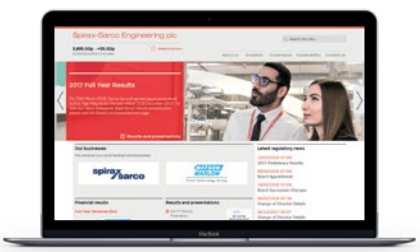
# Spirax-Sarco Engineering plc

# Financial highlights

## Contents





For more information about how Spirax-Sarco Engineering plc is engineering opportunities, please visit our website:

www.spiraxsarcoengineering.com

## Key figures

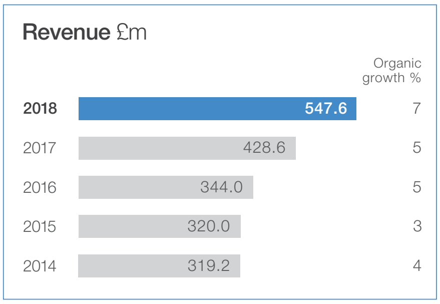
Six months ended 30th June

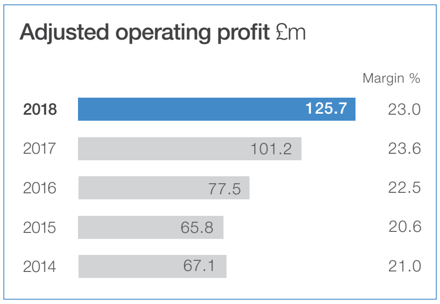
| Highlights | 2018 | 2017 | Reported | Organic† |
|---|---|---|---|---|
| Revenue | £547.6m | £428.6m | +28% | +7% |
| Adjusted operating profit* | £125.7m | £101.2m | +24% | +15% |
| Adjusted operating profit margin* | 23.0% | 23.6% | -60 bps | +170 bps |
| Adjusted profit before taxation* | £120.6m | £99.2m | +22% | |
| Adjusted basic earnings per share* | 119.2p | 95.5p | +25% | |
| Dividend per share | 29.0p | 25.5p | +14% | |
| Adjusted cash conversion* | 75% | 84% | | |

| Statutory | 2018 | 2017 | Reported |
|---|---|---|---|
| Operating profit | £111.9m | £90.5m | +24% |
| Profit before taxation | £106.8m | £88.5m | +21% |
| Basic earnings per share | 105.1p | 82.7p | +27% |

* Adjusted performance measures exclude items that are set out and explained in Note 2.
† Organic measures are at constant currency and exclude incremental contributions from acquisitions.

## Financial highlights




## Operating highlights

For the six months ended 30th June 2018

- Revenue growth of 28%, organic growth of 7%
- Adjusted operating margin of 23.0%
- Good organic growth in both Steam Specialties and Watson-Marlow
- Gestra and Chromalox acquisitions performing to plan; adding 24% to sales, 16% to profit
- Net debt of £373.0 million, 1.3x EBITDA
- Interim dividend increased by 14%

# Spirax-Sarco Engineering plc at a glance

## A multi-national industrial engineering Group

Spirax-Sarco Engineering plc

spirax sarco

WATSON MARLOW Fluid Technology Group

Steam Specialties

spirax sarco First for Steam Solutions

GESTRA

EMEA Asia Pacific Americas

CHROMALOX Advanced Thermal Technologies

### Industrial and commercial steam systems

**Uses:**
- Heating and curing
- Cleaning and sterilising
- Hot water generation
- Space heating and humidification

**Benefits of steam:**
- High energy content
- Easy to control
- Environmentally safe
- Clean and sterile

**Products:**
- Condensate Management: i.e. steam traps, condensate return pumps and isolation valves
- Controls: i.e. automatic control valves, pressure regulators and temperature controls
- Thermal Energy Management: i.e. metering products, boiler house products, heat transfer packages and energy services

**Delivering:**
- Improved process efficiency and product quality
- Reduced waste production, $CO_2$ emissions, energy and water use
- Less maintenance downtime
- Compliance with industry standards

www.spiraxsarco.com
www.gestra.com

### Electrical process heating and temperature management solutions

**Uses:**
- Electrical heating for mission-critical industrial processes
- Freeze protection for pipes, valves and tanks
- Component heating for industrial heaters and systems

**Benefits of electrical solutions:**
- Easy to incorporate, install and maintain
- High temperatures
- Controllable
- No emissions at point of use

**Products:**
- Industrial Heaters & Systems: circulation, immersion, tank and air heaters, and control systems
- Heat Tracing: heat trace cables, controls and sensor systems
- Component Technologies: flexible, band, nozzle, strip, ring and tubular heaters, sensors, and controls

**Delivering:**
- Efficient thermal energy management and control solutions for improved industrial processes

www.chromalox.com

### Niche peristaltic pumps and associated fluid path technologies

**Uses:**
- Pumping and fluid transfer in difficult pumping applications
- From biotechnology processes that demand sterility and precision to corrosive slurries in precious metal processing

**Benefits of peristaltic pumps:**
- Hygienic applications: fluid is contained within a tube, a sterile tube makes a sterile pump
- Dirty applications: fluid is contained within a tube, it does not damage or contaminate the pump
- Gentle pumping action
- Low maintenance
- Highly accurate pumping

**Products:**
- Ten established brands offering: pumps, tubing, specialty filling systems and single use fluid path technologies

**Delivering:**
- Highly accurate pumping and fluid path solutions

www.wmfftg.com

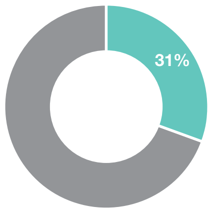
# Our performance at a glance

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

| | Revenue | Operating profit* | Operating margin* |
|---|---|---|---|
| | £169.1m | £35.8m | 21.2% |
| Reported | +23% | +18% | -80 bps |
| Organic | +3% | +0% | -60 bps |

Organic sales up 3%, organic operating profit flat. Strong sales growth in Germany, Italy, Iberia; France and UK down. Good underlying demand; uncertainties delay large projects. Gestra adds £26.1m sales; raises EMEA profit 14%. Three new companies: Maghreb, Hungary and Romania. Margin down 80 bps; diluted by Gestra and investments for growth. Despite market uncertainty; expect further progress in 2018.

**Group revenue %**

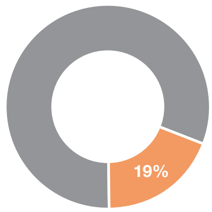



## Asia Pacific Steam Specialties

| | Revenue | Operating profit* | Operating margin* |
|---|---|---|---|
| | £104.7m | £28.5m | 27.2% |
| Reported | +7% | +14% | +170 bps |
| Organic | +8% | +17% | +220 bps |

Organic sales up 8%, organic operating profit up 17%. Currency headwind: reduces sales 2% and profit 3%. China, Korea, Australasia and Japan ahead; large project sales strong. India making progress, performing in line with expectations. New Singapore distribution centre improving customer service. Margin up 170 bps to 27.2%; organic increase 220 bps. Despite uncertainties, well positioned for further progress.

**Group revenue %**

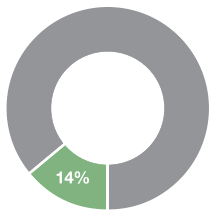



## Americas Steam Specialties

| | Revenue | Operating profit* | Operating margin* |
|---|---|---|---|
| | £75.1m | £17.2m | 22.9% |
| Reported | +4% | +25% | +380 bps |
| Organic | +13% | +54% | +620 bps |

Organic sales up 13%; up 10% excluding Argentine effect. Organic operating profit up 54%; up 30% excluding Argentine benefit. North America, organic sales up 8%, good growth in USA. Latin America, organic sales up 20% despite difficult markets. Strong growth by Gestra USA, adds 3% to sales; strong H1 for Hiter. Organic margin up 620 bps; excluding Argentine benefit up 260 bps. Overall, remain positive; expect further progress in 2018.

**Group revenue %**



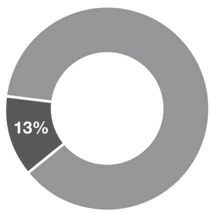

## Chromalox

(Acquired July 2017)

| Revenue | Operating profit* | Operating margin* |
|---|---|---|
| £72.1m | £10.6m | 14.7% |

Sales slightly ahead of expectations; up 7% on prior year. Strong growth from MRO, small improvement projects. Added direct sales resources in USA, EMEA, Latin America. Three new sales offices; eight new products launched. Stepped up investments: Health & Safety, manufacturing. Profit down 9% on H1 2017; stepped up investments for growth. Anticipate margin decline in full year 2018; investing for growth.

**Group revenue %**

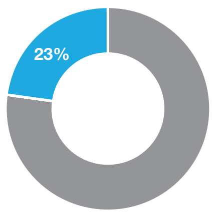



## Watson-Marlow

| | Revenue | Operating profit* | Operating margin* |
|---|---|---|---|
| | £126.6m | £39.4m | 31.1% |
| Reported | +5% | +4% | -30 bps |
| Organic | +9% | +11% | +60 bps |

Organic sales up 9%; strong growth in all regions. Biopharm & Biotech markets very strong. Aflex sales and profit ahead of plan. Profit up 11% organically, despite increased investment. Margin down 30 bps due to exchange; up 60 bps organically. Acquired small pre-revenue company; increased R&D investments. Anticipate margin decline in 2018; investing for growth.

**Group revenue %**




* Adjusted performance measures exclude items that are set out and explained in Note 2. Organic measures are at constant currency and exclude incremental contributions from acquisitions.

# Review of operations

| | HY 2017 | Exchange | Organic | Acquisitions | HY 2018 | Organic | Reported |
|---|---|---|---|---|---|---|---|
| Revenue | £428.6m | (£12.5m) | £30.0m | £101.5m | £547.6m | +7% | +28% |
| Adjusted operating profit | £101.2m | (£4.9m) | £14.2m | £15.2m | £125.7m | +15% | +24% |
| Adjusted operating margin | 23.6% | | | | 23.0% | +170 bps | -60 bps |

## Economic environment

As expected, overall global industrial production growth rates, excluding China, were similar to the first half of last year with some regional variations. In the Americas, industrial production growth was much stronger, driven by recoveries in the USA and Latin America. European industrial production growth was very similar to the first half of 2017, while Asia excluding China, softened modestly due to Japan and Korea. For China, our primary source of economic data, CHR Economics, is reporting a much stronger decline in industrial production growth than other economic commentators, although to date we have not experienced a softening in demand.

## Sales

Sales grew strongly in the first half of the year, up 28% to £547.6 million (2017: £428.6 million). Organic growth, excluding acquisitions and on a constant currency basis, was 7%. Growth was supplemented by an additional four months of revenue from Gestra, which joined the Group in May 2017, and six months of revenue from Chromalox, which was acquired in July 2017. On average in the first half of the year, sterling was stronger against the basket of currencies that we trade in, compared to the same period in 2017, with last year's tailwind becoming a 3% headwind in this period.

Organic sales growth was just under 7% in our Steam Specialties division. Growth in Europe, Middle East and Africa (EMEA) at 3% was similar to the same period in the prior year with strong growth in Germany, Italy and Iberia being somewhat offset by contractions in France and the UK. Despite a strong performance last year, Asia Pacific increased organic sales growth to 8% with a strong performance from China and good growth in Korea and Japan. The strong growth of 13% in the Americas was positively impacted by the unexpected devaluation of the Argentine currency in May 2018. As prices in Argentina are US dollar-denominated the devaluation led to large price increases in local currency. Excluding the non-recurring effect of the Argentine growth we saw organic growth of 10% with the USA delivering 7%, their best result for some time. On a reported basis all segments benefited from the additional four months of Gestra's sales, which contributed 10% to reported growth in the Steam Specialties division. For reference, Gestra's sales were up 11% on a constant currency basis against the same period in the prior year, which included the weak second quarter of transition from the previous ownership. Gestra's integration is progressing to schedule and its overall performance remains in line with expectations.

Watson-Marlow had a good start to the year with organic sales growth similar to the first half of last year at 9%. Growth was seen across all geographic regions with a particularly strong performance in Asia Pacific.

Chromalox contributed 17% to reported sales growth and its integration continues progressing in line with our acquisition plan. For reference, Chromalox's sales were up 7% on the same period of the prior year on a constant currency basis, slightly ahead of our expectations.

## Profit

Group adjusted operating profit grew strongly in the first half of the year, up 24% to £125.7 million (2017: £101.2 million). This growth was aided by the additional four month contribution from Gestra and six months from Chromalox but hindered by negative exchange impacts. On an organic basis adjusted operating profit grew 15%, driven by the organic growth in sales, operational gearing and the larger than expected devaluation of the Argentine currency mentioned above. Excluding the non-recurring element from Argentina we saw organic profit growth of 12%.

In the Steam Specialties division, adjusted operating profit was 15% higher on an organic basis reflecting the good sales growth and the boost from the Argentine currency devaluation in the Americas. In EMEA, profit was flat on the back of increased investment, particularly in new territories, and some lower margin large projects. Asia Pacific performed strongly with organic operating profit growth of 17% with China, Australasia and Japan performing very well. Overall in the Americas operating profit jumped 54% organically. Excluding the Argentine devaluation effect, which saw large price increases and positive in-country foreign exchange gains which resulted in a non-recurring profit of £2.6 million, organic growth was 30% with the USA performing

"We are very pleased to report strong organic sales growth of 7% in the first half, ahead of global industrial production growth, and organic operating profit growth of 15%."

**Nicholas Anderson**
**Chief Executive**

# Review of operations *continued*

strongly. On a reported basis all segments benefited from the additional four months of Gestra which contributed 7% growth to the Steam Specialties division. For reference, Gestra's profit was up 30% on the same period in the prior year on a constant currency basis, primarily due to comparison with the weak second quarter in 2017 plus a small number of one-off operational items that benefited the first half of this year.

Chromalox contributed 11% to reported growth and, overall, continues to perform in line with its acquisition plan. For reference and as expected, Chromalox's profits were down 9% on a constant currency basis against the same period of the prior year as we stepped up our investments for future growth.

Watson-Marlow's organic operating profit grew by 11%, despite increased levels of investment. Aflex, which joined the Group in November 2016, and Europe performed especially well. In the USA, Watson-Marlow's largest market, increased investment, kept profit flat.

Despite the dilutionary effects of the Gestra acquisition and currency movements, the Steam Specialties division's operating margin grew from 22.4% to 23.4%. On an organic basis, excluding the non-recurring Argentine profit, the margin grew by 100 bps. As expected, the operating margin in Watson-Marlow decreased, from 31.4% to 31.1%, as the impact of currency movements and increased investment outweighed the benefits of operational gearing and efficiencies. On an organic basis Watson-Marlow's margin increased by 60 bps. In total, the Group operating margin reduced from 23.6% to 23.0%. Stripping out the impact of currency and acquisitions, the Group margin improved by 170 bps. Excluding the unplanned benefit from the Argentine devaluation, the improvement was 110 bps.

Net finance expense increased from £2.0 million to £5.1 million reflecting the increased debt taken on in the prior year to finance the acquisitions of Gestra and Chromalox. This includes pension interest of £1.0 million, down from £1.7 million in the prior period as a result of lower pension liabilities. We anticipate the full year interest charge to be in the region of £11 million, including a charge of £2 million relating to the pension deficit.

Adjusted pre-tax profit increased by 22% to £120.6 million (2017: £99.2 million). The pre-tax profit for the first half year on a statutory basis was £106.8 million (2017: £88.5 million). The reconciling items between the two are shown in Note 2 and consist almost entirely of amortisation of acquired intangible assets.

The overall tax rate, based on the adjusted profit before tax, was lower at 27.1% (2017: 29.1%) due primarily to the tax reforms introduced in the USA in the period; we anticipate a similar rate for the full year.

## Currency impacts

The favourable currency tailwind, experienced following the UK's decision in June 2016 to exit the European Union, became a headwind in the period as sterling strengthened against the basket of currencies that we trade in. On a translation basis, sales and profits decreased by 3% while transaction further impacted profit, giving a total reduction to profit from currency movements of 5%.

Note 14 includes a table of the Group's significant exchange rates.

## Earnings per share

Adjusted basic earnings per share increased by 25% to 119.2 pence (2017: 95.5 pence). Basic earnings per share on a statutory basis was 105.1 pence (2017: 82.7 pence).

## Dividends

The Board has declared an interim dividend of 29.0 pence (2017: 25.5 pence) per ordinary share, an increase of 14%. The dividend will be paid on 9th November 2018 to shareholders on the register at the close of business on 12th October 2018. The final dividend of 62.0 pence per share in respect of 2017 was paid on 25th May 2018 at a cash cost of £45.7 million.

## Strategy

Our businesses are market leaders that serve very diverse markets across a wide range of different industries, geographic regions, customers and products. As steam and electrical heating are 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 to the solution of customers' energy and water saving, $CO_2$ reduction, productivity, quality and sustainability targets.

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.

During the first six months of the year we have made progress on a number of these themes. Having completed the initial roll-out of the Spirax Sarco Academy's "white belt" and "yellow belt" programmes to all Spirax Sarco Steam Specialties' sales and service engineers in 2017, we started the roll-out of the Academy's "orange belt" programmes in 13 languages, with three more languages to be completed by the end of the year. We also launched the next level programme, "green belt", for English-speaking sales and service engineers, as well as the Technical Support Programme up to "green belt" for sales support personnel. Through the programmes of the Academy, over 1,200 employees in close to 60 countries are deepening their applications knowledge, making them better able to identify and meet customers' unrecognised needs.

We have further broadened our global presence, with new Spirax Sarco sales companies commencing trading in the Maghreb (Morocco, Algeria and Tunisia), Hungary and Romania; Watson-Marlow sales companies trading in the UAE and Malaysia; Chromalox direct sales offices established in Spain, the UAE and the USA west coast; a Gestra direct sales presence established in Korea and Indonesia; and strengthened Gestra's direct sales presence in the USA, UK and Poland.

New product developments have also continued, with an extension of the Qdos pump range by Watson-Marlow and the launch of a new aseptic liquid filler, the PF7, by Watson-Marlow Flexicon; and eight product launches by Chromalox, including the CXHXD XtremeDuty Hazardous Area Unit Heater. Chromalox has undertaken extensive work to reduce Health & Safety risk across its manufacturing operations and established management teams in each of the Group's five sustainability pillars: our workplaces, our supply chain, our environment, our customers and our communities.

| Adjusted cash flow | 30th June 2018 £m | 30th June 2017 £m |
|---|---|---|
| Adjusted operating profit | 125.7 | 101.2 |
| Depreciation and amortisation | 15.4 | 14.0 |
| **Adjusted earnings before interest, tax, depreciation and amortisation** | 141.1 | 115.2 |
| Cash payments to pension schemes (greater)/less than the charge to operating profit | (0.4) | 2.1 |
| Equity settled share plans | 2.9 | 1.7 |
| Working capital changes | (34.1) | (19.5) |
| Net capital expenditure (including software and development) | (15.8) | (14.6) |
| **Cash from operations** | 93.7 | 84.9 |
| Net Interest | (4.1) | (0.3) |
| Income taxes paid | (28.9) | (25.8) |
| **Free cash flow** | 60.7 | 58.8 |
| Net dividends paid | (45.9) | (39.4) |
| Net (payment)/proceeds from the purchase of Employee Benefit Trust shares and issue of shares | (6.6) | 0.6 |
| Acquisitions (including costs) | (2.9) | (158.0) |
| **Cash flow for the period** | 5.3 | (138.0) |
| Exchange movements | (4.7) | (3.2) |
| Opening net (debt)/cash | (373.6) | 27.4 |
| **Net debt at 30th June** | (373.0) | (113.8) |

## Acquisitions

Following an especially active period for the Group in 2017, we do not anticipate making any significant acquisitions in the remainder of 2018 as we focus on the integration and performance 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.

Consideration on a cash-free, debt-free basis was €3.0 million with up to a further €6.5 million to be paid if the company achieves certain technical specifications. We currently believe that these specifications will be met in the second half of this year and consequently payment of the €6.5 million will be made in the first half of 2019.

## Balance sheet and cash flow

Capital employed increased by 3.7% since the beginning of the year, to a reported £497.5 million at 30th June 2018. Net investment in fixed assets was marginally higher than depreciation in the first half year as we continue to invest in the business in particular the recent acquisitions. The traditional second half weighting of capital expenditure 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.

Cash generation remains a priority, with 75% cash conversion in the first half, and we continue to focus on maintaining a strong balance sheet. Net debt at 30th June 2018 was £373.0 million compared to net debt of £373.6 million at 31st December 2017, this equated to 1.3x EBITDA. Adjusted Free Cash Flow of £60.7 million was 3% higher than the prior year. Working capital increased as inventory levels rose ahead of the second half, particularly in the acquisitions, as we increase their proportion of direct sales and focus on customer delivery satisfaction. At constant currency working capital as a percentage of the last twelve month's sales increased by 20 bps to 25.1%. We continue to expect the ratio of net debt to EBITDA to be in the region of 1.0 at 31st December 2018.

The defined benefit pension deficit fell in the half year and was, before any associated deferred tax assets, £75.0 million at 30th June 2018 compared to £85.6 million at 31st December 2017.

## 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 has been supplemented by the two significant acquisitions made in 2017, which broaden the platform from which future organic growth will be derived.

We envisage the impact of exchange rates to be similar in the second half of the year. If spot rates at 30th June 2018 prevail for the remainder of the year, the negative impact of translation and transaction on sales and operating profit for the full year, compared with the full year 2017, would be close to 3% and 5% respectively. Movements in exchange rates are often volatile and unpredictable, therefore the actual impact could be significantly different.

Our markets remain strongly influenced by industrial production growth rates and due to the increased levels of macroeconomic uncertainty, forecasts of these rates for the second half of 2018 vary depending on the source. Our operating assumption for the remainder of the year is for a relatively stable macroeconomic environment, with a slightly weaker global industrial production growth rate than in the first half of the year. We expect weaker second half industrial production growth rates in Europe, China and Latin America, while North America and Asia (excluding China) should maintain the good industrial production growth rates of the first half of 2018. The Group continues to have limited forward visibility of demand, with order books in the range of seven to eight weeks of order intake. In the Steam Specialties business, we anticipate lower levels of organic growth in the second half of 2018 due to comparison with a strong second half in 2017 and continue to expect mid-to-high single digit growth in Watson-Marlow. Our expectation for Gestra and Chromalox is that growth, over their full year 2017 sales, will be at a rate slightly above that of our Spirax Sarco Steam business for the full year 2018.

In the second half of the year, we expect our continued revenue investments for future growth to offset the positive operational gearing effect from higher sales, maintaining margins at similar levels to the first half of 2018.

The strong performance in the first half of this year is in line with our expectations and therefore, overall, our full year expectations remain unchanged. Assuming no significant deterioration in trading conditions, the Board remains confident that the Group will continue to make progress in 2018.

# Europe, Middle East and Africa (EMEA)

## Steam Specialties

| | HY 2017 | Exchange | Organic | Acquisitions | HY 2018 | Organic | Reported |
|---|---|---|---|---|---|---|---|
| Revenue | £137.9m | £1.0m | £4.1m | £26.1m | £169.1m | +3% | +23% |
| Adjusted operating profit | £30.4m | £1.0m | £0.1m | £4.3m | £35.8m | +0% | +18% |
| Adjusted operating margin | 22.0% | | | | 21.2% | -60 bps | -80 bps |

### Market overview

Having strengthened through the latter-half of 2017, industrial production growth rates were relatively strong throughout much of the region in the first quarter of this year, but began to slow in the second quarter, giving an average growth rate for the first half of around 3%. A lack of clarity surrounding post-Brexit trade agreements and growing rhetoric regarding trade wars and protectionism are beginning to impact investment confidence in the region. Oil prices continued to recover throughout the first half of 2018, strengthening the Oil & Gas markets and also the German Power Industry market, an important sector for Gestra.

### Progress in the Half Year

EMEA had a solid first half with 3% organic sales growth and £26.1 million added by an additional four months of Gestra. Over 85% of Gestra's sales are reported in EMEA. Exchange acted as a tailwind, adding less than 1% growth, resulting in reported sales of £169.1 million, up 23%.

Organic growth in the region was mixed with very good growth in Germany, Italy, Iberia and some of our smaller markets, such as Denmark and the Netherlands, somewhat off-set by contractions in France and the UK, with market confidence in the latter affected by Brexit uncertainty. Throughout the region, customer appetite for small and medium-sized projects that increase operational efficiency, improve thermal energy management and customer sustainability, and give a good return on investment from customers' operating and maintenance budgets, has remained healthy. Large project orders have begun to be affected by the uncertainty surrounding post-Brexit trade terms and concerns over the impact of protectionist rhetoric and actions from the USA.

Gestra had a strong first half, benefiting from good sales to end users in the Chemical, Petrochemical and Power industries and robust sales to OEM boiler makers. After a short period of uncertainty following the acquisition, Gestra's distribution partners have now demonstrated their confidence in the longevity of the Gestra brand and are delivering sales growth.

On an organic basis, growth in operating profit from operational leverage was counteracted by increased investment for future growth. Gestra added 14% to profit, aided by a number of one-off operational items, and a positive impact of 3% from exchange grew reported profit to £35.8 million. The reported operating margin reduced by 80 bps due to the dilutionary impact of Gestra and increased investment.

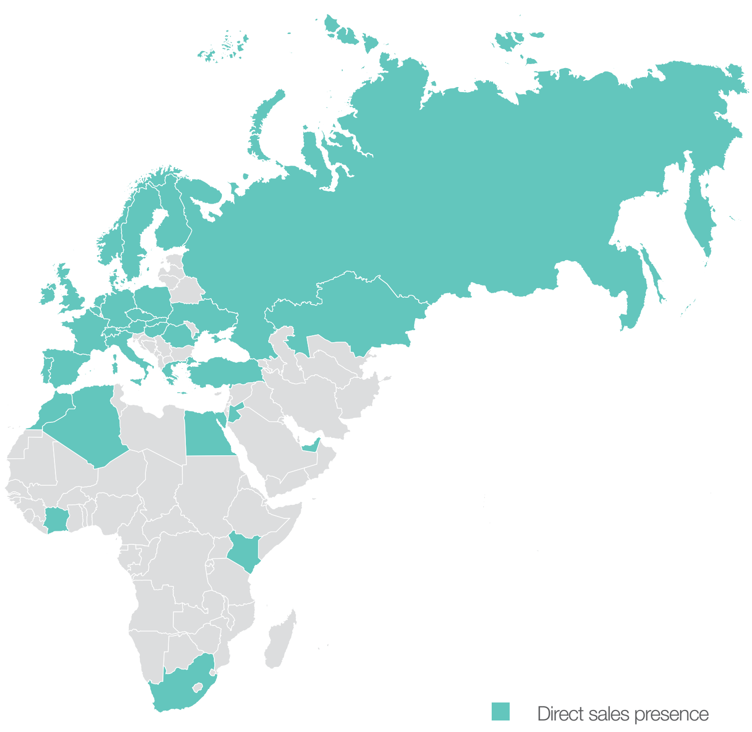
### Strategy update

Three new Spirax Sarco operating companies commenced trading in the region in the first half of the year, in the Maghreb (covering Morocco, Algeria and Tunisia), Hungary and Romania, providing a direct sales presence in these growing markets. A focus on key market sectors is delivering results, with strategic sectors achieving double the growth of the general business in the region. The Spirax Sarco Academy is in regular use, having been rolled out to all Spirax Sarco sales and service engineers in the region, deepening their sector and application knowledge and improving the capability and confidence of our customer facing employees. Gestra strengthened its direct sales presence in the UK and Poland.

Gestra's new logo and visual identify was launched at the Frankfurt Achema exhibition in June, and acts as a powerful tool to reinforce to customers our commitment to the brand and our investment in the company's future.

### Outlook

While forecasts suggest that industrial production growth will remain positive for the year as a whole, month-on-month output statistics are weakening. Industrial production growth is likely to slow further through the third and fourth quarters of 2018. Lack of material progress in Brexit negotiations and related trade uncertainty could weigh heavily in the region in the second half as investment decisions are withheld until more clarity is given. Nevertheless, our resilient business model and our ability to self-generate sales from small improvement projects, as well as the significant proportion of revenue generated from maintenance and repair orders, mean that we remain confident in our ability to achieve further growth.



# Asia Pacific

## Steam Specialties

| | HY 2017 | Exchange | Organic | Acquisitions | HY 2018 | Organic | Reported |
|---|---|---|---|---|---|---|---|
| Revenue | £97.9m | (£2.0m) | £7.6m | £1.2m | £104.7m | +8% | +7% |
| Adjusted operating profit | £25.0m | (£0.7m) | £4.2m | £0.0m | £28.5m | +17% | +14% |
| Adjusted operating margin | 25.5% | | | | 27.2% | +220 bps | +170 bps |

### Market overview

The lower industrial production growth rates seen in the region in the second half of 2017, continued throughout the first half of 2018 especially in Korea and Japan, but with most markets still experiencing growth. In China we have not yet perceived any softening in the markets that CHR Economics suggests occurred in the first half of 2018. Despite the introduction of the nationwide Goods and Services Tax in India, industrial production saw strong growth and most of our smaller markets across Southeast Asia and Australia also saw good levels of industrial production growth.

### Progress in the Half Year

Organic sales in Asia Pacific were up 8%, buoyed by good industrial production growth in many parts of the region as well as increased sales effectiveness as a result of the implementation of our strategy. Small project business and maintenance and repair sales were robust as training – delivered through the Spirax Sarco Academy – continued to improve the capabilities of our sales engineers, enabling them to more effectively identify opportunities to meet customers' unrealised needs. Large project sales were strong and ahead of the same period in the prior year. The regional distribution centre in Singapore, which became operational in the latter half of 2017, has improved customer service in the region, providing faster response times and increased availability of products; contributing to the good organic growth seen in the first half. The added capacity from our new manufacturing facilities in China and India has also served to improve customer service; increasing the availability of locally manufactured products. China was well ahead of the prior year, as were some of our smaller markets, including Australia, Japan, New Zealand and Vietnam. Korea was ahead of the prior year despite a softer market. Our new direct sales and manufacturing operation in India continues to progress, with overall performance in line with our expectations. Gestra, which has a small presence in the region, contributed almost 2% to sales, while exchange headwinds had a negative 2% impact. Reported sales of £104.7 million were up 7% on the prior year.

Operating profit increased to £28.5 million; with good organic growth contributing 17%. A negative exchange impact reduced profit by 3%, giving a reported 14% increase in profit over the prior year. Operating margin expanded 170 bps despite the exchange headwind and inflationary pressures, as we pursued active price management strategies and saw the benefits from an increase in generally higher-margin, self-generated project sales.

### Strategy update

The initial programmes of the Spirax Sarco Academy have now been fully rolled out across the region, with programme materials available in all core Asian languages. Noticeable results have already been achieved, as outlined above. Within our largest operating company in the region, China, a Thermal Energy Solutions team has been established to more effectively provide turnkey solutions to customers and increase sales within this important, and growing, product area. Gestra expanded its direct sales presence, recruiting local sales engineers in Korea and Indonesia.

### Outlook

The outlook for the region remains generally positive although a range of factors, such as protectionism and its impact on global trade, volatility in foreign exchange movements and rising interest rates, do cast a shadow on an otherwise relatively bright horizon. Despite such uncertainties, we expect to continue to make progress in the region as we focus on the implementation of our strategy, strengthen the capabilities of our sales and service teams and tap into the growth potential of the Asian markets.

# Americas

## Steam Specialties

| | HY 2017 | Exchange | Organic | Acquisitions | HY 2018 | Organic | Reported |
|---|---|---|---|---|---|---|---|
| Revenue | £72.3m | (£7.5m) | £8.2m | £2.1m | £75.1m | +13% | +4% |
| Adjusted operating profit | £13.8m | (£2.8m) | £5.9m | £0.3m | £17.2m | +54% | +25% |
| Adjusted operating margin | 19.1% | | | | 22.9% | +620 bps | +380 bps |

### Market overview

Industrial production growth rates were generally positive throughout the region in the first half year; the USA saw its highest growth rate for a number of years, at over 3%. The positive growth across most of the region belies some on-going challenges in Latin America, with strong currency devaluation, austerity measures and inflation in Argentina, and presidential elections in Peru, Colombia, Mexico and Brazil that have created political and economic uncertainty. The threat of a protracted trade war remains, following the US administration's decision to impose tariffs on imported steel, which is creating uncertainty that may weigh on the region going forward.

### Progress in the Half Year

On an organic basis sales were strongly ahead 13%, with exchange having a 10% negative impact and Gestra, which has a small presence in the region, adding a further 3%, giving reported sales of £75.1 million. Excluding the impact of Argentina's unexpected currency devaluation in May 2018, organic sales were up 10%.

Organic sales in North America were 8% ahead of the prior year, with the USA achieving 7% growth, their best result for some time. The steady increase in oil prices boosted infrastructure investment and augmented maintenance and repair demand in both the USA and Canada. The improved economic conditions, oil & gas investments and a prolonged winter on the east coast, contributed to an increase in distributor sales in the USA, and our investments in direct sales personnel further strengthened our performance. Large customers, particularly in the Food & Beverage industry, continue to offer opportunities for growth as we provide audits and bespoke Thermal Energy Management solutions to improve their operating efficiency, reduce energy use and meet their sustainability goals.

Organic sales were 20% ahead in Latin America, benefiting in part from the US dollar-denominated pricing in Argentina. Excluding the benefit from Argentina's unexpected devaluation, organic sales growth in Latin America was 13%. Mexico, Brazil and Argentina all made good progress in difficult markets, aided by our strong business model that delivers self-generated opportunities, insulating our companies from some of the worst effects of challenging conditions. Hiter, acquired in 2016, had a very strong first half, regaining market share with a focus on delivering reliably to customer request reflected in increased sales.

Operating profit in the Americas was strongly ahead of the prior year; up 54% at a reported £17.2 million. Excluding the non-recurring £2.6 million impact of Argentina's currency devaluation, which saw large price increases and positive in-country foreign exchange gains, organic growth was 30%. Reported operating margin was strongly ahead at 22.9%, up 380 bps, and up 620 bps organically. Stripping out the non-recurring impact of the Argentine currency devaluation, operating margin increased by 260 bps due to operational leverage from increased volume and careful price management, with value-based pricing, that enables us to cover the engineering and design costs associated with the creation of bespoke customer solutions, off-setting cost inflation.

### Strategy update

Our strategic focus on core industries (sectorisation) is delivering results with sales in target industries consistently achieving faster growth than the sectors themselves and our historical growth rates. The Spirax Sarco Academy rollout to non-English speaking countries is proceeding well; with all sales personnel in the region enrolled and advancing through the tiered technical and commercials "belts" of the Academy's programmes. We have focused on improving our on-time-to-request customer service measures and our recently appointed, regional Health & Safety managers are raising the bar on safety management in the region. Gestra strengthened its sales presence in the USA with the addition of new sales engineers.

### Outlook

We expect to make further progress in North America in the second half, with US industrial production growth likely to remain strong. In Latin America, challenging conditions are set to continue with higher uncertainty and disruptions in Brazil until the outcome of the presidential election is clear; but with the possibility that oil price rises could stimulate investment. In the face of intense inflation and currency devaluation, growth is likely to stall in Argentina, while in Mexico we anticipate conditions to be dampened but not derailed by the weaker peso and volatility created by NAFTA negotiations. Overall, we remain positive about the region and will continue to maintain our focus on strengthening our direct sales teams, while identifying and delivering opportunities for self-generated growth.

# Chromolox

## Acquired July 2017

| | HY 2017 | Exchange | Organic | Acquisitions | HY 2018 | *For reference only HY 2017 @ HY 2018 FX* | |
|---|---|---|---|---|---|---|---|
| Revenue | £0.0m | – | – | £72.1m | £72.1m | £67.3m | +7% |
| Adjusted operating profit | £0.0m | – | – | £10.6m | £10.6m | £11.7m | -9% |
| Adjusted operating margin | | | | | 14.7% | 17.4% | -270 bps |

### Market overview

Electrical process heating and temperature management solutions specialist, Chromalox, generates over 70% of its revenue in North America, predominantly in the USA, with EMEA, Asia Pacific and Latin America, in that order, contributing the rest. As with the Group's other businesses, industrial production growth rates provide a good indicator of market conditions for Chromalox as its products are widely used across a diverse range of industries and industrial processes.

The improved industrial production growth rates seen in the USA during the first half, as well as the higher oil price (the Oil & Gas sector accounts for c.16% of Chromalox's sales) provided a positive operating background in the first half of the year. Outside North America, industrial production was also largely positive in the territories in which Chromalox operates, with solid growth rates in EMEA and Asia Pacific, and progress in Latin America despite political uncertainty and currency devaluation in a number of countries.

### Progress in the Half Year

Chromalox achieved reported sales of £72.1 million in the first half, slightly ahead of our expectations for the period. For reference purposes, on a comparable basis, sales were 7% up at constant currency, compared with the same period of the prior year and before our acquisition. Sales in the first half were helped by the increased sales resources added since the acquisition and supported by improved macroeconomic conditions. Also, a particularly cold start to the year on the USA's east coast resulted in increased demand for Heat Trace products. All of the growth in the first half came from maintenance, repair and small improvement project orders. These were robust throughout the period with strong sales across several end markets.

Operating profit of £10.6 million was lower than the prior year, primarily due to an accelerated programme of safety upgrades undertaken at several facilities and a step up from the planned strategic revenue investments for growth. For reference purposes only, operating profit was 9% lower at constant currency, compared with the prior half year. The operating margin, at 14.7%, was also lower, due to the factors already explained.

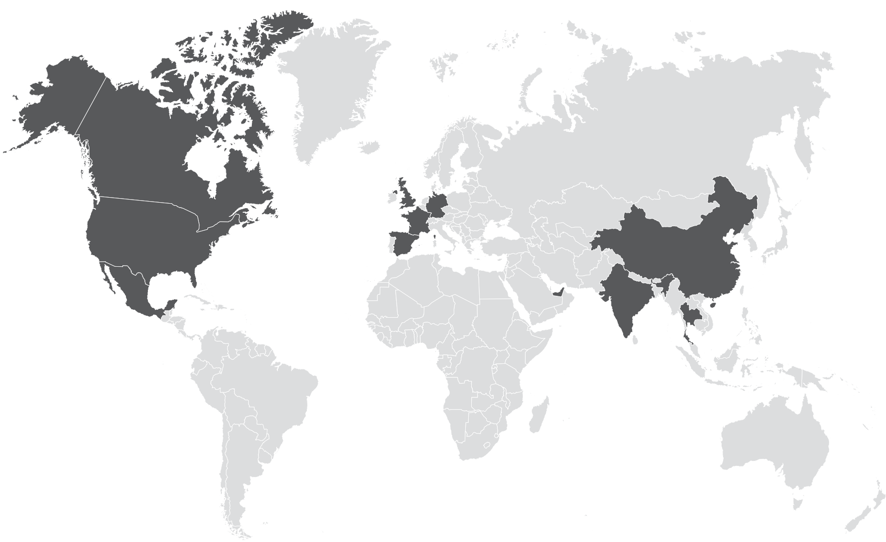
### Strategy update

Following a comprehensive strategic review during the second half of 2017, Chromalox invested in a number of strategic priorities during the latter half of 2017 and the first half of 2018. An important element of the strategy is to increase direct sales coverage. To penetrate the US market more deeply, Chromalox enhanced their global Heat Trace Integrated Solutions organisation, added extra sales resources across EMEA and Latin America, and established a direct sales office on the west coast, with eight new sales positions created. The customer response has been very positive, with a significant increase in orders seen over the same period of the prior year.

In addition, Chromalox established direct sales offices in Spain and the UAE, co-located with Spirax Sarco operating companies. Eight new products were launched during the first half of the year, including the CXHXD XtremeDuty Hazardous Area Unit Heater, designed for corrosive, wet, hazardous locations that require equipment to withstand very cold temperatures (to -55 °C for the Arctic model). In the first half, Chromalox significantly accelerated investment in Health and Safety (H&S), with a new management structure established, an aggressive programme of improvements to machine guarding across all manufacturing facilities, the rollout of an extensive H&S training programme, and improved reporting processes and metrics established.

### Outlook

With North America's economic outlook currently forecast to remain positive for the remainder of the year, we expect Chromalox to make further progress in 2018 and continue performing in line with our expectations. We will continue to make the strategic investments that are required to position the business for growth in the medium to long term; such as strengthening direct sales capacity, expanding geographically, investing in new product development and making any necessary capital investments to ensure the safety and well-being of our employees and the improved efficiency of our plants and processes. We anticipate that the second half trading margin will be closer to 2017's full year level, as investments for growth and unfavourable currency headwinds are partially offset by gains from operational leverage and efficiency improvements.



Direct sales presence

Overview
Financial Statements
Corporate Information

# Watson-Marlow

| | HY 2017 | Exchange | Organic | Acquisitions | HY 2018 | Organic | Reported |
|---|---|---|---|---|---|---|---|
| Revenue | £120.5m | (£4.0m) | £10.1m | £0.0m | £126.6m | +9% | +5% |
| Adjusted operating profit | £37.9m | (£2.4m) | £3.9m | £0.0m | £39.4m | +11% | +4% |
| Adjusted operating margin | 31.4% | | | | 31.1% | +60 bps | -30 bps |

## Market overview

Watson-Marlow's geographic presence and wide industrial customer base is broadly similar to the Steam Specialties division and, as such, the economic conditions and industrial production growth rates experienced by Watson-Marlow in its markets are reflective of those experienced elsewhere in the Group. Nevertheless, the Pharmaceutical & Biotechnology industry that accounts for over 40% of Watson-Marlow's revenue is less sensitive to global movements in industrial production and was buoyant across all geographical regions. Other markets were more mixed. Food & Beverage was up in all regions, with the strongest growth coming from less developed markets especially in Asia and Latin America, with developed regions marginally up or broadly flat. Environmental markets saw growth in North America and Europe, while Mining saw a strong pick-up in Africa and Asia Pacific, driven largely by precious metals and lithium extraction. OEM markets were down in North America, compared to a strong 2017, although ahead in Europe, Latin America and Asia.

## Progress in the Half Year

On an organic basis sales increased by a little under 9%. Currency headwinds had a 3% impact, resulting in reported sales of £126.6 million; a 5% increase on the prior year. All geographic regions saw good organic sales growth. Within Europe, we experienced little impact from on-going Brexit negotiations, with a strong performance in the UK. Asia Pacific saw excellent growth, helped by a thriving Biopharmaceutical market. Buoyed by improving customer confidence and a strong economic outlook, North America saw good growth, particularly in the Biopharmaceutical and Environmental markets. However, trade war rhetoric has served as a headwind, dampening project spend in general industrial markets. Despite political uncertainty in Brazil and Mexico and currency devaluation in Argentina, Watson-Marlow's operations in Latin America continued to perform strongly with investments in local pharmaceutical production providing a boost to sales and increasing commodity prices lifting the mining industry in the region.

Aflex Hose, acquired in November 2016, has integrated well and is performing strongly with sales ahead of plan and up on the prior year. Watson-Marlow Ireland and Watson-Marlow Canada are growing strongly in their second year of operation, while our newest sales company in the United Arab Emirates began trading this year and got off to a strong start, performing well ahead of expectations.

Watson-Marlow's operating profit of £39.4 million was up 11% on an organic basis, with currency headwinds having a 6% negative impact on reported results. At 31.1% the reported operating margin was, as expected, down 30 bps on the prior year due to the impact of exchange. On an organic basis, margin was ahead 60 bps as operational leverage gains and efficiency improvements temporarily outpaced strategic reinvestments in the business.

## Strategy update

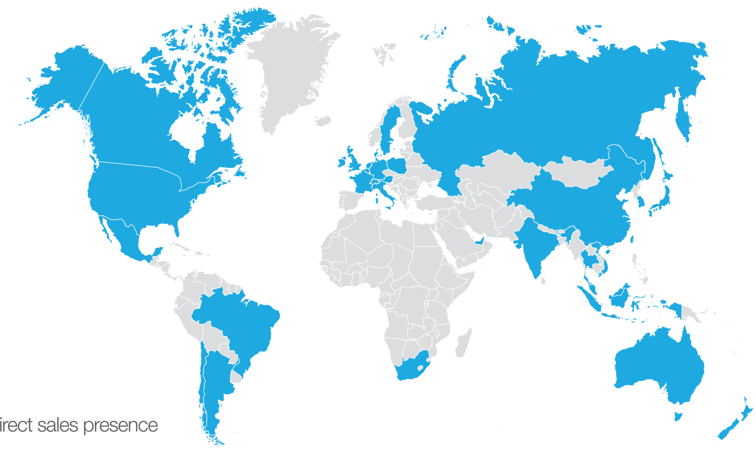
In April, Watson-Marlow won a Queen's Award for Innovation for its Qdos range of chemical metering pumps. The range was further extended in the first half of the year with the launch of the Qdos 20, an aggressive chemical metering pump designed to offer highly accurate sodium hypochlorite metering with flow rates up to 20 litre/hr.

In January 2018, we acquired a small pre-revenue company to continue expanding the technical capabilities of our peristaltic pumping technologies, boosting our product development expenses by approximately £1.5 million a year, over the next two years.

At Achema 2018, Watson-Marlow showcased a number of new products including the new Flexicon PF7 aseptic liquid filler, for operation in the Pharmaceutical, Biotechnology, and Diagnostics industries. Engineered with Flexicon's trademark precision performance, the PF7 has an intuitive operator interface to reduce the risk of costly filling errors. Watson-Marlow also previewed the Flexicon FPC60, a uniquely configurable small batch aseptic filling system offering highly accurate filling from less than 0.2ml up to 100ml, which will be launched later this year. In the USA, newly formed, fully direct sales teams have fuelled strong double digit growth in the Biotechnology hubs of Massachusetts, California and North Carolina. These sales teams have also played an important role in commencing the journey to convert Aflex's route to market from distributor to direct selling, with strong initial results.

## Outlook

The outlook for 2018 remains relatively unchanged, with market conditions similar to those seen in 2017. We anticipate that the Pharmaceutical & Biotechnology market will be robust throughout the year, and we remain well placed to capitalise on the opportunities that arise from growth in this important market. Our expectation of mid-to-high single digit organic sales growth for the full year remains unchanged. Currency headwinds are expected to continue throughout the year, partially offset by rigorous and disciplined price management strategies. Operating leverage gains will continue to be offset by our increased revenue investments for growth, including spend on product development, and thus we continue to anticipate a margin decline in 2018 similar to the organic margin decline of 2017.



Direct sales presence

# Principal risks

## Principal risks and uncertainties

The Group has processes in place to identify, evaluate and mitigate the principal risks that could have an adverse impact on the Group's performance. The principal risks together with a brief 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 2017 Annual Report on pages 32 to 33. The Risk Management Committee has reviewed these risks and concluded that they represent the current position and remain relevant for the second half of the financial year.

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

- ***Economic and political instability***

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

- ***Significant exchange rate movements***

  The Group reports its results and pays dividends in sterling, while its operating and manufacturing companies trade in local currency. The nature of the Group's business necessarily results in exposure to exchange rate volatility.

- ***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 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, including the General Data Protection Regulation and anti-bribery and corruption legislation. Breaching laws or regulations could have serious consequences for the Group.

- ***Health, safety and environmental risks***

  A major health, safety or environmental incident could cause total or partial closure of a manufacturing facility. As a premium provider of safety critical products, a breach of these requirements would also have reputational consequences for the Group.

The Board is continuing to plan for and assess its approach to the impacts of Brexit as negotiations progress. The Group has conducted scenario planning exercises to prepare contingency plans and lay the groundwork for future actions, including risk mitigation and identifying and capitalising on opportunities.

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, with exchange acting as a headwind in the first half of 2018.

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 revenue and profit 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 continue to monitor on-going Brexit negotiations and will apply or adjust the Group's planned response accordingly.

# 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 Yearly Financial Report for the six months ended 30th June 2018 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 14. We have read the other information contained in the Half Yearly 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 Financial Reporting Council. 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 Yearly Financial Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Half Yearly Financial Report in accordance with the Disclosure Guidance 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 Yearly 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 Yearly 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 Yearly Financial Report for the six months ended 30th June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

**Deloitte LLP**
Statutory Auditor,
London, United Kingdom

7th August 2018

# Condensed Consolidated Statement of Financial Position

## at 30th June 2018

| | Notes | 30th June 2018 £m (unaudited) | 30th June 2017 £m (unaudited) | 31st December 2017 £m (audited) |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | | **225.8** | 209.8 | 227.5 |
| Goodwill | | **359.2** | 180.4 | 351.3 |
| Other intangible assets | | **280.2** | 137.5 | 280.0 |
| Prepayments | | **5.9** | 5.7 | 6.1 |
| Deferred tax assets | | **34.3** | 40.1 | 36.4 |
| | | **905.4** | 573.5 | 901.3 |
| **Current assets** | | | | |
| Inventories | | **157.4** | 131.4 | 145.4 |
| Trade receivables | | **226.4** | 189.1 | 237.5 |
| Other current assets | | **35.5** | 28.1 | 27.5 |
| Taxation recoverable | | **9.4** | 7.8 | 12.7 |
| Cash and cash equivalents | 9 | **176.3** | 159.7 | 152.1 |
| | | **605.0** | 516.1 | 575.2 |
| **Total assets** | | **1,510.4** | 1,089.6 | 1,476.5 |
| **Equity and liabilities** | | | | |
| **Current liabilities** | | | | |
| Trade and other payables | | **135.7** | 108.7 | 147.1 |
| Provisions | | **5.9** | 2.9 | 6.7 |
| Bank overdrafts | 9 | **1.7** | 0.3 | 0.5 |
| Short-term borrowings | 9 | **19.7** | 26.6 | 20.0 |
| Current portion of long-term borrowings | 9 | **39.1** | 46.7 | 49.3 |
| Current tax payable | | **21.3** | 20.2 | 23.1 |
| | | **223.4** | 205.4 | 246.7 |
| **Net current assets** | | **381.6** | 310.7 | 328.5 |
| **Non-current liabilities** | | | | |
| Long-term borrowings | 9 | **488.8** | 199.9 | 455.9 |
| Deferred tax liabilities | | **73.3** | 39.5 | 73.3 |
| Post-retirement benefits | 8 | **75.0** | 91.1 | 85.6 |
| Provisions | | **3.1** | 1.7 | 3.2 |
| Long-term payables | | **2.5** | 1.9 | 2.3 |
| | | **642.7** | 334.1 | 620.3 |
| **Total liabilities** | | **866.1** | 539.5 | 867.0 |
| **Net assets** | | **644.3** | 550.1 | 609.5 |
| **Equity** | | | | |
| Share capital | | **19.8** | 19.8 | 19.8 |
| Share premium account | | **75.6** | 73.3 | 75.1 |
| Other reserves | | **8.6** | 42.2 | 19.3 |
| Retained earnings | | **539.3** | 413.7 | 494.2 |
| Equity shareholders' funds | | **643.3** | 549.0 | 608.4 |
| Non-controlling interest | | **1.0** | 1.1 | 1.1 |
| **Total equity** | | **644.3** | 550.1 | 609.5 |
| **Total equity and liabilities** | | **1,510.4** | 1,089.6 | 1,476.5 |

# Condensed Consolidated Income Statement

## for the period ended 30th June 2018

| | | Six months to 30th June 2018 | | | Six months to 30th June 2017 | | | Year ended 31st December 2017 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | 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 | 547.6 | – | 547.6 | 428.6 | – | 428.6 | 998.7 | – | 998.7 |
| Operating costs | | (421.9) | (13.8) | (435.7) | (327.4) | (10.7) | (338.1) | (763.2) | (36.6) | (799.8) |
| **Operating profit** | 2/3 | 125.7 | (13.8) | 111.9 | 101.2 | (10.7) | 90.5 | 235.5 | (36.6) | 198.9 |
| Financial expenses | | (5.7) | – | (5.7) | (2.6) | – | (2.6) | (8.1) | – | (8.1) |
| Financial income | | 0.6 | – | 0.6 | 0.6 | – | 0.6 | 1.7 | – | 1.7 |
| Net financing expense | 4 | (5.1) | – | (5.1) | (2.0) | – | (2.0) | (6.4) | – | (6.4) |
| **Profit before taxation** | | 120.6 | (13.8) | 106.8 | 99.2 | (10.7) | 88.5 | 229.1 | (36.6) | 192.5 |
| Taxation | 5 | (32.7) | 3.4 | (29.3) | (28.9) | 1.3 | (27.6) | (66.7) | 32.1 | (34.6) |
| **Profit for the period** | | 87.9 | (10.4) | 77.5 | 70.3 | (9.4) | 60.9 | 162.4 | (4.5) | 157.9 |
| Attributable to: | | | | | | | | | | |
| Equity shareholders | | 87.8 | (10.4) | 77.4 | 70.2 | (9.4) | 60.8 | 162.1 | (4.5) | 157.6 |
| Non–controlling interest | | 0.1 | – | 0.1 | 0.1 | – | 0.1 | 0.3 | – | 0.3 |
| **Profit for the period** | | 87.9 | (10.4) | 77.5 | 70.3 | (9.4) | 60.9 | 162.4 | (4.5) | 157.9 |
| | | | | | | | | | | |
| **Earnings per share** | 2/6 | | | | | | | | | |
| Basic earnings per share | | 119.2p | | 105.1p | 95.5p | | 82.7p | 220.5p | | 214.4p |
| Diluted earnings per share | | 118.9p | | 104.8p | 95.2p | | 82.4p | 219.7p | | 213.6p |
| **Dividends** | 7 | | | | | | | | | |
| Dividends per share | | | | 29.0p | | | 25.5p | | | 87.5p |
| Dividends paid (per share) | | | | 62.0p | | | 53.5p | | | 79.0p |

Adjusted figures exclude certain items, as detailed in Notes 2 and 3. All amounts relate to continuing operations.

The Notes on pages 19 to 29 form an integral part of the Interim Condensed Consolidated Financial Statements.

# Condensed Consolidated Statement of Comprehensive Income

## for the period ended 30th June 2018

| | Six months to 30th June 2018 £m (unaudited) | Six months to 30th June 2017 £m (unaudited) | Year ended 31st December 2017 £m (audited) |
|---|---|---|---|
| **Profit for the period** | 77.5 | 60.9 | 157.9 |
| Items that will not be reclassified to profit or loss: | | | |
| Remeasurement gain on post-retirement benefits | 11.4 | 7.6 | 11.8 |
| Deferred tax on remeasurement gain on post-retirement benefits | (2.1) | (1.2) | (5.1) |
| | 9.3 | 6.4 | 6.7 |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange loss on translation of foreign operations and net investment hedges | (9.1) | (0.5) | (27.4) |
| Non-controlling interest foreign exchange translation differences | – | – | 0.1 |
| Profit/(loss) on cash flow hedges net of tax | (0.4) | (3.8) | 0.2 |
| | (9.5) | (4.3) | (27.1) |
| **Total comprehensive income for the period** | 77.3 | 63.0 | 137.5 |
| Attributable to: | | | |
| Equity shareholders | 77.2 | 62.9 | 137.1 |
| Non-controlling interest | 0.1 | 0.1 | 0.4 |
| **Total comprehensive income for the period** | 77.3 | 63.0 | 137.5 |

# Condensed Consolidated Statement of Changes in Equity

## for the period ended 30th June 2018 (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 2018** | 19.8 | 75.1 | 19.3 | 494.2 | 608.4 | 1.1 | 609.5 |
| **Adoption of IFRS 15** | – | – | – | 0.7 | 0.7 | – | 0.7 |
| **Balance at 1st January 2018 (restated)** | 19.8 | 75.1 | 19.3 | 494.9 | 609.1 | 1.1 | 610.2 |
| **Profit for the period** | – | – | – | 77.4 | 77.4 | 0.1 | 77.5 |
| Other comprehensive (expense)/income: | | | | | | | |
| Exchange loss on translation of foreign operations and net investment hedges | – | – | (9.1) | – | (9.1) | – | (9.1) |
| Remeasurement gain on post-retirement benefits | – | – | – | 11.4 | 11.4 | – | 11.4 |
| Deferred tax on remeasurement gain on post-retirement benefits | – | – | – | (2.1) | (2.1) | – | (2.1) |
| Loss on cash flow hedges reserve | – | – | (0.4) | – | (0.4) | – | (0.4) |
| **Total other comprehensive (expense)/ income for the period** | – | – | (9.5) | 9.3 | (0.2) | – | (0.2) |
| **Total comprehensive (expense)/income for the period** | – | – | (9.5) | 86.7 | 77.2 | 0.1 | 77.3 |
| Contributions by and distributions to owners of the Company: | | | | | | | |
| Dividends paid | – | – | – | (45.7) | (45.7) | (0.2) | (45.9) |
| Equity-settled share plans net of tax | – | – | – | 3.4 | 3.4 | – | 3.4 |
| Issue of share capital | – | 0.5 | – | – | 0.5 | – | 0.5 |
| Employee Benefit Trust shares | – | – | (1.2) | – | (1.2) | – | (1.2) |
| **Balance at 30th June 2018** | 19.8 | 75.6 | 8.6 | 539.3 | 643.3 | 1.0 | 644.3 |

Other reserves represent the Group's translation, net investment hedge, 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.

# 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 (expense)/income for the period** | – | – | (4.3) | 6.4 | 2.1 | – | 2.1 |
| **Total comprehensive (expense)/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 |

# Condensed Consolidated Statement of Changes in Equity

## for the year ended 31st December 2017 (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 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 |

# Condensed Consolidated Statement of Cash Flows

## for the period ended 30th June 2018

| | Notes | Six months to 30th June 2018 £m (unaudited) | Six months to 30th June 2017 £m (unaudited) | Year ended 31st December 2017 £m (audited) |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Profit before taxation | | 106.8 | 88.5 | 192.5 |
| Depreciation, amortisation and impairment | | 29.1 | 19.8 | 54.2 |
| Profit on disposal of fixed assets | | (0.3) | (0.6) | (1.0) |
| Acquisition related fair value adjustments to inventory/exchange gain on acquisition funding | | – | 1.3 | 4.7 |
| Cash payments to the pension schemes less than the charge to operating profit | | (0.4) | 2.1 | 0.1 |
| Equity settled share plans | | 2.9 | 1.8 | 4.6 |
| Net finance expense | | 5.1 | 2.0 | 6.4 |
| **Operating cash flow before changes in working capital and provisions** | | 143.2 | 114.9 | 261.5 |
| Change in trade and other receivables | | (0.3) | 1.8 | (21.7) |
| Change in inventories | | (15.7) | (10.3) | (10.2) |
| Change in provisions | | (0.1) | (0.1) | 1.2 |
| Change in trade and other payables | | (18.0) | (11.0) | (2.3) |
| **Cash generated from operations** | | 109.1 | 95.3 | 228.5 |
| Interest paid | | (4.7) | (0.9) | (8.1) |
| Income taxes paid | | (28.9) | (25.8) | (61.0) |
| **Net cash from operating activities** | | 75.5 | 68.6 | 159.4 |
| **Cash flows from investing activities** | | | | |
| Purchase of property, plant and equipment | | (14.1) | (13.3) | (29.7) |
| Proceeds from sale of property, plant and equipment | | 3.1 | 2.1 | 3.4 |
| Purchase of software and other intangibles | | (3.5) | (1.9) | (5.8) |
| Development expenditure capitalised | | (1.3) | (1.5) | (2.9) |
| Acquisition of businesses net of cash acquired | | (2.9) | (153.8) | (342.6) |
| Interest received | | 0.6 | 0.6 | 1.7 |
| **Net cash used in investing activities** | | (18.1) | (167.8) | (375.9) |
| **Cash flows from financing activities** | | | | |
| Proceeds from issue of share capital | | 0.5 | 0.6 | 2.4 |
| Employee Benefit Trust share purchase | | (6.7) | – | – |
| Repaid borrowings | 9 | (46.3) | (8.6) | (415.9) |
| New borrowings | 9 | 69.5 | 185.2 | 714.4 |
| Change in finance lease liabilities | 9 | (0.1) | (0.2) | (0.1) |
| Dividends paid (including minorities) | | (45.9) | (39.4) | (58.4) |
| **Net cash (used in)/from financing activities** | | (29.0) | 137.6 | 242.4 |
| **Net change in cash and cash equivalents** | 9 | 28.4 | 38.4 | 25.9 |
| Net cash and cash equivalents at beginning of period | 9 | 151.6 | 118.8 | 118.8 |
| Exchange movement | 9 | (5.4) | 2.2 | 6.9 |
| **Net cash and cash equivalents at end of period** | 9 | 174.6 | 159.4 | 151.6 |
| Borrowings and finance leases | 9 | (547.6) | (273.2) | (525.2) |
| **Net debt at the end of the period** | 9 | (373.0) | (113.8) | (373.6) |

# 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 2018 have been prepared in accordance with IAS 34: Interim Financial Reporting as adopted by the European Union. The accounting policies applied are consistent with those set out in the 2017 Spirax-Sarco Engineering plc Annual Report except for IFRS 15: Revenue from Contracts with Customers and IFRS 9: Financial Instruments which have been adopted in the current year.

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 2017 Annual Report. The comparative figures for the year ended 31st December 2017 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 2017 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 2017 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 31st December 2017 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 2018, 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 Practices Board, were authorised by the Board on 7th August 2018.

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 at least 12 months from the date of signing the 2018 Half Year report. For this reason, it continues to adopt the going concern basis in preparing the Condensed Consolidated Interim Financial Statements.

### New standards adopted in the current year

The Group adopted IFRS 15: Revenue from Contracts with Customers using the modified retrospective approach on 1st January 2018. Comparative information has not been restated. IFRS 15 establishes a single five-step model for recognising revenue from contracts with customers and supersedes IAS 18: Revenue and IAS 11: Construction Contracts.

IFRS 15 introduces principles to allocate the transaction price to performance obligations and recognise revenue as those performance obligations are satisfied and control of the goods or services are transferred to the customer.

The five steps of the model are:

Step 1: Identify the contracts with customers
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance.

All revenue recognised by the Group is generated through contracts with customers.

The impact of adoption of IFRS 15 on these Financial Statements is:

- At 1st January 2018 an increase in opening retained earnings of £0.7m;
- For the six months ended 30th June 2018 an increase in revenue of £0.8m, increase in operating costs of £0.5m and increase in profit for the period of £0.3m; and
- At 30th June 2018 an increase in other current assets of £3.2m and reduction in inventories of £2.2m.

IFRS 9: Financial Instruments was adopted on 1st January 2018, replacing IAS 39: Financial Instruments: recognition and measurement. IFRS 9 includes requirements for the classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

An assessment of this change has been performed, resulting in the conclusion that IFRS 9 will not cause any material impact to the Group. The assessment included an analysis of the Group's hedge accounting policy and existing hedge accounting relationships, and it was determined that those relationships designated under IAS 39 will continue to be effective under IFRS 9. The Group has adopted the simplified approach to recognise lifetime expected credit losses for trade receivables and contract assets as permitted by IFRS 9. The change in approach has not had a material impact on the trade receivables provision.

### 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 2018 and have, therefore, not been applied in preparing these Condensed Consolidated Interim Financial Statements.

IFRS 16: Leases eliminates the classification of leases as either operating leases or finance leases and, instead, introduces a single model of accounting for leases. Under IFRS 16 a lessee is required to recognise assets and liabilities for all leases with a term of more than 12 months,

## 1 Basis of preparation *continued*

unless the underlying asset is of a low value. The new standard also requires depreciation of the asset to be recognised separately from the interest expense on the lease liability. At 31st December 2017 the Group had total non-cancellable operating lease obligations of £30.8m and an operating lease charge of £11.0m for the year ended 31st December 2017.

An assessment of the impact of IFRS 16 (effective from 1st January 2019) has commenced but has not yet been completed. We expect it will 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. Furthermore, extensive disclosures will be required by IFRS 16. We expect to adopt the modified retrospective approach and will therefore not restate comparative information. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of this standard until a detailed assessment has been completed.

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

As reported in the Review of Operations, the economy in Argentina underwent a period of high inflation in the first half of the year. Whilst applying IAS 29: Financial Reporting in Hyperinflationary Economies is not required for the period ended 30th June 2018, we will continue to assess the position going forward and consider its applicability in the light of economic developments in Argentina and the materiality of their results to the full year Group 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 2017.

### Cautionary statements

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

### Responsibility statement

The Directors confirm that to the best of their knowledge:

– This Condensed Consolidated set of Interim Financial Statements has been prepared in accordance with IAS 34: Interim Financial Reporting, as adopted by the European Union;

– 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 7th August 2018 are the same as those listed in the 2017 Annual Report on pages 66 and 67 with the exception of:

– Bill Whiteley who retired at the conclusion of the AGM on 15th May 2018;

– Jamie Pike who was appointed as Chairman from the close of the AGM on 15th May 2018;

– Clive Watson who remains an Independent Non-Executive Director but was also appointed as the Senior Independent Director on 15th May 2018; and

– Peter France who was appointed as an Independent Non-Executive Director on 6th March 2018.

As announced on 20th July, Neil Daws, Executive Director and Divisional Director for Spirax Sarco Steam Specialties operations in Europe, Middle East and Africa, has been promoted to the position of Managing Director Steam Specialties business, with effect from 1st September 2018.

**N. J. Anderson**
Chief Executive
7th August 2018

**K. J. Boyd**
Chief Financial Officer
7th August 2018

On behalf of the Board

# Notes to the Consolidated Financial Statements *continued*

## 2 Adjusted performance measures

The Group reports under International Financial Reporting Standards (IFRS) and also uses adjusted performance measures where the Board believes 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 adjusted performance measures also form a meaningful element of Executive Directors' annual bonuses. A definition of the adjusted performance measures 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.

| | Six months to 30th June 2018 £m | Six months to 30th June 2017 £m | Year ended 31st December 2017 £m |
|---|---|---|---|
| **Operating profit as reported under IFRS** | 111.9 | 90.5 | 198.9 |
| Amortisation of acquisition-related intangible assets | 13.5 | 5.2 | 18.4 |
| Impairment of goodwill | – | – | 3.2 |
| Acquisition costs | 0.3 | 4.2 | 10.3 |
| Reversal of acquisition related fair value adjustments to inventory | – | 1.3 | 7.2 |
| Foreign exchange gain on borrowing | – | – | (2.5) |
| **Adjusted operating profit** | 125.7 | 101.2 | 235.5 |

### Adjusted earnings per share

| | Six months to 30th June 2018 | Six months to 30th June 2017 | Year ended 31st December 2017 |
|---|---|---|---|
| **Profit for the period attributable to equity holders as reported under IFRS (£m)** | 77.4 | 60.8 | 157.6 |
| Items excluded from adjusted operating profit disclosed above (£m) | 13.8 | 10.7 | 36.6 |
| Tax effects on adjusted items (£m) | (3.4) | (1.3) | (7.7) |
| Tax effects of the change in the US tax rate (£m) | – | – | (24.4) |
| **Adjusted profit for the period attributable to equity holders (£m)** | 87.8 | 70.2 | 162.1 |
| Weighted average shares in issue (million) | 73.6 | 73.5 | 73.5 |
| Basic adjusted earnings per share | 119.2p | 95.5p | 220.5p |
| Diluted weighted average shares in issue (million) | 73.8 | 73.7 | 73.8 |
| Diluted adjusted earnings per share | 118.9p | 95.2p | 219.7p |

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.

Further details on the tax effects of the change in US tax rate are included in Note 5.

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.

| | Six months to 30th June 2018 £m | Six months to 30th June 2017 £m | Year ended 31st December 2017 £m |
|---|---|---|---|
| **Net cash from operating activities as reported under IFRS** | 75.5 | 68.6 | 159.4 |
| Acquisition and disposal costs | 0.3 | 4.2 | 10.3 |
| Capital expenditure excluding acquired intangibles from acquisitions | (15.8) | (14.7) | (35.0) |
| Movement in provisions | 0.1 | 0.1 | (1.2) |
| Tax paid | 28.9 | 25.8 | 61.0 |
| Interest paid | 4.7 | 0.9 | 8.1 |
| **Adjusted net cash from operating activities** | 93.7 | 84.9 | 202.6 |

Adjusted cash conversion in the first half is 75% (2017: 84%). 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.

## 2 Adjusted performance measures *continued*

### 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 6.

An analysis of the components is as follows:

| | 30th June 2018 £m | 30th June 2017 £m | 31st December 2017 £m |
|---|---|---|---|
| Property, plant and equipment | 225.8 | 209.8 | 227.5 |
| Non-current prepayments | 5.9 | 5.7 | 6.1 |
| Inventories | 157.4 | 131.4 | 145.4 |
| Trade receivables | 226.4 | 189.1 | 237.5 |
| Other current assets | 35.5 | 28.1 | 27.5 |
| Tax recoverable | 9.4 | 7.8 | 12.7 |
| Trade, other payables and current provisions | (141.6) | (111.6) | (153.8) |
| Current tax payable | (21.3) | (20.2) | (23.1) |
| **Capital employed** | **497.5** | 440.1 | 479.8 |

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

| | 30th June 2018 £m | 30th June 2017 £m | 31st December 2017 £m |
|---|---|---|---|
| **Capital employed** | **497.5** | 440.1 | 479.8 |
| Goodwill and other intangible assets | 639.4 | 317.9 | 631.3 |
| Post-retirement benefits | (75.0) | (91.1) | (85.6) |
| Net deferred tax | (39.0) | 0.6 | (36.9) |
| Non-current provisions and long-term payables | (5.6) | (3.6) | (5.5) |
| Net debt | (373.0) | (113.8) | (373.6) |
| **Net assets as reported under IFRS** | **644.3** | 550.1 | 609.5 |

### Organic measures

As we are a multi-national group, with companies that trade in a diverse range of currencies and because we 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 movements in currency exchange rates and the incremental contribution from acquisitions. The Board believes that this allows users of the accounts to gain a further understanding of how the Group has performed.

Exchange translation movements are assessed by re-translating prior period reported values to current period exchange rates. Exchange transaction impacts on operating profit are assessed on the basis of transactions being at constant currency between years.

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

| | Six months to 30th June 2017 | Exchange | Organic | Acquisitions | Six months to 30th June 2018 | Organic | Reported |
|---|---|---|---|---|---|---|---|
| Revenue | £428.6m | (£12.5m) | £30.0m | £101.5m | £547.6m | +7% | +28% |
| Adjusted operating profit | £101.2m | (£4.9m) | £14.2m | £15.2m | £125.7m | +15% | +24% |
| Adjusted operating margin | 23.6% | | | | 23.0% | +170 bps | -60 bps |

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

# Notes to the Consolidated Financial Statements *continued*

## 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 2018 | Gross revenue £m | Inter-segment revenue £m | Revenue £m | Total operating profit £m | Adjusted operating profit £m | Adjusted operating margin % |
|---|---|---|---|---|---|---|
| Europe, Middle East & Africa | 192.1 | (23.0) | 169.1 | 33.3 | 35.8 | 21.2% |
| Asia Pacific | 107.3 | (2.6) | 104.7 | 28.2 | 28.5 | 27.2% |
| Americas | 78.9 | (3.8) | 75.1 | 16.3 | 17.2 | 22.9% |
| Steam Specialties | 378.3 | (29.4) | 348.9 | 77.8 | 81.5 | 23.4% |
| Chromalox | 72.1 | – | 72.1 | 4.6 | 10.6 | 14.7% |
| Spirax Sarco | 450.4 | (29.4) | 421.0 | 82.4 | 92.1 | 21.9% |
| Watson-Marlow | 126.6 | – | 126.6 | 35.6 | 39.4 | 31.1% |
| Corporate expenses | | | | (6.1) | (5.8) | |
| | 577.0 | (29.4) | 547.6 | 111.9 | 125.7 | 23.0% |
| Intra Group | (29.4) | 29.4 | | | | |
| **Total** | 547.6 | – | 547.6 | 111.9 | 125.7 | 23.0% |
| Net finance expense | | | | (5.1) | (5.1) | |
| **Profit before taxation** | | | | 106.8 | 120.6 | |

| 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 | 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 | 23.6% |
| Net finance expense | | | | (2.0) | (2.0) | |
| **Profit before taxation** | | | | 88.5 | 99.2 | |

## 3 Segmental reporting *continued*

| Year ended 31st December 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) | |
| **Profit before taxation** | | | | 192.5 | 229.1 | |

The total operating profit for each period includes certain items, as analysed below:

| Six months to 30th June 2018 | Amortisation of acquisition-related intangible assets £m | Acquisition costs £m | Total £m |
|---|---|---|---|
| Europe, Middle East & Africa | (2.5) | – | (2.5) |
| Asia Pacific | (0.3) | – | (0.3) |
| Americas | (0.9) | – | (0.9) |
| Steam Specialties | (3.7) | – | (3.7) |
| Chromalox | (6.0) | – | (6.0) |
| Spirax Sarco | (9.7) | – | (9.7) |
| Watson-Marlow | (3.8) | – | (3.8) |
| Corporate expenses | – | (0.3) | (0.3) |
| **Total** | (13.5) | (0.3) | (13.8) |

| 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 | (2.5) | (3.3) | (1.3) | (7.1) |
| Watson-Marlow | (2.7) | – | – | (2.7) |
| Corporate expenses | – | (0.9) | – | (0.9) |
| **Total** | (5.2) | (4.2) | (1.3) | (10.7) |

# Notes to the Consolidated Financial Statements *continued*

## 3 Segmental reporting *continued*

| Year ended 31st December 2017 | Amortisation of acquisition-related intangible assets £m | Impairment of goodwill £m | Acquisition costs £m | Reversal of acquisition related fair value adjustments to inventory £m | Foreign exchange gain on borrowings £m | Total £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 | (12.9) | (3.2) | (0.1) | (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 impairment of goodwill is in respect of Spirax Sarco Colombia.

### Net financing income and expense

| | Six months to 30th June 2018 £m | Six months to 30th June 2017 £m | Year ended 31st December 2017 £m |
|---|---|---|---|
| Europe, Middle East & Africa | (0.5) | (1.1) | (1.0) |
| Asia Pacific | (0.1) | (0.1) | 0.1 |
| Americas | (0.3) | (0.4) | (0.8) |
| Steam Specialties | (0.9) | (1.6) | (1.7) |
| Chromalox | – | – | – |
| Spirax Sarco | (0.9) | (1.6) | (1.7) |
| Watson-Marlow | (0.1) | – | (0.1) |
| Corporate | (4.1) | (0.4) | (4.6) |
| **Total net financing expense** | (5.1) | (2.0) | (6.4) |

### Net assets

| | 30th June 2018 | | 30th June 2017 | | 31st December 2017 | |
|---|---|---|---|---|---|---|
| | Assets £m | Liabilities £m | Assets £m | Liabilities £m | Assets £m | Liabilities £m |
| Europe, Middle East & Africa | 402.2 | (100.4) | 376.4 | (112.2) | 400.6 | (112.4) |
| Asia Pacific | 161.1 | (28.9) | 160.4 | (27.4) | 162.6 | (36.9) |
| Americas | 106.5 | (33.8) | 133.3 | (38.7) | 112.2 | (41.6) |
| Steam Specialties | 669.8 | (163.1) | 670.1 | (178.3) | 675.4 | (190.9) |
| Chromalox | 394.1 | (23.6) | – | – | 386.7 | (23.3) |
| Spirax Sarco | 1,063.9 | (186.7) | 670.1 | (178.3) | 1,062.1 | (214.2) |
| Watson-Marlow | 226.5 | (35.5) | 211.8 | (27.9) | 213.1 | (30.6) |
| | 1,290.4 | (222.2) | 881.9 | (206.2) | 1,275.2 | (244.8) |
| Liabilities | (222.2) | | (206.2) | | (244.8) | |
| Net deferred tax | (39.0) | | 0.6 | | (36.9) | |
| Net current tax payable | (11.9) | | (12.4) | | (10.4) | |
| Net debt | (373.0) | | (113.8) | | (373.6) | |
| **Net assets** | 644.3 | | 550.1 | | 609.5 | |

## 3 Segmental reporting *continued*

### Capital additions, depreciation, amortisation and impairment

| | Six months to 30th June 2018 | | Six months to 30th June 2017 | | Year ended 31st December 2017 | |
|---|---|---|---|---|---|---|
| | Capital additions £m | Depreciation, amortisation and impairment £m | Capital additions £m | Depreciation, amortisation and impairment £m | Capital additions £m | Depreciation, amortisation and impairment £m |
| Europe, Middle East & Africa | 9.2 | 8.0 | 73.5 | 6.9 | 81.9 | 16.7 |
| Asia Pacific | 2.3 | 3.7 | 4.8 | 3.8 | 8.2 | 7.9 |
| Americas | 1.8 | 3.0 | 2.1 | 3.4 | 4.2 | 9.8 |
| Steam Specialties | 13.3 | 14.7 | 80.4 | 14.1 | 94.3 | 34.4 |
| Chromalox | 2.3 | 7.5 | – | – | 183.3 | 8.2 |
| Spirax Sarco | 15.6 | 22.2 | 80.4 | 14.1 | 277.6 | 42.6 |
| Watson-Marlow | 11.6 | 6.9 | 3.7 | 5.7 | 7.9 | 11.6 |
| **Group total** | 27.2 | 29.1 | 84.1 | 19.8 | 285.5 | 54.2 |

Capital additions include property, plant and equipment at 30th June 2018 of £14.3m; at 30th June 2017 of £22.1m; and at 31st December 2017 of £56.3m; of which at 30th June 2018 £0.2m; at 30th June 2017 £8.8m and 31st December 2017 £26.6m was from acquisitions in the period. Capital additions also include other intangible assets at 30th June 2018 of £12.9m; at 30th June 2017 of £62.0m; and at 31st December 2017 of £229.2m of which at 30th June 2018 £8.1m; at 30th June 2017 £56.5m and at 31st December 2017 £218.7m relates to acquired intangibles from acquisitions in the period.

## 4 Net financing income and expense

| | Six months to 30th June 2018 £m | Six months to 30th June 2017 £m | Year ended 31st December 2017 £m |
|---|---|---|---|
| **Financial expenses:** | | | |
| Bank and other borrowing interest payable | (4.7) | (0.9) | (5.6) |
| Net interest on pension scheme liabilities | (1.0) | (1.7) | (2.5) |
| | (5.7) | (2.6) | (8.1) |
| **Financial income:** | | | |
| Bank interest receivable | 0.6 | 0.6 | 1.7 |
| **Net financing expense** | (5.1) | (2.0) | (6.4) |
| | | | |
| Net pension scheme financial expense | (1.0) | (1.7) | (2.5) |
| Net bank interest | (4.1) | (0.3) | (3.9) |
| **Net financing expense** | (5.1) | (2.0) | (6.4) |

## 5 Taxation

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

| | Six months to 30th June 2018 | | | Six months to 30th June 2017 | | | Year ended 31st December 2017 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Adjusted £m | Adjustments £m | Total £m | Adjusted £m | Adjustments £m | Total £m | Adjusted £m | Adjustments £m | Total £m |
| UK corporation tax | 3.2 | – | 3.2 | 1.2 | – | 1.2 | 4.9 | – | 4.9 |
| Foreign tax | 28.2 | – | 28.2 | 27.9 | – | 27.9 | 60.2 | – | 60.2 |
| Deferred tax | 1.3 | (3.4) | (2.1) | (0.2) | (1.3) | (1.5) | 1.6 | (32.1) | (30.5) |
| **Total taxation** | 32.7 | (3.4) | 29.3 | 28.9 | (1.3) | 27.6 | 66.7 | (32.1) | 34.6 |

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 countries in which the Group operates.

The Group's tax charge for the year ended 31st December 2017 included a credit of £32.1m in relation to certain items (as disclosed in Note 2). Excluding these adjustments the tax on profit was £66.7m.

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# Notes to the Consolidated Financial Statements *continued*

## 5 Taxation *continued*

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 resulted in a deferred tax credit to the Consolidated Income Statement of £24.4m; this is included within the overall credit of £32.1m.

The Group is aware of the on-going review by the European Commission into the UK Controlled Foreign Company (CFC) rules that exempts certain transactions by multi-national groups from a full CFC apportionment. Due to the uncertainty of the outcome of this review no provision for any UK corporation tax has been recognised however, at the 30th June 2018 the potential liability is estimated at approximately £5.8m (31st December 2017: £4.5m).

## 6 Earnings per share

| | Six months to 30th June 2018 | Six months to 30th June 2017 | Year ended 31st December 2017 |
|---|---|---|---|
| Profit attributable to equity shareholders (£m) | 77.4 | 60.8 | 157.6 |
| Weighted average shares in issue (million) | 73.6 | 73.5 | 73.5 |
| Dilution (million) | 0.2 | 0.2 | 0.3 |
| Diluted weighted average shares in issue (million) | 73.8 | 73.7 | 73.8 |
| Basic earnings per share | 105.1p | 82.7p | 214.4p |
| Diluted earnings per share | 104.8p | 82.4p | 213.6p |

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 2018 £m | Six months to 30th June 2017 £m | Year ended 31st December 2017 £m |
|---|---|---|---|
| Amounts paid in the period: | | | |
| Final dividend for the year ended 31st December 2017 of 62.0p (2016: 53.5p) per share | 45.7 | 39.3 | 39.3 |
| Interim dividend for the year ended 31st December 2017 of 25.5p (2016: 22.5p) per share | – | – | 18.8 |
| **Total dividends paid** | 45.7 | 39.3 | 58.1 |
| Amounts arising in respect of the period: | | | |
| Interim dividend for the year ending 31st December 2018 of 29.0p (2017: 25.5p) per share | 21.4 | 18.8 | 18.8 |
| Final dividend for the year ended 31st December 2017 of 62.0p (2016: 53.5p) per share | – | – | 45.6 |
| **Total dividends arising** | 21.4 | 18.8 | 64.4 |

The interim dividend for the year ending 31st December 2018 was approved by the Board after the 30th June 2018. 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 2018 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 2017 is included in the Group's Annual Report.

The amounts recognised in the Consolidated Statement of Financial Position are as follows:

| | 30th June 2018 £m | 30th June 2017 £m | 31st December 2017 £m |
|---|---|---|---|
| Post retirement-benefits | (75.0) | (91.1) | (85.6) |
| Related deferred tax asset | 17.0 | 22.5 | 19.0 |
| **Net pension liability** | (58.0) | (68.6) | (66.6) |

## 9 Analysis of changes in net debt, including changes in liabilities arising from financing activities

| | 1st January 2018 £m | Cash flow £m | Exchange movement £m | 30th June 2018 £m |
|---|---|---|---|---|
| Current portion of long-term borrowings | (49.3) | | | (39.1) |
| Non-current portion of long-term borrowings | (455.9) | | | (488.8) |
| Short-term borrowings | (20.0) | | | (19.7) |
| Total borrowings | (525.2) | | | (547.6) |
| Comprising: | | | | |
| Borrowings | (524.9) | (23.2) | 0.7 | (547.4) |
| Finance leases | (0.3) | 0.1 | – | (0.2) |
| | (525.2) | (23.1) | 0.7 | (547.6) |
| Cash at bank | 152.1 | 29.6 | (5.4) | 176.3 |
| Bank overdrafts | (0.5) | (1.2) | – | (1.7) |
| **Net cash and cash equivalents** | 151.6 | 28.4 | (5.4) | 174.6 |
| **Net debt** | (373.6) | 5.3 | (4.7) | (373.0) |

The cash flow for borrowings included a repayment on the US dollar term loan of $63.3m (£46.3m) during the period and £69.5m of new drawings against a revolving credit facility.

## 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 2017. 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 2018 that have materially affected the financial position or the performance of the Group during that period.

## 11 Fair value of financial instruments

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

| | 30th June 2018 | | 30th June 2017 | | 31st December 2017 | |
|---|---|---|---|---|---|---|
| | Carrying value £m | Fair value £m | Carrying value £m | Fair value £m | Carrying value £m | Fair value £m |
| Financial assets: | | | | | | |
| Cash and cash equivalents | 176.3 | 176.3 | 159.7 | 159.7 | 152.1 | 152.1 |
| Trade and other receivables | 240.9 | 240.9 | 203.6 | 203.6 | 250.8 | 250.8 |
| **Total financial assets** | 417.2 | 417.2 | 363.3 | 363.3 | 402.9 | 402.9 |
| Financial liabilities: | | | | | | |
| Loans | 547.4 | 547.4 | 273.0 | 273.0 | 524.9 | 524.9 |
| Finance lease obligations | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 |
| Bank overdrafts | 1.7 | 1.7 | 0.3 | 0.3 | 0.5 | 0.5 |
| Trade payables | 44.3 | 44.3 | 30.0 | 30.0 | 51.3 | 51.3 |
| Other payables | 38.6 | 38.6 | 44.4 | 44.4 | 39.8 | 39.8 |
| **Total financial liabilities** | 632.2 | 632.2 | 347.9 | 347.9 | 616.8 | 616.8 |

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 2018 are not materially different from book values due to their size, the fact that they were at short-term rates of interest or for borrowings at long-term rates of interest the rate of interest is not materially different to the current market rate. 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 using a current market rate of interest.

# Notes to the Consolidated Financial Statements *continued*

## 11 Fair value of financial instruments *continued*

### 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 2018 the Group had contracts outstanding to purchase US$0.2m with Chinese renminbi, £15.2m with US dollars, £0.7m with Danish krone, £6.2m with euros, £0.5m with Japanese yen, £0.3m with South African rand, £3.2m with Korean won, £0.7m with Chinese renminbi, €5.2m with US dollars, €0.1m with South African rand, €2.0m with Korean won and €0.7m with Chinese renminbi. Derivative financial instruments are measured at fair value. The fair value at the end of the reporting period is a £0.3m liability (31st December 2017: £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 2018 was £3.9m (31st December 2017: £5.5m; 30th June: 2017 £3.0m). All capital commitments related to property, plant and equipment.

## 13 Purchase of businesses

In January 2018, we acquired 100% of the share capital of a small German pre-revenue company within the Watson-Marlow Fluid Technology business. The acquisition method of accounting has been used. Total consideration on a cash-free, debt free basis is expected to be £8.4m (€9.5m). This includes £0.3m to repay a bank overdraft and £0.2m which was deemed to be contingent remuneration rather than consideration under IFRS 3. £2.7m of the total £8.4m was paid on the acquisition date, with a further £5.7m deferred. The deferred payment is dependent on satisfactory compliance with agreed conditions. Separately identified intangibles are recorded as part of the provisional fair value adjustment. The fair value of net assets on acquisition under IFRS 3 were £5.9m consisting of:

- Acquired intangibles, valued at £7.8m, relating to manufacturing designs, core technology and non-compete undertakings;
- A deferred tax liability of £1.8m recognised on the acquired intangibles;
- Property, plant and equipment of £0.2m; and
- A bank overdraft of £0.3m.

Goodwill of £2.0m was recognised and is not expected to be tax deductible. Total consideration under IFRS 3 is therefore £7.9m. In the six months ended 30th June 2018 the acquisition generated £nil of revenue and a loss of £0.6m. Had the acquisition been made on the 1st January 2018 the revenue and loss would have been the same.

During the period the fair value of the assets acquired as part of the acquisition of Chromalox Inc. and associated businesses on 3rd July 2017 were reassessed. The outcome of the reassessment was an increase to goodwill of £2.2 million.

## 14 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 2018 and half year 2017.

| | Average half year 2018 | Average half year 2017 | Change % |
|---|---|---|---|
| US dollar | **1.37** | 1.27 | -8% |
| Euro | **1.14** | 1.16 | +2% |
| Renminbi | **8.76** | 8.71 | -1% |
| Won | **1,476** | 1,452 | -2% |
| Real | **4.71** | 4.06 | -16% |
| Argentine peso | **29.84** | 20.06 | -49% |

A negative movement indicates a strengthening in sterling versus that currency. When sterling strengthens against other currencies in which the Group operates, the Group incurs a loss on translation of the financial results into sterling.

On a translation basis, sales and profits decreased by 3% while transaction further impacted profit, giving a total reduction to profit from currency movements of 5%.

# Officers and advisers

## Secretary and registered office

A. J. Robson
General Counsel and Company Secretary
Spirax-Sarco Engineering plc
Charlton House
Cirencester Road
Cheltenham
Gloucestershire
GL53 8ER

| | |
|---|---|
| Telephone: | 01242 521361 |
| Facsimile: | 01242 581470 |
| Email: | company.secretary@uk.spiraxsarco.com |
| Website: | www.spiraxsarcoengineering.com |


## Auditor
Deloitte LLP

## Financial adviser
Rothschild

## Financial PR
Citigate Dewe Rogerson

## Bankers
Barclays Bank PLC
HSBC Bank PLC

## Corporate brokers
Bank of America Merrill Lynch

## Registrars
Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

| | |
|---|---|
| Telephone: | 0371 384 2349* (UK)<br>or +44 (0)121 415 7047 (overseas) |
| | * Lines open 8.30 am to 5.30 pm, Monday to Friday, excluding English public holidays. |
| Website: | www.shareview.co.uk |

## Solicitors
Baker & McKenzie LLP

## Important dates

| | |
|---|---|
| Ordinary shares quoted ex-dividend | 11th October 2018 |
| Record date for interim dividend | 12th October 2018 |
| Interim dividend payable | 9th November 2018 |

Spirax-Sarco Engineering plc

Charlton House
Cirencester Road
Cheltenham
Gloucestershire
GL53 8ER
UK

www.spiraxsarcoengineering.com

Cover image: Obadah Zaher (Research Team Leader) and Jagoda Cieslik (Year in Industry Student, Research & Development) reviewing a steam system's health using a SIMS™ software and energy monitoring solution from Spirax Sarco.