship to an engineering student from a local university and employing an apprentice within the factory.

During 2013, MasoSine offered their local fire department the use of the company's buildings for training. Finding locations to undertake training in "real" conditions is crucial for emergency services but access to suitable locations is often limited. Allowing the fire service access to company buildings has also helped MasoSine to review its emergency fire procedures.

Spirax Sarco, Korea's "Jo Club" ("Jo" meaning "help" in Korean) has continued to make a positive impact on its local community. On a monthly basis throughout 2013, club members donated money to local charities, visited and assisted at a centre for the disabled and volunteered in a soup kitchen. Twice during the year, club members delivered coal, bread and rice to the elderly. The club is financed by donations from the company as well as from money raised by collections and fund-raising events organised by the club members.

Charitable donations

Objective:

To offer financial support to approved charities through the Spirax Sarco Group Charitable Trust

Group Charitable Trust donations £'000

2013		136
2012		132
2011		132
2010		112
2009		86

By making charitable donations to worthwhile causes we can focus our efforts on helping specific groups of people (e.g. the less advantaged, disabled or abused); promote education; improve access to healthcare; or offer assistance following natural disasters.

During 2013, the Spirax Sarco Group Charitable Trust (Trust) made 49 donations, ranging from £1,000 to £15,000, in accordance with its charitable donations policy. Donations made by the Trust included £15,000 to Cobalt, a leading medical charity that helps in the prevention, diagnosis and treatment of cancer and other life-limiting conditions; £15,000 to Open Door, a local Cheltenham charity that offers food, hospitality and support to the homeless; and £10,000 to the Philippines Typhoon Disaster Appeal.

In addition to the donations made by the Trust, a further £64,000 (2012: £40,000) was donated to charitable causes by our operating companies during 2013.

Our employees frequently undertake independent fundraising initiatives and raise significant funds to donate to charitable causes that have particular meaning and importance to them.

Since 2008, Spirax Sarco has donated more than £80,000 to the National Star College (NSC) in Cheltenham, UK. The NSC provides specialist further education, training and personal development for young people aged 16 to 25 with complex physical, educational and emotional needs. In September 2013, a group of 24 runners from Spirax Sarco completed the Cheltenham Half-Marathon, and raised over £1,600 in sponsorship for the NSC.



Strategic report continued

Sustainability report continued

Our environment:

Objective:

To manage and minimise the environmental impact of our operations

Climate change is widely recognised as a global threat, with the potential to affect world environmental, social, political and economic systems. We have a responsibility to address the threat of climate change by managing our energy consumption and reducing our CO₂e emissions.

In accordance with national and international directives on climate change, we endeavour to continuously reduce the carbon intensity of our business and implement strategies to minimise our carbon footprint. We have measured and reported our CO₂e emissions for several years and welcome the new requirement for listed companies to disclose their CO₂e emissions. We report on all of the emission sources required under the Greenhouse Gas Emissions (Directors' Reports) Regulations 2013.

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 electricity generated off site, including electricity.) Excluded from our footprint boundary are entities where we do not have operational control. In 2013 this included Spirax-Marshall Ltd. Also excluded from the footprint boundary are emission sources from operating companies established during 2013 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 CO₂e emissions figures.

Our total CO₂e emissions increased during 2013. This was primarily due to an increase in energy-intensive R&D testing at our world-leading steam testing facilities in the UK and the expansion in manufacturing capability in the Asia Pacific region. Although an increase in emissions is undesirable, through R&D we develop products that improve our customers' energy efficiency and reduce emissions. Furthermore, our regional manufacturing strategy is improving the efficiency of our manufacturing process and reducing emissions associated with transportation of products.

Our Group Environmental Policy sets minimum standards that we expect all of our operating companies to adhere to and requires them to implement local policies to manage their environmental impact. Our operating companies are all expected to take steps to minimise their environmental impact and reduce their CO₂e emissions. For example, when upgrading its fleet of vehicles, minimising environmental impact was a top priority for Spirax Sarco Canada. They chose the hybrid Toyota Prius because of its excellent fuel efficiency and low emissions.

Through taking steps to manage our CO₂e emissions, we are doing our part to mitigate climate change and are improving the sustainability of our business.

CO₂ emissions

Total Group CO₂e emissions (scope 1 and 2)

tonnes

2013		33,961
2012		29,266*
2011		29,392
2010		29,579
2009		32,150

Scope 1 Scope 2

* 2012 figure restated due to improvements in our methodology

CO₂e intensity

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

2013		49.3
2012		43.0
2011		44.0
2010		47.7
2009		57.5

Target: To achieve a year-on-year reduction in our CO₂e emissions intensity.

To demonstrate our commitment to measuring, managing and disclosing our emissions, in 2013 we appointed Carbon Clear, an independent third-party organisation, to help us calculate our carbon emissions, with TÜV providing the assurance. TÜV's statement of limited assurance can be found in full in the interactive online Annual Reports and Accounts 2013, on our Company website: www.spiraxsarcoengineering.com. A short version of the assurance statement is given below.

"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 2013 to 31st December 2013 (inclusive) are: 17,266 tCO₂e for Scope 1 and 16,695 tCO₂e for Scope 2.

TÜV NORD UK

London

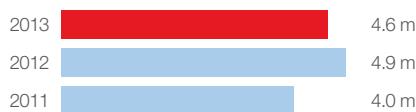
March 2014"

Our environment continued:

Objective:

To help our customers to achieve their sustainability targets, by improving their process efficiency, energy and water management, through the application of our products and the utilisation of our services

Tonnes of CO₂e emissions our customers saved as a result of purchasing our energy management products



Helping our customers to achieve their environmental targets is central to our sustainability strategy and business model. Reducing CO₂ emissions is one of the key drivers that our customers have for improving their on-site energy management.

Using methodology externally verified by AEA Group, we estimate that the Spirax Sarco energy management products sold this year will reduce our customers' CO₂ emissions by 4.65 million tonnes annually. These savings are calculated with reference to a specific range of products, for which we can quantify savings with reasonable accuracy. Many other products, such as pressure and temperature controls, will also provide CO₂ savings but, as these are not easily quantifiable, they are excluded from our methodology. The total amount of CO₂ that we save our customers can vary year-on-year as a result of product mix.

Our direct sales business model enables us to build close relationships with our customers. In doing so, we develop a comprehensive understanding of their needs. We then deliver bespoke engineered solutions to improve process efficiency and reduce energy or water consumption. In addition, our comprehensive plant-wide energy audits and steam trap monitoring systems are used by our customers to monitor and manage their energy consumption.

Many applications for our peristaltic and niche pumps help our customers to improve their environmental performance. For example, within the mining industry the installation of a Bredel slurry pump, from Watson-Marlow, can reduce water consumption by as much as 70%. This typically equates to water savings of over 900,000m³ of water a year for each pump installed.

In the water and wastewater industries, our customers treat industrial/municipal effluent and return it to clean, usable water. The precision pumping offered by our pumps prevents overdosing of chemicals and reduces the need for additional chemicals to neutralise any excess.

As a Group, we have doubled our R&D spend during the last five years. We are continuously updating our products and developing new ones to ensure that we maintain our market-leading position as an expert provider of energy efficient steam solutions and niche pumps. Through maintaining our position as a leading supplier of energy management products and services, we are responding to the threat of climate change, driving growth and increasing the sustainability of our business.

Case study:

Spirax Sarco delivers steam solution for pioneering carbon capture project



Spirax Sarco delivered a comprehensive steam-driven heat exchange package for a groundbreaking carbon capture project at Ferrybridge coal-fired power station in Yorkshire, UK. The Spirax Sarco system is a key element in the success of this cutting-edge project to develop large-scale technology to mitigate the environmental damage from burning fossil fuels.

Carbon Capture and Storage (CCS) technology aims to capture carbon dioxide from the flue gas of major emitters such as power stations and store it underground, preventing it from contributing to climate change.

At Ferrybridge the "capture" part of the process takes place; an amine-based solvent is used to absorb up to 100 tonnes of CO₂ per day. Spirax Sarco's steam system is used to re-boil and regenerate the CO₂ saturated solvent for reuse by stripping out the CO₂ under carefully controlled high-temperature conditions. The temperature and pressure in the clean-up column has to be controlled precisely and steam is the ideal heating medium.

Spirax Sarco's all-round steam expertise and project management capability made us the ideal company to work on the project. "Spirax Sarco has an excellent reputation in dealing with steam and condensate management," said Scott Hume, Process Engineer at Doosan Power Systems. "They supplied everything as a package, from the steam interface back to the condensate return line, including the heat exchanger. That simplified the scope of work for our team and it really helped."

Our risks	Group performance at a glance	Group Chief Executive's report	EMEA	Asia Pacific	Americas	Watson-Marlow	Financial review	Sustainability report
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Our governance



2

Governance

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We are committed to high standards of corporate governance and disclosure and recognise that effective management of the business is central to our long-term sustainability and the generation of shareholder value.

Governance overview

Our Chairman outlines our approach to corporate governance and we give an overview of governance during 2013.



Read more:
Pages 58 and 62–65

Committee reports

The Audit, Nomination and Risk Management Committees give their reports.



Read more:
Pages 66–72

Remuneration

The Chairman of the Remuneration Committee outlines our approach to remuneration, we set out our policy on Directors' remuneration and report on the implementation of our remuneration policy during 2013.



Read more:
Pages 73–95

Regulatory disclosures

Regulatory disclosures are made.



Read more:
Pages 96–98

Governance continued

Chairman's introduction

Bringing governance to life

"High standards of corporate governance are central to sustaining our business and maintaining the confidence of our shareholders."

Bill Whiteley
Chairman



We believe that good governance is about managing the business effectively and in a way that is honest, transparent and accountable.

On the following pages, 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 2010 and 2012¹ (Code). We are fully compliant with the requirements of the Code. Compliance with the Code is set out in detail on the Group's website, www.spiraxsarcoengineering.com, under the Governance section.

Regulatory disclosures required under DTR 7.2.6 can be found on page 97.

In his introduction to the Remuneration report, on pages 73 and 74, Dr Rajagopal, the Remuneration Committee Chairman, discusses our forward-looking policy on remuneration, which will be subject to a binding shareholder vote at our Annual General Meeting (AGM) in May 2014 and thereafter at least every three years. The Annual report on remuneration 2013 sets out the details of executive compensation throughout 2013, which will be subject to the normal advisory vote at the AGM.

During 2013 we continued our active dialogue with our principal investors and shareholder representative bodies to ensure that we understand their views.

As a Board, we have ultimate responsibility for the Group's performance and for overseeing the management of risk. 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. In 2012 the effectiveness of the Board was subject to an externally facilitated independent review by Dr Tracy Long of Boardroom Review Limited. In 2013, as part of our annual Board effectiveness review, the Board monitored progress with the recommendations made by Dr Long. I am pleased to report that we have followed through with a comprehensive set of actions in respect of all recommendations.

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 2013 we significantly improved our compliance programme. This included (i) over 2,800 employees participating in anti-bribery training using a specialised "anti-bribery@work" programme, (ii) the issue of a new Sanctions, Embargoes and Restrictions Policy and Guide to ensure compliance with UN, USA and UK laws, and (iii) the intended roll-out of a Behavioural Based Safety programme.

A further area of focus in 2013 was a review of our arrangements with our external auditor. Following revisions to the Code recommending that the external audit is put out to tender at least every 10 years, the Board has determined that, after over 50 years with KPMG Audit Plc acting as our auditor, we change and appoint Deloitte LLP.

Good corporate governance has always been an important matter for the Board and, combined with our clear and consistent strategy, the Group is well equipped to continue generating value for shareholders. We will continue to live good governance in everything we do. I look forward to meeting you at our AGM on Tuesday, 20th May 2014.

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 2013, but the Financial Conduct Authority has yet to change the Listing Rules and therefore requires that certain compliance statements are made in relation to the predecessor edition of the code, issued in June 2010. This Annual Report and Accounts addresses the requirements of both editions of the Code.

The Boardroom



Executive Directors

Independent Non-Executive Directors

<p>Nick Anderson Group Chief Executive</p> <ul style="list-style-type: none"> • Engineering • International • Broad operational experience 	<p>David Meredith Finance Director</p> <ul style="list-style-type: none"> • Finance and accounting • Engineering • Pensions 	<p>Neil Daws Executive Director EMEA</p> <ul style="list-style-type: none"> • Manufacturing • Engineering • Broad operational experience 	<p>Jay Whalen Executive Director WMPG</p> <ul style="list-style-type: none"> • Sales and marketing • Engineering • International business development
<p>Bill Whiteley Chairman</p> <ul style="list-style-type: none"> • Senior management experience • Engineering • International 			
<p>Gareth Bullock' Senior Independent Director Non-Executive Director</p> <ul style="list-style-type: none"> • Banking • Risk • International 	<p>Krishnamurthy Rajagopal Independent Non-Executive Director</p> <ul style="list-style-type: none"> • Remuneration • Engineering • Senior management experience 	<p>Trudy Schoolenberg Independent Non-Executive Director</p> <ul style="list-style-type: none"> • Engineering • Product development • Oil and petrochemical 	<p>Clive Watson Independent Non-Executive Director</p> <ul style="list-style-type: none"> • Finance • Tax and treasury • Engineering

The bullets in each box indicate areas of experience.

¹ Mr Bullock is retiring and will not seek re-election at the AGM. We are actively recruiting a new independent Non-Executive Director to be appointed before the AGM.

Governance continued

Board of Directors

The Board is chaired by Non-Executive Chairman, Bill Whiteley. In addition to the Chairman, the Board will continue with four Non-Executive Directors and four Executive Directors.



Nick Anderson
BSc, MBA (53)

Group Chief Executive

Committees:

Nomination, Risk Management (Chairman)

Experience:

Joined the Group in 2011 as Director EMEA for the Group's steam specialties business. Mr Anderson was appointed to the Board in early 2012, became Chief Operating Officer in August 2013 and Group Chief Executive in January 2014. He has broad experience in the industrial engineering industry and prior to joining Spirax Sarco, he was Vice-President of John Crane Asia Pacific (part of Smiths Group plc). Before that Mr Anderson was President of John Crane Latin America and he previously held senior positions with Alcoa Aluminio in Argentina and the Foseco Minsep Group plc in Brazil.

David Meredith
FCMA, CGMA (54)

Finance Director

Committees:

Risk Management

Experience:

Joined the Group in 1988 as Group Accountant. Mr Meredith was appointed to the Board as Finance Director in 1992. He trained as an accountant with Redman Heenan International, a specialist engineering group, and was appointed Accountant at their Heenan Drives Ltd subsidiary. Mr Meredith later joined English & American Reinsurance Company where he held finance positions prior to joining the Group.



Bill Whiteley
BSc, FCMA (65)

Chairman

Committees:

Nomination (Chairman)

Experience:

Joined the Group as an independent Non-Executive Director in 2002 and was appointed Chairman in 2009. Until his retirement in 2008 Mr Whiteley was Chief Executive of Rotork plc, where he had been a Director since 1984. He is Chairman of Brammer plc and Hill & Smith Holdings PLC. Mr Whiteley has been awarded an honorary Doctorate of Engineering by the University of Bath.



Gareth Bullock
MA (60)

Independent Non-Executive Director
Senior Independent Director

Committees:

Audit, Nomination, Remuneration

Experience:

Joined the Group in 2005 as an independent Non-Executive Director. Mr Bullock has had a career in banking, having retired from the Board of Standard Chartered PLC in 2010 following roles in Technology and Operations, Strategy and Northeast Asia. He was responsible for Africa, Middle East, Europe and the Americas as well as for the Risk function. Mr Bullock currently serves as a Non-Executive Director of Tesco PLC, Global Market Group Ltd and Informa plc, and is a Trustee of the British Council.

Krishnamurthy Rajagopal
FREng, CEng, FIET, FIMechE, FIE, FCMI, PhD (60)

Independent Non-Executive Director

Committees:

Audit, Nomination, Remuneration (Chairman)

Experience:

Joined the Group in 2009 as an independent Non-Executive Director. On completing his Doctorate in 1980, Dr Rajagopal held senior positions in BOC Group plc prior to being named Chief Executive of BOC Edwards in 1998 and Executive Director of the BOC Group plc in 2000, before retiring in 2006. He was previously a Non-Executive Director of Foseco Ltd and Dyson Group plc. Dr Rajagopal is a Non-Executive Director of WS Atkins plc, Bodycote plc, e2v technologies plc and, with effect from 1st April 2014, Porvair plc. He also serves as Chairman of UMI³ Ltd.



Neil Daws
CEng, FIMechE (51)

Executive Director EMEA

Committees:

Risk Management

Experience:

Joined the Group in 1978. Mr Daws has wide manufacturing experience within the Group, having held positions in production and design engineering prior to being named as UK Supply Director. Mr Daws was appointed to the Board in 2003 and was previously responsible for Asia Pacific and Supply, including the Group's Supply operations in the UK and France, together with the Group's health, safety and environmental matters. In September 2013 he was appointed as Director EMEA for the Group's steam specialties business.



Jay Whalen
BA, MBA (57)

Executive Director WMPG

Committees:

Risk Management

Experience:

Joined the Group in 1991 as President of Watson-Marlow Inc. in the USA and was appointed to the Board in 2012. Mr Whalen 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 Pumps Group. Prior to joining Watson-Marlow, Mr Whalen was Vice-President Operations for Harvard Apparatus.



Trudy Schoolenberg
PhD (55)

Independent Non-Executive Director

Committees:

Audit, Nomination, Remuneration

Experience:

Joined the Group in 2012 as an independent Non-Executive Director. Dr Schoolenberg is Director of Research, Development and Innovation for AKZO Nobel's Decorative Paints Division and prior to that served as Vice-President of Global Research & Development at Wärtsilä Oy. Previously, she held senior management positions with Royal Dutch Shell plc and was Head of Strategy for Shell Chemicals. Dr Schoolenberg is currently a Non-Executive Director of COVA (the Dutch strategic oil stocks agency) and Low & Bonar PLC.



Clive Watson
B Comm (Acc), ACA, CTA (56)

Independent Non-Executive Director

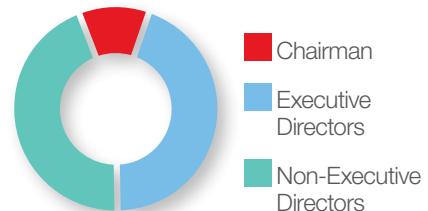
Committees:

Audit (Chairman), Nomination, Remuneration

Experience:

Joined the Group in 2009 as an independent Non-Executive Director. Mr Watson is an Executive Director and Group Finance Director of Spectris plc. He held several tax and finance roles before joining Black & Decker in 1988 as Director of Tax and Treasury Europe, and was later appointed Vice-President of Business Planning and Analysis in the USA. He then joined Thorn Lighting as Group Finance Director before working for Borealis as Chief Financial Officer and Executive Vice-President of Business Support.

Board composition



Governance continued

Corporate governance report

Board composition

Mr Whiteley leads the Board as Chairman. He also chairs the Nomination Committee. The Chairman's other significant commitments are set out in his biography on page 60.

Mr Anderson took over as Group Chief Executive on 16th January 2014 following Mr Vernon's retirement. Mr Anderson leads the business and has Board responsibility for the steam specialties business in the Americas and Asia Pacific and the steam specialties Supply operations in the UK and France. He also chairs the Risk Management Committee.

Mr Meredith is the Finance Director.

Mr Daws is the Executive Director for the steam specialties business in Europe, the Middle East and Africa (EMEA).

Mr Whalen is the Executive Director for the Watson-Marlow peristaltic pumps business.

Mr Bullock is an independent Non-Executive Director and Senior Independent Director.

Dr Rajagopal is an independent Non-Executive Director and, after an orderly handover with Mr Bullock, became Chairman of our Remuneration Committee in January 2014.

Dr Schoolenberg is an independent Non-Executive Director.

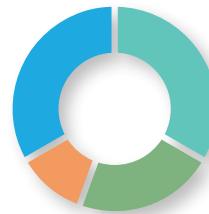
Mr Watson is an independent Non-Executive Director and Chairman of our Audit Committee.

The Board is supported by Mr Robson, who is the General Counsel and Company Secretary.

At the AGM to be held on 20th May 2014, all Directors will offer themselves for re-election, with the exception of Mr Bullock who is retiring and will not seek re-election as a Director after completing nine years, which is the maximum period for assured independence. The Nomination Committee is engaged in a planned succession process to appoint a new independent Non-Executive Director before the AGM.

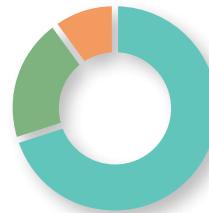
The Board acknowledges with gratitude the significant contributions made by Mr Vernon and Mr Bullock to the Group's growth and prosperity.

Details of the experience of the Directors, biographical information and their roles are set out on pages 60 and 61.



Board tenure

0–3 years	3
4–6 years	2
7–9 years	1
10+ years	3



Board nationality

British ¹	7
American ¹	2
Dutch	1

¹ Mr Anderson holds dual British and American citizenship.

Board attendance

Details of the number of Board and Committee Meetings, and individual attendance by Director for 2013, are set out in the table below.

	Board	Audit Committee	Nomination Committee	Remuneration Committee	Risk Management Committee
Number of meetings	7	4	4	3	2
W.H. Whiteley	7	N/A	4	N/A	N/A
M.E. Vernon ¹	7	N/A	4	N/A	2
N.J. Anderson ²	6	N/A	N/A	N/A	2
D.J. Meredith	7	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	7	4	3	3	N/A
K. Rajagopal	7	4	4	3	N/A
G.E. Schoolenberg	7	4	4	3	N/A
C.G. Watson	7	4	4	3	N/A

¹ Retired 15th January 2014.

² Absence due to attendance at the Advanced Management Programme at Harvard Business School.

N/A means not applicable

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 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.

During 2013 Mr Anderson attended the Advanced Management Programme and Mr Whalen attended the Leadership Best Practices Executive Programme, both held at Harvard Business School.

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.

Board activities in 2013

We aim to embed governance practices throughout the Group so that they become an integral part of running a successful business. In the diagram below we have set out how the Board spent its time during 2013. 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 25% of its time ensuring the Group's operations and risk management controls are effective. In June 2013 the Board devoted considerable time to the Group's business and corporate strategy looking, in particular, at the global competitive environment and emerging global markets. During 2013 the Board also regularly reviewed the Group's performance and satisfied itself that, despite difficult trading conditions, management was on track in delivering the strategic business plan. In addition, the Board concentrated its efforts on succession planning, devoting much time to this important subject 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 49.

Compliance with the Code

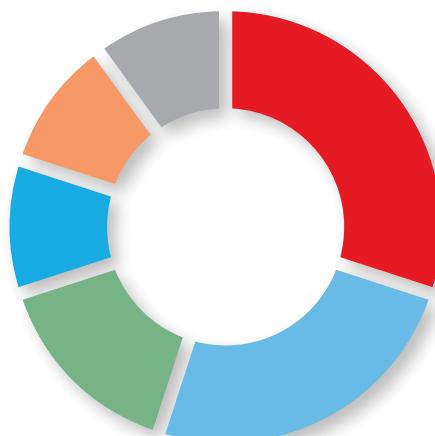
The governance rules which applied to the Group for 2013 are found in the Code. The Group's compliance in 2013 with each provision of the Code is set out in detail on the Group's website, www.spiraxsarcoengineering.com, under the Governance section.

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 Mr Vernon and Mr Bullock, and the forthcoming appointment of a new independent Non-Executive Director, we will deliberately move to a position of compliance as the number of independent Non-Executive Directors, excluding the Non-Executive Chairman, will be equal to 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 page 69.

Annual Report and Accounts

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



Board focus during 2013

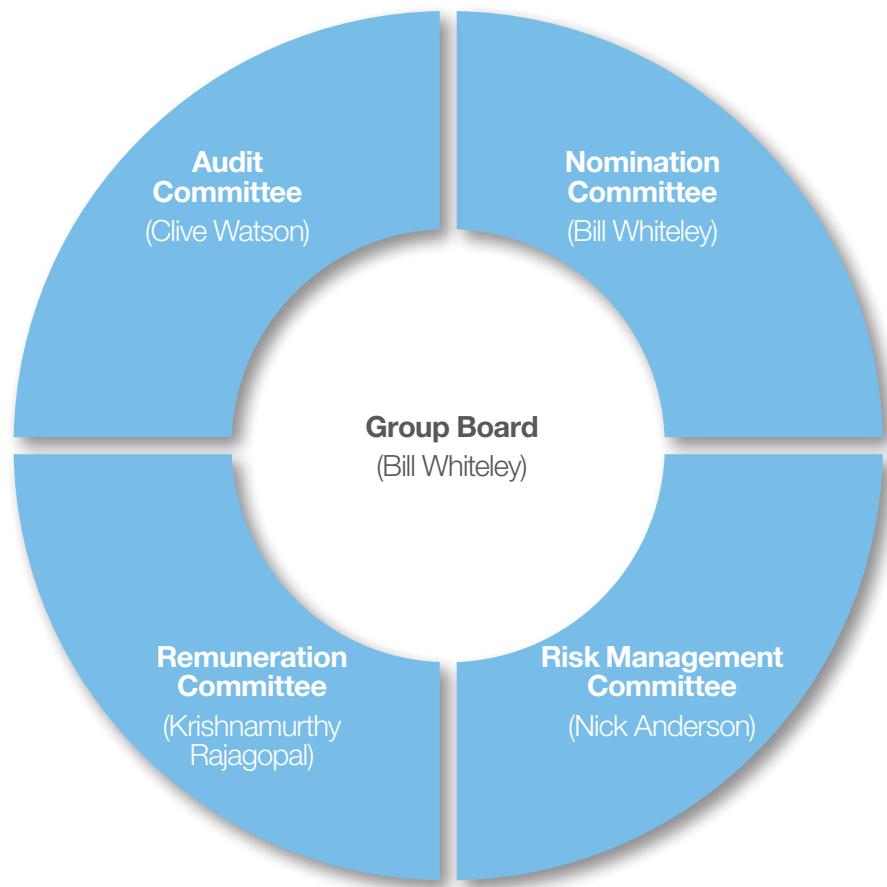
Strategy	30%
Operations and risk	25%
Governance and shareholders	15%
Finance	10%
New product development	10%
People and succession	10%

Governance continued

Corporate governance report continued

Governance structure

Our governance structure is best illustrated by the diagram set out below.



Chairman's responsibilities

- Managing the business of the Board and facilitating the participation of each Director
- Safeguarding robust corporate governance processes and the development and maintenance of governance policies
- Facilitating constructive debate and discussion on Board agenda items and ensuring that alternative viewpoints are considered
- Maintaining appropriate contact, in conjunction with the Group Chief Executive, with shareholders and in stock market related matters
- Providing for regular evaluation and feedback of the performance of each Director and the Board
- Ensuring effective succession planning for Directors
- Interfacing with regulatory bodies which may require access to the Chairman
- Working successfully with the Group Chief Executive to ensure performance objectives are achieved.

Group Chief Executive's responsibilities

- Managing the Group's business and the effective stewardship of capital, technical and human resources including senior management succession planning
- Ensuring appropriate internal controls for risk management
- Developing and recommending corporate and business strategy for Board approval
- Maintaining direct contact with shareholders and dealing with stock market related matters
- Providing leadership to the Group's most senior executives in their management of functional activities
- Recommending to the Board major changes in the organisational structure of the Group
- Ensuring that the Group complies with all appropriate legislation
- Directing the Group's internal and external communications
- Performance of the Group in meeting its short, medium and long-term objectives.

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

Mr Whiteley

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.

Key Board matters include:

- 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.

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 2013 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 62. The Non-Executive Directors meet without the Executive Directors present to discuss the Executive Directors' performance and other matters. The Senior Independent Director (Mr Bullock until his retirement on 20th May 2014, and as nominated) 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 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 Mr 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.

The Board has delegated specific responsibilities to the four Board Committees: the Audit Committee, the Nomination Committee, the Risk Management Committee and the Remuneration Committee.

Audit Committee

Mr Watson

Monitors the integrity of the financial statements, ensures significant issues have been addressed and reviews the effectiveness of internal controls and external audit.

Nomination Committee

Mr Whiteley

Recommends Board appointments and reviews succession plans.

Risk Management Committee

Mr Anderson

Ensures that risk management is meaningful, relevant and focused on improving the business.

Remuneration Committee

Dr Rajagopal

Recommends remuneration strategy and framework to attract, retain and reward senior executives, determines annual Executive Director and senior executive remuneration and approves awards under the Performance Share Plan (PSP). The Committee also 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 2013 is set out in pages 66 to 95.

Board effectiveness

In 2012, we commissioned an independently facilitated Board effectiveness review conducted by Dr Long of Boardroom Review Limited, in accordance with the provisions of the Code. The Board effectiveness review for 2013 focused on monitoring progress with Dr Long's recommendations. As a result, the Board has actioned the following:

- Detailed strategic planning, which will continue during 2014
- Reviewed succession planning and development of senior managers
- Actively engaged in diversity through the deployment of diversity training for all UK employees and being involved in senior succession planning, including the appointment of females in the roles of President of Spirax Sarco Inc, in the USA, and Engineering Procurement and Construction Key Account Manager, Americas
- Formalised Committee feedback to the Board
- Reviewed the schedule of Board and Committee meetings across the year.

Risk Management Committee	Remuneration Committee letter of introduction	Remuneration policy report 2014	Annual report on remuneration 2013	Regulatory disclosures	Statement of Directors' responsibilities
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Governance continued

Audit Committee

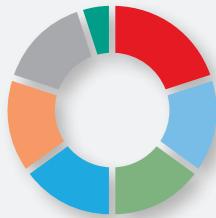
“During 2013, governance was paramount: we focused on processes to make our Annual Report and Accounts ‘fair, balanced and understandable’, considered information security risks, reviewed and resolved significant issues and tendered the statutory audit.”

Clive Watson

Chairman, Audit Committee



How the Committee spent its time during the year



Committee member	Attendance
Number of meetings	4
C.G. Watson	4
G.R. Bullock	4
K. Rajagopal	4
G.E. Schoolenberg	4

Membership and attendance



Role of the Committee

The key responsibility of the Committee is to review the effectiveness of the Group's financial reporting and controls. Accordingly the Committee is authorised by the Board to:

- Monitor and review the integrity and the audit of the Group's financial results statements
- Advise the Board on the fair, balanced and understandable status of the Annual Report and Accounts
- Oversee the Group's relationship with its external auditor including the tender process for the appointment of a new auditor and reviewing their independence
- Agree the fees and terms of appointment of the external auditor including quality and effectiveness
- Consider the principal risks and the risk register
- Review the Group's internal controls
- Consider the management letter from the external auditor on its review of the effectiveness of internal controls
- Agree the internal audit work plan and review the resulting output from that plan
- Review all significant issues including finance and tax matters
- Review the Group's information security
- Review significant financial reporting judgements
- Set the policy on non-audit work.

Review of 2013

The Committee met four times in 2013.

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, 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.

We received assurance on going concern, pension valuation and risk management.

Auditor

The effectiveness of the external auditor is vital in underpinning the Group's internal controls and the integrity of our systems.

Following revisions to the Code introduced by the Financial Reporting Council (FRC) in September 2012 and, in particular, the recommendation to put the external audit out to tender at least every 10 years, during the year the Committee approved an Invitation to Tender (ITT) document which was sent to selected firms.

The ITT followed the FRC's guidance and coincided with the end of the current auditor's five yearly cycle of partner rotation.

The service tendered was the year-end external audit. Other services, such as tax compliance and advice, were not within the scope of the ITT.

The objective of the ITT process was to benchmark service, fees and value, and to gain insight into new ideas and perspectives that would contribute to the current risk and control environment.

The selection panel comprised the Committee Chairman, the Finance Director and the Group Financial Controller, with consideration of both quantitative and qualitative measures including the:

- Strength of the audit firm's coverage and reputation
- Strength of the team
- Depth of knowledge and understanding of the business, industry and listed company requirements
- Service approach, quality and independence
- Fees and value added
- Transition plan.

Based on reports from the panel, the Committee made a recommendation to the Board that, with effect from 20th May 2014, Deloitte LLP be appointed as the external auditor, subject to shareholder approval at the AGM.

We look forward to a constructive and professional relationship with Deloitte LLP, in support of the Committee's responsibility for oversight of financial reporting.

The Committee, with the approval of the Board, has put in place policies that restrict the types and the amount of non-audit work that can be carried out by the external auditor. The Committee is provided with a report of all non-audit work carried out by the external auditor and a full breakdown of fees related to non-audit work. A summary of the fees is contained in note 6 on page 117. The policies, restrictions and reporting requirements allow the Committee to ensure that auditor objectivity and independence is maintained.

We will ensure that these policies and requirements are satisfied with respect to Deloitte LLP, following their forthcoming appointment as external auditor.

Information security

The Group does not consider that it is high risk for information theft and assesses itself as a low value opportunity for cyber-attack. To date there have been no known cyber-attacks on the Group. However, we remain alert at all times.

The Group has identified the information assets that are at risk to ensure the relevant protection is in place.

Over the past five years changes have been made to strengthen our information security including:

- Anti-virus roll-out to mitigate global virus threat
- Implementation of a global operating company network
- Penetration testing to assess the security of our network
- A single provider to manage our network
- An information security audit.

The penetration testing is aimed at ensuring our global network remains secure.

The testing is carried out by the Commercial Arm of the Government Communications Headquarters, with a full test report provided listing any vulnerabilities found and how these can be addressed. A follow-up test is subsequently carried out to ensure the vulnerabilities are fully resolved.

Our global network provider complies with industry best practice and is Government and Ministry of Defence certified.

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) The carrying value of goodwill

The Committee focused on the impairment testing by the Company of the carrying value of goodwill, including the sensitivity analysis, and agreed with the conclusion reached that no impairments were required. The Committee agreed with the conclusion that, following review, no re-allocation of goodwill was required in respect of Watson-Marlow acquisitions where the routes to market had been progressively changed from distribution to direct sales.

(ii) R&D and software costs

As set out in note 1 on page 111, the Group's intangible assets include capitalised development and software costs. The Committee focused on the judgements made by the Company as to the appropriateness of capitalisation of these assets. Particular attention was paid to the costs incurred for the implementation of a new ERP system for Watson-Marlow, which have been capitalised during the year. The Committee enquired as to the progress of the system implementation, examined the nature of the capitalised costs and agreed that capitalisation is in accordance with the accounting standards.

(iii) 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. The Committee reviewed, and is comfortable with, the forecasts and assumptions supporting utilisation of these losses.

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

We carried out a full assessment and review to ensure the new more exacting standard was satisfied.

(v) Other judgements in the financial statements

Pensions, provisions and acquisitions were addressed.

Risk Management Committee	Remuneration Committee letter of introduction	Remuneration policy report 2014	Annual report on remuneration 2013	Regulatory disclosures	Statement of Directors' responsibilities
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Governance continued

Audit Committee continued

These issues were discussed with management during 2013, and with the auditor when reviewing and agreeing the audit plan, and also at the conclusion of the audit of the financial statements.

After reviewing the presentations and reports from management and consulting with the auditor, the Committee is satisfied that the financial statements appropriately address the critical judgements and key estimates, both in respect of the amounts reported and the disclosures. The Committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust.

Review of financial statements

During 2013 the Committee considered many components of business performance in order to ensure it has a full understanding of the operations of the Group.

Examples of processes the Committee uses include:

- Determining the position adopted in key judgement areas including pensions, provisions 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.

Matters considered

In 2013, the following matters were considered by the Committee and, where applicable, by the Board or other Committees:

- Global competitive environment and emerging global markets
- Acquisitions/disposals
- Operating company reviews
- Annual forward plan
- Group product development
- Return of capital to shareholders
- Shareholder relations
- Board effectiveness
- Succession planning
- Diversity
- Share plans and similar arrangements
- Executive compensation and benefits
- Audit tender
- Information security
- Anti-bribery and corruption
- Reprioritisation of principal risks
- Issue of new sanctions, embargoes and restrictions policy
- Global insurance renewal
- Eurozone scenario planning workshop – impact of countries leaving the Eurozone
- Corporate governance and significant legal matters.

Fair, balanced and understandable report and accounts

One of the key governance requirements is for the 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.

Arriving at a position where initially the Committee and then the Board are satisfied with the overall fairness, balance and clarity of the document 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 63.

Nomination Committee

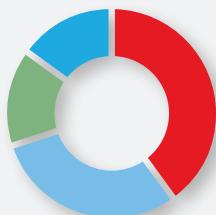
“Our main focus is on a strong and balanced Board and senior management with a range of skills, experience and diversity.”

Bill Whiteley

Chairman, Nomination Committee



How the Committee spent its time during the year



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

Role of the Committee

The primary responsibilities of the Committee are to make appropriate recommendations to the Board for the appointment, re-appointment or replacement of Directors; keep under review the structure and composition of the Board; recommend any proposed changes to the Board; and consider succession planning arrangements for Directors and, more generally, senior executives.

In recommending appointments to the Board, the Committee has regard to the overall balance of the skills, knowledge and experience of Board members against the current and perceived future requirements of the Group and to the benefits of diversity, including gender.

Review of 2013

Following the announcement of Mr Vernon's intention to retire, we recommended the appointment of Mr Anderson as Chief Operating Officer, with a view to him taking over as Group Chief Executive. This appointment was part of the Group's on-going succession planning and followed a comprehensive nomination process.

Mr Bullock advised the Board that he did not intend to seek re-election at the AGM after completing nine years as a 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 Mr Bullock stepping down, the Committee recommended to the Board that Dr Rajagopal took over as Chairman of the Remuneration Committee. Finally, the Committee is engaged in a planned succession process to appoint a new independent Non-Executive Director before the AGM.

Korn/Ferry Whitehead Mann, who do not have any other connection with the Company, assisted with the appointment of Mr Anderson and are assisting with the appointment of the new independent Non-Executive Director.

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.

The Executive Directors meet frequently to review organisational staffing requirements against career planning of high-potential leaders. The most recent review of succession planning formed part of the strategic planning meeting held in June 2013.

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 62, the diverse range and nationalities of our Board is particularly relevant given the broad international reach of the Group.

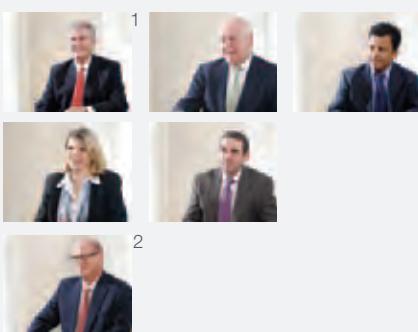
We are committed to a target of a minimum of 25% women on our Board by 2016. This is a key element of our Board succession plan and therefore we are confident that this target can be achieved. We ensure that, when vacancies arise, women candidates for Board positions are actively encouraged as part of the recruitment process. Board appointments are, in the final analysis, made on merit.

We will also encourage the progress of females in senior positions throughout the Group and, during 2013, females were appointed as President of Spirax Sarco Inc in the USA and Engineering Procurement and Construction Key Account Manager, Americas. 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 two females from our senior management team to serve as non-executive directors on other company boards.

Membership and attendance

Committee member	Attendance
Number of meetings	4
W.H. Whiteley	4
M.E. Vernon ¹	4
G.R. Bullock	3
K. Rajagopal	4
G.E. Schoolenberg	4
C.G. Watson	4



¹ Retired 15th January 2014.

² Appointed to the Committee 16th January 2014.

Governance continued

Risk Management Committee

“We seek to understand, manage and mitigate risks for the long-term success of our business.”

2

Nick Anderson
Chairman, Risk Management Committee



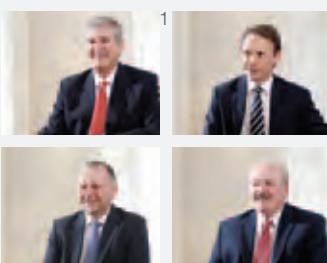
How the Committee spent its time during the year



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

Membership and attendance

Committee member	Attendance
Number of meetings	2
M.E. Vernon ¹	2
N.J. Anderson ²	2
D.J. Meredith	2
N.H. Daws	2
J.L. Whalen	2



The following executives are also members of the Committee: Group Human Resources Director, Group Business Development Director, Steam Finance Director, Divisional Director – Americas, Divisional Director – Asia Pacific and General Counsel and Company Secretary.

Role of the Committee

The Committee ensures that the Group has operating policies and procedures covering everything from financial planning and reporting, capital expenditure, project governance, sanctions and embargoes to human rights, business continuity, employee performance management and how we do business. Detailed policies and procedures are in place to ensure the accuracy and reliability of financial reporting and the preparation of consolidated financial statements. The Committee is responsible for risk management, compliance and regulation.

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, acceptance and management of risk is fundamental to the long-term success of the Group.

Our approach is encapsulated in the principles of our risk management policy:

- To understand the nature and extent of risks facing the Group
- To accept and manage within the business those risks which our employees have the skills and expertise to understand and leverage
- To assess and transfer or avoid those risks which are beyond our appetite for risk
- To establish the authority levels within the Group, by consideration of materiality, at which decisions on acceptance and mitigation of these risks are taken.

¹ Retired 15th January 2014.

² Appointed Committee Chairman 16th January 2014.

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 principal 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.

External consultants are involved in the review every three years, with the last review taking place in 2011. A review involving external consultants and our independent Non-Executive Directors, who take a strong interest in risk management, will be conducted in 2014.

At a local level, each operating company is required to undertake a formal review of the risks which impact on its business at least twice 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 2013 review are set out on pages 26 and 27.

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 for 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 page 58, 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 was rolled-out across the Group during 2013. At the end of the roll-out, over 2,800 employees will have participated. We also ensure that all relevant new appointees undertake the training. The training will be refreshed on a regular 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.

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:

- Completed the roll-out across the Group of the Anti-Bribery and Corruption Policy and "anti-bribery@work" programme and introduced a refresher programme

- Introduced an online Gifts and Hospitality Register, which allows us to control such items centrally and monitor compliance with the Anti-Bribery and Corruption Policy
- The Group-wide risk reports have been revised and a new ranking system was introduced to ensure that the risks are properly prioritised. We have made sure that our mitigation actions remain robust and implemented changes to improve mitigation of the risks where necessary
- We have reviewed the principal risks to determine whether the risks themselves have changed during 2013. Our view of the changes are set out in the principal risks table on pages 26 and 27
- The diverse range of economic, geopolitical and accidental external global events has prompted the start of a review and updating of disaster management and business continuity which we are planning to roll-out across the Group. Senior managers in the EMEA Division were involved in a Eurozone scenario planning workshop externally facilitated by PA Consulting Group that considered the impact of countries leaving the Eurozone. The objective was to improve the Group's preparedness in respect of this risk. The toolkit developed is to be deployed by other operating companies
- We have produced and issued a new Sanctions, Embargoes and Restrictions Policy and Guide to ensure compliance with UN, USA and UK laws and regulations
- We intend rolling-out a new Behavioural Based Safety programme
- We have reviewed and improved our global insurance cover with particular emphasis on lower deductibles and higher cover levels for our growing international businesses.

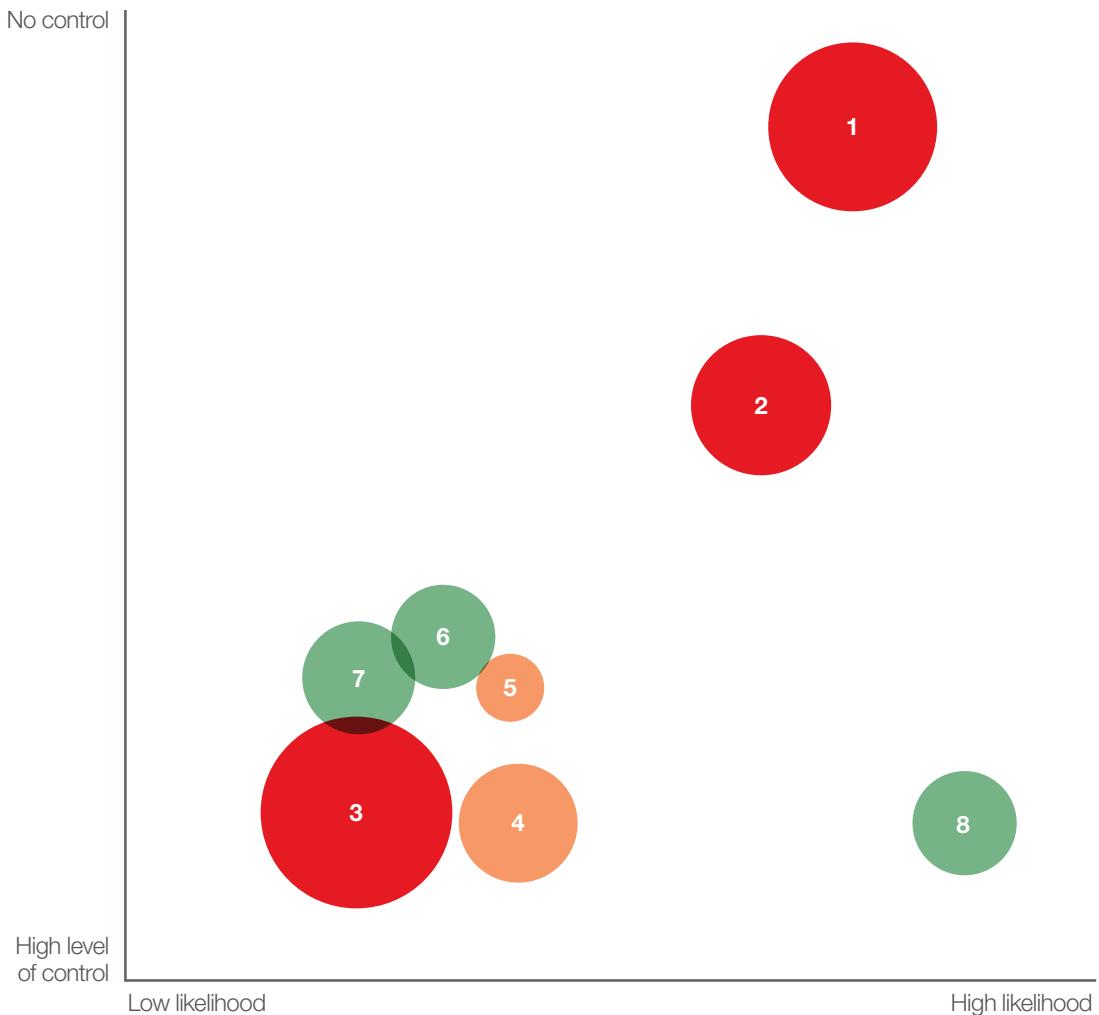
The Committee's analysis of the risks affecting the Group are shown in the "bubble" diagram overleaf. The size of the bubble shows the impact of the risk on the Group. The colour shows the priority of the risk and the position of the risk in the diagram is dictated by likelihood on the X-axis and control on the Y-axis. This analysis informed the determination of the principal risks set out on pages 26 and 27.

Risk Management Committee	Remuneration Committee letter of introduction	Remuneration policy report 2014	Annual report on remuneration 2013	Regulatory disclosures	Statement of Directors' responsibilities
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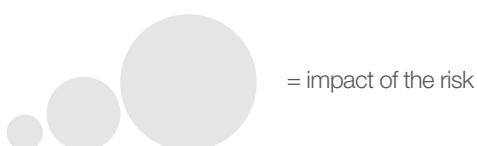
Governance *continued*

Risk Management Committee *continued*

Risk likelihood, control and impact



● = low priority
● = medium priority
● = high priority



Key risks for Spirax-Sarco Engineering plc

- 1 – Economic and political instability
- 2 – Significant exchange rate movements
- 3 – Loss of manufacturing output at any Group factory
- 4 – Breach of regulatory requirements

- 5 – Non-compliance with health, safety and environmental legislation
- 6 – Defined benefit pension deficit
- 7 – Failure to respond to technological developments or customer needs
- 8 – Failure to realise acquisition objectives

Remuneration Committee letter of introduction

"We remain committed to a remuneration policy that maintains the strong link between creating long-term shareholder value and the level of remuneration received by Executive Directors."

Krishnamurthy Rajagopal
Chairman, Remuneration Committee



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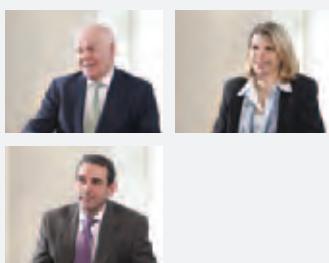
How the Committee spent its time during the year



■ Determining pay policy	20%
■ Implementing pay policy	20%
■ Directors' contracts	20%
■ Bonus target setting	10%
■ Bonus achievement	10%
■ PSP target setting	10%
■ PSP achievement	10%

Membership and attendance

Committee member	Attendance
Number of meetings	3
G.R. Bullock	3
K. Rajagopal ¹	3
G.E. Schoolenberg	3
C.G. Watson	3



¹ Appointed Committee Chairman 1st January 2014.

Dear Shareholder,

On behalf of the Board, I am pleased to present our Remuneration report for 2013. In line with the new Government (Department for Business, Innovation and Skills) reporting regulations on Directors' pay, introduced in October 2013, this report has been split into three sections:

- A statement by the Chairman of the Committee
- A policy report – that describes and explains the components of the Company's proposed remuneration policy
- An annual report on remuneration – that discloses how the current remuneration policy has been implemented during the year ended 31st December 2013.

We will seek your support for the Annual report on remuneration 2013, in the form of an advisory vote, and for the Policy report 2014, in the form of a binding vote, at the AGM on 20th May 2014. It is the Committee's intention that the proposed policy should be implemented following the AGM.

We would like to thank shareholders for their support of the 2012 Remuneration report. At the AGM on 9th May 2013, the advisory vote on the 2012 Directors' remuneration report received 96.3% of the votes in favour. 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 proposed in this report reflects the interests of shareholders and aligns Executive Director remuneration with Company strategy, while allowing the Group to attract and retain motivated and talented individuals.

Business performance

As noted in the Chairman's statement on page 4, the Company made good progress in 2013, with Group revenue up 4% and pre-tax profit up 12%, contributing to earnings per share (EPS) growth of 14% and an improvement in Return on Capital Employed (ROCE) to 44.3%. Over the three-year period ending in 2013, the Company delivered a total shareholder return (TSR) of 70.9%. An 11% increase in the total dividend for the year extends our year-on-year dividend increase record to 46 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 2013 (given as a single figure for each Director on page 83) reflects the good progress made by the Company during 2013, as well as over the last three years.

Annual bonuses are based on pre-tax profit and ROCE targets and these targets are adjusted as explained in the Annual report on remuneration 2013 on page 85. The Group profit achievement of £153.4 million was 3.8% above the plan target of £147.8 million and the ROCE achieved of 44.3% was 9.1% above the 40.6% plan target. These metrics are after adjustment in accordance with the annual bonus plan rules and therefore differ from the figures on page 1 of the Annual Report and Accounts. These achievements resulted in a 95.24% bonus award for the Group Chief Executive and Group Finance Director. Other Executive Directors' targets have an additional divisional profit element and details of their bonus targets and level of achievement can be found on pages 84 and 85.

Governance continued

Remuneration Committee letter of introduction continued

Continuing difficult macro-economic conditions have resulted in some of the demanding performance targets in the PSP not being met. Shares awarded in the PSP 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 vesting of 74.8% of the shares awarded for this measure. However, a 70.9% increase in TSR in the three years to 2013 was insufficient to trigger any award for the TSR element. The shares vesting under both elements were therefore 29.93% of the total shares awarded. (Details of bonus and PSP awards can be found on pages 85 and 86 of this report.)

Board changes in 2013

Following Mr Vernon's announcement of his intention to retire, Mr Anderson was appointed Group Chief Operating Officer from 7th August 2013 and was subsequently appointed Group Chief Executive following Mr Vernon's retirement in January 2014. In light of his new appointment, the Committee reviewed Mr Anderson's contract and remuneration package to ensure alignment with the proposed remuneration policy set out in this report. 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, aligned with the proposed policy. For more information see section 1.5 (Service agreements and termination policy) on pages 79 and 80.

Committee change in 2013

Mr Bullock stepped down as Chairman of the Committee in December 2013, but will stay on the Committee until the AGM. As the new Chairman, I would like to thank Gareth for the valuable contribution he made during his nine years on the Committee.

Our remuneration policy and links to strategy

The elements of Executive Director remuneration are described and explained in the policy table on pages 75 to 77.

The principal aims of the Committee, as it reviews and establishes remuneration policy, are outlined below:

- 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 gains or losses as all other shareholders.

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

- Strengthen our global market position through local expertise and customer insight
- Deliver solutions to reduce energy usage through applications engineering and energy audits
- Broaden our global presence through first-to-market leadership in emerging markets
- Grow market share through increased market penetration and our one-stop shop customer approach
- Generate consistent organic growth through providing increased customer value
- Operate sustainably through good corporate governance, financial health, employee well-being, community engagement and environmental stewardship.

For more details of the alignment between strategy and remuneration and the description of performance measures and relevant targets see the Policy table on pages 75 to 77.

- 4) To align Executive Director remuneration with financial and non-financial Key Performance Indicators (KPIs). For more details see the description of performance measures and relevant targets on pages 75 to 77.
- 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 responsibilities 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.

In order to further align Executive Director interests with those of shareholders, under the proposed Remuneration policy Executive Directors will be required to defer any bonus over 60% of base salary into shares until the shareholding guidelines have been met. Executive Directors are expected to accumulate, over a period of up to five years, a shareholding in the Company worth at least 100% of base salary and to maintain this level of shareholding while remaining on the Board.

The Committee believes that the current remuneration policy (implemented during 2013) and the proposed policy (to apply, if approved, following the AGM), outlined in this Remuneration report, offer a fair and competitive package for Executive Directors rewarding performance while supporting the interests of shareholders.

Changes for 2014

The current macro-economic conditions and challenges mentioned in the Chairman's statement have led the Committee to review the terms of the PSP award for next year. In particular, to increase focus on earnings growth in present economic circumstances, the proportion of the award based on EPS targets has been increased to 60% compared with 40% at present and the proportion based on TSR reduced correspondingly to 40%. In addition, the comparator group has been changed to the FTSE 350 Industrial Goods and Services Supersector reflecting the current make-up of the Company and providing a larger comparator group to reduce the effect of a few volatile performers affecting the Group's relative TSR rating either positively or negatively.

K Rajagopal

Chairman, Remuneration Committee

Compliance statement

We have prepared this Remuneration report in accordance with the relevant sections of the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

Our governance	Chairman's introduction	Board of Directors	Corporate governance report	Audit Committee	Nomination Committee
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Remuneration policy report 2014

1.1 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.	<p>Reviewed annually by the Committee, taking into account:</p> <ul style="list-style-type: none"> – Scale, scope and complexity of the role – Skills and experience of the individual – Wider workforce comparisons – Market benchmarking, within a defined external comparator group. The Committee uses this information with caution, given the limited number of direct comparators and to avoid remuneration inflation as a result of benchmarking exercises with no corresponding improvement in performance. <p>The Committee considers the impact of any base salary increase on the total remuneration package.</p>	Reviews take into account Company and individual performance.	<p>Ordinarily, salary increases will not exceed the average increase awarded to other Group employees. The maximum value of any annual increase in Executive Director salaries will be capped at country of residence inflation plus 5%.</p> <p>The Committee may award increases above this level, subject to a maximum of country of residence inflation plus 10%, in circumstances such as (i) where a new recruit or promoted Executive Director's salary has been set lower than the market level for such a role, or (ii) where there is a significant increase in the size and responsibilities of the Executive Director's role.</p>
Pension	<p>To offer market competitive levels of pension and benefit.</p> <p>To attract and retain individuals with the personal attributes, skills and experience required to deliver Group strategy.</p>	<p>For eligible Executive Directors who joined the UK Company before 2001 the Company provides a UK defined benefits pension scheme (DB scheme) or cash alternative allowance.</p> <p>For UK nationals who joined the UK Company after 2001 the Company provides a defined contribution pension arrangement (DC plan) and/or contributions to a private pension and/or a cash allowance.</p> <p>Executive Directors who have transferred internally from overseas may continue to participate in home country pension arrangements and/or receive a cash allowance.</p>	N/A	<p>For DB scheme as per actuarial value.</p> <p>For all other arrangements the total contribution to all pension arrangements will comprise no more than 25% of base salary.</p> <p>No element other than base salary is pensionable.</p>
Common benefits	<p>To provide market competitive benefits.</p> <p>To enable the Executive Directors to undertake their roles through ensuring their well-being and security.</p>	<p>The Company provides common benefits including:</p> <ul style="list-style-type: none"> – Company car and associated running costs or cash alternative allowance – Private health insurance – Telecommunications and computer equipment – Life assurance – Long-term disability insurance. 	N/A	The aggregate maximum cash value of providing all common benefits will not exceed 20% of base salary.

Governance continued

Remuneration policy report 2014 continued

Element	Purpose and link to strategy	Operation	Performance measures	Maximum potential value
Variable elements of Executive Director remuneration				
Mobility-related benefits	To ensure that Executive Directors who have relocated nationally or internationally are compensated for costs incurred.	<p>The Company will pay all reasonable expenses for the Executive Director to relocate on appointment. Costs will primarily be dependent on geographical location and family size.</p> <p>The Company will pay all reasonable expenses for repatriation of the Executive Director and his/her family to the original home country at the end of their assignment and/or employment.</p> <p>Executive Directors are personally responsible for all taxes and social charges incurred in the home and host locations as a result of their appointment. To ensure that Executive Directors who relocate internationally are able to fulfil their tax obligations in the home and host countries the Company will pay for reasonable tax advice and filing support in relation to work-related income for international Executive Directors.</p> <p>Executive Directors are reimbursed under a Tax Treaty Adjustment for any double tax they might be liable for as a result of being subject to home country and host country taxation typically for days worked in the home location.</p> <p>Executive Directors are not entitled to tax equalisation.</p>	N/A	<p>Based on individual circumstances and subject to written agreement.</p> <p>Maximum values will not exceed the normal market practice of companies of a similar size and nature at the time of relocation.</p>
Annual bonus	<p>To incentivise and reward performance against selected KPIs which are directly linked to business strategy.</p> <p>To recognise performance through variable remuneration and enable the Company to flexibly control its cost base and react to events and market circumstances.</p> <p>To ensure a significant proportion of Executive Director remuneration is directly linked to business performance.</p>	<p>Measures, targets and their relative weightings are reviewed regularly by the Committee to ensure continuing alignment with strategic objectives, and will be detailed in the relevant Annual report on remuneration. In 2012 and 2013, the target was 60% and the maximum was 100% of base salary.</p> <p>Bonus is based largely or entirely on the achievement of challenging financial performance measures, which have been selected to ensure the Company is focused on its strategic objectives.</p> <p>Bonus is delivered in cash. Executive Directors must use that part of the bonus over 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.</p> <p>Bonus is subject to clawback for up to three years following payment. Circumstances include financial misstatement, erroneous calculations determining bonus payments or gross misconduct.</p> <p>The Committee can adjust some performance targets to reflect certain non-operating items such as the amortisation of acquisition-related intangible assets and exceptional reorganisational costs, and to reflect the inclusion of Associate companies. These adjustments are mechanical rather than discretionary.</p>	<p>Subject to the Committee's judgement, performance measures and their respective targets are set at a Group or divisional level depending on the Executive Director's role.</p> <p>Any measure can be incorporated at the Committee's discretion provided it is clearly aligned to the Group's strategic objectives, subject to 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.</p> <p>The weighting of each component will be chosen specifically to reflect the Executive Director's role.</p>	<p>Threshold: 0% of salary.</p> <p>Target: 75% of salary (60% in 2014).</p> <p>Maximum: 125% of salary (100% in 2014).</p> <p>Or such lower sum as determined by the Committee.</p>

Element	Purpose and link to strategy	Operation	Performance measures	Maximum potential value
Variable elements of Executive Director remuneration				
Performance Share Plan (PSP)	<p>To incentivise and reward Executive Directors for delivery against long-term Group performance.</p> <p>To align Executive Directors' interests to those of shareholders.</p> <p>To drive sustainable Company performance.</p> <p>To retain key executive talent.</p>	<p>The Committee makes an annual conditional award of shares to each Executive Director. Annual participation is subject to Committee approval.</p> <p>Measures, targets and their relative weightings are reviewed regularly by the Committee to ensure continuing alignment with strategic objectives, and will be detailed in the relevant Annual report on remuneration.</p> <p>Performance is measured over a three-year period, starting at the beginning of the financial year in which awards are granted.</p> <p>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.</p> <p>Dividends are not payable on PSP awards prior to vesting.</p>	<p>Vesting is currently based on two performance measures, which have been chosen as they are clearly aligned with our strategic objectives:</p> <ul style="list-style-type: none"> – TSR – EPS growth <p>The Committee will review performance to ensure outcomes under the PSP are fair and reasonable.</p>	<p>Normal circumstances: 100% of salary.</p> <p>Exceptional circumstances: up to 150% of salary.</p>
Employee Share Ownership Plan (ESOP)	<p>To offer all eligible UK-based employees the opportunity to build a shareholding in a tax-efficient way.</p> <p>To align Executive Director interests to those of shareholders.</p>	<p>Eligible UK Executive Directors are entitled to participate in an HMRC approved Share Incentive Plan known as the ESOP.</p> <p>Whilst not currently operated, if in the future employee share plans are offered outside the UK, eligible Executive Directors will be entitled to participate on the same basis as all other eligible employees.</p> <p>Awards granted under the ESOP are not subject to clawback.</p> <p>The ESOP operates over a five year period.</p>	N/A	<p>Maximum annual investment subject to HMRC limits or such lower sum as determined by the Board.</p> <p>Potential 1:1 matching share award from the Company and dividend shares (can be reinvested).</p> <p>If the ESOP (or an approved sub-plan) is offered outside the UK, Executive Directors will be subject to the same limitations as all other participants.</p>
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.	<p>The Chairman is paid a single fee for all responsibilities.</p> <p>The Non-Executive Directors are paid a basic fee. The Chairmen of the main Board Committees and the Senior Independent Director are paid an additional fee to reflect their extra responsibilities.</p> <p>Fees for the Chairman and the Non-Executive Directors are reviewed annually by the Board, with reference to any change in the time commitment required, UK market levels and the average base salary increase across the wider workforce.</p> <p>The Chairman and the Non-Executive Directors do not participate in any annual bonus or incentive plans, pension schemes, healthcare arrangements, the Company's PSP or ESOP.</p> <p>The Company repays the reasonable expenses that the Chairman and the Non-Executive Directors incur in carrying out their duties as Directors.</p>	N/A	The aggregate value of fees paid to the Chairman and Non-Executive Directors will not exceed £750,000 as set out in the Articles of Association.

Risk Management Committee	Remuneration Committee letter of introduction	Remuneration policy report 2014	Annual report on remuneration 2013	Regulatory disclosures	Statement of Directors' responsibilities
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Governance *continued*

Remuneration policy report 2014 continued

1.2 Notes to the policy table

1.2 (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.

1.2 (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.

1.2 (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.

1.3 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.

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

1.4 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.

1.5 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	<p>No payment if Executive Director commits a repudiatory breach of the service agreement or for gross misconduct or in certain circumstances</p> <p>No additional termination payment if notice worked</p> <p>If notice only part worked/part on garden leave, payment in respect of unexpired period of notice</p> <p>Otherwise 12 months' base salary only</p> <p>Company discretion to pay in lieu of notice in lump sum or monthly except within 12 months of a change of control, when a lump sum will be paid</p> <p>If paid monthly, payment will be reduced by the value of any salary, fees and benefits, excluding long-term incentives, earned in new paid employment in that period</p> <p>No automatic entitlement to payments under the annual bonus or PSP. See page 80</p> <p>Garden leave clause</p> <p>Robust post-termination restrictions on confidentiality, non-compete, non-solicitation and non-interference with customers or suppliers</p> <p>Service agreements may be terminated without notice and without payment of compensation on the occurrence of certain events, such as gross misconduct or financial misstatement</p>
Clawback	<p>Bonus payments and PSP awards are subject to clawback for up to three years following award</p> <p>Circumstances include financial misstatement, erroneous calculations determining bonus payments or gross misconduct</p>

Executive Directors' legacy agreements

Within the legacy agreements of Executive Directors, termination of agreements is subject to a 12 month notice period. Where payment is made in lieu of notice on termination, the payment of a sum in respect of lost future bonus opportunity (based on an average of the preceding three years' bonus payments) is subject to the Committee's discretion, 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.

Governance continued

Remuneration policy report 2014 continued

While the Executive Directors' service agreements include a provision to deal with termination on a change of control, in the event of an offer being made, shareholders have discretion to accept the offer or not. The decision to recommend acceptance, or not, is a matter for the Board and the Committee is of the clear view that the change of control provision within the Executive Directors' service agreements would have no influence on the voting pattern of those Executive Directors. Executive Directors' legacy agreements are summarised in the table below.

Notice Period	12 months by the Executive Director and 12 months by the Company
Termination	<p>No payment if Executive Director commits a repudiatory breach of the service agreement or for gross misconduct or in certain circumstances</p> <p>No additional termination payment if notice worked</p> <p>If notice only part worked/part on garden leave, payment in respect of unexpired period of notice</p> <p>Otherwise 12 months' base salary, the value of other benefits, plus the cost of pension credits or contributions for the period plus the average of the prior three years' annual bonus payments, with Committee discretion to reduce the amount of the bonus that would otherwise be calculated, to reflect performance on the part of the Executive Director that is considered by the Committee to be below the required standards, provided that termination by the Company does not occur within 12 months of a change of control</p> <p>Committee discretion to pay in lump sum or monthly except within 12 months of a change of control when a lump sum will be paid</p> <p>If paid monthly, payment will be reduced by the value of any salary, fees and benefits excluding long-term incentives, earned in new paid employment in that period</p> <p>No automatic entitlement to payments under the current annual bonus or PSP. See below</p> <p>Garden leave clause</p> <p>Robust post-termination restrictions on confidentiality, non-compete, non-solicitation and non-interference with customers or suppliers</p>
Clawback	<p>Bonus payments and PSP awards are subject to clawback for up to three years following award</p> <p>Circumstances include financial misstatement, erroneous calculations determining bonus payments or gross misconduct</p>

Treatment of leavers under the incentive plans

Whilst it is not an entitlement, it is expected that where an Executive Director is a "good leaver" (i.e. 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.

1.6 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.

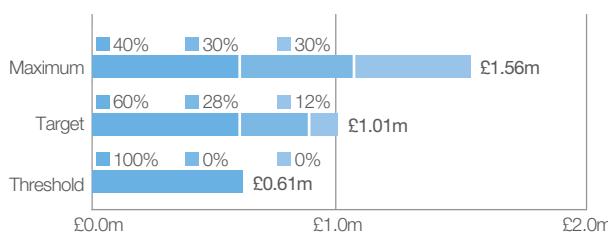
The scenarios, informed by the current application of our pay policy, are defined as follows:

Element	Percentage of Base Salary		
	Below threshold	On target	Maximum
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	
Annual bonus (% of salary)	0%	60%	100%
PSP ¹ (% of salary at award)	0%	25%	100%

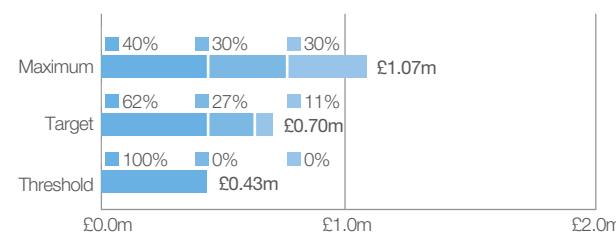
¹ A level of 25% vesting for "on target" performance is equivalent to threshold performance under the PSP, which the Committee believes to be a fair assumption for on target performance given the approach taken to setting performance targets.

Total remuneration by performance scenario

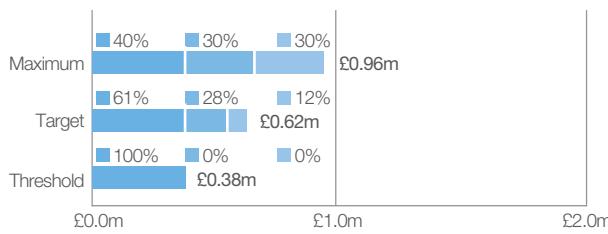
Mr Anderson (Group Chief Executive)



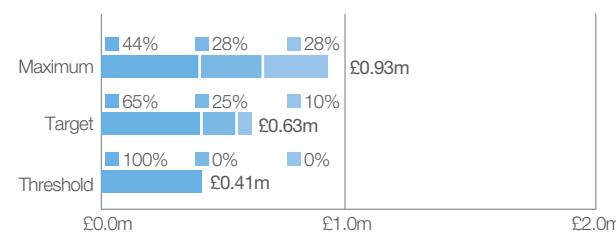
Mr Meredith (Finance Director)



Mr Daws (Executive Director EMEA)



Mr Whalen (Executive Director WMPG)



■ Fixed ■ Annual bonus ■ PSP

Governance *continued*

Remuneration policy report 2014 *continued*

1.7 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.

1.8 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 Mr 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.

Annual report on remuneration 2013

This section sets out the Directors' remuneration for the financial year ended 31st December 2013.

The following information has been audited by KPMG Audit Plc:

- single total figure of remuneration
- pension
- scheme interests awarded between 1st January 2013 and 31st December 2013
- payments to past Directors
- loss of office payments
- Directors' shareholdings.

2.1 Single total figure of remuneration (audited)

	Salary/Fees		Benefits		Annual Bonus		PSP/Options ¹		Pension		ESOP ²		Total	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Executive Directors														
M.E. Vernon	£490,000	£500,000	£44,002	£236,863	£155,280	£476,200	£577,742	£229,806	£135,644	£150,281	N/A	N/A	£1,402,668	£1,593,150
N.J. Anderson ³	£206,829	£287,669	£9,950	£12,815	£61,573	£273,947	N/A	£77,846	£51,707	£71,917	N/A	£2,050	£330,059	£726,244
D.J. Meredith	£298,000	£307,000	£18,981	£19,519	£94,436	£292,387	£359,055	£140,332	£103,480	£96,340	£1,630	£2,079	£875,582	£857,657
N.H. Daws	£274,000	£280,000	£17,298	£17,627	£76,939	£259,075	£315,060	£122,247	£240,360	£70,000	£1,630	£2,079	£925,287	£751,028
J.L. Whalen ^{3,4}	£195,580	£250,955	£20,813	£25,909	£70,780	£198,054	£51,580	£81,971	£48,835	£105,261	N/A	N/A	£387,588	£662,150
Non-Executive Directors														
W.H. Whiteley	£140,000	£143,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	£140,000	£143,000
G.R. Bullock	£54,000	£55,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	£54,000	£55,000
K. Rajagopal	£43,500	£44,500	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	£43,500	£44,500
G.E. Schoolenberg ³	£18,125	£44,500	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	£18,125	£44,500
C.G. Watson	£52,000	£53,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	£52,000	£53,000

¹ All Executive Directors received PSP awards with the exception of Mr Whalen who received share options.

² Matching shares awarded during year.

³ 2012 remuneration calculated from date of appointment to the Board.

⁴ Mr Whalen is paid in US dollars. All elements of his remuneration are shown in £ sterling as this is the presentation currency of the Annual Report and Accounts.

Salary/Fees

The following table sets out the 2013 base salary increase for each of the Executive Directors compared to 2012.

Executive Directors	2013	2012	Increase
M.E. Vernon	£500,000	£490,000	2.0%
N.J. Anderson (from 1st January to 6th August 2013)	£266,000	£260,000	2.3%
N.J. Anderson (from 7th August to 31st December 2013)	£320,000	–	–
D.J. Meredith	£307,000	£298,000	3.0%
N.H. Daws	£280,000	£274,000	2.2%
J.L. Whalen	£250,955	£245,860	2.0%

The increases for the Executive Directors were similar to the average increase for UK employees for 2013 and also took into account market positioning, Company and individual performance and returns to shareholders over the period.

Mr Anderson's salary increased on 7th August 2013 following his appointment as Chief Operating Officer.

The following table sets out the 2013 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	£143,000	£0	£143,000
G.R. Bullock ¹	£44,500	£10,500	£55,000
K. Rajagopal	£44,500	£0	£44,500
G.E. Schoolenberg	£44,500	£0	£44,500
C.G. Watson ²	£44,500	£8,500	£53,000

¹ Mr Bullock received £2,000 in respect of his duties as Senior Independent Director and £8,500 in respect of his role as Chairman of the Remuneration Committee.

² Mr Watson received £8,500 in respect of his role as Chairman of the Audit Committee.

Governance *continued*

Annual report on remuneration 2013 *continued*

Benefits (excluding pension)

	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	£22,632	£12,409	£18,432	£16,776	£15,929
Private health insurance	£406	£406	£406	£406	£9,980
Telecommunications and computer equipment	£713	£0	£681	£445	£0
Mobility related benefits:					
– Tax Treaty Adjustment payment (not tax equalisation, see page 76)	£24,433	N/A	N/A	N/A	N/A
– Repatriation (one-off payment) ¹	£188,679	N/A	N/A	N/A	N/A
– Tax advice ²	£8,200	N/A	N/A	N/A	£14,050
Life assurance ²	£855	£490	£507	£525	£428
Long-term disability insurance ²	£7,185	£1,110	£1,185	£1,081	£965

¹ Contractual repatriation payment of £100,000 grossed up for tax.

² Not taxable therefore not included in Single total figure of remuneration.

Pension

Full details of the pension benefits are set out at section 2.2 on pages 87 and 88.

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 2013.

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 (see below).

Group roles

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

Divisional roles – Steam specialties

Group operating profit (35%) + Group ROCE (35%) + Divisional operating profit (30%)

Divisional role – Watson-Marlow

Group operating profit (15%) + Group ROCE (35%) + Divisional operating profit (50%)

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 reflect the inclusion of our Associate company 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 Director's bonus awards were subject to:

Executive Directors	2013 Measures
M.E. Vernon N.J. Anderson (from 7th August to 31st December 2013) D.J. Meredith	Group operating profit (65%) Group ROCE (35%)
N.J. Anderson (from 1st January to 6th August 2013) N.H. Daws	Group operating profit (35%) Group ROCE (35%) Divisional operating profit (30%)
J.L. Whalen	Group operating profit (15%) Group ROCE (35%) Divisional operating profit (50%)

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

2013 was a good year for the Group which delivered earnings growth, maintained a strong operating profit margin and increased dividends to shareholders. The annual bonus payments to Executive Directors ranged between 78.92% and 95.24% 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 2013 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 2013

	Actual performance ¹	Below target	Target	Above target	Maximum
Group operating profit	£153.4m			✓	
Group ROCE	44.3%			✓	
Asia Pacific and Supply operating profit	£61.5m			✓	
EMEA operating profit	£45.8m			✓	
Watson-Marlow operating profit	£41.6m			✓	

¹ To comply with the annual bonus plan rules these metrics use the actual adjusted operating profit of £151,626,000 and include the profit of our Associate company in India of £1,891,000 less a charge of £145,000 in respect of the impairment of acquisition-related intangible assets on disposal of the HVAC business of Eirdata.

As a result of this performance in 2013, the following bonuses were achieved:

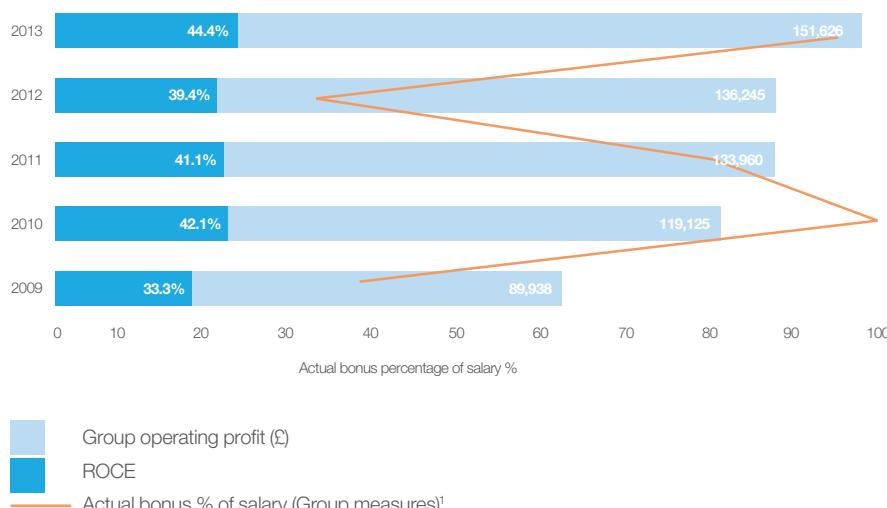
	Bonus achieved	Bonus (% of salary)
M.E. Vernon	£476,200	95.24%
N.J. Anderson ¹	£273,947	95.23%
D.J. Meredith	£292,387	95.24%
N.H. Daws ²	£259,075	91.14%
J.L. Whalen	£198,054	78.92%

¹ Mr Anderson received £151,202 in respect of the period from 1st January to 31st July 2013 and £122,745 in respect of the period from 1st August to 31st December 2013 (following his appointment as Chief Operating Officer).

² Mr Daws received £170,203 in respect of the period from 1st January 2013 to 31st August 2013 as Director Asia Pacific and Supply, and £88,872 in respect of the period from 1st September 2013 to 31st December 2013 as Director EMEA.

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 84 and 85.

In accordance with the share ownership guidelines, Mr Anderson and Mr Whalen will use that part of their 2013 annual bonus over 60% of base salary (net of tax) to buy shares within 12 months of receipt of bonus.

Governance continued

Annual report on remuneration 2013 continued

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.

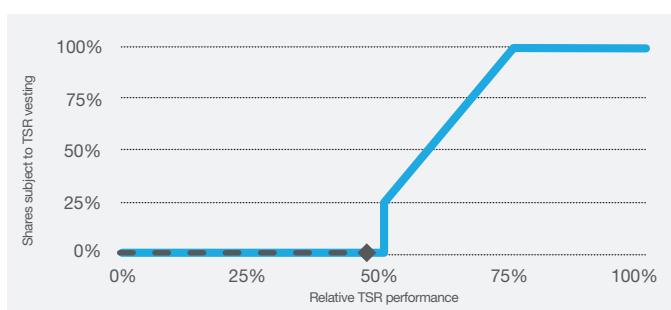
Clawback provisions apply for PSP awards made from 2012 onwards.

PSP Awards vesting over 2011 – 2013

In 2011 the Executive Directors, excluding Mr Whalen, 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 2011 to 31st December 2013.

Relative TSR performance (60% of PSP award)

Over the three-year period to 31st December 2013, the Company delivered a TSR of 70.9%. This fell below the median of the comparator group.



	Performance	Payout
Threshold	Median	25%
Maximum	Upper Quartile	100%
Actual	46.7%	0.0%

The comparator group for the purpose of measuring relative TSR performance comprises 24 similar companies, namely BAE Systems, Bodycote, Chemring Group, Cobham, Domino Printing Sciences, Fenner, Halma, IMI, Laird, Meggitt, Melrose Industries, Morgan Advanced Material, QinetiQ Group, Renishaw, Rexam, Rolls-Royce Holdings, Rotork, Senior, Smith (DS), Smiths Group, Spectris, Ultra Electronics Hdg, Vesuvius and Weir Group. Charter International were removed following their acquisition by Colfax Corporation in January 2012.

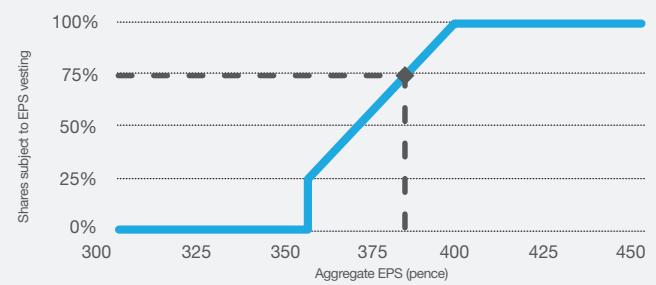
In respect of the 2011 PSP awards, actual performance for the combined relative TSR and aggregate EPS resulted in 29.93% of shares vesting.

	Award	Vested	Lapsed	Value on vesting ¹
M.E. Vernon	25,093	7,510	17,583	£229,806
N.J. Anderson	8,500	2,544	5,956	£77,846
D.J. Meredith	15,323	4,586	10,737	£140,332
N.H. Daws	13,347	3,995	9,352	£122,247
J.L. Whalen	N/A	N/A	N/A	N/A

¹ Based on share price on date of vesting (3060.0p).

Aggregate EPS performance (40% of PSP award)

Over the three-year period to 31st December 2013, the Company delivered aggregate adjusted EPS of 382.0p. Adjusted EPS was 103.2p in 2010 (restated for IAS 19R) and so this equated to growth of approximately 10.9% per annum over the three years.



	Performance	Payout
Threshold	354.1p	25%
Maximum	396.1p	100%
Actual	382.0p	74.8%

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.

Spirax-Sarco Engineering plc Share Option Schemes

In 2010, Mr 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 2010 to 31st December 2012. The auditor confirmed the performance measure had been met and the 7,500 share options became exercisable on 26th March 2013. The value of the share options on that date was £202,050, based on a share price of 2694.0p.

In respect of the 2011 grant, if the performance measure is met, the options will become exercisable on 18th March 2014.

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

Executive Directors (excluding Mr Vernon and Mr Whalen who are USA citizens) 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.

2.2 Pension (audited)

Directors' pensions

Mr Vernon and Mr 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 Mr Vernon's and Mr Whalen's final average salary is higher than the salary ceiling as at 31st December 2013.

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

	Age attained at 31.12.13	Accrued pension at 31.12.12	Accrued pension at 31.12.13	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	60	£18,791	£20,796	£2,005	£1,782	£35,640
J.L. Whalen	57	£41,816	£43,851	£2,035	£1,540	£30,800

¹ Net of inflation at a rate of 1.2% 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 Mr Vernon and Mr 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, Mr Vernon benefited from an amount in lieu of contributions to a UK DC plan. The total amount made by the Group was £114,641. Mr Whalen benefited from Company contributions to a USA defined contribution pension plan and to a 401k plan. The total amount made by the Group was £74,461. This amount exceeded the 25% of base salary cap in 2013 due to an adjustment for underpayment in 2012.

Mr Meredith is a member of an HMRC registered, contributory DB 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. Mr 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.

Governance continued

Annual report on remuneration 2013 continued

Details of Mr Meredith's pension are as follows:

	Age attained at 31.12.13	Accrued pension at 31.12.12	Accrued pension at 31.12.13	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	54	£140,434	£149,003	£8,569	£4,817	£96,340

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 Mr Meredith paid zero contributions into the DB 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 Mr 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 Mr Meredith's pension is guaranteed to be paid for five years from retirement.
- Early retirement rights: Mr Meredith may retire on an actuarially reduced pension on early retirement with the Company's consent, provided he has attained age 55. 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 Mr Meredith's pension benefits.

Mr Daws became a deferred member of an HMRC registered, contributory DB 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 DB scheme. In lieu of pension benefits, Mr Daws now receives 25% of his basic salary which in the year to 31st December 2013 amounted to £70,000.

Mr Anderson receives 25% of his basic salary in lieu of pension benefits which in the year to 31st December 2013 amounted to £71,917.

2.3 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 (2615.0p). Awards were made on 8th March 2013. Details of the performance conditions and associated levels of vesting are set out on page 89.

Executive Director	PSP award	Face value (£)	Last day of the performance period	Vesting at threshold performance
M.E. Vernon	19,120 shares	£499,988	15.01.14	25%
N.J. Anderson	10,172 shares	£265,998	31.12.15	25%
D.J. Meredith	11,740 shares	£307,001	31.12.15	25%
N.H. Daws	10,707 shares	£279,988	31.12.15	25%
J.L. Whalen	9,560 shares	£249,994	31.12.15	25%

In respect of the PSP awards made to Executive Directors in 2013, vesting is dependent on the following TSR and EPS performance measures.

Relative TSR performance (60% of PSP award)

	Performance	Payout
Threshold	Median	25%
Maximum	Upper quartile	100%

The comparator group for the purpose of measuring relative TSR performance comprises 26 similar companies based on the same selection criteria as previous awards. Since 2011 Laird has been removed and Dialight, Oxford Instruments and RPC Group have been added.

Aggregate EPS performance (40% 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)

Mr Meredith, Mr Daws and Mr Anderson are participants in the HMRC approved ESOP. During the year ended 31st December 2013 Mr Meredith and Mr Daws each purchased 72 partnership shares and were each awarded 72 matching shares and 86 dividend shares; Mr Anderson purchased 71 partnership shares and was awarded 71 matching shares.

2.4 Payments to past Directors (audited)

There have been no payments to former Directors during the year ended 31st December 2013.

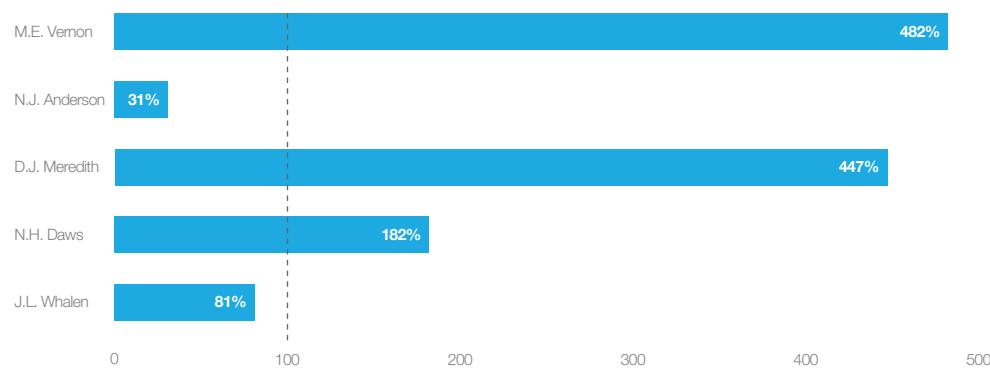
2.5 Payments for loss of office (audited)

During the year ended 31st December 2013 there have been no payments made to Directors for loss of office.

2.6 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 2013 as a percentage of 2013 base salary.



Governance continued

Annual report on remuneration 2013 continued

Outstanding share interests

The following table summarises the total interests of the Directors in shares of the Company as at 31st December 2013. These cover beneficial and conditional interests. No Director had any dealing in the shares of the Company between 31st December 2013 and 5th March 2014.

	Beneficial ¹	PSP awards ²	Share Option Schemes ³	ESOP shares ⁴	Total 31.12.13	Total 05.03.14 ⁵ (or date of retirement if earlier ⁶)
W.H. Whiteley	11,443	N/A	N/A	N/A	11,443	11,443
M.E. Vernon	80,549	67,242	N/A	N/A	147,791	147,791
N.J. Anderson	3,018	30,305	N/A	142	33,465	27,509
D.J. Meredith	45,882	41,118	N/A	5,748	92,748	82,011
N.H. Daws	17,003	37,112	N/A	1,616	55,731	46,379
J.L. Whalen	6,777	15,543	7,500 ⁷	N/A	29,820	29,820
G.R. Bullock	1,203	N/A	N/A	N/A	1,203	1,203
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 91.

³ Subject to the performance measures as set out below.

⁴ Not subject to performance measures.

⁵ The reduction in shareholding at 5th March 2014 for Mr Anderson, Mr Meredith and Mr Daws is as a result of 29.93% of the 2011 PSP award vesting and the balance of the award therefore lapsing. Full details are set out on page 86.

⁶ Mr Vernon retired on 15th January 2014.

⁷ Options over 7,500 shares will become exercisable subject to satisfaction of the performance measure set out below.

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

Only Mr Whalen has interests under the Option Schemes, summarised below.

No options were granted to Executive Directors during the financial year ended 31st December 2013 and no options held by Executive Directors lapsed during the year. The options held by Mr Whalen were granted before his appointment to the Board. The performance measure requires 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.

If the performance measure is not met at the end of the three year performance period, the option will lapse. The auditor will confirm whether the performance measure has 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 2013 was 2990.0p. During the period from 1st January 2013 to 31st December 2013 the mid-market share price ranged between 2240.0p and 3090.0p.

	Balance 01.01.13	Granted	Exercised	Lapsed	Balance 31.12.13	Option price (p)	2013 gain arising on exercise (£)	Date from which first exercisable	Expiry date
J.L. Whalen	7,500	0	7,500	0	0	1369.0	120,450	26.03.13	26.03.20
	7,500	0	0	0	7,500	1873.0	–	18.03.14	18.03.21
Total	15,000	0	7,500	0	7,500		120,450		

Spirax-Sarco Performance Share Plan (PSP)

The interests of Executive Directors in the PSP are set out below.

	Date of award				Balance 01.01.13	Vested 05.03.13 ¹	Lapsed 05.03.13 ¹	Awarded 08.03.13 ^{5,6}	Balance 31.12.13
	26.03.10 ¹	18.03.11 ²	01.09.11 ³	9.03.12 ⁴					
M.E. Vernon	31,332	25,093	–	23,029	79,454	23,362	7,970	19,120	67,242
N.J. Anderson	–	–	8,500	11,633	20,133	–	–	10,172	30,305
D.J. Meredith	19,472	15,323	–	14,055	48,850	14,519	4,953	11,740	41,118
N.H. Daws	17,086	13,347	–	13,058	43,491	12,740	4,346	10,707	37,112
J.L. Whalen	–	–	–	5,983	5,983	–	–	9,560	15,543

Further details of the PSP awards which vested in the year ended 31st December 2013 are set out below:

¹ The mid-market price of the shares on 26th March 2010 was 1390.0p. 74.6% of the PSP awards vested on 5th March 2013 as the performance measures applicable to those PSP awards were partly met. During the performance period 1st January 2010 to 31st December 2012, the EPS performance of the Company was above the maximum target and the TSR performance ranked the Company at the 61st percentile resulting in 58% of this element of the PSP award vesting. The PSP awards vested in the form of nil cost options and the mid-market price of the shares on 5th March 2013 was 2473.0p.

	Balance 05.03.13	Exercised	Balance 31.12.13	2013 gain arising on exercise (£)	Date from which first exercisable	Expiry date
M.E. Vernon	23,362	23,362	0	609,461	05.03.13	15.01.14
D.J. Meredith	14,519	14,519	0	416,022	05.03.13	05.03.20
N.H. Daws	12,740	0	12,740	–	05.03.13	05.03.20

² The mid-market price of the shares on 18th March 2011 was 1860.3p. The period over which performance measures are measured is 1st January 2011 to 31st December 2013. Details of the performance measures attached to these PSP awards are set out on page 86 of this report.

³ The mid-market price of the shares on 1st September 2011 was 1845.0p. The period over which performance measures are measured is 1st January 2011 to 31st December 2013. Details of the performance measures attached to the PSP award granted to Mr Anderson are set out in note 2 above.

⁴ The mid-market price of the shares on 9th March 2012 was 2106.0p. The period over which performance measures are measured is 1st January 2012 to 31st December 2014. 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.

⁵ The mid-market price of the shares on 8th March 2013 was 2615.0p. This was applied in determining the number of shares subject to the PSP awards granted on 8th March 2013. The period over which performance measures are measured is 1st January 2013 to 31st December 2015. Details of the performance measures attached to these PSP awards are set out on pages 88 and 89 of this report.

⁶ The 2011 and 2013 TSR comparator groups are set out on pages 86 and 89 of this report. The peer group for 2012 is the same as 2013, apart from Dialight (included from 2013) and Charter. Charter have since been removed from the group following their acquisition by Colfax Corporation in January 2012.

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

The interests of eligible Executive Directors are set out below.

	Balance 01.01.13	Balance 03.06.13 (after share consolidation)	Partnership shares purchased ¹	Matching shares awarded ¹	Dividend shares awarded ²	Shares sold	Balance 31.12.13	Period of qualifying conditions ³
N.J. Anderson	0	0	71	71	0	0	142	3 years
D.J. Meredith ²	5,731	5,518	72	72	86	0	5,748	3 years
N.H. Daws ²	5,731	5,518	72	72	86	4,132	1,616	3 years

¹ Partnership shares were purchased, at a price of 2100.333p, and matching shares were awarded on 8th October 2013. The mid-market price of the shares on that date was 2887.0p.

² 51 dividend shares were awarded on 17th May 2013, on which date the mid-market price of the shares was 2801.0p. 35 dividend shares were awarded on 8th November 2013, on which date the mid-market price of the shares was 2914.0p. No dividend shares were awarded on 3rd July 2013.

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 2013.

Governance continued

Annual report on remuneration 2013 continued

2.7 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 Directors' service agreements

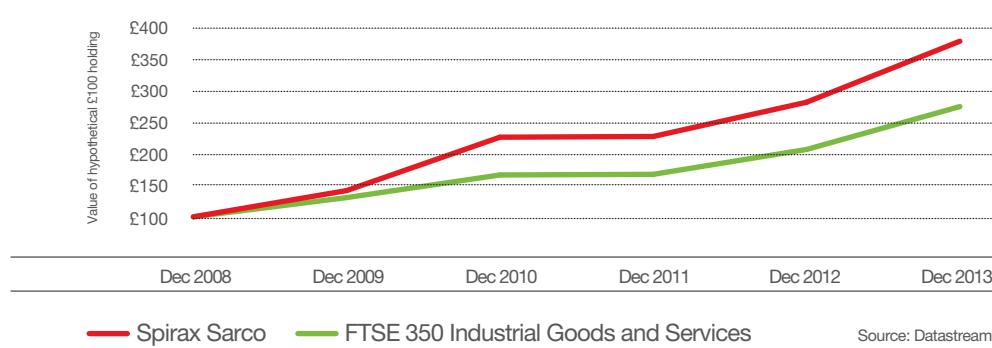
Executive Directors	Original appointment date	Current agreement	Expiry date	Notice period
M.E. Vernon ¹	01.07.06	09.05.12	15.01.14	12 months
N.J. Anderson	15.03.12	13.12.13	16.01.26	12 months
D.J. Meredith	19.06.92	17.08.12	18.08.24	12 months
N.H. Daws	01.06.03	25.09.12	01.07.27	12 months
J.L. Whalen	15.03.12	17.04.12	28.05.21	12 months

¹ Mr Vernon retired on 15th January 2014.

Non-Executive Directors' letters of appointment

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
G.R. Bullock	02.05.05	15.05.12	20.05.14	1 month
K. Rajagopal	10.02.09	15.12.11	09.02.15	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

2.8 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 five 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
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%

2.9 Percentage change in remuneration of the Group Chief Executive

The following table provides a summary of the 2013 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.

		2013 increase	2012 increase
Salary	Group Chief Executive	2.0%	4.3%
	General employee population	2.1%	2.7%
Benefits	Group Chief Executive ^{1,2}	9.5%	92.5%
	General employee population	2.1%	2.7%
Bonus	Group Chief Executive	207.7%	-59.0%
	General employee population	243.0%	23.0%

¹ Excludes one-off repatriation payment made in 2013

² 2012 includes Tax Treaty Adjustment payment of £20,976 not made in 2011

2.10 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.

	2013	2012	Change
Total pay spend	£232m	£228m	2.0%
Headcount	4,782	4,706	1.6%
Profit before tax	£124m	£128m	17.4%
Dividends payable	£44m	£41m	7.5%
Special dividend payable	N/A	£78m	N/A

2.11 Statement of implementation of remuneration policy in 2014

Base salaries effective January 2014

An average 3.1% increase for all Executive Directors in 2014, with the exception of Mr Anderson, whose salary increased by 48.4% following his appointment as Group Chief Executive, and Mr Vernon whose salary did not increase due to his retirement on 15th January 2014.

Base salaries:

- M.E. Vernon: £500,000 (0.0%)
- N.J. Anderson: £475,000 (48.4%)
- D.J. Meredith: £317,000 (3.3%)
- N.H. Daws: £288,000 (2.9%)
- J.L. Whalen: £258,599 (3.0%)

With the exception of Mr Anderson, this is similar to the average increase for the broader UK employee population of some 3.0% and takes into consideration the other factors noted.

Governance *continued*

Annual report on remuneration 2013 *continued*

Fees effective January 2014:

The Chairman's fee has been increased by 4.9% and the Non-Executive Directors' base fee by 3.4% in 2014.

Base fees:

- Chairman: £150,000
- Non-Executive Directors' base fee: £46,000

Additional fees:

- Senior Independent Director: £2,000
- Audit/Remuneration Committee Chairmen: £8,500

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 2014 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 2014.

Spirax-Sarco Performance Share Plan (PSP)

The weighting of the TSR and EPS performance measures will be changed to 40% : 60% for 2014, to place greater emphasis on delivering strong EPS performance in the context of the current economic environment. The Committee also agreed to change the comparator group for the 2014 PSP award in respect of the TSR element to the full FTSE 350 Industrial Goods and Services Supersector to reduce volatility over the long-term. This provides the Group with a more credible tool with which to motivate and incentivise senior management, while still clearly aligning Executive Directors' remuneration to shareholder interests. Based on standard statistical modelling, this change has a non-cash cost impact of £143,000 over three years in respect of the Executive Directors' 2014 award.

Pensions

No change.

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

If enacted, the Finance Act 2014 will increase the maximum permitted annual investment into partnership shares to £1,800 (with a corresponding increase in the number of matching shares that may be awarded).

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

Operation of the Remuneration Committee in 2013

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 2013, the Committee was chaired by Mr Bullock, and the members comprised Dr Rajagopal, Dr Schoolenberg and Mr Watson, all of whom are independent Non-Executive Directors.

In 2013 the Committee met three times and all members attended each meeting.

Advisers to the Committee

During 2013 the Committee sought advice and information from Mr Whiteley, the Chairman, Mr Vernon, the Group Chief Executive and Mr 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 new Directors' remuneration report, the impact of the special dividend on outstanding share awards and attendance at Committee meetings. Towers Watson's fees in respect of these services totalled £52,000 in 2013. 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.

Herbert Smith Freehills LLP is appointed by the Company to provide advice to the Company (which is available to the Committee) in relation to Executive Directors' service agreements and share plans. Legal fees relate to advice provided to the Company and not the Committee, and are charged on a time-cost basis. Herbert Smith Freehills LLP also provides general legal advice to the Company.

Our governance	Chairman's introduction	Board of Directors	Corporate governance report	Audit Committee	Nomination Committee
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2.13 Statement of voting at general meeting

At the AGM in 2013, shareholders approved the Remuneration report for the year ended 31st December 2012. The table below shows the result in respect of the resolution, which required a simple majority (i.e. 50%) of the votes to be cast to be in favour in order for the resolution to be passed.

Votes for	%	Votes against	%	Votes withheld
58,666,351	96.3%	2,237,992	3.7%	16,186

Approval

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

K Rajagopal

Chairman, Remuneration Committee
5th March 2014

Risk Management Committee	Remuneration Committee letter of introduction	Remuneration policy report 2014	Annual report on remuneration 2013	Regulatory disclosures	Statement of Directors' responsibilities
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Governance continued

Regulatory disclosures

“Complying with laws and regulations in the countries in which we operate is at the heart of our values. Good legal practice sustains 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, tightly focused on its two niche businesses of steam system specialties and peristaltic pumps. An overview of our principal activities, by business, is given on page 5 of the Strategic report.

Future development

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

Review of the business

On pages 24, 25 and 44 to 47 you will find a review of the development and performance of the Group during the year including details of its financial performance and key performance indicators. A description of risk management and the principal risks facing the business is on pages 26 and 27.

Constructive use of AGM and 2014 AGM

Shareholders are encouraged to attend our AGM and those who are unable to attend are encouraged to vote using the proxy card mailed to them.

In 2013, 51.3% of the proxy votes received were lodged electronically through the CREST system.

The Chairman and other Board members answer questions raised by shareholders on a resolution by resolution basis. Shareholders are then invited to vote on the resolutions on the same basis 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, shareholders are invited to view our Steam Technology Centre.

The Notice of Meeting convening the AGM, to be held on Tuesday, 20th May 2014, and an explanation of the resolutions sought, are set out in the enclosed Circular.

Substantial shareholdings

The voting rights in the table below 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 28th February 2014 and 31st December 2013. So far as can be ascertained, the holdings are beneficially held.

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 104.

Dividend

The Directors are proposing the payment of a final dividend of 41.0p (2012: 37.0p) which, together with the interim dividend of 18.0p (2012: 16.0p), makes a total distribution for the year of 59.0p (2012: 53.0p). If approved at the AGM, the final dividend will be paid on 30th May 2014 to shareholders on the register at the close of business on 2nd May 2014.

Directors’ interests

The interests of the Directors in the share capital of Spirax-Sarco Engineering plc as at 31st December 2013 are set out on page 90.

Substantial shareholdings	As at 31.12.13		As at 28.02.14	
	Number of ordinary shares	% of issued share capital	Number of ordinary shares	% of issued share capital
BlackRock Investment Management (UK) Ltd	11,407,254	15.11%	11,414,642	15.11%
Sprucegrove Investment Management Ltd	3,801,540	5.03%	3,788,170	5.02%
Schroder Investment Management Ltd	2,738,453	3.63%	2,661,353	3.52%
Baillie Gifford & Co	2,428,109	3.22%	2,380,855	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, Mr Vernon retired as Group Chief Executive on 15th January 2014 and Mr Bullock will retire as Non-Executive Director and Senior Independent Director following the AGM.

In order to comply with the Code, all Directors, with the exception of Mr Bullock, will seek re-election at the AGM and will do so thereafter on an annual basis at each future AGM. We are also expecting to appoint a new independent Non-Executive Director before the AGM.

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.

Share capital

As at 28th February 2014 there were no treasury shares held by the Company. Details of shares issued during the year are set out in note 23 on page 127.

As at 31st December 2013 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 2013 was 75,509,562.

In November 2013 the Company instructed Computershare Trustees (Jersey) Limited, as trustee of the Spirax-Sarco Engineering Employee Benefit Trust, to purchase 150,000 shares to satisfy awards under the PSP. At 31st December 2013, 135,486 of these shares were held in the Employee Benefit Trust.

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. For these purposes, relevant audit information (as defined by Section 418(3) of the Companies Act 2006) means information needed by the Company's auditor in connection with preparing their report set out on pages 100 to 102.

Auditor

The Company's auditor for 2013 was KPMG Audit Plc. Following a tender process as set out in the Audit Committee report, resolutions will be proposed at the 2014 AGM to appoint Deloitte LLP as the Company's auditor and to authorise the Directors to determine their remuneration.

Risk Management Committee	Remuneration Committee letter of introduction	Remuneration policy report 2014	Annual report on remuneration 2013	Regulatory disclosures	Statement of Directors' responsibilities
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Governance continued

Regulatory disclosures continued

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 111. The amount of R&D expenditure capitalised, and the amount amortised, in the year, are given in note 13 on pages 120 and 121.

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

There were no political donations made during the year (2012: nil).

Greenhouse gas emissions

Details of our greenhouse gas emissions can be found on page 54 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 44 to 47. In addition note 31 on page 141 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 96 to 98 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 5th March 2014.

A J Robson
General Counsel and Company Secretary

5th March 2014
Spirax-Sarco Engineering plc
Registered no. 596337

Interactive Annual Report and Accounts

Our interactive Annual Report and Accounts are available on the Group's website, www.spiraxsarcoengineering.com, under the Investor Relations section. The Annual Report and Accounts are fully searchable and downloadable.

Statement of Directors' responsibilities

"Our Annual Report and Accounts give 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. Under that law, they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company 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 each of the Group and parent company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether they have been prepared in accordance with IFRS as adopted by the EU
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006.

They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations the Directors are also responsible for preparing a Corporate governance report, Remuneration report and Regulatory disclosures that comply with that law and those regulations.

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 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; and
- The management 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 that they face.

Signed by

D J Meredith
Finance Director

on behalf of the Board of Directors
5th March 2014

Risk Management Committee	Remuneration Committee letter of introduction	Remuneration policy report 2014	Annual report on remuneration 2013	Regulatory disclosures	Statement of Directors' responsibilities
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Independent auditor's report

to the members of Spirax-Sarco Engineering plc only

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Spirax-Sarco Engineering plc for the year ended 31 December 2013 set out on pages 103 to 147. 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 2013 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 as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU 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.

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit were as follows:

Goodwill (£45.8 million)

Refer to page 67 (Audit Committee report of the Governance section of the Annual Report and Accounts), pages 109, 111 (accounting policy) and pages 120 to 123 (financial disclosures).

- **The risk** – Due to the inherent uncertainty involved in forecasting and discounting future cash flows which support the carrying value of goodwill, this is one of the key judgemental areas in our audit. There is an increased risk of impairment for (i) the goodwill balances that arose in recent acquisitions, and (ii) for amounts allocated to components of the Group that have experienced trading difficulties in recent years, with operations in Europe being of most concern given the downturn in performance in prior periods.
- **Our response** – Our audit procedures included, among others, testing the integrity of the key assumptions applied by the Group, in particular those relating to future revenue growth and discount rates. We utilised our own valuation specialists to assist us in comparing the Group's discount rate assumption to risk-adjusted market rates. The growth rates were compared to the approved budgets, which represent the Group's forecasts of expected future performance, as well as to our own assessments based on our knowledge of the business, the historical performance of the business and our view on market conditions. We re-performed the Group's sensitivity analysis and, having ascertained the extent of change in the key assumptions that either individually or collectively would be required for goodwill to be impaired and the circumstances that could result in those changes, considered the likelihood of such a set of circumstances arising.

We also assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions properly reflected the risks inherent in the valuations and the requirements of accounting standards.

Tax payable (£16.9 million) and UK deferred tax asset (£14.2 million)

Refer to page 67 (Audit Committee report of the Governance section of the Annual Report and Accounts), pages 109, 113 (accounting policy) and pages 118, 125 to 126 (financial disclosures).

- **The risk** – The Group operates in many tax jurisdictions and must comply with complex rules with regard to corporate taxation, in particular in the area of transfer pricing. There is judgement involved in assessing the amount of exposures from challenges by local tax authorities as well as the recoverability of deferred tax assets, in particular those arising from tax losses in the UK trading entity, due to the inherent uncertainty in assessing future taxable profits.
- **Our response** – Our procedures in this area included utilising our global tax specialists to assist us in evaluating the Group's assessment of tax exposures, appraising the likely outcome of tax treatments and inspecting correspondence with the tax authorities to assess the reasonableness of the tax provisions made.

The deferred tax asset arising from tax losses in the UK trading entity results principally from temporary deficit reduction contributions into the main UK pension schemes. We assessed the recoverability of this asset through stress testing the financial forecasts of the UK trading entity. We tested the integrity of the key assumptions applied in the forecasts, such as future revenue growth and profit margins and made our own assessments in relation to the future performance of the UK trading entity.

We also considered the adequacy of the Group's disclosures in respect of deferred tax and uncertain tax positions.

Opinions and conclusions arising from our audit continued

Development costs (£2.8 million capitalised in the year) and software costs (£5.2 million capitalised in the year)

Refer to page 67 (Audit Committee report of the Governance section of the Annual Report and Accounts), pages 109, 111 (accounting policy) and pages 120 to 121 (financial disclosures).

- **The risk** – Development costs and software costs are expensed unless they meet specific criteria in accounting standards, in which case they are capitalised. The assessment of whether or not development and software related costs meet the criteria regarding the required degree of confidence in the technical feasibility and commerciality of each project is inherently judgemental and, therefore, there is a risk that costs may be inappropriately capitalised and profit for the period overstated.
- **Our response** – Our audit work included an evaluation of the adequacy of the Group's policies for capitalisation of development and software related costs against the requirements of the relevant accounting standards. We examined the nature of capitalised development and software related costs and tested a sample of these costs compared to the requirements of those accounting standards. In relation to capitalised development costs, we stress tested, through discussion with the Group's technical department, the technical feasibility of completing each project and their commercial prospects. We also considered the adequacy of the Group's disclosures about the degree of judgement involved in determining the carrying amount of these assets.

3 Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £10.5m. This has been determined with reference to a benchmark of Group profit before taxation (of which it represents 7%), which we consider to be one of the principal considerations for members of the company in assessing the financial performance of the Group.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £0.4m, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

The Group is characterised by a diverse geographic footprint, represented by a large number of medium and small sized operations. Audits for Group reporting purposes were performed by the Group audit team at the key reporting component in the UK and by component audit teams in the following countries: UK, US (two components), Italy (two components), China, France, South Korea, Argentina, Germany (two components), Russia, Singapore, Taiwan, Brazil, Australia, and Spain. These audits covered 74% of total Group revenue, 72% of Group profit before taxation, and 79% of total Group assets. Analytical procedures were performed by a component audit team in Italy and by the Group audit team for the Group components in Canada, Japan, and the Netherlands. The analytical procedures covered 4% of total Group revenue, 4% of Group profit before taxation, and 4% of total Group assets. The remaining 22% of Group revenue, 24% of Group profit before tax and 17% of Group total assets are represented by 33 components, none of which represented individually more than 2% of total Group revenue, Group profit before tax, or Group total assets. Statutory audits are performed at the majority of these components but generally these are completed after the date of this report. We took account of the prior year audits of these entities in assessing the risk that a material misstatement could arise.

The audits undertaken for Group reporting purposes at the key reporting components of the Group were all performed to materiality levels set by, or agreed with, the Group audit team. These materiality levels were set individually for each component and ranged from £0.1m to £3.2m.

Detailed audit instructions were sent to all the auditors in these locations. These instructions covered the significant audit areas that should be covered by these audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the Group audit team. The Group audit team visited the key reporting component in person or attended telephone meetings with the auditors at the following countries: UK (one component not audited by the Group audit team), US (two components), China, and South Korea.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Annual report on remuneration to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Governance report set out on pages 70 to 72 with respect to internal control and risk management systems in relation to financial reporting processes and on page 97 with respect to share capital structures is consistent with the financial statements.

5 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- the Audit Committee report of the Governance section of the Annual Report and Accounts does not appropriately address matters communicated by us to the Audit Committee.

Financial statements *continued*

Independent auditor's report *continued*

to the members of Spirax-Sarco Engineering plc only

Opinions and conclusions arising from our audit *continued*

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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 and the part of the Annual report on remuneration to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 98, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 62–63 relating to the company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Directors' responsibilities statement set out on page 99, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

**John Cain (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor**
Chartered Accountants
15 Canada Square
London
E14 5GL
5th March 2014

Statements of financial position

at 31st December 2013

	Notes	The Group		Parent Company		
		2013 £000	2012 £000	2013 £000	2012 £000	
Assets						
Non-current assets						
Property, plant and equipment	12	174,218	174,836	—	—	
Goodwill	13	45,765	45,855	—	—	
Other intangible assets	13	44,594	43,711	—	—	
Prepayments		162	223	—	—	
Loans to subsidiaries	14	—	—	39,157	64,155	
Investment in subsidiaries	15	—	—	160,671	48,657	
Investment in associate	16	7,039	7,702	220	220	
Deferred tax assets	17	34,472	40,699	936	824	
		306,250	313,026	200,984	113,856	
Current assets						
Inventories	18	104,164	103,690	—	—	
Trade receivables		145,380	145,686	—	—	
Due from subsidiaries		—	—	157,546	143,748	
Other current assets	19	19,880	16,188	1,643	255	
Taxation recoverable		3,709	1,317	—	—	
Bank deposits	28	32,901	—	—	—	
Cash and cash equivalents	28	84,417	99,832	—	4,261	
		390,451	366,713	159,189	148,264	
Total assets		696,701	679,739	360,173	262,120	
Equity and liabilities						
Current liabilities						
Trade and other payables	20	86,108	90,469	2,234	810	
Bank overdrafts	28	1,809	387	1,465	—	
Short-term borrowing	28	39,338	7,000	34,000	7,000	
Current portion of long-term borrowings	28	298	7,168	—	—	
Current tax payable		16,927	12,399	—	—	
		144,480	117,423	37,699	7,810	
Net current assets		245,971	249,290	121,490	140,454	
Non-current liabilities						
Long-term borrowings	28	59,473	33,601	55,000	27,500	
Deferred tax liabilities	17	15,853	17,003	428	—	
Post-retirement benefits	27	72,043	72,663	(2,141)	56	
Provisions	22	720	991	—	—	
Long-term payables		598	1,509	—	—	
Due to subsidiaries		—	—	8,300	23,941	
		148,687	125,767	61,587	51,497	
Total liabilities		293,167	243,190	99,286	59,307	
Net assets	2	403,534	436,549	260,887	202,813	
Equity						
Share capital	23	19,568	19,536	19,568	19,536	
Share premium account		59,954	56,172	59,954	56,172	
Other reserves	23	11,474	28,098	4,768	6,969	
Retained earnings		311,737	331,945	176,597	120,136	
Equity shareholders' funds		402,733	435,751	260,887	202,813	
Non-controlling interest		801	798	—	—	
Total equity		403,534	436,549	260,887	202,813	
Total equity and liabilities		696,701	679,739	360,173	262,120	

These accounts were approved by the Board of Directors on 5th March 2014 and signed on its behalf by:

Directors

N J Anderson D J Meredith

Financial statements *continued*

Consolidated income statement

for the year ended 31st December 2013

	Notes	Restated*					
		Adjusted 2013 £000	Adjustments 2013 £000	Total 2013 £000	Adjusted 2012 £000	Adjustments 2012 £000	Total 2012 £000
Revenue	2	689,388	–	689,388	661,723	–	661,723
Operating costs	3	(537,762)	(4,586)	(542,348)	(525,478)	(10,531)	(536,009)
Operating profit	2	151,626	(4,586)	147,040	136,245	(10,531)	125,714
Financial expenses		(4,268)	–	(4,268)	(4,442)	–	(4,442)
Financial income		1,968	–	1,968	1,272	–	1,272
	5	(2,300)	–	(2,300)	(3,170)	–	(3,170)
Share of profit of associate		1,730	(756)	974	1,873	(324)	1,549
Profit before taxation	6	151,056	(5,342)	145,714	134,948	(10,855)	124,093
Taxation	8	(44,542)	1,148	(43,394)	(39,511)	3,060	(36,451)
Profit for the period		106,514	(4,194)	102,320	95,437	(7,795)	87,642
Attributable to:							
Equity shareholders		106,298	(4,194)	102,104	95,233	(7,795)	87,438
Non-controlling interest		216	–	216	204	–	204
Profit for the period		106,514	(4,194)	102,320	95,437	(7,795)	87,642
Earnings per share	10						
Basic earnings per share		138.8p		133.4p	122.2p		112.2p
Diluted earnings per share		137.8p		132.4p	120.8p		110.9p
Dividends	11						
Dividends per share				59.0p			53.0p
Special dividend per share				–			100.0p
Dividends paid during the year (per share)				155.0p			50.2p

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

The notes on pages 109 to 147 form an integral part of the accounts.

* 2012 figures have been restated to comply with IAS 19(R) (see note 1).

Consolidated statement of comprehensive income

for the year ended 31st December 2013

	The Group	
	2013 £'000	2012* £'000
Profit for the year	102,320	87,642
Items that will not be reclassified to profit or loss		
Remeasurement loss on post-retirement benefits	(2,866)	(8,259)
Deferred tax on remeasurement loss on post-retirement benefits	(1,074)	1,510
	(3,940)	(6,749)
Items that may be reclassified subsequently to profit or loss		
Foreign exchange translation differences	(12,875)	(11,312)
Non-controlling interest foreign exchange translation differences	(49)	20
Profit on cash flow hedges net of tax	48	2
	(12,876)	(11,290)
Total comprehensive income for the year	85,504	69,603
Attributable to:		
Equity shareholders	85,337	69,379
Non-controlling interest	167	224
Total comprehensive income for the year	85,504	69,603

* 2012 figures have been restated to comply with IAS 19(R) (see note 1).

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

Other reserves represent the Group's Translation, Cash flow hedge and Capital redemption reserves (see note 23).

Financial statements *continued*

Consolidated statement of changes in equity

for the year ended 31st December 2012

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 2012	19,418	52,262	39,408	288,243	399,331	789	400,120
Profit for the year	—	—	—	87,438	87,438	204	87,642
Other comprehensive (expense)/income							
Foreign exchange translation differences	—	—	(11,312)	—	(11,312)	20	(11,292)
Remeasurement loss on post-retirement benefits	—	—	—	(8,259)	(8,259)	—	(8,259)
Deferred tax on remeasurement loss on post-retirement benefits	—	—	—	1,510	1,510	—	1,510
Profit on cash flow hedges reserve	—	—	2	—	2	—	2
Total other comprehensive (expense)/income for the year	—	—	(11,310)	(6,749)	(18,059)	20	(18,039)
Total comprehensive (expense)/income for the year	—	—	(11,310)	80,689	69,379	224	69,603
Contributions by and distributions to owners of the Company							
Dividends paid	—	—	—	(39,126)	(39,126)	(215)	(39,341)
Equity settled share plans net of tax	—	—	—	2,139	2,139	—	2,139
Issue of share capital	118	3,910	—	—	4,028	—	4,028
Balance at 31st December 2012	19,536	56,172	28,098	331,945	435,751	798	436,549

2012 figures have been restated to comply with IAS 19(R) (see note 1).

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

Statement of changes in equity

for the year ended 31st December 2012

Parent Company

	Share capital £000	Share premium account £000	Other reserves £000	Retained earnings £000	Total equity £000
Balance at 1st January 2012	19,418	52,262	6,201	145,456	223,337
Profit for the year	–	–	–	12,691	12,691
Other comprehensive (expense)/ income					
Remeasurement loss on post-retirement benefits	–	–	–	(252)	(252)
Deferred tax on remeasurement loss on post-retirement benefits	–	–	–	58	58
Total other comprehensive (expense) for the year	–	–	–	(194)	(194)
Total comprehensive income for the year	–	–	–	12,497	12,497
Contributions by and distributions to owners of the company					
Dividends paid	–	–	–	(39,126)	(39,126)
Equity settled share plans net of tax	–	–	–	1,309	1,309
Issue of share capital	118	3,910	–	–	4,028
Investment in subsidiaries in relation to share options granted	–	–	768	–	768
Balance at 31st December 2012	19,536	56,172	6,969	120,136	202,813

2012 figures have been restated to comply with IAS 19(R) (see note 1).

Other reserves represent the Parent Company's Share-based payments, Capital redemption and Employee Benefit Trust reserves (see note 23).

Financial statements *continued*

Cash flow statements

for the year ended 31st December 2013

Notes	The Group		Parent Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Cash flows from operating activities				
Profit before taxation	145,714	124,093	178,962	12,773
Depreciation, amortisation and impairment	26,678	24,971	—	—
Dividends received	—	—	(186,059)	(17,954)
Share of profit of associates	(974)	(1,549)	—	—
Equity settled share plans	3,315	2,815	1,974	1,309
Net finance income/(expense)	2,300	3,170	(836)	(929)
Operating cash flow before changes in working capital and provisions	177,033	153,500	(5,959)	(4,801)
Change in trade and other receivables	(8,704)	(8,020)	(1,388)	(213)
Change in amounts due from subsidiaries	—	—	(13,984)	(3,978)
Change in amounts due to subsidiaries	—	—	(17,786)	22,214
Change in inventories	(3,573)	8,631	—	—
Change in provisions and post-retirement benefits	(6,985)	(6,974)	(2,423)	(2,306)
Change in trade and other payables	3,309	(181)	1,424	(473)
Cash generated from operations	161,080	146,956	(40,116)	10,443
Interest paid	(1,551)	(1,478)	(186)	(803)
Income taxes paid	(42,318)	(37,941)	—	(1,864)
Net cash from operating activities	117,211	107,537	(40,302)	7,776
Cash flows from investing activities				
Purchase of property, plant and equipment	(20,451)	(23,384)	—	—
Proceeds from sale of property, plant and equipment	1,777	2,720	—	—
Purchase of software and other intangibles	(5,240)	(6,116)	—	—
Development expenditure capitalised	(2,779)	(2,911)	—	—
Acquisition of businesses	(5,601)	(4,501)	—	—
Bank deposits	(32,901)	—	—	—
Interest received	1,968	1,272	1,652	1,702
Dividends received	964	1,454	99,798	17,954
Net cash used in investing activities	(62,263)	(31,466)	101,450	19,656
Cash flows from financing activities				
Proceeds from issue of Share Capital	3,848	4,028	3,848	4,028
Employee Benefit Trust Share purchase	(4,430)	—	(4,430)	—
Repaid borrowings	(4,383)	(26,468)	(500)	(15,573)
New borrowings	57,506	29,537	55,000	27,500
Change in finance lease liabilities	28	(353)	1,267	—
Dividends paid (including minorities)	(120,956)	(39,341)	(120,792)	(39,126)
Net cash used in financing activities	(68,768)	(30,977)	(66,874)	(23,171)
Net change in cash and cash equivalents	(13,820)	45,094	(5,726)	4,261
Cash and cash equivalents at beginning of period	99,445	55,978	4,261	—
Exchange movement	28	(3,017)	(1,627)	—
Cash and cash equivalents at end of period	82,608	99,445	(1,465)	4,261
Bank deposits	28	32,901	—	—
Borrowings and finance leases	28	(99,109)	(47,769)	(89,000)
Net cash	28	16,400	51,676	(90,465)
				(30,239)

2012 figures have been restated to comply with IAS 19(R) (see note 1).

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 capitalisation of research and development (R&D) and software, goodwill, taxation and pensions.

The major judgements made in respect of R&D are those in assessing whether an intangible asset arises from the development phase of a product development project, i.e.:

- i) The technical feasibility of completing the product so it will be ready for sale
- ii) The market for the product and the future sales that the product will generate
- iii) Assessing the costs directly attributable to the individual product during its development.

The Group has a very wide product range and the general nature of product development is that of a number of modest sized projects. The value of capitalised development costs is disclosed in note 13.

The judgements made in respect of capitalising software costs are those in assessing whether future economic benefits will be generated by the asset and the useful life of the asset. More detail on the useful life is given in the intangible assets accounting policy on page 111 below.

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 113 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 112 below.

The 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 business review and financial review on pages 28 to 47. 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.

With effect from 1st January 2013, the Group has adopted IAS 19 (revised 2011) Employee Benefits which introduces a number of changes to accounting for defined benefit plans. The key change that impacts the Group is the change in assumption on the expected return on plan assets. The requirement to use the expected return on plan assets has been replaced with a requirement to recognise interest on plan assets by using the discount rate used to measure the defined benefit obligation.

Notes to the Accounts *continued*

1 Accounting policies *continued*

The impact of this change in accounting policy on the current and prior year financial statements, which have been restated, is as follows:

	2013 £000	2012 £000
Consolidated income statement		
Financial Income	(3,822)	(3,559)
Taxation	866	956
Profit for the period	(2,956)	(2,603)
Consolidated statement of comprehensive income		
Actuarial loss on post-retirement benefits	3,822	3,559
Deferred tax on actuarial loss on post-retirement benefits	(866)	(956)
Total comprehensive income for the period	2,956	2,603
Earnings per share		
Basic	(3.9p)	(3.4p)
Diluted	(3.8p)	(3.3p)

An additional cost in 2012 of £114,000 for administrative and investment expenses under IAS 19 (revised 2011) has not been recognised due to materiality.

There has been no change to previously reported retained earnings, balance sheet amounts or cash flows, other than consequential adjustments to the analysis of operating cash flows.

The Group has adopted IFRS 13 Fair Value Measurement which lays out the framework for determining the measurement of fair value and the disclosure of information relating to fair value and the disclosure of information relating to fair value measurement. IFRS 13 does not materially affect any fair value measurement of the Group's assets or liabilities, with changes being limited to presentation and disclosure, and therefore has no effect on the Group's financial position or performance.

The Group has also adopted IAS 1 (Amendment) Presentation of Financial Statements which changes the grouping of items presented in the Consolidated statement of comprehensive income so that items which may be reclassified to profit and loss in the future are presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance.

In addition, with effect from 1st January 2013, the Group has implemented IAS 28 (Amendment) Investments in Associates and IFRS 10 Consolidated Financial Statements. The adoption of these standards has had no material impact on the Group's financial performance or position and there has been no requirement to restate prior year comparatives.

A number of standards, amendments and interpretations have been issued and endorsed by the EU but are not yet effective and accordingly the Group has not yet adopted. The cumulative impact of these standards is not expected to be significant.

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

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup 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.

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.

(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	10%
ERP systems and software	12.5-20%	Non compete undertakings	20-50%
Brand names and trademarks	10-20%		

Notes to the Accounts *continued*

1 Accounting policies *continued*

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 98.

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 from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, which is typically on delivery. For service contracts, revenue is recognised at the point of customer acceptance. Revenue from projects is recognised as income in proportion to the stage of completion of the transaction 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. Projects where a stage of completion assessment is needed typically involve the sale of products, installation and commissioning, which are usually separately identified elements in the project order.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or associated costs, or there is the possibility of return of the goods. No revenue is recognised if there is significant continuing management involvement with the goods.

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. An expected loss on a project or service contract is recognised immediately in the income statement.

1 Accounting policies continued

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.

Financial statements *continued*

Notes to the Accounts *continued*

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

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%

Analysis by location of operation

2012

	Gross revenue £000	Inter-segment revenue £000	Revenue £000	Total operating profit £000	Adjusted operating profit £000	Adjusted operating margin %
Europe, Middle East & Africa	272,342	39,509	232,833	29,951	36,691	15.8%
Asia Pacific	170,548	3,645	166,903	43,816	43,933	26.3%
Americas	143,040	5,524	137,516	24,398	26,249	19.1%
Steam Specialties business	585,930	48,678	537,252	98,165	106,873	19.9%
Watson-Marlow	124,958	487	124,471	34,975	36,798	29.6%
Corporate expenses				(7,426)	(7,426)	
	710,888	49,165	661,723	125,714	136,245	20.6%
Intra Group	(49,165)	(49,165)				
Total	661,723	–	661,723	125,714	136,245	20.6%

Net revenue generated by Group companies based in the USA is £108,937,000 (2012: £114,472,000), in China is £76,807,000 (2012: £66,045,000), in the UK £71,438,000 (2012: £64,281,000) and the rest of the world £432,206,000 (2012: £416,925,000).

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

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)
	(3,971)	(615)	(4,586)

An impairment of £145,000 in acquisition related intangible assets was incurred on the disposal of the HVAC business of Eirdata Environmental Services Ltd in Ireland.

2 Segmental reporting continued

2012

	Exceptional restructuring costs £000	Release of deferred consideration accrual on acquisition £000	Amortisation of acquisition related intangible assets £000	Acquisition and disposal costs £000	Total £000
Europe, Middle East & Africa	(6,667)	647	(488)	(232)	(6,740)
Asia Pacific	(117)	—	—	—	(117)
Americas	(203)	—	(1,624)	(24)	(1,851)
Steam Specialties business	(6,987)	647	(2,112)	(256)	(8,708)
Watson-Marlow	(205)	—	(1,618)	—	(1,823)
	(7,192)	647	(3,730)	(256)	(10,531)

The exceptional restructuring costs, primarily in Europe, related to cost reduction actions to reduce the underlying cost base in markets experiencing persistently difficult economic conditions.

Share of profit of associates

	2013 Adjusted £000	2013 Total £000	2012 Adjusted £000	2012 Total £000
Europe, Middle East & Africa	(205)	(663)	—	—
Asia Pacific	1,935	1,637	1,873	1,549
Americas	—	—	—	—
Steam Specialties business	1,730	974	1,873	1,549
Watson-Marlow	—	—	—	—
	1,730	974	1,873	1,549

Net financing income and expense

	2013 £000	2012 £000
Europe, Middle East & Africa	(1,848)	(2,085)
Asia Pacific	796	514
Americas	(418)	(530)
Steam Specialties business	(1,470)	(2,101)
Watson-Marlow	(51)	(207)
Corporate	(779)	(862)
	(2,300)	(3,170)

Net assets

	2013 Assets £000	Liabilities £000	2012 Assets £000	Liabilities £000
Europe, Middle East & Africa	215,933	(96,942)	216,461	(98,547)
Asia Pacific	119,704	(22,038)	115,314	(20,430)
Americas	102,575	(25,278)	108,264	(30,841)
Watson-Marlow	102,989	(15,210)	97,852	(15,814)
Liabilities	541,201	(159,468)	537,891	(165,632)
Deferred tax	18,619	—	23,696	—
Current tax payable	(13,218)	—	(11,082)	—
Net Cash	16,400	—	51,676	—
Net assets	403,534	—	436,549	—

Non-current assets in the UK were £103,589,000 (2012: £84,188,000).

Notes to the Accounts *continued*

2 Segmental reporting *continued*

Capital additions and depreciation, amortisation and impairment

	2013		2012	
	Capital additions £000	Depreciation, amortisation and impairment £000	Capital additions £000	Depreciation, amortisation and impairment £000
Europe, Middle East & Africa	10,532	11,859	16,609	10,067
Asia Pacific	6,602	4,707	7,363	4,251
Americas	6,770	5,912	7,224	5,872
Watson-Marlow	7,323	4,200	5,360	4,781
	31,227	26,678	36,556	24,971

Capital additions include property, plant and equipment of £21,835,000 (2012: £24,607,000) and other intangible assets of £9,392,000 (2012: £11,949,000) of which £1,373,000 (2012: £2,406,000) relates to acquired intangibles from acquisitions in the period. Capital additions split between the UK and rest of the world are UK £12,154,000 (2012: £16,328,000), rest of the world £19,073,000 (2012: £20,228,000). Depreciation, amortisation and impairment includes the profit on disposal of fixed assets of £467,000 (2012: £273,000).

3 Operating costs

	2013 Adjusted £000	Total £000	2012 Adjusted £000	Total £000
Change in stocks of finished goods and work in progress	(364)	(364)	7,088	7,088
Raw materials and consumables	179,574	179,574	173,477	173,477
Staff costs (note 4)	232,449	232,449	220,761	227,953
Depreciation, amortisation and impairment	22,707	26,678	21,241	24,971
Other operating charges	103,396	104,011	102,911	102,520
	537,762	542,348	525,478	536,009

Total depreciation and amortisation includes amortisation of acquisition-related intangible assets of £3,826,000 (2012: £3,730,000). Operating costs include exchange difference benefits of £375,000 (2012: £1,031,000 cost). Other operating charges include acquisition and disposal costs of £615,000 (2012: £256,000).

4 Staff costs and numbers

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

	2013 £000	2012 £000
Wages and salaries	184,152	183,031
Social security costs	32,713	30,898
Other pension costs	15,584	14,024
	232,449	227,953

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

	2013	2012
United Kingdom	1,315	1,292
Overseas	3,410	3,414
	4,725	4,706

5 Net financing income and expense

	2013 £000	2012 £000
Financial expenses		
Bank and other borrowing interest payable	(1,551)	(1,478)
Net interest on pension scheme liabilities	(2,717)	(2,964)
	(4,268)	(4,442)
Financial income		
Bank interest receivable	1,968	1,272
	1,968	1,272
Net financing expense	(2,300)	(3,170)
Net pension scheme financial expense	(2,717)	(2,964)
Net bank interest	417	(206)
Net financing expense	(2,300)	(3,170)

2012 figures have been restated to comply with IAS 19(R) (see note 1).

6 Profit before taxation

Profit before taxation is shown after charging:

	2013 £000	2012 £000
Depreciation of tangible fixed assets held under finance leases	298	106
Hire of plant and machinery	221	672
Other operating leases	5,146	4,765
R&D	8,860	8,990
Auditor's remuneration		
Audit of these financial statements	126	127
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	943	1,082
Audit related assurance services	85	54
Taxation compliance services	207	289
Other tax advisory services	288	122
All other services	194	113
	1,843	1,787

Notes to the Accounts *continued*

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 2013 on pages 83 to 95. 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 on page 135).

	2013 £000	2012 £000
Salaries and short-term benefits	3,821	2,338
Post-retirement benefits	387	476
Share-based payments	722	558
Total	4,930	3,372

8 Taxation

	2013 £000	2012 £000
Analysis of charge in period		
UK corporation tax		
Current tax on income for the period	1,538	750
Adjustments in respect of prior periods	136	621
	1,674	1,371
Double taxation relief	(1,538)	(750)
	136	621
Foreign tax		
Current tax on income for the period	40,169	38,018
Adjustments in respect of prior periods	(989)	(455)
	39,180	37,563
Total current tax charge	39,316	38,184
Deferred tax – UK	2,127	(1,873)
Deferred tax – Foreign	1,951	140
Tax on profit on ordinary activities	43,394	36,451

Reconciliation of effective tax rate

	2013 £000	2012 £000
Profit before tax	145,714	124,093
Tax using the UK corporation tax rate of 23.25% (2012: 24.5%)	33,879	30,403
Effect of higher/(lower) overseas tax rates	8,131	5,533
Associated companies	(382)	(379)
Non-deductible expenditure	1,833	1,666
Overprovided in prior years	(761)	(687)
Other reconciling items	694	(85)
Total tax in income statement	43,394	36,451

2012 figures have been restated to comply with IAS 19(R) (see note 1).

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 £7,302,000 (2012: £7,500,000) 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 2013 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.

9 Profit for the financial year attributable to shareholders

Profit dealt with in the accounts of Spirax-Sarco Engineering plc was £174,934,000 (2012: £12,497,000). Dividends from subsidiary undertakings of £186,059,000 (2012: £16,500,000) and dividends from associate companies of £964,000 (2012: £1,454,000) are included in this amount.

10 Earnings per share

	2013	2012
Profit attributable to equity shareholders (£000)	102,104	87,438
Weighted average shares in issue	76,566,689	77,905,832
Dilution	549,341	913,544
Diluted weighted average shares in issue	77,116,030	78,819,376
Basic earnings per share	133.4p	112.2p
Diluted earnings per share	132.4p	110.9p
Adjusted profit attributable to equity shareholders (£000)	106,298	95,233
Basic adjusted earnings per share	138.8p	122.2p
Diluted adjusted earnings per share	137.8p	120.8p

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

2012 figures have been restated to comply with IAS 19(R) (see note 1).

11 Dividends

	2013 £000	2012 £000
Amounts paid in the year		
Final dividend for the year ended 31st December 2012 of 37.0p (2011: 34.2p) per share	28,942	26,640
Special dividend for the year ended 31st December 2012 of 100.0p (2011: nil) per share	78,260	–
Interim dividend for the year ended 31st December 2013 of 18.0p (2012: 16.0p) per share	13,590	12,486
	120,792	39,126
Amounts arising in respect of the year		
Interim dividend for the year ended 31st December 2013 of 18.0p (2012: 16.0p) per share	13,590	12,486
Proposed final dividend for the year ended 31st December 2013 of 41.0p (2012: 37.0p) per share	30,903	28,893
No proposed special dividend for the year ended 31st December 2013 (2012: 100.0p per share)	–	78,090
	44,493	119,469

12 Property, plant and equipment

	The Group				
	Land and buildings		Plant and machinery £000	Fixtures, fittings, tools and equipment £000	Total £000
	Freehold £000	Leasehold £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

Financial statements *continued*

Notes to the Accounts *continued*

12 Property, plant and equipment *continued*

	The Group				
	Land and buildings		Plant and machinery £000	Fixtures, fittings, tools and equipment £000	Total £000
	Freehold £000	Leasehold £000			
Cost or deemed cost:					
At 1st January 2012	106,533	17,996	143,563	63,718	331,810
Exchange adjustments	(1,871)	(588)	(2,737)	(1,234)	(6,430)
	104,662	17,408	140,826	62,484	325,380
Additions	4,385	1,239	10,556	8,427	24,607
Disposals	(1,577)	(179)	(9,481)	(6,318)	(17,555)
At 31st December 2012	107,470	18,468	141,901	64,593	332,432
Depreciation:					
At 1st January 2012	19,187	827	92,126	45,022	157,162
Exchange adjustments	(347)	(7)	(1,137)	(836)	(2,327)
	18,840	820	90,989	44,186	154,835
Charged in year	1,835	552	10,245	5,213	17,845
Disposals	(405)	(64)	(8,463)	(6,152)	(15,084)
At 31st December 2012	20,270	1,308	92,771	43,247	157,596
Net book value:					
At 31st December 2012	87,200	17,160	49,130	21,346	174,836

Included in the above are finance leases with a net book value of £1,068,000 (2012: £1,421,000).

13 Goodwill and other intangible assets

	The Group				
	Acquired intangibles £000	Development £000	Software and other intangibles £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:					
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

13 Goodwill and other intangible assets continued

	The Group				
	Acquired intangibles £000	Development £000	Software and other intangibles £000	Total intangibles £000	Goodwill £000
Cost or valuation					
At 1st January 2012	38,932	16,079	25,740	80,751	46,374
Exchange adjustments	(2,137)	(261)	(423)	(2,821)	(783)
	36,795	15,818	25,317	77,930	45,591
Additions	2,406	2,892	6,651	11,949	1,243
Disposals	–	(272)	(262)	(534)	–
At 31st December 2012	39,201	18,438	31,706	89,345	46,834
Amortisation:					
At 1st January 2012	12,608	9,794	18,446	40,848	1,027
Exchange adjustments	(1,786)	(131)	(277)	(2,194)	(48)
	10,822	9,663	18,169	38,654	979
Amortisation	3,730	1,794	1,875	7,399	–
Disposals	–	(178)	(241)	(419)	–
At 31st December 2012	14,552	11,279	19,803	45,634	979
Net book value:					
At 31st December 2012	24,649	7,159	11,903	43,711	45,855

Development

All capitalised development costs arise from internal product development.

Acquired intangibles

The disclosure by class of acquired intangible 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 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
Disposals/impairment	–	–	–	–	–
At 31st December 2013	24,413	6,413	5,607	3,652	40,085
Amortisation:					
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
Disposals	–	–	–	–	–
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

Financial statements *continued*

Notes to the Accounts *continued*

13 Goodwill and other intangible assets *continued*

	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 2012	24,066	6,831	5,656	2,379	38,932
Exchange and other adjustments	(1,348)	(357)	(324)	(108)	(2,137)
	22,718	6,474	5,332	2,271	36,795
Additions	1,370	–	330	706	2,406
Disposals/impairment	–	–	–	–	–
At 31st December 2012	24,088	6,474	5,662	2,977	39,201
Amortisation:					
At 1st January 2012	6,324	2,552	1,955	1,777	12,608
Exchange adjustments	(906)	(315)	(298)	(267)	(1,786)
	5,418	2,237	1,657	1,510	10,822
Amortisation and impairment	1,233	810	917	770	3,730
Disposals	–	–	–	–	–
At 31st December 2012	6,651	3,047	2,574	2,280	14,552
Net book value:					
At 31st December 2012	17,437	3,427	3,088	697	24,649

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.

	2013 Goodwill £000	2012 Goodwill £000
Spirax-Sarco Mexicana	8,636	8,874
Flexicon A/S Denmark	7,888	7,691
MasoSine	7,062	6,890
Spirax Sarco Inc USA	3,098	3,155
M & M product unit	3,046	2,971
Alitea product unit	2,596	2,614
UK Supply product unit	1,977	1,929
Spirax Inter Valf Turkey	1,576	1,803
Spirax-Sarco S A S France	1,334	1,301
Watson-Marlow South Africa	872	1,098
Other cash-generating units	7,680	7,529
	45,765	45,855

13 Goodwill and other intangible assets continued

The goodwill balance has been tested for annual impairment on the following basis:

- The carrying values of goodwill have been assessed by reference to value in use. These have been estimated using cash flows based on forecast information for the next financial year and in the case of recent acquisitions on detailed five year forecasts. This information has been approved by the Board.
- The key assumptions on which the impairment tests are based are the discount and growth rates and the forecast cash flows
- Pre-tax discount rates range from 10-14% (2012: 10-13%)
- Growth rates vary between 2.5-6.5% depending on detailed forecasts (2012: 3-10%)
- No impairments were identified as a result of this exercise.
- Long-term growth rates are set using IMF forecasts.

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

Cash-Generating Unit	Pre-tax Discount Rate	Long-term Growth Rate	Recoverable Amount £000
Spirax-Sarco Mexicana	13.0%	6.5%	62,367
Flexicon A/S Denmark	12.5%	3.5%	57,042
MasoSine	14.0%	3.0%	56,223

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.

14 Loans to subsidiaries

	Parent Company	
	2013 £000	2012 £000
Cost:		
At 1st January	65,197	75,198
(Repayment)/loans	(24,998)	(10,001)
At 31st December	40,199	65,197
Amounts written off:		
At 1st January and 31st December	(1,042)	(1,042)
Net book value:		
At 31st December	39,157	64,155

Notes to the Accounts *continued*

15 Investment in subsidiaries

	Parent Company	
	2013 £000	2012 £000
Cost:		
At 1st January	49,651	48,883
Share options issued to subsidiary company employees	1,596	768
New investment	110,418	—
At 31st December	161,665	49,651
Amounts written off:		
At 1st January and 31st December	(994)	(994)
Net book value:		
At 31st December	160,671	48,657

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 2013. 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. During 2013 the investment in the Group's German and Benelux subsidiaries was transferred between Group companies resulting in an increase in the Parent Company investment of £110,418,000. There was no impact on the Group financial statements.

16 Investment in associate

	The Group	
	2013 £000	2012 £000
Cost of investment	4,194	3,194
Share of retained profit	2,845	4,508
	7,039	7,702
Summarised aggregated financial information (total businesses)		
Revenue	23,593	22,379
Profit for the period	2,786	3,802
Assets	13,676	14,324
Liabilities	2,759	3,309

Details of the Group's associate at 31st December 2013 are as follows:

Name of associate	Country of incorporation and operation	Proportion of ownership interest and voting power held	Principal activity
Spirax-Marshall Ltd	India	49.3%	Manufacturing and selling
Econotherm (UK) Ltd	UK	30.0%	Manufacturing and selling

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	
	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000
Accelerated capital allowances	1,467	1,855	(5,280)	(5,433)	(3,813)	(3,578)
Provisions	5,566	5,299	(430)	(185)	5,136	5,114
Losses	2,770	4,470	(8)	(36)	2,762	4,434
Inventory	1,698	3,017	(636)	(1,658)	1,062	1,359
Pensions	20,248	23,854	(2,255)	(2,374)	17,993	21,480
Other temporary differences	2,723	2,204	(7,244)	(7,317)	(4,521)	(5,113)
Tax assets/(liabilities)	34,472	40,699	(15,853)	(17,003)	18,619	23,696

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)
	23,696	(4,078)	(1,063)	117	(53)	18,619

Movement in deferred tax during the year

2012

	The Group					
	1st January 2012 £000	Recognised in income £000	Recognised in OCI £000	Recognised in equity £000	Acquisitions £000	31st December 2012 £000
Accelerated capital allowances	(4,615)	1,040	(3)	–	–	(3,578)
Provisions	4,570	550	(6)	–	–	5,114
Losses	3,275	1,108	51	–	–	4,434
Inventory	1,323	35	1	–	–	1,359
Pensions	20,660	(690)	1,510	–	–	21,480
Other temporary differences	(5,737)	(310)	(50)	1,011	(27)	(5,113)
	19,476	1,733	1,503	1,011	(27)	23,696

2012 figures have been restated to comply with IAS 19(R) (see note 1).

Financial statements *continued*

Notes to the Accounts *continued*

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)
	824	(242)	(86)	12	508

Movement in deferred tax during the year 2012

	Parent Company				
	1st January 2012 £000	Recognised in income £000	Recognised in OCI £000	Recognised in equity £000	31st December 2012 £000
Other temporary differences (asset)	54	806	58	(94)	824
	54	806	58	(94)	824

18 Inventories

	The Group	
	2013 £000	2012 £000
Raw materials and consumables	35,759	35,650
Work in progress	15,622	17,308
Finished goods and goods for resale	52,783	50,732
	104,164	103,690

19 Other current assets

	The Group		Parent Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Other receivables	11,480	8,877	–	–
Prepayments and accrued income	8,400	7,311	1,643	255
	19,880	16,188	1,643	255

20 Trade and other payables

	The Group		Parent Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Trade payables	30,135	27,529	–	–
Bills of exchange payable	190	221	–	–
Social security	4,384	4,190	–	–
Other payables	24,443	30,285	87	347
Accruals	26,956	28,244	2,147	463
	86,108	90,469	2,234	810

21 Obligations under finance leases

	The Group			
	Minimum lease payments		Present value lease payment	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Amount payable				
Within 1 year	315	541	298	510
1–5 years inclusive	814	966	770	911
After 5 years	–	–	–	–
	1,129	1,507	1,068	1,421
Less future finance charges	(61)	(86)	–	–
	1,068	1,421	1,068	1,421

22 Provisions

	The Group	
	Warranty and other provisions	
	2013 £'000	2012 £'000
Provisions at 1st January	991	1,509
Exchange adjustments	112	(70)
	1,103	1,439
Utilised in the year	(383)	(448)
Provisions at 31st December	720	991

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	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Ordinary shares of 25 ²⁵ / ₂₆ p (2012: 25p) each				
Authorised 115,555,590 (2012: 120,000,000)	30,000	30,000	30,000	30,000
Allotted, called up and fully paid 75,374,081 (2012: 78,089,826)	19,568	19,536	19,568	19,536

On 3rd June 2013 a share consolidation replaced every 27 ordinary shares of 25.0p each with 26 new ordinary shares of 25 ²⁵/₂₆p each. The share consolidation ensured that following payment of the special dividend of 100.0p per share shareholders held the same proportion of the Company's total share capital.

313,267 shares with a nominal value of £79,856 were issued pursuant to the Spirax-Sarco Engineering Share Schemes for a consideration of £3,848,000 received by the Company.

In November 2013 the Parent Company purchased 150,000 shares representing 0.2% of called up share capital with a nominal value of £38,942 for consideration of £4,404,509. The shares were placed in an Employee Benefit Trust to be used in connection with the Group's Employee Share Schemes.

At 31st December 2013 130,481 shares were held in an Employee Benefit Trust and available for use in connection with the Group's Employee Share Schemes.

174 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 105 are made up as follows:

The Group	1st January 2013 £'000	Change in year £'000	31st December 2013 £'000
Translation reserve	26,617	(12,875)	13,742
Cash flow hedge reserve		(351)	48
Capital redemption reserve	1,832	–	1,832
Employee Benefit Trust reserve		(3,797)	(3,797)
Total other reserves	28,098	(16,624)	11,474

Financial statements *continued*

Notes to the Accounts *continued*

23 Called up share capital and reserves *continued*

Parent Company	1st January 2013 £000	Change in year £000	31st December 2013 £000
Share-based payments reserve	5,137	1,596	6,733
Capital redemption reserve	1,832	–	1,832
Employee Benefit Trust reserve	–	(3,797)	(3,797)
Total other reserves	6,969	(2,201)	4,768

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.

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

	The Group	
	2013 £000	2012 £000
Capital employed		
Property, plant and equipment	174,218	174,836
Prepayments	162	223
Inventories	104,164	103,690
Trade receivables	145,380	145,686
Other current assets	19,880	16,188
Tax recoverable	3,709	1,317
Trade and other payables	(86,108)	(90,469)
Current tax payable	(16,927)	(12,399)
Capital employed	344,478	339,072
Average capital employed	341,775	345,812
Operating profit	147,040	125,714
Adjustments (note 2)	4,586	10,531
Adjusted operating profit	151,626	136,245
Return on capital employed	44.4%	39.4%

25 Capital commitments

	The Group		Parent Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Capital expenditure contracted for but not provided	1,217	1,883	–	–

26 Operating lease obligations

	The Group	
	2013 £000	2012 £000
Commitments under non-cancellable leases due as follows:		
Within 1 year	4,412	4,471
1–5 years inclusive	9,513	9,783
After 5 years	641	282
	14,566	14,536

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

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 £7,373,000 (2012: £6,832,000). 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 66% of the Group's net balance sheet liability for defined retirement benefit schemes. Spirax Sarco operates three UK schemes: the Spirax Sarco Employees Pension Fund, the Spirax Sarco Executives Retirement Benefits Scheme and the Watson Marlow Pension Fund. These are all final salary pension schemes. The UK schemes are closed to new members but are open to future accrual. There is a mix of different inflation-dependent pension increases (in payment and deferment) which vary from member to member according to their membership history and which scheme they are a member of. All three schemes have been setup under UK Law and are governed by a Trustee committee, which is responsible for the scheme's investments, administration and management. A funding valuation is carried out for the Trustees of each scheme every three years by an independent firm of actuaries. Depending on the outcome of that valuation a schedule of future contributions is negotiated with Spirax Sarco. Further information on the contribution commitments is shown in the Financial review on pages 46 to 47.

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 (R) 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 (R) 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 (R) considerations in mind and do not seek to provide a specific hedge against the IAS 19 (R) measurement of DBO. As a result the difference between the market value of the assets and the IAS 19 (R) DBO may be volatile.

Sensitivity analysis to changes in discount rate and inflation are included on page 132.

With effect from 1st January 2013, the Group has adopted IAS 19 revised 2011. It differs from the previous adopted standard IAS 19 revised 2008 in that discount rates that are used to calculate the interest cost on the defined benefit obligation are used to calculate the expected return on assets. The 2012 comparative figures have therefore been restated in compliance with IAS 19 revised 2011 resulting in the expected return on assets being £3,559,000 lower at £12,418,000. More detail is given in note 1.

The financial assumptions used at 31st December were:

	Assumptions weighted by value of liabilities % per annum			
	UK pensions		Overseas pensions and medical	
	2013	2012	2013	2012
Rate of increase in salaries	4.0	3.6	3.3	3.3
Rate of increase in pensions	3.1	2.8	1.7	1.7
Rate of price inflation	3.4	2.9	2.3	2.3
Discount rate	4.5	4.6	4.5	3.7
Medical trend rate			5.0	5.0

Notes to the Accounts *continued*

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.

	UK pensions		Overseas pensions and medical		Total	
	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000
Equities	142,603	161,735	20,613	20,076	163,216	181,811
Bonds	74,710	76,448	8,678	9,311	83,388	85,760
Other	60,834	11,485	6,393	1,547	67,227	13,031
Total market value in aggregate	278,147	249,668	35,684	30,934	313,831	280,602

The actual return on plan assets was £30.9 million (2012: £26.0 million).

The amounts recognised in the consolidated balance sheet are determined as follows:

	UK pensions		Overseas pensions and medical		Total	
	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000
Fair value of schemes' assets	278,147	249,668	35,684	30,934	313,831	280,602
Present value of funded schemes' liabilities	(322,929)	(288,566)	(45,739)	(47,879)	(368,668)	(336,445)
(Deficit) in the funded schemes	(44,782)	(38,898)	(10,055)	(16,945)	(54,837)	(55,843)
Present value of unfunded schemes' liabilities	–	–	(17,206)	(16,820)	(17,206)	(16,820)
Retirement benefit liability recognised in the balance sheet	(44,782)	(38,898)	(27,261)	(33,765)	(72,043)	(72,663)
Related deferred tax asset	8,956	9,335	9,037	10,924	17,993	20,259
Net pension liability	(35,826)	(29,563)	(18,224)	(22,841)	(54,050)	(52,404)

The movements in the defined benefit obligation (DBO) recognised in the balance sheet during the year were:

	UK pensions		Overseas pensions and medical		Total	
	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000
Defined benefit obligation at beginning of year	(288,566)	(262,590)	(64,699)	(60,737)	(353,265)	(323,327)
Current service cost	(5,859)	(5,426)	(2,352)	(1,766)	(8,211)	(7,192)
Interest cost	(12,917)	(12,884)	(2,441)	(2,498)	(15,358)	(15,382)
Contributions by members	(633)	(650)	–	–	(633)	(650)
Remeasurement (loss)/gain	(25,433)	(16,773)	5,189	(4,921)	(20,244)	(21,694)
Actual benefit payments	9,835	9,846	2,431	2,784	12,266	12,630
Experience (loss)/gain	644	(89)	(1,515)	(37)	(871)	(126)
Currency loss	–	–	442	2,476	442	2,476
Defined benefit obligation at end of year	(322,929)	(288,566)	(62,945)	(64,699)	(385,874)	(353,265)

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

	UK pensions		Overseas pensions and medical		Total	
	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000
Value of assets at beginning of year	249,668	223,846	30,934	27,557	280,602	251,403
Expected return on assets	11,414	11,268	1,227	1,150	12,641	12,418
Remeasurement gain	14,714	11,300	3,535	2,261	18,249	13,561
Contributions paid by employer	11,553	12,450	3,643	3,990	15,196	16,440
Contributions paid by members	633	650	–	–	633	650
Actual benefit payments	(9,835)	(9,846)	(2,431)	(2,784)	(12,266)	(12,630)
Currency loss	–	–	(1,224)	(1,240)	(1,224)	(1,240)
Value of assets at end of year	278,147	249,668	35,684	30,934	313,831	280,602

The estimated employer contributions to be made in 2014 are £16,681,000.

27 Employee benefits continued

The history of experience adjustments is as follows:

	2013 £000	2012 £000	2011 £000	2010 £000	2009 £000
Defined benefit obligation at end of year	(385,874)	(353,265)	(323,327)	(303,338)	(284,910)
Fair value of schemes' assets	313,831	280,602	251,402	239,910	211,147
Retirement benefit liability recognised in the balance sheet	(72,043)	(72,663)	(71,925)	(63,428)	(73,763)
Experience adjustment on schemes' liabilities	(871)	(126)	5,797	(984)	(1,695)
As a percentage of schemes' liabilities	0.2%	0.0%	1.8%	0.3%	0.6%
Experience adjustment on schemes' assets	18,249	13,561	(12,041)	10,454	26,012
As a percentage of schemes' assets	5.8%	4.8%	4.8%	4.4%	12.3%

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

	UK pensions		Overseas pensions and medical		Total	
	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000
Current service cost	(5,859)	(5,426)	(2,352)	(1,766)	(8,211)	(7,192)
Net interest on schemes' liabilities	(1,503)	(1,616)	(1,214)	(1,348)	(2,717)	(2,964)
Total expense recognised in income statement	(7,362)	(7,042)	(3,566)	(3,114)	(10,928)	(10,156)

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

	2013 £000	2012 £000
Operating costs	(8,211)	(7,192)
Net financial expenses	(2,717)	(2,964)
Total expense recognised in income statement	(10,928)	(10,156)

Statement of comprehensive income (OCI)

	UK pensions		Overseas pensions and medical		Total	
	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000
Remeasurement amount recognised in OCI	(10,075)	(5,562)	7,209	(2,697)	(2,866)	(8,259)
Deferred tax on remeasurement amount recognised in OCI	2,015	981	(3,089)	529	(1,074)	1,510
Cumulative loss recognised in OCI at beginning of year	(49,892)	(45,311)	(13,399)	(11,231)	(63,291)	(56,542)
Cumulative loss recognised in OCI at end of year	(57,952)	(49,892)	(9,279)	(13,399)	(67,231)	(63,291)

Financial statements *continued*

Notes to the Accounts *continued*

27 Employee benefits *continued*

Sensitivity analysis

The effect on the defined benefit obligation at 31st December 2013 of an increase or decrease in key assumptions is as follows:

	UK pensions £'000	Overseas pensions and medical	Total £'000
Increase/(decrease) in pension deficit			
Discount rate assumption being 0.25% higher	(14,000)	(2,000)	(16,000)
Discount rate assumption being 0.25% lower	19,000	2,000	21,000
Inflation assumption being 0.25% higher	12,000	1,000	13,000
Inflation assumption being 0.25% lower	(12,000)	(1,000)	(13,000)

The average age of active participants in the UK schemes at 31st December 2013 was 51 years and in the overseas schemes 49 years.

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 £49,351 (2012: £29,163).

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.

With effect from 1st January 2013, the Parent Company has adopted IAS 19 revised 2011. It differs from the previous adopted standard IAS 19 revised 2008 in that discount rates that are used to calculate the interest cost on the defined benefit obligation are used to calculate the expected return on assets. The 2012 comparative figures have therefore been restated in compliance with IAS 19 revised 2011 resulting in the expected return on assets being £539,000 lower at £2,246,000. More detail is given in note 1.

The financial assumptions used at 31st December were:

	Assumptions weighted by value of liabilities % per annum	
	UK pensions 2013	2012
Rate of increase in salaries	3.9	3.6
Rate of increase in pensions	3.1	2.8
Rate of price inflation	3.4	2.9
Discount rate	4.5	4.6

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions, which, due to the timescale covered, may not necessarily be borne out in practice.

27 Employee benefits continued

	UK pensions	
	2013 £000	2012 £000
Equities	25,232	31,686
Bonds	14,522	14,799
Other	14,026	3,109
Total market value in aggregate	53,780	49,594

The actual return on plan assets was £4.9 million (2012: £4.5 million).

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

	UK pensions	
	2013 £000	2012 £000
Fair value of scheme's assets	53,780	49,594
Present value of funded scheme's liabilities	(51,639)	(49,650)
Retirement benefit asset/(liability) recognised in the statement of financial position	2,141	(56)
Related deferred tax	(428)	13
Net pension asset/(liability)	1,713	(43)

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

	UK pensions	
	2013 £000	2012 £000
Defined benefit obligation at beginning of year	(49,650)	(47,200)
Current service cost	(248)	(329)
Interest cost	(2,197)	(2,305)
Contributions from members	(10)	(10)
Remeasurement (loss)	(2,768)	(1,996)
Actual benefit payments	2,740	2,196
Experience (loss)/gain	494	(6)
Defined benefit obligation at end of year	(51,639)	(49,650)

Financial statements *continued*

Notes to the Accounts *continued*

27 Employee benefits *continued*

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

	UK pensions	
	2013 £000	2012 £000
Value of assets at beginning of year	49,594	44,745
Expected return on assets	2,239	2,246
Remeasurement gain/(loss)	2,705	2,250
Contributions paid by employer	1,972	2,539
Contributions from members	10	10
Actual benefit payments	(2,740)	(2,196)
Value of assets at end of year	53,780	49,594

The estimated employer contributions to be made in 2014 are £224,000.

The history of experience adjustments is as follows:

	2013 £000	2012 £000	2011 £000	2010 £000	2009 £000
Defined benefit obligation at end of year	(51,639)	(49,650)	(47,200)	(52,594)	(51,000)
Fair value of scheme's assets	53,780	49,594	44,745	45,055	39,793
Retirement benefit (liability) recognised in the balance sheet	2,141	(56)	(2,455)	(7,539)	(11,207)
Experience adjustment on scheme's liabilities	494	(6)	7,357	(1)	32
As a percentage of scheme's liabilities	1.0%	0.0%	15.6%	0.0%	0.1%
Experience adjustment on scheme's assets	2,705	2,250	(2,579)	2,320	4,611
As a percentage of scheme's assets	5.0%	4.5%	5.8%	5.1%	11.6%

The expense recognised in the Parent Company income statement was as follows:

	UK pensions	
	2013 £000	2012 £000
Current service cost	(248)	(329)
Net interest on scheme's assets/(liabilities)	42	(59)
Total income recognised in income statement	(206)	(388)

Statement of comprehensive income (OCI)

	UK pensions	
	2013 £000	2012 £000
Remeasurement (loss)/gain recognised in OCI	(431)	252
Deferred tax on remeasurement amount recognised in OCI	86	(58)
Cumulative loss recognised in OCI at beginning of year	(13,072)	(13,266)
Cumulative loss recognised in OCI at end of year	(13,417)	(13,072)

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 on pages 83 to 95. The charge to the income statement in respect of share-based payments is made up as follows:

	2013 £'000	2012 £'000
Share Option Scheme	564	805
Performance Share Plan	1,974	1,272
Employee Share Ownership Plan	777	738
Total expense recognised in income statement	3,315	2,815

Share Option Scheme

The Group operates equity settled share option schemes for employees. Awards are determined by the Remuneration Committee whose objective is 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. No options were granted in 2013 or 2012.

	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
2003 grant (394.5p)	15,000	–	(15,000)	–	–
2004 grant (541.9p)	18,000	–	–	–	18,000
2005 grant (686p)	34,090	–	(5,655)	–	28,435
2006 grant (960p)	30,650	–	–	–	30,650
2007 grant (1019.6p)	59,756	–	(5,181)	–	54,575
2008 grant (959.0p)	72,523	–	(19,955)	–	52,568
2009 grant (765.0p)	59,000	–	(15,500)	–	43,500
2010 grant (1366.0p)	265,500	–	(125,500)	–	140,000
2011 grant (1873.0p)	344,500	–	(9,000)	–	335,500
	899,019	–	(195,791)	–	703,228
Weighted average exercise price	£13.93		£11.97		£14.47
Weighted average contractual life remaining					5.7 years

Performance conditions in respect of all exercisable shares have been met. The number of shares exercisable at 31st December 2013 is 703,228 (2012: 554,519). The weighted average share price during the period was £26.57 (2012: £20.96).

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. For awards granted up to 2007 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. The performance criteria for awards from 2008 onwards are split into two separate parts. The vesting of the first part, amounting to 60% of the award, is based on the existing TSR measure. The vesting of 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. For the 2008 to 2010 awards, 25% will vest if the compound growth in EPS is equal to 5% and 100% will vest if the compound growth in EPS is equal to or exceeds 11%, there is pro-rata vesting for actual growth between these rates. For awards made in 2011 onwards, 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.

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.

	2009 Grant	2010 Grant	2011 Grant	2012 Grant	2013 Grant
Grant date	11th March	26th March	18th March	9th March	8th March
Mid market share price at grant date	765.0p	1366.0p	1873.0p	2106.0p	2615.0p
Number of employees	5	5	5	89	105
Shares under scheme	128,146	99,983	78,588	179,980	168,708
Vesting period	3 years				
Probability of vesting	69.1%	69.5%	69.2%	66.5%	62.5%
Fair value	528.6p	949.4p	1296.1p	1400.5p	1634.4p

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.

	2009 Grant	2010 Grant	2011 Grant	2012 Grant	2013 Grant
Grant date	1st October				
Exercise price	1039.7p	1808.7p	1832.0p	2100.3p	3018.0p
Number of employees	944	955	1,012	1,017	1,015
Shares under scheme	69,788	41,584	45,327	41,703	29,610
Vesting period	3 years				
Expected volatility	25.0%	25.0%	25.0%	25%	25%
Risk free interest rate	0.6%	0.6%	0.6%	0.2%	0.4%
Expected dividend yield	3.5%	2.5%	2.5%	2.5%	2.5%
Fair value	1093.7p	1922.6p	1934.6p	2228.5p	3208.1p

The accumulation period for the 2013 ESOP ends in September 2014, 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 were granted in 2013 or 2012.

	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)	3,078	–	(1,850)	–	1,228
2009 grant (765.0p)	2,500	–	–	–	2,500
2010 grant (1366.0p)	4,000	–	–	–	4,000
2011 grant (1873.0p)	19,000	–	–	–	19,000
	32,571	–	(1,850)	–	30,721
Weighted average exercise price	£15.16		£9.59		£15.49
Weighted average contractual life remaining					6.1 years

Performance conditions in respect of all exercisable shares have been met. The number of shares exercisable at 31st December 2013 is 30,721 (2012: 13,571).

Performance Share Plan

The relevant disclosures in respect of the Performance Share Plan grants are set out below.

	2009 Grant	2010 Grant	2011 Grant	2012 Grant	2013 Grant
Grant date	11th March	26th March	18th March	9th March	8th March
Mid market share price at grant date	765.0p	1366.0p	1873.0p	2106.0p	2615.0p
Number of employees	5	5	5	9	12
Shares under scheme	128,146	99,983	78,588	84,230	69,174
Vesting period	3 years				
Probability of vesting	69.1%	69.5%	69.2%	66.5%	62.5%
Fair value	528.6p	949.4p	1296.1p	1400.5p	1634.4p

Financial statements *continued*

Notes to the Accounts *continued*

28 Analysis of changes in net cash

	The Group			
	At 1st January 2013 £000	Cash flow £000	Exchange movement £000	At 31st December 2013 £000
Current portion of long-term borrowings	(7,168)			(298)
Non-current portion of long-term borrowings	(33,601)			(59,473)
Short-term borrowings	(7,000)			(39,338)
Total borrowings	(47,769)			(99,109)
Comprising:				
Borrowings	(46,348)	(53,123)	1,430	(98,041)
Finance leases	(1,421)	353	–	(1,068)
	(47,769)	(52,770)	1,430	(99,109)
Cash and cash equivalents	99,832	(12,406)	(3,009)	84,417
Bank overdrafts	(387)	(1,414)	(8)	(1,809)
Net cash and cash equivalents	99,445	(13,820)	(3,017)	82,608
Bank deposits	–	32,901	–	32,901
Net cash	51,676	(33,689)	(1,587)	16,400

The present value of finance lease payments are shown in note 21 on page 127.

29 Related party transactions

	2013 £000	2012 £000
The Group		
Sales to associated companies	569	567
Dividends from associated companies	964	1,454
Amounts due from associated companies at 31st December	52	47
	2013 £000	2012 £000
Parent Company		
Dividends received from subsidiaries	186,059	16,500
Dividends received from associates	964	1,454
Loans and amounts due from subsidiaries at 31st December	157,546	143,748
Amounts due to subsidiaries at 31st December	8,526	23,941

30 Purchase of businesses

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 (page 108):

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.

Financial statements *continued*

Notes to the Accounts *continued*

30 Purchase of businesses *continued*

2012

	Acquisitions		
	Book value £000	Fair value adj £000	Fair value £000
Non-current assets			
Intangibles	–	2,406	2,406
	–	2,406	2,406
Current assets			
Inventories	324	–	324
	324	–	324
Total assets	324	2,406	2,730
Current liabilities			
Deferred tax	–	27	27
Total liabilities	–	27	27
Total net assets	324	2,379	2,703
Goodwill	–	–	1,243
Total	–	–	3,946

Satisfied by

Cash paid	–	–	2,439
Deferred consideration	–	–	1,507
			3,946
Cash outflow for acquired businesses in the Cash Flow statements (page 108):			
Cash consideration (for the current year and deferred consideration on prior years' acquisitions)			4,501
Net cash outflow			4,501

- 1 The acquisition of the desuperheater business from UK based Transvac Systems Ltd was completed on 24th July 2012. The acquisition method of accounting has been used. Consideration of £595,000 was paid during 2012 following completion. Separately identified intangibles are recorded as part of the fair value adjustment. The goodwill recognised represents the opportunity to accelerate the growth in sales of desuperheaters around the Group by capitalising on Transvac's expertise in this area. 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 Denmark and Poland was made on 1st October 2012. The acquisition method of accounting has been used. Consideration of £214,000 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.
- 3 The acquisition of the business and certain assets of the steam specialty business, Termodinámica, based in Chile was completed on 14th December 2012. The acquisition method of accounting has been used. Consideration of £1,631,000 was paid on completion, the balance will be paid over the next 12 months subject to certain performance conditions being met. 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 products and services in the important Chilean 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.

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:

	2013		2012	
	Carrying value £000	Fair value £000	Carrying value £000	Fair value £000
Financial assets				
Cash and cash equivalents	84,417	84,417	99,832	99,832
Bank deposits	32,901	32,901	—	—
Trade and other receivables	156,860	156,860	154,563	154,563
	274,178	274,178	254,395	254,395

	2013		2012	
	Carrying value £000	Fair value £000	Carrying value £000	Fair value £000
Financial liabilities				
Bank loans	98,041	98,041	46,348	46,348
Finance lease obligations	1,068	1,132	1,421	1,506
Bank overdrafts	1,809	1,809	387	387
Trade payables	30,135	30,135	27,529	27,529
Other payables	25,041	25,041	31,794	31,794
	156,094	156,158	107,479	107,564

There are no other assets or liabilities measured at fair value on a recurring or non-recurring basis for which fair value is disclosed.

Financial statements *continued*

Notes to the Accounts *continued*

31 Derivatives and other financial instruments *continued*

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:

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
	156,094	1,068	99,850	55,176

2012

	The Group			
	Total £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Financial liabilities on which no interest is paid £000
Euro	17,052	72	387	16,593
US dollar	1,841	—	—	1,841
Sterling	43,093	1,348	34,500	7,245
Other	45,493	—	11,849	33,644
	107,479	1,420	46,736	59,323

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
	90,552	—	90,465	87

2012

	The Parent			
	Total £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Financial liabilities on which no interest is paid £000
Sterling	34,847	—	34,500	347
	34,847	—	34,500	347

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	2013 Carrying value £000	2012 Carrying value £000
Unsecured bank facility	€	2.18%	2013	–	75
Unsecured bank facility	€	2.55%	2014	318	312
Unsecured bank facility	Won	4.71%	2014-2017	3,604	4,655
Unsecured bank facility	YEN	0.93%	2014	4,308	5,336
Unsecured bank facility	£	1.15%	2014	4,000	7,000
Secured bank facility	£	1.32%	2015	30,000	–
Secured bank facility	£	0.60%	2014	30,000	–
Unsecured bank facility	£	1.85%	2014	1,465	–
Unsecured bank facility	TRL	0.51%	2014	13	–
Unsecured bank facility	€	10.4%	2014	13	–
Secured bank facility	£	1.77%	2015	25,000	27,500
Unsecured bank facility	RAND	7.40%	2017	1,129	1,857
Finance leases	RMB	–	2012-2016	–	5
Finance leases	€	4.10%	2012-2015	–	75
Finance leases	£	–	2014-2016	1,068	1,341
				100,918	48,156

The £55 million bank facilities maturing in 2015 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 £30 million bank facility maturing in 2014 is secured by the bank deposits of another Group company.

Interest rate risk profile of financial assets

The interest rate profile of the financial assets of the Group as at 31st December 2013 was as follows:

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
	274,178	90,215	183,963

2012

	The Group		
	Total £000	Floating rate financial assets £000	Financial assets on which no interest is earned £000
Sterling	18,024	4,536	13,488
Euro	50,305	4,682	45,623
US dollar	40,602	17,404	23,198
RMB	43,938	29,406	14,532
Other	101,526	24,819	76,707
	254,395	80,847	173,548

Financial statements *continued*

Notes to the Accounts *continued*

31 Derivatives and other financial instruments *continued*

2013

	Total £000	The Parent	
		Floating rate financial assets £000	Financial assets on which no interest is earned £000
Sterling	1,643	—	1,643
Other	—	—	—
	1,643	—	1,643

2012

	Total £000	The Parent	
		Floating rate financial assets £000	Financial assets on which no interest is earned £000
Sterling	4,261	4,261	—
Other	—	—	—
	4,261	4,261	—

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 (2012: 0.6%).

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 2013 the currency exposures in respect of the euro was a net monetary liability of (£706,000) (2012 net monetary liability: £543,000) and in respect of the US dollar a net monetary liability of £696,000 (2012: £7,961,000).

At 31st December 2013, the percentage of debt to net assets, excluding debt was 0.08% (2012: 0.65%) for the euro and nil (2012: nil) for the US dollar.

Maturity of financial liabilities

The Group's financial liabilities at 31st December 2013 mature in the following periods:

2013

	The Group				
	Trade and other payables £000	Overdrafts £000	Short-term borrowings £000	Finance leases £000	Long-term borrowings £000
In six months or less, or on demand	54,578	1,814	39,487	149	693
In more than six months but no more than 12	—	—	—	149	346
In more than one year but no more than two	114	—	—	298	56,653
In more than two years but no more than three	109	—	—	298	906
In more than three years but no more than four	104	—	—	174	516
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
Balance sheet values	55,176	1,809	39,338	1,068	58,703
					156,581
					156,094

31 Derivatives and other financial instruments continued

2012

	The Group				
	Trade and other payables £000	Overdrafts £000	Short-term borrowings £000	Finance leases £000	Long-term borrowings £000
In six months or less, or on demand	57,814	391	7,005	210	6,113
In more than six months but no more than 12	—	—	—	300	770
In more than one year but no more than two	—	—	—	316	1,610
In more than two years but no more than three	—	—	—	300	31,194
In more than three years but no more than four	—	—	—	295	1,392
In more than four years but no more than five	—	—	—	—	518
In more than five years	—	—	—	—	—
Total contractual cash flows	57,814	391	7,005	1,421	41,597
Balance sheet values	59,323	387	7,000	1,421	39,348
					108,228
					107,479

2013

	The Parent				
	Trade and other payables £000	Overdrafts £000	Short-term borrowings £000	Finance leases £000	Long-term borrowings £000
In six months or less, or on demand	87	1,465	34,000	—	—
In more than six months but no more than 12	—	—	—	—	—
In more than one year but no more than two	—	—	—	—	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
Balance sheet values	87	1,465	34,000	—	55,000
					90,552

2012

	The Parent				
	Trade and other payables £000	Overdrafts £000	Short-term borrowings £000	Finance leases £000	Long-term borrowings £000
In six months or less, or on demand	347	—	7,005	—	—
In more than six months but no more than 12	—	—	—	—	—
In more than one year but no more than two	—	—	—	—	28,968
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	347	—	7,005	—	28,968
Balance sheet values	347	—	7,000	—	27,500
					36,320
					34,847

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 2013 the Group had contracts outstanding to purchase £1,004,000 with euros and £931,000 with US dollars. The fair values at the end of the reporting period were £1,887,000 (2012: £1,558,000). The fair value of cash flow hedges falls into the Level 2 category of the fair value hierarchy in accordance with IFRS 7.

Financial statements *continued*

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	
	2013 £000	2012 £000
Expiring in one year or less	11,577	14,555
Expiring in more than two years but no more than three	18,535	12,500
	30,112	27,055
	The Parent	
	2013 £000	2012 £000
Expiring in one year or less	6,000	8,000
Expiring in more than two years but no more than three	18,535	12,500
	24,535	20,500

Fair values of financial assets and financial liabilities

Fair values of financial assets and liabilities at 31st December 2013 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 £100,918,000 (2012: £48,156,000). At 31st December 2013, 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 £700,000 (2012: £250,000).

For the year ended 31st December 2013, 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 £2,000,000 (2012: £1,800,000). 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 2013 £000	Impairment 2013 £000	Gross 2012 £000	Impairment 2012 £000
Not past due date	100,132	(28)	110,322	(214)
0 – 30 days past due date	23,653	(52)	18,193	(280)
30 days – one year past due date	23,814	(2,139)	21,885	(4,220)
More than one year	6,792	(6,792)	4,840	(4,840)
	154,391	(9,011)	155,240	(9,554)

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 2013.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2013 £000	2012 £000
Balance at 1st January	9,554	8,950
Movement in impairment	(543)	604
Balance at 31st December	9,011	9,554

Financial Summary 2004–2013

	Prepared under IFRS				
	2004 £'000	2004 £'000	2005 £'000	2006 £'000	2007 £'000
Revenue	325,833	315,991	349,100	384,249	417,317
Operating profit	51,100	47,956	55,170	61,941	68,336
Operating profit (adjusted)	—	47,956	55,345	62,291	68,720
Operating profit margin (adjusted)	15.7%	15.2%	15.9%	16.2%	16.5%
Profit before taxation	50,836	48,704	56,959	65,344	72,163
Profit before taxation (adjusted)	—	48,704	57,134	65,694	72,796
Profit after taxation	33,682	32,442	38,187	44,066	49,190
Dividends in respect of the year	16,102	16,196	18,318	20,038	22,754
Net assets	182,013	166,286	198,246	199,722	242,965
Earnings per share (basic)	43.4p	43.1p	50.0p	57.7p	64.7p
Earnings per share (adjusted)	—	43.1p	50.2p	58.1p	65.5p
Dividends in respect of the year (per share)	21.4p	21.4p	23.8p	26.5p	29.9p
Special dividend (per share)	—	—	—	—	—
Return on capital employed (note 24)	31.0%	27.2%	30.4%	32.2%	33.6%

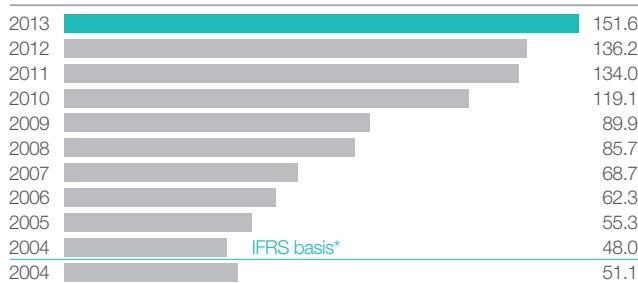
* The results for 2004 to 2013 have been prepared under International Financial Reporting Standards, prior year figures are shown as originally reported including 2004 for reference. Adjusted items exclude non-operating items (see note 2 on pages 114 to 115).

† The results for 2012 have been restated to reflect IAS 19(R) (see note 1 on page 109).

Revenue £m

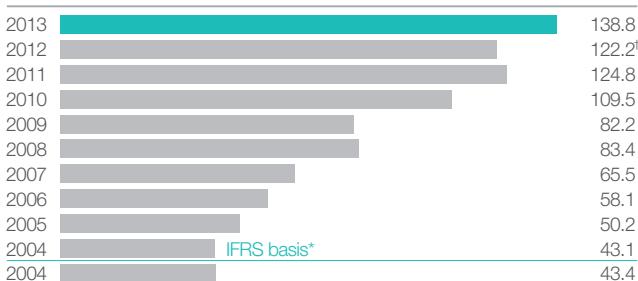


Operating profit (adjusted) £m



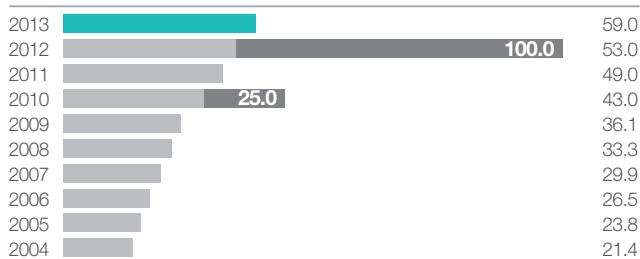
	Prepared under IFRS					
	2008 £000	2009 £000	2010 £000	2011 £000	2012† £000	2013 £000
Revenue	502,316	518,705	589,746	649,991	661,723	689,388
Operating profit	81,028	76,522	121,396	129,498	125,714	147,040
Operating profit (adjusted)	85,669	89,938	119,125	133,960	136,245	151,626
Operating profit margin (adjusted)	17.1%	17.3%	20.2%	20.6%	20.6%	22.0%
Profit before taxation	85,162	76,415	123,493	132,341	124,093	145,714
Profit before taxation (adjusted)	90,146	90,196	121,613	137,169	134,948	151,056
Profit after taxation	59,788	53,091	86,654	93,238	87,642	102,320
Dividends in respect of the year	25,668	27,569	52,624	38,072	119,469	44,493
Net assets	296,006	307,364	379,524	400,120	436,549	403,534
Earnings per share (basic)	78.0p	69.6p	112.5p	120.0p	112.2p	133.4p
Earnings per share (adjusted)	83.4p	82.2p	109.5p	124.8p	122.2p	138.8p
Dividends in respect of the year (per share)	33.3p	36.1p	43.0p	49.0p	53.0p	59.0p
Special dividend (per share)	—	—	25.0p	—	100.0p	—
Return on capital employed (note 24)	35.5%	33.3%	42.1%	41.1%	39.4%	44.4%

Earnings per share (adjusted)* p



† 2012 restated for IAS 19(R)

Dividends per share p



■ special dividend

Spirax Sarco worldwide

Steam specialties

EMEA

Belgium

Spirax-Sarco N V

Czech Republic

Spirax Sarco spol sro

Denmark

Spirax-Sarco Ltd (Branch)

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

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

EMEA continued

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

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

USA

Spirax-Sarco Inc

Sarco International Corp

Asia Pacific

Australia

Spirax-Sarco Pty Ltd

China

Spirax Sarco Engineering (China) Ltd

India

Spirax-Marshall 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

Watson-Marlow Pumps Group

Austria

Watson Marlow Austria GmbH

Argentina

Watson-Marlow Argentina, operating via Spirax Sarco SA

Australia

Watson-Marlow Pty Ltd

Belgium

Watson-Marlow NV

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

Watson-Marlow Pumps Group continued

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
Bio Pure Technology Ltd

USA

Watson Marlow Inc

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www.shareview.co.uk

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Allen & Overy LLP

Important dates

Annual General Meeting 20th May 2014

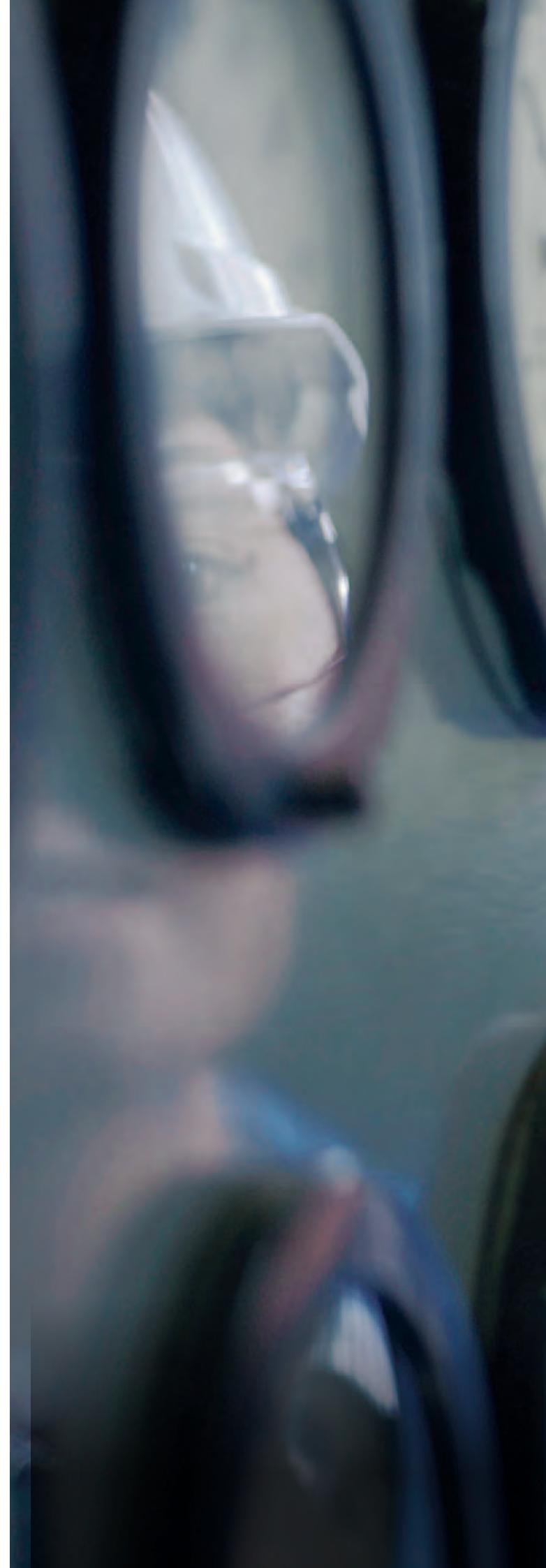
Final dividend*

Ordinary shares quoted ex-dividend	30th April 2014
Record date for final dividend	2nd May 2014
Final dividend payable	30th May 2014

* Subject to shareholder approval at the AGM

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