

UK CORPORATE GOVERNANCE CODE STATEMENT OF COMPLIANCE

Our Governance Report (see pages 62 to 112 of the Annual Report 2017), which can be found on <http://www.spiraxsarcoengineering.com/Governance/Pages/home.aspx>, explains how the Group has applied the principles and complied with the provisions of the UK Corporate Governance Code 2016 (Code). We are fully compliant with the requirements of the Code, and have been throughout 2017.

The Company is subject to the UK Corporate Governance Code, published by the Financial Reporting Council and available on their website (<https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance.aspx>).

We have addressed each Code principle in the table below.

	Code of Best Practice - Principles	Group Compliance Statement
A	LEADERSHIP	
1	<p>The Role of the Board “Every company should be headed by an effective board, which is collectively responsible for the long-term success of the company.”</p>	The responsibilities of the Board and its Directors are outlined in the Governance Report on pages 68 and 69 of the Annual Report 2017. The Board meets regularly on a formal basis, plus additional ad hoc meetings as necessary.
2	<p>Division of Responsibilities “There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company’s business. No one individual should have unfettered powers of decision.”</p>	Responsibility is clearly split between the Chairman and the Group Chief Executive. The Chairman is responsible for managing the business of the Board, safeguarding corporate governance and chairing the Board. The Group Chief Executive has responsibility for corporate and business strategy, managing the Group’s businesses and the effective stewardship of capital, technical and human resources. A detailed explanation of respective responsibilities is set out on page 68 of the Annual Report 2017.
3	<p>The Chairman “The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.”</p>	The Chairman sets the Board’s agenda and ensures that adequate time is available for the discussion of all agenda items. The Chairman promotes a culture of openness and debate. He also ensures constructive relations between the Executive Directors and the Non-Executive Directors. The Chairman ensures effective communication with shareholders. A detailed explanation of the Chairman’s responsibilities is set out on page 68 of the Annual Report 2017.

	Code of Best Practice - Principles	Group Compliance Statement
A	LEADERSHIP cont'd	
4	<p>Non-Executive Directors “As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.”</p>	<p>The Non-Executive Directors scrutinise the performance of management, monitor the reporting of performance and assist in the development of strategy. The Senior Independent Director is available to shareholders if they have concerns that contact through the normal channels has failed to resolve.</p> <p>The Chairman and the Committee Chairmen hold meetings with the Non-Executive Directors without the Executive Directors present when considered appropriate.</p> <p>The Senior Independent Director meets with the Non-Executive Directors without the Chairman being present on such occasions as he considers appropriate.</p>
B	EFFECTIVENESS	
1	<p>The Composition of the Board “The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.”</p>	<p>All the Non-Executive Directors, other than the Non-Executive Chairman, are considered by the Board to be independent of the management of the Company and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. The Directors have a combination of business and industry expertise which is suited to the nature of the Company.</p> <p>Director biographies can be found on pages 66 and 67 of the Annual Report 2017 and on the Group’s website: http://www.spiraxsarcoengineering.com/Governance/Pages/directors.aspx.</p>
2	<p>Appointments to the Board “There should be a formal, rigorous and transparent procedure for the appointment of new directors to the Board.”</p>	<p>The Nomination Committee, comprising our independent Non-Executive Directors, the Group Chief Executive and the Chairman, is responsible for identifying and nominating the best candidates to fill Board vacancies having due regard for the necessary balance of skills and experience.</p> <p>Jamie Pike’s appointment as Chairman, with effect from the close of business of the AGM in May 2018, followed a rigorous and independent selection process conducted in accordance with the Code.</p>

	Code of Best Practice - Principles	Group Compliance Statement
B	EFFECTIVENESS cont'd	
	<p>Appointments to the Board cont'd</p>	<p>The process was led by a Nomination Sub-Committee made up entirely of independent Non-Executive Directors and chaired by Clive Watson, the most senior independent Non-Executive Director who was not conflicted. The current Chairman, Bill Whiteley, and Jamie Pike, as a candidate, were excluded from the process in accordance with Code provision B.2.1. The Sub-Committee developed a job specification and appointed Korn Ferry as an independent search and recruitment agency. Korn Ferry assisted the Sub-Committee with the evaluation of Jamie Pike against the job specification and determined that he was well qualified to perform the role. Jamie's appointment was approved by the full Board following interviews with all Directors.</p> <p>Consequent on Jamie's appointment as Chairman, Clive Watson will be appointed as the Senior Independent Director on 15th May 2018.</p> <p>In addition, Peter France was appointed as an independent Non-Executive Director with effect from 6th March 2018.</p> <p>In respect of the positions of Chairman and the new Non-Executive Director, Korn Ferry was instructed to advise on the suitability of candidates against a job description approved by the Sub-Committee/ Committee. Korn Ferry provides no other services to the Group.</p> <p>We believe that the Board's perspective and approach is greatly enhanced by gender, age and cultural diversity and it is our policy to consider overall Board balance and diversity when appointing new Directors. As shown on page 62 of the Annual Report 2017, the range of nationalities and experience of our Board is particularly relevant given the broad international reach of the Group and we will seek to increase the diversity of our international footprint with future appointments to the Board.</p>

	Code of Best Practice - Principles	Group Compliance Statement
B	EFFECTIVENESS cont'd	
	<p>Appointments to the Board cont'd</p>	<p>Normalised for succession changes, we currently exceed 20% gender diversity on the Board and we are committed to a target of a minimum of 33% women on our Board, the Group Executive and their reports. We ensure that this target is taken into account in our succession planning and recruitment.</p> <p>We support the promotion of women to senior positions throughout the Group and, during the last 12 months, women were appointed as: Financial Controller, EMEA Business Partner, Recruitment Manager, Senior Human Resources Business Partner, Group Human Resources Projects Manager, Head of Human Resources (Watson-Marlow UK), Head of Human Resources (Asia Pacific), Head of Human Resources (Americas), Group Talent Partner (Spirax Sarco, Inc., USA), General Manager Asia Pacific (Gestra) and Global Director Environmental, Health and Safety (Chromalox, USA), with a number of these being internal promotions.</p> <p>We continue to offer practical support for the Department for Business Innovation and Skills' "Women on Boards - FTSE 250" initiative by encouraging two women from our senior management team to serve as Non-Executive Directors on other company Boards.</p> <p>We participated in the FTSE Women Leaders (Hamilton-Alexander) Review in June 2017 and with 22.2% of women on our Board and 19.5% of the combined executive committee and their direct reports being female, we ranked 124th in the FTSE 250 companies.</p>
3	<p>Commitment</p> <p>"All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively."</p>	<p>The Board ensures that on appointment, and thereafter, all Directors have sufficient time to carry out their duties, and monitors this on an on-going basis.</p> <p>Jamie Pike will step down as Chairman and Director of Ibstock plc on 24th May 2018. He will continue as Chairman of RPC Group plc. This will bring his total FTSE board chairmanships to two and, therefore, the Board is satisfied that Jamie will have the time and capacity to fulfil his duties as Chairman of the Company.</p>

	Code of Best Practice - Principles	Group Compliance Statement
B	EFFECTIVENESS cont'd	
	Commitment cont'd	Two FTSE chairmanships is also compliant with the 2017 proxy adviser voting guidelines including those issued by Institutional Shareholder Services and Glass Lewis. Jamie will, on appointment as Chairman, resign from the Audit and Remuneration Committees, in compliance with the Code. He will chair the Board and the Nomination Committee.
4	Development “All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.”	<p>Directors attend formal training seminars to update their knowledge and duties. Since 2015, the Directors have had access to the Deloitte Academy which provides a comprehensive programme of training and technical support development on an on-going basis. The Board is regularly notified of changes to relevant laws and regulations, with a report at each Board meeting from the General Counsel and Company Secretary. At least one face-to-face training session takes place with Directors as part of the Deloitte Academy, per year.</p> <p>Non-Executive Directors are invited to attend Group conferences, which provide information on business strategy, new product development and sales and marketing initiatives.</p> <p>Business presentations are given at Board meetings to ensure the Directors are kept informed of new product development, regional operations, business strategies and employee development.</p> <p>On joining the Board, all new Directors receive a tailored and comprehensive induction programme, comprising a combination of briefings and meetings with the Directors, General Counsel and Company Secretary, corporate advisers and senior management. This covers Directors’ duties and the UK listing regime, an overview of the business, its operations, risks and regulatory matters, governance, finance and investor relations.</p> <p>In the case of an Executive Director, this will include visits to our principal overseas operating companies in the Group in order to understand the international nature of our business and, where appropriate, meetings with key shareholders and analysts.</p>

	Code of Best Practice - Principles	Group Compliance Statement
B	EFFECTIVENESS cont'd	
	Development cont'd	<p>It is essential that our Directors have a solid grasp of our products and services and, in addition to product technical information and marketing brochures, inductees are given an in-depth tour of our manufacturing and R&D site in Cheltenham and are encouraged to take engineering courses at our UK Steam Technology Centre located at our Headquarters. Directors also visit WMFTG in Falmouth to gain an understanding of the fluid technology business.</p> <p>The Board has extensive experience and possesses the relevant skills and knowledge to perform its duties.</p>
5	<p>Information and Support “The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.”</p>	<p>The Board is supplied with management accounts, detailed operational reviews and other appropriate papers on a timely basis prior to each meeting.</p> <p>All Directors have access to the advice and services of the General Counsel and Company Secretary and all Directors are able to take independent professional advice, if necessary, at the Company’s expense.</p>
6	<p>Evaluation “The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.”</p>	<p>The Board conducts an annual review of its effectiveness and that of each Board Committee and Board member. The performance of the Chairman is assessed annually by the Non-Executive Directors led by the Senior Independent Director. The performance of the Group Chief Executive is assessed annually by the Chairman.</p> <p>During 2017, the Board carried out an internal evaluation of the performance of the Board and the Board Committees, in accordance with the provisions of the Code. The General Counsel and Company Secretary, on behalf of the Chairman, circulated a comprehensive questionnaire to members of the Board covering all issues related to the effective running of the Board and the functioning of the Committees. The responses were consolidated and anonymised and common themes identified in order for the Board to determine key actions and next steps for improving Board and Committee effectiveness and performance.</p>

	Code of Best Practice - Principles	Group Compliance Statement
B	EFFECTIVENESS cont'd	
	Evaluation cont'd	<p>The internal effectiveness review supported the overall conclusion of the 2015 external evaluation that the Board is collegiate, transparent and effective. In particular, it was noted that the Board is well-balanced across skill sets and backgrounds and has a good dynamic, with open discussion and the ability to table challenging points of view. The main recommendations, following the review, are:</p> <ul style="list-style-type: none"> - Board review of long-term risks linked to the Strategic Plan; - Non-Executive Director knowledge update via the Deloitte Academy; and - succession planning - continue with current plans and focus. <p>In accordance with the Code, an annual review of the effectiveness of the Board is undertaken with input from an independent external adviser every three years. The next external review is set for 2018.</p> <p>An outline of the evaluation process is set out on page 72 of the Annual Report 2017. A summary of the findings and the actions taken by the Board are shown on page 73 of the Annual Report 2017.</p>
7	<p>Re-election</p> <p>“All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.”</p>	<p>All Directors are subject to election or annual re-election by shareholders at the AGM.</p> <p>The Board considers that all Directors standing for re-election continue to perform effectively and demonstrate commitment to their roles. In addition, the Board considers that all Directors have the necessary skills and experience required to perform their duties, as set out in their biographies on pages 66 and 67 of the Annual Report 2017 and on the Group’s website: http://www.spiraxsarcoengineering.com/Governance/Pages/directors.aspx.</p>

	Code of Best Practice - Principles	Group Compliance Statement
C	ACCOUNTABILITY	
1	<p>Financial and Business Reporting “The board should present a fair, balanced and understandable assessment of the company’s position and prospects.”</p>	<p>The Annual Report seeks to present a clear understanding of the Company’s business model and strategy, and a fair, balanced and easily understood assessment of the Group’s performance, including guidance on its future prospects.</p> <p>The Directors continue to report in the annual and half-yearly financial statements that the business is a going concern.</p> <p>In accordance with the Code, the Directors confirm that they consider the Annual Report, taken as a whole, to be fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Group’s performance, business model and strategy.</p> <p>To ensure the Annual Report is fair, balanced and understandable, the Audit Committee assesses the consistency of the risks and judgements, reviews the Board minutes to ensure issues of significance are given prominence and arrive at a position where initially the Audit Committee, and then the Board, are satisfied with the overall fairness, balance and clarity of the document, which is underpinned by the following:</p> <ul style="list-style-type: none"> – comprehensive guidance for contributors at operational level; – a verification process dealing with the factual content of the reports; – a consideration of the appropriateness of alternative performance measures; – comprehensive reviews undertaken at different levels in the Group that aim to ensure consistency and overall balance; – comprehensive review by the senior management team.

	Code of Best Practice - Principles	Group Compliance Statement
C	ACCOUNTABILITY cont'd	
	Financial and Business Reporting cont'd	In accordance with provision C.2.2 of the Code, the Directors have assessed the viability of the Group over a three-year period, taking into account the Group's current financial position, business strategy, the Board's risk appetite and the potential impacts of the principal risks, outlined on pages 32 and 33 of the Strategic Report, and the Risk Appetite Statement on page 83. Based on this assessment, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period to 31st December 2020, as set out in the Viability Statement on page 80 of the Annual Report 2017.
2	Risk Management and Internal Control "The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems."	<p>The Company operates a risk management and internal control process which is reviewed at least annually by the Board and which is explained in detail on pages 77 to 83 of the Annual Report 2017. The Board, the Risk Management Committee and the Audit Committee have processes in place for the on-going monitoring of risk management and internal controls to ensure a robust and integrated approach. Further information on risk management and developments in 2017 are set out on pages 30 to 33 of the Annual Report 2017.</p> <p>The Risk Management Committee carried out a thorough review of all the risks on the risk register, which encompasses all Group businesses, including recent acquisitions Gestra and Chromalox. Following "bottom-up" reports from our Group companies, cybersecurity, loss of indirect channels to market and loss of critical suppliers were introduced onto the register.</p> <p>The Risk Management Committee also focused on crisis management to ensure that the Group can respond properly to a catastrophic event such as a terror attack, cyberattack or global pandemic that causes loss of life and/or life-changing injuries, threatens to de-stabilise the Company or significantly damage the Company's reputation. Further details are contained in the Strategic Risk and Risk Management Report beginning on page 30 and the Risk Management Committee Report starting on page 81.</p>

	Code of Best Practice - Principles	Group Compliance Statement
C	ACCOUNTABILITY cont'd	
3	<p>Audit Committee and Auditors “The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company’s auditors.”</p>	<p>The Audit Committee, comprising the Non-Executive Directors, meets at least three times a year. The Chairman and Group Finance Director are invited to attend. The Audit Committee also meets separately with the Company’s auditor without the other Directors present. A detailed explanation of the Audit Committee and its work is set out in the Governance section on pages 77 to 80 of the Annual Report 2017.</p>
D	REMUNERATION	
1	<p>The Level and Components of Remuneration “Executive directors’ remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied.”</p>	<p>The Company has set a Remuneration Policy that is designed to attract and retain motivated and talented individuals, structuring remuneration so as to reflect corporate and individual performance against stretching targets that promote the long-term success of the Company.</p> <p>The Remuneration Policy (set out on pages 99 to 108 of the Annual Report 2017) was approved at the 2017 AGM. The Committee is satisfied that the Remuneration Policy continues to reflect the interests of shareholders and aligns Executive remuneration with Company strategy. A detailed explanation is given in the Remuneration Report starting on page 85 of the Annual Report 2017.</p>
2	<p>Procedure “There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.”</p>	<p>Remuneration packages for individual Executive Directors are set by the Remuneration Committee after receiving appropriate information from independent sources and the Group Human Resources Director. The Remuneration Committee comprises the independent Non-Executive Directors. The Chairman, the Group Chief Executive and the Group Human Resources Director may be invited to attend the Committee’s meetings. No Director is involved in determining his or her own remuneration.</p>

	Code of Best Practice - Principles	Group Compliance Statement
D	REMUNERATION cont'd	
	Procedure cont'd	The contents of the Policy are fully compliant with the relevant sections of the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.
E	RELATIONS WITH SHAREHOLDERS	
1	<p>Dialogue with Shareholders “There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.”</p>	<p>The Group Chief Executive and the Group Finance Director meet on a regular basis with the Company’s major shareholders. Non-Executive Directors meet institutional shareholders on an ad hoc basis. The Chairman and the Senior Independent Director are available to meet with investors and shareholder representative bodies on remuneration and governance. We have listened to our shareholders to ensure that we understand their views.</p> <p>During 2017 we maintained an active dialogue with our principal investors and shareholder representative bodies to ensure that we understand their views. A calendar of events held in 2017 is set out on page 84 of the Annual Report 2017.</p> <p>This active dialogue, together with other market inputs, has enabled us to provide appropriate feedback to the Board and develop a better understanding of mutual objectives. It will continue to be a focus going forward.</p>
2	<p>Constructive Use of General Meetings “The board should use general meetings to communicate with investors and to encourage their participation.”</p>	<p>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.</p> <p>In 2017, 64.4% of the proxy votes received were lodged electronically through the CREST system.</p> <p>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.</p>

	Code of Best Practice - Principles	Group Compliance Statement
E	RELATIONS WITH SHAREHOLDERS	
	<p>Constructive Use of General Meetings cont'd</p>	<p>Shortly after the conclusion of the AGM, the results are also announced on the Group's website (http://www.spiraxsarcoengineering.com/Investors/Pages/shareholder-notices.aspx) and the London Stock Exchange.</p> <p>At the 2018 AGM the Group Chief Executive will give a short presentation about the previous year and generally about current trading and the Group's future plans.</p>