Spirax-Sarco Engineering plc
www.spiraxsarcoengineering.com

News Release

Thursday 15th March 2018

Strong organic growth and two significant acquisitions

HIGHLIGHTS

Adjusted*	2017	2016	Reported	Organic+
Revenue	£998.7m	£757.4m	+32%	+6%
Adjusted operating profit*	£235.5m	£180.6m	+30%	+6%
Adjusted operating profit margin*	23.6%	23.8%	-20 bps	+0 bps
Adjusted profit before taxation*	£229.1m	£177.9m	+29%	
Adjusted basic earnings per share*	220.5p	171.5p	+29%	
Dividend per share	87.5p	76.0p	+15%	
Cash conversion	86%	101%		

**All profit measures exclude certain items which totalled £36.6 million for the year ended 31st December 2017, as set out and explained in the Financial Review and in Note 2.*
+ Organic percentage growth measures are at constant currency and exclude acquisitions.

Statutory	2017	2016	Reported
Operating profit	£198.9m	£174.1m	+14%
Profit before taxation	£192.5m	£171.4m	+12%
Basic earnings per share	214.4p	165.0p	+30%

- Organic sales growth of 6%
- Adjusted operating margin of 23.6%
- Good growth in Steam Specialties and in Watson-Marlow
- Acquisitions performing in line; adding 20% to sales, 14% to profit
- Net debt of £373.6 million, 1.4x EBITDA
- Full Year dividend increased by 15%

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

"I am very pleased with the results delivered in 2017, which again demonstrate the robustness of our strategy and strong direct sales business model. We achieved good organic growth and excluding currency and acquisition effects, maintained the organic margin. We are pleased to report that the two acquisitions that we made in the year have been successfully brought into the Spirax Sarco Group and are progressing to plan. We increased investment in 2017 and, during 2018, we will again prioritise accelerating revenue and capital investments for growth over further margin expansion, to ensure that we continue delivering organic sales growth that outperforms our markets. Assuming no significant deterioration in trading conditions, the Board expects to make further progress in 2018."

For further information, please contact:

Nicholas Anderson, Chief Executive
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: https://edge.media-server.com/m6/p/x6r3vmfy *at 9.00 a.m. and a recording will be posted on the website shortly after the meeting.*

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 the effects of exchange rate movements.

Chairman's statement

Introduction

My last full year as Chairman was a successful and eventful one. In May we were delighted to welcome Gestra to the Group. Gestra's market leading automated boiler controls and strong market position in Germany increases the market share of our Steam Specialties division, improves access to the German market and provides potential to grow Gestra's presence outside its core German market. Two months later, in July, electrical process heating and temperature management solutions provider, Chromalox, joined the Group. Industrial electrical heating solutions are complementary to our steam business and Chromalox's direct sales business model, based around application selling, diverse customer base and broad market diversity, make it an ideal fit.

Three other important milestones have also been reached. In 2017, Group sales reached £1 billion, the Group's underlying trading margin, excluding acquisitions, exceeded 24% and the proposed dividend marks the 50th consecutive year of progress.

The events of 2017 demonstrate that we are not content to let external circumstances dictate Group performance and outcomes, but are actively engaged in engineering opportunities for sustainable growth. I am deeply proud to have been the Chairman of this great Company for over nine years and in my last full year I am pleased to be able to report that, despite a very busy year, we maintained our rigorous focus on organic growth and delivered another strong set of results, outperforming our markets.

Financial highlights

Sales for the year were £998.7 million, an organic increase of 6%; exceeding global industrial production growth of 3.4%. Favourable currency movements increased sales on translation by 5% and acquisitions added 20%. As a result, reported sales were 32% higher than 2016. Our Watson-Marlow Fluid Technology business had another strong year, which saw organic sales up 10%. The Spirax Sarco business also performed well with organic sales up 5% and gains in all segments. Gestra, which is reported within the Spirax Sarco Steam Specialties division, performed in line with our expectations as did Chromalox, which is reported as a separate division within the Spirax Sarco business.

Group adjusted operating profit increased by 6% on an organic basis to a reported £235.5 million. Watson-Marlow delivered organic profit growth of 6%, with the Steam Specialties division up 6% organically. Favourable translation and transaction currency movements increased adjusted operating profit by 9% while acquisitions added 14%, resulting in adjusted operating profit being up 30%. The adjusted operating margin fell by 20 bps, to 23.6% as a result of the dilutionary effect of the two large acquisitions made in the year. Excluding the effects of acquisitions the underlying margin increased 90 bps to 24.7%.

The Group adjusted pre-tax profit was £229.1 million, 29% ahead at reported currency. Adjusted basic earnings per share was 29% ahead at 220.5 pence (2016: 171.5 pence).

The pre-tax profit on a statutory basis was £192.5 million (2016: £171.4 million) and includes certain items, explained in Note 2. The statutory basic earnings per share was 214.4 pence (2016: 165.0 pence).

Cash and dividends
During the year, we had a cash outflow of £484 million to fund the acquisitions of Gestra and Chromalox. As a result, at 31st December 2017 we had a net debt balance of £373.6 million, compared with net cash of £27.4 million at 31st December 2016; a net debt to EBITDA ratio of 1.4 times.

The interim dividend for 2017, paid on 10th November 2017, was raised by 13% to 25.5 pence per share (2016: 22.5 pence per share). The Board is recommending an increase in the final dividend of 16% to 62.0 pence per share (2016: 53.5 pence). Subject to approval of the final dividend by shareholders at the AGM on 15th May 2018, the total Ordinary dividend for the year is therefore 87.5 pence per share, an increase of 15% over the 76.0 pence per share for the prior year.

Corporate governance
As we announced on 14th February, I have indicated my intention to retire from the Board after this year's Annual General Meeting on 15th May 2018 (AGM), having served as a Director for 16 years and as Chairman for the past nine years.

It is proposed that Jamie Pike, the current Senior Independent Director who joined the Board in 2014, will take over as Chairman with effect from the close of the AGM. As a consequence of Jamie's appointment, it is also proposed that Clive Watson be appointed as the Senior Independent Director. Clive will continue as Chairman of the Audit Committee. All appointments are subject to the re-election of Directors at the AGM.

Jamie Pike will, on appointment as Chairman, resign as a member of the Audit Committee and the Remuneration Committee in compliance with the Code. He will Chair the Board and the Nomination Committee.

In anticipation of these changes we initiated a search for an additional Independent Non-Executive Director and on 6th March we announced that Peter France will join the Board with immediate effect. Peter will be a member of the Audit, Remuneration and Nomination Committees. From 2008 to July 2017, Peter was Chief Executive at Rotork plc.

Employees
On behalf of the Board, I would like to welcome our new Gestra and Chromalox colleagues to the Group and to thank all our employees throughout the world for their individual and collective contributions that have enabled us to deliver another excellent set of results in 2017.

Summary and Outlook
Global industrial production growth rates, which are a good indicator of our market conditions, strengthened throughout the year resulting in growth of 3.4% in 2017 compared with 0.9% in 2016 and 0.3% in 2015.

Current indications for the industrial production growth rate in 2018 suggest that it will be at a similar level to that seen in 2017. We will remain focused on engineering opportunities for self-generated growth, through the rigorous implementation of our strategy. As we integrate and develop the recent acquisitions, we are also laying the foundations for their future organic growth.

Following two years of foreign exchange tailwinds, sterling has strengthened against most of the currencies that we trade in and therefore we expect a currency headwind in 2018. If current exchange rates were to prevail for the remainder of the year, 2017's revenues would have been 2% lower and trading profit would have been 4% lower. Movements in exchange rates are often volatile and unpredictable, therefore the actual impact could be significantly different.

For 2018, given the recent changes to the composition of the Group and the volatility of the main currencies we trade in, we have chosen to provide additional information in this outlook. Considering the current industrial production growth rates, we would expect a similar organic growth performance in the Spirax Sarco Steam Specialties division as seen in 2017. As we continue the integration of the Gestra and Chromalox acquisitions, we expect these companies to grow at rates similar to global industrial production growth, over their full year 2017 sales of £223 million. Watson-Marlow's revenue growth was higher than expected in 2017 as a number of larger orders booked in late 2016 were shipped in 2017. Therefore, we maintain our expectations of mid-to-high single-digit organic sales growth for the Watson-Marlow Fluid Technology business in 2018.

Excluding acquisitions, the 2017 trading margin improved by 90 bps to 24.7%, due to the effects of positive exchange movements. As anticipated, the underlying margins remained constant as we reinvested operational gearing gains in the business. Looking forward, we will continue investing in the business for growth while also taking actions to mitigate the adverse transactional currency effects on margins that could occur if current exchange rates prevail throughout this year. Therefore, for Chromalox and the Steam Specialties division, excluding Gestra, we anticipate maintaining the same level of operating margins achieved in the full year 2017. However, due to the proportionally higher investments for growth in Watson-Marlow and Gestra, we anticipate a small margin decline for these businesses in 2018, similar to Watson-Marlow's organic decline in 2017.

Assuming no significant deterioration in trading conditions, the Board expects to make further progress in 2018.

Group Chief Executive's Statement

Introduction

Our Company purpose is to help our customers and end users implement environmentally-friendly engineered solutions for energy savings, process efficiency, product quality and improvements in plant health, safety and regulatory compliance, and to engineer sustainable value for stakeholders. We do this through having the right products, in the right place, at the right time, and an extensive global network of over 1,600 expert sales and service engineers with the knowledge and skills required to understand customers' difficult operational challenges and design bespoke engineered solutions to resolve them.

Our direct sales business model is highly effective at uncovering opportunities to improve customers' steam systems, electrical heating and temperature management systems, or fluid path processes. As they walk our customers' facilities, our specialist engineers are able to identify unrecognised needs. The engineered solutions required to meet these needs generally have a relatively short payback period of around 24 months or less and, crucially, are typically paid for out of our customers' operational budgets. Purchasing decisions are therefore made at operational level from budgets which are less likely to be cut in times of recession. This "self-generated" element of our business, combined with the high proportion of sales that derive from end users' maintenance and operating budgets, and the wide diversity of the markets we serve, both geographically and by industry sector, makes our business highly resilient, although not immune, to the vagaries of the markets.

Strategy implementation

Four years ago we undertook an extensive strategic review and developed our strategy for growth, the aim of which is to deliver self-generated growth that outperforms our markets. We identified six Group strategic themes which help us to do better what we already do well:

- increase direct sales effectiveness through sector focus;
- develop the knowledge and skills of our expert sales and service teams;
- broaden our global presence;
- leverage R&D investments;
- optimise supply chain effectiveness; and
- operate sustainably and help improve our customers' sustainability.

During 2017, notable progress was made in the implementation of our strategic priorities, which was a significant contributing factor to the good financial results and strong organic growth achieved during the year:

- We continued increasing the alignment between our direct sales force and our target industries of Food & Beverage; Healthcare; Pharmaceutical; Oil, Gas & Chemical; and OEM customers, supported by developments in our R&D processes, manufacturing capabilities, marketing and training materials. In the Spirax Sarco Steam Specialties division, the organic growth rate of these priority sectors strongly outpaced the growth rate of the other sectors. These priority sectors now represent almost 50% of the division's sales, compared to 40% in 2014. Also noteworthy, the strategically prioritised Controls and Thermal Energy Management (TEM) products, which represent around 40% of sales and are the main constituents of our self-generated solution sales, are growing at a much faster pace than the traditional Condensate Management products.
- We continued to strengthen the knowledge and skills of our sales and service teams and to develop our pipeline of talent. By the end of the year the training materials of the Spirax Sarco Academy, which was established in 2016 to oversee the learning and development of the Spirax Sarco Steam Specialties division, were available in 16 languages and we had rolled out the Academy's initial programmes to almost 1,100 customer-facing employees. Building on the success of our UK Steam Specialties award winning graduate programme, we established a Global Group Graduate Programme to attract and develop talented young engineers.
- We again expanded our geographical reach, with four new operating units commencing trading at the start of the year: Spirax Sarco East Africa (Kenya), Watson-Marlow Indonesia, Watson-Marlow Thailand and Watson-Marlow Vietnam, and established a Spirax Sarco direct sales presence in Greece, Sri Lanka and Morocco, and in U.A.E. to support Watson-Marlow sales expansion in the Middle East. In recognition of our successful international growth, in 2017 Watson-Marlow Ltd and BioPure Technology Ltd won a combined Queen's Award for Enterprise, in the International Trade category.

- We made two significant acquisitions, Gestra and Chromalox, which increased our market share and expanded our addressable market and successfully integrated the two acquisitions made in 2016, Aflex and Hiter Controls.
- Almost thirty new products were launched during 2017. Watson-Marlow launched the innovative and award winning Quantum peristaltic bioprocessing pump with patented ReNu SU Technology® cartridge, which offers a step change in pump technology enabling higher downstream process yields with minimum pulsation throughout the pressure range. Other product launches from Watson-Marlow include: a patented single-handed and tool free sanitary tri-clamp for use in the Biopharmaceutical industry, called QClamp, from BioPure; the Flexicon PF7, a benchtop filling pump for use in cleanroom environments; and range extensions of the Certa pump, for use in the Food & Beverage industry. The Spirax Sarco Steam Specialties division launched multiple new products including the SIMS™ Software energy monitoring and targeting solution, which enables real-time monitoring and visualisation of customers' steam and thermal energy systems. Amongst other new product introductions, Chromalox introduced the CCX Cast Block Heater, for use in high pressure environments; and the CXHXD corrosion-resistant, explosion-proof Unit Heater, for use in hazardous or challenging environments, such as offshore drilling platforms.
- To further develop the capacity and efficiency of our supply chain, we accelerated the capital investment programmes designed to modernise and renew our manufacturing equipment and completed the expansion of our state-of-the-art manufacturing facility in China. We also established a new distribution hub for the Steam Specialties division in Singapore, which is designed to improve the efficient distribution of products and increase customer service levels throughout the Asia Pacific region.
- The implementation of the Group Sustainability Strategy remained a key priority and good progress was made in a number of areas. During the year we increased the number of Health & Safety professionals within the business, rolled out our Supplier Sustainability Code to direct suppliers of our sales companies, established a network of community engagement champions across the Group and launched a Community Engagement Award to recognise and raise awareness of the activities that are taking place across the Group. We also reduced our global carbon emissions intensity by 4%.

Acquisitions
Our Group acquisitions strategy outlines our key acquisition criteria. Acquisitions should:

- have the potential to create significant shareholder value and either increase our addressable market into related sectors or expand the capabilities of our niche businesses through new skills, technologies or geographic coverage;
- serve customers through a direct sales business model;
- increase sales in our core markets;
- provide products or services where there is a high cost of non-performance to the customer;
- have the potential for geographical or technology expansion;
- have strong maintenance, repair and overhaul demand and recurring revenues; and
- be capable of achieving Group margins.

During 2017, a unique opportunity arose to acquire two outstanding businesses, Gestra and Chromalox. Both companies have long and successful histories. Industrial boiler controls and steam specialist Gestra was founded in Germany in 1902 and electrical process heating and temperature management solutions provider Chromalox was founded in the USA in 1917, with both companies bringing distinct opportunities for growth and expansion to the Group.

Gestra's strength in a number of product areas, such as industrial boiler control systems, and end applications, such as the German chemical industry, complement the Spirax Sarco Steam Specialties division's product offering and industry reach. With the help of the Spirax Sarco global footprint, we believe that the combination of the two entities will enhance organic growth opportunities going forward.

Chromalox represents an excellent opportunity to expand our addressable markets through the acquisition of a clearly related business that is also dedicated to transferring heat energy into industrial processes and shares our strong direct sales business model. As we invest in strengthening Chromalox's direct sales channels and leverage our global footprint and expertise, this acquisition will enhance our growth and sustainable value creation for customers and shareholders.

Both acquisitions were accretive to Group earnings in 2017 and were positively received by customers and employees. The integration of both businesses into the Group has proceeded very positively and remains in line with the integration plans reported at the time of their respective acquisitions.

Engineering opportunities for sustainable value creation
As a socially responsible business, we recognise the importance of operating in a way that delivers long-term sustainable value for all stakeholders. This year we engineered opportunities to strengthen the Group's basis for organic growth; served over 100,000 direct buying customers, enabling them to improve process efficiency and reduce their environmental impacts; invested extensively in developing the skills and capabilities of our employees; developed new products; expanded our geographical reach; engaged with our local communities to help meet their needs; reduced our own CO_2 emissions intensity; maintained the Group operating margin and delivered the 50th year of dividend progress, all of which has been achieved whilst delivering strong organic growth.

Group Chief Executive's Review of Operations

	2016	Exchange	Organic	Acquisitions	2017	Organic	Reported
Revenue	£757.4m	£38.4m	£48.1m	£154.8m	£998.7m	+6%	+32%
Adjusted operating profit	£180.6m	£16.0m	£11.9m	£27.0m	£235.5m	+6%	+30%
Adjusted operating margin	23.8%				23.6%	+0 bps	-20 bps

Introduction
During 2017, the Group delivered record revenue and operating profit, achieved through a combination of good organic growth, accretive acquisitions and favourable exchange rate movements. We saw progress in all geographical segments of the Steam Specialties division, strong progress in the Watson-Marlow Fluid Technology business and a good performance, in line with expectations, in the Gestra and Chromalox acquisitions. In the year we saw a 35% growth in headcount to more than 7,250.

Market environment
Steam continues to be the most efficient medium for transferring energy (in the form of heat) within industrial processes, with applications including heating, curing, cooking, drying, cleaning, sterilising, space heating, humidification and on-demand hot water production. Electrical heating technologies are widely utilised for freeze protection, high temperature industrial applications and temperature management in mission critical industrial processes. Peristaltic and niche pumps and associated fluid

path components are also used across an extensive range of industries to address mission critical or difficult pumping problems.

Our wide geographic spread, diversity of industrial sectors and a large proportion of revenues that derive from end users' maintenance and operating budgets, mean that our market conditions closely correlate with industrial production growth. Following a sustained period of very low growth, global industrial production growth began to pick up in the latter half of 2016. This growth continued into 2017 giving a global industrial production growth rate of 3.4% for the year. Emerging markets achieved a higher level of growth, at 4.2%, than OECD markets, which averaged 2.9% for the year, with strong growth in China accounting for much of the difference. The improvement in industrial production is reflected in the good organic growth achieved in both the Steam Specialties division and Watson-Marlow, although we outperformed industrial production in both businesses as we successfully self-generated sales through the effective utilisation of our direct sales business model.

In EMEA, industrial production growth reached its highest level for several years at 3.3%, despite on-going political and economic uncertainty in the region, particularly in the Eurozone. Asia Pacific saw 4.6% industrial production growth, buoyed by a strong year in China. Elsewhere in the region growth was lower and more mixed, with Korea seeing growth of 1.2%. In the Americas, North America's industrial production returned to positive growth after two years of contraction, with a 2.0% growth rate seen in the USA. After three years of negative growth, Latin America returned to positive territory, with slight signs of recovery in some of the larger markets, although growth in Mexico remained negative.

Industrial production is currently expected to remain positive in 2018, at broadly the same levels of 2017.

Progress in 2017

Overall the Group achieved organic sales growth of 6%, with 5% organic growth in the Steam Specialties division and 10% organic growth in Watson-Marlow, continuing the strong growth seen in 2016. Both businesses saw organic growth across all three geographic regions.

At £998.7 million, Group sales were up 32% at reported exchange rates (2016: £757.4 million). Weaker sterling increased sales on translation by 5%, with most of the impact being seen in the first half of the year. Sterling strengthened towards the end of the year and this strength has continued into 2018. Currency movements are notoriously difficult to predict and sterling is likely to be affected by the progress of Brexit negotiations during 2018.

The acquisitions made in the year, Gestra and Chromalox, combined with the full year effects of the two acquisitions made in 2016, Hiter and Aflex, contributed £154.8 million, or 20%, to sales.

The Spirax Sarco business accounted for 75% of Group revenue in 2017. The Steam Specialties division saw organic sales growth of 5%, with sales increased by 10% due to the acquisition of Gestra in May and the full year effect of Hiter Controls that was acquired in July 2016. Gestra's sales during their eight months in the Group totalled £51.5 million. For reference this represents 67% of their £77 million full year 2017 sales. Favourable currency movements added a further 5% taking reported growth to 20%. Chromalox, which joined the Group on 3rd July, contributed £75.1 million in sales to the Spirax Sarco business in 2017. For reference this represented 52% of their £146 million full year 2017 sales.

Geographically, the Steam Specialties division saw solid organic growth in EMEA. Some progress was made in the Americas and Asia Pacific was boosted by a strong performance in China.

In Watson-Marlow, which accounted for 25% of Group revenues, organic growth was 10% and was supplemented by 5% due to favourable currency movements. The full year effect of the acquisition of Aflex at the end of November 2016 added a further 12% to sales bringing reported growth to 28%. Growth was achieved across all geographic regions.

Group adjusted operating profit was 6% ahead of the prior year on an organic basis and, at £235.5 million, was up 30% at reported exchange rates, helped by a 9% benefit from translational and transactional exchange gains, and 14% from acquisitions. Within the Steam Specialties division, EMEA and Asia Pacific both delivered organic operating profit growth, while the Americas was flat due in part to the £1.5 million one-off contribution in 2016 from the devaluation of the Argentine currency in the prior year. Watson-Marlow also saw organic operating profit growth but, as expected, at a lower rate than in recent years due to our increased revenue investments to sustain future organic growth.

Gestra's trading profit during their eight months with the Group was £7.6 million. For reference, this represented 70% of their £11 million full year 2017 profit. Chromalox's trading profit during their six months with the Group was £13.8 million. For reference this represented 53% of their £26 million full year 2017 profit.

Group adjusted operating profit margin of 23.6% was 20 bps lower than the prior year, as currency exchange benefits were more than offset by the dilutionary impacts of recent acquisitions. Excluding the impact of acquisitions, the adjusted operating margin expanded by 90 bps to 24.7%, despite increased investments for growth and an increase in material prices. Within the Steam Specialties division, EMEA and Asia Pacific were able to leverage margin expansion from their increased sales volume and transactional currency benefits. In the Americas, currency movements were dilutive although the underlying margin was maintained. As expected, Watson-Marlow's operating margin fell due to the full year dilutionary impact of Aflex. Excluding Aflex, the margin expanded by 40 bps.

Steam Specialties: Europe, Middle East and Africa (EMEA)

	2016	Exchange	Organic	Acquisitions	2017	Organic	Reported
Revenue	£234.3m	£12.4m	£12.8m	£45.8m	£305.3m	+5%	+30%
Adjusted operating profit	£50.0m	£5.4m	£3.6m	£7.1m	£66.1m	+7%	+32%
Adjusted operating margin	21.3%				21.7%	+20 bps	+40 bps

Market overview

EMEA saw a steady increase in industrial production growth rates during 2017, with an annual rate of 3.3%. This figure somewhat masks the disruption in the region caused by political elections in a number of key markets and uncertainties surrounding Brexit negotiations in the UK, which have tended to suppress investments in the affected countries, causing project delays. The relatively low oil price throughout the first half of the year continued to stifle upstream investments in the Oil & Gas industry, but as demand increased in the second half of the year the barrel price increased putting the industry in a better position going into 2018. The German Power industry, a key market for Gestra, saw a large drop in investment in 2017, with a number of project postponements.

Progress in 2017

In EMEA, sales increased by 5% on an organic basis to a reported £305.3 million, with favourable currency movements increasing sales on translation by 5% and Gestra contributing a further 19%. Organic sales growth in the region was mixed. Central and Eastern Europe saw organic growth, despite

Germany being broadly flat and slowing in the second half, as the German general election affected business confidence. The UK and Nordics fell back while France saw solid growth and in Southern Europe Italy, Spain and Portugal experienced excellent growth. While Oil & Gas markets were subdued, the Middle East performed strongly due to a renewed focus on Oil & Gas maintenance and repair business. Investments in our direct sales presence in the Netherlands, East Africa and Egypt paid off with sales up strongly in these countries. We achieved above market growth in the Food & Beverage, Healthcare, Oil & Gas and Chemical industries, and OEM markets were considerably stronger than the prior year.

Sales in Gestra, which joined the Group in May, were impacted by the acquisition process during the second quarter, but recovered well during the second half of the year with German OEM boiler makers, in particular, providing opportunities for growth.

At £66.1 million, reported operating profit was ahead 32%, consisting of 7% organic growth, an 11% exchange benefit and 13% from acquisitions. Organic growth was primarily driven by leveraging good operating profit from sales growth, price management initiatives and tight control of overheads, enabling investments to be made to strengthen our direct sales presence in the region while maintaining the margin. Continued efficiency improvements in our UK manufacturing unit in Cheltenham also contributed to the improved organic trading margin.

The strong profit growth delivered an operating profit margin of 21.7%, 40 bps higher than in the prior year and 140 bps higher excluding the dilutionary effects of the Gestra acquisition.

Strategy update

We have made good progress with the implementation of our strategy for growth. We further strengthened our market presence in our newer operating companies in the Netherlands, Egypt and the Middle East. A new company began trading in Kenya (East Africa) during January 2017 and customers have responded positively to the increased investment we have made, resulting in a good first year. We completed the groundwork to begin trading through newly established companies in Hungary, Romania and in the Maghreb, which will serve Morocco, Tunisia and Algeria. These businesses began trading in January 2018.

An increased sector focus in the Food & Beverage, Healthcare, Oil & Gas and Chemical industries, and OEMs is enabling us to achieve above average market growth as we uncover new solutions to deliver excellent return on investment to customers. Through improving our strategic account management processes we are forming and strengthening mutually-beneficial, long-lasting relationships with key customers. The initial programmes of the Spirax Sarco Academy have been rolled out to customer-facing staff, accelerating the sharing of knowledge and protecting this important asset.

Gestra's strategy and implementation plan were defined during the acquisition process, with safe delivery being the most important priority for 2017, along with the successful carve out of Gestra's businesses in Italy, the UK, the USA and Singapore from their previous parent. Going forward we will further develop Gestra, maintaining its own brand, visual identity, product range and sales force, while also looking for product and supply synergies to increase the efficiency of the Steam Specialties division as a whole.

Together, these strategic actions are enhancing our ability to deliver self-generated growth that outperforms our markets.

Segment outlook
We anticipate a slight softening in market conditions during 2018, with industrial production staying positive but at lower levels than seen in 2017. Brexit negotiations and uncertainty are likely to remain a key factor affecting market conditions in the region during 2018, while political elections in Italy and on-going political uncertainties in Germany could cause some turbulence. We continue to monitor the situation in Europe carefully and during 2018 will step-up the implementation of our Brexit contingency planning. Whilst remaining cautious on market conditions, we remain confident in our ability to deliver above market growth rates as we implement our strategy for growth, develop Gestra, and deepen our reach to customers. If exchange rates continue at their current levels we do not anticipate a significant impact on the margin due to transaction effects although we would expect to see some dilution from having a full year of Gestra.

Steam Specialties: Asia Pacific

	2016	Exchange	Organic	Acquisitions	2017	Organic	Reported
Revenue	£193.3m	£9.7m	£12.9m	£2.1m	£218.0m	+6%	+13%
Adjusted operating profit	£49.9m	£3.4m	£3.6m	£0.0m	£56.9m	+7%	+14%
Adjusted operating margin	25.8%				26.1%	+10 bps	+30 bps

Market overview
Industrial Production growth rates improved significantly in the region, with a yearly average of 4.6%. Much of this growth occurred in China, which saw 6.2% growth in the year, although weaker in the second half. Elsewhere in Asia Pacific, growth was more mixed with 1.2% in Korea and conditions varied in our smaller markets. Most markets in the region experienced lower growth rates in the second half of the year.

Progress in 2017
Sales in Asia Pacific were £218.0 million, up 6% on an organic basis and ahead 13% at reported exchange rates. Weaker sterling delivered exchange benefits of 5%, with a further 1% contributed by Gestra, which has a small presence in the region. Organic sales were ahead in most countries, as improved macro-economic conditions increased demand. Self-generated and MRO sales grew faster than large project orders throughout the region as a result of our strategic focus on developing the knowledge and skills of our sales engineers, increasing their ability to identify and deliver smaller-scale operational efficiency improvement projects for our customers. While not buoyant, project work recovered slightly and we saw solid growth during the year.

China, our largest market in the region, started the year very strongly, boosted by good growth in the economy, and continued to perform well throughout the year, despite slowing industrial production growth, benefiting from our focus on self-generated sales. In Korea, we were able to outperform the low industrial production growth rate to deliver solid organic growth, with a particularly large Oil & Gas project. Elsewhere in the region Japan, Taiwan and Vietnam achieved excellent results in 2017.

Our new wholly-owned direct sales and manufacturing operation in India is progressing well and in line with our expectations, more than doubling the sales it made in 2016, its first year of operation. Local manufacturing volumes increased significantly in 2017, improving the under-utilisation of this long-term strategic investment. As anticipated, the company remains loss making as we invest in top line growth and increase manufacturing output.

Operating profit increased strongly on an organic basis, up 7%. On a reported basis, operating profit was ahead 14% with a 7% exchange benefit and a very small contribution from Gestra in the region. Operating margin was ahead 30 bps to 26.1%, benefiting from product mix – notably the growth of typically smaller, higher margin, self-generated projects and MRO orders. Excluding the effects of the Gestra acquisition, the margin expanded by 60 bps.

Strategy update

We completed the £13 million plant expansion project in China, which will further increase efficiency and improve customer delivery performance in the region. We also invested £1.4 million to establish a regional Distribution Centre and office facilities to house our Singapore sales company, South East Asia headquarters and Asia Pacific headquarters. The new facility, which opened in September, will increase supply chain efficiency, improve inventory management in the region and shorten lead times, significantly improving customer service.

We continued to focus on strengthening our direct selling capabilities, with the roll-out of the programmes of the Spirax Sarco Academy to customer facing employees in the region and increased sales force alignment with our target industries. As a result of this increased alignment, we have seen above market growth in the key industries of Pharmaceuticals and Chemicals.

Segment outlook

Slowing growth in China is likely to affect business confidence in the region. This, combined with very strong growth in 2017, may lead to slightly lower organic growth rates in the current year. If current exchange rates persist, we would expect a dilutionary effect on margin due to transaction affects and a full year of Gestra. However, our strategic investments to improve supply chain agility and customer service, and strengthen our direct sales capabilities in the region position us well to continue to make progress as we self-generate our own growth opportunities.

Steam Specialties: The Americas

	2016	Exchange	Organic	Acquisitions	2017	Organic	Reported
Revenue	£135.9m	£5.8m	£2.2m	£8.2m	£152.1m	+2%	+12%
Adjusted operating profit	£29.2m	£0.9m	£0.4m	£1.1m	£31.6m	+1%	+8%
Adjusted operating margin	21.5%				20.8%	+0 bps	-70 bps

Market overview

Industrial production growth rates returned to positive territory in the region following a number of years of contraction with the USA, Canada, Argentina and Brazil all showing growth, although Mexico and some of the smaller countries in the region remained negative. The USA has seen signs of some small, but uneven, recovery in industrial production, impacted by Hurricanes Harvey and, to a lesser extent, Irma. In Argentina, President Macri's business friendly policies began to attract inward investment and stimulate growth. Continuing political instability in Brazil supressed inward investment in the economy and held back industrial production growth, although there were some signs of the beginning of a recovery in the second half of the year. The Food & Beverage and Pharmaceutical sectors were strong during 2017.

Progress in 2017
On an organic basis, sales increased by 2% in the Americas to a reported £152.1 million, with a 4% impact from exchange and a 6% impact from the acquisition of Gestra, which has a small local presence in the USA, and a full year contribution from Hiter in Brazil, which was acquired in July 2016.

Organic sales in North America were marginally behind the prior year. Sales in Canada grew strongly, despite continuing softness in the Oil & Gas sector, with good growth in MRO business and self-generated sales as oil and gas producers sought to optimise efficiency in their existing systems. Within the USA, improved economic conditions helped to strengthen distributor sales, primarily of our core product range. End user sales remained challenging with the non-repeat of larger end-user projects of 2016. In July 2017, we relocated a highly experienced senior leader from a Spirax Sarco operating company in Latin America to the role of President of our USA operation. We believe that the experience that he has in growing end user sales in his home market will be highly beneficial as we continue to strengthen our direct sales model in the USA, to increase the value that we can add to customers, while retaining distributor sales as an important route to market. In October 2017, we also recruited a new Senior Vice President of Sales and Marketing with almost thirty years' experience driving organic sales growth in the USA, through direct sales channels and distribution. Despite a marginal decline in sales, operating profit grew on an organic basis in North America.

Latin America saw 6% organic growth despite some economic headwinds, with good growth in Mexico, Colombia and Argentina. Brazil ended the year with a marginal decline, despite achieving 2% organic growth in the second half. Hiter Controls, the Brazilian control valve manufacturer, acquired in July 2016, made excellent progress during the year, focusing on the Mining, Oil & Gas and Bioethanol markets, and delivered a small profit in the second half of the year, ahead of schedule.

Operating profit grew 8% to £31.6 million. Organic growth was 1%, impacted by the non-repeat of the one-off profit made in Argentina in the first half of 2016 as a result of the country's currency devaluation in late 2015. Exchange movements added 3% and there was a 4% contribution from acquisitions. The adjusted operating profit margin fell 70 bps to 20.8% impacted by the dilutionary effects of both currency and the Hiter and Gestra acquisitions. Excluding acquisitions, the margin was 30 bps lower.

Strategy update
Overall good progress has been made in implementing our strategy across the Americas. We continued to develop the structure of our sales force to increase alignment with key sectors, enabling our engineers to better understand the needs of decision makers in our customers' businesses and align our value proposition in a more customer specific way. The Food & Beverage and Pharmaceutical sectors, in particular, have benefited from our focus in 2017. Enhanced strategic account management has been further embedded in the region with progress seen amongst large multi-national customers and large national Food & Beverage customers.

The skills and sales approach in the whole region have been strengthened by the launch of the Spirax Sarco Academy's programmes in 2017. Available in the region's key languages, this significant investment in knowledge transfer will benefit our customers as they receive the class-leading knowledge of our sales and service teams both now and in the future.

We have focused on improving customer service in the region, with a drive to improve on-time delivery performance, through improving manufacturing efficiencies and managing inventory more effectively, ensuring that the right products are available locally to our customers and distributors, to ensure that we maintain our position as market leader.

Segment outlook
In North America, the return to industrial production growth seen in 2017 is forecast to continue, driven by the administration's attempts in the USA to stimulate the economy. In Latin America, Argentine and Brazilian economic fortunes could turn more positive during 2018, albeit from a low base. Our strong market-leading position in these countries will enable us to capitalise on any improvements in our operating environment. However, during 2018, Mexico, Brazil, Colombia and Chile will all have Presidential elections and the associated political uncertainty could affect business confidence in these countries during the year.

Should the recent relative strength of sterling against the US dollar continue, we will see a headwind to sales in the Americas as well as a dilutionary impact on margins, which we are working hard to counteract through increased efficiencies.

Chromalox

	2016	Exchange	Organic	Acquisitions	2017
Revenue	£0.0m	-	-	£75.1m	£75.1m
Adjusted operating profit	£0.0m	-	-	£13.8m	£13.8m
Adjusted operating margin					18.4%

(for reference only)	
Full Year 2017	
£146m	*-2%*
£26m	*+3%*
17.8%	*+80 bps*

Market overview
Electrical process heating and temperature management solutions specialist, Chromalox, joined the Group in July 2017. The company's products are widely used across a diverse range of industrial processes and, as a result, industrial production growth rates provide a good measure of conditions in the company's markets. Geographically, Chromalox generated 73% of revenue in North America, 15% in EMEA, 9% in Asia Pacific and 3% in Latin America. Due to its strong position in the USA, the company has a high level of exposure to industrial production growth rates in that market and, to a lesser extent, elsewhere in the Americas, Europe, the Middle East and Asia, where it has a small direct sales presence. While the USA's economy returned to growth in 2017, industrial production remained lacklustre and patchy, providing a subdued operating environment for most of the year, but with some signs of improvement towards the end of 2017. Elsewhere, conditions were similar to those in the Steam Specialties markets, with moderate levels of growth in EMEA and slightly higher growth rates in Asia Pacific.

With 16% of sales being generated in the Oil & Gas industry, the depressed oil prices throughout most of 2017 suppressed inward investment and limited opportunities for growth. As the oil price increased towards the end of the year, conditions began to moderate, offering hope for improved trading conditions in 2018.

Progress in 2017
Chromalox contributed £75.1 million to Group revenue post-acquisition. For reference purposes, full year revenues in 2017 were £146 million, in line with our expectations at the time of the acquisition. On a comparable basis, sales were 2% down on 2016 at constant currency, following a difficult start to the year prior to acquisition. However, from the second quarter on, order intake was higher than the same period in the prior year, with full year order intake 3% ahead of 2016 at constant currency. Demand during the fourth quarter reached the highest level of the past two years, translating into good sales and profit growth over Q4 2016 at constant currency. This was driven in part by a renewed focus on OEM customers, particularly for highly-specialised, niche applications that are addressable by

Chromalox technologies and increased investment in direct selling resources, positioning us well for 2018.

Post-acquisition, Chromalox contributed £13.8 million in adjusted operating profit. For reference, the full year 2017 adjusted operating profit was £26 million, slightly ahead of our expectations at the time of the acquisition. On a comparable basis, full year profit was 3% ahead of 2016. Under Spirax ownership, adjusted operating margin was 18.4%. On a comparable basis the margin for the full year 2017 increased 80 bps to 17.8% due to an improved product mix and a rigorous focus on continuous improvement, an important element of the Chromalox Management System.

Integration and strategy update

Post-acquisition, Chromalox has continued to operate as a stand-alone global division, maintaining its brand within the Spirax Sarco business group. The company has a strong, long-serving executive team, all of whom remained with the business post-acquisition, delivering continuity in a time of change and bringing their experience to bear at this exciting new stage of the company's history. While there will be many opportunities for Spirax-Sarco Engineering plc to support Chromalox's growth and margin improvement over the coming years, this stand-alone structure and the continuation of the management team minimises the need for significant integration activities.

During 2017 Chromalox celebrated its centenary. This was an important time to reflect on those factors that have contributed to the company's success during the last 100 years and to identify those things that we must do going forward to deliver enhanced growth and customer value. Throughout the second half of 2017 we conducted an extensive strategic review and refreshed the Chromalox strategic growth plan, with implementation starting in January 2018.

New product development is a key strategic priority for Chromalox. A number of innovative new products were launched during the year including: the CCX Cast Block Heater; CXHXD Corrosion Resistant Explosion Proof Unit Heater; RSP Remote Sensor Panel; TEH Tubular Enclosure Heater; and Wireless Monitoring enhancement for heat trace and heater control panels. We will continue to invest in research and development to ensure that Chromalox continues to deliver innovative new products to customers.

Currently sales outside of North America are relatively limited and over the coming years we will look to internationalise our business further, leveraging Spirax Sarco's global footprint to grow our direct sales presence outside the USA. The Chromalox direct sales force will remain separate from the Steam Specialties division, but will utilise Spirax Sarco's facilities, systems and experience to gain a foothold in new markets, while constantly pursuing commercial synergy opportunities.

Outlook

While market conditions were challenging throughout much of 2017, the year ended with conditions improving and a good order book going into 2018. The higher oil prices, if sustained, should provide greater buoyancy in the Oil & Gas industry during the coming year, providing opportunities for growth.

It is too early to determine whether the more positive industrial production levels seen in the latter part of 2017 in the USA will continue to improve in 2018. Nevertheless, our direct sales business model, class-beating products, renewed strategic focus and the opportunities for geographical expansion that come from being part of the Group, position Chromalox very well for growth in the medium to long-term.

Despite the increased revenue investments for growth and potentially unfavourable currency headwinds, we anticipate maintaining the trading margin in 2018 at 2017's full year level.

Watson-Marlow Fluid Technology Group (WMFTG)

	2016	Exchange	Organic	Acquisitions	2017	Organic	Reported
Revenue	£193.9m	£10.5m	£20.2m	£23.6m	£248.2m	+10%	+28%
Adjusted operating profit	£64.3m	£6.5m	£4.5m	£5.0m	£80.3m	+6%	+25%
Adjusted operating margin	33.1%				32.4%	-110 bps	-70 bps

Market Overview
With its broad customer base and geographical spread, the Watson-Marlow niche pumps and associated fluid path technologies business is subject to similar economic conditions and industrial production growth rates as those experienced by the Steam Specialties division. However, Watson-Marlow's greater exposure (c.40% of sales) to the Pharmaceutical & Biotechnology industry means that it is heavily affected by conditions in that market. During the early months of the year demand from the Pharmaceutical & Biotechnology industry weakened as rhetoric during the US Presidential election in 2016 affected business confidence and stalled inward investment. However, conditions started improving during the second quarter of 2017, with historic demand levels resuming in the second half of the year. The upturn in industrial production growth gave a boost to OEM manufacturers. Food and Beverage was solidly up, driven by the recent Certa pump launch. Conditions in the Mining industry were mixed; lacklustre in traditional regions but with growth elsewhere. Water and Wastewater continued to be variable, with reduced project size in the USA but strong base business driven by market gains across North America and Europe from our Qdos range of pumps.

Progress in 2017
Sales increased by 10% on an organic basis, boosted by a number of large orders placed in 2016. A 5% benefit from exchange and 12% coming from the full year effect of the acquisition of Aflex, combined to give reported sales of £248.2 million; a 28% increase over the prior year on a reported basis.

Strong organic sales growth was achieved in all geographic regions. Europe saw good growth, with notable performances in the UK, Germany, Italy and the Netherlands. There was excellent growth in Asia Pacific, with Japan and Taiwan achieving outstanding growth and a strong performance in China. The Americas saw good growth in North America, by far the largest market, and excellent progress in Latin America.

Sales into the Pharmaceutical & Biotechnology industry were up despite a very tough compare and a slow start to the year. General industry was ahead of the prior year, due in large part to the expanded Qdos pump range. OEM achieved good growth. The MasoSine Certa pump, which was launched in 2016, underpinned excellent growth in the Food & Beverage industry, with both end user and OEM sales significantly benefiting from this innovative, world-leading pump. The Mining industry achieved modest growth with flat sales in traditional geographies supplemented by good growth in Russia and Mexico. Growth in the Water & Wastewater industry primarily came from EMEA.

Aflex, which was acquired at the end of November 2016, has integrated well and delivered good, above-plan performance in sales and an improvement in operating profit by leveraging higher volume sales against controlled overheads. New companies in Canada and Ireland made excellent progress in their first full year of trading, while new operating units in Indonesia, Thailand and Vietnam, which began direct selling in March 2017, and a newly established sales office in the U.A.E., also performed well. Our customers are benefiting from our investment in direct sales personnel and the attendant knowledge and expertise they bring to these markets.

Watson-Marlow's operating profit of £80.3 million was up 6% on an organic basis and 25% on a reported basis benefiting from currency and a full year of Aflex. At 32.4%, the reported operating profit margin was down 70 bps on the prior year due to the dilutionary impact of Aflex's lower margin. Excluding Aflex, margins expanded by 40 bps as operational gearing and transactional currency benefits more than offset increased revenue investment for growth.

Strategy Update

During 2017 we continued to rigorously implement our five-point strategic plan. We expanded our geographic direct sales footprint and began trading through three new operating units in Indonesia, Thailand and Vietnam in March 2017, with a sales office in the U.A.E. In the UK, our commitment to international trade was recognised as Watson-Marlow Ltd and BioPure Ltd won a combined Queen's Award for Enterprise: International Trade.

Improving the effectiveness of our direct sales teams through market sector focus and enhanced training, continued apace. We established a US East Coast Pharmaceutical & Biotechnology direct sales team and invested in increasing headcount specifically to address this important market. This investment was supported by an international Pharmaceutical & Biotechnology sales training conference and three regional training conferences, in Europe, Asia and Latin America.

We had an excellent year for product launches, with several important new products released to market. These included the Quantum purification pump, designed for specific, low pulsation applications in the Biotechnology industry; BioPure Q-Clamp; a new gasket and braided hose range from BioPure; the 730 Watson-Marlow process pumps; Puresu® single use tube assemblies; Qdos 20; and the Flexicon PF7 peristaltic filling machine. The Quantum pump has been very well received, winning the "Best Technical Innovation" award at the International Pharmaceutical Expo, in New York City.

We established a new business intelligence system that links directly to our ERP system, enhancing business visibility and automating many previously manual reporting functions, expanded into new premises in Switzerland, Austria, Singapore, China and India and invested in a new manufacturing building at BioPure in the UK.

In January 2018, we acquired a small pre-revenue company and we envisage expensing R&D investments of approximately £1.5 million a year, over the next two years, to bring an innovative product to market.

Outlook

Globally, industrial production looks likely to remain positive during 2018, at similar levels to those seen in 2017, with our markets also being influenced by levels of investment in our core focus areas and macroeconomic conditions in the countries in which we operate. Following the rebound in 2017, we expect the Pharmaceutical & Biotechnology market to be robust in 2018 and are well placed to achieve growth as we benefit from our increased investment and focus on this important sector. New products are making good inroads, displacing other pump types, delivering enhanced customer value and providing opportunities for growth. We remain confident in our ability to deliver above-market organic sales growth, although the lower order intake rate in 2017 would point to a mid-to-high single digit level of sales growth in the current year. Should current exchange rates persist for the rest of the year, transactional foreign exchange effects would negatively impact the reported margin. Combined with the proportionally higher revenue investments for growth, we anticipate a small margin decline in 2018, similar to the organic margin decline of 2017.

Financial Review

The Group reports under International Financial Reporting Standards (IFRS) and also uses adjusted and organic figures where the Board believe that they help to effectively monitor the performance of the Group and help users of the Financial Statements to draw comparisons with our peers. Certain alternative performance measures also form a meaningful element of Executive Directors' annual bonuses. Unless otherwise stated, adjusted figures are used throughout this section. A reconciliation of adjusted operating profit to statutory operating profit is given below and more detail can be found in Note 2 to the Financial Statements. As we are a multi-national Group of companies that trade in a large number of foreign currencies and regularly acquire and sometimes dispose of companies, we also refer to organic performance measures. Organic measures strip out the effects of the movement of foreign currency exchange rates and of acquisitions. The percentage organic growth or decline is defined as the movement, excluding acquisitions or disposals, on the prior year's result translated at the current year's exchange rates. The Board believe that this allows users of the Financial Statements to gain a further understanding of how the Group has performed.

	Adjusted operating profit 2017 £m	**Adjusted operating margin 2017 %**	Adjusted operating profit 2016 £m	Adjusted operating margin 2016 %
Europe, Middle East and Africa	66.1	21.7%	50.0	21.3%
Asia Pacific	56.9	26.1%	49.9	25.8%
Americas	31.6	20.8%	29.2	21.5%
Chromalox	13.8	18.4%		
Spirax Sarco	**168.4**	**22.4%**	129.1	22.9%
Watson-Marlow	80.3	32.4%	64.3	33.1%
Corporate expenses	(13.2)		(12.8)	
Adjusted operating profit	**235.5**	**23.6%**	180.6	23.8%
Amortisation and impairment of acquisition-related intangible assets	(21.6)		(6.0)	
Acquisition related items	(7.8)		(0.5)	
Reversal of acquisition related fair value adjustments to inventory	(7.2)		-	
Statutory operating profit	**198.9**		174.1	

A good financial result was achieved in 2017 against the positive background of better industrial production growth. Reported sales grew 32% to £998.7 million (2016: £757.4 million). Organic sales grew by 6%. Watson-Marlow had another excellent year, again delivering 10% organic growth, with all regions performing well. Organic sales grew by 5% in the Steam Specialties division, with a 5% advance in EMEA, 6% gain in Asia Pacific and 2% growth in the Americas. The net effect of the acquisition of Hiter in July 2016, Aflex in November 2016, Gestra in May 2017 and Chromalox in July 2017 added 20% to sales.

The weakening of sterling following the UK referendum on EU membership had a dramatic effect on revenue in the second half of 2016 that continued into the first half of 2017, giving a gain of 5% for the full year. Towards the end of the year, sterling began to strengthen. If recent exchange rates were to prevail for the whole of 2018 we would expect to see a 2% exchange headwind to sales on translation when compared to 2017.

Adjusted operating profit of £235.5 million (2016: £180.6 million) was 30% ahead at reported exchange rates and 6% ahead on an organic basis (constant currency, excluding acquisitions). On an organic basis the Steam Specialties division saw profits increase by 6% with 7% growth in EMEA, 7% in Asia Pacific and 1% in the Americas. Watson-Marlow's profits grew 6% on an organic basis.

Currency movements boosted operating profit by 9%, a mixture of translational and transactional gains. The net transactional gain was £6.6 million. The main transactional exposure flow affecting the Group is the export of products from our factories in the UK, invoiced in sterling, less the import of goods from overseas Group factories and third parties priced predominately in euros and US dollars. The net exposure is in the range £60-65 million. If recent exchange rates prevail for the whole of 2018 we would expect to see a 4% reduction to profit due to transactional and translation foreign exchange movements.

The net effect of the acquisitions made in 2016 and 2017 was to add 14% to profit on a constant currency basis.

Adjusted operating profit margin in the Steam Specialties division was flat at 22.9% despite the dilutionary impact of the Gestra and Hiter acquisitions. Excluding the acquisitions, the margin would have been 70 bps higher at 23.6%. As expected, Watson-Marlow's margin fell due to the inclusion of Aflex, ending the year down 70 bps at 32.4%. Excluding Aflex they increased 40 bps to an outstanding 33.5%. Chromalox performed a little ahead of our expectations with a margin of 18.4%. Overall the Group's reported margin fell by 20 bps to 23.6% due to acquisitions. The underlying margin, excluding acquisitions, improved 90 bps to 24.7%.

Statutory operating profit was £198.9 million (2016: £174.1 million).

Interest

Net interest rose from £2.6 million to £6.4 million. Net bank interest increased from zero in 2016 to £3.9 million reflecting the debt taken on during the year to fund the Gestra and Chromalox acquisitions. We anticipate net bank interest charges in the region of £6 million in 2018.

Net finance costs under IAS19 in respect of the Group's defined benefit pension schemes reduced slightly to £2.5 million (2016: £2.6 million). We anticipate a similar cost in 2018.

Associates

The Group has only one Associate holding, a 38.9% interest in Econotherm, a heat pipe technology business. Econotherm's performance in 2017 was similar to 2016, with our share, net of tax, reflecting a break-even position (2016: £0.1 million loss).

Profit before tax

The adjusted profit before tax of £229.1 million (2016: £177.9 million) was 29% ahead at reported exchange rates. As outlined earlier, currency movements were favourable in the year. At constant currency, adjusted profit before tax increased by 18%.

The statutory profit before tax was £192.5 million (2016: £171.4 million) and includes the items listed below that have been excluded from the adjusted profit:

- a charge of £21.6 million (2016: £6.0 million) for the amortisation and impairment of acquisition-related intangible assets;
- acquisition related items of £7.8 million (2016: £0.5 million); and
- reversal of acquisition related fair value adjustments to inventory, £7.2 million (2016: £nil million).

Taxation
The tax charge on the adjusted profit before tax, excluding the results of the Associate (which is presented on an after-tax basis), remained constant at 29.1% (2016: 29.1%). The Group's overall tax rate 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 110, mainly small, operating units reflecting our local direct sales business model.

The Group expects the recently enacted US Tax Cuts and Jobs Act (the Act) to positively impact its future US after tax adjusted earnings, primarily due to the reduction in the US federal corporate income tax rate from 35% to 21% applicable from 1st January 2018.

In 2017 there was no impact from the Act on the Group effective tax rate on adjusted profit although there was a one-off non-cash tax credit relating to the revaluation of US deferred tax assets and liabilities of £24 million which has been excluded from adjusted earnings. For the year to 31st December 2018 we currently anticipate (based on the forecast mix of adjusted profit) that the changes will reduce the Group effective tax rate on adjusted profits to approximately 27%. We will continue to review and update our guidance in the light of future clarifications from the US authorities on the complex provisions in the legislation.

Earnings per share
Adjusted basic earnings per share increased by 29% to 220.5 pence (2016: 171.5 pence). Statutory earnings per share was 214.4 pence (2016: 165.0 pence). The fully diluted earnings per share was not materially different in either year.

Dividends
The Group has a progressive dividend policy where dividend payments follow underlying earnings per share growth while maintaining prudent levels of dividend cover. The aim is to provide sustainable, affordable dividend growth, building on our 50 year record of dividend progress, with a compound annual increase of 11.0% over that period; in line with the 11.3% per annum increase over the last 10 years. The Board is proposing a final dividend of 62.0 pence per share for 2017 (2016: 53.5 pence) payable on 25th May 2018 to shareholders on the register at 27th April 2018. Together with the interim dividend of 25.5 pence per share (2016: 22.5 pence), the total Ordinary dividend is therefore 87.5 pence per share, which is an increase of 15.1% on the Ordinary dividend of 76.0 pence per share in 2016.

The total amount paid in dividends during the year was £58.1 million, 12% above the £51.9 million paid in 2016.

Acquisitions
Acquisitions are an important complement to our strategy for organic growth. Dedicated resource is focused on identifying opportunities to add attractive businesses that closely match our strategic, industrial and commercial requirements. During 2017 we made two acquisitions at a total cost of £484 million (including fees). Both fulfil our three broad acquisition criteria:

- 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 3rd May the Group announced the successful completion of the acquisition of Gestra AG and its overseas subsidiaries for a cash-free, debt-free consideration of €186 million.

Gestra, headquartered in Bremen, Germany, is a technology leader in advanced industrial boiler control systems and specialises in the design and production of valves and control systems for steam and fluid process control. The business is highly complementary to the Spirax Sarco Steam Specialties division and will enhance and accelerate the implementation of Spirax Sarco's strategy for growth, as a result of its well-developed capabilities in a wide range of industries and applications. Gestra's results are reported within the three geographic segments of the Spirax Sarco Steam Specialties division.

In the eight months of ownership, Gestra has performed in line with the business case at the time of acquisition. For reference, considering Gestra's full year 2017 performance at constant currency, orders were in line with the previous year but sales and profits were down as expected. However, in the second half of the year, order intake was above the same period of 2016 and in the last quarter of 2017 sales and profits also returned to growth.

On 3rd July the Group completed the acquisition of Chromalox Inc. for a cash-free, debt-free consideration of US$415 million.

Chromalox is a USA based provider of electrical products, systems and solutions for industrial process heating and temperature management. It is closely related to the Spirax Sarco Steam Specialties business in delivering thermal energy solutions to its customers through a primarily direct sales channel and has expanded our total addressable market. It forms part of the Spirax Sarco business group and is reported as a separate division within that business.

In the six months of ownership, Chromalox has performed in line with the business case at the time of acquisition. For reference, considering Chromalox's full year 2017 performance at constant currency, orders and profits were 3% ahead of the previous year, while sales were 2% down. In the second half of the year, order intake was above the same period of 2016 and in the last quarter of 2017 sales and profits also returned to growth.

Following an especially active period for the Group in 2017, we do not anticipate making any significant acquisitions in 2018 as we focus on the integration of Gestra and Chromalox. However, we continue to look at small bolt-on acquisitions and technology buys. In January 2018, we acquired a small pre-revenue company for the Watson-Marlow business group. We envisage expensing R&D investments of approximately £1.5 million a year, over the next two years, to bring an innovative product to market. Consideration on a cash-free, debt-free basis was €3.0 million with a further €6.5 million potentially paid in the coming years on completion of certain technical development hurdles.

The two acquisitions that were made in 2016, Aflex in Watson-Marlow and Hiter in the Steam Specialties division, have been integrated successfully into the Group and are performing ahead of expectations in their first full year in our 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.

Overall the Group's total spend in research and development in 2017 was £14.4 million (2016: £13.6 million) of which £2.9 million was capitalised (2016: £3.0 million).

Capital employed

Capital employed	**2017 £m**	2016 £m
Property, plant and equipment	227.5	201.8
Inventories	145.4	112.5
Trade receivables	237.5	185.5
Prepayments and other current assets	46.3	38.8
Trade, other payables, current provisions and current tax	(176.9)	(128.6)
Capital employed	**479.8**	**410.0**
Intangibles including goodwill	631.3	169.7
Post-retirement benefits	(85.6)	(94.2)
Net deferred tax	(36.9)	15.0
Non-current provisions and long-term payables	(5.5)	(3.5)
Net (debt)/cash	(373.6)	27.4
Net assets	**609.5**	**524.4**
Adjusted operating profit	**235.5**	**180.6**
Average capital employed	**444.9**	**377.3**
Return on capital employed	**52.9%**	**47.9%**

Total capital employed has increased 17% at reported exchange rates. If the effects of currency and acquisitions are excluded, growth was 3%. This compares with organic sales growth of 6%.

Tangible fixed assets increased by £25.7 million to £227.5 million. Changes in exchange rates reduced fixed assets by £3.7 million and £26.6 million came from acquisitions, giving an organic increase of £2.8 million, around 1%. Unlike previous years, there were no significant plant expansion projects in 2017 with spend being spread over a number of investment categories including the "Future Factory" programme at our Steam facility in Cheltenham to upgrade machine tools and an upgrade of IT equipment at Gestra's Bremen facility. Looking forward, we would expect capital expenditure to increase in 2018 to approximately £45 million as we continue to invest in the Group and, in particular, in the recent acquisitions. We generate significant cash and our first priority is to reinvest in the business, taking opportunities to generate good returns from increased efficiency, reduced costs and flexibility.

Total working capital increased by £44.1 million. The ratio of working capital to sales reduced by 220 bps to 25.3% (2016: 27.5%) mostly due to foreign exchange effects and the acquisitions made during the year. Including a full twelve months of sales for Gestra and Chromalox, the ratio would be 23.0%. On a constant currency basis, excluding acquisitions, working capital as a percentage of sales reduced by 60 bps. Going forward, we would expect working capital as a percentage of sales to increase slowly as Gestra and Chromalox expand the proportion of their revenue that go through direct sales channels.

Return on capital employed (ROCE)

ROCE measures effective management of fixed assets and working capital relative to the profitability of the business. ROCE increased to 52.9% (2016: 47.9%), an increase of 500 bps due to the high growth in profit and our close control of the various components of capital employed. At constant currency, excluding acquisitions ROCE increased by 360 bps.

Post-retirement benefits

The net post-retirement benefit liability under IAS19 fell to £85.6 million (2016: £94.2 million) primarily as a result of the return on assets being greater than the increase in liabilities despite further small reductions in the AA corporate bond rates used to discount future cash flows. In total, assets rose by £31.3 million (7%) which outweighed the increase in liabilities of £22.7 million (4%).

The main UK schemes, which constitute 88% of assets, 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.

During 2017 we had the results of the actuarial valuation of two of the three UK schemes as at 31st December 2016. On a technical provisions basis, the smaller of the two had a surplus of £3.5 million while the larger had a deficit of £11.2 million. As a result we agreed a deficit reduction programme with the Trustees whereby the Company will make contributions of £2.8 million per annum until 2021.

Cash flow and treasury

Cash generation in 2017 was dominated by the two large acquisitions and the growth in revenue which impacted working capital.

Adjusted cash flow	**2017** **£m**	2016 £m
Adjusted operating profit	235.5	180.6
Depreciation and amortisation	31.6	25.6
Adjusted earnings before interest, tax, depreciation and amortisation	**267.1**	**206.2**
Cash payments to pension schemes less than the charge to operating profit	0.1	1.6
Equity settled share plans	4.6	1.9
Working capital changes	(34.2)	4.3
Net capital expenditure (including software and development)	(35.0)	(31.3)
Cash from operations	**202.6**	**182.7**
Net interest	(6.4)	-
Income taxes paid	(61.0)	(56.5)
Free cash flow	**135.2**	**126.2**
Net dividends paid	(58.4)	(52.1)
Provisions	1.2	2.3
Proceeds from issue of shares / purchase of employee benefit trust shares	2.4	1.3
Acquisitions (including costs)	(484.3)	(66.5)
Other	-	(0.5)
Cash flow for the year	**(403.9)**	**10.7**
Exchange movements	2.9	11.9
Opening net cash	27.4	4.8
Net (debt)/cash at 31st December	**(373.6)**	**27.4**

Cash from operations increased to £202.6 million (2016: £182.7 million) representing 86% cash conversion. There was an outflow of working capital in the year of £34.2 million. However, excluding acquisitions and on a constant currency basis, working capital as a percentage of sales fell 60 bps from 25.3% to 24.7%.

Capital expenditure grew to £35.0 million (2016: £31.3 million), in part reflecting investment in the acquisitions. We would expect capital expenditure in 2018 to increase to around £45 million as we continue to invest across the Group. In particular, we expect to begin the construction of a new facility for Aflex that will combine the four existing UK sites into one. In total, we estimate that this will cost a net £18 million spread over the next three years, with approximately £4 million in the current year and the bulk of the balance in 2019. We also expect work to commence on the construction of new facilities in Australia, which was postponed in 2017, and to continue the accelerated equipment upgrade programme for some of our manufacturing facilities to maintain the efficiency gains seen in 2016 and 2017.

Tax paid in the year was £61.0 million (2016: £56.5 million). Tax paid was broadly in line with the tax charge in the Income Statement and included tax paid in virtually every one of the 44 countries in which the Group had operating units in 2017. Free cash flow rose to £135.2 million (2016: £126.2 million).

Dividend payments were £58.4 million, including payments to minorities, (2016: £52.1 million) and represent the final dividend for 2016 and the interim dividend for 2017.

There was a cash outflow, including fees, of £484.3 million for acquisitions in the year compared with £66.5 million in the prior year. Shares issued under the Group's various employee share schemes gave a cash inflow of £2.4 million (2016: £1.3 million).

Net cash at the start of the year reduced from £27.4 million to a net debt figure of £373.6 million at 31st December 2017, a reduction of £401.0 million due to the two large acquisitions. This equates to a net debt to EBITDA ratio of 1.4 and in the current year we would expect this to fall further to approximately 1.0.

The Group's Income Statement 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 renminbi and Korean won. Whilst currency effects can be significant, the structure of the Group provides some 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 the local currencies of 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 capital allocation policy remains unchanged. 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. Next, we prioritise finding suitable acquisitions that can expand our addressable market through increasing our geographic reach, deepening our market penetration or broadening our product range. Acquisition targets need to exhibit good strategic fit and meet strict commercial, economic and return on investment criteria. When cash resources significantly exceed expected future requirements, we sought to return capital to shareholders, as evidenced by special dividends declared in respect of 2010, 2012 and 2014. However, in the near term, we will look to reduce our financial leverage prior to considering new returns of capital to shareholders.

Spirax-Sarco Engineering plc

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31ST DECEMBER 2017

	Note	2017 £m	2016 £m
ASSETS			
Non-current assets			
Property, plant and equipment		227.5	201.8
Goodwill		351.3	88.5
Other intangible assets		280.0	81.2
Prepayments		6.1	5.9
Investment in Associate		-	-
Deferred tax assets		36.4	36.5
		901.3	413.9
Current assets			
Inventories		145.4	112.5
Trade receivables		237.5	185.5
Other current assets		27.5	21.7
Taxation recoverable		12.7	11.2
Cash and cash equivalents	8	152.1	119.2
		575.2	450.1
Total assets		**1,476.5**	**864.0**
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables		147.1	107.8
Provisions		6.7	2.2
Bank overdrafts	8	0.5	0.4
Short-term borrowing	8	20.0	33.0
Current portion of long-term borrowings	8	49.3	0.2
Current tax payable		23.1	18.6
		246.7	162.2
Net current assets		**328.5**	**287.9**
Non-current liabilities			
Long-term borrowings	8	455.9	58.2
Deferred tax liabilities		73.3	21.5
Post-retirement benefits		85.6	94.2
Provisions		3.2	2.0
Long-term payables		2.3	1.5
		620.3	177.4
Total liabilities		**867.0**	**339.6**
Net assets	3	**609.5**	**524.4**
Equity			
Share capital		19.8	19.8
Share premium account		75.1	72.7
Other reserves		19.3	44.6
Retained earnings		494.2	386.3
Equity shareholders’ funds		608.4	523.4
Non-controlling interest		1.1	1.0
Total equity		**609.5**	**524.4**
Total equity and liabilities		**1,476.5**	**864.0**

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2017

	Note	Adjusted 2017 £m	Adj't 2017 £m	Total 2017 £m	Adjusted 2016 £m	Adj't 2016 £m	Total 2016 £m
Revenue	2/3	**998.7**	**-**	**998.7**	**757.4**	**-**	**757.4**
Operating costs		(763.2)	(36.6)	(799.8)	(576.8)	(6.5)	(583.3)
Operating profit	2/3	**235.5**	**(36.6)**	**198.9**	**180.6**	**(6.5)**	**174.1**
Financial expenses		(8.1)	-	(8.1)	(4.0)	-	(4.0)
Financial income		1.7	-	1.7	1.4	-	1.4
Net financing expense	4	(6.4)	-	(6.4)	(2.6)	-	(2.6)
Share of profit of Associates		-	-	-	(0.1)	-	(0.1)
Profit before taxation		**229.1**	**(36.6)**	**192.5**	**177.9**	**(6.5)**	**171.4**
Taxation	5	(66.7)	32.1	(34.6)	(51.8)	1.7	(50.1)
Profit for the period		**162.4**	**(4.5)**	**157.9**	**126.1**	**(4.8)**	**121.3**
Attributable to:							
Equity shareholders	2	162.1	(4.5)	157.6	125.9	(4.8)	121.1
Non-controlling interest		0.3	-	0.3	0.2	-	0.2
Profit for the period		**162.4**	**(4.5)**	**157.9**	**126.1**	**(4.8)**	**121.3**
Earnings per share	2/6						
Basic earnings per share		220.5p		214.4p	171.5p		165.0p
Diluted earnings per share		219.7p		213.6p	171.0p		164.5p
Dividends	7						
Dividends per share				87.5p			76.0p
Dividends paid during the year (per share)				79.0p			70.7p

Adjusted figures exclude certain items, as set out and explained in the Financial Review and as detailed in Note 2. All amounts relate to continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST DECEMBER 2017

	2017 £m	2016 £m
Profit for the year	**157.9**	**121.3**
Items that will not be reclassified to profit or loss:		
Remeasurement (loss)/gain on post-retirement benefits	11.8	(10.0)
Deferred tax on remeasurement loss/(gain) on post-retirement benefits	(5.1)	1.9
	6.7	(8.1)
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange translation differences	(27.4)	61.6
Non-controlling interest foreign exchange translation differences	0.1	0.2
Profit on cash flow hedges net of tax	0.2	0.4
	(27.1)	62.2
Total comprehensive income for the year	**137.5**	**175.4**
Attributable to:		
Equity shareholders	137.1	175.0
Non-controlling interest	0.4	0.4
Total comprehensive income for the year	**137.5**	**175.4**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2017

	Share Capital	Share Premium account	Other reserves	Retained Earnings	Equity shareholders' funds	Non-controlling interest	Total Equity
	£m	£m	£m	£m	£m	£m	£m
Balance at 1st January 2017	**19.8**	**72.7**	**44.6**	**386.3**	**523.4**	**1.0**	**524.4**
Profit for the year	**-**	**-**	**-**	**157.6**	**157.6**	**0.3**	**157.9**
Other comprehensive (expense)/income:							
Foreign exchange translation differences	-	-	(27.4)	-	(27.4)	0.1	(27.3)
Remeasurement gain on post-retirement benefits	-	-	-	11.8	11.8	-	11.8
Deferred tax on remeasurement gain on post-retirement benefits	-	-	-	(5.1)	(5.1)	-	(5.1)
Profit on cash flow hedges reserve	-	-	0.2	-	0.2	-	0.2
Total other comprehensive (expense)/income for the year	-	-	(27.2)	6.7	(20.5)	0.1	(20.4)
Total comprehensive (expense)/income for the year	-	-	(27.2)	164.3	137.1	0.4	137.5
Contributions by and distributions to owners of the Company:							
Dividends paid	-	-	-	(58.1)	(58.1)	(0.3)	(58.4)
Equity settled share plans net of tax	-	-	-	1.7	1.7	-	1.7
Issue of share capital		2.4	-	-	2.4	-	2.4
Employee Benefit Trust shares	-	-	1.9	-	1.9	-	1.9
Balance at 31st December 2017	**19.8**	**75.1**	**19.3**	**494.2**	**608.4**	**1.1**	**609.5**

Other reserves represent the Group's translation, cash flow hedge, capital redemption and Employee Benefit Trust reserves.

The non-controlling interest is a 2.5% share of Spirax-Sarco (Korea) Ltd held by employee shareholders.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2016

	Share Capital	Share Premium account	Other reserves	Retained Earnings	Equity shareholders' funds	Non-controlling interest	Total Equity
	£m	£m	£m	£m	£m	£m	£m
Balance at 1st January 2016	**19.7**	**69.7**	**(18.7)**	**326.8**	**397.5**	**0.8**	**398.3**
Profit for the year	**-**	**-**	**-**	**121.1**	**121.1**	**0.2**	**121.3**
Other comprehensive (expense)/income:							
Foreign exchange translation differences	-	-	61.6	-	61.6	0.2	61.8
Remeasurement loss on post-retirement benefits	-	-	-	(10.0)	(10.0)	-	(10.0)
Deferred tax on remeasurement loss on post-retirement benefits	-	-	-	1.9	1.9	-	1.9
Profit on cash flow hedges reserve	-	-	0.4	-	0.4	-	0.4
Total other comprehensive income/(expense) for the year	-	-	62.0	(8.1)	53.9	0.2	54.1
Total comprehensive income for the year	-	-	62.0	113.0	175.0	0.4	175.4
Contributions by and distributions to owners of the Company:							
Dividends paid	-	-	-	(51.9)	(51.9)	(0.2)	(52.1)
Equity settled share plans net of tax	-	-	-	(1.6)	(1.6)	-	(1.6)
Issue of share capital		3.0	-	-	3.0	-	3.0
Employee Benefit Trust shares	0.1	-	1.3	-	1.4	-	1.4
Balance at 31st December 2016	**19.8**	**72.7**	**44.6**	**386.3**	**523.4**	**1.0**	**524.4**

Spirax-Sarco Engineering plc

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST DECEMBER 2017

	Note	2017 £m	2016 £m
Cash flows from operating activities			
Profit before taxation		192.5	171.4
Depreciation, amortisation and impairment		54.2	33.1
Profit on disposal of fixed assets		(1.0)	(1.5)
Contribution from Associates		-	0.1
Acquisition related fair value adjustments to inventory/exchange gain on acquisition funding		4.7	-
Cash payments to the pension schemes less than the charge to operating profit		0.1	1.6
Equity settled share plans		4.6	1.9
Net finance expense		6.4	2.6
Operating cash flow before changes in working capital and provisions		**261.5**	**209.2**
Change in trade and other receivables		(21.7)	(4.7)
Change in inventories		(10.2)	0.3
Change in provisions		1.2	2.3
Change in trade and other payables		(2.3)	8.7
Cash generated from operations		228.5	215.8
Interest paid		(8.1)	(1.4)
Income taxes paid		(61.0)	(56.5)
Net cash from operating activities	2	**159.4**	**157.9**
Cash flows from investing activities			
Purchase of property, plant and equipment		(29.7)	(28.1)
Proceeds from sale of property, plant and equipment		3.4	3.3
Purchase of software and other intangibles		(5.8)	(3.5)
Development expenditure capitalised		(2.9)	(3.0)
Acquisition of businesses net of cash acquired		(342.6)	(66.5)
Interest received		1.7	1.4
Net cash used in investing activities		**(375.9)**	**(96.4)**
Cash flows from financing activities			
Proceeds from issue of share capital		2.4	3.0
Employee Benefit Trust share purchase		-	(1.7)
Repaid borrowings	8	(415.9)	(20.4)
New borrowings	8	714.4	18.7
Change in finance lease liabilities	8	(0.1)	(0.1)
Dividends paid (including minorities)	7	(58.4)	(52.1)
Net cash from/(used) in financing activities		**242.4**	**(52.6)**
Net change in cash and cash equivalents	8	**25.9**	**8.9**
Net cash and cash equivalents at beginning of period		**118.8**	**95.9**
Exchange movement		6.9	14.0
Net cash and cash equivalents at end of period	8	**151.6**	**118.8**
Borrowings and finance leases		(525.2)	(91.4)
Net (debt)/cash at end of period	8	**(373.6)**	**27.4**

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 2016 Annual Report. The accounting policies have been applied consistently throughout the years ended 31st December 2016 and 31st December 2017.

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 7 Statement of Cash Flows – Disclosure Initiative
- IAS 12 Income Taxes – Recognition of deferred tax assets for unrealised losses
- Annual Improvements to IFRS 2001-2016 Cycle including IFRS 12 relating to interests in subsidiaries and Associates held for sale.

The following IFRS standards, whilst not adopted in the 2017 Financial Statements, will be effective from 1st January 2018 and adopted from that date:

- IFRS 15 Revenue from Contracts with Customers. An on-going assessment of the impact of IFRS 15 is being performed. Based on the current results of the assessment, the adoption of IFRS 15 is not expected to have a material impact on the profits of the Group in future periods.
- IFRS 9 Financial Instruments. An assessment has been completed of the impact IFRS 9 will have on the Group. Based on the results of the assessment the adoption of IFRS 9 is not expected to have a material impact on the Financial Statements of the Group in future periods.

Having made appropriate enquiries, the Directors consider that the Group has adequate resources to continue in operational existence for 12 months from the date of this release 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 2016 Annual Report on pages 30-31 and they will be disclosed in the 2017 Annual Report on pages 32-33.

- ***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.
- ***Failure to realise acquisition objectives***

Failure to realise acquisition objectives would impact the financial performance of the Group.

- ***Cybersecurity***
  A significant cybersecurity breach could result in a loss of important information and prevent the Group operating at maximum efficiency.
- ***Solution specification failure***
  Failure to meet customers' specific technical requirements could result in disruption and potential loss to an end users' plant or facility.
- ***Breach of legal and regulatory requirements (including ABC laws)***
  The Group is subject to many different laws and regulations. Breaching these laws and regulations could have serious consequences.
- ***Health, safety and environmental risks***
  A major health and safety incident could cause total or partial closure of a manufacturing facility.

The 2017 Financial Statements were approved by the Board of Directors and authorised for issue on 14th March 2018.

2. ALTERNATIVE PERFORMANCE MEASURES

The Group reports under International Financial Reporting Standards (IFRS) and also uses alternative performance measures where the Board believe that they help to effectively monitor the performance of the Group, users of the Financial Statements might find them informative and an aid to comparison with our peers. Certain alternative performance measures also form a meaningful element of Executive Directors' annual bonuses. A definition of the alternative performance measures included in the Annual Report and a reconciliation to the closest IFRS equivalent are disclosed below.

Adjusted operating profit

Adjusted operating profit excludes the amortisation and impairment of acquisition-related intangible assets, impairment of goodwill, costs associated with acquisitions and disposals, reversal of acquisition related fair value adjustments to inventory, restructuring costs and foreign exchange gains and losses on borrowings. A reconciliation between operating profit as reported under IFRS and adjusted operating profit is given below.

	2017	**2016**
	£m	**£m**
Operating profit as reported under IFRS	**198.9**	**174.1**
Amortisation of acquisition-related intangible assets	18.4	6.0
Impairment of goodwill	3.2	-
Acquisition costs	10.3	0.5
Reversal of acquisition related fair value adjustments to inventory	7.2	-
Foreign exchange gain on borrowings	(2.5)	-
Adjusted operating profit	**235.5**	**180.6**

The impairment of goodwill is in respect of Spirax Sarco Colombia.

Adjusted earnings per share

	2017	2016
Profit for the period attributable to equity holders as reported under IFRS (£m)	**157.6**	**121.1**
Items excluded from adjusted operating profit disclosed on page 32 (£m)	36.6	6.5
Tax effects on adjusted items (£m)	(7.7)	(1.7)
Tax effects of the change in the US rate of tax	(24.4)	-
Adjusted profit for the period attributable to equity holders (£m)	**162.1**	**125.9**
Weighted average shares in issue (million)	73.5	73.4
Basic adjusted earnings per share	220.5p	171.5p
Diluted weighted average shares in issue (million)	73.8	73.6
Diluted adjusted earnings per share	219.7p	171.0p

Basic adjusted earnings per share is defined as adjusted profit for the period attributable to equity holders divided by the weighted average number of shares in issue. Diluted adjusted earnings per share is defined as adjusted profit for the period attributable to equity holders divided by the diluted weighted average number of shares in issue.

Basic and diluted EPS calculated on an IFRS profit basis are included in Note 6.

Adjusted cash flow

A reconciliation showing the items that bridge between net cash from operating activities as reported under IFRS to an adjusted basis is given below.

	2017 £m	2016 £m
Net cash from operating activities as reported under IFRS	**159.4**	**157.9**
Acquisition and disposal costs	10.3	0.5
Capital expenditure excluding acquired intangibles from acquisitions	(35.0)	(31.3)
Movement in provisions	(1.2)	(2.3)
Tax paid	61.0	56.5
Interest paid	8.1	1.4
Adjusted net cash from operating activities	**202.6**	**182.7**

Adjusted cash conversion in 2017 is 86% (2016: 101%). Cash conversion is calculated as adjusted net cash from operating activities divided by adjusted operating profit. The adjusted cash flow is included in the Financial Review on page 23.

Return on capital employed (ROCE)

This is an important key performance indicator but is a non-statutory measure. ROCE measures effective management of fixed assets and working capital relative to the profitability of the business. ROCE is calculated as adjusted operating profit divided by average capital employed. Average capital employed is based on capital employed at 31st December 2017 and 31st December 2016 at reported exchange rates. More information on ROCE can be found in the Capital Employed and ROCE sections of the Financial Review on page 22.

An analysis of the components is as follows:

	2017 £m	2016 £m
Property, plant and equipment	227.5	201.8
Prepayments	6.1	5.9
Inventories	145.4	112.5
Trade receivables	237.5	185.5
Other current assets	27.5	21.7
Tax recoverable	12.7	11.2
Trade, other payables and current provisions	(153.8)	(110.0)
Current tax payable	(23.1)	(18.6)
Capital employed	**479.8**	**410.0**
Average capital employed	**444.9**	**377.3**
Operating profit	198.9	174.1
Adjustments (see adjusted operating profit on page 32)	36.6	6.5
Adjusted operating profit	**235.5**	**180.6**
Return on capital employed	**52.9%**	**47.9%**

A reconciliation of capital employed to net assets as reported under IFRS and disclosed on the Consolidated Statement of Financial Position is given below.

	2017 £m	2016 £m
Capital employed	**479.8**	**410.0**
Goodwill and other intangible assets	631.3	169.7
Post-retirement benefits	(85.6)	(94.2)
Net deferred tax	(36.9)	15.0
Non-current provisions and long-term payables	(5.5)	(3.5)
Net (debt)/cash	(373.6)	27.4
Net assets as reported under IFRS	**609.5**	**524.4**

Organic measures

As we are a multi-national Group of companies, who trade in a large number of foreign currencies and regularly acquire and sometimes dispose of companies, we also refer to organic performance measures throughout the News Release. These strip out the effects of the movement of foreign currency exchange rates and of acquisitions and disposals. The Board believe that this allows users of the accounts to gain a further understanding of how the Group has performed.

The exchange movement is calculated as the difference between the prior period reported value translated at prior period exchange rates and translated at current period exchange rates.

Any acquisitions and disposals that occurred in either the current period or prior period are excluded from the results of both the prior and current period at current period exchange rates.

A reconciliation of the movement in revenue and adjusted operating profit compared to the prior period is given below.

	2016	Exchange	Organic	Acquisitions	2017	Organic	Reported
Revenue	£757.4m	£38.4m	£48.1m	£154.8m	£998.7m	+6%	+32%
Adjusted operating profit	£180.6m	£16.0m	£11.9m	£27.0m	£235.5m	+6%	+30%
Adjusted operating margin	23.8%				23.6%	+0 bps	-20 bps

The reconciliation for each segment is included in the Group Chief Executive's Review of Operations.

3. SEGMENTAL REPORTING

Analysis by location of operation

2017

	Gross revenue £m	Inter-segment revenue £m	Revenue £m	Total operating profit £m	Adjusted operating profit £m	Adjusted operating margin %
Europe, Middle East & Africa	348.9	43.6	305.3	58.7	66.1	21.7%
Asia Pacific	223.1	5.1	218.0	56.3	56.9	26.1%
Americas	159.4	7.3	152.1	26.0	31.6	20.8%
Steam Specialties	731.4	56.0	675.4	141.0	154.6	22.9%
Chromalox	75.1	-	75.1	4.0	13.8	18.4%
Spirax Sarco	806.5	56.0	750.5	145.0	168.4	22.4%
Watson-Marlow	248.2	-	248.2	74.8	80.3	32.4%
Corporate expenses				(20.9)	(13.2)	
	1,054.7	56.0	998.7	198.9	235.5	23.6%
Intra Group	(56.0)	(56.0)				
Total	**998.7**	**-**	**998.7**	**198.9**	**235.5**	23.6%
Net finance expense				(6.4)	(6.4)	
Share of profit of Associates				-	-	
Profit before tax				**192.5**	**229.1**	

2016

	Gross revenue £m	Inter-segment revenue £m	Revenue £m	Total operating profit £m	Adjusted operating profit £m	Adjusted operating margin %
Europe, Middle East & Africa	273.9	39.6	234.3	49.6	50.0	21.3%
Asia Pacific	197.7	4.4	193.3	49.3	49.9	25.8%
Americas	142.9	7.0	135.9	26.9	29.2	21.5%
Steam Specialties	614.5	51.0	563.5	125.8	129.1	22.9%
Watson-Marlow	193.9	-	193.9	61.1	64.3	33.1%
Corporate expenses				(12.8)	(12.8)	
	808.4	51.0	757.4	174.1	180.6	23.8%
Intra Group	(51.0)	(51.0)				
Total	**757.4**	**-**	**757.4**	**174.1**	**180.6**	23.8%
Net finance expense				(2.6)	(2.6)	
Share of profit of Associates				(0.1)	(0.1)	
Profit before tax				**171.4**	**177.9**	

Net revenue generated by Group companies based in the USA is £222.6m (2016: £146.3m), in China is £103.1m (2016: £90.6m) in the UK is £95.3m (2016: £70.4m), and the rest of the world is £577.7m (2016: £450.1m)

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

2017

	Amortisation of acquisition-related intangible assets	Impairment of goodwill	Acquisition costs	Reversal of acquisition related fair value adjustments to inventory	Foreign exchange gain on borrowings	Total
	£m	£m	£m	£m	£m	£m
Europe, Middle East & Africa	(3.6)	-	-	(3.8)	-	(7.4)
Asia Pacific	(0.6)	-	-	-	-	(0.6)
Americas	(2.3)	(3.2)	(0.1)	-	-	(5.6)
Steam Specialties	(6.5)	(3.2)	(0.1)	(3.8)	-	(13.6)
Chromalox	(6.4)	-	-	(3.4)	-	(9.8)
Spirax Sarco business	(12.9)	(3.2)	-	(7.2)	-	(23.4)
Watson-Marlow	(5.5)	-	-	-	-	(5.5)
Corporate expenses	-	-	(10.2)	-	2.5	(7.7)
Total	**(18.4)**	**(3.2)**	**(10.3)**	**(7.2)**	**2.5**	**(36.6)**

The goodwill impairment is in respect of Spirax Sarco Colombia.

2016

	Amortisation of acquisition-related intangible assets	Acquisition costs	Total
	£m	£m	£m
Europe, Middle East & Africa	(0.4)	-	(0.4)
Asia Pacific	(0.6)	-	(0.6)
Americas	(2.2)	(0.1)	(2.3)
Steam Specialties	(3.2)	(0.1)	(3.3)
Watson-Marlow	(2.8)	(0.4)	(3.2)
Total	**(6.0)**	**(0.5)**	**(6.5)**

Share of profit of Associates

The share of profit of Associates is as follows:

	2017 Adjusted	2017 Total	2016 Adjusted	2016 Total
	£m	£m	£m	£m
Europe, Middle East & Africa	-	-	(0.1)	(0.1)
Asia Pacific	-	-	-	-
Americas	-	-	-	-
Steam Specialties	-	-	(0.1)	(0.1)
Watson-Marlow	-	-	-	-
Total share of profit of Associates	**-**	**-**	**(0.1)**	**(0.1)**

Net financing income and expense

	2017 £m	2016 £m
Europe, Middle East & Africa	(1.0)	(1.5)
Asia Pacific	0.1	0.2
Americas	(0.8)	(0.7)
Steam Specialties	(1.7)	(2.0)
Chromalox	-	-
Spirax Sarco	(1.7)	(2.0)
Watson-Marlow	(0.1)	-
Corporate	(4.6)	(0.6)
Total net financing expense	**(6.4)**	**(2.6)**

Net assets

	2017		2016	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Europe, Middle East & Africa	400.6	(112.4)	195.3	(106.8)
Asia Pacific	162.6	(36.9)	163.1	(38.5)
Americas	112.2	(41.6)	127.0	(38.6)
Chromalox	386.7	(23.3)	-	-
Watson-Marlow	213.1	(30.6)	211.7	(23.8)
	1,275.2	(244.8)	697.1	(207.7)
Liabilities	(244.8)		(207.7)	
Deferred tax	(36.9)		15.0	
Current tax payable	(10.4)		(7.4)	
Net cash	(373.6)		27.4	
Net assets	**609.5**		**524.4**	

Non-current assets in the UK were £154.3m (2016: £156.5m).

Capital additions, depreciation, amortisation and impairment

	2017		2016	
	Capital additions £m	Depreciation, amortisation and impairment £m	Capital additions £m	Depreciation and amortisation £m
Europe, Middle East & Africa	81.9	16.7	11.1	12.4
Asia Pacific	8.2	7.9	12.6	6.9
Americas	4.2	9.8	8.0	5.9
Steam Specialties	94.3	34.4	31.7	25.2
Chromalox	183.3	8.2	-	-
Spirax Sarco	277.6	42.6	31.7	25.2
Watson-Marlow	7.9	11.6	38.5	7.9
Group total	**285.5**	**54.2**	**70.2**	**33.1**

Capital additions include property, plant and equipment of £56.3m (2016: £36.9m), of which £26.6m (2016: £9.0m) was from acquisitions in the period, and other intangible assets of £229.2m (2016: £33.3m) of which £218.7m (2016: £26.8m) relates to acquired intangibles and £1.8m of software (2016: £nil) from acquisitions in the period. Capital additions split between the UK and rest of the world are UK £16.6m (2016: £41.9m) and rest of the world £268.9m (2016: £28.3m).

4. NET FINANCING INCOME AND EXPENSE

	2017 £m	2016 £m
Financial expenses:		
Bank and other borrowing interest payable	(5.6)	(1.4)
Interest on pension scheme liabilities	(2.5)	(2.6)
	(8.1)	(4.0)
Financial income:		
Bank interest receivable	1.7	1.4
Net financing expense	**(6.4)**	**(2.6)**
Net pension scheme financial expense	(2.5)	(2.6)
Net bank interest	(3.9)	-
Net financing expense	**(6.4)**	**(2.6)**

5. TAXATION

	2017			2016		
	Adjusted £m	Adj't £m	Total £m	Adjusted £m	Adj't £m	Total £m
Analysis of charge in period						
UK corporation tax:						
Current tax on income for the period	5.6	-	5.6	3.2	-	3.2
Adjustments in respect of prior periods	(0.7)	-	(0.7)	(0.1)	-	(0.1)
	4.9	-	4.9	3.1	-	3.1
Foreign tax:						
Current tax on income for the period	59.7	-	59.7	48.6	-	48.6
Adjustments in respect of prior periods	0.5	-	0.5	(0.8)	-	(0.8)
	60.2	-	60.2	47.8	-	47.8
Total current tax charge	65.1	-	65.1	50.9	-	50.9
Deferred tax – UK	0.1	-	0.1	0.8	-	0.8
Deferred tax – Foreign	1.5	(32.1)	(30.6)	0.1	(1.7)	(1.6)
Tax on profit on ordinary activities	**66.7**	**(32.1)**	**34.6**	**51.8**	**(1.7)**	**50.1**

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 Group's tax charge includes a credit of £32.1m in relation to certain items as detailed in Notes 2 and 3. Excluding these adjustments the tax on profit and the effective tax rate are £66.7m and 29.1% respectively.

A reduction in the US federal tax rate from 35% to 21%, effective from 1st January 2018, was enacted as part of the US Tax Cuts and Jobs Act on 22nd December 2017. As a result the US deferred tax assets and liabilities at 31st December 2017 have been calculated based on the future blended federal and state tax rate, with a federal tax element of 21%. This results in a deferred tax credit to the consolidated income statement of £24.4m; this is included within the overall credit of £32.1m.

6. EARNINGS PER SHARE

	2017	2016
Profit attributable to equity shareholders (£m)	157.6	121.1
Weighted average shares in issue (million)	73.5	73.4
Dilution (million)	0.3	0.2
Diluted weighted average shares in issue (million)	73.8	73.6
Basic earnings per share	214.4p	165.0p
Diluted earnings per share	213.6p	164.5p

Basic and diluted earnings per share calculated on an adjusted profit basis are included in Note 2. The dilution is in respect of unexercised share options and the Performance Share Plan.

7. DIVIDENDS

	2017 £m	2016 £m
Amounts paid in the year:		
Final dividend for the year ended 31st December 2016 of 53.5p (2015: 48.2p) per share	39.3	35.4
Interim dividend for the year ended 31st December 2017 of 25.5p (2016: 22.5p) per share	18.8	16.5
Total dividends paid	**58.1**	**51.9**
Amounts arising in respect of the year:		
Interim dividend for the year ended 31st December 2017 of 25.5p (2016: 22.5p) per share	18.8	16.5
Proposed final dividend for the year ended 31st December 2017 of 62.0p (2016: 53.5p) per share	45.6	39.4
Total dividends arising	**64.4**	**55.9**

8. ANALYSIS OF CHANGES IN NET CASH/(DEBT), INCLUDING CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	At 1st Jan 2017 £m	Cash flow £m	Acquired Debt £m	Exchange movement £m	At 31st Dec 2017 £m
Current portion of long term borrowings	(0.2)				(49.3)
Non-current portion of long term borrowings	(58.2)				(455.9)
Short term borrowing	(33.0)				(20.0)
Total borrowings	**(91.4)**				**(525.2)**
Comprising:					
Borrowings	(91.0)	(298.5)	(131.4)	(4.0)	(524.9)
Finance leases	(0.4)	0.1	-	-	(0.3)
	(91.4)	(298.4)	(131.4)	(4.0)	(525.2)
Cash at bank	119.2	26.0	-	6.9	152.1
Bank overdrafts	(0.4)	(0.1)	-	-	(0.5)
Net cash and cash equivalents	**118.8**	**25.9**	**-**	**6.9**	**151.6**
Net cash/(debt)	**27.4**	**(272.5)**	**(131.4)**	**2.9**	**(373.6)**

The cash flow for borrowings included acquisition related debt of a new EUR 160m term loan, a new USD 200m term loan that was repaid by USD 33.3m in the year, a EUR 250m bridge loan that was repaid in the year, EUR 250m private placement notes that were issued in the year and the repayment of the acquired debt.

9. PURCHASE OF BUSINESSES

The provisional fair value accounting is shown below.

2017

	Acquisitions		
	Gestra fair value £m	**Chromalox fair value £m**	**Total fair value £m**
Non-current assets:			
Property, plant and equipment	10.5	16.1	26.6
Acquired intangibles	54.9	163.8	218.7
Software and other intangibles	0.2	1.6	1.8
Deferred tax assets	2.0	3.8	5.8
	67.6	185.3	252.9
Current assets:			
Inventories	12.0	21.3	33.3
Trade receivables	11.6	20.6	32.3
Other receivables	0.2	5.9	6.1
Cash	18.4	17.6	36.0
	42.2	65.4	107.6
Total assets	**109.8**	**250.7**	**360.5**
Current liabilities:			
Trade payables	2.1	14.6	16.7
Other payables, accruals and provisions	5.8	8.7	14.5
	7.9	23.3	31.2
Non-current liabilities:			
Long term borrowings	-	131.4	131.4
Deferred tax liabilities	19.6	66.0	85.6
Post-retirement benefit plans	1.7	-	1.7
	21.3	197.4	218.7
Total liabilities	**29.2**	**220.7**	**249.9**
Total net assets	80.6	30.0	110.6
Goodwill	90.8	177.2	268.0
Total	**171.4**	**207.2**	**378.6**
Satisfied by			
Cash paid	171.4	207.2	378.6
Deferred consideration	-	-	-
	171.4	207.2	378.6
Cash outflow for acquired businesses in the Cash Flow Statement:			
Cash paid for businesses acquired in the period and debt repaid on the acquisition date	171.4	338.6	510.0
Debt repaid on the acquisition date	-	(131.4)	(131.4)
Cash paid for businesses acquired in the period	171.4	207.2	378.6
Less cash acquired	(18.4)	(17.6)	(36.0)
Net cash outflow	**153.0**	**189.6**	**342.6**

1. On a debt-free cash-free basis the cash outflow for acquisitions was £484.3 million consisting of £378.6m paid for the businesses, £131.4m of Chromalox debt repaid on the acquisition date, £10.3m of acquisition costs less cash acquired of £36.0m.

2. The acquisition of 100% of Chromalox Inc. and associated businesses was completed on 4th July 2017. The acquisition method of accounting has been used. Consideration of £338.6m was paid on completion. Separately identified intangibles are recorded as part of the provisional fair value adjustment. The acquired intangibles relate to brand names and trademarks, manufacturing designs and core technology and customer relationships. The goodwill recognised represents the skilled workforce acquired 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 £75m of revenue and £14m of adjusted pre-tax profit since acquisition. Had the acquisition been made on the 1st January 2017, the Chromalox revenue and adjusted pre-tax profit would have been approximately £146m and £26m respectively. Chromalox, which has its headquarters in Pittsburgh, USA, is a well-established provider of thermal energy management solutions for industrial process heating and temperature management. Chromalox is highly complementary to our Steam Specialties business with the decision between using steam or electricity as a heating medium being driven by differing needs of the application or customer circumstances.

3. The acquisition of 99.96% of Gestra AG and associated businesses (Gestra) was completed on the 2nd May 2017. The acquisition method of accounting has been used. Consideration of £171.4m was paid on completion. Separately identified intangibles are recorded as part of the provisional fair value adjustment. The acquired intangibles relate to brand names and trademarks, manufacturing designs and core technology and customer relationships. The goodwill recognised represents the skilled workforce acquired 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 £51m of revenue and £8m of adjusted pre-tax profit since acquisition. Had the acquisition been made on the 1st January 2017, the Gestra revenue and adjusted pre-tax profit would have been approximately £77m and £11m respectively. Gestra, which has its headquarters in Bremen, Germany, is a technology leader in advanced industrial boiler control systems and specialises in the design and production of valves and control systems for steam and fluid process control. Gestra is highly complementary to the Spirax Sarco Steam Specialties business and will enhance and accelerate the implementation of Spirax Sarco's strategy for growth, as a result of its well-developed capabilities in a wide range of industries and applications.

4. £10.3 million of acquisition related costs were incurred during the year (2016: £0.5m).

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 2017 or 31st December 2016, but is derived from those accounts. Statutory accounts for 2016, which were prepared under accounting standards adopted by the EU, have been delivered to the registrar of companies and those for 2017 will be delivered following the Company’s Annual General Meeting. The Auditor has reported on these accounts; its 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 15th May 2018, the final dividend will be paid on 25th May 2018 to shareholders on the register at 27th April 2018. No scrip alternative to the cash dividends is being offered.

Copies of the Annual Report will be sent on 29th March 2018 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 will also be 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 2017. 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 EU, 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;
- 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 14th March 2018 and is signed on its behalf by:

N.J. Anderson, Chief Executive

K.J. Boyd, Group 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 2016 and 2017.

Average exchange rates to sterling have been as follows:

	Average 2017	Average 2016	Change %
Bank of England sterling index	77.6	82.3	+6%
US$	1.30	1.36	+4%
Euro	1.15	1.23	+7%
Renminbi	8.75	9.00	+3%
Won	1,464	1,574	+7%
Real	4.16	4.74	+12%
Argentine Peso	21.68	19.99	-8%

About Spirax-Sarco Engineering plc
Spirax-Sarco Engineering plc comprises two world-leading businesses, Spirax Sarco for steam and electrical thermal energy solutions and Watson-Marlow Fluid Technology Group for niche peristaltic pumps and associated fluid path technologies. Spirax Sarco provides a broad range of fluid control and electrical process heating products, engineered packages, site services and systems expertise for a diverse range of industrial and institutional customers. The business helps its end users to improve production efficiency, reduce energy costs, water usage and emissions, improve product quality and enhance the safety of their operations. Watson-Marlow Fluid Technology Group offers the ideal solution for a wide variety of demanding fluid path applications with highly accurate, controllable and virtually maintenance free pumps and associated technologies. The Group is headquartered in Cheltenham, England, has strategically located manufacturing plants around the world and employs over 7,250 people, of whom approximately 1,600 are direct sales and service engineers. Its shares have been listed on the London Stock Exchange since 1959 (symbol: SPX).

Further information can be found at www.spiraxsarcoengineering.com

RNS filter: Inside information prior to release