

## UK CORPORATE GOVERNANCE CODE STATEMENT OF COMPLIANCE

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/directors/corporate-governance-and-stewardship/uk-corporate-governance-code>).

Our Governance Report (see pages 66 to 123 of the Annual Report 2018), which can be found on the Group's website: <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 2018.

The UK Corporate Governance Code 2018 will apply to Spirax-Sarco Engineering plc (Company) in 2019 and we will report on compliance with the 2018 Code next year. Nevertheless, in the interests of preparedness, we have structured the Governance section of our Annual Report 2018 against the new principles while remaining in compliance with the prevailing Code.

We have addressed each Code principle in the table below.

	Code of Best Practice - Principles	Group Compliance Statement
<b>A</b>	<b>LEADERSHIP</b>	
<b>1</b>	<p><b>The Role of the Board</b>            "Every company should be headed by an effective board, which is collectively responsible for the long-term success of the company."</p>	<p>The responsibilities of the Board and its Directors are outlined in the Governance Report on pages 74 to 76 of the Annual Report 2018. The Board meets regularly on a formal basis, plus additional ad hoc meetings as necessary.</p>
<b>2</b>	<p><b>Division of Responsibilities</b>            "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>	<p>Responsibility is clearly split between the Chair and the Group Chief Executive. The Chair 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 75 of the Annual Report 2018.</p>

	Code of Best Practice - Principles	Group Compliance Statement
<b>A</b>	<b>LEADERSHIP cont'd</b>	
<b>3</b>	<p><b>The Chairman</b>            “The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.”</p>	<p>The Chair sets the Board’s agenda and ensures that adequate time is available for the discussion of all agenda items. The Chair promotes a culture of openness and debate. He also ensures constructive relations between the Executive Directors and the Non-Executive Directors. The Chair ensures effective communication with shareholders. A detailed explanation of the Chair’s responsibilities is set out on page 75 of the Annual Report 2018.</p>
<b>4</b>	<p><b>Non-Executive Directors</b>            “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 Chair and the Committee Chairs 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 Chair being present on such occasions as he considers appropriate.</p>
<b>B</b>	<b>EFFECTIVENESS</b>	
<b>1</b>	<p><b>The Composition of the Board</b>            “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 and the Chair 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 72 and 73 of the Annual Report 2018 and on the Group’s website: <a href="http://www.spiraxsarcoengineering.com/Governance/Pages/directors.aspx">http://www.spiraxsarcoengineering.com/Governance/Pages/directors.aspx</a>.</p>

	Code of Best Practice - Principles	Group Compliance Statement
<b>B</b>	<b>EFFECTIVENESS cont'd</b>	
<b>2</b>	<p><b>Appointments to the Board</b>            “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 Chair, 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>Peter France and Caroline Johnstone’s appointments as Non-Executive Directors each followed a rigorous and independent selection process conducted in accordance with the Code.</p> <p>The Nomination Committee developed a job specification and appointed Korn Ferry as an independent search and recruitment agency. Korn Ferry assisted the Committee with the evaluation of the candidates against the job specification and determined that the Non-Executive Directors selected were well qualified to perform the role. The appointments were approved by the full Board following interviews with all Directors.</p> <p>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 66 of the Annual Report 2018, 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> <p>Diversity and inclusion are key elements in our Group strategic sustainability project where we undertook the following:</p> <ul style="list-style-type: none"> <li>– engaged the wider Executive team on how to increase diversity and promote inclusion across our organisation;</li> <li>– published our new Diversity and Inclusion Policy on the Group’s website:  <a href="http://www.spiraxsarcoengineering.com/Governance/Pages/policies-procedures.aspx">http://www.spiraxsarcoengineering.com/Governance/Pages/policies-procedures.aspx</a>;</li> </ul>

	Code of Best Practice - Principles	Group Compliance Statement
<b>B</b>	<b>EFFECTIVENESS cont'd</b>	
	<b>Appointments to the Board cont'd</b>	<ul style="list-style-type: none"> <li>– reviewed external talent pools to increase the number of female candidates;</li> <li>– established an Executive mentoring programme for female talent with male and female mentors; and</li> <li>– completed an equal pay audit for all UK employees.</li> </ul> <p>During 2018, we participated in the FTSE Women Leaders (Hampton-Alexander) Review. With 22.2% female representation on our Board and 18% of the combined Executive Committees and their direct reports being female, we were ranked 151st in the FTSE 250 for senior management gender diversity. We recognise that further actions need to be taken to increase the representation of women.</p> <p>As a Group we are committed to gender diversity and to achieving a minimum target of 33% female representation on the Board, the Group Executive Committee and their direct reports. We ensure that this target is taken into account in our succession planning and recruitment. Following the appointment of Caroline Johnstone, at the time of publication of the Annual Report 2018, we have 30% female representation on our Board.</p>
<b>3</b>	<b>Commitment</b> “All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.”	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.

	Code of Best Practice - Principles	Group Compliance Statement
<b>B</b>	<b>EFFECTIVENESS cont'd</b>	
<b>4</b>	<p><b>Development</b>            “All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.”</p>	<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 Group 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, Group 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>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 at least one of our manufacturing sites across the Group.</p> <p>The Board has extensive experience and possesses the relevant skills and knowledge to perform its duties.</p>

	Code of Best Practice - Principles	Group Compliance Statement
<b>B</b>	<b>EFFECTIVENESS cont'd</b>	
<b>5</b>	<p><b>Information and Support</b>            “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 Group General Counsel and Company Secretary and the external advisers listed on page 194 of the Annual Report 2018. All Directors are able to take independent professional advice, if necessary, at the Company’s expense.</p>
<b>6</b>	<p><b>Evaluation</b>            “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 Chair 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 Chair.</p> <p>In 2018, we commissioned an independently-facilitated Board effectiveness review conducted by Independent Audit Ltd. (Independent Audit Ltd provides no other services to the Group.) Our aim was to capture open and constructive feedback from Board members which would:</p> <ul style="list-style-type: none"> <li>– provide insight into our effectiveness;</li> <li>– point to actions for improving our performance; and</li> <li>– establish a benchmark for measuring future progress.</li> </ul> <p>The review was carried out in accordance with the guidance in the Code. The Board evaluator’s approach involved a Board observation; one-to-one interviews with all Directors, the Group General Counsel, Group Human Resources Director and key advisers, such as Deloitte LLP and Willis Towers Watson; individual feedback meetings; and a Board discussion. Each participant was asked to evaluate the Board and its Committees. Subjects covered included the work of the Board, the Board environment and the Board’s use of time. Directors were asked for their views on shareholder engagement and relationships and how these relationships might be improved.</p>

	Code of Best Practice - Principles	Group Compliance Statement
<b>B</b>	<b>EFFECTIVENESS cont'd</b>	
	<b>Evaluation cont'd</b>	Views were sought on the Board's input into strategy discussions, governance and compliance, risk management and succession planning. Views were also sought on the Board culture and the relationships with senior management as well as how new Board members are selected and inducted.  An outline of the evaluation process and a summary of the findings and the Board's agreed actions is set out on page 81 of the Annual Report 2018.
<b>7</b>	<b>Re-election</b> "All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance."	All Directors are subject to election or annual re-election by shareholders at the AGM.  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 72 and 73 of the Annual Report 2018 and on the Group's website: <a href="http://www.spiraxsarcoengineering.com/Governance/Pages/directors.aspx">http://www.spiraxsarcoengineering.com/Governance/Pages/directors.aspx</a> .
	Code of Best Practice - Principles	Group Compliance Statement
<b>C</b>	<b>ACCOUNTABILITY</b>	
<b>1</b>	<b>Financial and Business Reporting</b> "The board should present a fair, balanced and understandable assessment of the company's position and prospects."	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.  The Directors continue to report in the annual and half-yearly financial statements that the business is a going concern.  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.

	Code of Best Practice - Principles	Group Compliance Statement
<b>C</b>	<b>ACCOUNTABILITY cont'd</b>	
	<p><b>Financial and Business Reporting cont'd</b></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"> <li>– comprehensive guidance for contributors at operational level;</li> <li>– a verification process dealing with the factual content of the reports;</li> <li>– a consideration of the appropriateness of alternative performance measures;</li> <li>– comprehensive reviews undertaken at different levels in the Group that aim to ensure consistency and overall balance;</li> <li>– comprehensive review by the senior management team.</li> </ul> <p>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 30 to 33 of the Strategic Report, and the Risk Appetite Statement on page 88. 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 2021, as set out in the Viability Statement on page 89 of the Annual Report 2018.</p>

	Code of Best Practice - Principles	Group Compliance Statement
<b>C</b>	<b>ACCOUNTABILITY cont'd</b>	
<b>2</b>	<p><b>Risk Management and Internal Control</b>            “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>	<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 82 to 89 of the Annual Report 2018. 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 2018 are set out on pages 28 to 33 of the Annual Report 2018.</p> <p>The Risk Management Committee carried out a thorough review of all the risks on the risk register, which encompasses all Group businesses.</p> <p>The Risk Management Committee also focused on Brexit and climate change to ensure that the Group can respond properly to those risks. Further details are contained in the Strategic Risk and Risk Management Report beginning on page 28 and the Risk Management Committee Report starting on page 86.</p>
<b>3</b>	<p><b>Audit Committee and Auditors</b>            “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 Chair and Chief Financial Officer 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 82 to 85 of the Annual Report 2018.</p>

	Code of Best Practice - Principles	Group Compliance Statement
<b>D</b>	<b>REMUNERATION</b>	
<b>1</b>	<p><b>The Level and Components of Remuneration</b></p> <p>“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 110 to 119 of the Annual Report 2018) 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 90 of the Annual Report 2018.</p>
<b>2</b>	<p><b>Procedure</b></p> <p>“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 Chair, 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> <p>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.</p>

	Code of Best Practice - Principles	Group Compliance Statement
<b>E</b>	<b>RELATIONS WITH SHAREHOLDERS</b>	
<b>1</b>	<p><b>Dialogue with Shareholders</b>            “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 Chief Financial Officer meet on a regular basis with the Company’s major shareholders. Non-Executive Directors meet institutional shareholders on an ad hoc basis. The Chair 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 2018 we maintained an active dialogue with our principal investors and shareholder representative bodies to ensure that we understand their views.</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> <p>In 2018, we undertook a shareholder consultation regarding Executive Director remuneration, which is explained in detail in the Annual Report 2018 on pages 92, 94 and 107 to 109 of the Remuneration Report.</p>
<b>2</b>	<p><b>Constructive Use of General Meetings</b>            “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 2018, 71.83% of the proxy votes received were lodged electronically through the CREST system.</p> <p>The Chair, 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
<b>E</b>	<b>RELATIONS WITH SHAREHOLDERS cont'd</b>	
	<b>Constructive Use of General Meetings cont'd</b>	<p>Shortly after the conclusion of the AGM, the results are also announced on the Group's website: <a href="http://www.spiraxsarcoengineering.com/Investors/Pages/shareholder-notices.aspx">http://www.spiraxsarcoengineering.com/Investors/Pages/shareholder-notices.aspx</a>, and the London Stock Exchange.</p> <p>At the 2019 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>