

News Release

Tuesday 9th August 2016
2016 Half Year Results

5% organic sales growth against flat industrial production growth

Six months ended 30th June 2016

Adjusted*	2016	2015	Reported	Organic**
Revenue	£344.0m	£320.0m	+8%	+5%
Adjusted operating profit*	£77.5m	£65.8m	+18%	+16%
Adjusted operating profit margin*	22.5%	20.6%	+190 bps	+210 bps
Adjusted profit before taxation*	£76.2m	£65.5m	+16%	
Adjusted earnings per share*	73.1p	60.5p	+21%	
Dividend per share	22.5p	20.8p	+8%	

Statutory	2016	2015	Reported
Revenue	£344.0m	£320.0m	+8%
Operating profit	£74.7m	£59.4m	+26%
Profit before taxation	£73.4m	£57.3m	+28%
Earnings per share	70.2p	52.2p	+34%
Dividend per share	22.5p	20.8p	+8%

*All adjusted profit measures exclude certain non-operational items, which total £2.8m for the six months ended 30th June 2016, as defined in Note 2.

**References to "organic" are at constant currency excluding the effects of acquisitions and disposals.

- Organic sales growth of 5%
- Adjusted operating profit up 18%
- Adjusted operating margin increased 190 bps
- Growth in both the Steam Specialties and Watson-Marlow businesses
- 90% cash conversion and interim dividend growth of 8%

Commenting on the results, Nicholas Anderson, Group Chief Executive, said:

"We are very pleased with the 5% organic sales growth and increase in adjusted operating profit of 18%, against flat global industrial production growth rates. Despite challenging conditions, we have seen organic sales growth in all divisions of the Steam Specialties business and Watson-Marlow is having another very strong year.

In percentage growth terms, our first half results benefited from a relatively weak second quarter comparator and the carryover of some large orders from last year. As a result we would expect lower organic growth rates in the second half of the year. Reported growth will benefit from weaker sterling but will be less influenced by acquisitions. The slower growth rate, reduced profit contribution from Argentina, investment for future growth and the Hiter acquisition, should narrow the half on half margin expansion this year, resulting in a lower second half profit margin than in 2015.

We anticipate that our markets will remain challenging in the second half of this year. We are seeing the benefits of investments in our strategy for growth and have a robust, resilient and geographically diverse business model, which coupled with a strong balance sheet positions us well to navigate the current economic environment. The Board remains confident that the Group will make further progress in 2016."

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 Kevin Boyd, Group Finance Director
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The meeting with analysts will be available as a live audio webcast on the Company's website at www.spiraxsarcoengineering.com or via the following link <http://edge.media-server.com/m/p/eny4ymha> at 09:00 BST, and a recording will be posted on the website shortly after the meeting. For access from any IOS Apple or Android mobile device please use the following QR code:



Unless otherwise stated, the figures quoted in the text below are based on the adjusted Group results (see Note 2). References to "organic" changes are like-for-like excluding acquisitions, disposals and the effects of exchange rate movements.

REVIEW OF OPERATIONS

	2015	Exchange	Organic	Acquisitions and Disposals	2016	Organic	Reported
Revenue	£320.0m	£4.4m	£17.0m	£2.6m	£344.0m	+5%	+8%
Operating profit	£65.8m	£0.3m	£10.6m	£0.8m	£77.5m	+16%	+18%
Operating margin	20.6%				22.5%	+210 bps	+190 bps

Organic sales

Strong organic sales growth of 5% was achieved in the first half of the year, helped in part by comparison to a relatively weak performance in the second quarter of the prior year. Acquisitions, net of disposals, enhanced sales by almost 1%, while favourable currency movements increased sales on translation by over 1% when compared with first half 2015 average exchange rates. Sales of £344.0 million were therefore significantly ahead of the prior year (2015: £320.0 million) at reported exchange rates.

Global industrial production growth rates, which drive our underlying markets, have progressively slowed over the past year to a very low or zero growth environment in both developed and emerging markets. Whilst this continues to cause a drag on business activity, we remain focused on continuing to execute our strategic actions to outperform our markets, as demonstrated by our strong half year performance.

Organic sales growth reached 4% in our Steam Specialties business following an exceptionally strong late spring versus a weak comparative period in 2015. Asia Pacific performed well, achieving organic sales growth of 8%, despite the continued challenging economic conditions in these markets, driven by strong performance in China and shipment of project orders carried over from 2015 in Korea. The Americas delivered organic sales growth of 5% driven by Latin America, with Argentina benefiting from its dollar-based pricing following the currency devaluation in late 2015. This has been partially offset by a reduction in underlying volumes in Brazil due to the difficult economic conditions. Organic sales declined by 1% in North America. While in Europe, Middle East and Africa (EMEA) we saw an increase in organic sales of 1%. Watson-Marlow saw organic sales rise by 10%, with expansion in all geographic regions, especially Asia Pacific.

Profits

Group adjusted operating profit was up 16% on an organic basis, helped by the operational gearing effects of a particularly strong second quarter. In the Steam Specialties business, operating profit was 16% higher on an

organic basis reflecting the sales growth and strong cost control. EMEA performed well, with operating profit ahead 11% organically while in Asia Pacific organic operating profit growth was 14%. Overall in the Americas operating profit was 28% higher organically, again aided by the currency devaluation in Argentina. Watson-Marlow performed exceptionally well, increasing operating profit organically by 21% as a result of the strong sales growth. At reported exchange rates, the Group adjusted operating profit of £77.5 million was 18% higher (2015: £65.8 million).

Net financial expense increased to £1.3 million from £0.6 million reflecting the reduction in interest received from reduced bank deposits. Income from Associate companies declined by £0.3m due to the sale in March 2015 of our investment in India ahead of the start-up of our wholly owned direct sales and manufacturing operation there.

Adjusted pre-tax profit increased by 16% at constant and reported exchange rates to £76.2 million (2015: £65.5 million). The pre-tax profit for the first half year on a statutory basis was £73.4 million (2015: £57.3 million). The 2015 statutory pre-tax profit included a one-off charge of £3.8 million in respect of the closure of our metering manufacturing facility in the USA, a net charge of £1.7 million in respect of exchange translation losses from prior years and a small gain on disposal, relating to the sale of the Group's 49.3% interest in our Associate company Spirax Marshall in India. The statutory pre-tax profit includes the amortisation of acquisition-related intangible assets.

The overall tax rate, based on the adjusted profit before tax and excluding the Associate profit, was slightly lower at 29.6% (2015: 30.4%) which we anticipate will prevail for the full year.

Currency impacts

During 2016, the currency headwind experienced for the last couple of years reversed, increasing sales on translation by over 1% compared with first half 2015 average exchange rates. Gains from the stronger dollar, euro and renminbi have far outweighed the impact of weaker currencies in Russia, South Africa and Latin America, including the significant devaluation in Argentina. In relation to operating profit, the total impact of favourable exchange movements in the first half of 2016, including both translation and transaction effects was broadly neutral.

Since the result of the UK Referendum on EU membership, sterling has depreciated strongly against almost all currencies, however it had a minimal positive impact on our trading results for the 6 months ended 30th June 2016. If spot rates at 30th June 2016 prevail for the remainder of the year, the translation and transaction impact on sales and operating profit for the full year, compared with the full year 2015 exchange rates, would be 6%. Note 14 includes a table of the Group's significant exchange rates.

Earnings per share

Adjusted basic earnings per share increased by 21% to 73.1p (2015: 60.5p), 17% due to an increase in profits and 4% due to a lower average number of shares resulting from the share consolidation that took place on 15th June 2015. Basic earnings per share on a statutory basis were 70.2p (2015: 52.2p).

Dividends

The Board has declared an interim dividend of 22.5p (2015: 20.8p) per ordinary share, an increase of 8%. The dividend will be paid on 11th November 2016 to shareholders on the register at the close of business on 14th October 2016. The final dividend of 48.2p per share in respect of 2015 was paid on 27th May 2016 at a cash cost of £35.4 million.

Trading

Our businesses serve very diverse markets across a wide range of different industries, geographic regions, customers and products. As steam is so widely used across so many applications, our markets broadly reflect changes in global economic conditions and, in particular, movements of industrial production growth rates. Our Watson-Marlow business benefits from a similar diversity of markets. The Group's direct sales business model brings to bear our highly trained sales engineers on the solution of customers' energy and water saving,

CO₂ reduction, productivity, quality and sustainability issues, to help meet our stated goal of outperforming our markets.

Global industrial production growth, which we typically lag by a few quarters, progressively slowed through 2015 to a zero growth environment, with global growth levels currently flat. The slowdown of industrial production growth has been particularly marked in China and other emerging markets where we have long had a strong presence. Industrial recessionary conditions continue in Latin America, while China has seen its industrial production growth rate rebound modestly to just above zero in the first half of 2016. The industrial production slowdown has also been evident in the developed markets of North America where a contraction of around 1% has occurred in recent quarters, while in Europe industrial production growth rates have stayed relatively stable at around 1%.

In the first half of 2016, sales in our Steam Specialties business were up 4% on an organic basis driven by a higher volume of sales in Asia Pacific, particularly in China and Korea, and Latin America. The disposal of M&M Italy which occurred in July 2015 reduced reported sales by 1%. The operating profit margin in our Steam Specialties business was higher at 21.3% organically, compared with 19.2% in the first half of last year, due to continued overhead cost control, lower material costs, the benefits of the measures taken in the first half of 2015 to reduce costs in the UK and USA manufacturing plants and the one-off benefits from Argentina's strong devaluation in late 2015.

Sales in our Watson-Marlow business increased 17% at constant currency and by 10% on an organic basis, with strong contributions from all geographic regions. Recent acquisitions – Asepco, Flow Smart and the manufacturing and distribution rights of MasoSine pumps in Japan – have performed strongly, integrating smoothly into the Watson-Marlow business and culture. BioPure, acquired in 2014, achieved double digit growth, well ahead of expectations. Sales increased across almost all industry sectors and new products have again contributed well. The operating profit margin in Watson-Marlow increased to 32.9% from 29.9% as a result of operational gearing, control of overheads and favourable material costs.

The potential implications of the UK's EU Referendum on the Group remain to be seen; visibility is particularly uncertain and much will depend upon the outcome of negotiations once Article 50 of the EU's Lisbon Treaty is invoked. However, early macro indicators are of a slow-down in UK investments which may lead to some UK project delays in the second half, but at this stage it is too early to assess this definitively.

As a Group we are well-placed to mitigate challenges and capitalise on opportunities that arise as a result of the Referendum. More than 90% of Group sales are generated outside of the UK, we have a well-spread global manufacturing base and a diverse customer base across widespread industries and geographies. In the Group as a whole, approximately 35% of goods sold are manufactured in the UK.

We continue to implement our strategy for growth, which was set out in our 2015 Annual Report. Our strategy builds on the foundation of our robust, direct sales business model and focuses on doing better what we already do well, so that we can achieve growth that outperforms our markets. We are seeing the benefits of our strategic focus, with above market growth in several of our priority sectors, supply chain efficiency improvements and increased selling effectiveness. In February we opened our first sectorised manufacturing unit in Cheltenham, UK, dedicated exclusively to Clean Steam products for the Food & Beverage, Pharmaceutical and Healthcare sectors.

Governance and Board changes

As previously announced, David Meredith retired at the conclusion of the AGM on 10th May 2016 and was replaced by Kevin Boyd, who joined the Company on 11th April 2016. Kevin brings with him a wealth of experience as a Finance Director with a strong international track record. Kevin is both a Chartered Accountant and a Chartered Engineer and was most recently Group Finance Director of Oxford Instruments plc. Previous experience included Group Finance Director of Radstone Technology plc and senior finance positions with TI Group (now Smiths Group plc). Kevin is a Non-Executive Director of EMIS Group plc.

Spirax Sarco Steam Specialties business

Europe, Middle East and Africa (EMEA)

	2015	Exchange	Organic	Disposal	2016	Organic	Reported
Revenue	£111.8m	£2.7m	£0.8m	(£3.2m)	£112.1m	+1%	+0%
Operating profit	£21.3m	£0.2m	£2.2m	(£0.6m)	£23.1m	+11%	+8%
Operating margin	19.0%				20.6%	+180 bps	+160 bps

Europe, Middle East and Africa (EMEA) had a solid first half, with a notably improved second quarter, compensating for a slow start to the year. Sales, at £112.1 million, were 1% up on an organic basis. Exchange movements were positive, increasing sales on translation by 2% and operating profit by 1% versus the first half of last year. At reported rates, operating profit was up 8%, benefiting from lower material costs, currency gains, continued price management initiatives and control of overheads, as well as the savings from the headcount reduction measures taken in the Steam Specialties UK manufacturing operations in the first half of 2015. This strong profit growth on flat sales delivered an operating profit margin of 20.6% (2015: 19.0%).

Economic conditions in EMEA have been relatively stable throughout most of the period, albeit with industrial production growth rates remaining at very low levels of close to 1% in the region as a whole, and at zero in many of our markets.

Performance across Europe was mixed on an organic basis, with sales up in France and Germany but down in Italy and the UK, against a tough comparator. Operating profit was ahead in our larger markets of Germany, France, Italy and the UK. Russia continues to improve on the slow first half of last year and we have seen strong performances in a number of our smaller operations, notably the Czech Republic, Denmark, Sweden, Netherlands and Egypt.

In the first half of 2015 action was taken to reduce costs in our UK Steam Specialties manufacturing operation with headcount reduction incurring one-off costs of £1.0 million. Annualised benefits of £2.2 million commenced from April 2015. As expected, these annualised benefits have been fully realised and contributed a £1.6 million profit increase in the first half of this year. We will continue to focus on efficiency gains, customer service levels and improvements to the wider supply chain.

Asia Pacific

	2015	Exchange	Organic	Acquisition / Disposal	2016	Organic	Reported
Revenue	£74.3m	£1.4m	£6.3m	-	£82.0m	+8%	+10%
Operating profit	£15.5m	£0.3m	£2.3m	-	£18.1m	+14%	+17%
Operating margin	20.9%				22.0%	+110 bps	+110 bps

Sales in Asia Pacific were up 8% on an organic basis to £82.0 million and up 10% at the more favourable reported exchange rates. Economic conditions have continued to weaken across the region and industrial production growth rates remain weak in China and Korea, after a slight improvement in the first quarter. Despite these tough economic conditions, performance in China and Korea was strong with increased sales and operating profit as we continue to reap the benefits of the successful implementation of our strategy. Operating profit of £18.1 million was up 17% (2015: £15.5 million) at reported currency and up 14% on an organic basis. The operating profit margin was 22.0% (2015: 20.9%).

Our largest sales and profit contributor, which accounted for over 10% of Group sales in 2015, is China, where over-capacity and reduced investments in the manufacturing sector persist, in general reducing large project orders. Despite this we had a very strong first half in China with sales and profits up as we benefited from a few larger projects for the oil and gas sector, while we continued to grow with smaller, self-generated opportunities. We expect our industrial markets in China to continue with very low levels of growth for the

remainder of 2016. We aim to continue mitigating this by leveraging our strength in some of the more resilient sectors such as Food & Beverages, Pharmaceuticals and Healthcare, and maximising the benefits of our powerful direct sales business model.

In Korea, our second largest territory in Asia Pacific, sales and profit were higher on an organic basis, despite a challenging economic climate with industrial production output currently flat. The large project order book carried over from 2015 started unwinding, as expected, in the first half of 2016. Additionally, a focus on smaller self-generated projects, particularly in the Pharmaceutical and Electronics industries, provided opportunities for some good orders and contributed to sales growth.

Elsewhere in Asia Pacific, we achieved improved results in Malaysia, Japan and the Philippines but saw downturns in Indonesia and New Zealand. Our new company in Vietnam, which began trading in January, performed in line with our expectations.

In March 2015 we completed the separation from our long-standing joint venture in India via the sale of the Group's 49.3% interest in Spirax Marshall. Our new wholly owned manufacturing and direct sales operation commenced trading in the second half of 2015 and has made a small contribution to sales in the first half of 2016. As expected, the company made an operating loss during the first half, as we continue to incur start-up costs to develop the business. The state-of-the art manufacturing, training and office facilities in Chennai are now complete and limited manufacturing commenced in June. We are seeing a steadily improving trend of business as our brand value becomes better understood. The local availability of manufactured stock, with IBR (Indian Boiler Regulation) approved products and world-class service levels, position us well to penetrate the market. Industrial production growth has slowed in India in recent quarters, but we believe the long-term prospects are good and we look forward to sales growing over the coming years.

We remain positive on the Asia Pacific region, despite continuing economic weakness, as we implement our strategy and focus on self-generated growth opportunities in key markets, outperform in existing markets, and invest for growth in new ones.

Americas

	2015	Exchange	Organic	Acquisition / Disposal	2016	Organic	Reported
Revenue	£61.0m	(£2.1m)	£2.7m	-	£61.6m	+5%	+1%
Operating profit	£11.8m	(£1.3m)	£2.9m	-	£13.4m	+28%	+14%
Operating margin	19.3%				21.7%	+400 bps	+240 bps

On an organic basis, sales increased by 5% in the Americas to £61.6 million and by 1% at reported exchange rates (2015: £61.0 million), despite a tough economic climate. Exchange losses on translation of sales from weaker currencies in Latin America were partially offset with exchange gains in North America due to the stronger dollar. In particular, in Argentina the peso is down 34% due to the devaluation at the end of 2015, the Brazilian real down 14% and the US dollar up 8%. North America saw a slight decline in sales on an organic basis, however, organic sales in Latin America were significantly ahead, driven largely by the benefit of US dollar pricing in Argentina. Total operating profit was up 28% on an organic basis and 14% at reported currency to £13.4 million (2015: £11.8 million) reflecting higher margin sales in Argentina and the savings from the closure of the small manufacturing site in Colorado, USA in 2015. This contributed to a higher operating profit margin of 21.7% (2015: 19.3%).

Economic conditions in North and Latin America have been challenging with negative industrial production growth rates in the period. Latin America has been in an industrial recession since 2014 with strongly negative industrial production growth rates during this period. Brazil's industrial output continued to contract at low double digit rates in recent quarters and Argentina also contracted in 2016. The recessionary conditions in Argentina were anticipated and we have increased investment in sales, operations and marketing in preparation for the future and a more business-friendly environment.

Sales were slightly lower on an organic basis in North America, where industrial production growth rates have steadily worsened through the period, negatively impacting distributors; however profits improved due to better pricing and cost reduction action taken. In Canada, depressed oil prices continue to weigh heavily on the upstream investments in the Tar Sands. Maintenance and repairs performed well but were significantly affected in May by the Fort McMurray Wildfires. We anticipate an upturn as sites reopen in the second half of the year. Our journey towards higher direct sales continues in the USA, whilst maintaining and strengthening our distribution relationships. Despite challenging conditions, we continue to invest heavily in our sales organisation and we are seeing the benefits of this in the Food & Beverage and Pharmaceutical market sectors in particular, as we uncover opportunities to help them become more sustainable and increase operational efficiency.

In June 2015, we completed the closure of our small meter manufacturing facility in Colorado, USA which resulted in an operating gain of £0.7 million in the first half of 2016. One-off, mostly non-cash, closure costs of £3.8 million were incurred in 2015 and were excluded from the adjusted operating profit but were charged against profit in the 2015 statutory reported results.

Our performance in Latin America was mixed, on an organic basis, with a strong decline in sales and profit in Brazil; investments for growth in Colombia, following the acquisition of 2015; and a good performance in Mexico, Chile and our fledgling company in Peru. Operating profit in Latin America benefited strongly in the first half of 2016 from Argentina's currency devaluation in late 2015, as US dollar-denominated prices rose ahead of input replacement costs. This non-recurring gain, estimated at £1.5 million, is not expected to repeat in the second half of 2016.

On 1st July we acquired the assets of Hiter Indústria e Comércio de Controles Termo-Hidráulicos Ltda (Hiter), a process control valve manufacturer based in Sorocaba, Brazil, for a total purchase consideration of £3.9 million which was paid in cash from existing Group resources. Hiter is highly synergistic with Spirax Sarco's successful Brazilian steam and process fluid applications business. The Hiter brand has a well established reputation in Brazil with a large installed base and had net sales of over £7 million in 2015. Following the acquisition, Spirax Sarco becomes the only significant manufacturer of both control and safety valves in Brazil.

Hiter has undergone significant change in recent years, resulting in a December 2015 announcement to close the company, effective March 2016. The assets have been acquired by a new Spirax Sarco subsidiary, Hiter Controls Engenharia Ltda, which will commence trading in the fourth quarter of 2016. It is anticipated that the start-up and pre-operating losses incurred in 2016 will reach £1.2 million on negligible sales. After re-establishing Hiter's market position during 2017, this business is expected to make a positive contribution to Group earnings from 2018.

Although an economic pick-up in the region is not expected until at least 2017, overall our position in Latin America remains strong. Our longevity of trading in these markets, strong brand reputation, local manufacturing capabilities and continued investment in people, skills and operations position us well to manage and prosper in these difficult trading conditions.

Watson-Marlow

	2015	Exchange	Organic	Acquisitions	2016	Organic	Reported
Revenue	£72.8m	£2.5m	£7.2m	£5.8m	£88.3m	+10%	+21%
Operating profit	£21.8m	£1.1m	£4.7m	£1.4m	£29.0m	+21%	+33%
Operating margin	29.9%				32.9%	+300 bps	+300 bps

Sales increased by 17% at constant currency including first time contributions from our new business in Japan, established in July 2015; Flow Smart, acquired in November 2015; and a full half year contribution from Asepco, acquired in April 2015. On an organic basis sales grew 10%. The acquisitions have performed strongly, ahead of expectations, integrating smoothly into the Watson-Marlow business and culture and

growing sales by £5.8 million. Exchange rates increased sales on translation by £2.5 million in the first half, giving a total reported sales increase of 21% from £72.8 million to £88.3 million. Reported operating profit also increased, by 33% from £21.8 million to £29.0 million, including a £1.4 million contribution from acquisitions and an exchange benefit of 5%. The operating profit margin was 32.9%, up from 29.9% in the prior year. On an organic basis the operating profit increased by 21%.

We delivered good growth in the Biopharm, OEM and General Industrial markets. Mining was stable with new business in Asia Pacific more than off-setting weakness in Africa, but Food & Beverage was down against a particularly strong compare. New products continued to contribute well. During the period, we launched the Qdos 120, the third model in the innovative range of peristaltic metering pumps, and the Watson-Marlow 530 pump. We retain an active pipeline of new product developments for launch in the forthcoming quarters.

All geographic regions contributed to the sales growth on an organic basis. Exceptional growth was achieved in Asia Pacific, driven by China and our new operating company in Taiwan. Excluding acquisitions, strong growth in the Americas was led by the USA. Strong growth was also sustained in EMEA, particularly in France, Germany and Russia, with the region continuing to benefit from the increased sector focus and direct sales expansion over recent years.

Balance sheet and cash flow

Capital employed of £385 million at 30th June 2016 increased by 3% on an organic basis, versus the equivalent position at 31st December 2015. Investment in fixed assets was greater than the level of disposals and depreciation in the first half year as we continued to invest in our new plants in India and China. As these facilities reach completion we would expect capital spending to be at a similar level to last year.

Cash generation remains a priority, with 90% cash conversion in the first half and we continue to operate with a strong balance sheet. Currency movements increased net cash balances by £5.4 million on translation. Net cash at 30th June 2016 was £20.6 million compared with £4.8 million at 31st December 2015. Net cash at 30th June 2015 was £53.5 million, prior to the payment of the special dividend of £91 million, paid in July 2015. A final dividend of £35.4 million for the year ended 31st December 2015 was paid in May 2016.

Following the result of the UK Referendum on EU membership, sterling has depreciated strongly against almost all currencies and this has had a significant impact on the balance sheet. Translating the 31st December 2015 balance sheet at exchange rates prevailing at 30th June 2016 increases net assets at 31st December 2015 by £50 million.

In addition to the direct translation impact of "Brexit", bond yields have fallen significantly since 31st December 2015 which has significantly contributed to the retirement benefit deficit increasing by £40.1 million to £113.8 million (31st December 2015: £73.7 million). Our exposure on forward contracts has also been impacted by the movement in exchange rates with a fair value liability of £2.6 million at 30th June 2016 (31st December 2015: £0.2 million liability).

Adjusted cash flow	30 th June 2016	30 th June 2015
	£m	£m
Adjusted operating profit	77.5	65.8
Depreciation (excluding amortisation of acquisition intangible assets)	12.6	12.3
Adjusted earnings before interest, tax, depreciation and amortisation	90.1	78.1
Share plans	1.3	1.5
Working capital changes	(5.1)	(1.6)
Net capital expenditure (including software and development)	(16.8)	(13.4)
Cash from operations	69.5	64.6
Net Interest	0.1	0.7
Income taxes paid	(27.3)	(24.2)
Free cash flow	42.3	41.1
Net dividends paid	(35.5)	(34.2)
Provisions and post-retirement deficit reduction payments	2.7	(0.6)
Proceeds from issue of shares	1.0	1.9
Acquisitions and disposals	(0.1)	(0.6)
Other items	-	(0.5)
Cash flow for period	10.4	7.1
Exchange movements	5.4	(6.1)
Opening net cash	4.8	52.5
Closing net cash at 30th June	20.6	53.5

Principal risks and uncertainties

The Group has a robust risk management process in place to identify, evaluate and manage the identified risks that could impact the Group's performance. The current risks, together with an explanation of the impact and mitigation actions, are set out in the 2015 Annual Report on pages 32 to 33. The Group has reviewed these risks and concluded that they represent the current position and remain relevant for the second half of the financial year. A summary of the relevant key risks and uncertainties is:

- **Economic and political instability**
Economic and political instability creates risks for our locally based direct operations, including the impact of regime changes
- **Significant exchange rate movements**
The Group reports its results and pays dividends in sterling; operating and manufacturing companies trade in local currency
- **Loss of manufacturing output at any Group factory**
Loss of manufacturing output at any important plant risks serious disruption to sales operations
- **Defined benefit pension deficit**
Defined benefit pension schemes carry risks in relation to investment performance, security of assets, longevity and inflation
- **Breach of legal and regulatory requirements**
The Group is subject to many different laws and regulations, breaching these laws and regulations could have serious consequences
- **Non-compliance with health, safety and environmental legislation**
A major health and safety incident could cause total or partial closure of a manufacturing facility
- **Product specification failure**
Failure to meet customers' specific technical requirements could result in disruption and potential loss to an end users' plant or facility.

The Board has reviewed the risks associated with the results of the UK Referendum on EU membership and concluded that our contingency plans provide sufficient cover for issues arising as a result of the "Brexit" vote. The following principal risks have been, and are likely to continue to be, affected by the Referendum result:

- **Economic and political instability** – remains the Group’s greatest principal risk; the Group’s resilient business model, diverse customer base and wide geographic spread help to reduce risk from local or regional economic and political instability
- **Significant exchange rate movements** – remains a significant risk; current exchange gains from weaker sterling
- **Defined benefit pension deficit** – increased risk; defined benefit pension liability has increased as a result of lower bond yields.

The Group’s resilient business model has proven strong and defensive in the long term and has enabled the business to prosper even in challenging market conditions. Over 90% of revenues and profits are generated outside of the UK and the Group is well-prepared and well-placed to take on the challenges and identify the opportunities resulting from a UK exit from the EU.

Outlook

We continue to invest in the implementation of our strategy, which is enhancing our ability to outperform our markets and generate our own growth. In our Steam Specialities business we derive a significant proportion of our revenue from small project orders which are largely self-generated as our highly skilled sales engineers identify opportunities to provide engineered solutions that meet end-users’ needs for energy and water savings, emissions reduction, productivity and quality improvements, regulatory compliance and cost reductions. We also have a large installed product base which requires regular maintenance and repair, and a strong brand reputation across the markets and industries that we serve, making our business resilient during difficult economic times.

Our markets are strongly influenced by industrial production growth rates, which our business tends to lag by a few quarters. Growth rates of global industrial production have progressively slowed in recent years and the world is now in a zero growth environment. Despite this, we have achieved good organic sales growth in parts of Asia Pacific and Latin America in the Steam Specialities business, while our Watson-Marlow business continues performing strongly across all geographies.

Currency headwinds abated and turned into a tailwind in the first half of 2016. The devaluation of sterling following the UK Referendum, further strengthened this tailwind and if spot rates at the 30th June 2016 prevail for the remainder of the year we would benefit from a 6% impact on sales and operating profit.

In percentage growth terms, our first half results benefited from comparison with a relatively weak second quarter last year and the carryover from the prior year of some large project orders in Korea. The non-repeat of these factors should reduce our organic growth rates in the second half of this year. In addition, reported growth, while benefiting from weaker sterling, will be less influenced by acquisitions due to their inclusion in the prior year comparatives. The slower growth rate, combined with a reduced profit contribution from Argentina, a step up of investment for future growth and the Hiter acquisition, should narrow the first half to second half margin expansion this year. This would result in a lower second half profit margin than for the same period of the previous year.

We anticipate that our markets will remain challenging in the second half of this year. We are seeing the benefits of investments in our strategy for growth and have a robust, resilient and geographically diverse business model, which coupled with a strong balance sheet positions us well to navigate the current economic environment. The Board remains confident that the Group will make further progress in 2016.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 th June 2016	30 th June 2015	31 st December 2015
		£m	£m	£m
ASSETS				
Non-current assets				
Property, plant and equipment		185.3	164.7	169.9
Goodwill		59.7	45.5	54.1
Other intangible assets		57.4	46.7	54.8
Prepayments		5.7	0.5	5.5
Investment in Associate		0.1	0.2	0.1
Deferred tax assets		42.0	35.9	33.0
		350.2	293.5	317.4
Current assets				
Inventories		104.1	98.8	92.5
Trade receivables		160.7	133.2	152.1
Other current assets		25.2	25.0	20.4
Taxation recoverable		9.3	4.6	9.5
Assets of business held for sale		-	9.3	-
Cash and cash equivalents	8	109.0	86.6	99.8
		408.3	357.5	374.3
Total assets		758.5	651.0	691.7
EQUITY AND LIABILITIES				
Current liabilities				
Trade and other payables		88.8	76.3	84.3
Provisions		2.0	-	-
Special dividend		-	91.0	-
Bank overdrafts	8	16.3	0.2	3.9
Short-term borrowing	8	5.7	6.3	10.1
Current portion of long-term borrowings	8	0.3	0.3	0.3
Liabilities directly associated with assets classified as held for sale		-	2.5	-
Current tax payable		14.4	12.3	21.1
		127.5	188.9	119.7
Net current assets		280.8	168.6	254.6
Non-current liabilities				
Long-term borrowings	8	66.1	26.4	80.7
Deferred tax liabilities		18.4	16.6	17.7
Post-retirement benefits	7	113.8	75.0	73.7
Provisions		1.9	0.4	1.2
Long term payables		0.3	0.8	0.4
		200.5	119.2	173.7
Total liabilities		328.0	308.1	293.4
Net assets		430.5	342.9	398.3
Equity				
Share capital		19.7	19.7	19.7
Share premium account		70.7	66.9	69.7
Other reserves		21.3	(23.2)	(18.7)
Retained earnings		318.0	278.7	326.8
Equity shareholders' funds		429.7	342.1	397.5
Non-controlling interest		0.8	0.8	0.8
Total equity		430.5	342.9	398.3
Total equity and liabilities		758.5	651.0	691.7

CONSOLIDATED INCOME STATEMENT

	Six months to 30 th June 2016			Six months to 30 th June 2015			Year ended 31 st December 2015		
	Adjusted*	Adj't	Total	Adjusted*	Adj't	Total	Adjusted*	Adj't	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Revenue (Note 2)	344.0	-	344.0	320.0	-	320.0	667.2	-	667.2
Operating costs	(266.5)	(2.8)	(269.3)	(254.2)	(6.4)	(260.6)	(514.8)	(9.6)	(524.4)
Operating profit (Note 2)	77.5	(2.8)	74.7	65.8	(6.4)	59.4	152.4	(9.6)	142.8
Financial expenses	(1.9)	-	(1.9)	(2.0)	-	(2.0)	(3.6)	-	(3.6)
Financial income	0.6	-	0.6	1.4	-	1.4	2.1	-	2.1
Net financing expense (Note 3)	(1.3)	-	(1.3)	(0.6)	-	(0.6)	(1.5)	-	(1.5)
Share of profit of Associates	-	-	-	0.3	(1.8)	(1.5)	0.2	(1.8)	(1.6)
Profit before taxation	76.2	(2.8)	73.4	65.5	(8.2)	57.3	151.1	(11.4)	139.7
Taxation (Note 4)	(22.6)	0.7	(21.9)	(19.8)	1.9	(17.9)	(45.0)	2.0	(43.0)
Profit for the period	53.6	(2.1)	51.5	45.7	(6.3)	39.4	106.1	(9.4)	96.7
Attributable to:									
Equity shareholders	53.5	(2.1)	51.4	45.7	(6.3)	39.4	105.9	(9.4)	96.5
Non-controlling interest	0.1	-	0.1	-	-	-	0.2	-	0.2
Profit for the period	53.6	(2.1)	51.5	45.7	(6.3)	39.4	106.1	(9.4)	96.7
Earnings per share									
Basic earnings per share (Note 5)	73.1p		70.2p	60.5p		52.2p	142.6p		129.9p
Diluted earnings per share (Note 5)	72.8p		70.0p	60.2p		52.0p	141.9p		129.4p
Dividends									
Dividends per share (Note 6)			22.5p			20.8p			69.0p
Dividend paid (per share) (Note 6)			48.2p			45.0p			185.8p

*Adjusted figures exclude certain non-operational items as detailed in Note 2. All amounts relate to continuing operations. The Notes on pages 16 to 25 form an integral part of the Interim Condensed Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months to 30 th June 2016	Six months to 30 th June 2015	Year ended 31 st December 2015
	£m	£m	£m
Profit for the period	51.5	39.4	96.7
Items that will not be reclassified to profit or loss			
Remeasurement gain/(loss) on post-retirement benefits	(33.2)	1.3	5.7
Deferred tax on remeasurement loss on post-retirement benefits	7.3	(1.0)	(0.6)
	(25.9)	0.3	5.1
Items that may be reclassified subsequently to profit or loss			
Foreign exchange translation differences	39.6	(18.3)	(14.1)
Profit/(loss) on cash flow hedges net of tax	(2.4)	-	-
	37.2	(18.3)	(14.1)
Total comprehensive income for the period	62.8	21.4	87.7
Attributable to:			
Equity shareholders	62.7	21.4	87.5
Non-controlling interest	0.1	-	0.2
Total comprehensive income for the period	62.8	21.4	87.7

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 th June 2016	Share Capital	Share Premium Account	Other Reserves	Retained earnings	Equity shareholders' funds	Non- controlling interest	Total equity
	£m	£m	£m	£m	£m	£m	£m
Balance at 1st January 2016	19.7	69.7	(18.7)	326.8	397.5	0.8	398.3
Profit for the period	-	-	-	51.4	51.4	0.1	51.5
Other comprehensive (expense)/income:							
Foreign exchange translation differences	-	-	39.6	-	39.6	-	39.6
Remeasurement gain/(loss) on post-retirement benefits	-	-	-	(33.2)	(33.2)	-	(33.2)
Deferred tax on remeasurement loss on post-retirement benefits	-	-	-	7.3	7.3	-	7.3
Profit/(Loss) on cash flow hedges reserve	-	-	(2.4)	-	(2.4)	-	(2.4)
Total other comprehensive income/(expense) for the period	-	-	37.2	(25.9)	11.3	-	11.3
Total comprehensive income for the period	-	-	37.2	25.5	62.7	0.1	62.8
Contributions by and distributions to owners of the Company:							
Dividends paid	-	-	-	(35.4)	(35.4)	(0.1)	(35.5)
Equity settled share plans net of tax	-	-	-	1.1	1.1	-	1.1
Issue of share capital	-	1.0	-	-	1.0	-	1.0
Employee Benefit Trust Shares	-	-	2.8	-	2.8	-	2.8
Balance at 30th June 2016	19.7	70.7	21.3	318.0	429.7	0.8	430.5

Other reserves represent the Group's translation, cash flow hedge, capital redemption and Employee Benefit Trust reserves. The non-controlling interest is a 2.5% share of Spirax-Sarco (Korea) Ltd held by employee shareholders.

For the period ended 30th June 2015

	Share Capital	Share Premium Account	Other Reserves	Retained earnings	Equity shareholder's funds	Non-controlling interest	Total equity
	£m	£m	£m	£m	£m	£m	£m
Balance at 1st January 2015	19.6	65.1	(6.5)	362.8	441.0	0.9	441.9
Profit for the period	-	-	-	39.4	39.4	-	39.4
Other comprehensive (expense)/income:							
Foreign exchange translation differences	-	-	(18.3)	-	(18.3)	-	(18.3)
Remeasurement gain on post-retirement benefits	-	-	-	1.3	1.3	-	1.3
Deferred tax on remeasurement gain on post-retirement benefits	-	-	-	(1.0)	(1.0)	-	(1.0)
Total other comprehensive income/(expense) for the period	-	-	(18.3)	0.3	(18.0)	-	(18.0)
Total comprehensive income/(expense) for the period	-	-	(18.3)	39.7	21.4	-	21.4
Contributions by and distributions to owners of the Company:							
Dividends paid	-	-	-	(34.1)	(34.1)	(0.1)	(34.2)
Special dividend accrued	-	-	-	(91.0)	(91.0)	-	(91.0)
Equity settled share plans net of tax	-	-	-	1.3	1.3	-	1.3
Issue of share capital	0.1	1.8	-	-	1.9	-	1.9
Employee Benefit Trust Shares	-	-	1.6	-	1.6	-	1.6
Balance at 30th June 2015	19.7	66.9	(23.2)	278.7	342.1	0.8	342.9

For the year ended 31st December 2015

	Share Capital	Share Premium Account	Other Reserves	Retained earnings	Equity shareholders' funds	Non-controlling interest	Total equity
	£m	£m	£m	£m	£m	£m	£m
Balance at 1st January 2015	19.6	65.1	(6.5)	362.8	441.0	0.9	441.9
Profit for the year	-	-	-	96.6	96.6	0.1	96.7
Other comprehensive (expense)/income:							
Foreign exchange translation differences	-	-	(14.1)	-	(14.1)	-	(14.1)
Remeasurement loss on post-retirement benefits	-	-	-	5.7	5.7	-	5.7
Deferred tax on remeasurement loss on post-retirement benefits	-	-	-	(0.6)	(0.6)	-	(0.6)
Total other comprehensive income/(expense) for the year	-	-	(14.1)	5.1	(9.0)	-	(9.0)
Total comprehensive income/(expense) for the year	-	-	(14.1)	101.7	87.6	0.1	87.7
Contributions by and distributions to owners of the Company:							
Dividends paid	-	-	-	(140.3)	(140.3)	(0.2)	(140.5)
Equity settled share plans net of tax	-	-	-	2.6	2.6	-	2.6
Issue of share capital	0.1	4.6	-	-	4.7	-	4.7
Employee Benefit Trust Shares	-	-	1.9	-	1.9	-	1.9
Balance at 31st December 2015	19.7	69.7	(18.7)	326.8	397.5	0.8	398.3

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Six months to 30 th June 2016	Six months to 30 th June 2015	Year ended 31 st December 2015
		£m	£m	£m
Cash flows from operating activities				
Profit before taxation		73.4	57.3	139.7
Depreciation, amortisation and impairment		15.3	16.6	29.3
Profit on disposal of fixed assets		-	-	(0.5)
Share of profit of Associates		-	(0.2)	-
Acquisition, disposal and closure of businesses		0.1	1.8	2.0
Equity settled share plans		1.3	1.5	3.3
Net finance expense		1.3	0.6	1.5
Operating cash flow before changes in working capital and provisions		91.4	77.6	175.3
Change in trade and other receivables		(0.1)	9.9	(1.9)
Change in inventories		(2.6)	(4.9)	3.5
Change in provisions and post-retirement benefits		2.7	(0.6)	0.7
Change in trade and other payables		(2.4)	(5.0)	(2.6)
Cash generated from operations		89.0	77.0	175.0
Interest paid		(0.6)	(0.7)	(1.3)
Income taxes paid		(27.3)	(24.2)	(43.4)
Net cash from operating activities		61.1	52.1	130.3
Cash flows from investing activities				
Purchase of property, plant & equipment		(14.1)	(11.3)	(26.0)
Proceeds from sale of property, plant & equipment		0.7	1.2	2.4
Sale of businesses		-	6.5	13.3
Purchase of software and other intangibles		(2.3)	(2.0)	(4.8)
Development expenditure capitalised		(1.1)	(1.3)	(2.4)
Acquisition of businesses		(0.1)	(7.1)	(23.6)
Bank deposits		-	24.6	24.3
Interest received		0.7	1.4	2.1
Net cash used in investing activities		(16.2)	12.0	(14.7)
Cash flows from financing activities				
Proceeds from issue of Share Capital		1.0	1.9	4.7
Repaid borrowings	8	(20.4)	(57.0)	(79.4)
New borrowings	8	0.3	0.8	81.3
Change in finance lease liabilities	8	(0.2)	(0.2)	(0.4)
Dividends paid (including minorities)		(35.5)	(34.2)	(140.5)
Net cash used in financing activities		(54.8)	(88.7)	(134.3)
Net change in cash and cash equivalents	8	(9.9)	(24.6)	(18.7)
Net cash and cash equivalents at beginning of period	8	95.9	117.5	117.5
Exchange movement	8	6.7	(6.4)	(2.9)
Net cash and cash equivalents at end of period	8	92.7	86.5	95.9
Borrowings and finance leases	8	(72.1)	(33.0)	(91.1)
Net Cash at the end of the period	8	20.6	53.5	4.8

NOTES TO THE ACCOUNTS

1. BASIS OF PREPARATION

Spirax-Sarco Engineering plc is a company domiciled in the UK. The Condensed Consolidated Interim Financial Statements of Spirax-Sarco Engineering plc and its subsidiaries (the Group) for the six months ended 30th June 2016 have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU. The accounting policies applied are consistent with those set out in the 2015 Spirax-Sarco Engineering plc Annual Report.

These Condensed Consolidated Interim Financial Statements do not include all the information required for full annual statements and should be read in conjunction with the 2015 Annual Report. The comparative figures for the year ended 31st December 2015 do not constitute the Group's statutory Financial Statements for that financial year as defined in Section 434 of the Companies Act 2006. The statutory Consolidated Financial Statements for Spirax-Sarco Engineering plc in respect of the year ended 31st December 2015 have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. The Consolidated Financial Statements of the Group in respect of the year ended December 2015 are available upon request from Mr A. J. Robson, General Counsel and Company Secretary, Charlton House, Cheltenham, Gloucestershire, GL53 8ER, United Kingdom or on www.spiraxsarcoengineering.com.

The Condensed Consolidated Interim Financial Statements for the six months ended 30th June 2016, which have not been audited or reviewed by the auditor, were authorised by the Board on 8th August 2016.

The Half Year Report and Interim Financial Statements (Half Year Report) has been prepared solely to provide additional information to shareholders as a body to assess the Group's strategies and the potential for those strategies to succeed. This Half Year Report should not be relied upon by any other party or for any other purpose.

GOING CONCERN

Having made enquiries and reviewed the Group's plans and available financial facilities, the Board has a reasonable expectation that the Group has adequate resources to continue its operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the Condensed Consolidated Interim Financial Statements. There are no key sensitivities identified in relation to this conclusion.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

There are a number of new standards, amendments to standards and interpretations that are not yet effective for the period ended 30th June 2016 and have, therefore, not been applied in preparing these Condensed Consolidated Interim Financial Statements. None of these are anticipated to have a significant impact on the Consolidated Income Statement or Consolidated Statement of Financial Position.

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of Interim Financial Statements, in conformity with adopted IFRS, requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these Condensed Consolidated Interim Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Financial Statements for the year ended 31st December 2015.

The Directors have considered the facts and circumstances as at 30th June 2016 and concluded that there are no indicators of impairments that require an impairment review to be undertaken on goodwill at the Interim Statement of Financial Position date. The annual impairment review will be undertaken later in 2016 consistent with the timing in previous years.

CAUTIONARY STATEMENTS

This Half Year Report contains forward-looking statements. These have been made by the Directors in good faith based on the information available to them up to the time of their approval of this Report. The Directors can give no assurance that these expectations will prove to have been correct. Due to the inherent uncertainties, including both economic and business risk factors underlying such forward-looking information, actual results may differ materially from those expressed or implied by these forward-looking statements. The Directors undertake no obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise.

RESPONSIBILITY STATEMENT

The Directors confirm that to the best of their knowledge:

- this Condensed set of Interim Financial Statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU;
- the interim management report includes a fair review of the information required by:
 - (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the Condensed Financial Statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year.
 - (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year that have materially affected the financial position or performance of the entity during that period, and any changes in the related party transactions described in the last annual report that could do so.

The Directors of Spirax-Sarco Engineering plc on 8th August 2016 are the same as those listed in the 2015 Annual Report on pages 68 and 69 with the exception of David Meredith who retired at the conclusion of the AGM on 10th May 2016 and Kevin Boyd who was appointed on 11th May 2016.

N. J. Anderson

Group Chief Executive

8th August 2016

K. J. Boyd

Group Finance Director

8th August 2016

On behalf of the Board

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

Six months to 30th June 2016

	Gross revenue	Inter- segment revenue	Revenue	Total operating profit	Adjusted operating profit	Adjusted operating margin
	£m	£m	£m	£m	£m	%
Europe, Middle East & Africa	130.1	(18.0)	112.1	22.8	23.1	20.6%
Asia Pacific	83.7	(1.7)	82.0	17.8	18.1	22.0%
Americas	64.9	(3.3)	61.6	12.4	13.4	21.7%
Steam Specialties business	278.7	(23.0)	255.7	53.0	54.6	21.3%
Watson-Marlow	88.3	-	88.3	27.8	29.0	32.9%
Corporate expenses				(6.1)	(6.1)	
	367.0	(23.0)	344.0	74.7	77.5	22.5%
Intra-Group	(23.0)	23.0				
Total	344.0	-	344.0	74.7	77.5	22.5%
Net finance expense				(1.3)	(1.3)	
Profit before tax				73.4	76.2	

Six months to 30th June 2015

	Gross revenue	Inter- segment revenue	Revenue	Total operating profit	Adjusted operating profit	Adjusted operating margin
	£m	£m	£m	£m	£m	%
Europe, Middle East & Africa	128.6	16.8	111.8	20.7	21.3	19.0%
Asia Pacific	76.5	2.2	74.3	15.2	15.5	20.9%
Americas	64.0	2.9	61.1	7.3	11.7	19.3%
Steam Specialties business	269.1	21.9	247.2	43.2	48.5	19.6%
Watson-Marlow	72.8	-	72.8	20.7	21.8	29.9%
Corporate expenses				(4.5)	(4.5)	
	341.9	21.9	320.0	59.4	65.8	20.6%
Intra-Group	(21.9)	(21.9)				
Total	320.0	-	320.0	59.4	65.8	20.6%
Net finance expense				(0.6)	(0.6)	
Share of profit/(loss) of Associates				(1.5)	0.3	
Profit before tax				57.3	65.5	

Year ended 31st December 2015	Gross revenue	Inter-segment revenue	Revenue	Total operating profit	Adjusted operating profit	Adjusted operating margin
	£m	£m	£m	£m	£m	%
Europe, Middle East & Africa	253.7	34.3	219.4	41.4	42.7	19.5%
Asia Pacific	176.3	4.5	171.8	44.2	44.7	26.0%
Americas	128.9	5.5	123.4	21.6	27.1	22.0%
Steam Specialties business	558.9	44.3	514.6	107.2	114.5	22.3%
Watson-Marlow	152.6	-	152.6	45.6	47.9	31.4%
Corporate expenses				(10.0)	(10.0)	
	711.5	44.3	667.2	142.8	152.4	22.8%
Intra-Group	(44.3)	(44.3)				
Total	667.2	-	667.2	142.8	152.4	22.8%
Net finance expense				(1.5)	(1.5)	
Share of profit/(loss) of Associates				(1.6)	0.2	
Profit before tax				139.7	151.1	

Non-operational items

The Group uses adjusted figures as key performance measures in addition to those reported under adopted IFRS. The Group's management believes these measures provide valuable additional information for users of the Financial Statements in understanding the Group's performance. Adjusted operating profit excludes certain non-operational items which are analysed below:

	Six months to 30th June 2016	Six months to 30th June 2015	Year ended 31st December 2015
	£m	£m	£m
Amortisation and impairment of acquisition-related intangible assets	(2.7)	(2.2)	(4.7)
Loss on closure of USA metering unit	-	(3.8)	(3.8)
Profit on disposal of M&M less recycled exchange losses	-	-	(0.3)
Acquisition and disposal costs	(0.1)	(0.4)	(0.8)
Total non-operational items	(2.8)	(6.4)	(9.6)

Share of profit of Associates

An analysis of the share of profit of Associates is shown below:

	Six months to 30th June 2016	Six months to 30th June 2015	Year ended 31st December 2015
	£m	£m	£m
Share of adjusted profit	-	0.3	0.2
Non-operational items			
Amortisation and impairment of acquisition-related intangible assets	-	(0.1)	(0.1)
Final adjustment to previous tangible asset impairment write offs	-	0.1	0.1
Exchange translation differences recycled under IAS 21	-	(1.8)	(1.8)
Total non-operational items	-	(1.8)	(1.8)
Total Associates	-	(1.5)	(1.6)

Net assets

	At 30 th June 2016		At 30 th June 2015		At 31 st December 2015	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m	£m	£m
Europe, Middle East & Africa	196.8	(115.6)	196.0	(96.0)	182.8	(91.2)
Asia Pacific	152.8	(27.6)	122.8	(18.1)	140.3	(30.4)
Americas	112.2	(43.9)	94.2	(21.4)	102.4	(24.0)
Watson-Marlow	136.5	(19.8)	110.1	(18.8)	123.9	(14.0)
	598.3	(206.9)	523.1	(154.3)	549.4	(159.6)
Liabilities	(206.9)		(154.3)		(159.6)	
Special dividend	-		(91.0)		-	
Deferred tax	23.6		19.3		15.3	
Current tax payable	(5.1)		(7.7)		(11.6)	
Net cash	20.6		53.5		4.8	
Net assets	430.5		342.9		398.3	

Capital additions, depreciation and amortisation

	Six months to 30 th June 2016		Six months to 30 th June 2015		Year ended 31 st December 2015	
	Capital additions	Depreciation and amortisation	Capital additions	Depreciation and amortisation	Capital additions	Depreciation and amortisation
	£m	£m	£m	£m	£m	£m
Europe, Middle East & Africa	5.3	5.8	6.0	5.7	13.0	11.1
Asia Pacific	7.6	3.3	2.0	2.9	11.0	5.5
Americas	2.6	2.6	1.7	4.8	10.4	4.9
Watson-Marlow	2.0	3.6	5.2	3.2	11.9	7.3
Group total	17.5	15.3	14.9	16.6	46.3	28.8

Capital additions include property, plant and equipment at 30th June 2016 of £14.1m; at 30th June 2015 of £8.8m; and at 31st December 2015 of £26.3m; and other intangible assets at 30th June 2016 of £3.4m; at 30th June 2015 of £6.1m; and at 31st December 2015 of £20.0m of which at 30th June 2016 £nil; at 30 June 2015 £2.9m and 31st December 2015 £12.8m relates to acquired intangibles from acquisitions in the period.

3. NET FINANCING INCOME AND EXPENSE

	Six months to 30 th June 2016	Six months to 30 th June 2015	Year ended 31 st December 2015
	£m	£m	£m
Financial expenses			
Bank and other borrowing interest payable	(0.6)	(0.7)	(1.3)
Net interest on pension scheme liabilities	(1.3)	(1.3)	(2.3)
	(1.9)	(2.0)	(3.6)
Financial income			
Bank interest receivable	0.6	1.4	2.1
Net financing expense	(1.3)	(0.6)	(1.5)
Net pension scheme financial expense	(1.3)	(1.3)	(2.3)
Net bank interest	-	0.7	0.8
Net financing expense	(1.3)	(0.6)	(1.5)

4. TAXATION

Taxation has been estimated at the rate expected to be incurred in the full year

	Six months to 30 th June 2016	Six months to 30 th June 2015	Year ended 31 st December 2015
	£m	£m	£m
UK corporation tax	1.1	0.4	0.9
Foreign taxation	22.4	18.8	43.6
Deferred taxation	(1.6)	(1.3)	(1.5)
Total Taxation	21.9	17.9	43.0

5. EARNINGS PER SHARE

	Six months to 30 th June 2016	Six months to 30 th June 2015	Year ended 31 st December 2015
Profit attributable to equity shareholders (£m)	51.4	39.4	96.5
Weighted average shares in issue (million)	73.3	75.5	74.3
Dilution (million)	0.3	0.3	0.3
Diluted weighted average shares in issue (million)	73.6	75.8	74.6
Basic earnings per share	70.2p	52.2p	129.9p
Diluted earnings per share	70.0p	52.0p	129.4p
Adjusted profit attributable to equity shareholders (£m)	53.5	45.7	105.9
Basic adjusted earnings per share	73.1p	60.5p	142.6p
Diluted adjusted earnings per share	72.8p	60.2p	141.9p

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

6. DIVIDENDS

	Six months to 30 th June 2016	Six months to 30 th June 2015	Year ended 31 st December 2015
	£m	£m	£m
Amounts paid in the period:			
Final dividend for the year ended 31 st December 2015 of 48.2p (2014: 45.0p) per share	35.4	34.1	34.1
Special dividend for the year ended 31 st December 2014 of 120.0p (2013: nil) per share	-	-	91.0
Interim dividend for the year ended 31 st December 2015 of 20.8p (2014: 19.5p) per share	-	-	15.2
Total dividends paid	35.4	34.1	140.3
Amounts arising in respect of the period:			
Interim dividend for the year ended 31 st December 2016 of 22.5p (2015: 20.8p) per share	16.5	15.2	15.2
Final dividend for the year ended 31 st December 2015 of 48.2p (2014: 45.0p) per share	-	-	35.4
Total dividends arising	16.5	15.2	50.6

The interim dividend for the year ended 31st December 2016 was approved by the Board after the 30th June 2016. It is therefore not included as a liability in these Interim Condensed Consolidated Financial Statements. No scrip alternative to the cash dividend is being offered in respect of the 2016 interim dividend.

7. POST-RETIREMENT BENEFITS

The Group is accounting for pension costs in accordance with IAS 19. The disclosures shown here are in respect of the Group's Defined Benefit Obligations. Other plans operated by the Group were either Defined Contribution plans or were deemed immaterial for the purposes of IAS 19 reporting. Full IAS 19 disclosure for the year ended 31st December 2015 is included in the Group's Annual Report.

The amounts recognised in the balance sheet are as follows:

	At 30 th June 2016	At 30 th June 2015	At 31 st December 2015
	£m	£m	£m
Retirement benefit liability recognised in the balance sheet	(113.8)	(75.0)	(73.7)
Related deferred tax asset	27.3	16.9	18.0
Net pension liability	(86.5)	(58.1)	(55.7)

8. ANALYSIS OF CHANGES IN NET CASH

	At 1 st Jan 2016	Cash flow	Exchange movement	At 30 th June 2016
	£m	£m	£m	£m
Current portion of long-term borrowings	(0.3)			(0.3)
Non-current portion of long-term borrowings	(80.7)			(66.1)
Short-term borrowing	(10.1)			(5.7)
Total borrowings	(91.1)	20.3	(1.3)	(72.1)
Comprising:				
Borrowings	(90.6)	20.1	(1.3)	(71.8)
Finance leases	(0.5)	0.2	-	(0.3)
	(91.1)	20.3	(1.3)	(72.1)
Cash and cash equivalents	99.8	1.4	7.8	109.0
Bank overdrafts	(3.9)	(11.3)	(1.1)	(16.3)
Net cash and cash equivalents	95.9	(9.9)	6.7	92.7
Net cash	4.8	10.4	5.4	20.6

9. CAPITAL EMPLOYED

The Board uses certain non-statutory measures to help it effectively monitor the performance of the Group. Capital employed is a key measure.

	At 30 th June 2016	At 30 th June 2015	At 31 st December 2015
	£m	£m	£m
Property, plant and equipment	185.3	164.7	169.9
Prepayments	5.7	0.5	5.5
Inventories	104.1	98.8	92.5
Trade receivables	160.7	133.2	152.1
Other current assets	25.2	25.0	20.4
Tax recoverable	9.3	4.6	9.5
Capital employed element of business held for sale	-	4.6	-
Trade, other payables and current provisions	(90.8)	(76.3)	(84.3)
Current tax payable	(14.4)	(12.3)	(21.1)
Capital employed	385.1	342.8	344.5

10. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this Note.

Full details of the Group's other related party relationships, transactions and balances are given in the Group's Financial Statements for the year ended 31st December 2015. There have been no material changes in these relationships in the period up to the end of this report.

No related party transactions have taken place in the first half of 2016 that have materially affected the financial position or the performance of the Group during that period.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table compares amounts and fair values of the Group's financial assets and liabilities:

	At 30 th June 2016		At 30 th June 2015		At 31 st December 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
	£m	£m	£m	£m	£m	£m
Financial assets						
Cash and cash equivalents	109.0	109.0	86.6	86.6	99.8	99.8
Trade and other receivables	172.9	172.9	142.4	142.4	162.5	162.5
Total financial assets	281.9	281.9	229.0	229.0	262.3	262.3
Financial liabilities						
Bank loans	71.8	71.8	32.3	32.3	90.6	90.6
Finance lease obligations	0.3	0.3	0.6	0.6	0.5	0.5
Bank overdrafts	16.3	16.3	0.2	0.2	3.9	3.9
Derivative financial liabilities	2.6	2.6	-	-	0.2	0.2
Trade payables	23.2	23.2	20.9	20.9	24.0	24.0
Other payables	29.2	29.2	23.9	23.9	27.3	27.3
Total financial liabilities	143.4	143.4	77.9	77.9	146.5	146.5

There are no other assets or liabilities measured at fair value on a recurring or non-recurring basis for which fair value is disclosed.

Fair values of financial assets and financial liabilities

Fair values of financial assets and liabilities at 30th June 2016 are not materially different from book values due to their size or the fact that they were at short-term rates of interest. Fair values have been assessed as follows:

Derivatives

Forward exchange contracts are marked to market by discounting the future contracted cash flows using readily available market data.

Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

Finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements.

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.

The Group uses forward currency contracts to manage its exposure to movements in foreign exchange rates. The forward contracts are designated as hedge instruments in a cash flow hedging relationship. At 30th June 2016 the Group had contracts outstanding to purchase £14.0m with euros, £7.1m with US dollars, £1.3m with Swiss francs, £0.9m with Korean won, £0.8m with Danish krone, £0.6m with Japanese yen, £0.2m with Norwegian krone, £0.1m with Czech koruna and €2.8m with US dollars. Derivative financial instruments are measured at fair value. The fair value at the end of the reporting period is a £2.6m liability (31st December 2015: £0.2m liability).

Financial instruments fair value disclosure

Fair value measurements are classified into three levels, depending on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets and liabilities
- Level 2 fair value measurements are those derived from other observable inputs for the asset or liability; and
- Level 3 fair value measurements are those derived from valuation techniques using inputs that are not based on observable market data.

We consider that the derivative financial instruments fall into level 2. There have been no transfers between levels during the period.

12. CAPITAL COMMITMENTS

Capital expenditure contracted for but not provided for at 30th June 2016 was £4.0m (31st December 2015: £7.4m). All capital commitments related to property, plant and equipment.

13. PURCHASE OF BUSINESSES

On 1st July we acquired the assets of Hiter Indústria e Comércio de Controles Termo- Hidráulicos Ltda (Hiter), a process control valve manufacturer based in Sorocaba, Brazil, for a total purchase consideration of £3.9 million which was paid in cash from existing Group resources. At the date these Interim Condensed Consolidated Financial Statements were authorised for issue, the acquisition accounting had not been finalised but will be included and disclosed in the 2016 Annual Report.

14. EXCHANGE RATES

Set out below is an additional disclosure (not required by IAS 34) that highlights movements in a selection of average exchange rates between half year 2016 and half year 2015.

	Average Half year 2016	Average Half year 2015	Change %
Bank of England sterling index	86.5	90.6	+5%
US\$	1.42	1.53	+8%
Euro	1.29	1.36	+5%
Renminbi	9.33	9.53	+2%
Won	1,677	1,685	+0%
Real	5.26	4.53	-14%
Argentine Peso	20.38	13.49	-34%
Rouble	98.76	89.74	-9%

About Spirax Sarco

Spirax-Sarco Engineering plc is the world leader in each of its two businesses, Spirax Sarco for steam specialties and Watson-Marlow Fluid Technology Group for niche peristaltic pumps and associated fluid path technologies. The steam specialties business provides a broad range of fluid control products, engineered packages, site services and systems expertise for a diverse range of industrial and institutional customers. The company helps its customers to improve production efficiency, reduce energy costs, water usage and emissions, improve product quality and enhance the safety of their operations. Watson-Marlow Fluid Technology Group offers the ideal solution for a wide variety of demanding fluid path applications with highly accurate, controllable and virtually maintenance free pumps and associated technologies. The Group is headquartered in Cheltenham, England, has strategically located manufacturing plants around the world and employs approximately 4,900 people, of whom over 1,300 are direct sales and service engineers. Its shares have been listed on the London Stock Exchange since 1959 (symbol: SPX).

Further information can be found at www.spiraxsarcoengineering.com

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