Spirax-Sarco Engineering plc
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News Release

Thursday 3rd March 2016

2% organic sales growth and record operating profit margin, against a background of progressively slowing industrial production growth

HIGHLIGHTS

Adjusted*	**2015**	**2014**	**Change**	**Constant FX**
Revenue	£667.2m	£678.3m	-2%	+2%
Adjusted operating profit*	£152.4m	£153.0m	0%	+4%
Adjusted operating profit margin*	22.8%	22.5%	+30 bps	+40 bps
Adjusted profit before taxation*	£151.1m	£151.1m	0%	+4%
Adjusted basic earnings per share*	142.6p	140.4p	+2%	+6%
Dividend per share	69.0p	64.5p	+7%	+7%
Special dividend per share	-	120.0p		

**All profit measures exclude certain non-operational items, as set out and explained in the Financial Review and in note 2. Organic measures are at constant currency and exclude acquisitions and disposals.*

Statutory	**2015**	**2014**	**Change**
Operating profit	£142.8m	£148.1m	-4%
Profit before taxation	£139.7m	£144.8m	-4%
Basic earnings per share	129.9p	132.8p	-2%

- Organic sales increased 2%
- Record operating margin of 22.8%
- Another strong performance in Watson-Marlow
- Robust cash generation, 95% cash conversion
- Dividend increased by 7%

Nick Anderson, Chief Executive, commenting on the results said:

"The Group achieved another solid result in 2015, demonstrating the continued strength and resilience of our strong direct sales business model, achieved against the background of a progressive slowing in global industrial production growth to very low levels and also further currency headwinds. We have continued to invest in our business for the long term and remain confident that the improvements we have made, and continue to make to our business, will enable us to outperform our markets and deliver benefits to all stakeholders."

For further information, please contact:
Nick Anderson, Chief Executive
David Meredith, Finance Director
Tel: 020 7638 9571 at Citigate Dewe Rogerson until 6.00 p.m.

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/obazcbp6 at 8.30 am, and a recording will be posted on the website shortly after the meeting. For access from any IOS Apple or android device please use the following QR code:

Unless otherwise stated, all profit measures exclude certain non-operational items as set and explained in the Financial Review and in Note 2. Organic measures are at constant currency and exclude acquisitions and disposals.

Chairman's Statement

I am pleased to report a solid set of results in 2015 against a background of progressive deterioration in the rate of global industrial production growth.

Performance

Organic sales increased by nearly 2% to £667.2 million. Additional sales from acquisitions were broadly matched by a reduction from the disposal of M&M International (M&M) in the period, with a net contribution of 0.5%. Currency movements were again unfavourable, reducing sales on translation by 4%, leaving reported sales down 2% compared with sales of £678.3 million in 2014. We achieved strong 9% organic sales growth in our Watson-Marlow Fluid Technology Group (WMFTG or Watson-Marlow) spread across all regions, while the Spirax Sarco steam specialties business was flat, with progress in Europe, Middle East and Africa (EMEA) and the Americas offset by a decline in Asia Pacific.

Adjusted operating profit increased by 4% at constant currency to £152.4 million. Profit was strongly ahead in Watson-Marlow. In the steam specialties business, there was good progress at constant currency in EMEA, largely offset by a reduction in Asia Pacific; the Americas was flat. Unfavourable currency movements reduced Group operating profit by 4%, leaving reported profit broadly flat compared with operating profit of £153.0 million in 2014. The adjusted operating profit margin improved by 40 bps at constant currency, to a record 22.8%.

Net finance costs reduced from £3.0 million to £1.5 million but the total income from Associates reduced from £1.2 million to £0.2 million due to the sale in March 2015 of our investment in India, ahead of the start-up of our wholly owned direct sales operation. The Group adjusted pre-tax profit was therefore £151.1 million, 4% ahead at constant currency. Adjusted basic earnings per share was ahead 2% at 142.6p (2014: 140.4p) and was up 6% at constant currency, in part due to the number of shares in issue being reduced by 3.6% with effect from 15th June 2015, following the special dividend and associated share consolidation of 28 existing Ordinary shares into 27 new Ordinary shares.

The pre-tax profit on a statutory basis was £139.7 million (2014: £144.8 million) and includes a number of non-operational items explained more fully in Note 2. The statutory basic earnings per share was 129.9p (2014: 132.8p).

Cash and Dividends

Cash generation was robust, with very good cash conversion and we finished the year with net cash of £5 million, despite the payment of £91 million on 15th July 2015 in respect of the special dividend for 2014 of 120p per share.

The interim dividend for 2015, which was paid on 6th November 2015, was raised by 6.7% to 20.8p per share (2014: 19.5p per share). The Board is recommending an increase in the final dividend of 7.1% to 48.2p per share (2014: 45.0p), with a total of £35 million payable on 27th May 2016 to shareholders on the register at 29th April 2016. The total Ordinary dividend for the year, subject to approval by shareholders at the AGM on 10th May 2016 of the final proposed dividend, is therefore 69.0p per share, an increase of 7.0% over the 64.5p per share for the prior year. The proposed dividend is in line with the Group's dividend policy, which is to progressively increase the dividend to appropriately reflect the underlying trading performance, the maintenance of a healthy dividend cover, the level of cash generation and the capital requirements of the business.

Governance and Board changes

In October 2015, we announced that David Meredith will retire at the conclusion of the AGM on 10th May 2016 after nearly 24 years as Group Finance Director and after a total of 27 years of service to the Group. On behalf of our shareholders the Board acknowledges with gratitude the significant contribution to the Group's growth and prosperity made by David over multiple economic cycles. During his time with the Company, David's knowledge and experience have been instrumental in helping to guide the business through significant changes and challenges, earning him the highest respect from shareholders, the Board and colleagues. We understand David's desire to step down after such a long and successful period of service and wish him the very best in this new chapter of his life.

As previously announced, we are pleased that Kevin Boyd will join the Company on 11th April 2016 and succeed David as Group Finance Director and Executive Director on 11th May 2016. Kevin is both a Chartered Accountant and a Chartered Engineer and is currently Group Finance Director of Oxford Instruments plc, the leading provider of high technology instrumentation, with sales broadly spread around the world across a number of sectors and listed on the London Stock Exchange. He is a highly experienced Finance Director with a strong international track record. Previous experience included Group Finance Director of Radstone Technology plc and before that he held senior finance positions with TI Group (now Smiths Group plc). Kevin is a Non-Executive Director of EMIS Group plc.

During the year an independent Board effectiveness review was undertaken by Dr Long CBE of Boardroom Review Ltd. Following this review, we have placed increased emphasis on Board succession planning to ensure the Board is refreshed in accordance with the Code. By starting this work now, we will achieve a phased approach for the succession of key roles over the next few years, with adequate handover periods to ensure a smooth transition. We are committed to appropriate engagement with shareholders throughout the process.

Employees

On behalf of the Board, I thank all our employees in the 57 countries around the world in which we have a direct presence. Our strategy for growth recognises that people are our most important asset and through their dedication, hard work and personal advancement, we achieve success for all stakeholders in the business. We value and celebrate the individual contributions to the solid results in 2015.

Prospects

Steam as a heat source, and niche pumps and associated fluid path technologies, are widely used across different industry sectors, geographic regions and customers. This leads to our markets being strongly influenced by the level of industrial production and changes in its rate of growth during the year, with a typical time-lag of a few quarters. Global industrial production growth progressively slowed from mid-2014, reaching no growth by the end of 2015, with the deceleration noticeably more marked in emerging markets. The likely path of global industrial production growth remains uncertain, with successive projected upturns being continually pushed back.

We have historically outperformed our markets, increasing sales ahead of general market growth, whilst exhibiting considerable resilience in more difficult economic conditions. Our strategy is focused on self-generated growth, to reduce our reliance on the market. Our strategic initiatives are targeted at increasing the effectiveness of our highly trained direct sales force, broadening our geographic presence, leveraging our new product development and optimising our supply chain. We are investing resources into these strategic priorities and developing a more sector-aligned organisation.

In 2016, we will benefit from the full-year effect of the actions taken in 2015 to reduce costs and will reinvest these benefits in the execution of our strategy for growth, including the creation of the new Spirax Academy. If recent exchange rates prevail for the remainder of the year, sales will increase by 3% on translation into sterling compared to 2015. We have a robust and resilient business model and, provided there is no material deterioration in trading conditions, the Board expects to make progress in 2016.

Group Chief Executive's Report

Introduction

The Group achieved another solid financial result in 2015, demonstrating the continued strength and resilience of our strong direct sales business model, achieved against the background of a progressive slowing in global industrial production growth to very low levels and also further currency headwinds. Additionally, we made considerable progress in our strategy for growth, continued our market development, took actions to improve efficiency and reduce costs, opened six new geographic sales companies, completed five acquisitions and made two strategic disposals.

Our direct sales approach in both our steam specialties and Watson-Marlow businesses, through our team of over 1,300 highly skilled and experienced sales and service engineers, is effective in uncovering opportunities to improve customers' steam systems and fluid path processes. This "self-generated" element to our business, combined with the high proportion of sales that derive from end users' maintenance and operating budgets, makes our business highly resilient, especially in the difficult market conditions we have seen in many markets this year. Importantly, our sales and service engineers generate solutions for customers' problems and deliver benefits to end users in the shape of reduced energy usage and lower CO_2 emissions, water savings, increased productivity, improved quality, better reliability, reduced costs, reduced chemical use and enhanced regulatory compliance.

Strategy implementation

Effective implementation of our strategy for growth has been a priority through the year and in 2016, we will be reinvesting the benefits from our cost reduction actions into the execution of our strategy. Our strategic objective is to outperform our markets by delivering self-generated growth, which we achieve through focusing on our six strategic themes:

- Increase direct sales effectiveness through sector focus;
- Develop the knowledge and skills of our expert sales and service teams;
- Broaden our global presence;
- Leveraging R&D investments;
- Optimise supply chain effectiveness; and
- Operate sustainably and help improve our customers' sustainability.

Notable progress in implementing our strategy has been made in:

- intensifying, expanding and accelerating the training and development of our sales engineers to ensure that we are even more effective in identifying and generating opportunities to improve customers' steam systems and niche pumping systems. In particular, work commenced on the creation of a new Spirax Academy that in 2016 will be the centre for the global training, mentoring and development of our employees, commencing with our direct sales force;

- the refinement and implementation of Customer Value Propositions to ensure that we adequately anticipate and meet the requirements of customers;
- delivering a greater sector focus on selected target industries, particularly in Food & Beverage, Healthcare, Oil & Petrochemical, Chemical and OEM customers, with appropriate sectorisation that will be an on-going feature for many years;
- increasing the focus on attractive product areas, including controls and thermal energy management;
- continued innovative new product developments;
- ensuring we have the correct structure, resources and skills to improve the effectiveness of our end-to-end supply chain;
- continued geographic expansion, with six new direct sales companies established in the year, including a major strategic investment in India; and
- continuing to improve our sustainability practices, including reducing our global carbon emissions by 13% in 2015.

We have concentrated on the alignment of the entire organisation behind our strategic themes. Improvements have been made to our health & safety management processes, and our risk management processes have also been enhanced and integrated further into the everyday business.

Market environment

Steam is used in a huge range of manufacturing processes for heating, curing, cooking, drying and cleaning, across a diverse range of different industries, including Food & Beverage, Pharmaceutical, Oil & Petrochemical, Chemical and Pulp & Paper. Steam is also used in hospitals and buildings for space heating, humidification and sterilisation, and to provide a reliable source of hot water at constant temperature. Likewise, peristaltic and niche pumps are also used across a wide range of similar industries to address difficult pumping problems. This wide spread of industry sectors and relatively large proportion of revenues that derive from end users' maintenance and operating budgets, means that our markets tend to track the growth in industrial production, although generally with a small lag of one or two quarters. Our exposure to large capital projects is limited, accounting for approximately 15% of our revenues, with a higher concentration of these projects in emerging markets. Overall, there was a further small decline in this segment of the market due to delays in approval and delivery of projects, and generally fewer projects undertaken by customers.

As we have previously noted, the impact on our business from the sharp fall in the price of oil is relatively muted but we are not immune, having seen a negative impact in Korea and Canada in particular, as well as in Brazil and China for different local reasons. Overall, we estimate that the weaker Oil & Petrochemical sector and lower energy prices, reduced Group sales growth by around 1% in 2015.

Global industrial production growth rates started to ease from the middle of 2014 and have progressively slowed through 2015, ending the year at virtually a global standstill. This has happened across all geographic regions, with emerging markets seeing the sharpest deceleration in industrial production growth.

In EMEA, industrial production growth slowed only modestly in 2015 and has been relatively stable since the Spring, although at low levels of growth of less than 1% overall. This includes a sharp deterioration in economic conditions in Russia, a slowing trend to zero growth in the UK but increasing industrial production growth in France, Italy and Spain, albeit following at least two years of decline in each case.

Asia Pacific has experienced a marked slowdown in industrial production growth driven by a strong deceleration in China as well as an industrial recession in South Korea. Elsewhere, market conditions have been mixed but with good economic growth in India.

In the Americas, industrial production growth slowed markedly and unexpectedly in the USA and Canada from the healthy pace seen in 2014. South America remained in an industrial recession throughout the year, with a deteriorating position in the largest market in Brazil. We have strong, long-standing businesses across Latin America with local manufacturing that has helped to insulate us against the impact of currency weakness but we are not immune from the severe economic turmoil in the region.

Progress in 2015

Organic sales increased by 2%. The strongest growth was again in Watson-Marlow where we achieved growth in all geographic regions. Organic sales in the steam specialties business were flat; we achieved continued modest sales growth in EMEA and we made a small advance in the Americas but organic sales were lower in Asia Pacific, mostly due to Korea, although China was marginally ahead.

Group sales at £667.2 million were down 2% at reported exchange rates (2014: £678.3 million), with unfavourable currency movements reducing sales on translation by 4%, due to the weakness of the euro, again compounded by significant currency weakness in a number of emerging markets. This was mitigated by the benefit to sales on translation from the strength of the US dollar and Chinese RMB against sterling. Currency movements have been quite volatile for some time, making projections increasingly uncertain. However, if recent exchange rates prevail for the full year, sales in 2016 would be 3% higher on translation into sterling compared to 2015, with the benefit from the weakness of sterling being mitigated by the further weakness in a number of emerging market currencies. Sales of the five small acquisitions during the year were partially offset by the disposal of M&M, leaving a small net contribution to sales of £3 million or around 0.5% of sales growth. The effect of these in 2016 would be a similar small net contribution to sales growth.

Watson-Marlow, which accounted for 23% of Group revenues, grew sales by 10% at reported exchange rates and by 13% at constant currency, including a 4% contribution from the three acquisitions completed during the year. Growth was achieved across all geographic regions, with the strongest growth in EMEA followed by the Americas. We benefited from positive conditions in our key Biopharmaceutical market, our strongly sector focused sales approach, sales of innovative new products and good traction from the successful integration of acquisitions in recent years.

In our steam specialties business, which accounted for 77% of Group revenues, organic sales were flat overall. At reported exchange rates, sales were down 5% due to unfavourable currency movements that reduced sales by 4% and a small impact from the disposal of M&M. We again saw a small decline in large project sales but made gains in our strategic target industries and product groups. Our business remains very resilient, reflecting the high proportion of sales that are derived from our end users' operating and maintenance spend. Geographically, in EMEA we achieved a modest organic sales increase, with widespread gains and strong progress in a number of our smaller markets but with a decline in Russia. In the Americas, the small sales advance was due to progress in Latin America, despite the economic difficulties, with a modest 2% decline in organic sales in North America, although with an improving trend in the USA in the second half-year. In Asia Pacific, organic sales were lower, mostly due to Korea where sales were down for the year against a very good performance in 2014; sales in China were marginally ahead, with industrial overcapacity reducing the level of project work.

Group adjusted operating profit of £152.4 million was 4% ahead of the prior year at constant currency. The operating profit at reported exchange rates was almost flat as the negative impact of the weakness of the euro and a number of emerging market currencies was only partially offset by the relative strength of the dollar. Watson-Marlow again performed strongly and in the steam specialties business, profits grew by double-digits at constant currency in EMEA, the Americas was flat and Asia Pacific registered an operating profit reduction at constant currency.

The Group operating profit margin expanded to a record 22.8% (2014: 22.5%). We continued to benefit from overall broadly flat material and component input costs, whilst increasing resources to improve our purchasing processes and coordination across the Group. Actions to reduce costs in our steam specialties UK manufacturing plant were taken in Q1 generating a modest net benefit to profit in 2015, with a full-year effect in 2016. We have continued to make investments to implement our strategic themes in the areas of sales force development, market development and product development but have exercised tight control over costs in the face of the progressive slowing in the rate of overall global industrial production growth. In addition, we have borne costs of approaching £2 million to establish our new wholly-owned direct sales operation in India that commenced trading in July 2015. Our usual seasonal second half-year profit bias was accentuated by the cost reduction benefits coming through as the year progressed and the shipment of the normal backlog built up in the first half-year. In 2016, we will be increasing investment in the implementation of our strategy for growth, reinvesting the benefits from our cost saving actions in 2015.

Market outlook
We have made good progress in implementing our strategic themes across our two businesses, which we expect to enhance our growth prospects, facilitating self-generated growth and making us less reliant on external market conditions.

Global industrial production growth slowed progressively through the year, with successive projected improvements being continually pushed back. At the end of 2015, year-on-year global industrial production growth was around zero, with a decline overall in non-OECD markets. Prospects for global industrial production growth in 2016 are uncertain but we will be focusing on realising the benefits from the implementation of our strategy, with the emphasis on self-generated growth. We have a strong direct sales business model, which combined with a large proportion of our revenues being derived from end users' maintenance and operating budgets, gives us a high degree of resilience in difficult economic conditions. We have continued to invest in our business for the long term and remain confident that the improvements we have made, and continue to make to our business, will enable us to outperform our markets and deliver benefits to all stakeholders.

Europe, Middle East and Africa (EMEA)

	2014	Exchange	Organic	Disposal	2015	Organic	Constant currency	Change
Revenue	£236.2m	(£19.7m)	£4.9m	(£2.0m)	£219.4m	+2%	+1%	-7%
Operating profit	£45.9m	(£7.4m)	£4.6m	(£0.4m)	£42.7m	+12%	+11%	-7%
Operating margin	19.4%				19.5%	+170bps	+170 bps	+10bps

Market overview
Overall industrial production growth in EMEA was lower in 2015 than in 2014, although it remained positive throughout the year at very low levels of growth. In our larger markets, industrial production growth slowed quite sharply in the UK and Germany but accelerated in France, Italy and Spain. Russia, which accounts for around 1% of steam business sales, was in an industrial recession throughout the year reflecting the impact of sanctions. Markets in Eastern Europe were more positive but in our

smaller markets in the Nordic area and in Africa, conditions were mixed. Project business was again lower, due to a decline in larger projects, with delayed decision making by customers.

Progress in 2015

In EMEA, organic sales grew by over 2% to £219.4 million. Currency movements were very unfavourable impacting sales on translation by 8% reflecting the euro weakening by 10% against sterling and the 32% devaluation of the rouble average exchange rate. The disposal of M&M in July 2015 reduced sales by 1%, leaving reported sales down 7% from the £236.2 million in 2014. Sales were ahead in virtually all operations, including our larger markets in France, Germany, Italy and Spain, with good growth in South Africa, Turkey and our recently established operation in the Netherlands. The UK could not repeat the growth achieved over the two prior years and sales were modestly down as sales to the NHS declined sharply. Business levels were down in Russia, reflecting lower sales into the Food & Beverage and Chemical sectors in particular. Our new operation in Egypt made a very positive start.

Our businesses performed well in 2015 and overall operating profit was ahead 11% at constant currency to £42.7 million. We benefited from the higher sales, which included continued price management actions, and costs were closely controlled whilst continuing to invest in our strategic themes. Operating profits increased at constant currency in virtually all operations and were well ahead in South Africa, Turkey, Benelux and the Middle East. We took action early in the year to cut costs in our manufacturing operation in the UK. Headcount was reduced by 8% at a cost of £1.0 million, yielding annualised savings of £2.2 million from the start of the second quarter. The net benefit in 2015 was therefore £0.6 million, which positively impacted profit in the second half-year, with a further year-on-year benefit in 2016. Overall, material costs were subdued and operational improvements resulted in increased efficiency and lower costs, including reduced energy costs from the Combined Heat and Power plant that came on stream at the start of the year. In addition, service levels increased and stock levels were reduced. Profits from our manufacturing operations in Europe were overall ahead, despite a fall in demand on our factories in Europe. Unfavourable currency movements reduced operating profit by 16%, including both translation and a significant exchange transaction effect in our European companies from purchases of product from our UK manufacturing plant. This was reflected in an overall decline of 7% profit from the prior year's £45.9 million at reported exchange rates. The operating profit margin for EMEA at 19.5% (2014: 19.4%) was slightly ahead, despite the significant currency impact, as a result of the many operational improvements.

Strategy update

We have been very active in EMEA progressing many aspects of strategy deployment. Our young operating companies in the Netherlands and the Middle East performed well, as did our new operation in Egypt, with further market developments at an advanced stage for 2016. The development of the knowledge and skills of our direct sales force was a particular focus, in preparation for the introduction of the new Spirax Academy. Good progress was made in our strategic sectors of Food & Beverage, Healthcare, Chemical and OEM, as well as in the on-going process of sectorisation of our sales teams. Improvements were made in the management of health and safety, with a resultant significant reduction in lost time accidents. Strategic developments in our supply chain included improvements to the process for the introduction of new products to reduce time to market, increased resources to drive improvements in purchasing, planning and supply chain, and better stock quality management leading to increased delivery performance and lower inventory levels. All these changes underpin our strategic drive to generate more of our own growth and to outperform our markets.

Outlook

Our markets remain challenging, with industrial production growth rates overall positive, although at very low levels of growth. We are not assuming any meaningful improvement in market conditions but remain well-placed to capitalise on any pick-up in market sentiment. We have a robust business model, a diverse spread of end markets and good exposure to some of the more resilient sectors such as Food

& Beverage. We remain positive and are confident that our strategy will continue to identify opportunities for growth. 2016 will also benefit from the full-year effect of the cost savings in the UK from the headcount reductions and one-off costs in early 2015. We will continue to carefully balance the investment in strategic initiatives with close cost control.

Asia Pacific

	2014	Exchange	Organic	Acquisitions	2015	Organic	Constant currency	Change
Revenue	£177.7m	£2.0m	(£7.9m)	-	£171.8m	-4%	-4%	-3%
Operating profit	£46.4m	£1.9m	(£3.6m)	-	£44.7m	-7%	-7%	-4%
Operating margin	26.1%				26.0%	-90bps	-90 bps	-10 bps

Market overview
The slowdown in industrial production growth in the second half of 2014, continued through 2015. There were pockets of industrial production growth in some of our smaller markets but overall conditions were dominated by the industrial recession in Korea and the well-publicised slowdown in China, driven by excess capacity in many sectors. Project business in the region, especially large projects, was well down on the prior year with project postponements reflecting the more difficult investment climate in many Asian markets, including in the Oil & Petrochemical and Palm Oil Sectors, and also in Food & Beverage and in hospitals, many of which are state owned. Against this background, our focus switched, with good effect, to generally smaller self-generated projects and end user maintenance work, and we noted an encouraging stabilisation in overall demand in the second half of the year. Pricing was reasonable in most markets and there was no price increase in China.

Progress in 2015
Organic sales declined by 4% to £171.8 million reflecting some relative improvement in the second half-year, with a lower rate of decline than in the first half-year. Sales were impacted by project delays and we finished the year with a larger order book than at the end of 2014. Exchange movements were overall positive, adding 1% to sales on translation due to the 6% strengthening of the RMB versus sterling, largely offset by currency weakness in most other smaller markets. Reported sales were therefore 3% below the prior year sales of £177.7 million.

In China, sales and profits were marginally ahead at constant currency. Project work, which historically comprised approaching 50% of our business in China, was again down on the prior year but was successfully compensated by generating increased levels of smaller projects targeting process improvements, energy efficiency and maintenance savings for end users. Increasing localisation of manufacture, in line with our regional manufacturing strategy, has reduced costs and mitigated local wage inflation, also improving customer delivery performance which will be further enabled by the £13 million plant expansion project that is expected to be completed in early 2017. We remain positive about the prospects for our business in China; the short-term economic indicators are not very encouraging but the move to a more consumer driven economic model will benefit our key customer sectors in the longer term.

Sales were down and profits somewhat lower in Korea, where we were unable to repeat the strong performance in 2014. As expected, the traditionally high level of projects in prior years, some destined for the oil refining industry in the Middle East, were not sustained. This, combined with a small number of delayed project shipments, impacted sales for the year. The order book taken into the new year was consequently higher.

Elsewhere in Asia Pacific, we were pleased with the further good progress in Japan, where we achieved higher sales and markedly improved profits, despite currency headwinds increasing landed costs of imported product. This reflects the significant investment in developing the knowledge and skills of our Japanese direct sales force over recent years. Sales and profits were also ahead in Indonesia. In Australasia, we saw a decline in performance against a difficult market background, reflecting lower government spending on hospitals and reduced investment in the Food & Beverage industry from the prolonged drought and global dairy prices.

Our strategically important investment in our new wholly owned direct sales operation in India took a significant step forward and commenced trading from 1st July 2015, contributing a small amount to sales from a zero base. It has taken longer than expected to achieve all the regulatory approvals but good progress has been made and the £12 million project to create a new world class manufacturing plant, training centre and offices will be completed in April 2016. Pre-trading and start-up operating losses approaching £2 million were incurred and are included in the adjusted operating results for the Asia Pacific region.

Overall in Asia Pacific, operating profit reduced by 7% at constant currency to £44.7 million, with over a third of this decline caused by the start-up investment in India. As expected, the second half in Asia Pacific showed a significant improvement on the 17% profit reduction in the first half-year, as strong cost controls enabled full gearing of the higher second half sales volumes. Excluding India, second half profits were flat on the prior year. Currency movements were overall favourable, increasing operating profit by 4%, leaving operating profit down nearly 4% at reported exchange rates compared with operating profits of £46.4 million in the prior year. The operating profit margin at 26.0% was just 10 bps lower (2014: 26.1%), due to the much improved performance in the second half-year.

Strategy update

We continue to aggressively enter into new markets, with increased local sales resource in a number of markets including Myanmar and Cambodia, and a new operating company in Vietnam that commenced local direct sales on 1st January 2016. The on-going and progressive sectorisation of sales teams was taken forward, with an increased focus on our strategic industry sectors. Significant business system upgrades were completed during the year and supply chain resources added in the region, with the aim of increasing local product availability, cost effectiveness and flexibility.

Outlook

Overall, industrial production growth in Asia Pacific progressively slowed through 2015 and the immediate future trajectory is uncertain, dependant in large part on the outlook in China, which directly and indirectly drives regional economic activity. However, we are clear that there are good medium and long-term opportunities that we are increasingly well placed to address through the further development of our direct sales business model, focus on key strategically important industry sectors, such as Food & Beverage and Healthcare, and improvements to our supply chain, combined with continued geographic market development.

The Americas

	2014	Exchange	Organic	Acquisitions	2015	Organic	Constant currency	Change
Revenue	£126.2m	(£4.1m)	£1.3m	-	£123.4m	+1%	+1%	-2%
Operating profit	£28.0m	(£0.9m)	£0.0m	-	£27.1m	0%	0%	-3%
Operating margin	22.2%				22.0%	-20bps	-20 bps	-20 bps

Market overview
The healthy pace of Industrial production growth in 2014 in North America, slowed markedly through 2015 reflecting the direct effects of the steep fall in oil prices, the six-month strike in the refineries and four-month strike in California ports, and the wider indirect effects on industrial confidence in the USA and Canada of the slowdown in global growth. Economic conditions in South America were overall very difficult for a second year, with our largest market in Brazil suffering a deepening industrial recession.

Progress in 2015
Sales in the Americas increased by 1% at constant currency to £123.4 million, with a modest 2% reduction in sales in North America and a 5% increase in Latin America. We achieved a good increase in our strategic focus sectors, in particular in Food & Beverage, largely offsetting weakness in our Oil & Petrochemical business. There were significant currency fluctuations in the region and an overall 3% net reduction in sales on translation reflecting all currencies weakening against sterling except the US dollar, which appreciated 8%. In particular, the Brazilian real depreciated by nearly 25% and although the average exchange rate for the Argentinian peso was 7% weaker for the year, the currency devalued by 25% in December 2015. At reported exchange rates, sales in the Americas were down 2% (2014: £126.2 million).

In North America, we continue to make good progress with the implementation of changes to our business that are aimed at strengthening our direct sales approach in the USA. Our more proactive sales resources are increasingly working with customers, on a sector basis, to grow the total market by unearthing and developing hitherto unrecognised opportunities to provide solutions for customers' steam systems. We continue to support and develop our well-established distribution network, which will remain an important channel to the market. Sales were 2% lower, partly due to reduced metering business as part of the closure of our small EMCO metering manufacturing plant in Colorado and the reorganisation of our energy management and metering activities, where a focused, technically skilled, sales support and development team remains in place. The lower sales from distributor de-stocking were mitigated by success with key accounts. Operating profits in North America were modestly lower at constant currency, reflecting increased sales resources, largely offset by the metering unit cost savings and favourable mix.

In Latin America, our businesses performed well, growing sales by 5% in very difficult economic conditions, with all our operations increasing sales at constant currency except Brazil. As expected, the second half-year deteriorated in Brazil and sales were down mid-single digit for the year, as major customers froze capital expenditure, which we mitigated through increased sales in our target industries and growth in services. Our new operation in Colombia commenced trading in October, having acquired the steam specialties business of our former distributor. Our business in Mexico performed strongly and in Argentina, profits were ahead from higher sales into the domestic market, where there were a number of good project wins, and benefiting from dollar-based pricing. We completed an extension to our plant in Argentina and we are now well-placed to capitalise on our greater capacity for packaged solutions. Operating profits in Latin America were marginally ahead at constant currency, benefiting from the increased sales and close control of overheads in an inflationary environment.

Overall in the Americas, operating profit of £27.1 million was flat at constant currency, following the significant 31% profit increase in 2014. Currency movements were overall unfavourable, reducing operating profit by 3% at reported exchange rates versus £28.0 million in 2014. The operating profit margin was 22.0% (2014: 22.2%) reflecting our strategic investments and inflationary cost pressures in Latin America, mitigated by cost saving actions in the USA and Brazil in particular. One-off, mostly non-cash, closure costs of £3.8 million in respect of the metering unit were incurred that have been excluded from the adjusted operating profit but charged against profit in the statutory results for the Americas segment and the Group.

Strategy update
Geographic expansion has continued, with the creation of a new direct sales operating company in Peru that commenced trading during the year. Market development resources were added in Chile and also in Colombia, following the purchase of the steam specialties business of our former distributor. We invested significant time in training during the year in further developing solution selling and key account management, and in the creation of subject matter experts, as we focus increasingly sectorised sales teams on target markets in Food & Beverage, Buildings, Chemical, and Oil & Petrochemical. We have benefited from sharing best practice and workshops covering new products, including controls, meters and the boilerhouse. Improvements were made in health and safety processes, with a reduction in lost time accidents. Supply chain initiatives were also progressed, with an improvement in stock management.

Outlook
Industrial production growth in North America continues on a downward trend, as does Latin America where the industrial recession is deepening, especially in Brazil where the economy is suffering the fall-out from a toxic cocktail of political and economic events. Our focus, and the thrust of our strategy, is on outperforming our markets. We are confident that the significant changes being made in the USA and increased effectiveness of our direct sales approach in all markets, will generate additional sales growth. 2016 will benefit by £0.5 million from the non-repeat of EMCO metering losses in 2015 and also benefit from the many process and efficiency improvements. Following the devaluation in December 2015, Argentina may see a deterioration in short-term market conditions but could be more positive in the medium term.

Watson-Marlow Fluid Technology Group

	2014	Exchange	Organic	Acquisitions	2015	Organic	Constant currency	Change
Revenue	£138.2m	(£2.7m)	£11.6m	£5.5m	£152.6m	+9%	+13%	+10%
Operating profit	£43.5m	£0.2m	£3.1m	£1.2m	£48.0m	+7%	+10%	+10%
Operating margin	31.5%				31.4%	-40bps	-80 bps	-10 bps

Market overview
General economic conditions and industrial production growth in the various regions of the world were the same as for the steam specialties business. Our Watson-Marlow niche peristaltic pumps and associated fluid path technologies business serves a diverse range of sectors, the largest of which is Biopharmaceutical that now accounts for almost 45% of sales. Biopharmaceutical has remained a good market, with continued investment by customers and new sales synergy opportunities as we have integrated the BioPure, Asepco and Flow Smart acquisitions. Food & Beverage markets have been

positive and OEM activity has been strong, with a good number of projects won. General industrial markets were modestly lower, reflecting the slowing industrial production growth in most parts of the world. Water & Wastewater markets were more difficult following the particularly strong growth in the prior year. Finally, Mining & Precious Metal processing was also more difficult against a background of uncertainty in the industry. Overall project work increased, largely through smaller and mid-sized projects, with a reduction in large project sales, particularly in Water & Wastewater.

Progress in 2015
Sales increased by nearly 13% at constant currency to £152.6 million. Organic sales increased by 9% and the acquisition of Asepco in April 2015, the Japanese PRIMIX business in July 2015 and Flow Smart in November 2015 contributed a further 4% to sales. Net currency movements were unfavourable, reducing sales by 2% on translation, with most currencies weakening against sterling, mitigated by gains from the stronger dollar. Sales at reported exchange rates were over 10% ahead of the prior year sales of £138.2 million. Growth was achieved across virtually the entire product range, supported by new product introductions over recent years. Strongest growth was in BioPure in its second full year in the Group, with expanded plant investment in Portsmouth installed and commissioned at the end of the year to increase capacity, followed by strong Alitea growth in the OEM sector and MasoSine in Food & Beverage. Tubing sales expanded double-digit. Asepco made a good first-time contribution, exceeding expectations, and the integration into the Group has progressed exceptionally well. The MasoSine manufacturing and distribution business in Japan, acquired in July 2015, performed well and forms the platform for future growth in what is an under-developed market for us. It is early days for Flow Smart, acquired in November, but early indications are very encouraging.

Sales growth was achieved in all geographic regions. Strongest growth was in EMEA with widespread improvements from our focused direct sales approach across our key industry sectors. Sales were well ahead in both developed markets, especially in Austria, Italy, the Netherlands and Sweden, and in emerging markets, including Russia. In the Americas, our largest operation in the USA achieved steady growth across all core sectors, with the exception of general industrial where large projects in 2014 were not repeated. In Latin America, sales were well ahead at constant currency due to Mexico and Argentina; in Brazil, a decline in Mining and Water & Wastewater markets was compensated by growth in Food & Beverage. Organic sales in Asia Pacific were modestly ahead due to Korea, Malaysia and Singapore, and broadly flat in China due to fewer projects in Biopharmaceutical and Food & Beverage.

Watson-Marlow's operating profit of £48.0 million (2014: £43.5 million), increased by 10% at both constant currency and at reported exchange rates, with exchange losses on translation being broadly matched by exchange transaction gains on the transfer of product manufactured predominantly in Europe to the USA and elsewhere. The operating profit margin edged 10 bps lower to 31.4% (2014: 31.5%), as we continue our strategy of investing in product development and market expansion for future growth. In addition, the dilutionary effect of acquisitions completed in 2015, as well as the expected non-repeat of the unusually favourable product mix that we saw in 2014, also contributed to the 80 bps margin decline at constant currency.

Strategy update
Our strategy has been consistently executed through the year, with progress across the range of strategic initiatives. The primary thrust of our actions is aimed at market development and product development, supported by our Global Excellence in Manufacturing (GEM) programme that is effective in delivering continuous improvement and cost reduction. Further small distributors were converted to direct sales across five product lines in six countries, increasing focus and growing our addressable market. Additional sales engineers were added to support growth and to develop emerging markets in Asia and Latin America in particular. New sales operations were established in Chile and Taiwan, and we completed preparations for further expansion in 2016 in a number of other locations. We continue to drive a market sectorised approach to leverage skilled sales resources and detailed application

knowledge. Product development remains a key driver of sales growth, as we apply carefully targeted and innovative products to grow the addressable market of our niche pumps and associated fluid path technologies and expand our market share. We very successfully extended the implementation of a global ERP solution and around 70% of our business is now being transacted through the new system. Significant effort has been invested in people development and in improving health & safety processes.

Outlook

Our markets reflect general levels of industrial production growth and the level of investment in our core focus sectors, in particular Biopharmaceutical, Food & Beverage and OEM that are expected to be more resilient; Mining & Precious Metal processing is expected to remain difficult with low levels of project activity. We continue to generate our own opportunities for growth by the expansion of our addressable markets through product development, taking market share from other pump types, and market development, on a sector basis in both developed markets and in new markets, as we aggressively expand our geographic footprint.

Financial Review

The Group reports under International Financial Reporting Standards (IFRS) and also uses adjusted figures where the Board believes that this gives a more representative indication of the underlying performance. Unless otherwise stated, adjusted figures are used throughout and exclude the amortisation and impairment of acquisition-related intangible assets, the costs of closing our metering manufacturing facility in the USA, acquisition and disposal costs and recycled exchange losses on the disposals of M&M and the Group's 49.3% interest in our Associate company Spirax Marshall in India, together with the tax effects of these items.

A solid financial result was achieved in 2015 against the background of a progressive slowing in the rate of industrial production growth. Sales at reported exchange rates declined 2% to £667.2 million (2014: £678.3 million). Organic sales grew by 2% overall, with Watson-Marlow registering unusually strong 9% organic growth, widely spread across the business, including another strong performance in EMEA. Organic sales were flat in the steam specialties business, with a modest 2% advance in EMEA and a small 1% gain in the Americas, being offset by a 4% organic sales decline in Asia Pacific. There was a small net contribution to sales of 0.5% from five small acquisitions and one disposal, with a similar small full-year net benefit expected in 2016. Finally, the Group disposed of its 49.3% interest in our Associate company Spirax Marshall in India in March 2015 for £6.6 million, prior to establishing a wholly owned direct sales and manufacturing business that commenced trading on 1st July 2015.

Currency movements were volatile, with a net unfavourable translation impact on sales of 4%. The euro weakened 10% against sterling and a number of emerging market currencies weakened significantly, including the Russian rouble -32% and Brazilian real -24%, which were mitigated by the 8% strengthening of the dollar against sterling. In December, the Argentinian peso devalued by around 25%. Currency movements have started the new year on a more positive note and if recent exchange rates prevail for the full year, there would be a 3% exchange gain to sales on translation versus 2015.

Adjusted operating profit of £152.4 million (2014: £153.0 million) was marginally lower at reported exchange rates but 4% ahead at constant currency due to continued good profit growth in Watson-Marlow. Operating profit was marginally ahead at constant currency in the steam specialties business and 1% ahead excluding the impact of the disposal of M&M, with a strong improvement of 10% in EMEA, flat profit overall in the Americas and a decline of 7% in Asia Pacific. The Group benefited from the modest sales growth, the focus on price management, efficiency gains and cost savings actions, particularly in the UK and USA early in 2015, and a second year of broadly flat costs for materials. Business mix was generally favourable across the steam specialties business but in Watson-Marlow, the unusually favourable mix in 2014 was not repeated in 2015. Acquisitions contributed 4% to sales growth and 3% to profit growth in Watson-Marlow.

Currency movements were overall negative, reducing operating profit by over 4% on translation, with a similar pattern of impact as against sales. Exchange transaction effects broadly netted out. There were gains in Watson-Marlow of £1.6 million, primarily from the lower landed costs in the USA of product imported from Europe; Asia Pacific of £0.7 million, mainly from lower landed costs in China; and the Americas of £0.6 million, principally from gains in the USA and also Argentina where we benefit from dollar-denominated exports. These were offset by an unfavourable impact of £3.0 million in EMEA, primarily from the weaker euro increasing landed costs.

The adjusted operating profit margin improved to 22.8% from 22.5%.
The statutory operating profit was £142.8 million (2014: £148.1 million).

Interest
Net interest cost reduced from £3.0 million to £1.5 million. Net bank interest improved by £0.9 million, reflecting higher average cash balances and the benefit of a lower renegotiated interest margin on UK debt facilities. The profile of average net cash balances will fall in 2016 due to the full-year effect of the special dividend of £91 million paid in July 2015. Net finance costs under IAS19 in respect of the Group's defined benefit pension schemes reduced by £0.6 million to £2.3 million. It is expected that pension net finance costs in 2016 will be similar to those in 2015.

Associates
In March 2015, the Group disposed of its 49.3% interest in Spirax Marshall in India, prior to establishing our own wholly owned manufacturing and direct sales company in India that commenced trading on 1st July 2015. Spirax Marshall contributed £1.3 million profit after tax to the Group for the full year 2014, which reduced to £0.3 million for the final two months of trading in early 2015. We also have a 38.9% interest in Econotherm heat pipe technology business, where our share of losses reduced from £0.2 million to £0.1 million, as we continue to make progress in commercialising this innovative technology. In total, the Group's after tax share of the profits of Associates was £0.2 million (2014: £1.2 million).

Pre-tax profit
The adjusted profit before tax of £151.1 million (2014: £151.1 million) was fractionally ahead at reported exchange rates. Currency movements were again unfavourable, reducing pre-tax profit by £6.2 million or 4%; pre-tax profit therefore improved by 4% at constant currency. The statutory profit before tax was £139.7 million (2014: £144.8 million) and includes those non-operating items, listed below, that have been excluded from the adjusted profit:

- a charge of £4.7 million (2014: £4.1 million) for the amortisation of acquisition-related intangible assets;
- acquisition and disposal costs of £0.8 million (2014: £0.8 million);
- a charge of £3.8 million (2014: nil) in respect of the closure of our small metering manufacturing facility in Longmont, Colorado, USA; and
- a charge of £0.3 million (2014: nil) related to the disposal of M&M in respect of exchange translation losses from prior years, reclassified from equity to the profit and loss account in the current period under IAS21.

Non-operating items in 2015 of a net £1.8 million for Associates, principally relates to Spirax Marshall in India, in respect of exchange translation losses from prior years, reclassified from equity to the profit and loss account in the current period under IAS21. In 2014, there was a charge of £1.5 million for Associates in respect of the amortisation of acquisition-related intangible assets and the impairment of goodwill and other assets, also in respect of Spirax Marshall, in India, ahead of the sale of the Group's 49.3% holding in this Associate company in 2015.

Taxation
The tax charge on the adjusted profit before tax, excluding Associates' profit (which is presented on an after-tax basis), edged lower to 29.8% (2014: 29.9%). The Group's overall tax rate essentially reflects the blended average of the tax rates in over 40 tax jurisdictions around the world in which our operations trade and generate profit. The Group comprises over 70, mainly small, operating units reflecting our local direct sales business model. I would anticipate a broadly similar tax rate in 2016 and future years.

Earnings per share
Adjusted basic earnings per share increased by 2% to 142.6p (2014: 140.4p) and by 6% at constant currency. Earnings per share benefited from a reduction of 3.6% in the number of shares in issue from 15th June 2015, following the share consolidation of 28 existing Ordinary shares into 27 new Ordinary shares, in conjunction with the 120p per share special dividend paid in July 2015. This will have a full-year benefit to earnings per share in 2016. The statutory earnings per share was 129.9p (2014: 132.8p). The fully diluted earnings per share was not materially different in either year.

Dividends
The Board is proposing a final dividend of 48.2p per share for 2015 (2014: 45.0p per share) payable on 27th May 2016 to shareholders on the register at 29th April 2016. Together with the interim dividend of 20.8p per share (2014: 19.5p), total Ordinary dividends are therefore 69.0p per share, which is an increase of 7.0% on Ordinary dividends of 64.5p in 2014. Our dividend record extends to 48 years, with a compound annual increase of 11% over that period; in line with the 11% per annum increase over the last 10 years.

The total dividends paid during the year were 185.8p or £140.3 million, including the special dividend of 120p per share or £91.0 million. This compares with 60.5p or £45.7 million paid in 2014.

Acquisitions and disposals
Acquisitions are an important complement to our strategy for growth. Dedicated resource is focused on identifying opportunities to add attractive businesses that closely match our strategic, industrial and commercial requirements. We have a strong balance sheet and considerable debt capacity, giving us significant flexibility. We have been active in 2015 and made five small acquisitions at a total cost of £25 million that each fulfil one or more of our three broad acquisition categories;

- geographic expansion, typically through the acquisition of a distributor in a developing market;
- products that can be integrated into our existing businesses; and,
- related acquisitions that fit alongside our existing steam specialties and Watson-Marlow businesses.

On 9th April 2015, we announced the acquisition of Asepco Corporation for £7.2 million. Asepco is a manufacturer of high purity aseptic valves and magnetic mixers for the Biopharmaceutical industry and advances Watson-Marlow's fluid path strategy in the important Biopharmaceutical sector. The business is being integrated into the WMFTG business and has performed ahead of expectations since acquisition.

Valve and Control Engineering Limited (VCE) was acquired on 14th April 2015 for £0.8 million and was successfully integrated into our steam specialties sales business in the UK. Operating in Scotland, the business manages customers' annual boiler inspections and recertifications, opening up a potentially interesting new stream of service opportunity.

On 5th July 2015, we announced the acquisition of the MasoSine manufacturing and distribution business from PRIMIX Corporation in Japan for £2.8 million. The acquisition adds new products, enables Watson-Marlow to initiate direct sales in this important market and provides a platform for future expansion in this under-developed market for Watson-Marlow. The business performed well in its first months within the Group.

On 25th September 2015, we acquired the distribution rights of the steam specialties business from Casaval S.A., in Colombia for £6.6 million and a further £1.9m was paid for inventory. Direct sales operations throughout Colombia have been initiated. This geographic expansion of the steam specialties business also provides a hub for further developments in northern Latin America.

On 26th November 2015, we announced the acquisition of Flow Smart Inc. for £5.7 million from the founding shareholder and partners. Flow Smart specialises in the design and manufacture of high purity sanitary gaskets, braided silicone transfer tubing and reinforced silicone hoses for the bioprocessing and pharmaceutical industries. This is a further extension of the WMFTG fluid path strategy and is being integrated into Watson-Marlow's business.

As previously reported, on 1st March 2015, we sold our 49.3% holding in Spirax Marshall, an Associate company, in India for £6.6 million. We subsequently established a wholly owned sales and manufacturing company in Chennai, India that commenced trading on 1st July 2015 on a direct sales basis through our new team of sales and service engineers. The new purpose built manufacturing plant, warehouse, training centre and offices, representing an investment of over £12 million, will be completed in April 2016.

Also as previously reported, on 3rd August 2015, we disposed of M&M International Srl to Rotork plc for £6.7 million. This solenoid and piston valve company lacked strategic fit with the steam specialties business.

Acquisitions in recent prior years have performed well, in particular BioPure Technology has achieved significant sales and profit growth following its successful integration into the Watson-Marlow Fluid Technology Group.

Research and development

The development of innovative new products, and getting those products to market faster and sold more effectively, is an important element of our strategy for growth. In our steam specialties business, the focus remains centred on developments in controls, energy monitoring and management, and thermal energy management. The development cycle is increasingly aligned with the priorities of our sales teams and larger application specific opportunities. We have been successful in securing major funding for a number of innovation developments through Innovate UK and European Horizon 2020 initiatives, including demonstrating a trilateral flash cycle for converting low temperature waste streams into valuable electricity, hollow micro-fibre heat exchangers and microwave-based sensors for steam applications.

In our Watson-Marlow niche peristaltic pump and associated fluid path technologies business, the drive is for truly innovative products that target attractive market opportunities and expand our addressable market by taking market share from other positive displacement pump types. Developments are being progressed across the product range, including tube and hose developments.

Overall the Group's total investment in research and development was £9.9 million (2014: £9.6 million).

Capital employed

Capital employed	2015	2014
	£'000	**£'000**
Property, plant and equipment	169,948	176,668
Inventories	92,502	98,007
Trade receivables	152,082	155,696
Prepayment and other current assets/(liabilities)	(70,056)	(84,134)
Capital employed	**344,476**	**346,237**
Intangibles and investment in Associate	108,918	101,959
Post-retirement benefits	(73,654)	(75,779)
Deferred tax	15,306	18,529
Provisions and long-term payables	(1,554)	(1,561)
Net cash	4,823	52,493
Net assets	**398,315**	**441,878**
Adjusted operating profit	**152,437**	**152,950**
Average capital employed	**345,357**	**345,358**
Return on capital employed	**44.1%**	**44.3%**

Total capital employed was virtually unchanged at £344 million. At constant exchange rates the increase was 3%.

Tangible fixed assets reduced by 1% at constant currency to £170 million due to net disposals during the year. Significant capital expenditure projects included the new plant at Chennai in India and the extension of our plant in Shanghai, China, where work commenced late in 2015 and is scheduled for completion in early 2017. Watson-Marlow reached significant milestones, with multiple implementations of a global ERP solution and now 70% of business is being transacted through the new system. In the steam specialties UK plant in Cheltenham, a new clean unit to manufacture products for the Pharmaceutical and other clean industries to exacting standards is now operational. We generate significant cash flow and our first priority is to reinvest in the business, taking opportunities to generate good returns from increased efficiency, reduced costs and flexibility. The combined heat and power plant in Cheltenham, saving up to £1,000 per day in energy costs from early 2015, contributed significantly to a reduction in our CO_2e emissions in 2015.

Total working capital increased by 8% at constant currency to £175 million. Trade receivables were 2% higher, with a repeat of the high level of project work shipped in the final two months of the year, particularly in Asia Pacific. Inventory levels were flat at constant currency as we continued to embed improved stock management techniques, optimising stock levels and improving customer service in support of sales growth. Creditors were lower and prepayments increased, related to leasehold property in China. The ratio of working capital to sales increased to 26.2% (2014: 25.0%) due mainly to the reduction in payables and the increase in prepayments.

Return on capital employed (ROCE)

This is one of our most important key performance indicators and forms a meaningful element of Executive Directors' annual bonuses. ROCE encompasses effective management of fixed assets and working capital, and profitability of the business. ROCE edged lower to 44.1% (2014: 44.3%) due to a 90 bps impact from the start-up of our new operation in India. Underlying ROCE improved by 70 bps reflecting our close control of the various components of capital employed and improvement in the operating profit margin.

Post-retirement benefits
The net post-retirement benefit liability under IAS19 was slightly lower at £73.7 million (2014: £75.8 million). The overall defined benefit obligation for all schemes in the Group reduced by 2%. This reflected small actuarial gains from changes in demographic assumptions and changes in financial assumptions, the latter essentially due to a slight increase in discount rates, which is driven by movements in AA Corporate Bond yields, as mandated under IAS19. The value of assets held by the Group's various defined benefit pension arrangements (89% of which are held in the main UK defined benefit pension schemes) declined by 1%, reflecting returns on assets below the scheme assumptions. The main UK schemes were closed to new members in 2001 but have remained open to future service accrual. These schemes continue to be managed under a dynamic de-risking strategy whereby asset and liability values are monitored on a daily basis by the asset manager and appropriate asset allocation decisions taken as the funding level improves against pre-agreed trigger points.

The last actuarial valuation of the UK schemes, as at 31st December 2013, was completed in September 2014 and showed those schemes to be broadly in balance. As a consequence, deficit reduction cash contributions by the Company ceased with effect from October 2014.

Cash flow and treasury
Cash generation in 2015 was very strong, driven by conversion of operating profit into cash, whilst continuing to invest in capital expenditure projects that generate good returns from improvements in efficiency and cost reduction, and in support of sales growth.

Adjusted cash flow	**2015 £'000**	2014 £'000
Operating profit	152,437	152,950
Depreciation and amortisation	22,156	22,703
Equity settled share plans	3,330	2,374
Working capital changes	(1,574)	(14,523)
Net capital expenditure (including capitalised R&D)	(30,864)	(31,331)
Cash from operations	**145,485**	**132,173**
Net interest	819	(53)
Tax paid	(43,304)	(41,915)
Free cash flow	**103,000**	**90,205**
Net dividends paid	(140,484)	(45,109)
Provisions and pension deficit reduction payments	673	(4,870)
Proceeds from issue of shares	4,706	2,218
Acquisitions and disposals	(10,230)	(9,984)
Adjustments (acquisition and disposal costs and EMCO closure costs paid)	(2,056)	(759)
Cash flow for the year	**(44,391)**	**31,701**
Exchange movements	(3,279)	4,392
Opening net cash	52,493	16,400
Net cash at 31st December	**4,823**	**52,493**

Cash from operations increased to £145.5 million (2014: £132.2 million) representing a 95% cash conversion. This good improvement reflects a small working capital outflow of £1.6 million versus an outflow of £14.5 million in 2014. Capital expenditure was £30.9 million (2014: £31.3 million) and we would expect capital expenditure in the current year to increase to around £35 million as we complete the new plant in India and progress the major expansion of our plant in China. Improvements to our end-to-end supply chain are an important element of our strategy and are aimed at under-pinning future continued strong cash generation.

Taxation paid was £43.3 million (2014: £41.9 million) reflecting larger withholding taxes on an increased flow of dividends from subsidiary companies outside the UK. Tax paid was broadly in line with the tax charge in the profit & loss account and included tax paid in virtually every one of the 43 countries in which the Group has operating units. Free cash flow rose to £103.0 million (2014: £90.2 million), providing funds for dividends to shareholders and acquisitions.

Dividend payments were £140.5 million (2014: £45.1 million) and reflect payment of the increased Ordinary dividend together with the special dividend of £91.0 million paid in July 2015. Provisions movements and pension deficit reduction cash contributions show a marked improvement versus the prior year due to the cessation of pension deficit contributions to the main UK schemes following the triennial actuarial valuations completed in September 2014. There was a net cash outflow of £10.2 million for acquisitions and disposals, comprising a cash cost of £23.6 million, net of an inflow of £13.3 million in respect of the two disposals. Shares issued under the Group's various employee share schemes gave a cash inflow of £4.7 million (2014: £2.2 million).

The good free cash flow generated for the year, together with the opening net cash balance of £52.5 million, was therefore utilised to fund the special dividend and acquisitions, resulting in a closing net cash balance of £4.8 million at 31st December 2015.

The Group's profit and loss account and balance sheet are exposed to movements in a wide range of different currencies. This stems from our direct sales business model, with a large number of local operating units. These currency exposures and risks are managed through a rigorously applied Treasury Policy, typically using centrally managed and approved simple forward contracts to mitigate exposures to known cash flows and avoiding the use of complex derivative transactions. The largest exposures are to the euro, US dollar, Chinese RMB and Korean won. Whilst currency effects can be significant, the structure of the Group provides mitigation through our regional manufacturing strategy, diverse spread of geographic locations and through the natural hedge of having a high proportion of our overhead costs in local currency in our direct sales operating units.

Capital structure

The Board keeps the capital requirements of the Group under regular review, maintaining a strong balance sheet to protect the business and provide flexibility of funding for growth. The Group earns a high return on capital, which is reflected in strong cash generation over time. Our first priority is to maximise investment in the business to generate further good returns in the future, aligned with our strategy for growth and targeting improvement in our key performance indicators. We also prioritise finding suitable acquisitions that can expand our addressable market through increasing our geographic reach, deepening our market penetration and broadening our product range. Acquisition targets need to exhibit good strategic fit and meet strict commercial, economic and return on investment criteria. Where cash resources exceed expected future requirements, we will seek to return capital to shareholders, as evidenced by the cash return of £91.0 million via the special dividend of 120p per share that was paid in July 2015.

Spirax-Sarco Engineering plc

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31ST DECEMBER 2015

	Note	2015 £'000	2014 £'000
ASSETS			
Non-current assets			
Property, plant and equipment		169,948	176,668
Goodwill		54,082	47,682
Other intangible assets		54,772	48,123
Prepayments		5,516	402
Investment in Associate		64	377
Deferred tax assets		33,047	35,941
		317,429	309,193
Current assets			
Inventories		92,502	98,007
Trade receivables		152,082	155,696
Other current assets		20,431	23,973
Taxation recoverable		9,394	4,420
Associate held for sale		-	5,777
Bank deposits		-	24,437
Cash and cash equivalents		99,835	117,981
		374,244	430,291
Total assets		691,673	739,484
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables		84,347	90,754
Bank overdrafts		3,911	461
Short-term borrowing		10,130	40,070
Current portion of long-term borrowings		298	298
Current tax payable		21,050	22,175
		119,736	153,758
Net current assets		254,508	276,533
Non-current liabilities			
Long-term borrowings		80,673	49,096
Deferred tax liabilities		17,741	17,412
Post-retirement benefits		73,654	75,779
Provisions		1,229	556
Long-term payables		325	1,005
		173,622	143,848
Total liabilities		293,358	297,606
Net assets	2	398,315	441,878
Equity			
Share capital		19,718	19,622
Share premium account		69,703	65,067
Other reserves		(18,756)	(6,486)
Retained earnings		326,799	362,796
Equity shareholders' funds		397,464	440,999
Non-controlling interest		851	879
Total equity		398,315	441,878
Total equity and liabilities		691,673	739,484

Spirax-Sarco Engineering plc

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2015

	Note	Adjusted 2015 £'000	Adj't 2015 £'000	Total 2015 £'000	Adjusted 2014 £'000	Adj't 2014 £'000	Total 2014 £'000
Revenue	2	667,214	-	667,214	678,277	-	678,277
Operating costs		(514,777)	(9,628)	(524,405)	(525,327)	(4,855)	(530,182)
Operating profit	2	152,437	(9,628)	142,809	152,950	(4,855)	148,095
Financial expenses		(3,624)	-	(3,624)	(5,229)	-	(5,229)
Financial income		2,140	-	2,140	2,246	-	2,246
	3	(1,484)	-	(1,484)	(2,983)	-	(2,983)
Share of profit of Associates		177	(1,845)	(1,668)	1,151	(1,469)	(318)
Profit before taxation		151,130	(11,473)	139,657	151,118	(6,324)	144,794
Taxation	4	(44,983)	2,069	(42,914)	(44,857)	636	(44,221)
Profit for the period		106,147	(9,404)	96,743	106,261	(5,688)	100,573
Attributable to:							
Equity shareholders		105,960	(9,404)	96,556	106,015	(5,688)	100,327
Non-controlling interest		187	-	187	246	-	246
Profit for the period		106,147	(9,404)	96,743	106,261	(5,688)	100,573
Earnings per share	5						
Basic earnings per share		142.6p		129.9p	140.4p		132.8p
Diluted earnings per share		141.9p		129.4p	139.5p		132.0p
Dividends	6						
Dividends per share				69.0p			64.5p
Special dividend per share				-			120.0p
Dividends paid during the year (per share)				185.8p			60.5p

Adjusted figures exclude certain non-operational items, as set out and explained in the Financial Review and as detailed in note 2

Spirax-Sarco Engineering plc

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST DECEMBER 2015

	The Group	
	2015	**2014**
	£'000	**£'000**
Profit for the year	96,743	100,573
Items that will not be reclassified to profit or loss		
Remeasurement gain/(loss) on post-retirement benefits	5,717	(5,159)
Deferred tax on remeasurement gain/(loss) on post-retirement benefits	(657)	(258)
	5,060	(5,417)
Items that may be reclassified subsequently to profit or loss		
Foreign exchange translation differences	(14,129)	(15,155)
Non-controlling interest foreign exchange translation differences	-	22
Loss on cash flow hedges net of tax	(13)	(232)
	(14,142)	(15,365)
Total comprehensive income for the year	87,661	79,791
Attributable to:		
Equity shareholders	87,474	79,523
Non-controlling interest	187	268
Total comprehensive income for the year	87,661	79,791

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2015

GROUP

	Share Capital	Share Premium account	Other reserves	Retained Earnings	Equity shareholders' funds	Non-controlling interest	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1st January 2015	19,622	65,067	(6,486)	362,796	440,999	879	441,878
Profit for the year	-	-	-	96,556	96,556	187	96,743
Other comprehensive (expense)/income							
Foreign exchange translation differences	-	-	(14,129)	-	(14,129)	-	(14,129)
Remeasurement gain on post-retirement benefits	-	-	-	5,717	5,717	-	5,717
Deferred tax on remeasurement gain on post-retirement benefits	-	-	-	(657)	(657)	-	(657)
Loss on cash flow hedges reserve	-	-	(13)	-	(13)	-	(13)
Total other comprehensive (expense) for the year	-	-	(14,142)	5,060	(9,082)	-	(9,082)
Total comprehensive income for the year	-	-	(14,142)	101,616	87,474	187	87,661
Contributions by and distributions to owners of the Company							
Dividends paid	-	-	-	(140,269)	(140,269)	(215)	(140,484)
Equity settled share plans net of tax	-	-	-	2,656	2,656	-	2,656
Issue of share capital	81	4,636	-	-	4,717	-	4,717
Employee Benefit Trust shares	15	-	1,872	-	1,887	-	1,887
Balance at 31st December 2015	19,718	69,703	(18,756)	326,799	397,464	851	398,315

Other reserves represent the Group's Translation, Cash flow hedge and Capital redemption reserves.
The non-controlling interest is a 2.5% share of Spirax-Sarco (Korea) Ltd held by employee shareholders.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2014

GROUP

	Share Capital	Share premium account	Other reserves	Retained Earnings	Equity shareholders' funds	Non-controlling interest	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1st January 2014	19,568	59,954	11,474	311,737	402,733	801	403,534
Profit for the year	-	-	-	100,327	100,327	246	100,573
Other comprehensive (expense)/income							
Foreign exchange translation differences	-	-	(15,155)	-	(15,155)	22	(15,133)
Remeasurement loss on post-retirement benefits	-	-	-	(5,159)	(5,159)	-	(5,159)
Deferred tax on remeasurement loss on post-retirement benefits	-	-	-	(258)	(258)	-	(258)
Loss on cash flow hedges reserve	-	-	(232)	-	(232)	-	(232)
Total other comprehensive (expense)/income for the year	-	-	(15,387)	(5,417)	(20,804)	22	(20,782)
Total comprehensive (expense)/income for the year	-	-	(15,387)	94,910	79,523	268	79,791
Contributions by and distributions to owners of the Company							
Dividends paid	-	-	-	(45,715)	(45,715)	(190)	(45,905)
Equity settled share plans net of tax	-	-	-	1,864	1,864	-	1,864
Issue of share capital	110	5,113	-	-	5,223	-	5,223
Employee Benefit Trust shares	(56)		(2,573)	-	(2,629)	-	(2,629)
Balance at 31st December 2014	19,622	65,067	(6,486)	362,796	440,999	879	441,878

Spirax-Sarco Engineering plc

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST DECEMBER 2015

	Note	2015 £'000	2014 £'000
Cash flows from operating activities			
Profit before taxation		139,657	144,794
Depreciation, amortisation and impairment		29,298	27,272
Profit on disposal of fixed assets		(452)	(473)
Sale of businesses		1,965	318
Equity settled share plans		3,330	2,374
Net finance expense		1,484	2,983
Operating cash flow before changes in working capital and provisions		175,282	177,268
Change in trade and other receivables		(1,889)	(20,032)
Change in inventories		3,500	1,111
Change in provisions and post-retirement benefits		673	(4,870)
Change in trade and other payables		(2,600)	4,398
Cash generated from operations		174,966	157,875
Interest paid		(1,321)	(2,299)
Income taxes paid		(43,304)	(41,915)
Net cash from operating activities		130,341	113,661
Cash flows from investing activities			
Purchase of property, plant and equipment		(26,010)	(27,032)
Proceeds from sale of property, plant and equipment		2,334	2,980
Sale of businesses		13,329	-
Purchase of software and other intangibles		(4,813)	(4,647)
Development expenditure capitalised		(2,375)	(2,632)
Acquisition of businesses		(23,559)	(9,984)
Bank deposits		24,293	9,038
Interest received		2,140	2,246
Dividends received		-	796
Net cash used in investing activities		(14,661)	(29,235)
Cash flows from financing activities			
Proceeds from issue of share capital		4,706	5,223
Purchase of Employee Benefit Trust shares		-	(3,005)
Repaid borrowings		(79,481)	(8,995)
New borrowings		81,305	-
Change in finance lease liabilities	7	(377)	(241)
Dividends paid (including minorities)		(140,484)	(45,905)
Net cash used in financing activities		(134,331)	(52,923)
Net change in cash and cash equivalents	7	(18,651)	31,503
Net cash and cash equivalents at beginning of period		117,520	82,608
Exchange movement		(2,945)	3,409
Net cash and cash equivalents at end of period	7	95,924	117,520
Bank deposits		-	24,437
Borrowings and finance leases		(91,101)	(89,464)
Net cash at end of period	7	4,823	52,493

1. NOTES TO THE ACCOUNTS

This announcement is based on the Company's financial statements, which are prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union (EU) and therefore comply with Article 4 of the EU IAS legislation and with those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS.
With the exception of the new standards adopted in the year, as discussed below, there have been no significant changes in accounting policies from those set out in the Spirax-Sarco Engineering plc 2014 Annual Report. The accounting policies have been applied consistently throughout the years ended 31 December 2014 and 31 December 2015.

In the current year the group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB). Their adoption has not had a material impact on the disclosures or on the amounts reported in these financial statements. The following amendments were applied:

- IAS 19 Defined Benefit Plans in relation to employee contributions;
- Annual improvements to IFRSs 2010-2012 Cycle including the amendments too existing requirements for IFRS 8 Operating Segments and IAS 24 Related Party Disclosures;
- The clarifications amended under the Annual improvements to IFRSs 2011-2013 Cycle.

Having made appropriate enquiries, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that therefore it is appropriate to adopt the going concern basis in preparing the Annual Report.

The Group has processes in place to identify, evaluate and mitigate the principal risks that could have an impact on the Group's performance. The principal risks together with a description of why they are relevant are set out below. Details of how they link with the Group's strategy and how mitigation is managed are included in the Group's 2014 Annual Report on page 29 and they will be disclosed in the 2015 Annual Report on page 33.

- ***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 2015 financial statements were approved by the Board of Directors and authorised for issue on 2nd March 2016.

2. SEGMENTAL REPORTING

Analysis by location of operation

2015

	Gross Revenue £'000	Inter-Segment revenue £'000	Revenue £'000	Total Operating Profit £'000	Adjusted Operating Profit £'000	Adjusted Operating Margin %
Europe, Middle East & Africa	253,655	34,215	219,440	41,427	42,694	19.5%
Asia Pacific	176,262	4,488	171,774	44,197	44,703	26.0%
Americas	128,934	5,531	123,403	21,590	27,112	22.0%
Steam specialties business	558,851	44,234	514,617	107,214	114,509	22.3%
Watson-Marlow	152,606	9	152,597	45,623	47,956	31.4%
Corporate Expenses				(10,028)	(10,028)	
	711,457	44,243	667,214	142,809	152,437	22.8%
Intra Group	(44,243)	(44,243)				
Total	**667,214**	**-**	**667,214**	**142,809**	**152,437**	22.8%
Net finance expense				(1,484)	(1,484)	
Share of profit of Associates				(1,668)	177	
Profit before tax				**139,657**	**151,130**	

2014

	Gross Revenue £'000	Inter-Segment revenue £'000	Revenue £'000	Total Operating Profit £'000	Adjusted Operating Profit £'000	Adjusted Operating Margin %
Europe, Middle East & Africa	274,271	38,039	236,232	44,855	45,929	19.4%
Asia Pacific	182,556	4,894	177,662	46,191	46,418	26.1%
Americas	131,869	5,681	126,188	26,478	27,961	22.2%
Steam specialties business	588,696	48,614	540,082	117,524	120,308	22.3%
Watson-Marlow	138,195	-	138,195	41,428	43,499	31.5%
Corporate Expenses				(10,857)	(10,857)	
	726,891	48,614	678,277	148,095	152,950	22.5%
Intra Group	(48,614)	(48,614)				
Total	**678,277**	**-**	**678,277**	**148,095**	**152,950**	22.5%
Net finance expense				(2,983)	(2,983)	
Share of profit of Associates				(318)	1,151	
Profit before tax				**144,794**	**151,118**	

Net revenue generated by Group companies based in the USA is £125,293,000 (2014: £109,879,000), in China is £78,649,000 (2014: £74,266,000) in the UK is £66,479,000 (2014: £69,889,000), and the rest of the world is £396,793,000 (2014: £424,243,000)

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

2015

	Amortisation of acquisition-related intangible assets £'000	Loss on closure of USA metering unit £'000	Profit on disposal of M&M less recycled exchange losses £'000	Acquisition and disposal costs £'000	Total £'000
Europe, Middle East & Africa	(613)	-	(297)	(357)	(1,267)
Asia Pacific	(506)	-	-	-	(506)
Americas	(1,646)	(3,814)	-	(62)	(5,522)
Steam specialties business	(2,765)	(3,814)	(297)	(419)	(7,295)
Watson-Marlow	(1,921)	-	-	(412)	(2,333)
Total non-operational items	(4,686)	(3,814)	(297)	(831)	(9,628)

2014

	Amortisation of acquisition-related intangible assets £'000	Acquisition and disposal costs £'000	Total £'000
Europe, Middle East & Africa	(427)	(647)	(1,074)
Asia Pacific	(227)	-	(227)
Americas	(1,430)	(53)	(1,483)
Steam Specialties business	(2,084)	(700)	(2,784)
Watson-Marlow	(2,012)	(59)	(2,071)
Total non-operational items	(4,096)	(759)	(4,855)

Share of profit of Associates

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

	2015 Adjusted £'000	2015 Total £'000	2014 Adjusted £'000	2014 Total £'000
Europe, Middle East & Africa	(116)	(313)	(172)	(367)
Asia Pacific	293	(1,355)	1,323	49
Americas	-	-	-	-
Steam specialties business	177	(1,668)	1,151	(318)
Watson-Marlow	-	-	-	-
Total share of profit of Associates	177	(1,668)	1,151	(318)

Adjusted share of profit of associates excludes amortisation and impairment of acquisition-related intangible assets of £197,000 (2014: £1,125,000) and in 2015 excludes recycled exchange losses and a final adjustment to the date of sale to the impairment of tangible assets in respect of Spirax Marshall in India of £1,648,000 (2014: £344,000).

Net financing income and expense

	2015 £'000	2014 £'000
Europe, Middle East & Africa	(1,403)	(2,310)
Asia Pacific	1,053	1,215
Americas	(188)	(326)
Steam specialties business	(538)	(1,421)
Watson-Marlow	(6)	(5)
Corporate	(940)	(1,557)
Total net financing expense	(1,484)	(2,983)

Net assets

	2015		2014	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Europe, Middle East & Africa	182,839	(91,248)	203,729	(94,959)
Asia Pacific	140,320	(30,401)	136,592	(22,831)
Americas	102,383	(23,955)	103,318	(33,244)
Watson-Marlow	123,855	(13,951)	113,066	(17,060)
	549,397	(159,555)	556,705	(168,094)
Liabilities	(159,555)		(168,094)	
Deferred Tax	15,306		18,529	
Current Tax payable	(11,656)		(17,755)	
Net Cash	4,823		52,493	
Net assets	398,315		441,878	

Non-current assets in the UK were £98,170,000 (2014: £102,889,000)

Capital additions and depreciation and amortisation

	2015		2014	
	Capital additions £'000	Depreciation and amortisation £'000	Capital additions £'000	Depreciation and amortisation £'000
Europe, Middle East & Africa	12,970	11,114	15,301	10,476
Asia Pacific	11,031	5,480	8,657	5,144
Americas	10,396	4,959	4,159	5,335
Watson-Marlow	11,868	7,293	11,271	5,844
	46,265	28,846	39,388	26,799

Capital additions include property, plant and equipment of £26,291,000 (2014: £26,876,000) and other intangible assets of £19,974,000 (2014: £12,512,000) of which £12,786,000 (2014: £5,233,000) relates to acquired intangibles from acquisitions in the period. Capital additions split between the UK and rest of the world are UK £11,573,000 (2014: £20,902,000), rest of the world £34,692,000 (2014: £18,486,000). Depreciation and amortisation includes the profit on disposal of fixed assets of £452,000 (2014: £473,000)

3. NET FINANCING INCOME AND EXPENSE

	2015 £'000	2014 £'000
Financial expenses		
Bank and other borrowing interest payable	(1,293)	(2,310)
Interest on pension scheme liabilities	(2,331)	(2,919)
	(3,624)	(5,229)
Financial income		
Bank interest receivable	2,140	2,246
	2,140	2,246
Net financing expense	(1,484)	(2,983)
Net pension scheme financial expense	(2,331)	(2,919)
Net bank interest	847	(64)
Net financing expense	(1,484)	(2,983)

4. TAXATION

	2015 £'000	2014 £'000
Analysis of charge in period		
UK corporation tax		
Current tax on income for the period	1,989	2,440
Adjustments in respect of prior periods	(697)	945
	1,292	3,385
Double taxation relief	(436)	(851)
	856	2,534
Foreign tax		
Current tax on income for the period	44,233	42,233
Adjustments in respect of prior periods	(661)	247
	43,572	42,480
Total current tax charge	44,428	45,014
Deferred tax – UK	1,059	(179)
Deferred tax – Foreign	(2,573)	(614)
Tax on profit on ordinary activities	42,914	44,221
Effective tax rate	30.4%	30.5%

The Group's tax charge in future years is likely to be affected by the proportion of profits arising and the effective tax rates in the various territories in which the Group operates.

The UK corporation tax charge is calculated after deducting tax allowable deficit reduction cash contributions to the UK post-retirement benefit schemes of £nil (2014: £3,366,000) covering all employees in the UK defined benefit schemes.

5. EARNINGS PER SHARE

	2015	2014
Profit attributable to equity shareholders (£'000)	96,556	100,327
Weighted average shares in issue	74,311,728	75,532,018
Dilution	334,712	455,530
Diluted weighted average shares in issue	74,646,440	75,987,548
Basic earnings per share	129.9p	132.8p
Diluted earnings per share	129.4p	132.0p
Adjusted profit attributable to equity shareholders (£'000)	105,960	106,015
Basic adjusted earnings per share	142.6p	140.4p
Diluted adjusted earnings per share	141.9p	139.5p

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

6. DIVIDENDS

	2015 £'000	2014 £'000
Amounts paid in the year		
Final dividend for the year ended 31st December 2014 of 45.0p (2013: 41.0p) per share	34,089	30,960
Special dividend for the year ended 31st December 2014 of 120.0p (2013: nil) per share	90,951	-
Interim dividend for the year ended 31st December 2015 of 20.8p (2014: 19.5p) per share	15,229	14,755
	140,269	45,715
Amounts arising in respect of the year		
Interim dividend for the year ended 31st December 2015 of 20.8p (2014: 19.5p) per share	15,229	14,755
Proposed final dividend for the year ended 31st December 2015 of 48.2p (2014: 45.0p) per share	35,301	34,134
Proposed special dividend for the year ended 31st December 2015 of nil (2014: 120.0p)	-	91,024
	50,530	139,913

7. ANALYSIS OF CHANGES IN NET CASH

	At 1st Jan 2015 £'000	Cash flow £'000	Exchange movement £'000	At 31st Dec. 2015 £'000
Current portion of long term borrowings	(298)			(298)
Non-current portion of long term borrowings	(49,096)			(80,673)
Short term borrowing	(40,070)			(10,130)
Total borrowings	(89,464)			(91,101)
Comprising:				
Borrowings	(88,637)	(1,824)	(190)	(90,651)
Finance Leases	(827)	377		(450)
	(89,464)	(1,447)	(190)	(91,101)
Cash and cash equivalents	117,981	(15,173)	(2,973)	99,835
Bank overdrafts	(461)	(3,478)	28	(3,911)
Net cash and cash equivalents	117,520	(18,651)	(2,945)	95,924
Bank deposits	24,437	(24,293)	(144)	-
Net cash	52,493	(44,391)	(3,279)	4,823

£449,000 of cash was acquired as part of the purchase of Asepco and VCE.

8. RETURN ON CAPITAL EMPLOYED

Return on capital employed is one of the Group's key performance indicators, but is a non-statutory measure. An analysis of the components is as follows:

Capital Employed	**2015 £'000**	**2014 £'000**
Property, plant and equipment	169,948	176,668
Prepayments	5,516	402
Inventories	92,502	98,007
Trade receivables	152,082	155,696
Other current assets	20,431	23,973
Tax recoverable	9,394	4,420
Trade and other payables	(84,347)	(90,754)
Current tax payable	(21,050)	(22,175)
Capital employed	344,476	346,237
Average capital employed	345,357	345,358
Operating profit	142,809	148,095
Adjustments (note 2)	9,628	4,855
Adjusted operating profit	152,437	152,950
Return on capital employed	44.1%	44.3%

9. PURCHASE OF BUSINESSES

2015

	Acquisitions Book Value £'000	Fair value adjustment £'000	Fair value £'000
Non-current assets			
Property, plant and equipment	645	-	645
Intangibles	-	12,269	12,269
	645	12,269	12,914
Current assets			
Inventories	3,528	-	3,528
Trade receivables	823	-	823
Other receivables	327	-	327
Cash	449	-	449
Total assets	5,772	12,269	18,041
Current liabilities			
Trade payables	432	-	432
Other payables and accruals	160	-	160
Deferred tax	-	3,555	3,555
Total liabilities	592	3,555	4,147
Total net assets	5,180	8,714	13,894
Goodwill			11,222
Total			25,116

Satisfied by	
Cash paid	23,766
Deferred consideration	1,350
	25,116
Cash outflow for acquired businesses in the Cash Flow	
Cash paid for businesses acquired in the period	23,766
Less cash acquired	(449)
Deferred consideration for businesses acquired in prior years	242
Net cash outflow	23,559

1. The acquisition of the Asepco Corporation, a company specialising in the design and production of high purity tank and process valves and magnetically driven mixers for the Biopharmaceutical industry based in the USA was completed on 8th April 2015. The acquisition method of accounting has been used. Consideration of £7,005,000 was paid on completion with a further £221,000 deferred. Separately identified intangibles are recorded as part of the fair value adjustment. The goodwill recognised represents the skilled workforce acquired and the synergies that can be achieved by being part of the Spirax Group. 100% of voting rights were acquired. Goodwill arising is not expected to be tax deductible. Asepco has generated £4,300,000 of revenues and £700,000 of pre-tax profit since acquisition. Had the acquisition been made on the 1st January 2015, the revenue and pre-tax profit would have been approximately a third higher than the figures disclosed above.

2. The acquisition of Valve and Control Engineering Ltd., specialising in boiler services and certifications, based in the UK was completed on 14th April 2015. The acquisition method of accounting has been used. Consideration of £407,000 was paid during the year with a further £350,000 deferred. This payment is dependent on future performance. Separately identified intangibles are recorded as part of the fair value adjustment. The goodwill recognised represents the skilled workforce acquired and the opportunity to sell to a wider customer base. Goodwill arising is not expected to be tax deductible. The business has been merged into the steam

specialties UK Sales operation and the revenue and pre-tax profit contributed were immaterial in 2015.

3. The acquisition of manufacturing and distribution rights of MasoSine Pumps in Japan was completed on 1st July 2015. The acquisition method of accounting has been used. Consideration of £2,054,000 was paid on completion with a further £779,000 deferred. This payment is dependent on satisfactory compliance with agreed conditions. Separately identified intangibles are recorded as part of the fair value adjustment. The goodwill recognised represents the skilled workforce acquired and the opportunity to sell direct to the Japanese market. Goodwill arising is not expected to be tax deductible. The acquisition has generated £850,000 of revenue and £100,000 of pre-tax profit since acquisition. Had the acquisition been made on 1st January 2015, the revenue and pre-tax profit would have been approximately double the figures disclosed above.

4. The acquisition of the steam distribution business from our Colombian distributor Casaval S.A. was completed on 25th September 2015. The acquisition method of accounting has been used. Consideration of £6,623,000 was paid on completion for the distribution rights and a further £1,935,000 for inventory. Separately identified intangibles are recorded as part of the fair value adjustment. The goodwill recognised represents the opportunity to sell a wider range of the Group's products direct to the Colombian market and the opportunity to cooperate with Casaval in the future for mutual benefit. Goodwill arising is not expected to be tax deductible. The business was merged with our existing export business into Colombia and the additional revenue and pre-tax profit were immaterial in 2015.

5. The acquisition of the business and assets of Flow Smart Inc., a company specialising in the design and manufacture of high purity sanitary gaskets, silicone transfer tubing and reinforced silicone hoses for the bioprocessing and pharmaceutical industries was completed on 24th November 2015. The acquisition method of accounting has been used. Consideration of £5,742,000 was paid on completion. Separately identified intangibles are recorded as part of the fair value adjustment. The goodwill recognised represents the skilled workforce and the opportunity to achieve synergies from being part of a larger Group. Goodwill arising is not expected to be tax deductible. The acquisition has generated £300,000 of revenue and £100,000 of pre-tax profit since acquisition. Had the acquisition been made on 1st January 2015, the revenue and pre-tax profit would have been approximately twelve times the figures disclosed above.

   £538,000 of acquisition costs were incurred in relation to these acquisitions. The acquired intangibles relate to customer relations, technology based assets and marketing based assets.

10. BASIS OF PREPARATION

The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 31st December 2015 or 31st December 2014. Statutory accounts for 2014, which were prepared under accounting standards adopted by the EU, have been delivered to the registrar of companies and those for 2015 will be delivered following the Company's Annual General Meeting. The auditors have reported on these accounts; their report was (i) unqualified, (ii) did not include any references to any matters to which the auditors drew attention by way of emphasis without qualifying and (iii) did not contain statements under sections 498(2) or (3) of the Companies Act 2006.

If approved at the annual general meeting on 10th May 2016, the final dividend will be paid on 27th May 2016 to shareholders on the register at 29th April 2016. No scrip alternative to the cash dividends is being offered.

Copies of the Annual Report will be sent on 18th March 2016 to shareholders who have requested a hard copy and can be obtained from our registered office at Charlton House, Cirencester Road, Cheltenham, Gloucestershire GL53 8ER. The report is also available on our website at www.SpiraxSarcoEngineering.com.

11. RESPONSIBILITY STATEMENT OF THE DIRECTORS ON THE ANNUAL REPORT

The responsibility statement below has been prepared in connection with the company's full annual report for the year ending 31st December 2015. Certain parts thereof are not included within this announcement.

We confirm to the best of our knowledge:

- The financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit and loss of the company and the undertakings included in the consolidation taken as a whole; and
- The strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face; and
- The annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 2nd March 2016 and is signed on its behalf by:

N J Anderson Chief Executive D J Meredith Finance Director

12. CAUTIONARY STATEMENT

All statements other than statements of historical fact included in this document, including, without limitation, those regarding the financial condition, results, operations and businesses of Spirax-Sarco Engineering plc and its strategy, plans and objectives and the markets and economies in which it operates, are forward-looking statements. These forward-looking statements which reflect management's assumptions made on the basis of information available to it at this time, involve known and unknown risks, uncertainties and other important factors which could cause the actual results, performance or achievements of Spirax-Sarco Engineering plc or the markets and economies in which we operate to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Spirax-Sarco Engineering plc and its directors accept no liability to third parties in respect of this report save as would arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with schedule 10A of the Financial Services and Markets Act 2000. It should be noted that schedule 10A contains limits on the liability of the directors of Spirax-Sarco Engineering plc so that their liability is solely to Spirax-Sarco Engineering plc.

13. EXCHANGE RATE IMPACTS

Whilst not an IFRS disclosure or part of the audited accounts, set out below is an additional disclosure that highlights the movements in a selection of average exchange rates between 2015 and 2014.

Average exchange rates to sterling have been as follows:

	Average 2015	**Average 2014**	**Change %**
Bank of England sterling index	91.4	87.1	-5
US$	1.53	1.65	+8
Euro	1.38	1.24	-10
RMB	9.60	10.15	+6
Won	1,728	1,734	-
Real	5.11	3.88	-24
Argentine Peso	14.28	13.32	-7
Australian $	2.04	1.83	-10
Rouble	94.70	64.13	-32
Rand	19.57	17.85	-9
Turkish Lira	4.15	3.60	-13