Spirax-Sarco Engineering plc

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News Release

Thursday 7th August 2014

2014 Half Year Results

Continued organic sales growth and margin expansion despite currency impact

Six months ended 30th June

Adjusted*	**2014**	**2013**	**Change**	**Constant Currency****
Revenue	£319.2m	£331.6m	-4%	+4%
Adjusted operating profit*	£67.1m	£68.1m	-1%	+12%
Adjusted operating profit margin*	21.0%	20.6%	+40 bps	+150 bps
Adjusted profit before taxation*	£66.3m	£68.0m	-2%	+12%
Adjusted earnings per share*	61.7p	62.0p	0%	+14%
Dividend per share	19.5p	18.0p	+8%	+8%

Statutory	**2014**	**2013**	**Change**
Revenue	£319.2m	£331.6m	-4%
Operating profit	£64.7m	£65.8m	-2%
Profit before taxation	£63.5m	£65.5m	-3%
Earnings per share	58.7p	59.6p	-2%
Dividend per share	19.5p	18.0p	+8%

All profit measures exclude certain non-operational items (including amortisation of acquisition-related intangible assets and acquisition and disposal costs), as defined in note 2.
*** At constant exchange rates adjusting for both translation and transaction effects*

- Continued organic sales growth of 4% with gains in all segments
- Operating profit growth of 12% at constant currency
- Currency headwind reduced reported sales by 7.6% and profit by 12% versus first half year 2013
- Operating margin ahead 40 bps to 21.0%
- Good profit growth in the Americas and Watson-Marlow
- Interim dividend +8%

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

We were pleased with the organic sales increase of nearly 4%. Organic sales were ahead in all segments, however there was a strong currency headwind in the period that reduced sales on translation by 7.6% when compared with first half 2013 average exchange rates. Operating profit rose by 12% at constant currency and the operating profit margin improved by 40 bps to 21.0%, despite the unfavourable currency impact. Overall, Industrial Production growth rates marginally picked up pace in the fourth quarter of last year and have remained stable through the first half of 2014, although our markets typically lag the economic cycle by a few quarters. We continue to focus on our strategic priorities to generate our own growth and to out-perform our markets. We anticipate that our markets will remain challenging but as we enter the second half year we have a larger backlog than in the comparable period of 2013 and the Board remains confident that we will continue to make progress in 2014.

For further information, please contact:
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The meeting with analysts will be available as a live audio webcast on the Company's website at www.spiraxsarcoengineering.com or via the following link http://www.media-server.com/m/p/3buk7evx *at 9.00 am, and a recording will be posted on the website shortly after the meeting. For access from any IOS Apple or android mobile device please use the following QR code:*

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

REVIEW OF OPERATIONS

We were pleased with the organic sales increase of nearly 4% plus the small contribution to the Group from the acquisition of Bio Pure completed in January. However, a strong currency headwind in the period reduced sales on translation by 7.6% when compared with first half 2013 average exchange rates and the reported sales for the first half year therefore reduced by nearly 4% to £319.2 million (2013 : £331.6 million).

Organic sales were ahead in all segments. Overall in our steam specialties business, organic sales increased by 3% with strongest growth of 5% in the Americas, including gains in both North America and Latin America. Organic sales rose by 3% in Europe, Middle East and Africa (EMEA) well spread over many countries. In Asia Pacific, organic sales were up 1% as we expanded our project-based backlog 13% above the comparable period in 2013, underpinning our expectation of a stronger second half performance in that region. In Watson-Marlow, our peristaltic and niche pumps business, sales were ahead 9% at constant currency over half of which was organic growth with Bio Pure making a good first time contribution.

At constant exchange rates, adjusted operating profit rose by 12%. This comprised an increase in our steam specialties business of 10% led by a strong performance in the Americas where operating profit rose by 35%, with good contributions by both North America and Latin America. Following the strong performance in 2013, results were again ahead in EMEA with operating profit growing 11% at constant currency. In Asia Pacific, operating profit was down 4% at constant currency on relatively flat sales due to continued investment in geographic expansion. Watson-Marlow had a good first half year increasing operating profit by 18% at constant currency. Due to the strong currency headwinds, Group adjusted operating profit reduced by 1% to £67.1 million (2013 : £68.1 million). The adjusted operating profit margin improved from 20.6% to 21.0% despite the unfavourable currency headwinds.

Currency movements have been negative this year as a result of stronger sterling and weakness in the currencies of many emerging markets in which we operate with our direct sales business model. The impact has increased from that announced in our Interim Management Statement due to the recent further strengthening of sterling. If current exchange rates prevail to the end of the year, the 7.6% first half year exchange translation impact on sales moderates to 6.8% for the full year, due to the strengthening of sterling in the second half of 2013. In relation to operating profit, for the first half year the exchange translation impact, at 8.7%, was a little higher than on sales due to the above average profitability of emerging markets. Including an additional exchange transaction impact, the total exchange effect on profit was a reduction of 12% in the first half. Note 2 (page 19) includes a breakdown of the Group's main currency exposures for the first half year, both translation and transaction.

Net finance expense increased to £1.5 million from £1.1 million in the first half of 2013, mainly due to lower cash balances following payment of the £78 million special dividend in July 2013. We were disappointed with the results of our Associate business in India and the Group's share of the after-tax profit of our Associate companies was £0.2 million lower at £0.7 million.

Adjusted pre-tax profit increased by 12% at constant currency to £66.3 million but was 2% lower at reported exchange rates than in the comparable period (2013 : £68.0 million). The pre-tax profit for the first half year on a statutory basis, including the amortisation of acquisition-related intangible assets, was £63.5 million (2013 : £65.5 million). The overall tax rate, based on the adjusted profit before tax and excluding the Associates profit, was slightly higher at 30.1% (2013 : 29.5%) and broadly in line with the 29.8% tax rate for the full year in 2013.

Adjusted basic earnings per share increased by 14% at constant currency to 61.7p, benefitting from the reduction in the number of shares in issue following the share consolidation in 2013, but was virtually flat at reported exchange rates against the 62.0p in the first half of 2013. Basic earnings per share on a statutory basis were 58.7p (2013 : 59.6p).

The Board has declared an interim dividend of 19.5p (2013 : 18.0p) per ordinary share, an increase of 8.3%, reflecting underlying progress in the business. The dividend will be paid on 7th November 2014 to shareholders on the register at the close of business on 10th October 2014. The final dividend of 41.0p per share in respect of 2013 was paid on 30th May 2014 at a cash cost of £31.0 million.

Trading

Steam is widely used as the preferred heat transfer medium in a wide range of industries, which is reflected in the diverse geographic, sector and customer spread of our business. We benefit from a large proportion of revenues being derived from on-going replacement demand and maintenance spending by customers, giving a high degree of resilience. We have a powerful and robust direct sales business model with highly trained sales engineers that directly address customers' energy and water saving, productivity, quality and sustainability issues in their manufacturing plants. Our markets broadly reflect changes in global economic activity and movements in Industrial Production, with a typical lag to the cycle of a few quarters. Our focus remains on strategic actions to out-perform our markets and we are well positioned to leverage the investments we have made to achieve growth and improvements in our business.

Global economic conditions, and in particular the rate of Industrial Production growth, marginally picked up pace in the fourth quarter of last year and have overall remained stable through the first half year. In emerging markets Industrial Production growth rates have been slower than in the comparable period, including in China, and in South America growth rates have again turned negative. In developed markets, Industrial Production growth rates have been generally a little higher than in the comparable period, although overall in Europe the growth rate is at a comparatively lower level than North America.

In the first half of 2014, revenue in our steam specialties business increased by 3% at constant currency, continuing the trend from the prior year. The large majority of our sales derive from maintenance and operations spend by our customers comprising day-to-day replacement demand and small to mid-sized energy saving and process efficiency projects, often initiated by our highly trained sales engineers. This base maintenance and operations business increased but was partly offset by a general decline in large project business, although there are indications that this large project business is now picking up. Sales grew in our core traditional products and we achieved good increases in controls and boilerhouse products. The operating profit margin in our steam specialties business increased from 20.3% to 20.7%. We benefitted from broadly flat material costs in the first quarter but, as anticipated, we have subsequently seen some increases in our material costs that we expect to continue through 2014. Our business is seasonally biased towards the second half year and we anticipate a broadly normal pattern this year, other than in Asia Pacific where the increased project-based backlog is expected to deliver a relatively stronger second half year performance in that region.

Watson-Marlow increased sales by 9% at constant currency, including a first time contribution from Bio Pure that performed ahead of our expectations. Good progress was made with Watson-Marlow pumps and tubing, including further gains for the revolutionary new Qdos pump, and there were increased sales of Flexicon filling systems. Sales increased across all main industry sectors except precious metals mining, where the platinum sector has been hit hard with lower levels of investment. The operating profit margin in Watson-Marlow improved from 28.5% to 29.9%.

Our strategy is focused on delivering self-generated growth that out-performs our markets. During the first half of 2014 we have refined and evolved a more customer-centric strategy to increase the effectiveness of our direct sales organisation, leverage our strengths in key sectors, take advantage of the most attractive opportunities, expand our addressable markets and align and direct our resources more effectively to improve business performance. This strategy builds on the foundation of our robust, direct sales business model that has proved resilient through the business cycle. Our six primary strategies are:

- <u>Increase direct sales effectiveness through sector focus</u>. It is not our products alone that provide value to customers, the extensive application and systems knowledge of our direct sales and support people are at the heart of our customer value propositions. Through expanding the sector focus of our direct sales force, with particular emphasis on priority industries such as Food & Beverage, Healthcare, and Oil & Petrochemicals, we will enhance our customer value propositions and increase our sales effectiveness. We are also increasing our focus on thermal energy management within those priority sectors, with the goal of making our Spirax Sarco steam specialties business the customers' first choice provider for steam solutions *and* thermal energy management.
- <u>Develop the knowledge and skills of our expert sales and service teams.</u> Continually improving the competency, technical skills and in-depth application knowledge of our sales and service engineers is central to our direct sales business model. Understanding our customers' processes and applying appropriately engineered solutions to their steam or niche pumping problems are pivotal to our business success. In addition to extensive on-the-job training and mentoring, we have developed and will extend a wide-range of training materials and tools that are internet-based and available through our 42 training centres located across the world. Through continually investing in the professional development of our people, we develop a level of expertise that is unrivalled by our competitors.
- <u>Broaden our global presence.</u> Our strong global presence is a result of decades of investment in building easily recognisable brands that symbolise expertise and reliability. We will accelerate our investments to achieve a first-to-market advantage from early entry into newly emerging markets in Asia, Latin America and Africa. Leveraging our existing strong infrastructure, we are also pioneering the introduction of Watson-Marlow into much of the developing world, demonstrating the superior technology and lower life cycle costs of peristaltic and niche pumps.
- <u>Leverage R&D investments.</u> Our ability to deliver an increasingly wider range of solutions to reduce energy and water usage, lower plant emissions and improve plant productivity and efficiency, rests with our commitment to new product development. We have significantly increased our R&D investments in recent years and will leverage these investments to generate sales growth, with shorter time-to-market of new products and solutions in such areas as thermal energy management, controls, condensate management and new pumping technologies and systems. Product development will increasingly be aligned to sector requirements. Where appropriate, we will look to make acquisitions in related areas that deliver new products and technologies and expand our addressable markets.
- <u>Optimise supply chain effectiveness.</u> Our direct sales business model, with extensive product ranges and short order books, requires a regional manufacturing strategy with plants throughout the world to optimise customer service and minimise costs. We will continue to invest on a regional basis and increase focus on developing our entire supply chain to enhance product availability, increase flexibility, reduce costs and improve service levels in support of sales growth.
- <u>Operate sustainably and help improve our customers' sustainability.</u> Our approach to sustainability encompasses four primary areas of emphasis: good corporate governance, employee wellbeing, community engagement and environmental stewardship. We believe that effective management in each of these areas is essential to improve our long-term sustainability. Further, our business is centred on providing environmentally-friendly solutions to our customers, helping them to improve the efficiency of their plant operations, reduce their energy and water usage, improve quality and meet their sustainability targets.

Steam Specialties Business

EMEA

	2014	2013	Change	Constant currency
Revenue	£119.3m	£120.6m	-1%	+3%
Operating profit	£24.2m	£22.7m	+7%	+11%
Operating margin	20.3%	18.8%	+150 bps	+150 bps

Sales in Europe, Middle East and Africa (EMEA) declined slightly from £120.6 million to £119.3 million. Exchange movements were negative reducing sales on translation by 4% with sterling stronger against every currency including 3% against the Euro and mid-teen gains against the South African Rand, Russian Rouble and Turkish Lira. Organic sales increased by 3%, continuing the trend of 2013. We increased sales of boilerhouse products, packages and traditional condensate management products but were unable to sustain the growth in services from last year. Overall, operating profit increased again, rising by 7% or 11% at constant currency. The operating margin expanded from 18.8% to 20.3% due to the higher sales, continued focus on price management and costs containment. Material costs continued to be broadly flat through the first quarter and, as expected, moderately increased in the second quarter.

Economic conditions in EMEA, and in particular growth in Industrial Production, improved towards the end of last year and has been sustained in 2014, albeit at low levels of growth. Our markets tend to lag the movements in Industrial Production by a few quarters and we have begun to see some improvement of demand in a number of markets. Overall economic conditions in EMEA remain challenging and recent political events in Eastern Europe have created renewed uncertainty. We continue to focus on stimulating our own growth through our direct sales approach; generating value-adding solutions to customers' energy and water saving, productivity, quality and cost reduction needs.

In our larger markets of Germany, France, Italy, Spain and the UK, combined sales were again modestly ahead, with the latter two in particular generating higher sales and with project work increasing in Italy. Combined profits and margins were also ahead in these larger markets, due to a continued focus on a better business mix, price management and cost containment. Sales, profits and margins were well ahead in Scandinavia as the increased sales fed through into an improved trading performance. In the EMEA emerging markets, at constant currency, sales were modestly down due to the non-repeat of several exceptional projects in the Czech Republic and the Middle East; however, profits were comfortably ahead driven by strong performances in Turkey, Russia and South Africa.

In our main European manufacturing operations in the UK and France, demand levels were broadly flat and profits were overall ahead of a good first half of last year. We achieved further improvements in service levels, which will remain a key focus alongside improvements in efficiency and in our end-to-end supply chain. Investment in R&D has been maintained at the higher levels established over recent years.

Asia Pacific

	2014	2013	Change	Constant currency
Revenue	£75.5m	£80.8m	-6%	+1%
Operating profit	£16.8m	£19.8m	-16%	-4%
Operating margin	22.2%	24.6%	-240 bps	-110 bps

Sales in Asia Pacific were 1% ahead at constant currency but reduced 6% from £80.8 million to £75.5 million at reported exchange rates. Currency movements were unfavourable with sterling stronger against all currencies in which we operate and with double digit movements in average exchange rates in a number of countries. Economic conditions have been mixed with slower growth in Industrial Production rates in China, Indonesia, the Philippines and Thailand, and improved Industrial Production growth rates in other markets including Japan and Australia. We also saw marginal improvements in Korea later on in the period, although our markets typically lag the economic cycle by a few quarters. We saw a pick-up in large projects compared with the first half of 2013, resulting in a higher level of project-related backlog as we enter the second half year. Sales increased in our core steam specialties products and were much higher in metering, reflecting greater customer focus on reducing energy costs. Operating profit reduced from £19.8 million to £16.8 million and at constant currency the reduction was 4% due to an expansion of our operations in Indonesia, continued price pressure in some markets and the year-on-year effect of increased investment in market expansion during 2013. The operating profit margin was 22.2% (2013 : 24.6%).

China, which is the largest sales and profit contributor in the Group accounting for 10% of Group sales in 2013, saw overall flat sales at constant currency and lower profits, as the increased demand rebuilt the order book from the relatively low level at the end of 2013. As anticipated, economic growth rates moderated in China and whilst our business is heavily linked to the more resilient sectors such as foods & beverages, pharmaceuticals, textiles and healthcare, we have seen some extended shipment call-off dates due to general customer financing issues. Project work and OEM business has been under pressure but overall demand increased and the order book is more than 20% larger than the comparable period as we enter the second half. In line with our regional manufacturing strategy, output from our plant in Shanghai was expanded to increase the proportion of local manufacture and to support regional demand in Southeast Asia, where the shorter supply chain improves customer service levels.

First half sales in Korea were a little lower at constant currency reflecting the timing of project business, which carries a greater weight than in most other markets. Domestic project work has seen some delays but quotations are running at a healthy level. Our order book is higher than in the comparable period and we again expect a much stronger second half year. Korean operating profit was higher in the first half, largely due to a better mix of business. There was an improved performance in Japan and we achieved higher sales and profits in our businesses in Australasia. Elsewhere in the much smaller markets of the region, trading was more mixed.

Americas

	2014	2013	Change	Constant currency
Revenue	£59.8m	£66.6m	-10%	+5%
Operating profit	£11.9m	£12.0m	-1%	+35%
Operating margin	19.8%	18.0%	+180 bps	+430 bps

The 10% decline in sales in the Americas from £66.6 million to £59.8 million was heavily influenced by unfavourable currency movements as the constant currency sales were ahead 5%. Sterling was stronger against all currencies and the Argentine Peso devalued significantly. Economic conditions improved in the USA, Canada and Mexico with higher levels of Industrial Production growth but conditions deteriorated again in Latin America, with negative Industrial Production rates returning in Argentina, Brazil and Chile. Overall constant currency sales increased in both North America and Latin America. Operating profit was broadly unchanged at £11.9 million (2013 : £12.0 million) but was 35% ahead at constant currency due to improved price management, good cost controls and the benefit of exports from Argentina following the devaluation. The operating profit margin improved from 18.0% to 19.8%.

Overall sales in the USA and Canada were modestly higher in constant currency due to a strong first quarter. In the USA, we are increasing the focus of our sales force to align with customer segments and expanding direct customer advisory time, although these changes will only impact progressively. Large project business for energy savings and process productivity improvements remains subdued, while core maintenance and operating spending by customers was modestly ahead. Profits were well ahead in North America as we benefitted from improved price management, favourable product mix, flat material costs and reduced overheads.

Market conditions in Latin America turned negative again, although overall sales increased at constant currency. Sales and profits were well ahead in Chile and also in Argentina where we manufacture both to support the local market, where our competitive position is strengthened by the devaluation, and also external markets, where we benefitted from dollar-based exports. Elsewhere, overall sales in constant currency were slightly down, with lower sales in Brazil, whilst in Mexico we were unable to repeat the particularly strong performance in the first half of last year and profits were lower. The new manufacturing plant in Mexico became fully operational in the second quarter and is being integrated into our Americas manufacturing strategy.

Watson-Marlow Pumps

	2014	2013	Change	Constant currency
Revenue	£64.5m	£63.6m	+2%	+9%
Operating profit	£19.3m	£18.1m	+6%	+18%
Operating margin	29.9%	28.5%	+140 bps	+240 bps

Sales were up 9% at constant currency, almost half of which arose from the first time contribution of Bio Pure, acquired in January 2014, that specialises in the design and production of advanced single-use tubing connector systems for the Biopharmaceutical industry. Unfavourable exchange movements reduced the reported sales increase to 2%, from £63.6 million to £64.5 million. Operating profit rose by 6% from £18.1 million to £19.3 million, raising the operating margin to 29.9% despite the impact of exchange from manufacturing in Europe. At constant currency the profit increase was 18%.

Sales increased across all industry sectors except precious metals mining. There were good gains in Biopharmaceuticals, with increased sales of Flexicon filling systems and Watson-Marlow products, strong growth in Asia Pacific and a boost from the Bio Pure acquisition. Water treatment markets improved, particularly in the USA, where the new Qdos pump continues to gain good traction. OEM demand has been strong with more project business than in the comparable period. Mining markets worldwide were again lower with the platinum sector hit hard and subdued levels of investment expected to continue.

Sales and profits were ahead in all geographic regions at constant currency. Good growth continued in EMEA, benefitting from the increased sector focus and capitalising on opportunities for more effective direct sales. In Asia Pacific, our newer operating units in India, Malaysia and Singapore did particularly well and in the Americas, sales were ahead in all operations at constant currency. We remain focused on R&D to extend the capability of our peristaltic and niche pumps and take market share from other pump types. The Qdos pump range was recently extended with the launch, on 1st July, of the higher flow Qdos 60 version and developments continue in tubing and hose applications.

Balance sheet and cash flow

Capital employed increased by 6% at constant currency from £344 million at the start of the year to £355 million at 30th June 2014. Our business is seasonal and capital employed increased by just 1% at constant currency compared with 30th June 2013. We continued to exercise good control over working capital in the first half, with a small improvement in average debtor days. Investment in fixed assets was higher at £19 million compared with £13 million in the first half of last year due to completion of the new factory in Mexico, additional land in China and IT systems in Watson-Marlow.

Our balance sheet remains strong with good cash generation. There was an outflow of £9 million in respect of acquisitions, principally Bio Pure which was acquired in January 2014. Unfavourable currency movements reduced opening cash balances by £7 million on translation. Net debt at 30th June 2014 was £1.5 million compared with net cash of £16.4 million at 31st December 2013 and £57.4 million at 30th June 2013.

Adjusted cash flow	30th June 2014 £'000	30th June 2013 £'000
Adjusted operating profit	67,149	68,149
Depreciation and amortisation (excluding acquisition intangible assets)	11,187	11,677
Adjustments (including share plans)	1,324	1,499
Working capital changes	(7,117)	(8,783)
Cash from operations	**72,543**	**72,542**
Net Interest	(144)	273
Income taxes paid	(24,449)	(22,076)
Net capital expenditure (including software and development)	(18,684)	(13,498)
Free cash flow	**29,266**	**37,241**
Net dividends paid	(31,101)	(29,124)
Post-retirement deficit reduction payments and provisions	(2,645)	(3,943)
Proceeds from issue of shares	2,454	2,231
Acquisitions	(9,087)	(3,997)
Exceptional restructuring costs paid	-	(1,166)
Cash flow for period	(11,113)	1,242
Exchange movements	(6,816)	4,447
Opening net cash	16,400	51,676
Closing net (debt)/cash at 30th June	**(1,529)**	**57,365**

The triennial valuation of our main UK pension schemes as at 31st December 2013 is nearing completion and is expected to show an improved position, including favourable experience gains since the previous valuation at the end of 2010.

Principal risks and uncertainties

The Group has a robust risk management process in place to identify, evaluate and manage the identified risks that could impact the Group's performance. The current risks, together with an explanation of the impact and mitigation actions, are set out in the 2013 Annual Report on pages 26 to 27. The Group has reviewed these risks and concluded that they represent the current position and remain relevant for the second half of the financial year. A summary of the relevant key risks and uncertainties is:

- Economic and political instability
- Significant exchange rate movements
- Loss of manufacturing output at any Group factory
- Breach of regulatory requirements
- Non-compliance with health, safety and environmental legislation
- Defined benefit pension scheme deficits
- Failure to respond to technological developments or customer needs
- Failure to realise acquisition objectives

In the area of economic and political instability, the Group continues to carefully monitor developments in Europe and the Eurozone. We are keeping the events in Russia and Ukraine under constant review and update our Sanctions Policy as announcements are made. We have a well-established and profitable business in that region, which currently accounts for approximately 1.5% of Group sales. Our overall geographic diversity limits the impact of instability in any particular region. Exchange rate movements are also monitored closely and we keep mitigating actions under review.

Outlook

We have a robust business model with an increasing sector focus by our direct sales force to leverage our understanding of our customers' applications and apply appropriately engineered solutions to help our customers solve their energy efficiency, water saving, productivity, quality and pumping needs. Our business is resilient due to the wide diversification across geographic regions, end markets, customers and products, combined with a high proportion of revenues generated from replacement demand and maintenance spending.

Our markets are largely influenced by changes in economic conditions and in particular the rate of growth in Industrial Production, which our markets typically lag by a few quarters. Global Industrial Production growth has exhibited an overall improvement since the fourth quarter of 2013, albeit to still relatively low levels of growth. We continue to assume that this small improvement in global Industrial Production rates will be reflected in a modest up-tick of our markets through the second half of this year but remain focused on our strategic priorities to generate our own growth and out-perform our markets.

The benefit from generally flat material costs moderated in the second quarter and is expected to continue at this slower pace for the remainder of the year. Currency movements have been increasingly unfavourable this year but if current exchange rates prevail to the end of the year, the 7.6% first half year exchange translation impact on sales moderates to 6.8% for the full year, due to comparison with the strengthening of sterling in the second half of 2013.

We anticipate that our markets will remain challenging but as we enter the second half year we have a larger backlog than in the comparable period of 2013 and the Board remains confident that we will continue to make progress in 2014.

STATEMENT OF FINANCIAL POSITION

	Notes	30th June 2014 £'000	30th June 2013 £'000	31st December 2013 £'000
ASSETS				
Non-current assets				
Property, plant and equipment		177,116	182,902	174,218
Goodwill		48,338	47,279	45,765
Other intangible assets		46,422	44,436	44,594
Prepayments		180	48	162
Investment in associates		7,917	9,316	7,039
Deferred tax assets		33,146	39,146	34,472
		313,119	323,127	306,250
Current assets				
Inventories		111,306	109,898	104,164
Trade receivables		132,596	143,622	145,380
Other current assets		21,153	23,775	19,880
Taxation recoverable		4,027	2,346	3,709
Bank deposits	8	31,103	-	32,901
Cash and cash equivalents	8	79,318	108,832	84,417
		379,503	388,473	390,451
Total assets		692,622	711,600	696,701
EQUITY AND LIABILITIES				
Current liabilities				
Trade and other payables		80,443	88,670	86,108
Bank overdrafts	8	3,683	10,131	1,809
Short-term borrowing	8	34,628	4,978	39,338
Current portion of long-term borrowings	8	298	48	298
Current tax payable		11,184	12,692	16,927
		130,236	116,519	144,480
Net current assets		249,267	271,954	245,971
Non-current liabilities				
Long-term borrowings	8	73,341	36,310	59,473
Deferred tax liabilities		16,381	17,735	15,853
Post-retirement benefits	7	64,889	64,313	72,043
Provisions		761	140	720
Long-term payables		-	598	598
		155,372	119,096	148,687
Total liabilities		285,608	235,615	293,167
Net assets		407,014	475,985	403,534
Equity				
Share capital		19,629	19,592	19,568
Share premium account		62,351	58,347	59,954
Other reserves		(7,064)	41,561	11,474
Retained earnings		331,382	355,807	311,737
Equity shareholders' funds		406,298	475,307	402,733
Non-controlling interest		716	678	801
Total equity		407,014	475,985	403,534
Total equity and liabilities		692,622	711,600	696,701

CONSOLIDATED INCOME STATEMENT

	Six months to 30th June 2014			Six months to 30th June 2013			Year ended 31st December 2013		
	Adjusted	**Adj't**	**Total**	**Adjusted**	**Adj't**	**Total**	**Adjusted**	**Adj't**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Revenue (note 2)	319,160	-	319,160	331,561	-	331,561	689,388	-	689,388
Operating costs	(252,011)	(2,491)	(254,502)	(263,412)	(2,321)	(265,733)	(537,762)	(4,586)	(542,348)
Operating profit (note 2)	67,149	(2,491)	64,658	68,149	(2,321)	65,828	151,626	(4,586)	147,040
Financial expenses	(2,518)	-	(2,518)	(1,932)	-	(1,932)	(4,268)	-	(4,268)
Financial income	976	-	976	873	-	873	1,968	-	1,968
Net financing expense (note 3)	(1,542)	-	(1,542)	(1,059)	-	(1,059)	(2,300)	-	(2,300)
Share of profit of associates	718	(380)	338	912	(161)	751	1,730	(756)	974
Profit before taxation	66,325	(2,871)	63,454	68,002	(2,482)	65,520	151,056	(5,342)	145,714
Taxation (note 4)	(19,748)	608	(19,140)	(19,769)	618	(19,151)	(44,542)	1,148	(43,394)
Profit for the period	46,577	(2,263)	44,314	48,233	(1,864)	46,369	106,514	(4,194)	102,320
Attributable to:									
Equity shareholders	46,532	(2,263)	44,269	48,184	(1,864)	46,320	106,298	(4,194)	102,104
Non-controlling interest	45	-	45	49	-	49	216	-	216
Profit for the period	46,577	(2,263)	44,314	48,233	(1,864)	46,369	106,514	(4,194)	102,320
Earnings per share									
Basic earnings per share (note 5)	61.7p		58.7p	62.0p		59.6p	138.8p		133.4p
Diluted earnings per share (note 5)	61.4p		58.4p	61.5p		59.2p	137.8p		132.4p
Dividends									
Dividend per share (note 6)			19.5p			18.0p			59.0p
Dividend paid per share (note 6)			41.0p			37.0p			155.0p

Adjusted figures exclude certain non-operational items as detailed in note 2.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months to 30th June 2014 £'000	Six months to 30th June 2013 £'000	Year ended 31st December 2013 £'000
Profit for the period	44,314	46,369	102,320
Items that will not be reclassified to profit or loss			
Re-measurement gain/(loss) on post-retirement benefits			
Deferred tax on re-measurement gain/(loss) on post-retirement benefits	(724)	(2,703)	(1,074)
	4,747	5,165	(3,940)
Items that may be reclassified subsequently to profit or loss			
Foreign exchange translation differences	(18,935)	13,743	(12,875)
Non-controlling interest foreign exchange translation differences	11	14	(49)
Profit/(loss) on cash flow hedges	5	(280)	48
	(18,919)	13,477	(12,876)
Total comprehensive income for the period	30,142	65,011	85,504
Attributable to:			
Equity holders of the parent	30,086	64,948	85,337
Non-controlling interest	56	63	167
Total recognised income for the period	30,142	65,011	85,504

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months to 30th June 2014	Share Capital	Share Premium Account	Other Reserve	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 period	-	-	-	44,269	44,269	45	44,314
Other comprehensive income for the period							
Foreign exchange translation differences	-	-	(18,935)	-	(18,935)	11	(18,924)
Re-measurement gain on post-retirement benefits	-	-	-	5,471	5,471	-	5,471
Deferred tax on re-measurement gain on post-retirement benefits	-	-	-	(724)	(724)	-	(724)
Profit on cash flow hedges reserve	-	-	5	-	5	-	5
Total other comprehensive (expense) for the period	-	-	(18,930)	4,747	(14,183)	11	(14,172)
Total comprehensive income for the period	-	-	(18,930)	49,016	30,086	56	30,142
Dividends paid	-	-	-	(30,960)	(30,960)	(141)	(31,101)
Equity settled share plans net of tax	-	-	-	1,589	1,589	-	1,589
Proceeds of issue of share capital	57	2,397	-	-	2,454	-	2,454
Employee Benefit Trust Shares	4	-	392	-	396	-	396
Balance at 30th June 2014	19,629	62,351	(7,064)	331,382	406,298	716	407,014

Six months to 30th June 2013	**Share Capital**	**Share Premium Account**	**Other Reserve**	**Retained earnings**	**Equity shareholders' funds**	**Non-controlling interest**	**Total equity**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1st January 2013	19,536	56,172	28,098	331,945	435,751	798	436,549
Profit for the period	-	-	-	46,320	46,320	49	46,369
Other comprehensive income for the period							
Foreign exchange translation differences	-	-	13,743	-	13,743	14	13,757
Re-measurement gain on post-retirement benefits	-	-	-	7,868	7,868	-	7,868
Deferred tax on re-measurement gain on post-retirement benefits	-	-	-	(2,703)	(2,703)	-	(2,703)
Loss on cash flow hedges reserve	-	-	(280)	-	(280)	-	(280)
Total other comprehensive income for the period	-	-	13,463	5,165	18,628	14	18,642
Total comprehensive income for the period	-	-	13,463	51,485	64,948	63	65,011
Dividends paid	-	-	-	(28,941)	(28,941)	(183)	(29,124)
Equity settled share plans net of tax	-	-	-	1,318	1,318	-	1,318
Proceeds of issue of share capital	56	2,175	-	-	2,231	-	2,231
Balance at 30th June 2013	19,592	58,347	41,561	355,807	475,307	678	475,985

For the year ended 31stDecember 2013	**Share Capital**	**Share Premium Account**	**Other Reserve**	**Retained earnings**	**Equity shareholders' funds**	**Non-controlling interest**	**Total equity**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1st January 2013	19,536	56,172	28,098	331,945	435,751	798	436,549
Profit for the year	-	-	-	102,104	102,104	216	102,320
Other comprehensive income for the year							
Foreign exchange translation differences	-	-	(12,875)	-	(12,875)	(49)	(12,924)
Re-measurement loss on post-retirement benefits	-	-	-	(2,866)	(2,866)	-	(2,866)
Deferred tax on re-measurement loss on post-retirement benefits	-	-	-	(1,074)	(1,074)	-	(1,074)
Profit on cash flow hedges reserve	-	-	48	-	48	-	48
Total other comprehensive (expense) for the year	-	-	(12,827)	(3,940)	(16,767)	(49)	(16,816)
Total comprehensive income for the year	-	-	(12,827)	98,164	85,337	167	85,504
Dividends paid	-	-	-	(120,792)	(120,792)	(164)	(120,956)
Equity settled share plans net of tax	-	-	-	2,420	2,420	-	2,420
Issue of share capital	66	3,782	-	-	3,848	-	3,848
Employee benefit trust shares	(34)	-	(3,797)	-	(3,831)	-	(3,831)
Balance at 31st December 2013	19,568	59,954	11,474	311,737	402,733	801	403,534

CASH FLOW STATEMENT

	Notes	Six months to 30th June 2014 £'000	Six months to 30th June 2013 £'000	Year ended 31st December 2013 £'000
Cash flows from operating activities				
Profit before taxation		63,454	65,520	145,714
Depreciation, amortisation and impairment		13,207	13,749	26,678
Share of profit of associates		(338)	(751)	(974)
Equity settled share plans		1,795	1,748	3,315
Net finance expense		1,542	1,059	2,300
Operating cash flow before changes in working capital and provisions		79,660	81,325	177,033
Change in trade and other receivables		8,751	(4,152)	(8,704)
Change in inventories		(9,771)	(3,184)	(3,573)
Change in provisions and post-retirement benefits		(2,645)	(3,943)	(6,985)
Change in trade and other payables		(6,097)	(2,613)	3,309
Cash generated from operations		69,898	67,433	161,080
Interest paid		(1,120)	(600)	(1,551)
Income taxes paid		(24,449)	(22,076)	(42,318)
Net cash from operating activities		**44,329**	**44,757**	**117,211**
Cash flows from investing activities				
Purchase of property, plant & equipment		(16,517)	(10,612)	(20,451)
Proceeds from sale of property, plant & equipment		793	721	1,777
Purchase of software & other intangibles		(2,069)	(3,073)	(5,240)
Development expenditure capitalised		(891)	(534)	(2,779)
Acquisition of businesses		(9,087)	(3,997)	(5,601)
Bank deposits		-	-	(32,901)
Interest received		976	873	1,968
Dividends received		-	-	964
Net cash used in investing activities		**(26,795)**	**(16,622)**	**(62,263)**
Cash flows from financing activities				
Proceeds from issue of share capital		2,454	2,231	3,848
Employee benefit trust share purchase		-	-	(4,430)
Repaid borrowings	8	(1,703)	(8,248)	(4,383)
New borrowings	8	11,000	1,370	57,506
Change in finance lease liabilities	8	(96)	319	(353)
Dividends paid (including minorities)		(31,101)	(29,124)	(120,956)
Net cash used in financing activities		**(19,446)**	**(33,452)**	**(68,768)**
Net change in cash and cash equivalents	8	(1,912)	(5,317)	(13,820)
Cash and cash equivalents at beginning of period	8	82,608	99,445	99,445
Exchange movement	8	(5,061)	4,573	(3,017)
Cash and cash equivalents at end of period	8	75,635	98,701	82,608
Bank deposits	8	31,103	-	32,901
Borrowings and finance leases	8	(108,267)	(41,336)	(99,109)
Net (Debt)/cash at the end of the period	8	**(1,529)**	**57,365**	**16,400**

NOTES TO THE ACCOUNTS

1. BASIS OF PREPARATION

Spirax-Sarco Engineering plc is a company domiciled in the UK. The half year condensed consolidated financial statements of Spirax-Sarco Engineering plc and its subsidiaries (the 'Group') have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU. The accounting policies applied are consistent with those set out in the 2013 Spirax-Sarco Engineering plc Annual Report.

These condensed consolidated half year financial statements do not include all the information required for full annual statements and should be read in conjunction with the 2013 Annual Report. The comparative figures for the year ended 31st December 2013 do not constitute the Group's statutory accounts for that financial year as defined in section 434 of the Companies Act 2006. The consolidated statutory accounts for Spirax-Sarco Engineering plc in respect of the year ended 31st December 2013 have been reported on by the Company's former auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the companies Act 2006.

The consolidated financial statements of the Group in respect of the year ended December 2013 are available upon request from Mr A. J. Robson, General Counsel and Company Secretary, Charlton House, Cheltenham, Gloucestershire, GL53 8ER, United Kingdom or on www.spiraxsarcoengineering.com.
The financial statements for the six months ended 30th June 2014, which have not been audited or reviewed by the auditors, were authorised by the Board on 6th August 2014.

The interim report has been prepared solely to provide additional information to shareholders as a body to assess the Group's strategies and the potential for those strategies to succeed. This interim report should not be relied upon by any other party or for any other purpose.

GOING CONCERN

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

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

There are a number of new standards, amendments to standards and interpretations that are not yet effective for the period ended 30th June 2014 and have, therefore, not been applied in preparing these condensed consolidated interim financial statements. None of these are anticipated to have a significant impact on the consolidated income statement or consolidated statement of financial position.

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of interim financial statements in conformity with adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31st December 2013.

The Directors have considered the facts and circumstances as at 30th June 2014 and concluded that there are no indicators of impairments that require an impairment review to be undertaken on goodwill at the interim statement of financial position date. The annual impairment review will be undertaken later in 2014 consistent with the timing in previous years.

CAUTIONARY STATEMENTS

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

RESPONSIBILITY STATEMENT

The Directors confirm that to the best of their knowledge:

- this financial information has been prepared in accordance with IAS *34 Interim Financial Reporting* as adopted by the EU;

- the interim management report includes a fair review of the information required by:

    (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year.

    (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year that have materially affected the financial position or performance of the entity during that period, and any changes in the related party transactions described in the last annual report that could do so.

The Directors of Spirax-Sarco Engineering plc on 5th August 2014 are the same as those listed in the 2013 Annual Report on pages 60 and 61 with the exception of Mark Vernon who retired on 15th January 2014, Gareth Bullock who retired on 20th May 2014 and Jamie Pike who was appointed on 1st May 2014.

N J Anderson
Group Chief Executive
6th August 2014

D J Meredith
Finance Director
6th August 2014

On behalf of the Board

2. SEGMENTAL REPORTING

Analysis by location of operation

Six months to 30th June 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	138,354	19,089	119,265	23,772	24,218	20.3%
Asia Pacific	78,424	2,881	75,543	16,754	16,754	22.2%
Americas	62,566	2,742	59,824	10,954	11,862	19.8%
Steam Specialties business	279,344	24,712	254,632	51,480	52,834	20.7%
Watson-Marlow	64,536	8	64,528	18,135	19,272	29.9%
Corporate expenses				(4,957)	(4,957)	
	343,880	24,720	319,160	64,658	67,149	21.0%
Intra-Group	(24,720)	(24,720)				
Total	**319,160**	**-**	**319,160**	**64,658**	**67,149**	**21.0%**
Net finance expense				(1,542)	(1,542)	
Share of operating profit of associates				338	718	
Profit before tax				**63,454**	**66,325**	

Six months to 30th June 2013

	Gross revenue £'000	Inter-segment revenue £'000	Revenue £'000	Total operating profit £'000	Adjusted operating profit £'000	Adjusted operating margin %
Europe, Middle East & Africa	141,034	20,419	120,615	22,136	22,654	18.8%
Asia Pacific	82,810	2,041	80,769	19,849	19,849	24.6%
Americas	69,738	3,130	66,608	10,958	11,980	18.0%
Steam Specialties business	293,582	25,590	267,992	52,943	54,483	20.3%
Watson-Marlow	63,619	50	63,569	17,357	18,138	28.5%
Corporate expenses				(4,472)	(4,472)	
	357,201	25,640	331,561	65,828	68,149	20.6%
Intra-Group	(25,640)	(25,640)				
Total	**331,561**	**-**	**331,561**	**65,828**	**68,149**	**20.6%**
Net finance expense				(1,059)	(1,059)	
Share of operating profit of associates				751	912	
Profit before tax				**65,520**	**68,002**	

Year ended 31st December 2013

	Gross revenue £'000	Inter-segment revenue £'000	Revenue £'000	Total operating profit £'000	Adjusted operating profit £'000	Adjusted operating margin %
Europe, Middle East & Africa	286,551	42,240	244,311	47,057	48,205	19.7%
Asia Pacific	187,916	5,142	182,774	48,033	48,033	26.3%
Americas	138,676	6,642	132,034	24,243	26,119	19.8%
Steam Specialties business	613,143	54,024	559,119	119,333	122,357	21.9%
Watson-Marlow	130,325	56	130,269	37,940	39,502	30.3%
Corporate expenses				(10,233)	(10,233)	
	743,468	54,080	689,388	147,040	151,626	22.0%
Intra-Group	(54,080)	(54,080)				
Total	**689,388**	**-**	**689,388**	**147,040**	**151,626**	**22.0%**
Net finance expense				(2,300)	(2,300)	
Share of operating profit of associates				974	1,730	
Profit before tax				**145,714**	**151,056**	

Non-operational items

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

	Six months 30th June 2014 £'000	Six months 30th June 2013 £'000	Year ended 31st Dec. 2013 £'000
Amortisation and impairment of acquisition-related intangible assets	(2,020)	(2,072)	(3,971)
Acquisition and disposal costs	(471)	(249)	(615)
	(2,491)	**(2,321)**	**(4,586)**

Net assets

The total assets and liabilities of the four segments have not been disclosed as there has been no material change in the amounts disclosed in the 2013 Annual Report and Accounts.

Capital additions and depreciation and amortisation

	Six month 30th June 2014		Six month 30th June 2013		Year ended 31st December 2013	
	Capital additions £'000	Depreciation and amortisation £'000	Capital additions £'000	Depreciation and amortisation £'000	Capital additions £'000	Depreciation and amortisation £'000
Europe, Middle East & Africa	6,818	5,119	7,388	5,5510	10,532	11,859
Asia Pacific	7,144	2,385	3,152	2,646	6,602	4,707
Americas	2,351	3,035	3,593	2,956	6,770	5,912
Watson-Marlow	6,187	2,668	3,190	2,637	7,323	4,200
	22,500	**13,207**	**17,323**	**13,749**	**31,227**	**26,678**

Capital additions include property, plant and equipment at 30th June 2014 of £16,144,000; at 30th June 2013 of £13,716,000; and at 31st December 2013 of £21,835,000; and other intangible assets at 30th June 2014 of £6,356,000; at 30th June 2013 of £3,607,000; and at 31st December 2013 of £9,392,000. Depreciation and amortisation includes amortisation of acquisition-related intangible assets.

Exchange rate impacts

Set out below are some additional disclosures (not required by IAS 34) that further explain the strong currency headwind experienced in the first half of 2014. The first table highlights movements in a selection of average exchange rates between half-year 2014 and half-year 2013. The subsequent tables illustrate the transaction and translation exchange impacts.

Average exchange rates to sterling have been as follows:

	Average half-year 2014	**Average half-year 2013**	**Change %**
Bank of England sterling index	86.4	80.8	-6%
US$	1.67	1.55	-7%
Euro	1.22	1.18	-3%
RMB	10.33	9.58	-7%
Won	1,751	1,708	-2%
Real	3.84	3.18	-17%
Argentine Peso	13.07	7.94	-39%
Australian $	1.83	1.54	-16%
Rouble	58.28	48.19	-17%
Rand	17.85	14.26	-20%
Turkish Lira	3.61	2.82	-22%

The table below captures the main exchange transaction impact on 2014 first half-year operating profit, comparing 2014 half-year average exchange rates to 2013 half-year average exchange rates

	UK £'m	**EMEA £'m**	**Asia-Pac £'m**	**Americas £'m**	**Total £'m**
Extent of currency exposure					
Purchases from UK	-	18.7	10.6	9.7	39.0
Purchases from EMEA	6.4	-	4.8	6.1	17.3
Purchases from Asia-Pac	4.1	0.0	-	0.1	4.2
Purchases from Americas	1.1	0.7	1.6	-	3.4
Total exchange transaction effect*	1.0	(1.1)	(0.9)	(1.4)	(2.4)
2014 Revenue	29.3	123.9	81.0	85.0	319.2
Exchange transaction impact on half-year trading margin	3.4%	-0.9%	-1.1%	-1.6%	-0.8%

*The total exchange effect includes intra-segment effects, but they are excluded from the currency exposure figures

The structure of the Group and actions taken to mitigate the effects of exchange rate movements include:

The direct sales business model dictates that the Group operates directly in many different currencies; however these direct sales costs are all in local currencies providing a natural hedge against currency movements. The Group follows a regional manufacturing strategy to maximise local service levels and minimise cost. Regionalising manufacturing also provides a degree of hedge against exchange rate movements. Forward currency contracts are used where deemed appropriate to hedge the exposure to exchange rate movements on the transfer of goods from the country of manufacture to the country of sale. In some markets, volatile exchange rate movements can give rise to increased price flexibility, giving some ability to mitigate the impact of increased landed costs where there is a significant movement in exchange rates. Purchases of materials in Asia and the pricing of some purchases in US dollars, also provides an additional hedge against exchange rate movements.

The table below shows the exchange translation impact on 2014 first half-year operating profit, comparing 2014 half-year average exchange rates to 2013 half-year average exchange rates

	EMEA £'m	Asia-Pac £'m	Americas £'m	Watson Marlow £'m	Corp exp £'m	Total £'m
2013 half-year at 2013 half-year XR						
Revenue	120.6	80.8	66.6	63.6	-	331.6
Operating Profit*	22.7	19.8	12.0	18.1	(4.5)	68.1
2013 half year at 2014 half-year XR						
Revenue	115.4	74.9	56.7	59.2	-	306.2
Operating Profit*	21.7	18.3	9.6	17.1	(4.5)	62.2
Change						
Revenue	(5.2)	(5.9)	(9.9)	(4.4)		(25.4)
Operating Profit*	(1.0)	(1.5)	(2.4)	(1.0)		(5.9)
% Change						
Revenue	-4.3%	-7.3%	-14.9%	-6.9%		-7.6%
Operating Profit*	-4.4%	-7.6%	-20.0%	-5.5%		-8.7%

*This measure uses adjusted operating profit

3. NET FINANCING EXPENSE

	Six months to 30th June 2014 £'000	Six months to 30th June 2013 £'000	Year ended 31st December 2013 £'000
Financial expenses			
Bank and other borrowing interest payable	(1,120)	(600)	(1,551)
Net interest on pension scheme liabilities	(1,398)	(1,332)	(2,717)
	(2,518)	(1,932)	(4,268)
Financial income			
Bank interest receivable	976	873	1,968
Net financing expense	**(1,542)**	**(1,059)**	**(2,300)**
Net pension scheme financial expense	(1,398)	(1,332)	(2,717)
Net bank interest	(144)	273	417
Net financing expense	**(1,542)**	**(1,059)**	**(2,300)**

4. TAXATION

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

	Six months to 30th June 2014 £'000	Six months to 30th June 2013 £'000	Year ended 31st December 2013 £'000
United Kingdom corporation tax	67	417	136
Overseas taxation	18,923	18,372	39,180
Deferred taxation	150	362	4,078
	19,140	**19,151**	**43,394**

5. EARNINGS PER SHARE

	Six months to 30th June 2014 £'000	Six months to 30th June 2013 £'000	Year ended 31st December 2013 £'000
Profit attributable to equity holders of the parent	**44,269**	**46,320**	**102,104**
Weighted average shares in issue	75,452,395	77,730,771	76,566,689
Dilution	393,906	556,289	549,341
Diluted weighted average shares in issue	**75,846,301**	**78,287,060**	**77,116,030**
Basic earnings per share	**58.7p**	**59.6p**	**133.4p**
Diluted earnings per share	**58.4p**	**59.2p**	**132.4p**
Adjusted profit attributable to equity holders of the parent	**46,532**	**48,184**	**106,298**
Basic adjusted earnings per share	**61.7p**	**62.0p**	**138.8p**
Diluted adjusted earnings per share	**61.4p**	**61.5p**	**137.8p**

The dilution is in respect of unexercised share options and the performance share plan.

6. DIVIDENDS

	Six months to 30th June 2014 £'000	Six months to 30th June 2013 £'000	Year ended 31st December 2013 £'000
Amounts paid in the period			
Final dividend for the year ended 31st December 2013 of 41.0p (2012 : 37.0p) per share	30,960	28,942	28,942
Special dividend for the year ended 31st December 2013 of nil per share (2012 : 100.0p)	-	-	78,260
Interim dividend for the year ended 31st December 2013 of 18.0p per share (2012 : 16.0p)	-	-	13,590
	30,960	**28,942**	**120,792**
Amounts arising in respect of the period			
Interim dividend for the year ended 31st December 2014 of 19.5p (2013: 18.0p) per share	14,733	13,568	13,590
Final dividend for the year ended 31st December 2013 of 41.0p (2012 : 37.0p) per share	-	-	30,903
	14,733	**13,568**	**44,493**

No scrip alternative to the cash dividend is being offered in respect of the 2014 interim dividend.

7. POST-RETIREMENT BENEFITS

Pension plans

The Group is accounting for pension costs in accordance with International Accounting Standard 19. The disclosures shown here are in respect of the Group's Defined Benefit Obligations. Other plans operated by the Group were either Defined Contribution plans or were deemed immaterial for the purposes of IAS 19 reporting. Full IAS 19 disclosure for the year ended 31st December 2013 is included in the Group's Annual Report.

The amounts recognised in the balance sheet are as follows:

		Total	
	30th June 2014 £'000	30th June 2013 £'000	31st December 2013 £'000
Post-retirement benefits	(64,889)	(64,313)	(72,043)
Deferred tax	16,905	17,738	17,993
Net pension liability	**(47,984)**	**(46,575)**	**(54,050)**

8. ANALYSIS OF CHANGES IN NET CASH/(DEBT)

	At 1st Jan 2014 £'000	Cash flow £'000	Exchange movement £'000	At 30th June 2014 £'000
Current portion of long-term borrowings	(298)			(298)
Non-current portion of long-term borrowings	(59,473)			(73,341)
Short-term borrowing	(39,338)			(34,628)
Total borrowings	(99,109)			(108,267)
Comprising:				
Borrowings	(98,041)	(9,297)	43	(107,295)
Finance leases	(1,068)	96	-	(972)
	(99,109)	(9,201)	43	(108,267)
Cash and cash equivalents	84,417	(42)	(5,057)	79,318
Bank overdrafts	(1,809)	(1,870)	(4)	(3,683)
Net cash and cash equivalents	82,608	(1,912)	(5,061)	75,635
Bank deposits	32,901	-	(1,798)	31,103
Net cash/(Debt)	**16,400**	**(11,113)**	**(6,816)**	**(1,529)**

9. CAPITAL EMPLOYED

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

	30th June 2014 £'000	30th June 2013 £'000	31st December 2013 £'000
Property, plant and equipment	177,116	182,902	174,218
Prepayments (non-current)	180	48	162
Inventories	111,306	109,898	104,164
Trade receivables	132,596	143,622	145,380
Other current assets	21,153	23,775	19,880
Tax recoverable	4,027	2,346	3,709
Trade and other payables	(80,443)	(88,670)	(86,108)
Current tax payable	(11,184)	(12,692)	(16,927)
	354,751	**361,229**	**344,478**

10. RELATED PARTY TRANSACTIONS

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

Full details of the Group's other related party relationships, transactions and balances are given in the Group's financial statements for the year ended 31st December 2013. There have been no material changes in these relationships in the period up to the end of this report.

No related party transactions have taken place in the first half of 2014 that have materially affected the financial position or the performance of the Group during that period.

11. ACQUISITIONS

		Acquisitions	
	Book value £'000	**FV adj £'000**	**Fair value £'000**
Fixed assets			
Property, plant and equipment	829	-	829
Intangibles	-	4,395	4,395
	829	4,395	5,224
Current assets			
Inventories	283	-	283
Trade receivables	517	-	517
Cash	1,008	-	1,008
Total assets	2,637	4,395	7,032
Current liabilities			
Trade payables	439	-	439
Deferred tax	-	739	739
Total liabilities	439	739	1,178
Total net assets	2,198	3,656	5,854
Goodwill	-	-	4,301
Total	**-**	**-**	**10,155**
Satisfied by Cash paid			9,355
Deferred consideration			800
			10,155
Cash outflow for acquired businesses in the Cash Flow statements:			
Cash paid for businesses acquired in the period			9,355
Less cash acquired			(1,008)
Deferred consideration for businesses acquired in prior years			740
Purchase consideration			**9,087**

1. The acquisition of Bio Pure Technology Limited, a company specialising in the design and production of advanced single-use tubing connector systems for the Biopharmaceutical process industry based in the UK was completed on 6th January 2014. The acquisition method of accounting has been used. Consideration of £9,255,000 was paid on completion. 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. Bio Pure Technology Limited has generated £2,523,000 of revenue and £877,000 of pre-tax profit since acquisition.
2. The acquisition of the UK Transvac thermocompressor business was completed on 22nd May 2014. The acquisition method of accounting has been used. Consideration of £100,000 was paid on completion with a further £800,000 being payable by the end of May 2015. This payment is dependent upon the delivery of the assets, designs and training. Therefore the anticipated payment is £800,000. Separately identified

intangibles are recorded as part of the fair value adjustment. The goodwill recognised represents the opportunity to sell a wider range of products to our existing customer base to fully utilise the Group's applications expertise to expand sales. Goodwill arising is expected to be tax deductible.

£107,000 of acquisition costs were incurred in relation to these acquisitions. The values above are provisional. The acquired intangibles relate to customer relationships, technology based assets and marketing based assets.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

There is no significant difference between the book value and fair value of the Group's financial assets and liabilities. The Group uses forward currency contracts to manage its exposure to movements in foreign exchange rates. The forward contracts are designated as hedge instruments in a cash flow hedging relationship. At 30th June 2014 the Group had contracts outstanding to purchase £1,274,000 with Singapore Dollars and £60,000 with YEN. The fair values at the end of the reporting period were £1,339,000 (31th December 2013 £1,887,000). The fair value of derivative financial instruments falls into the level 2 category of the fair value hierarchy in accordance with IFRS7.