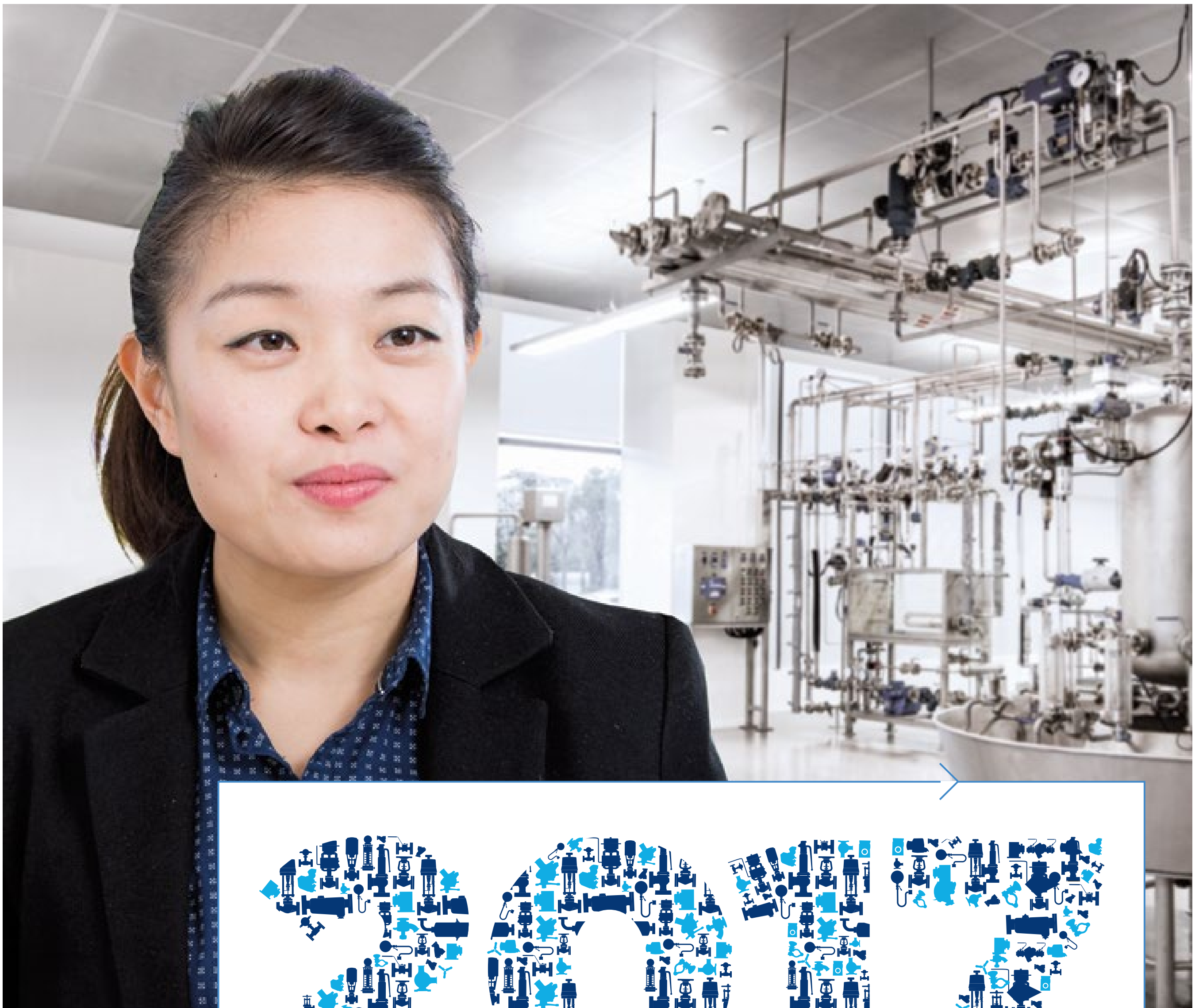
ENGINEERING SUSTAINABLE VALUE



2017

Half Year Report

Spirax-Sarco Engineering plc

FINANCIAL HIGHLIGHTS

Six months ended 30th June 2017

Adjusted*	2017	2016	Reported	Constant currency	Organic†
Revenue	**£428.6m**	£344.0m	+25%	+13%	+5%
Adjusted operating profit*	**£101.2m**	£77.5m	+31%	+13%	+8%
Adjusted operating profit margin*	**23.6%**	22.5%	+110 bps	+10 bps	+50 bps
Adjusted profit before taxation*	**£99.2m**	£76.2m	+30%		
Adjusted basic earnings per share*	**95.5p**	73.1p	+31%		
Dividend per share	**25.5p**	22.5p	+13%		
Adjusted cash conversion	**84%**	93%			
Statutory	**2017**	2016	Reported		
Operating profit	**£90.5m**	£74.7m	+21%		
Profit before taxation	**£88.5m**	£73.4m	+21%		
Basic earnings per share	**82.7p**	70.2p	+18%		

*All profit measures exclude certain non-operational items which totalled £10.7 million for the six months ended 30th June 2017, as set out and explained in Note 2.

†Organic measures are at constant currency and exclude acquisitions and disposals.

Revenue

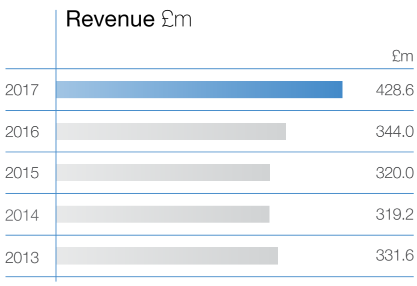
£428.6m

Reported

+25%

Organic

+5%



Adjusted operating profit

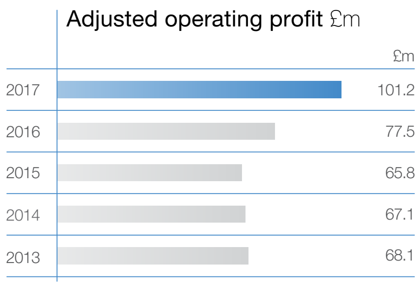
£101.2m

Reported

+31%

Organic

+8%



Operating highlights

- Reported revenue growth of 25%, organic increase of 5%
- Adjusted operating profit up 31%, organic increase of 8%
- Adjusted operating margin increased 110 bps
- Growth in the Steam Specialties and Watson-Marlow businesses
- Acquisition of Gestra (2nd May) and Chromalox (post half-year end)
- Dividend growth of 13%

Contents

ABOUT US

Spirax-Sarco Engineering plc

Spirax-Sarco Engineering plc is a multi-national industrial engineering group that has its headquarters in Cheltenham, England. The Group comprises two world-leading engineering businesses: Spirax Sarco for steam and electrical* thermal energy solutions and Watson-Marlow for niche peristaltic pumps and associated fluid path technologies. Through a direct sales approach, we deliver bespoke, value-added engineered solutions to customers.

Our customers span a wide range of sectors from food and beverage processing, to water treatment plants and pharmaceutical research. Across our diverse customer base our products, services and solutions enable end users to save energy and water, lower emissions, improve product quality, reduce waste, achieve regulatory compliance, develop safer workplaces and increase process efficiency. By staying close to our customers, understanding their day-to-day requirements and applying our sector expertise we are engineering sustainable value for all our stakeholders.

* From July 2017 when Chromalox joined the Group.

Spirax Sarco is the global leader in the supply of engineered solutions for the design, provision and maintenance of efficient industrial and commercial steam systems. In July 2017, Chromalox, a leading provider of electrical process heating solutions joined the business.

The Spirax Sarco offering is very wide, from single products through to complete turnkey bespoke packages that can include design, fabrication, commissioning and maintenance. Our products and services help our end users to improve operational efficiency, maintain product quality, reduce energy and water use, and comply with health, safety and environmental legislation.

Watson-Marlow Fluid Technology Group specialises in the design and manufacture of world-leading niche peristaltic pumps and associated fluid path technologies.

Our pumps are ideally suited for a wide variety of applications from biotechnology processes that demand sterility and precision to highly corrosive slurries typically seen in precious metal processing. The Watson-Marlow group comprises ten established brands, each with its own area of expertise, but together offering our customers an unrivalled breadth of pumping solutions.

Our core products and services

Steam and thermal energy solutions

Engineering consultancy

Pumps and fluid path technology

OUR DIVISIONAL STRUCTURE AND PERFORMANCE AT A GLANCE

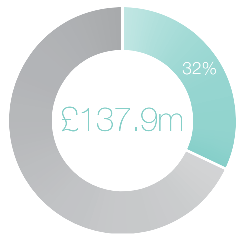
Our focus on key economic areas allows us to understand and respond rapidly to market and customer demands.

Europe, Middle East and Africa (EMEA)

Revenue	Operating profit	Operating margin
£137.9m	£30.4m	22.0%
Reported	Reported	Reported
+23%	+32%	+140 bps
Organic	Organic	Organic
+4%	+11%	+140 bps

- Organic sales up 4%; organic operating profit up 11%
- Strong currency tailwind: sales up 9%, profit up 11%
- Sales growth in the UK, Italy and France
- Gestra acquisition (2nd May) adds 9% to sales, 7% to profit
- Operating margin ahead 140 bps, good manufacturing efficiencies
- Well placed for further progress in 2017

Revenue £m

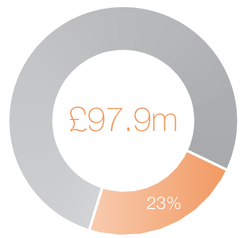


Asia Pacific

Revenue	Operating profit	Operating margin
£97.9m	£25.0m	25.5%
Reported	Reported	Reported
+19%	+38%	+350 bps
Organic	Organic	Organic
+7%	+20%	+290 bps

- Organic sales up 7%, organic operating profit up 20%
- Strong currency tailwind: sales up 11%, profit up 15%
- China, Korea and Japan performed strongly
- India performing in line with expectations
- Exceptional organic profit growth; favourable project mix
- Expect good progress in 2017, despite relative H2 slowdown

Revenue £m

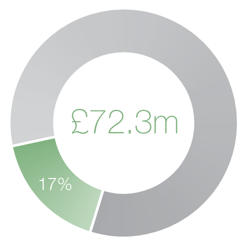


Americas

Revenue	Operating profit	Operating margin
£72.3m	£13.8m	19.1%
Reported	Reported	Reported
+17%	+3%	-260 bps
Organic	Organic	Organic
+0%	-10%	-220 bps

- Organic sales flat; organic operating profit down 10%
- Strong currency tailwind: sales up 12%, profit up 15%
- North America – sales marginally down; distribution markets recovering
- Latin America – good organic sales; Argentina flat, Brazil down. Hiter acquisition (Brazil) making good progress; robust MRO business
- Organic profit down; non-recurrence of £1.5m Argentine devaluation benefit
- Well positioned to resume organic growth in H2, despite uncertainties

Revenue £m

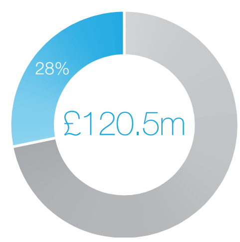


Watson-Marlow

Revenue	Operating profit	Operating margin
£120.5m	£37.9m	31.4%
Reported	Reported	Reported
+36%	+30%	-150 bps
Organic	Organic	Organic
+9%	+2%	-230 bps

- Organic sales up 9%; benefited from 2016 order book
- Strong currency tailwind: sales up 11%, profit up 17%
- Pharma & Biotech market: slower start to the year
- Good growth in OEM, Food & Beverage and General Industry
- Aflex acquisition performing well; expands sales 14%
- Organic profit up 2%; accelerating investments for growth
- Margin down 150 bps due to growth investments, Aflex dilution

Revenue £m



REVIEW OF OPERATIONS

"We are very pleased to report organic sales growth of 5% in the first half, ahead of industrial production growth, and organic profit growth of 8%. In addition, this year we have completed two significant acquisitions; Gestra and Chromalox."

Nicholas Anderson, Group Chief Executive

	HY 2016	Exchange	Organic	Acquisitions	HY 2017	Organic	Reported
Revenue	£344.0m	£36.1m	£20.7m	£27.8m	£428.6m	+5%	+25%
Operating profit	£77.5m	£12.1m	£6.7m	£4.9m	£101.2m	+8%	+31%
Operating margin	22.5%				23.6%	+50 bps	+110 bps

Sales

Sales grew strongly in the first half of the year, up 25% to £428.6 million (2016: 344.0 million). This growth was aided by the acquisition of Aflex in November 2016 and Gestra in May this year, and by the significant depreciation in sterling following the UK's decision in June 2016 to exit the European Union. In total, currency movements contributed over 10% growth, with acquisitions adding 7%. Overall, organic sales growth was 5%.

As expected, global industrial production growth rates, which drive our underlying markets, have improved in the first half of this year with growth modestly above 3%. Growth rates in developing regions are running at over twice those seen in the developed world.

Organic sales grew by 4% in our Steam Specialties business. Despite a very strong second quarter in 2016, Asia Pacific performed well, achieving organic sales growth of 7%, driven by strong performances in China and Korea. In the Americas organic sales were flat. Latin America continued to grow despite comparison to a strong performance in the first half of 2016 and continued weakness in the key markets of Brazil and Argentina. North America fared less well with organic sales falling marginally. Europe, Middle East and Africa (EMEA) saw organic growth of 4% with particularly strong growth in the key territories of the UK, Italy and France. On a reported basis all segments benefited from the acquisition of Gestra at the beginning of May, with the vast majority of sales being in EMEA, where it added 9% to sales in that region.

Watson-Marlow had a very good start to the year with organic sales up 9% and expansion in all geographic regions, especially Asia Pacific. The acquisition of Aflex, at the end of November 2016, boosted sales by a further 14%.

Profits

Group adjusted operating profit grew 8% on an organic basis, helped by operational gearing and continued improvements in manufacturing efficiency. In the Steam Specialties business, operating profit was 9% higher on an organic basis reflecting the sales growth. EMEA performed well, with operating profit ahead 11% organically while in Asia Pacific organic operating profit growth was 20%. Overall in the Americas operating profit fell 10% organically, primarily, as expected, due to the exceptional profit recorded in Argentina during the first half of 2016 following the devaluation of its currency in late 2015. As anticipated, in Watson-Marlow organic operating profit only grew by 2%, reflecting the increased levels of investment in the second half of 2016 and the first half of the current year. At reported exchange rates and including acquisitions the Group adjusted operating profit of £101.2 million was 31% higher (2016: £77.5 million). Despite the dilutionary effects of the Hiter acquisition and two months of the Gestra acquisition, margins in the Steam Specialties business grew from 21.3% to 22.4% while, as expected, the margins in Watson-Marlow decreased, from 32.9% to 31.4%, due to the increased investment to sustain future growth and the dilutionary effect of the Aflex acquisition. The combined effect was to see margins for the Group increase from 22.5% to 23.6%.

Net financial expense increased to £2.0 million from £1.3 million reflecting the reduction in interest received from reduced bank deposits following the acquisition of Aflex in late 2016 and interest payable on the debt taken on to acquire Gestra in May. Pension interest increased to £1.7 million from £1.3 million. Following the acquisition of Chromalox in July, interest payments will increase and we anticipate the full year interest charge to be in the region of £7.0 million, including a charge of £3.0 million relating to the pension deficit.

Adjusted pre-tax profit increased by 30% to £99.2 million (2016: £76.2 million). The pre-tax profit for the first half year on a statutory basis was £88.5 million (2016: £73.4 million). The reconciling items between the two are shown in Note 2 and predominately comprise acquisition related costs and the amortisation of acquired intangible assets.

The overall tax rate, based on the adjusted profit before tax, was lower at 29.1% (2016: 29.6%) and we anticipate a similar rate for the full year.

Currency impacts

The devaluation of sterling, following the UK's decision in June 2016 to exit the European Union, resulted in much more favourable exchange rates in the period when compared to the first half of 2016. On a translation basis, sales and profits have increased by over 10% while transaction benefits further boosted profits, giving a total uplift to profits from currency movements of 16%.

We anticipate that currency effects will have a significantly lower impact in the second half of the year. If spot rates at 30th June 2017 prevail for the remainder of the year, the translation and transaction impact on sales and operating profit for the full year, compared with the full year 2016, would be 5% and 8% respectively. Note 15 includes a table of the Group's significant exchange rates.

Earnings per share

Adjusted basic earnings per share increased by 31% to 95.5 pence (2016: 73.1 pence). Basic earnings per share on a statutory basis were 82.7 pence (2016: 70.2 pence).

Dividends

The Board has declared an interim dividend of 25.5 pence (2016: 22.5 pence) per ordinary share, an increase of 13%. The dividend will be paid on 10th November 2017 to shareholders on the register at the close of business on 13th October 2017. The final dividend of 53.5 pence per share in respect of 2016 was paid on 26th May 2017 at a cash cost of £39.3 million.

Strategy

Our businesses are market leaders which serve very diverse markets across a wide range of different industries, geographic regions, customers and products.
As steam is so widely used across so many applications, our markets broadly reflect changes in global economic conditions and, in particular, movements of industrial production growth rates. Our Watson-Marlow business benefits from a similar diversity of markets. The Group's direct sales business model brings to bear our highly trained sales engineers on the solution of customers' energy and water saving, CO_2 reduction, productivity, quality and sustainability issues, to help meet our stated goal of outperforming our markets.

We continue to implement our strategy for growth, which was set out in our 2014 Annual Report. Our strategy builds on the foundation of our robust, direct sales business model and focuses on doing better what we already do well, so that we can achieve growth that outperforms our markets.

Our strategy for organic growth has six key themes:

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

In the six months under review we have made progress on a number of these themes. We have continued to deepen the sectorisation of our direct sales teams, strengthening their industry specific applications knowledge, supported by the development of the Spirax Sarco Academy, and have strengthened strategic account management. In March, Watson-Marlow launched the innovative new Quantum peristaltic pump with patented ReNu Single Use Technology® cartridge and throughout both our steam and niche pumps businesses we have focused on ensuring that our sales engineers have the knowledge and understanding of new products to fully leverage them in their engineered solutions. As we focus on implementing our strategy we become better able to penetrate more deeply into our customers' processes, uncovering beneficial opportunities for both parties; these self-generated opportunities contribute to our organic growth and enable us to outperform our markets.

Additionally, we seek to supplement our organic growth through targeted acquisitions that create significant shareholder value, increase our addressable market into related sectors or expand the capabilities of our niche businesses through new technologies, skills or geographic coverage. In May we acquired Gestra, a competitor in the steam business which brings with it technological and geographic strengths, increasing our global market share in the steam business from 13% to 15%. Just after the half year closed, on 3rd July, we completed the acquisition of Chromalox which is closely related to our Steam Specialties business and which increases our addressable market by approximately £2.1 billion. Details of the two deals can be found below.

Acquisitions

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 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. Gestra's results are reported within the three geographic segments of the Spirax Sarco Steam Specialties business.

On 3rd July the Group completed the acquisition of Chromalox Inc. for a cash-free, debt-free consideration of $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 will expand our total addressable market. It will form part of the Spirax Sarco business group and be reported as a separate segment within that business.

In both cases integration is proceeding well and performance is in line with our expectations at the time of acquisition. Both acquisitions are expected to be earnings accretive in 2017.

Following an especially active period for the Group, we do not anticipate making any significant acquisitions in the next 12 to 18 months as we focus on these recent acquisitions.

Balance sheet and cash flow

Capital employed increased by 2.5% on an organic basis, to a reported £440.1 million at 30th June 2017, versus the equivalent position at 31st December 2016. Net investment in fixed assets was greater than depreciation in the first half year as we continue to invest in the business. The traditional second half weighting of capital expenditure coupled with the three recent acquisitions will increase capital spend in the second half of the year, with spend for the full year anticipated to be in the region of £45 million.

Adjusted cash flow	30th June 2017 £m	30th June 2016 £m
Adjusted operating profit	101.2	77.5
Depreciation and amortisation	14.0	12.6
Adjusted earnings before interest, tax, depreciation and amortisation	115.2	90.1
Cash payments to the pension schemes less than the charge to operating profit	2.1	0.1
Share plans/provisions	1.7	3.9
Working capital changes	(19.5)	(5.1)
Net capital expenditure (including software and development)	(14.6)	(16.8)
Cash from operations	84.9	72.2
Net Interest	(0.3)	0.1
Income taxes paid	(25.8)	(27.3)
Free cash flow	58.8	45.0
Net dividends paid	(39.4)	(35.5)
Proceeds from issue of shares	0.6	1.0
Acquisitions (including costs)	(158.0)	(0.1)
Cash flow for period	(138.0)	10.4
Exchange movements	(3.2)	5.4
Opening net cash	27.4	4.8
Closing net (debt)/cash at 30th June	(113.8)	20.6

Cash generation remains a priority, with 84% cash conversion in the first half and we continue to focus on maintaining a strong balance sheet. Net debt at 30th June 2017 was £113.8 million compared with net cash of £27.4 million at 31st December 2016. Adjusted cash flow for the period was £20.0 million prior to the disbursement of £158.0 million (including fees) for Gestra in May 2017 (2016: £10.5 million).

Following completion of the Chromalox acquisition on 3rd July 2017 and the recent acquisition of Gestra, the Group will maintain a strong balance sheet and we expect the ratio of net debt to EBITDA to be in the region of 1.5 at 31st December 2017, falling to around 1.0 by the end of the following year.

The defined benefit pension deficit remained relatively stable in the half year and was, before any associated deferred tax assets, £91.1 million at 30th June 2017 compared with £94.2 million at 31st December 2016.

Outlook

We continue to invest in the implementation of our strategy, which is enhancing our ability to outperform our markets and generate our own growth. In the current year our organic growth will be supplemented by two significant acquisitions, which we believe broadens the platform from which future organic growth will be derived, and from the full year effects of the two smaller acquisitions completed in the second half of 2016. In total and at current exchange rates, we expect acquisitions to add approximately 20% sales growth in the full year.

We envisage currency effects to be significantly lower in the second half of the year. If spot rates at 30th June 2017 prevail for the remainder of the year we would benefit from a total impact on sales and operating profit for the year of 5% due to translation.

Our markets are strongly influenced by industrial production growth rates. Following a sustained period of decline, global industrial production growth rates rebounded strongly in the first half of this year and our business performance has reflected that with good growth in both our Steam Specialties and Watson-Marlow businesses although, as expected, margins in the latter have softened as we accelerate investment to sustain future growth.

While current forecasts for global industrial production growth are slightly lower for the second half of the year, we anticipate that our markets will remain relatively stable for the remainder of this year, albeit with some regional variations. Growth rates are anticipated to rise in EMEA and the Americas but slow in Asia Pacific and Watson-Marlow both of which experienced very strong first halves. In line with our expectations outlined last March, we anticipate that, excluding acquisitions, we will be able to sustain the first half margin in the second half of the year, while continuing to increase our investments in new products and routes to market as a means to continue delivering organic sales growth. Assuming no significant deterioration in trading conditions, the Board remains confident that the Group will continue to make progress in 2017.

EUROPE, MIDDLE EAST AND AFRICA (EMEA)

	HY 2016	Exchange	Organic	Acquisition	HY 2017	Organic	Reported
Revenue	£112.1m	£9.8m	£5.2m	£10.8m	**£137.9m**	+4%	+23%
Operating profit	£23.1m	£2.6m	£2.9m	£1.8m	**£30.4m**	+11%	+32%
Operating margin	20.6%				**22.0%**	+140 bps	+140 bps

Market overview

Industrial production growth rates strengthened in Europe during the first half of 2017, to approximately 2.5%, resulting in a positive business investment sentiment in most markets. Despite increased uncertainty arising from the triggering of Article 50 and government elections in a number of our core markets, the region remained relatively stable economically throughout the period, with good growth in the Food & Beverage, Healthcare, Pharmaceutical and OEM markets in particular, as customers drive productivity gains and energy savings as well as health and safety improvements. Oil & Gas markets were weak throughout the period as oil prices remained low.

Progress in the Half Year

Europe, Middle East and Africa (EMEA) had a good first half, with sales increasing 4% on an organic basis. The acquisition of advanced industrial boiler controls and steam system specialist, Gestra, in May 2017, added a further £10.8 million sales in the period. We again benefited from a currency tailwind, following the devaluation of sterling in late June 2016. Overall, favourable currency movements increased sales on translation by 9% which, along with the organic sales growth and gains from Gestra, resulted in reported sales of £137.9 million, up 23% on the prior year.

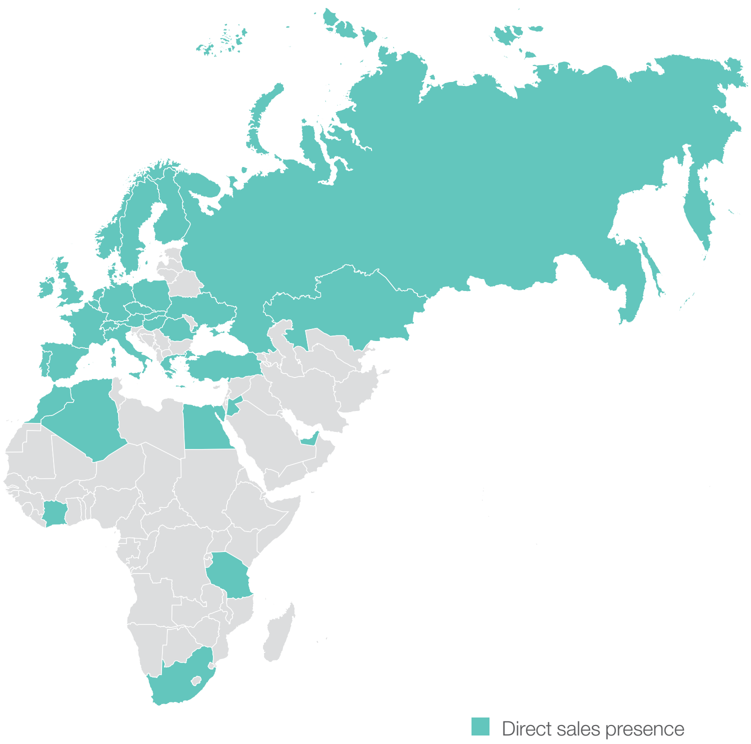
Organic sales growth in the region was mixed, with excellent growth in Southern Europe, with Italy and Spain performing particularly strongly, primarily as a result of a strengthening OEM sector in both countries and good sales to the shipbuilding industry in Italy. The Middle East, Africa and Western Europe also experienced good growth, benefiting from a strong Food & Beverage industry, a recovering Healthcare sector and our own investments to strengthen MRO and self-generated sales in the Oil & Gas industry in the Middle East.

Difficult economic conditions in South Africa acted as a drag on sales in the region. Central and Eastern Europe was flat, but we have built a solid order book going into the second half. Northern Europe was ahead of the prior year, with the UK performing well despite political and economic uncertainty.

Adjusted operating profit was ahead 32% on a reported basis at £30.4 million, with an 11% organic increase, an 11% benefit from exchange and 7% increase from the acquisition of Gestra. Operating margins increased, from 20.6% to 22.0% with the dilutionary impact of two months of the Gestra acquisition being compensated for by transactional currency benefits. On an organic basis, margins also increased as we benefited from manufacturing efficiencies and margin improvements in solution sales.

Outlook

We anticipate that most of our markets will continue to benefit from positive industrial production growth trends throughout the remainder of 2017. We remain well placed to capitalise on growth opportunities and, through the implementation of our strategy, to self-generate sales. We expect to continue to make progress throughout the remainder of the year.



ASIA PACIFIC

	HY 2016	Exchange	Organic	Acquisition	HY 2017	Organic	Reported
Revenue	£82.0m	£9.2m	£6.2m	£0.5m	**£97.9m**	+7%	+19%
Operating profit	£18.1m	£2.7m	£4.2m	£0.0m	**£25.0m**	+20%	+38%
Operating margin	22.0%				**25.5%**	+290 bps	+350 bps

Market overview

As anticipated, the upward trend in industrial production growth rates seen at the end of 2016 continued into the first half of the year, with most countries in the region experiencing growth. China, our biggest market in Asia Pacific, experienced strong growth, with the highest industrial production growth rate for several years being seen in March and other economic indicators also showing signs of improvement. However, China's high levels of growth were not sustained and fell back in the second quarter, albeit to levels above those seen in recent years. Nevertheless, growth rates were ahead in China for the first half of 2017 compared with the same period in the prior year. Industrial production growth rates were also ahead in our second largest market in the region, Korea, and were strongly ahead in some of our smaller markets, such as Singapore and the Philippines, but elsewhere conditions were more mixed.

Progress in the Half Year

Organic sales in Asia Pacific were up 7%, benefiting from the market recovery across the region and our continued strategic focus on self-generated sales to counteract the decline in large capital projects that has been seen in the region in recent years as a result of industrial overcapacity. Reported sales in the region were up 19% to £97.9 million, with currency tailwinds adding 11% to sales and a marginal benefit to sales coming from the acquisition of Gestra, which has a small local presence in Asia Pacific. China performed very strongly in the first quarter and despite having a weaker second quarter against a particularly tough comparison achieved strong overall growth ahead of the same period in the prior year. Organic sales in the developing markets of South East Asia were down, although our company in Vietnam is performing well, in its second year of trading. We have continued to make progress in line with our expectations in the recently established, wholly owned direct sales and manufacturing company in India.

As anticipated, this company remains loss-making, but we are well-positioned to gain market share and take advantage of the buoyant market to further increase sales over the coming years.

Operating profit increased by an exceptional 20% on an organic basis, with good progress in most of our companies; Korea and Japan, in particular, experienced significant gains. On a reported basis, profit was up 38% to £25.0 million, benefiting from weaker sterling. Operating margin was ahead 350 bps at 25.5%, with exchange gains and higher-margin self-generated project sales replacing a number of lower-margin capital projects that were shipped in the prior year. This positive project mix effect is not expected to repeat in the second half of the year.

Outlook

China's second quarter slowdown is likely to affect business confidence in the region and we anticipate slower growth in China during the second half of this year, albeit still at a stronger level than the latter half of 2016. Despite this relative slowdown, we remain confident in the region and expect to see progress in 2017 as we benefit from the implementation of our strategy.

AMERICAS

	HY 2016	Exchange	Organic	Acquisition	HY 2017	Organic	Reported
Revenue	£61.6m	£7.5m	£0.2m	£3.0m	**£72.3m**	+0%	+17%
Operating profit	£13.4m	£2.0m	(£1.5m)	(£0.1m)	**£13.8m**	-10%	+3%
Operating margin	21.7%				**19.1%**	-220 bps	-260 bps

Market overview

Industrial production growth rates in North America improved during the first half, but remained subdued at around 1.5%, compared with the same period in the prior year when it contracted by a similar amount. While low, industrial production growth rates turned positive in the United States and we are beginning to see some evidence that conditions are improving. However, uncertainty remains high with lower consumer demand and delays in the implementation of Federal spending plans potentially acting as a drag on business confidence during the second half of the year. Conditions in Latin America remain challenging, with very weak or negative industrial production growth rates in many of our core markets. Political uncertainties continue to weigh heavily on Brazil, with a lack of capital investment in the country dominating the start of the year. Forecast improvements in Argentina are slow to materialise, despite the new administration's reform agenda.

Progress in the Half Year

On an organic basis, sales were flat in the Americas, with reported sales up 17% at £72.3 million due to a strong currency tailwind, which increased sales on translation by 12%, and a 5% contribution from the combination of the Hiter acquisition in Brazil in July last year and Gestra's small American business.

Organic sales in North America were marginally down on the prior year. Canada made good progress, despite the continued contraction of capital investment within the Oil & Gas sector, as the country's economy returned to strength. Distribution markets in the USA began to show signs of recovery, with sales ahead of the prior year, although end user sales remained somewhat subdued. Organic sales were strongly ahead in Latin America, despite significant economic headwinds, and we saw double digit sales growth in Mexico, Peru, Chile and Colombia. However, there was no growth in Argentina and Brazil declined as a result of the depressed economic climate. Hiter, the Brazilian control valve manufacturer that was acquired in July 2016, is making good progress despite the challenging economic conditions in Brazil, the company's strong market position is delivering robust MRO business, and profitability is approaching break-even ahead of forecast.

Total operating profit was down 10% on an organic basis largely due to the non-recurrence of the £1.5 million "exceptional" profit made in Argentina in the first half of 2016 as a result of the country's currency devaluation in late 2015. On a reported basis operating profit was up 3% at £13.8 million as a result of a positive movement in foreign exchange rates.

Operating margins fell in the region from 21.7% in the first half of 2016 to 19.1% primarily as a result of the non-recurrence of the Argentine "exceptional" profit, described above, and the dilutionary effect of the acquisitions.

Outlook

Market uncertainty is expected to continue throughout the remainder of the year, with conditions in Argentina and Brazil particularly difficult to predict. However, through the implementation of our strategy, we are well-positioned to return to organic growth in the second half of the year. We have focused on strengthening key account management and our relationships with customers are widening and deepening; delivering new opportunities for all parties.

WATSON-MARLOW

	HY 2016	Exchange	Organic	Acquisition	HY 2017	Organic	Reported
Revenue	£88.3m	£9.7m	£9.1m	£13.4m	**£120.5m**	+9%	+36%
Operating profit	£29.0m	£4.9m	£0.7m	£3.3m	**£37.9m**	+2%	+30%
Operating margin	32.9%				**31.4%**	-230 bps	-150 bps

Market overview

General economic conditions and industrial production growth rates across the various territories in which Watson-Marlow operates were reflective of those for the Spirax Sarco business, although market conditions were somewhat mixed across the business's key industrial sectors. Watson-Marlow's biggest market, Pharmaceutical & Biotechnology, started the year very slowly as price control rhetoric during the USA election affected capital investment in the industry; conditions are improving but some lingering uncertainty remains. Mining remains weak but Food & Beverage has picked up. OEM markets remain strong and General Industry is seeing good growth, reflecting improving global industrial production rates. The Water & Wastewater industry is variable, but up overall on the same period in the prior year.

Progress in the Half Year

On an organic basis sales were ahead 9% boosted by the large order book that was carried over from 2016. Changes in exchange rates benefited us by 11% and the acquisition of Aflex at the end of November 2016 added £13.4 million sales during the period giving reported sales of £120.5 million, up 36% on the prior year. Aflex has started well, having had a smooth integration process into the Watson-Marlow group and sales have exceeded our expectations.

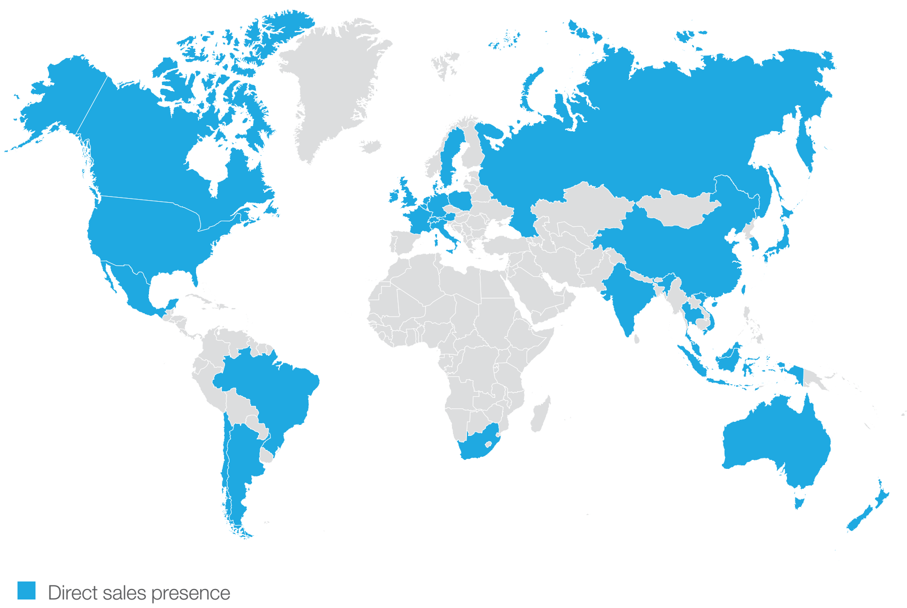
Geographically, sales were up across most of the territories in which Watson-Marlow operates, boosted by the generally positive trend in industrial production growth rates, with Europe, the Middle East, Latin America and South Africa all ahead. North America's growth was notably weaker due to the slow start in the Pharmaceutical & Biotechnology industry. BioPure, the UK business acquired in 2014, has performed strongly, while the new sales companies that were established in Canada and Ireland in late 2016 are progressing well and in line with our expectations.

During the first half, Watson-Marlow launched the innovative Quantum peristaltic pump, with its patented ReNu Single Use Technology® cartridge, for the Bioprocessing industry. The pump has been very well received, winning a "Best Technology Innovation Award" at the 2017 International Pharmaceutical Expo (Interphex), in New York. Another recent innovation, the Certa pump, launched in the second half of 2016, is delivering good growth in the Food & Beverage industry.

Watson-Marlow's reported operating profit of £37.9 million grew only 2% on an organic basis due to the effects of the investments to sustain organic growth that the business made in the second half of 2016 and the first half of 2017 and which will continue in the second half of 2017. Reported profit, however, was up 30% helped by currency and the contribution from the Aflex acquisition. As expected, the operating margin fell, with a reduction of 150 bps due to the investments for growth and the dilutionary impact of Aflex.

Outlook

While the Pharmaceutical & Biotechnology market in the USA is showing signs of improvement following its slow start, some market uncertainty remains which may act as a dampener throughout the remainder of the year. However, most of our core industries and markets remain strong. We also continue to self-generate growth opportunities as we demonstrate the superior properties of peristaltic pumps for many applications and as new products gain traction and increase demand. Our expectation of mid-to-high single digit organic sales growth for the full year remains unchanged.



PRINCIPAL RISKS

Principal risks and uncertainties

The Group has a robust risk management process in place to identify, evaluate and manage the identified risks that could impact the Group's performance. The current risks, together with an explanation of the impact and mitigation actions, are set out in the 2016 Annual Report on pages 30 to 31. The Group has reviewed these risks and concluded that they represent the current position and remain relevant for the second half of the financial year.

One of the risks, though not a principal risk, on our Risk Register is the realisation of acquisition objectives. The Board and the Group Executive Committee invested considerable time ensuring that Gestra and Chromalox satisfied our strategic plan acquisition criteria and that the acquisition objectives were supported by detailed implementation plans. Prior to the Gestra acquisition, we engaged an external independent operations and integration team to undertake due diligence in relation to our synergy and integration plans. The roll-out of those plans will continue to receive major focus as we go forward.

A summary of the Group's key risks and uncertainties is:

- ***Economic and political instability***

  Economic and political instability creates risks for our locally based direct operations, including the impact of regime changes.

- ***Significant exchange rate movements***

  The Group reports its results and pays dividends in sterling; operating and manufacturing companies trade in local currency.

- ***Loss of manufacturing output at any Group factory***

  Loss of manufacturing output at any important plant risks serious disruption to sales operations.

- ***Defined benefit pension deficit***

  Defined benefit pension schemes carry risks in relation to investment performance, security of assets, longevity and inflation.

- ***Breach of legal and regulatory requirements***

  The Group is subject to many different laws and regulations, breaching these laws and regulations could have serious consequences.

- ***Non-compliance with health, safety and environmental legislation***

  A major health and safety incident could cause total or partial closure of a manufacturing facility.

- ***Solution specification failure***

  Failure to meet customers' specific technical requirements could result in disruption and potential loss to an end users' plant or facility.

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

- ***Economic and political instability –*** remains the Group's greatest principal risk; the Group's resilient business model, diverse customer base and wide geographic spread help to reduce risk from local or regional economic and political instability.
- ***Significant exchange rate movements –*** remains a significant risk, although we have benefited in the first half from weaker sterling.

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

The Board, the Group Executive Committee and the Risk Management Committee receive regular updates on the impact of Brexit on the Group as negotiations between the UK Government and the EU progress. Our contingency plans are updated in light of developments and we are poised to undertake further scenario planning exercises.

INDEPENDENT REVIEW REPORT

to Spirax-Sarco Engineering plc

We have been engaged by the Company to review the condensed set of Financial Statements in the Half Year Financial Report for the six months ended 30th June 2017 which comprises the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Statement of Cash Flows and related Notes 1 to 15. We have read the other information contained in the Half Year Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of Financial Statements.

This Report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an Independent Review Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this Report, or for the conclusions we have formed.

Directors' responsibilities

The Half Year Financial Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Half Year Financial Report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in Note 1, the annual Financial Statements of the Group are prepared in accordance with IFRS as adopted by the European Union. The condensed set of Financial Statements included in this Half Year Financial Report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of Financial Statements in the Half Year Financial Report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of Financial Statements in the Half Year Financial Report for the six months ended 30th June 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP

Statutory Auditor

London, United Kingdom

8th August 2017

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 30th June 2017

	Notes	**30th June 2017 £m (unaudited)**	30th June 2016 £m (unaudited)	31st December 2016 £m (audited)
Assets				
Non-current assets				
Property, plant and equipment		**209.8**	185.3	201.8
Goodwill		**180.4**	59.7	88.5
Other intangible assets		**137.5**	57.4	81.2
Prepayments		**5.7**	5.7	5.9
Investment in Associate		**–**	0.1	–
Deferred tax assets		**40.1**	42.0	36.5
		573.5	350.2	413.9
Current assets				
Inventories		**131.4**	104.1	112.5
Trade receivables		**189.1**	160.7	185.5
Other current assets		**28.1**	25.2	21.7
Taxation recoverable		**7.8**	9.3	11.2
Cash and cash equivalents	9	**159.7**	109.0	119.2
		516.1	408.3	450.1
Total assets		**1,089.6**	758.5	864.0
Equity and liabilities				
Current liabilities				
Trade and other payables		**108.7**	88.8	107.8
Provisions		**2.9**	2.0	2.2
Bank overdrafts	9	**0.3**	16.3	0.4
Short-term borrowing	9	**26.6**	5.7	33.0
Current portion of long-term borrowings	9	**46.7**	0.3	0.2
Current tax payable		**20.2**	14.4	18.6
		205.4	127.5	162.2
Net current assets		**310.7**	280.8	287.9
Non-current liabilities				
Long-term borrowings	9	**199.9**	66.1	58.2
Deferred tax liabilities		**39.5**	18.4	21.5
Post-retirement benefits	8	**91.1**	113.8	94.2
Provisions		**1.7**	1.9	2.0
Long-term payables		**1.9**	0.3	1.5
		334.1	200.5	177.4
Total liabilities		**539.5**	328.0	339.6
Net assets		**550.1**	430.5	524.4
Equity				
Share capital		**19.8**	19.7	19.8
Share premium account		**73.3**	70.7	72.7
Other reserves		**42.2**	21.3	44.6
Retained earnings		**413.7**	318.0	386.3
Equity shareholders' funds		**549.0**	429.7	523.4
Non-controlling interest		**1.1**	0.8	1.0
Total equity		**550.1**	430.5	524.4
Total equity and liabilities		**1,089.6**	758.5	864.0

CONDENSED CONSOLIDATED INCOME STATEMENT
for the period ended 30th June 2017

	Notes	Six months to 30th June 2017			Six months to 30th June 2016			Year ended 31st December 2016		
		Adjusted £m (unaudited)	Adjustments £m (unaudited)	Total £m (unaudited)	Adjusted £m (unaudited)	Adjustments £m (unaudited)	Total £m (unaudited)	Adjusted £m (audited)	Adjustments £m (audited)	Total £m (audited)
Revenue	3	428.6	–	428.6	344.0	–	344.0	757.4	–	757.4
Operating costs		(327.4)	(10.7)	(338.1)	(266.5)	(2.8)	(269.3)	(576.8)	(6.5)	(583.3)
Operating profit	2/3	101.2	(10.7)	90.5	77.5	(2.8)	74.7	180.6	(6.5)	174.1
Financial expenses		(2.6)	–	(2.6)	(1.9)	–	(1.9)	(4.0)	–	(4.0)
Financial income		0.6	–	0.6	0.6	–	0.6	1.4	–	1.4
Net financing expense	4	(2.0)	–	(2.0)	(1.3)	–	(1.3)	(2.6)	–	(2.6)
Share of loss of Associate		–	–	–	–	–	–	(0.1)	–	(0.1)
Profit before taxation		99.2	(10.7)	88.5	76.2	(2.8)	73.4	177.9	(6.5)	171.4
Taxation	5	(28.9)	1.3	(27.6)	(22.6)	0.7	(21.9)	(51.8)	1.7	(50.1)
Profit for the period		70.3	(9.4)	60.9	53.6	(2.1)	51.5	126.1	(4.8)	121.3
Attributable to:										
Equity shareholders		70.2	(9.4)	60.8	53.5	(2.1)	51.4	125.9	(4.8)	121.1
Non-controlling interest		0.1	–	0.1	0.1	–	0.1	0.2	–	0.2
Profit for the period		70.3	(9.4)	60.9	53.6	(2.1)	51.5	126.1	(4.8)	121.3
Earnings per share	2/6									
Basic earnings per share		95.5p		82.7p	73.1p		70.2p	171.5p		165.0p
Diluted earnings per share		95.2p		82.4p	72.8p		70.0p	171.0p		164.5p
Dividends	7									
Dividends per share				25.5p			22.5p			76.0p
Dividends paid (per share)				53.5p			48.2p			70.7p

Adjusted figures exclude certain non-operational items, as detailed in Note 2. All amounts relate to continuing operations.

The Notes on pages 19 to 30 form an integral part of the Interim Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the period ended 30th June 2017

	Six months to 30th June 2017 £m (unaudited)	Six months to 30th June 2016 £m (unaudited)	Year ended 31st December 2016 £m (audited)
Profit for the year	**60.9**	51.5	121.3
Items that will not be reclassified to profit or loss:			
Remeasurement (loss)/gain on post-retirement benefits	**7.6**	(33.2)	(10.0)
Deferred tax on remeasurement (gain)/loss on post-retirement benefits	**(1.2)**	7.3	1.9
	6.4	(25.9)	(8.1)
Items that may be reclassified subsequently to profit or loss:			
Foreign exchange translation differences	**(0.5)**	39.6	61.6
Non-controlling interest foreign exchange translation differences	**–**	–	0.2
Profit/(loss) on cash flow hedges net of tax	**(3.8)**	(2.4)	0.4
	(4.3)	37.2	62.2
Total comprehensive income for the period	**63.0**	62.8	175.4
Attributable to:			
Equity shareholders	**62.9**	62.7	175.0
Non-controlling interest	**0.1**	0.1	0.4
Total comprehensive income for the period	**63.0**	62.8	175.4

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the period ended 30th June 2017
(unaudited)

	Share capital £m	**Share premium account £m**	**Other reserves £m**	**Retained earnings £m**	**Equity shareholders' funds £m**	**Non-controlling interest £m**	**Total equity £m**
Balance at 1st January 2017	19.8	72.7	44.6	386.3	523.4	1.0	524.4
Profit for the period	–	–	–	60.8	60.8	0.1	60.9
Other comprehensive (expense)/income:							
Foreign exchange translation differences	–	–	(0.5)	–	(0.5)	–	(0.5)
Remeasurement gain on post-retirement benefits	–	–	–	7.6	7.6	–	7.6
Deferred tax on remeasurement gain on post-retirement benefits	–	–	–	(1.2)	(1.2)	–	(1.2)
Loss on cash flow hedges reserve	–	–	(3.8)	–	(3.8)	–	(3.8)
Total other comprehensive income/ (expense) for the period	–	–	(4.3)	6.4	2.1	–	2.1
Total comprehensive income for the period	–	–	(4.3)	67.2	62.9	0.1	63.0
Contributions by and distributions to owners of the Company:							
Dividends paid	–	–	–	(39.4)	(39.4)	–	(39.4)
Equity-settled share plans net of tax	–	–	–	(0.4)	(0.4)	–	(0.4)
Issue of share capital	–	0.6	–	–	0.6	–	0.6
Employee Benefit Trust shares	–	–	1.9	–	1.9	–	1.9
Balance at 30th June 2017	19.8	73.3	42.2	413.7	549.0	1.1	550.1

Other reserves represent the Group's translation, cash flow hedges, 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.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the period ended 30th June 2016
(unaudited)

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31st December 2016
(audited)

	Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Equity shareholders' funds £m	Non-controlling interest £m	Total equity £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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the period ended 30th June 2017

	Notes	Six months to 30th June 2017 £m (unaudited)	Six months to 30th June 2016 £m (unaudited)	Year ended 31st December 2016 £m (audited)
Cash flows from operating activities				
Profit before taxation		**88.5**	73.4	171.4
Depreciation, amortisation and impairment		**19.8**	15.3	33.1
Profit on disposal of fixed assets		**(0.6)**	–	(1.5)
Contribution from Associate		**–**	–	0.1
Acquisition related fair value adjustments		**1.3**	0.1	–
Cash payments to the pension schemes less than the charge to operating profit		**2.1**	0.1	1.6
Equity-settled share plans		**1.8**	1.3	1.9
Net finance expense		**2.0**	1.3	2.6
Operating cash flow before changes in working capital and provisions		**114.9**	91.5	209.2
Change in trade and other receivables		**1.8**	(0.1)	(4.7)
Change in inventories		**(10.3)**	(2.6)	0.3
Change in provisions		**(0.1)**	2.6	2.3
Change in trade and other payables		**(11.0)**	(2.4)	8.7
Cash generated from operations		**95.3**	89.0	215.8
Interest paid		**(0.9)**	(0.6)	(1.4)
Income taxes paid		**(25.8)**	(27.3)	(56.5)
Net cash from operating activities		**68.6**	61.1	157.9
Cash flows from investing activities				
Purchase of property, plant and equipment		**(13.3)**	(14.1)	(28.1)
Proceeds from sale of property, plant and equipment		**2.1**	0.7	3.3
Purchase of software and other intangibles		**(1.9)**	(2.3)	(3.5)
Development expenditure capitalised		**(1.5)**	(1.1)	(3.0)
Acquisition of businesses		**(153.8)**	(0.1)	(66.5)
Interest received		**0.6**	0.7	1.4
Net cash used in investing activities		**(167.8)**	(16.2)	(96.4)
Cash flows from financing activities				
Proceeds from issue of share capital		**0.6**	1.0	3.0
Employee Benefit Trust share purchase		**–**	–	(1.7)
Repaid borrowings	9	**(8.6)**	(20.4)	(20.4)
New borrowings	9	**185.2**	0.3	18.7
Change in finance lease liabilities	9	**(0.2)**	(0.2)	(0.1)
Dividends paid (including minorities)		**(39.4)**	(35.5)	(52.1)
Net cash used in financing activities		**137.6**	(54.8)	(52.6)
Net change in cash and cash equivalents	9	**38.4**	(9.9)	8.9
Net cash and cash equivalents at beginning of period	9	**118.8**	95.9	95.9
Exchange movement	9	**2.2**	6.7	14.0
Net cash and cash equivalents at end of period	9	**159.4**	92.7	118.8
Borrowings and finance leases	9	**(273.2)**	(72.1)	(91.4)
Net (debt)/cash at the end of the period	9	**(113.8)**	20.6	27.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of preparation

Spirax-Sarco Engineering plc is a company domiciled in the UK. The Condensed Consolidated Interim Financial Statements of Spirax-Sarco Engineering plc and its subsidiaries (the Group) for the six months ended 30th June 2017 have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU. The accounting policies applied are consistent with those set out in the 2016 Spirax-Sarco Engineering plc Annual Report.

These Condensed Consolidated Interim Financial Statements do not include all the information required for full annual statements and should be read in conjunction with the 2016 Annual Report. The comparative figures for the year ended 31st December 2016 do not constitute the Group's statutory Financial Statements for that financial year as defined in Section 434 of the Companies Act 2006. The Financial Statements of the Group for the year ended 31st December 2016 were prepared in accordance with International Financial Reporting Standards adopted by the European Union. The statutory Consolidated Financial Statements for Spirax-Sarco Engineering plc in respect of the year ended 31st December 2016 have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

The Consolidated Financial Statements of the Group in respect of the year ended December 2016 are available upon request from Mr A. J. Robson, General Counsel and Company Secretary, Charlton House, Cheltenham, Gloucestershire, GL53 8ER, United Kingdom or on www.spiraxsarcoengineering.com.

The Condensed Consolidated Interim Financial Statements for the six months ended 30th June 2017, which have been reviewed by the auditor in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practises Board, were authorised by the Board on 8th August 2017.

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

Going concern

Having made enquiries and reviewed the Group's plans and available financial facilities, the Board has a reasonable expectation that the Group has adequate resources to continue its operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the Condensed Consolidated Interim Financial Statements.

New standards and interpretations not yet adopted

There are a number of new standards, amendments to standards and interpretations that are not yet effective for the period ended 30th June 2017 and have, therefore, not been applied in preparing these Condensed Consolidated Interim Financial Statements.

The Directors have initiated an assessment of the impact that IFRS 15 (Revenue from contracts with customers) will have on the Group. Based on the preliminary results of the assessment the Directors do not expect the adoption of IFRS 15 to have a material impact on the Financial Statements of the Group in future periods. However, until our full assessment has been completed it is not practical to provide an assessment of the full impact of IFRS 15. IFRS 15 is effective from 1st January 2018.

An assessment of the impact of IFRS 16 (Leases) has not yet been performed but it may have a material impact on the reported assets and liabilities of the Group but we do not expect it to have a material impact on the net assets, income statement and cash flows of the Group. At 31st December 2016 the Group had total operating lease obligations of £19.2m and an operating lease charge of £5.7m for the year ended 31st December 2016. Beyond this information, it is not practical to provide a reasonable estimate of the effect of this standard until a detailed assessment has been completed. IFRS 16 is effective from 1st January 2019.

IFRS 9 (Financial instruments) is effective from 1st January 2018 and we are currently assessing the impact that this new standard will have on the Group and an update will be provided in the 2017 year end Financial Statements.

Of the other new standards, none are anticipated to have a significant impact on the Financial Statements.

Significant accounting judgements and estimates

The preparation of Interim Financial Statements, in conformity with adopted IFRS, requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these Condensed Consolidated Interim Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Financial Statements for the year ended 31st December 2016.

Cautionary statements

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

1 Basis of preparation *continued*

Responsibility statement

The Directors confirm that to the best of their knowledge:

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

The Directors of Spirax-Sarco Engineering plc on 8th August 2017 are the same as those listed in the 2016 Annual Report on pages 64 and 65.

N. J. Anderson

Group Chief Executive
8th August 2017

K. J. Boyd

Group Finance Director
8th August 2017

On behalf of the Board

2 Adjusted performance measures

The Group uses adjusted figures as key performance measures in addition to those reported under adopted IFRS, as management believe these measures enable users of the Financial Statements to better assess the underlying trading performance of the business. Adjusted figures exclude certain non-operational items that are predominantly acquisition or disposal related items. Items that are classified as adjustments include:

- Amortisation and impairment of acquisition-related goodwill and other intangible assets
- Depreciation of acquisition-related fair value adjustments to tangible assets
- Acquisition and disposal related costs and contingent consideration fair value adjustments
- Profits or losses on termination or disposal of businesses, including recycling exchange impacts
- Related tax effects on the above.

Adjusted operating profit

A reconciliation between operating profit as reported under IFRS and adjusted operating profit is given below.

	Six months to 30th June 2017 £m	Six months to 30th June 2016 £m	Year ended 31st December 2016 £m
Operating profit as reported under IFRS	**90.5**	74.7	174.1
Amortisation of acquisition-related intangible assets	**5.2**	2.7	6.0
Acquisition costs	**4.2**	0.1	0.5
Reversal of acquisition related fair value adjustments to inventory	**1.3**	–	–
Adjusted operating profit	**101.2**	77.5	180.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2 Adjusted performance measures *continued*

Adjusted earnings per share

	Six months to 30th June 2017	Six months to 30th June 2016	Year ended 31st December 2016
Profit for the period attributable to equity holders as reported under IFRS (£m)	**60.8**	51.4	121.1
Non-operational items excluded from adjusted operating profit disclosed on page 20 (£m)	**10.7**	2.8	6.5
Tax effects on non-operational items (£m)	**(1.3)**	(0.7)	(1.7)
Adjusted profit for the period attributable to equity holders (£m)	**70.2**	53.5	125.9
Weighted average shares in issue (million)	**73.5**	73.3	73.4
Basic adjusted earnings per share	**95.5p**	73.1p	171.5p
Diluted weighted average shares in issue (million)	**73.7**	73.6	73.6
Diluted adjusted earnings per share	**95.2p**	72.8p	171.0p

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

Adjusted operating cash flow

Adjusted net cash from operating activities presents the Group's net cash flow on a more comparable basis with adjusted operating profit.

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

	Six months to 30th June 2017 £m	Six months to 30th June 2016 £m	Year ended 31st December 2016 £m
Net cash from operating activities as reported under IFRS	**68.6**	61.1	157.9
Acquisition costs	**4.2**	–	0.5
Capital expenditure excluding acquired intangibles from acquisitions	**(15.2)**	(16.8)	(32.8)
Profit on disposal of fixed assets	**0.6**	–	1.5
Tax paid	**25.8**	27.3	56.5
Interest paid	**0.9**	0.6	1.4
Adjusted net cash from operating activities	**84.9**	72.2	185.0

Cash conversion in the first half is 84% (2016: 93%). Cash conversion is calculated as adjusted net cash from operating activities divided by adjusted operating profit.

The adjusted cash flow is included in the Review of Operations on page 6.

Capital employed

This is an important non-statutory measure which the Board uses to help it effectively monitor the performance of the Group. More information on Capital employed can be found in the Review of Operations on page 5.

An analysis of the components is as follows:

	30th June 2017 £m	30th June 2016 £m	31st December 2016 £m
Property, plant and equipment	**209.8**	185.3	201.8
Non-current Prepayments	**5.7**	5.7	5.9
Inventories	**131.4**	104.1	112.5
Trade receivables	**189.1**	160.7	185.5
Other current assets	**28.1**	25.2	21.7
Tax recoverable	**7.8**	9.3	11.2
Trade, other payables and current provisions	**(111.6)**	(90.8)	(110.0)
Current tax payable	**(20.2)**	(14.4)	(18.6)
Capital employed	**440.1**	385.1	410.0

2 Alternative performance measures *continued*

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

	30th June 2017 £m	30th June 2016 £m	31st December 2016 £m
Capital employed	**440.1**	385.1	410.0
Intangibles and investment in Associate	**317.9**	117.2	169.7
Post-retirement benefits	**(91.1)**	(113.8)	(94.2)
Deferred tax	**0.6**	23.6	15.0
Non-current provisions and long-term payables	**(3.6)**	(2.2)	(3.5)
Net (debt)/cash	**(113.8)**	20.6	27.4
Net assets as reported under IFRS	**550.1**	430.5	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 Half Year Results. 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.

	Six months to 30th June 2016	Exchange	Organic	Acquisitions	Six months to 30th June 2017	Organic	Reported
Revenue	**£344.0m**	£36.1m	£20.7m	£27.8m	**£428.6m**	+5%	+25%
Adjusted operating profit	**£77.5m**	£12.1m	£6.7m	£4.9m	**£101.2m**	+8%	+31%
Adjusted operating margin	**22.5%**				**23.6%**	+50 bps	+110 bps

The reconciliation for each segment is included in the Review of Operations.

3 Segmental reporting

As required by IFRS 8, Operating Segments, the following segmental information is presented in a consistent format with management information considered by the Board.

Analysis by location of operation

Six months to 30th June 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	160.9	(23.0)	137.9	25.2	30.4	22.0%
Asia Pacific	100.5	(2.6)	97.9	24.6	25.0	25.5%
Americas	75.9	(3.6)	72.3	12.3	13.8	19.1%
Steam Specialties business	337.3	(29.2)	308.1	62.1	69.2	22.4%
Watson-Marlow	120.5	–	120.5	35.2	37.9	31.4%
Corporate expenses				(6.8)	(5.9)	
	457.8	(29.2)	428.6	90.5	101.2	23.6%
Intra Group	(29.2)	29.2				
Total	428.6	–	428.6	90.5	101.2	
Net finance expense				(2.0)	(2.0)	
Profit before taxation				88.5	99.2	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3 Segmental reporting *continued*

Six months to 30th June 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	130.1	(18.0)	112.1	22.8	23.1	20.6%
Asia Pacific	83.7	(1.7)	82.0	17.8	18.1	22.0%
Americas	64.9	(3.3)	61.6	12.4	13.4	21.7%
Steam Specialties business	278.7	(23.0)	255.7	53.0	54.6	21.3%
Watson-Marlow	88.3	–	88.3	27.8	29.0	32.9%
Corporate expenses				(6.1)	(6.1)	
	367.0	(23.0)	344.0	74.7	77.5	22.5%
Intra Group	(23.0)	23.0				
Total	344.0		344.0	74.7	77.5	22.5%
Net finance expense				(1.3)	(1.3)	
Profit before taxation				73.4	76.2	

Year ended 31st December 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 business	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 loss of Associate				(0.1)	(0.1)	
Profit before tax				171.4	177.9	

Non-operational items

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

Six months to 30th June 2017	**Amortisation of acquisition-related intangible assets £m**	**Acquisition costs £m**	**Reversal of acquisition related fair value adjustments to inventory £m**	**Total £m**
Europe, Middle East & Africa	(0.9)	(3.3)	(1.0)	(5.2)
Asia Pacific	(0.4)	–	–	(0.4)
Americas	(1.2)	–	(0.3)	(1.5)
Steam Specialties business	(2.5)	(3.3)	(1.3)	(7.1)
Watson-Marlow	(2.7)	–	–	(2.7)
Corporate expenses	–	(0.9)	–	(0.9)
Total non-operational items	(5.2)	(4.2)	(1.3)	(10.7)

3 Segmental reporting *continued*

Six months to 30th June 2016	Amortisation of acquisition-related intangible assets £m	Acquisition costs £m	Total £m
Europe, Middle East & Africa	(0.3)	–	(0.3)
Asia Pacific	(0.3)	–	(0.3)
Americas	(1.0)	(0.1)	(1.1)
Steam Specialties business	(1.6)	(0.1)	(1.7)
Watson-Marlow	(1.1)	–	(1.1)
Total non-operational items	(2.7)	(0.1)	(2.8)

Year ended 31st December 2016	Amortisation of acquisition-related intangible assets £m	Acquisition costs £m	Total £m
Europe, Middle East & Africa	(0.4)	–	(0.4)
Asia Pacific	(0.6)	–	(0.6)
Americas	(2.2)	(0.1)	(2.3)
Steam Specialties business	(3.2)	(0.1)	(3.3)
Watson-Marlow	(2.8)	(0.4)	(3.2)
Total non-operational items	(6.0)	(0.5)	(6.5)

Net financing income and expense

	Six months to 30th June 2017 £m	Six months to 30th June 2016 £m	Year ended 31st December 2016 £m
Europe, Middle East & Africa	(1.1)	(0.7)	(1.5)
Asia Pacific	(0.1)	0.2	0.2
Americas	(0.4)	(0.4)	(0.7)
Steam Specialties business	(1.6)	(0.9)	(2.0)
Watson-Marlow	–	–	–
Corporate	(0.4)	(0.4)	(0.6)
Group total	(2.0)	(1.3)	(2.6)

Net assets

	30th June 2017		30th June 2016		31st December 2016	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Europe, Middle East & Africa	**376.4**	**(112.2)**	196.8	(115.6)	195.3	(106.8)
Asia Pacific	**160.4**	**(27.4)**	152.8	(27.6)	163.1	(38.5)
Americas	**133.3**	**(38.7)**	112.2	(43.9)	127.0	(38.6)
Watson-Marlow	**211.8**	**(27.9)**	136.5	(19.8)	211.7	(23.8)
	881.9	**(206.2)**	598.3	(206.9)	697.1	(207.7)
Liabilities	**(206.2)**		(206.9)		(207.7)	
Deferred tax	**0.6**		23.6		15.0	
Net current tax payable	**(12.4)**		(5.1)		(7.4)	
Net (debt)/cash	**(113.8)**		20.6		27.4	
Net assets	**550.1**		430.5		524.4	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

3 Segmental reporting *continued*

Capital additions, depreciation and amortisation

	Six months to 30th June 2017		Six months to 30th June 2016		Year ended 31st December 2016	
	Capital additions £m	**Depreciation and amortisation £m**	Capital additions £m	Depreciation and amortisation £m	Capital additions £m	Depreciation and amortisation £m
Europe, Middle East & Africa	**73.5**	**6.9**	5.3	5.8	11.1	12.4
Asia Pacific	**4.8**	**3.8**	7.6	3.3	12.6	6.9
Americas	**2.1**	**3.4**	2.6	2.6	8.0	5.9
Watson-Marlow	**3.7**	**5.7**	2.0	3.6	38.5	7.9
Group total	**84.1**	**19.8**	17.5	15.3	70.2	33.1

Capital additions include property, plant and equipment at 30th June 2017 of £22.1m; at 30th June 2016 of £14.1m; and at 31st December 2016 of £36.9m; and other intangible assets at 30th June 2017 of £62.0m; at 30th June 2016 of £3.4m; and at 31st December 2016 of £33.3m of which at 30th June 2017 £56.5m; at 30th June 2016 £nil and 31st December 2016 £26.8m relates to acquired intangibles from acquisitions in the period.

4 Net financing income and expense

	Six months to 30th June 2017 £m	Six months to 30th June 2016 £m	Year ended 31st December 2016 £m
Financial expenses:			
Bank and other borrowing interest payable	**(0.9)**	(0.6)	(1.4)
Net interest on pension scheme liabilities	**(1.7)**	(1.3)	(2.6)
	(2.6)	(1.9)	(4.0)
Financial income:			
Bank interest receivable	**0.6**	0.6	1.4
Net financing expense	**(2.0)**	(1.3)	(2.6)
Net pension scheme financial expense	**(1.7)**	(1.3)	(2.6)
Net bank interest	**(0.3)**	–	–
Net financing expense	**(2.0)**	(1.3)	(2.6)

5 Taxation

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

	Six months to 30th June 2017 £m	Six months to 30th June 2016 £m	Year ended 31st December 2016 £m
UK corporation tax	**1.2**	1.1	3.1
Foreign tax	**27.9**	22.4	47.8
Deferred tax	**(1.5)**	(1.6)	(0.8)
Total taxation	**27.6**	21.9	50.1

6 Earnings per share

	Six months to 30th June 2017	Six months to 30th June 2016	Year ended 31st December 2016
Profit attributable to equity shareholders (£m)	**60.8**	51.4	121.1
Weighted average shares in issue (million)	**73.5**	73.3	73.4
Dilution (million)	**0.2**	0.3	0.2
Diluted weighted average shares in issue (million)	**73.7**	73.6	73.6
Basic earnings per share	**82.7p**	70.2p	165.0p
Diluted earnings per share	**82.4p**	70.0p	164.5p

Basic and diluted earnings per share calculated on an adjusted basis are included in Note 2.

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

7 Dividends

	Six months to 30th June 2017 £m	Six months to 30th June 2016 £m	Year ended 31st December 2016 £m
Amounts paid in the period:			
Final dividend for the year ended 31st December 2016 of 53.5p (2015: 48.2p) per share	**39.4**	35.4	35.4
Interim dividend for the year ended 31st December 2016 of 22.5p (2015: 20.8p) per share	–	–	16.5
Total dividends paid	**39.4**	35.4	51.9
Amounts arising in respect of the period:			
Interim dividend for the year ended 31st December 2017 of 25.5p (2016: 22.5p) per share	**18.7**	16.5	16.5
Final dividend for the year ended 31st December 2016 of 53.5p (2015: 48.2p) per share	–	–	39.4
Total dividends arising	**18.7**	16.5	55.9

The interim dividend for the year ended 31st December 2017 was approved by the Board after the 30th June 2017. It is therefore not included as a liability in these Interim Condensed Consolidated Financial Statements. No scrip alternative to the cash dividend is being offered in respect of the 2017 interim dividend.

8 Post-retirement benefits

The Group is accounting for pension costs in accordance with IAS 19.

The disclosures shown here are in respect of the Group's Defined Benefit Obligations. Other plans operated by the Group were either Defined Contribution plans or were deemed immaterial for the purposes of IAS 19 reporting. Full IAS 19 disclosure for the year ended 31st December 2016 is included in the Group's Annual Report.

The amounts recognised in the balance sheet are as follows:

	30th June 2017 £m	30th June 2016 £m	31st December 2016 £m
Retirement benefit liability recognised in the Balance Sheet	**(91.1)**	(113.8)	(94.2)
Related deferred tax asset	**22.5**	27.3	23.4
Net pension liability	**(68.6)**	(86.5)	(70.8)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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9 Analysis of changes in net cash

	1st January 2017 £m	Cash flow £m	Exchange movement £m	30th June 2017 £m
Current portion of long-term borrowings	(0.2)			(46.7)
Non-current portion of long-term borrowings	(58.2)			(199.9)
Short-term borrowings	(33.0)			(26.6)
Total borrowings	(91.4)			(273.2)
Comprising:				
Borrowings	(91.0)	(176.6)	(5.4)	(273.0)
Finance leases	(0.4)	0.2	–	(0.2)
	(91.4)	(176.4)	(5.4)	(273.2)
Cash at bank	119.2	38.3	2.2	159.7
Bank overdrafts	(0.4)	0.1	–	(0.3)
Net cash and cash equivalents	118.8	38.4	2.2	159.4
Net cash/(debt)	27.4	(138.0)	(3.2)	(113.8)

10 Related party transactions

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

Full details of the Group's other related party relationships, transactions and balances are given in the Group's Financial Statements for the year ended 31st December 2016. There have been no material changes in these relationships in the period up to the end of this report.

No related party transactions have taken place in the first half of 2017 that have materially affected the financial position or the performance of the Group during that period.

11 Fair value of financial instruments

	30th June 2017		30th June 2016		31st December 2016	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets:						
Cash and cash equivalents	**159.7**	**159.7**	109.0	109.0	119.2	119.2
Trade and other receivables	**203.6**	**203.6**	172.9	172.9	197.8	197.8
Total financial assets	**363.3**	**363.3**	281.9	281.9	317.0	317.0
Financial liabilities:						
Bank loans	**273.0**	**273.0**	71.8	71.8	91.0	91.0
Finance lease obligations	**0.2**	**0.2**	0.3	0.3	0.4	0.4
Bank overdrafts	**0.3**	**0.3**	16.3	16.3	0.4	0.4
Derivative financial liabilities	**3.6**	**3.6**	2.6	2.6	–	–
Trade payables	**30.0**	**30.0**	23.2	23.2	29.6	29.6
Other payables	**40.8**	**40.8**	29.2	29.2	36.9	36.9
Total financial liabilities	**347.9**	**347.9**	143.4	143.4	158.3	158.3

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

Fair values of financial assets and financial liabilities

Fair values of financial assets and liabilities at 30th June 2017 are not materially different from book values due to their size or the fact that they were at short-term rates of interest. Fair values have been assessed as follows:

Derivatives

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

Interest-bearing loans and borrowings

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

Finance lease liabilities

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

Trade and other receivables/payables

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

The Group uses forward currency contracts to manage its exposure to movements in foreign exchange rates. The forward contracts are designated as hedge instruments in a cash flow hedging relationship. At 30th June 2017 the Group had contracts outstanding to purchase US$282.4m with euros, £31.7m with US dollars, £3.9m with euros, £0.5m with Danish krone and £0.1m with Japanese yen. Derivative financial instruments are measured at fair value. The fair value at the end of the reporting period is a £3.6m liability (31st December 2016: £0.2m asset).

Financial instruments fair value disclosure

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

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

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

12 Capital commitments

Capital expenditure contracted for but not provided for at 30th June 2017 was £3.0m (31st December 2016: £3.6m; 30th June: 2016 £4.0m). All capital commitments related to property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

13 Purchase of businesses

30th June 2017	Acquisitions Book value £m	Fair value adjustment £m	Fair value £m
Non-current assets:			
Property, plant and equipment	7.3	1.6	8.9
Software	2.1	–	2.1
Deferred tax	0.6	–	0.6
Intangibles	–	56.5	56.5
	10.0	58.1	68.1
Current assets:			
Inventories	10.6	0.9	11.5
Trade receivables	11.7	–	11.7
Other receivables	0.2	–	0.2
Cash	21.1	(2.7)	18.4
	43.6	(1.8)	41.8
Total assets	53.6	56.3	109.9
Current liabilities:			
Trade payables	2.1	–	2.1
Other payables and accruals	8.3	(3.8)	4.5
Deferred tax	–	16.8	16.8
	10.4	13.0	23.4
Non-current liabilities:			
Post-retirement benefit plans	1.7	–	1.7
Total liabilities	12.1	13.0	25.1
Total net assets	41.5	43.3	84.8
Goodwill			87.4
Total			172.2
Satisfied by:			
Cash paid			172.2
Deferred consideration			–
			172.2
Cash outflow for acquired businesses in the Statement of Cash Flows (page 18):			
Cash paid for businesses acquired in the period			172.2
Less cash acquired			(18.4)
Deferred consideration for businesses acquired in prior years			–
Net cash outflow			153.8

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 £172.2m 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. Goodwill recognised on acquisition of £87.4m moved to £90.4m at 30th June 2017 due to exchange translation. The acquisition has generated £12m of revenue and £2m 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 three times the figures disclosed. 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.

14 Events after the balance sheet date

On 3rd July 2017 the Group acquired the entire share capital of Chromalox Inc. for a cash consideration of US$415m. The purchase consideration was financed from new borrowings supplied by our existing banks.

Chromalox is a well-established 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 management solutions to customers through a primarily direct sales channel. Chromalox is also highly complementary to the Steam Specialties business, with the decision between using steam or electricity as a heating medium being driven by different needs of the application or customer circumstances. It will form part of the Spirax-Sarco business group and be reported as a separate segment within that business.

To indicate the size of the business, our estimate for Chromalox's current year ending 30th September 2017 is revenues in the region of US$190m and pre-tax profit of around US$32m. Due to the proximity of the acquisition date to the date of the approval of the Group's half year results, it is impractical to provide further information.

15 Exchange rates

Set out below is an additional disclosure (not required by IAS 34) that highlights movement in a selection of average exchange rates between half year 2017 and half year 2016.

	Average half year 2017	Average half year 2016	Change %
Bank of England sterling index	**77.7**	86.5	+10%
US $	**1.27**	1.42	+11%
Euro	**1.16**	1.29	+10%
Renminbi	**8.71**	9.33	+7%
Won	**1,452**	1,677	+13%
Real	**4.06**	5.26	+23%
Argentine peso	**20.06**	20.38	+2%

A positive movement indicates a devaluation in sterling versus that currency. When sterling devalues against other currencies in which the Group operates the Group benefits from a gain on translation of the financial results into sterling.

The devaluation of sterling, following the UK's decision in June 2016 to exit the European Union, resulted in much more favourable exchange rates in the period when compared to the first half of 2016. On a translation basis, sales and profits have increased by over 10% while transaction benefits further boosted profits, giving a total uplift to profits from currency movements of 16%.

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Important dates

Ordinary shares quoted ex-dividend	12th October 2017
Record date for interim dividend	13th October 2017
Interim dividend payable	10th November 2017

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Cover image: Vicky Ming, Training Executive, Technical Sustainability Department, in Spirax Sarco's Steam Training Centre, China.