Spirax-Sarco Engineering plc
www.spiraxsarcoengineering.com

News Release

Wednesday 11th August 2021
2021 Half Year Results

Strong first half performance improves full year outlook

HIGHLIGHTS

Six months ended 30th June				
Adjusted*	**2021**	**2020**	**Reported**	**Organic**
Revenue	£643.7m	£569.7m	+13%	+17%
Adjusted operating profit*	£162.9m	£119.0m	+37%	+42%
Adjusted operating profit margin*	25.3%	20.9%	+440 bps	+440 bps
Adjusted profit before taxation*	£159.3m	£114.5m	+39%	
Adjusted basic earnings per share*	157.6p	111.6p	+41%	
Cash conversion	85%	86%		

Statutory	**2021**	**2020**	**Reported**
Revenue	£643.7m	£569.7m	+13%
Operating profit	£153.6m	£110.8m	+39%
Operating profit margin	23.9%	19.4%	+450 bps
Profit before taxation	£150.0m	£106.3m	+41%
Basic earnings per share	147.6p	104.2p	+42%
Dividend per share	38.5p	33.5p	+15%

- Revenue growth of 13%, organic revenue growth of 17%
- Adjusted operating profit growth of 37%, organic profit growth 42%; up 39% on a statutory basis
- Adjusted operating margin of 25.3%, up 440 bps organically; up 450 bps on a statutory basis
- Strong order book growth across all three businesses
- Steam Specialties organic sales growth of 13%; margin up 430 bps organically
- Electric Thermal Solutions organic sales growth of 6%; margin up 250 bps organically
- Watson-Marlow organic sales growth of 35%; margin up 400 bps organically
- Net debt^ of £192.8 million; leverage reduced to 0.6x EBITDA* (H1 2020: £326.0 million)
- Interim dividend up by 15% to 38.5 pence, following 7% total increase in 2020

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

"A strong recovery of global industrial production in the first half of this year, combined with exceptional COVID-19 vaccine related demand in Watson-Marlow, has supported strong organic sales and profit growth across all three businesses. These results continue to demonstrate the robust business model, strategy and execution of our Group, being achieved through the outstanding efforts and dedication of all our employees in managing the higher levels of demand to meet our customers' needs. This excellent first half execution underpins our improved full year profit outlook."

*Results quoted in this announcement are 'adjusted' metrics, except where otherwise stated. Organic measures are at constant currency and exclude contributions from acquisitions and disposals. See Note 2 to the Financial Statements for an explanation of alternative performance measures.
^Net debt includes total borrowings, cash and bank overdrafts but excludes IFRS 16 lease liabilities, as set out in Note 9 to the Financial Statements.

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Audio webcast
The meeting with analysts will be available as a live audio webcast at 9.00 a.m. on the Company's website at www.spiraxsarcoengineering.com or via the following link: https://edge.media-server.com/mmc/p/u2awfggc *and a recording will be made available on the website shortly after the meeting.*

Telephone dial-in
The meeting with analysts will also be available via a full conference call with Q&A facility, at 9.00 a.m., using the instructions provided below:

Location	***Purpose***	***Phone Type***	***Number***
United Kingdom and International	*Participant*	*Local*	*+44 (0) 33 0551 0200*

1. *5-10 minutes prior to the call start time, call the participant dial-in number listed above.*
2. *Provide the audio operator with the password: Spirax-Sarco Engineering.*

About Spirax-Sarco Engineering plc
Spirax-Sarco Engineering plc is a thermal energy management and niche pumping specialist. It comprises three world-leading businesses: Steam Specialties, for the control and management of steam; Electric Thermal Solutions, for advanced electrical process heating and temperature management solutions; and Watson-Marlow, for peristaltic pumping and associated fluid path technologies. The Steam Specialties and Electric Thermal Solutions businesses provide a broad range of fluid control and electrical process heating products, engineered packages, site services and systems expertise for a diverse range of industrial and institutional customers. Both businesses help their end users to improve production efficiency, meet their environmental sustainability targets, improve product quality and enhance the safety of their operations. Watson-Marlow provides solutions for a wide variety of demanding fluid path applications with highly accurate, controllable and virtually maintenance-free pumps and associated technologies.

The Group is headquartered in Cheltenham, UK, has strategically located manufacturing plants around the world and employs more than 8,200 people, including almost 2,000 direct sales and service engineers. The Company's shares have been listed on the London Stock Exchange since 1959 (symbol: SPX) and it is a constituent of the FTSE 100 and the FTSE4Good Indexes.

Further information can be found at spiraxsarcoengineering.com

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BUSINESS REVIEW

	HY 2020	Exchange	Organic	Acquisitions & disposals	HY 2021	Organic	Reported
Revenue	£569.7m	(£21.2m)	£95.2m	-	£643.7m	+17%	+13%
Adjusted operating profit	£119.0m	(£4.4m)	£48.3m	-	£162.9m	+42%	+37%
Adjusted operating profit margin	20.9%				25.3%	+440 bps	+440 bps
Statutory operating profit	£110.8m				£153.6m		+39%
Statutory operating profit margin	19.4%				23.9%		+450 bps

OVERVIEW

Recognising our colleagues

The Board would like to thank all our colleagues across the world for continuing to work tirelessly to support our customers, particularly in meeting the strong demand growth during the first six months of 2021.

The health and wellbeing of our teams is of paramount importance with COVID-19 still affecting our daily lives. We have maintained our rigorous health and safety measures, including the implementation of updated COVID-19 minimum standards, to ensure our workplaces remain safe. We are supporting the wellbeing of our employees and maintaining regular engagement with colleagues who are working remotely.

Market environment

During the first half of 2021, global industrial production[1] (IP) expanded 11%, compared to a 7% contraction in the same period last year, which is in line with forecasts at the time of our AGM Trading Update in May. Industrial production, throughout the period, improved across all our geographical markets as the global economy recovered from the adverse effects of the COVID-19 pandemic, supported by both local vaccination programmes and sizeable fiscal stimulus packages. IP growth was strong in both our mature and developing markets in the first half even though most countries continue to suffer the effects of COVID-19.

	IP Performance 1H 2021	**IP Performance 1H 2020**
Europe, Middle East & Africa	+10%	-9%
of which, Europe	*+13%*	*-12%*
North America	+7%	-9%
Latin America	+14%	-10%
Asia Pacific	+14%	-3%
of which, China	*+16%*	*-2%*

Forecasters[1] predict global IP will grow between 8% and 9% in 2021, which is also in line with forecasts at the time of our AGM Trading Update in May. Growth in the second half of 2021 is forecasted to slow to 6% reflecting the stronger level of IP in the second half of 2020, when most markets began to recover from low points driven by COVID-19 in the second quarter of 2020.

With the huge task ahead to complete the global vaccination programme for COVID-19, as well as the possibility of new variants of the virus emerging, some of the restrictions placed on normal trading activities are likely to persist. It is plausible that we may face further disruption to global supply chains which means growth forecasts may be subject to revisions over the coming months.

[1] Source for industrial production data: Oxford Economics, July 2021.

PROGRESS IN THE HALF YEAR

Managing the 'new normal'

Our teams quickly adapted to the constraints caused by the COVID-19 pandemic and are operating effectively. Our direct sales and service engineers have continued to embrace virtual meeting tools to engage with customers and self-generate sales, while in some countries beginning to increase their in-person visits to customers. Our manufacturing facilities have remained open, are COVID-19 safe and are operating to meet demand. Teams that were previously office-based have been working flexibly and effectively from home, using digital technology to maintain close contact with colleagues and customers.

Meeting strong demand growth

Across our Group, we have experienced strong growth in demand, driven by a recovery in IP and the ongoing production of COVID-19 vaccines. Our businesses have responded well to meet this demand growth, leveraging our flexibility to increase capacity. This has included measures such as, increasing our number of manufacturing shifts, additional recruitment, relocating warehousing to newly leased facilities to enable increased manufacturing footprint, investing in capacity expansion through new equipment and expanding our supply chain.

The growth in demand has been felt most keenly within Watson-Marlow, particularly at our BioPure and Falmouth sites. During the second half of this year, we expect capacity to increase at our existing BioPure site by 50% and by over 20% at our Falmouth factory, when compared to the first half.

Despite the disruptive effects of COVID-19 on global supply chains, leading to an escalation in raw material and freight costs, we are working closely with our suppliers to meet our customers' needs. In the first six months of the year, cost escalation has remained within our expectations and is reflected in our price management.

Implementing our strategy

Investing in our direct sales and service teams

During the first six months of the year, we have continued to expand our global presence, adding over 60 new sales and service personnel across our Group and opening two new operating companies in France (Gestra) and the Czech Republic (Watson-Marlow). We stepped up the investment in the training and continuous development of our sales and service engineers, quadrupling our training hours in the first half of 2021, compared to the same period of 2020, as we focused on embedding new skills and developing their knowledge of our evolving products and solutions. This was made possible by adapting our delivery of training, using digital technologies and utilising the time saved by our engineers as a result of reduced travel.

We are investing in digital solutions to support our engineers' engagement with customers and to identify opportunities for self-generated sales. In June, we appointed a Group Digital Director to oversee and accelerate the implementation of our digital programmes across our Group.

Investing in the development of new products and solutions

Throughout the pandemic, we have continued to invest in the development of new products to anticipate our customers' changing needs, while maintaining and enhancing our competitive position.

In March, we confirmed that we are developing synergies within our thermal energy management portfolio, combining core capabilities from our Steam Specialties and Electric Thermal Solutions businesses, with the aim of helping our customers mitigate the impact of their operations on the environment. In July, our 'Thermal Solutions Synergy' team successfully installed and started-up for customer trials the first steam thermal energy storage system, which acts as a thermal energy 'battery'. We also engineered a second system for installation and start-up in 2022, while prototypes of different scales have been built and are being tested.

As part of our work to develop innovative solutions for the decarbonisation of steam generation, the Thermal Solutions Synergy team is also currently developing and testing a retrofit system that allows for the in-place conversion, with minimal disruption, of fossil-fuel-fired industrial steam boilers into electric steam boilers. This unique solution has both a lower cost and quicker installation compared to a full boiler replacement. Most importantly, when coupled with renewable power generation sources, the system eliminates scopes 1 & 2 carbon emissions from the steam generation process, improving the sustainability of our customers' operations.

We have also maintained momentum with multiple new product and solution offerings launched across the Group in the first half of this year. Watson-Marlow has also re-organised its global product development organisation in order to flex resources in line with growing customer requirements and demand, as well as improving collaboration and consistency. Electric Thermal Solutions is working as a heating technology partner with several large Energy Storage solution providers, which includes the engineering of a full-scale commercial thermal energy storage system.

Investing in our manufacturing capabilities
We are making good progress with our planned investments. Watson-Marlow's new Biopure UK manufacturing facility is on track for first customer deliveries in Q1 2022. In the USA, plans for Watson-Marlow's state-of-the-art manufacturing facility in Massachusetts are well advanced. The build phase of the 12,800m^2 facility is due to commence later this year and first customer deliveries are expected by the end of 2022. In France, work to bring together Thermocoax's four manufacturing facilities in Normandy and integrate these within a new purpose-build facility, is on track for completion by the end of this year. We expect some escalation in expenditure for these projects, due to the sharp cost inflation of raw materials and commodities within the construction sector. Nevertheless, our capital expenditure guidance for 2021 remains unchanged and we anticipate the overall return of these investments will not be materially affected as demand for the products manufactured in these facilities is also rising above initial expectations.

In Steam Specialties, we implemented a re-organisation of our global supply sites, effective 1st January, which has brought the 11 supply companies together for the first time under the leadership of a new Divisional Director. This restructuring is enabling increased opportunities for collaboration, improved focus and supply chain optimisation. A key activity this year has been the acceleration of planned investments in our 'future factory' modernisation programme. This includes the upgrade and replacement of equipment as well as the introduction of new technologies, such as increased automation along our manufacturing assembly lines.

Across our Group, we measure our customer service levels using on-time-to-request (OTTR) or on-time-to-commitment (OTTC) metrics. In the first half of this year, we have been able to maintain high levels of customer service despite experiencing exceptional demand from customers, as well as disruptions along our global supply chains.

Investing in our sustainable future

Our responsible business foundations are fundamental to the way in which we operate and include Health & Safety, People & Wellbeing, Inclusion & Diversity and Ethical Business Practices. During the first half of this year, we have maintained our focus in all of these areas.

Health & Safety

We strive for excellence in Health & Safety and have a target of zero accidents across the Group. One of the initiatives we have in place to support this target is our behavioural based safety (BBS) programme, which is having a positive impact with a 50% reduction in lost time accidents achieved in the first half of 2021, compared to the same period last year. Our leading indicators, such as near misses, reported safety concerns and training hours are performing ahead of their targets and are improving on prior year. We also deployed updated Group COVID-19 Minimum Standards as a framework for our operating companies to follow, ensuring the health and wellbeing of our colleagues and their families remains our priority.

People & Wellbeing

In April, we tested the strength of our employee value propositions by undertaking our third global employee survey. 91% of our colleagues across the Group took the time to share valuable insights with us, marking the highest level of participation achieved since launching our first survey in 2017. We were pleased to perform above the global benchmark on overall employee engagement and to see a positive progression across all dimensions compared to our 2019 survey. Earlier, in February, we undertook a shorter 'wellbeing check-in' with all our global colleagues. This offered us some good insights on the topics our colleagues wanted help with and led to the development of a Wellbeing Toolkit, distributed in 14 different languages.

Inclusion & Diversity

We are focused on creating an inclusive and equitable working culture where our people can be themselves, their diversity is valued and they can achieve their full potential. We achieved significant progress developing a roadmap for how we will continue to achieve this ambition and our plan for an inclusive, equitable and healthy future for all our employees will be launched later this year. This will include a series of pledges to help shape the difference we can make for our people and communities by working together and with our selected partners.

We have made good progress towards balancing gender representation across our Group, but we recognise we still have more to do in this area. At the end of June, women accounted for 45% of our Board, 31% of our senior leadership (Group Executive Committee and their direct reports), and over half of our global graduate programme. As part of our commitment to improve ethnic diversity and race equity across our Group, we signed up to Change the Race Ratio campaign in June, consistent with our commitment to increasing the racial and ethnic diversity of our Board and senior leadership.

Risk & Governance

At the start of 2021, we introduced new mandatory guidelines for the completion of our minimum online training requirements, applicable to new joiners as well as existing employees, to ensure all our teams are aware of what is expected of them and to help our colleagues stay vigilant to threats such as cyber-crime and fraud. A fraud risk workshop and fraud risk assessment were completed in the first half of 2021 with several actions identified to enhance our existing controls, as part of our internal programme to strengthen our controls framework. This assessment will be refreshed annually as part of our continuous improvement activity. All colleagues have access to a local, independent, third-party whistle-blowing hotline through which they can confidentially raise any concerns.

Refreshing our Sustainability strategy

New targets to accelerate sustainable performance
Our purpose is to create sustainable value for all our stakeholders as we engineer a more efficient, safer and sustainable world. With this comes a responsibility to preserve and protect natural resources, to support people and the planet by operating responsibly and helping our customers and suppliers to do the same.

Our refreshed Sustainability strategy *One Planet: Engineering with Purpose* is our commitment to sustainability, as well as our roadmap to building a more sustainable future. Launched in June 2021, this Group strategy was developed with input from more than 600 people, including external advisors. It is evidence-based and focuses on critical activities that will have meaningful impact for us and all our stakeholders.

The four strategic sustainability objectives launched within our refreshed Sustainability strategy are aligned to the UN Sustainable Development Goals and aim to deliver climate and environmental action, customer sustainability, resilient supply chains and stronger communities. These will be achieved through six strategic initiatives. Each initiative has a Group Executive Committee sponsor, a dedicated initiative-lead and a cross-business working group to ensure progress. Charters have been developed for each initiative, together with clear commitments and targets, which include but are not limited to:

1. *Achieve net zero greenhouse gas emissions by 2030 (Scopes 1 &2).*

We have brought forward our previous net zero goal by ten years and set additional climate-related goals for 2030, including 100% of electricity to be sourced or self-generated from renewable sources and 100% of our vehicle fleet to be electric. We are working with a carbon accounting consultancy to help us to quantify our Scope 3 emissions and establish a Scope 3 reduction target.

2. *Deliver biodiversity net gain.*

We aim to protect and restore biodiversity, through offsetting our operational footprint as well as implementing biodiversity improvements, to deliver a 10% net gain on our operational footprint by 2025.

3. *Implement environmental improvements in our operations.*

We have set ourselves environmental targets to protect our planet's critical resources, which include:
- Sending zero waste to landfill by 2025 and reducing waste generation by 10%
- Reducing water use by 15%
- Attaining ISO14001 accreditation at all manufacturing sites and phasing out the use of solvent-based paints

4. *Grow sales of products with quantified sustainability benefits.*

We aim to achieve sustainable sales growth, which includes understanding the whole life cycle impacts of our products, grow sales of solutions with quantifiable sustainability benefits to customers and eliminate all virgin, non-recyclable or non-biodegradable packaging by 2025.

5. *Embed sustainability criteria in supply chain management.*

We will embed additional sustainability criteria into our supply chain management and further develop our oversight of supplier sustainability, utilising a supplier-monitoring platform. Our aim is to engage with all potentially high-risk suppliers and introduce sustainability auditing to achieve 100% of potentially high-risk suppliers confirmed as compliant by 2030. We will also work with suppliers to drive improvements in our supply chains, such as reducing our Scope 3 carbon emissions.

6. Support the wellbeing of people in our communities.
We are establishing a £5 million education fund to support inclusive access to education. This commitment is in addition to the donations we make through our Group Charitable Fund, as well as the £2 million we have also pledged to donate by 2025 to good causes through our Group operating companies, whether in cash or in-kind. We are encouraging and supporting our colleagues around the globe to play their part in making a difference by using at least one of their three days of paid volunteering leave each year to achieve 150,000 hours of employee volunteering by 2025.

To deliver on our targets and accelerate our sustainability performance we have created 21 new sustainability roles across our Group so far this year. We also demonstrated our commitment to protecting nature, people and planet by signing up in support of the Terra Carta from HRH the Prince of Wales' Sustainable Markets Initiative. In June, to coincide with World Environment Day, we held a global internal launch for our refreshed Sustainability strategy to engage our colleagues around the world so that they can also play their part in making our One Planet strategy a success.

Refreshing our Steam Specialties' strategy

Steam Specialties launched its refreshed strategy - **Customer first^{2}** ('Customer first squared') - in June 2021, through a global event attended by more than 500 leaders across the business. The strategy builds on the existing Customer first strategy that has been in place since 2014 and maintains its focus on prioritising attractive growth sectors and value-based selling to deliver total customer solutions. Building upon customer insights, Customer first^{2} further embeds sustainability and digital as well as innovation and inclusivity within its eight strategic initiatives. These initiatives will support the Steam Specialties business to continue driving self-generated growth by strengthening customer bonding, as well as to leverage global 'megatrends' such as decarbonisation, the drive for greater efficiency, demographic and social changes, resource scarcity and technological breakthroughs.

Financial Performance

Sales
Group sales increased by 13% in the first half of the year to £643.7 million (2020: £569.7 million), up 17% on an organic basis. Currency movements had a 4% negative effect on sales, compared with the same period in 2020.

Our Steam Specialties business, comprising Spirax Sarco and Gestra and accounting for 56% of Group sales, delivered 9% sales growth, up 13% organically. Compared with the same period in 2020, sales were higher in all three divisions of Europe, Middle East and Africa (EMEA), Asia Pacific and the Americas. Steam Specialties ended the first half with a higher order book than normal, driven by a strong intake of smaller project-related orders in the second quarter.

Sales in our Electric Thermal Solutions business, comprising Chromalox and Thermocoax, accounted for 14% of Group sales and were up 6% organically. However, due to a strong currency headwind reported sales are flat. Order intake remained strong and ahead of sales as market conditions improved, with increasing demand for our engineered solutions contributing to underpin growth and leading to another strong order book expansion.

Watson-Marlow sales grew 29% and 35% organically to account for 30% of Group sales, driven by the exceptional COVID-19 vaccine related demand and the strong IP recovery. Sales to the Pharmaceutical &

Biotechnology sector grew by over 45% with the sector accounting for close to 60% of Watson-Marlow sales in the first half of the year, while sales to the Process Industries and Medical Device sectors were ahead of IP growth. Watson-Marlow also ended the first half with a significantly higher-than-normal order book as many customers, especially in the Pharmaceutical & Biotechnology sector, placed orders earlier than usual fearing global supply chain constraints.

Adjusted operating profit

Group adjusted operating profit increased 37% to £162.9 million (2020: £119.0 million). The adjusted operating profit increased 42% organically, ahead of our initial expectations as the step up of revenue investments in support of growth occurred at a lower rate than originally planned. Currency movements reduced the Group adjusted operating profit by 4%, due to translation and transaction effects.

In the Steam Specialties business, adjusted operating profit of £89.8 million increased 32% (2020: £68.0 million). Growth on an organic basis was 36% and exceeded 30% in each of the EMEA, Asia Pacific and Americas divisions.

The Electric Thermal Solutions business also delivered strong growth in adjusted operating profit, up 19% to £11.2 million (2020: £9.4 million). Organically, adjusted operating profit grew by 32%, as a strong currency headwind, primarily from the strengthening of sterling against the US dollar, reduced profit by 10%.

Watson-Marlow's adjusted operating profit increased 47% to £71.3 million (2020: £48.6 million), an outstanding 51% increase on an organic basis.

Adjusted operating profit margin

In the first half of 2021, the lower-than-planned step up of revenue investments enhanced the operational gearing resulting from strong sales growth and resulted in an extraordinary increase of 440 bps in the Group's adjusted operating margin to 25.3%. On an organic basis, the Group's adjusted operating margin increased by 440 bps, with strong margin expansion across all three businesses.

Within the Steam Specialties business, the adjusted operating profit margin grew 430 bps to 24.8% and was also up 430 bps on an organic basis, with strong margin growth achieved across each of EMEA, Asia Pacific and the Americas.

The adjusted operating profit margin for the Electric Thermal Solutions business was up 200 bps to 12.6%, with growth in both Chromalox and Thermocoax. Organically, the margin expanded 250 bps and was partially offset by a 50 bps currency headwind.

Watson-Marlow's adjusted operating profit margin was very strong, up 440 bps to 37.0%, driven by organic sales growth of 35%. On an organic basis, margin increased by 400 bps.

Statutory operating profit and margin

Statutory operating profit increased 39% to £153.6 million (2020: £110.8 million) and the statutory operating profit margin increased from 19.4% to 23.9%, broadly in line with the adjusted operating profit margin increase.

Financing expense

Net financing expense fell to £3.6 million (2020: £4.4 million), comprising £2.3 million of bank interest (2020: £3.1 million), £0.8 million of interest on net pension liabilities (2020: £0.7 million) and £0.5 million of interest on lease liabilities (2020: £0.6 million).

Net bank interest was lower due to increased interest income on cash holdings, which more than offset increased interest expense resulting from the issuance of a private placement bond in Q2 2020. We anticipate that the net financing expense in the second half of the year will be broadly similar to the first half.

The Group adjusted profit before tax was £159.3 million, 39% ahead of the prior year (2020: £114.5 million). The profit before tax on a statutory basis was £150.0 million, up 41% on 2020 (£106.3 million). The reconciling items between the adjusted profit before tax and the statutory profit before tax are shown in Note 2. In the first half of 2021 the reconciling items related to the amortisation of acquisition-related intangible assets and the closure of defined benefit pension scheme to future accrual.

Taxation

The Group adjusted effective tax rate, which is based on the expected full year rate, has decreased slightly to 27.0%, in line with prior guidance, compared with the full year 2020 (27.5%).

The effective tax rate on statutory profit decreased slightly to 27.4% (2020: 27.7%) due to the release of a deferred tax asset following the closure of the German defined benefit pension scheme to future accrual.

In April 2019, the European Commission's investigation into the UK's Controlled Foreign Company regime concluded that certain aspects constituted State Aid. The UK tax authority was therefore required to recover the benefit from affected taxpayers and Charging Notices for £4.9 million were received and paid during the first half. The Group has appealed the Charging Notices and expects this amount to be repayable in full, if successful, and therefore has recognised this as a receivable on the Balance Sheet.

Earnings per share

Adjusted basic earnings per share grew by 41% to 157.6 pence (2020: 111.6 pence), marginally ahead of the increase in adjusted operating profit due to the slight reduction in the effective tax rate during the first half of the year. Basic earnings per share on a statutory basis was 147.6 pence (2020: 104.2 pence). The fully diluted earnings per share were not materially different in either year.

Dividends

The Board has declared an interim dividend of 38.5 pence (2020: 33.5 pence) per ordinary share, an increase of 15%. This growth in the interim dividend follows an increase of 7% in the total dividend in respect of 2020. The dividend will be paid on 12th November 2021 to shareholders on the register at the close of business on 14th October 2021. The final dividend of 84.5 pence per share in respect of 2020 was paid on 21st May 2021 at a cash cost of £62.3 million.

Financial Position and Cash Flow

Capital employed (Note 2) increased to £600.3 million at 30th June 2021. In the first half, our capital expenditure was £22.2 million and we expect expenditure for the full year to be between 5% and 6% of sales, as we accelerate investment in the second half on new production facilities for Watson-Marlow and on projects such as OPAL, our ERP project in Steam Specialties. Tangible fixed assets (PPE and IFRS 16 right-of-use-assets) decreased by £5 million to £292.6 million, as capital investment in the first half was broadly offset by depreciation.

The ratio of working capital to sales (at constant currency) reduced by 140 bps to 21.5% (2020: 22.9%). Going forward, we anticipate maintaining a similar percentage of working capital to sales.

Cash generation was strong throughout the period, with adjusted cash from operations of £139.1 million (2020: £102.2 million), an improvement of £36.9 million, representing cash conversion of 85% (2020: 86%). Adjusted cash from operations is a measure of the cash flow generated from our companies which reflects the components within the control of local management. A reconciliation between this and statutory operating cash flow can be found in Note 2 to the Financial Statements.

Tax paid in the period increased by £11.1 million to £41.2 million in line with the increase in profitability during 2021 and the closure of certain COVID-19 related government tax deferral schemes.

Free cash flow increased to £95.1 million (2020: £68.4 million) principally as a result of improved adjusted operating profit.

Dividend payments were £62.6 million (2020: £57.8 million) including payments to minorities.

Share purchases net of new shares issued for the Group's various employee share schemes resulted in a cash outflow of £11.8 million (2020: £3.0 million) reflecting the acquisition of shares through the market rather than the issue of new equity.

The net post-retirement benefit liability under IAS 19 decreased to £52.6 million (2020: £98.6 million). The fair value of assets remained broadly unchanged from 31st December 2020 and liabilities were lower by £44.4 million, a 7% reduction, largely due to an increase in AA corporate bond rates. During the period the defined benefit scheme in Germany was closed to future accrual, effective from 1st January 2021, resulting in a £2.0 million credit to the Income Statement (Note 2).

At 30th June 2021, net debt (excluding leases) was £193 million, a net debt to EBITDA ratio of 0.6 times, compared with net debt of £229 million at 31st December 2020.

Adjusted cash flow	**30th June 2021 £m**	**30th June 2020 £m**
Adjusted operating profit	162.9	119.0
Depreciation and amortisation (excluding IFRS 16)	17.8	18.0
Depreciation of leased assets	5.7	6.0
Cash payments to pension schemes more than the charge to adjusted operating profit	(2.4)	(1.3)
Equity-settled share plans	4.8	2.8
Working capital changes	(22.6)	(12.6)
Repayments of principal under lease liability	(5.7)	(5.9)
Capital additions (including software and development)	(22.2)	(25.3)
Capital disposals	0.8	1.5
Adjusted cash from operations	**139.1**	**102.2**
Net interest	(2.8)	(3.7)
Income taxes paid	(41.2)	(30.1)
Adjusted free cash flow	**95.1**	**68.4**
Net dividends paid	(62.6)	(57.8)
Purchase of employee benefit trust shares	(11.8)	(3.0)
Acquisitions of subsidiaries (including costs)	-	(5.1)
Cash flow for the period	**20.7**	**2.5**
Exchange movements	15.3	(33.3)
Opening net debt	(228.8)	(295.2)
Net debt at 30th June (excluding IFRS 16) (Note 2)	**(192.8)**	**(326.0)**
IFRS 16 lease liability	(32.4)	(37.2)
Net debt and lease liability at 30th June (Note 2)	**(225.2)**	**(363.2)**

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

In April 2021, the IFRS Interpretations Committee issued a final agenda decision relating to accounting for configuration and customisation costs in cloud computing arrangements. While a detailed assessment of the implication for the Group is currently ongoing, the value of intangible assets at 30th June 2021 that may be impacted is not material. The impact assessment will be completed during the second half, the results of which will be recognised in the year-end consolidated financial statements.

OUTLOOK

Since the start of the year, forecasts for global IP growth in 2021 have been revised steadily upwards. In recent months, these forecasts have moderated slightly and stabilised between 8% and 9%, while remaining contingent on the successful roll-out of vaccination programmes across the world and assuming no emergence of new virus variants against which the available vaccines would be materially less effective.

During the first half of the year, sterling has continued to strengthen against our basket of trading currencies. If current exchange rates were to prevail for the remainder of the year there would be a less than 4% adverse impact on sales from translation and a more than 4% adverse impact on profit from translation and transaction, compared with the full year 2020.

Sales for the Group in the first half were in line with our expectations at the time of our AGM Trading Update in May. Furthermore, all three businesses ended the first half with higher-than-normal order books reflecting the usual lag between the strong recovery in orders and shipment to customers. Each business continues to focus on addressing their specific constraints to further expand capacity, in order to meet the challenge of increased shipment levels for the remainder of the year. Our expectation for Watson-Marlow's full year organic growth in sales to the Pharmaceutical & Biotechnology sector remains unchanged at over 55% due to continuing strong COVID-19 related demand. We continue to anticipate the Group's other revenue streams will deliver organic sales growth in 2021 above the current forecast for global IP growth and therefore our expectations for full-year revenues remain unchanged.

Our businesses responded quickly and effectively to the higher level of demand experienced in the first half, meeting our customers' needs while carefully managing the additional operational costs incurred in expanding capacity. The higher-than-anticipated adjusted operating margin in the first half, was a result of strong operational performance and does not yet reflect the full cost impact of the increased revenue investments. We intend to further accelerate these revenue investments in the second half of the year, including in corporate expenses. These investments will be more heavily weighted towards the second half of the year, mitigating the positive operational gearing from higher second half sales. Therefore we now anticipate a similar second half operating margin to that achieved in the first half of the year.

We anticipate that cash conversion will be close to 80% as we step up capital investments and increase working capital in line with revenue.

CORPORATE GOVERNANCE

On 31st July 2021, Dr Trudy Schoolenberg stood down from the Board after completing nine years as a Director. Trudy served as a member of the Audit, Remuneration and Nominations Committees and held the position of Senior Independent Director since 2019. On behalf of our Shareholders, the Board acknowledges with gratitude Trudy's significant contribution to the Group's growth and prosperity over the last nine years.

The Board was pleased to welcome Richard Gillingwater as an Independent Non-Executive Director on 9th March 2021. Richard succeeded Trudy as Senior Independent Director on 1st August 2021.

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 we mitigate risk are included in the Group's 2020 Annual Report on pages 62 to 65. The Risk Management Committee keeps these risks under continuous review and in the first half of the year they are unchanged, remaining representative of the current position and relevant for the second half of the year.

Economic and political instability
The Group operates worldwide and maintains operations in territories that have historically experienced economic or political instability. This type of instability, which includes the uncertainties of regime change, creates risks for our locally based direct operations and broader risks to credit, liquidity and currency.

Significant exchange rate movements
The Group reports its results and pays dividends in sterling. Operating and manufacturing companies trade principally in local currency. With sales companies and manufacturing spread across the globe, the nature of the Group's business necessarily results in exposure to exchange rate volatility.

Cybersecurity
Cybersecurity risks include risks from malware, accident, statutory and legislative requirements, malicious actions and other unauthorised access by third parties.

Failure to realise acquisition objectives
Whilst the Group mitigates this risk in various ways, including through comprehensive due diligence, professional advisers and contractual protections, amongst others, there are some variables that are uncontrollable or difficult to control, such as economic conditions, culture clashes and employee movement. Therefore, these could adversely affect acquisition objectives.

Loss of manufacturing output at any Group factory
The risk includes loss of output resulting from natural disasters, industrial action, accidents or any other cause. Loss of manufacturing output at any important plant risks serious disruption to sales operations.

Breach of legal and regulatory requirements (including Anti-bribery and Corruption laws)
We operate globally and must ensure compliance with laws and regulations wherever we do business. As we grow into new markets and territories, we must continually review and update our operating procedures, and ensure our colleagues are fully informed and educated in all applicable legal requirements. This is particularly important with respect to anti-bribery and corruption (ABC) legislation. Breaching any of these laws or regulations could have serious consequences for the Group.

Inability to identify and respond to changes in customer needs
This risk could lead to a loss of business resulting from a failure to respond rapidly to changes in the needs of customers or technology shifts.

Solution specification failure
This risk relates to loss of output at a customer plant due to an underperforming solution engineered by our company, potentially leading to customer product contamination and/or loss of manufacturing output and thereby contractual liability and loss of sales.

OPERATING REVIEW

STEAM SPECIALTIES

	HY 2020	Exchange	Organic	Acquisitions & disposals	HY 2021	Organic	Reported
Revenue	£331.7m	(£10.2m)	£40.4m	-	£361.9m	+13%	+9%
Adjusted operating profit	£68.0m	(£2.1m)	£23.9m	-	£89.8m	+36%	+32%
Adjusted operating profit margin	20.5%				24.8%	+430 bps	+430 bps
Statutory operating profit	£73.9m				£89.8m		+22%
Statutory operating profit margin	22.3%				24.8%		+250 bps

Market overview
Global Industrial Production grew 11% in the first half of 2021, more than recovering the 7% contraction suffered in the same period of 2020.

In Europe, Middle East and Africa IP grew 10% in the first half of 2021, following a 9% contraction during the same period of 2020. Across our larger markets in the region, the UK and Germany both grew 9% with France and Italy achieving stronger double-digit growth of 12% and 21% respectively.

In Asia Pacific, IP grew 14% in the first half of 2021, which compares to a contraction of only 3% during the same period in 2020. China, our largest market in the region, experienced strong double-digit IP growth of 16%, which reflects the earlier impact of COVID-19 on the Chinese economy as the virus spread from East to West, as well as an earlier and swifter recovery.

After a weak first quarter, IP in North America bounced back in the second quarter achieving 7% growth for the first half of 2021. Despite being one of the regions where countries continue to suffer very significantly from the effects of COVID-19, Latin America achieved strong IP growth of 14% in the first half.

Progress in the half year
While the pace of recovery has varied, demand has been growing across our markets, partly driven by an acceleration in customer spending as they return to regular maintenance regimes and seek to satisfy high demand for their own products and services.

Steam Specialties sales of £361.9 million were up 9% or 13% up organically, while adjusted operating profit of £89.8 million was up 32% or 36% up organically, due to a negative currency impact. At 24.8%, the adjusted operating profit margin was up 430 bps on a reported and organic basis. Statutory operating profit of £89.8 million was up 22% from £73.9 million in the first half of 2021.

Divisional Performance

	HY 2020	Exchange	Organic	Acquisitions & disposals	HY 2021	Organic	Reported
Europe, Middle East and Africa (EMEA)							
Revenue	£152.3m	(£1.3m)	£15.5m	-	£166.5m	+10%	+9%
Adjusted operating profit	£25.9m	-	£10.6m	-	£36.5m	+41%	+41%
Adjusted operating profit margin	17.0%				21.9%	+480 bps	+490 bps
Statutory operating profit	£32.5m				£36.6m		+13%
Statutory operating profit margin	21.3%				22.0%		+70 bps
Asia Pacific							
Revenue	£105.4m	(£1.0m)	£15.6m	-	£120.0m	+15%	+14%
Adjusted operating profit	£28.4m	-	£9.1m	-	£37.5m	+32%	+32%
Adjusted operating profit margin	26.9%				31.3%	+400 bps	+440 bps
Statutory operating profit	£28.4m				£37.5m		+32%
Statutory operating profit margin	26.9%				31.3%		+440 bps
The Americas							
Revenue	£74.0m	(£7.9m)	£9.3m	-	£75.4m	+14%	+2%
Adjusted operating profit	£13.7m	(£2.1m)	£4.2m	-	£15.8m	+36%	+15%
Adjusted operating profit margin	18.5%				21.0%	+340 bps	+250 bps
Statutory operating profit	£13.0m				£15.7m		+21%
Statutory operating profit margin	17.6%				20.8%		+320 bps

In EMEA, sales were up 9% to £166.5 million or 10% up on an organic basis. The main European operations in the UK, Italy, France, Benelux and Spain achieved strong organic growth despite on-going movement constraints imposed by COVID-19. South Africa and the Middle East also achieved strong organic growth.

In Asia Pacific, sales were up 14% to £120.0 million or 15% up on an organic basis. Sales growth in China was exceptional, driven by strong demand from smaller projects with a value of less than £200,000 while demand from 'mega projects' (orders larger than £2 million), that are driven by the customers' capital expenditure budgets, remain below pre-pandemic levels. The lagged recovery in 'mega projects' has, as expected, impacted our sales in Korea which remain lower than in the same period of 2020.

In the Americas, sales were up 2% to £75.4 million or 14% up on an organic basis. The larger currency headwind in this region is due to stronger movements of the US dollar and some of the main Latin American currencies. The USA, Canada, Brazil and Argentina achieved strong organic growth despite many countries across the region still suffering the impacts of COVID-19.

Business strategy update

Steam Specialties launched its refreshed strategy, **Customer first[2],** in June 2021, through a global event attended by more than 500 leaders across the business. The strategy builds on the existing Customer first strategy that has been in place since 2014 and maintains its focus on prioritising attractive growth sectors and value-based selling towards a total customer solution. It builds upon customer insights and further embeds sustainability, innovation, digital and inclusivity within eight strategic initiatives. These initiatives will support Steam Specialties to continue driving self-generated growth through strengthened customer bonding, as well as to leverage global 'megatrends' such as decarbonisation, the drive for greater efficiency, demographic and social changes, resource scarcity and technological breakthroughs.

During the first half of the year, Steam Specialties stepped-up revenue investments to underpin future organic growth and operating margins, including expansion of our sales-related headcount, investment in new product development and our digital initiatives, as well as increasing our sustainability-related headcount to deliver our One Planet: Engineering with Purpose strategy. These investments are consistent with our Customer first2 strategy with further expenditure planned for the second half.

In January, Gestra France began trading in line with the geographical expansion commitment set out within our acquisition strategy. Spirax Sarco is also planning further investment in the second half, expanding our direct sales force in the Middle East and across Africa.

Steam Specialties released multiple new product offerings in the first half of the year that support the efficient use and control of steam. This included the next phase of the Gestra Boiler House control range for Spirax Sarco sales channels and the M16i OEM Ball Valve range for the rapidly growing OEM market in China.

We have introduced a range of valve positioners, used widely in our solutions and packages across all sectors, as well as a controls system upgrade for the Spirax Sarco EasiHeat™ Compact Heat Transfer Solutions, offering improved energy efficiency over previous product generations.

Technology from our product brand Hiter, which is based in Brazil and was acquired by Spirax Sarco in 2016, has been used for the first time in a global product range of Variable Area Desuperheaters, which help customers in the efficient use and control of superheated steam.

Steam Specialties maintained momentum on the implementation of its 'OPAL' programme, initiated in 2019, which incorporates ERP (Enterprise Resource Planning), CRM (Customer Relationship Management), CPQ (Configure, Price, Quote) and BI (Business Intelligence) modules. Following the 'go live' in Norway, Sweden, Finland and Denmark in 2020 with the sales suite of platforms, we are on target to achieve 'go live' in Argentina in Q3 2021 with the common Spirax Sarco manufacturing platform. In tandem, we are also further developing the model for larger sites, which is expected to complete in 2022, followed by global implementation of the standard solution. This new integrated system is set to improve operational effectiveness and deliver improved customer focus and insight, as well as effective strategic account management, rapid quoting and processing, further improving our delivery performance and customer experience.

Our On-Time-To-Request (OTTR) customer service measure remained above 90% in the first half, despite the significant increase in demand and supply chain disruptions.

Outlook
We anticipate Steam Specialties organic sales growth in 2021 to be strongly above current forecasts for global IP growth of between 8% and 9%, driven by a strong recovery in base business and smaller self-generated projects, most of which are funded from customers' operational budgets, which strongly expanded the order book in the first half of the year. A step-up in our revenue investments in the second half, as well as the full cost impact of revenues investments carried out in the first half, are expected to offset the benefits of operational gearing from higher organic sales, resulting in a broadly flat margin in the second half of the year, compared to the first half.

Simplification of Reporting for Steam Specialties
Following the creation of Electric Thermal Solutions in 2019, resulting from the acquisitions of Chromalox and Thermocoax, our Group segmental reporting includes three businesses: Steam Specialties, Electric Thermal Solutions and Watson-Marlow, as well as three separate geographical divisions within Steam Specialties: EMEA, Asia Pacific and the Americas. Recognising the higher proportion of Group sales now accounted for by Watson-Marlow and Electric Thermal Solutions and in order to align with our Group management structure, we intend to simplify the disclosure for Steam Specialties, reporting as a single business to provide more balanced, relevant and appropriate information across our three businesses. We will continue to include geographic commentary in providing context and insight into the performance of each of our three businesses. This approach will be fully adopted for the period ending 31st December 2021.

ELECTRIC THERMAL SOLUTIONS

	HY 2020	Exchange	Organic	Acquisitions & disposals	HY 2021	Organic	Reported
Revenue	£88.9m	(£5.1m)	£5.1m	-	£88.9m	+6%	-
Adjusted operating profit	£9.4m	(£0.9m)	£2.7m	-	£11.2m	+32%	+19%
Adjusted operating profit margin	10.6%				12.6%	+250 bps	+200 bps
Statutory operating (loss) / profit	(£3.1m)				£4.5m		+245%
Statutory operating profit margin	-3.5%				5.1%		+860 bps

Market overview
With two-thirds of its revenue generated in North America and less than 10% generated in Asia Pacific, the geographical footprint of the Electric Thermal Solutions (ETS) business, which comprises Chromalox and Thermocoax, is different to that of Steam Specialties and Watson-Marlow. It also has a greater weighting of sales to the Oil & Gas, Power Generation and Semiconductor sectors and a lower weighting to the Food & Beverage and Pharmaceutical & Biotechnology sectors.

In North America, IP growth was at 7% for the first half of 2021, lower than EMEA at 10% and below global IP at 11%.

While the Oil & Gas industry has experienced muted growth (3%), some sectors have experienced strong growth, such as Semiconductor (15%) and Power Generation, which includes Nuclear, (5%).

Progress in the first half
Electric Thermal Solutions sales were up 6% organically but broadly flat at £88.9 million on a reported basis, with the difference due to a strong currency headwind. Organic sales growth was in-line with IP growth in North America, as the region started to recover from a COVID-19 related low point in the second quarter of 2020. Encouragingly, the orders growth rate surpassed the organic sales growth in ETS, as well as the orders growth rate in Steam Specialties, with increasing demand for our engineered solutions contributing to underpin growth and leading to another strong order book expansion.

Chromalox, which accounts for three-quarters of ETS revenue, generates 75% of its revenue in North America where the IP recovery and increasing demand for our engineered solutions has supported strong orders growth from base business (funded from customers' operational budgets) and project activity. Thermocoax has benefitted from increased demand in nuclear power generation, especially in the Asia Pacific region and the European Fusion Reactor project, with some timelines being accelerated. In the Semiconductor market, sales into the niche and stable sectors of ALD (atomic layer deposition) and lithography applications continued to grow following the strong performance in 2020, albeit at a lower rate.

ETS is experiencing strong interest for its solutions in electrification, decarbonisation and sustainability, which remain important future growth drivers. During the first half, we accelerated the Thermal Solutions Synergy project between ETS and Steam Specialties, uncovering additional exciting growth opportunities and seeking to bring these solutions to market sooner.

The adjusted operating profit was up 32% on an organic basis and 19% up to £11.2 million on a reported basis, as improved margins in both Chromalox and Thermocoax from continued efficiency improvements added to the benefits of operating leverage from higher sales. At 12.6% the adjusted operating profit margin was up 200 bps and 250 bps up on an organic basis.

Statutory operating profit of £4.5 million improved from a statutory operating profit loss of £3.1 million in the first half of 2020.

Business strategy update
ETS carried out a strategy refresh during 2020 resulting in the launch of our **Engineering Premium Solutions** strategy. An important component of this strategy is the drive towards total customer solutions and during the first half of the year we strengthened our business development function, with increased focus on new product innovation with demonstrable technological advantages and quantified sustainability benefits.

ETS is the process heating technology partner for several large Energy Storage solutions providers. We are engineering a full-scale commercial thermal energy storage system utilising more than 30MW of electric process heating for a major European renewable energy company. Additionally, we are working with a leading power company in the USA to develop a 5MW molten salt storage system for a new type of highly efficient power cycle. Chromalox's DirectConnect Medium Voltage technology provides the innovative step necessary to enable a grid-scale thermal energy storage system to operate effectively.

In February 2020, construction commenced on a new manufacturing and office facility in Normandy, France, to integrate Thermocoax's four existing manufacturing sites into a new purpose-built facility. The project is progressing well and is on track to complete by the end of this year.

In ETS, Chromalox is fully utilising its virtual and visual assets to provide a rich and immersive experience for our direct sales teams and end-user customers. Basic and advanced training programmes have been supplemented with factory tour videos, visual product depictions and 'how-to' tutorials which help our teams be more effective in engaging customers virtually. We are also empowering customers directly, by demonstrating our product use cases, especially in focus sectors and developing technologies such as decarbonisation.

Outlook
Industrial production is forecasted to continue recovering in ETS' core markets in 2021, with over 6% growth in North America and between 8% and 9% growth on a global basis. We experienced a strong build-up of the order book in the first half of the year as many ETS products have longer lead times of around four to nine months to ship. This higher-than-normal order book combined with the scheduled shipment of some large projects, such as the US Navy order booked in Q4 2020, means that revenue growth will be more weighted to the second half of the year. We therefore anticipate organic sales growth in 2021 to be in line with current forecasted global IP growth and expect remaining shipments of large orders in the second half to add a further £4 million to sales.

Continued efficiency improvements, operational gearing from the strong sales growth in Chromalox and sustained good performance from Thermocoax, is anticipated to strongly improve the second half margin, resulting in adjusted operating profit expanding, on an organic basis, by almost twice the rate of the 2021 organic revenue growth.

WATSON-MARLOW

	HY 2020	Exchange	Organic	Acquisitions & disposals	HY 2021	Organic	Reported
Revenue	£149.1m	(£5.9m)	£49.7m	-	£192.9m	+35%	+29%
Adjusted operating profit	£48.6m	(£1.4m)	£24.1m	-	£71.3m	+51%	+47%
Adjusted operating profit margin	32.6%				37.0%	+400 bps	+440 bps
Statutory operating profit	£47.0m				£68.7m		+46%
Statutory operating profit margin	31.5%				35.6%		+410 bps

Market overview
The Pharmaceutical & Biotechnology sector, which accounted for over 55% of Watson-Marlow sales in 2020, has historically grown at an annual rate of between 12% and 14%, while Watson-Marlow's sales to this sector have historically grown up to 20% per annum. During the first half of the year, the sector continued to experience exceptional growth given the industry's role in the development and production of COVID-19 vaccines.

Additionally, Watson-Marlow also benefitted from the strong recovery in global industrial production through its sales to the Process Industries and Medical Device sectors. However, Watson-Marlow sales carry a higher weighting in EMEA and the Americas and a lower weighting in Asia Pacific than the Steam Specialties business.

Progress in the first half
Watson-Marlow sales were up 29% to £192.9 million on a reported basis, or 35% up on an organic basis, with strong contributions from all geographic divisions.

During the first half of this year, we have continued to see exceptional demand from the Pharmaceutical & Biotechnology sector for Watson-Marlow pumping solutions and single-use technologies, boosted by the ongoing production ramp-up to deliver COVID-19 vaccines.

The Process Industries and Medical Device sectors, which accounted for close to 45% of Watson-Marlow sales in 2020 also delivered strong sales growth, comfortably outperforming the growth in global IP and achieving strong sales growth to the Food & Beverage and Mining sectors. In North America, sales to the Water & Wastewater sector were impacted by a public funding slowdown and a challenging comparison to the same period of 2020.

Watson-Marlow's adjusted operating profit was up 47% to a record £71.3 million. Organically, adjusted operating profit was up 51% with the currency headwind reflecting the strength of sterling and the significant manufacturing footprint we have in the UK. At an extraordinary 37.0%, the adjusted operating profit margin was up 440 bps or 400 bps up on an organic basis. The increase in profit reflects the significant sales growth and benefits of operational gearing, partially offset by the growing investments in capacity expansions to meet the higher level of demand. Watson-Marlow has also continued to invest in new product development, expansion of direct sales and central support functions.

Statutory operating profit was up 46% from £47.0 million in the first half of 2020 to £68.7 million.

Business strategy update

Many of our customers are playing a critical role on the front line of the COVID-19 pandemic and they rely on our products and services during this time. It has been essential for Watson-Marlow's supply locations to remain fully operational and for our engineers to remain available.

While the use of digital channels has enabled us to maintain close contact with our customers, we have been able to start increasing our on-site visits where COVID-19 measures allow. We have also recruited more than 50 people in direct sales and sales support during the first half, with more recruitment planned for the second half, supporting our continued growth and serving the needs of our customers. As part of our continued focus on geographic expansion, we also opened a new operating company, in the Czech Republic, which began trading at the start of 2021.

In response to exceptional demand, we have increased both short and long-term capacity at our Biopure, Falmouth Pumps, Falmouth Tubing and Flexicon sites. A new building close to our UK manufacturing site in Falmouth was leased to relocate warehousing and new product development activities. This has freed up space for manufacturing expansion within our current site to meet the increased demand. During the third quarter, a third tubing line and associated clean room will become operational. We are also investing in increased cell capacity for pump assembly and recruitment of direct and indirect labour in order to move to 24/7 operation. During the second half of this year, we expect output at our existing Falmouth factories to increase by over 20% and by 50% at our BioPure site, compared to the first half of this year.

Construction of the new Biopure site at Dunsbury Park in Plymouth (UK) is progressing well and is on schedule to deliver to customers from the first quarter of 2022. In the USA, plans for our state-of-the-art manufacturing facility in Massachusetts are well advanced. The build phase of the 12,800m^2 facility is due to commence later this year and first customer deliveries are expected by the end of 2022. We expect to see some escalation in expenditure for these projects, due to the sharp inflation of costs for raw materials and commodities within the construction sector.

We have continued to invest in our people, quadrupling our training hours in the first half of 2021 compared to the same period of 2020. The focus has been on the implementation of our refreshed strategy launched during 2020, 'Strategy25', and Behaviour Based Safety (BBS) training.

Watson-Marlow also launched multiple new products in the first half of the year. The Qdos CWT was launched to the wider market following a soft launch in mid-2020. This product features a revolutionary new pump head utilising Conveying Wave Technology (CWT), the ReNu 30 CWT, which fits onto our existing range of Watson-Marlow Qdos pumps. The new patented-technology pump head delivers superior accuracy and chemical resistance for metering and dosing applications, establishing the next level of high performance for our industry. An evolution in long-life chemical metering, it expands our addressable market downstream into sectors requiring higher flow, pressure and enhanced chemical resistance.

The Flexicon PF7+, a peristaltic filling machine for high accuracy aseptic filling in critical applications for zero waste, as well as a new grade of Biopure tubing for transfer applications, were both launched to the Pharmaceutical and Biotechnology market.

Thin-walled Watson-Marlow TPU tubing for handling Aliphatic hydrocarbons aimed at the Industrial and Food & Beverage sectors, as well as the Watson-Marlow Maxthane FDA and EC1935 food grade tubing for the Food & Beverage sector were also launched during this period.

The New Product Development (NPD) organisation has been reorganised to align all design and engineering from across the portfolio within the Business Development Division. This change provides a strong operational focus to the NPD processes and enables the team to flex resources in line with customer requirements and demand, as well as improving collaboration and consistency across product brands.

Outlook

During the second half of this year, we anticipate a continuation of strong COVID-19 related demand as well as growth in our Process Industries and Medical Device sectors. Combined with a higher-than-normal order book at the end of the first half of the year, we anticipate over 55% organic sales growth to the Pharmaceutical & Biotechnology sector in the full year 2021, compared to 2020, as well as organic sales growth strongly above global IP for the Process Industries and Medical Device sectors.

Increased operational costs, the full impact of revenue investments carried out in the first half of the year and the additional revenue investments planned for the second half of the year, will offset the operational gearing benefits from higher second half sales. We therefore anticipate a similar adjusted operating profit margin in the second half of this year, compared to the first half.

INDEPENDENT REVIEW REPORT TO SPIRAX-SARCO ENGINEERING PLC

We have been engaged by the Company to review the condensed set of Financial Statements in the Half Year Financial Report for the six months ended 30th June 2021, 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 13. We have read the other information contained in the Half Year Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of Financial Statements.

Directors' responsibilities

The Half Year Financial Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Half Year Financial Report in accordance with the Disclosure 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 United Kingdom adopted International Financial Reporting Standards (IFRS). The condensed set of Financial Statements included in this Half Year Financial Report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34 'Interim Financial Reporting'.

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of Financial Statements in the Half Year Financial Report for the six months ended 30th June 2021 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our Report

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.

Deloitte LLP
Statutory Auditor, London, United Kingdom
10th August 2021

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30th June 2021 £m (unaudited)	30th June 2020 £m (unaudited)	31st December 2020 £m (audited)
ASSETS				
Non-current assets				
Property, plant and equipment		257.9	267.3	261.3
Right-of-use assets		34.7	39.1	36.3
Goodwill		411.6	444.1	422.4
Other intangible assets		265.8	303.9	280.3
Prepayments		2.0	1.6	1.4
Investment in Associate		-	0.1	-
Taxation recoverable		4.9	-	-
Deferred tax assets		41.6	47.6	50.9
		1,018.5	1,103.7	1,052.6
Current assets				
Inventories		182.8	202.3	180.1
Trade receivables		236.1	222.5	226.3
Other current assets		43.6	41.1	31.8
Taxation recoverable		7.9	7.7	8.1
Cash and cash equivalents	9	253.6	320.0	246.2
		724.0	793.6	692.5
Total assets		**1,742.5**	**1,897.3**	**1,745.1**
EQUITY AND LIABILITIES				
Current liabilities				
Trade and other payables		171.4	153.3	160.2
Provisions		4.9	5.8	6.1
Bank overdrafts	9	46.9	154.3	22.2
Current portion of long-term borrowings	9	103.7	0.4	0.6
Short-term lease liabilities	9	10.1	10.6	10.3
Current tax payable		33.0	27.6	28.6
		370.0	352.0	228.0
Net current assets		**354.0**	**441.6**	**464.5**
Non-current liabilities				
Long-term borrowings	9	295.8	491.3	452.2
Long-term lease liabilities	9	22.3	26.6	23.8
Deferred tax liabilities		76.5	85.6	79.4
Post-retirement benefits	8	52.6	94.9	98.6
Provisions		1.5	1.5	2.0
Long-term payables		5.3	4.0	5.1
		454.0	703.9	661.1
Total liabilities		**824.0**	**1,055.9**	**889.1**
Net assets		**918.5**	**841.4**	**856.0**
Equity				
Share capital		19.8	19.9	19.8
Share premium account		85.0	81.4	84.8
Other reserves		(47.8)	17.8	(36.1)
Retained earnings		860.7	721.4	786.5
Equity shareholders' funds		917.7	840.5	855.0
Non-controlling interest		0.8	0.9	1.0
Total equity		**918.5**	**841.4**	**856.0**
Total equity and liabilities		**1,742.5**	**1,897.3**	**1,745.1**

CONDENSED CONSOLIDATED INCOME STATEMENT

	Six months to 30th June 2021			Six months to 30th June 2020			Year ended 31st December 2020		
	Adjusted	**Adj't**	**Total**	**Adjusted**	**Adj't**	**Total**	**Adjusted**	**Adj't**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)	(audited)	(audited)
Revenue (Note 3)	**643.7**	**-**	**643.7**	**569.7**	**-**	**569.7**	**1,193.4**	**-**	**1,193.4**
Operating costs	(480.8)	(9.3)	(490.1)	(450.7)	(8.2)	(458.9)	(923.0)	(21.4)	(944.4)
Operating profit (Note 2/3)	**162.9**	**(9.3)**	**153.6**	**119.0**	**(8.2)**	**110.8**	**270.4**	**(21.4)**	**249.0**
Financial expenses	(5.0)	-	(5.0)	(4.9)	-	(4.9)	(10.1)	-	(10.1)
Financial income	1.4	-	1.4	0.5	-	0.5	1.4	-	1.4
Net financing expense (Note 4)	(3.6)	-	(3.6)	(4.4)	-	(4.4)	(8.7)	-	(8.7)
Share of (loss)/profit of Associate	-	-	-	(0.1)	-	(0.1)	(0.2)	-	(0.2)
Profit before taxation	**159.3**	**(9.3)**	**150.0**	**114.5**	**(8.2)**	**106.3**	**261.5**	**(21.4)**	**240.1**
Taxation (Note 5)	(43.0)	1.9	(41.1)	(32.1)	2.7	(29.4)	(72.0)	5.8	(66.2)
Profit for the period	**116.3**	**(7.4)**	**108.9**	**82.4**	**(5.5)**	**76.9**	**189.5**	**(15.6)**	**173.9**
Attributable to:									
Equity shareholders	116.2	(7.4)	108.8	82.2	(5.5)	76.7	189.2	(15.6)	173.6
Non-controlling interest	0.1	-	0.1	0.2	-	0.2	0.3	-	0.3
Profit for the period	**116.3**	**(7.4)**	**108.9**	**82.4**	**(5.5)**	**76.9**	**189.5**	**(15.6)**	**173.9**
Earnings per share									
Basic earnings per share (Note 2/6)	157.6p		147.6p	111.6p		104.2p	256.6p		235.5p
Diluted earnings per share (Note 2/6)	157.3p		147.3p	111.4p		103.9p	255.8p		234.8p
Dividends									
Dividends per share (Note 7)			38.5p			33.5p			118.0p
Dividends paid (per share) (Note 7)			84.5p			78.0p			111.5p

Adjusted figures exclude certain items as detailed in Notes 2 and 3. All amounts relate to continuing operations. The Notes on pages 29 to 44 form an integral part of the Interim Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months to 30th June 2021 £m (unaudited)	Six months to 30th June 2020 £m (unaudited)	Year ended 31st December 2020 £m (audited)
Profit for the period	**108.9**	**76.9**	**173.9**
Items that will not be reclassified to profit or loss:			
Remeasurement gain/(loss) on post-retirement benefits	40.4	(31.7)	(40.2)
Deferred tax on remeasurement (gain)/loss on post-retirement benefits	(7.2)	6.0	8.2
	33.2	(25.7)	(32.0)
Items that may be reclassified subsequently to profit or loss:			
Exchange (loss)/gain on translation of foreign operations and net investment hedges	(10.7)	41.4	(24.5)
Profit/(loss) on cash flow hedges net of tax	0.8	(6.5)	(0.7)
	(9.9)	34.9	(25.2)
Total comprehensive income for the period	**132.2**	**86.1**	**116.7**
Attributable to:			
Equity shareholders	132.1	85.9	116.4
Non-controlling interest	0.1	0.2	0.3
Total comprehensive income for the period	**132.2**	**86.1**	**116.7**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30th June 2021 (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 2021	**19.8**	**84.8**	**(36.1)**	**786.5**	**855.0**	**1.0**	**856.0**
Profit for the period	**-**	**-**	**-**	**108.8**	**108.8**	**0.1**	**108.9**
Other comprehensive (expense)/income:							
Exchange loss on translation of foreign operations and net investment hedges	-	-	(10.7)	-	(10.7)	-	(10.7)
Remeasurement gain on post-retirement benefits	-	-	-	40.4	40.4	-	40.4
Deferred tax on remeasurement gain on post-retirement benefits	-	-	-	(7.2)	(7.2)	-	(7.2)
Gain on cash flow hedge reserve	-	-	0.8	-	0.8	-	0.8
Total other comprehensive (expense)/income for the period	**-**	**-**	**(9.9)**	**33.2**	**23.3**	**-**	**23.3**
Total comprehensive (expense)/income for the period	**-**	**-**	**(9.9)**	**142.0**	**132.1**	**0.1**	**132.2**
Contributions by and distributions to owners of the Company:							
Dividends paid	-	-	-	(62.3)	(62.3)	(0.3)	(62.6)
Equity-settled share plans net of tax	-	-	-	(5.5)	(5.5)	-	(5.5)
Issue of share capital	-	0.2	-	-	0.2	-	0.2
Employee Benefit Trust shares	-	-	(1.8)	-	(1.8)	-	(1.8)
Balance at 30th June 2021	**19.8**	**85.0**	**(47.8)**	**860.7**	**917.7**	**0.8**	**918.5**

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.

For the period ended 30th June 2020 (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 2020	**19.8**	**81.0**	**(10.6)**	**735.1**	**825.3**	**1.0**	**826.3**
Profit for the period	**-**	**-**	**-**	**76.7**	**76.7**	**0.2**	**76.9**
Other comprehensive income/(expense):							
Exchange gain on translation of foreign operations and net investment hedges	-	-	41.4	-	41.4	-	41.4
Remeasurement loss on post-retirement benefits	-	-	-	(31.7)	(31.7)	-	(31.7)
Deferred tax on remeasurement loss on post-retirement benefits	-	-	-	6.0	6.0	-	6.0
Loss on cash flow hedge reserve	-	-	(6.5)	-	(6.5)	-	(6.5)
Total other comprehensive income/(expense) for the period	**-**	**-**	**34.9**	**(25.7)**	**9.2**	**-**	**9.2**
Total comprehensive income for the period	**-**	**-**	**34.9**	**51.0**	**85.9**	**0.2**	**86.1**
Contributions by and distributions to owners of the Company:							
Dividends paid	-	-	-	(57.5)	(57.5)	(0.3)	(57.8)
Equity-settled share plans net of tax	-	-	-	(7.2)	(7.2)	-	(7.2)
Issue of share capital	0.1	0.4	-	-	0.5	-	0.5
Employee Benefit Trust shares	-	-	(6.5)	-	(6.5)	-	(6.5)
Balance at 30th June 2020	**19.9**	**81.4**	**17.8**	**721.4**	**840.5**	**0.9**	**841.4**

For the year ended 31st December 2020 (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 2020	**19.8**	**81.0**	**(10.6)**	**735.1**	**825.3**	**1.0**	**826.3**
Profit for the year				**173.6**	**173.6**	**0.3**	**173.9**
Other comprehensive (expense)/income:							
Exchange loss on translation of foreign operations and net investment hedges	-	-	(24.5)	-	(24.5)	-	(24.5)
Remeasurement loss on post-retirement benefits	-	-	-	(40.2)	(40.2)	-	(40.2)
Deferred tax on remeasurement loss on post-retirement benefits	-	-	-	8.2	8.2	-	8.2
Loss on cash flow hedge reserve	-	-	(0.7)	-	(0.7)	-	(0.7)
Total other comprehensive expense for the year	**-**	**-**	**(25.2)**	**(32.0)**	**(57.2)**	**-**	**(57.2)**
Total comprehensive (expense)/income for the year	**-**	**-**	**(25.2)**	**141.6**	**116.4**	**0.3**	**116.7**
Contributions by and distributions to owners of the Company:							
Dividends paid	-	-	-	(82.2)	(82.2)	(0.3)	(82.5)
Equity settled share plans net of tax	-	-	-	(8.0)	(8.0)	-	(8.0)
Issue of share capital	-	3.8	-	-	3.8	-	3.8
Employee Benefit Trust shares	-	-	(0.3)	-	(0.3)	-	(0.3)
Balance at 31st December 2020	**19.8**	**84.8**	**(36.1)**	**786.5**	**855.0**	**1.0**	**856.0**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Six months to 30th June 2021 £m (unaudited)	Six months to 30th June 2020 £m (unaudited)	Year ended 31st December 2020 £m (audited)
Cash flows from operating activities				
Profit before taxation		150.0	106.3	240.1
Depreciation, amortisation and impairment		35.3	37.7	75.4
Profit on disposal of fixed assets		(0.5)	(0.3)	(0.3)
Loss on disposal of subsidiary		-	0.3	0.4
Reversal of acquisition-related fair value adjustments to inventory		-	1.0	1.0
Cash payments to the pension schemes greater than the charge to operating profit		(4.4)	(11.9)	(14.7)
Equity-settled share plans		4.8	2.8	7.0
Net finance expense		3.6	4.4	8.7
Operating cash flow before changes in working capital and provisions		**188.8**	**140.3**	**317.6**
Change in trade and other receivables		(28.8)	21.0	15.1
Change in inventories		(7.0)	(9.7)	3.8
Change in provisions		(1.4)	2.3	3.3
Change in trade and other payables		14.6	(22.3)	(8.7)
Cash generated from operations		**166.2**	**131.6**	331.1
Income taxes paid		(41.2)	(30.1)	(71.9)
Net cash from operating activities		**125.0**	**101.5**	**259.2**
Cash flows from investing activities				
Purchase of property, plant and equipment		(18.9)	(21.7)	(42.0)
Proceeds from sale of property, plant and equipment		0.8	1.8	2.2
Purchase of software and other intangibles		(2.1)	(2.2)	(4.9)
Development expenditure capitalised		(1.2)	(1.4)	(2.7)
Disposal of subsidiary		-	(0.3)	(0.3)
Acquisition of businesses net of cash acquired		-	(4.8)	(4.8)
Interest received		1.4	0.5	1.4
Net cash used in investing activities		**(20.0)**	**(28.1)**	**(51.1)**
Cash flows from financing activities				
Proceeds from issue of share capital		0.2	0.2	2.0
Employee Benefit Trust share purchase		(12.0)	(3.2)	(14.5)
Repaid borrowings	9	(34.8)	(141.8)	(175.0)
New borrowings	9	0.2	137.4	138.3
Interest paid including interest on lease liabilities		(4.2)	(4.2)	(8.6)
Repayment of lease liabilities	9	(5.7)	(5.9)	(12.2)
Dividends paid (including minorities)		(62.6)	(57.8)	(82.5)
Net cash used in financing activities		**(118.9)**	**(75.3)**	**(152.5)**
Net change in cash and cash equivalents	9	**(13.9)**	**(1.9)**	**55.6**
Net cash and cash equivalents at beginning of period	9	224.0	168.3	168.3
Exchange movement	9	(3.4)	(0.7)	0.1
Net cash and cash equivalents at end of period	9	**206.7**	**165.7**	**224.0**
Borrowings	9	(399.5)	(491.7)	(452.8)
Net debt at the end of the period	9	**(192.8)**	**(326.0)**	**(228.8)**
Lease liabilities		(32.4)	(37.2)	(34.1)
Net debt and lease liabilities at end of period		**(225.2)**	**(363.2)**	**(262.9)**

NOTES TO THE CONDENSED 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 2021 have been prepared in accordance with United Kingdom adopted International Financial Reporting Standard IAS 34 (Interim Financial Reporting). The accounting policies applied are consistent with those set out in the Spirax-Sarco Engineering plc 2020 Annual Report.

These Condensed Consolidated Interim Financial Statements do not include all the information required for full annual statements and should be read in conjunction with the 2020 Annual Report. The comparative figures for the year ended 31st December 2020 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 2020 were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. The statutory Consolidated Financial Statements for Spirax-Sarco Engineering plc in respect of the year ended 31st December 2020 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 2020 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 2021, 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 Financial Reporting Council, were authorised by the Board on 11th August 2021.

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 2021 Half Year Report. For this reason, it continues to adopt the going concern basis in preparing the Condensed Consolidated Interim Financial Statements.

The Directors have considered the impact of COVID-19 on our businesses and on the health and wellbeing of our employees in the Operating Review. The Group has prepared cash flow forecasts, which reflect forecast changes in revenue and cash flows based on the current economic environment.

Our financial position remains robust, with the Group holding committed total debt facilities of £749 million at 30th June 2021 giving headroom in excess of £390 million. The earliest maturity of any facility is not until March 2022 being €120 million due on the €160 million Term Loan and which is accounted for within the cash flow forecast. Committed facilities include a £350 million RCF which was undrawn at 30th June

2021, with the maturity successfully extended to May 2024 during the first half of the year. The Group also has cash and cash equivalents of £253.6 million.

The debt facilities contain a leverage (net debt/EBITDA) covenant of up to 3.5x. Certain debt facilities also contain an interest cover (EBITDA/Net Finance Expense) covenant of a minimum of 3.0x. The Group regularly monitors its financial position to ensure that it remains within the terms of its banking covenants. At 30th June 2021 leverage (defined as net debt divided by adjusted earnings before interest, tax, depreciation and amortisation) was 0.6x (30th June 2020: 1.1x and 31st December 2020: 0.7x), showing a continued reduction since the prior period. Interest cover (defined as adjusted earnings before interest, tax, depreciation and amortisation divided by net bank interest) was 79x at 30th June 2021 (30th June 2020: 44x and 31st December 2020: 51x).

The Group has prepared and reviewed the impact of a reasonably possible worst-case scenario, representing a decline more severe than that experienced by the Group in its recent history. Under this scenario, which has been modelled up to December 2022, the Group has access to sufficient liquidity within its committed debt facilities and remains comfortably within associated financial covenants. All debt repayments are forecast to be met without any refinancing being required.

Reverse 'stress testing' was also performed to assess what level of business under-performance would be required for a breach of the financial covenants to occur, the results of which evidenced that no reasonably possible change in future forecast cash flows would cause a breach of these covenants. In addition, the reverse stress test does not take into account any mitigating actions which the Group would implement in the event of a severe and extended revenue and profitability decline, which would increase the headroom further. This assessment indicates that the Group can operate within the level of its current committed facilities, as set out above, without the need to obtain any new facilities for a period of not less than 12 months from the date of this report.

NEW STANDARDS AND INTERPRETATIONS APPLIED FOR THE FIRST TIME

On 1st January 2021, the Group applied new or amended IFRS and interpretations issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1st January 2021. Their adoption has not had a material impact on the Condensed Consolidated Financial Statements.

The economy in Argentina remains subject to high inflation. At 30th June 2021 we have concluded that applying IAS 29 (Financial Reporting in Hyperinflationary Economies) is not required as the impact of adopting is not material. We will continue to assess the position going forward.

NEW STANDARDS AND INTERPRETATIONS NOT YET APPLIED

At the date of approval of these Condensed Consolidated Financial Statements, there were no new or revised IFRSs, amendments or interpretations in issue but not yet effective that are potentially material for the Group and which have not yet been applied.

The Interest Rate Benchmark Reform Amendments Phase 2 (Amendments to IFRS 9, IAS 39 and IFRS 7) apply for the first time in 2021. We do not have significant derivatives that refer to an interest rate benchmark, so these amendments do not have a material impact on the interim condensed consolidated financial statements of the Group.

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 2020.

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 United Kingdom;

- 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 10th August 2021 are as listed in the 2020 Annual Report on pages 90 and 91, with the exception of Richard Gillingwater, appointed on 9th March 2021 and Trudy Schoolenberg who stepped down on 31 July 2021. Richard Gillingwater has succeeded Trudy as Independent Senior Director.

N. J. Anderson
Group Chief Executive
10th August 2021

N. B. Patel
Chief Financial Officer
10th August 2021

On behalf of the Board

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
- they act as 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 items that are considered to be significant in nature and/or quantum and where treatment as an adjusted item provides stakeholders with additional useful information to assess the period-on-period trading performance of the Group and an aid to comparison with our peers. The Group excludes such items, which management have defined as:

- amortisation and impairment of acquisition-related intangible assets;
- impairment of goodwill;
- costs associated with acquisition and disposal;
- reversal of acquisition-related fair value adjustments to inventory;
- changes in deferred consideration payable on acquisitions;
- profit or loss on disposal of subsidiary;
- significant restructuring costs;
- foreign exchange gains and losses on borrowings;
- significant profits or losses on disposal of property; and
- significant plan amendments and/or legal rulings requiring a past service cost or credit for post-retirement benefit plans.

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

	Six months to 30th June 2021 £m	**Six months to 30th June 2020 £m**	**Year ended 31st December 2020 £m**
Operating profit as reported under IFRS	**153.6**	**110.8**	**249.0**
Amortisation of acquisition-related intangible assets	11.3	13.4	26.6
Restructuring costs	-	4.2	4.3
Reversal of acquisition-related fair value adjustments to inventory	-	1.0	1.0
Post-retirement benefit plans in the UK and Canada being closed to future accrual	-	(10.4)	(10.5)
Post-retirement benefit plans in Germany being closed to future accrual	(2.0)	-	-
Adjusted operating profit	**162.9**	**119.0**	**270.4**

Adjusted earnings per share

	Six months to 30th June 2021	Six months to 30th June 2020	Year ended 31st December 2020
Profit for the period attributable to equity holders as reported under IFRS (£m)	**108.8**	**76.7**	**173.6**
Items excluded from adjusted operating profit disclosed above (£m)	9.3	8.2	21.4
Tax effects on adjusted items (£m)	(1.9)	(2.7)	(5.8)
Adjusted profit for the period attributable to equity holders (£m)	**116.2**	**82.2**	**189.2**
Weighted average shares in issue (million)	73.7	73.7	73.7
Basic adjusted earnings per share	157.6p	111.6p	256.6p
Diluted weighted average shares in issue (million)	73.9	73.9	73.9
Diluted adjusted earnings per share	157.3p	111.4p	255.8p

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

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

Adjusted cash flow

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

	Six months to 30th June 2021 £m	Six months to 30th June 2020 £m	Year ended 31st December 2020 £m
Net cash from operating activities as reported under IFRS	**125.0**	**101.5**	**259.2**
Restructuring costs	-	-	4.3
Net capital expenditure excluding acquired intangibles from acquisitions	(21.4)	(23.5)	(47.4)
Tax paid	41.2	30.1	71.9
Repayments of principal under lease liabilities	(5.7)	(5.9)	(12.2)
Adjusted cash from operations	**139.1**	**102.2**	**275.8**

Adjusted cash conversion in the first half was 85% (2020: 86%). Cash conversion is calculated as adjusted cash from operations divided by adjusted operating profit. The adjusted cash flow is included in the Operating Review on page 11

Capital employed

This is an important non-statutory measure that the Board uses to help it effectively monitor the performance of the Group. More information on Capital employed can be found in the Operating Review on page 10.

An analysis of the components is as follows:

	30th June 2021 £m	30th June 2020 £m	31st December 2020 £m
Property, plant and equipment	257.9	267.3	261.3
Right-of-use assets (IFRS 16)	34.7	39.1	36.3
Software & development costs	39.7	32.3	37.1
Non-current prepayments	2.0	1.6	1.4
Inventories	182.8	202.3	180.1
Trade receivables	236.1	222.5	226.3
Other current assets	43.6	41.1	31.8
Tax recoverable	12.8	7.7	8.1
Trade, other payables and current provisions	(176.3)	(159.1)	(166.3)
Current tax payable	(33.0)	(27.6)	(28.6)
Capital employed	**600.3**	**627.2**	**587.5**

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 2021 £m	30th June 2020 £m	31st December 2020 £m
Capital employed	**600.3**	**627.2**	**587.5**
Goodwill and other intangible assets	637.7	715.7	665.6
Investment in Associate	-	0.1	-
Post-retirement benefits	(52.6)	(94.9)	(98.6)
Net deferred tax	(34.9)	(38.0)	(28.5)
Non-current provisions and long-term payables	(6.8)	(5.5)	(7.1)
Lease liabilities	(32.4)	(37.2)	(34.1)
Net debt	(192.8)	(326.0)	(228.8)
Net assets as reported under IFRS	**918.5**	**841.4**	**856.0**

Net debt including IFRS 16

A reconciliation between net debt and net debt including IFRS 16 is given below. A breakdown of the balances that are included within net debt is given in Note 9. Net debt excludes IFRS 16 lease liabilities to enable comparability with prior years.

	30th June 2021 £m	30th June 2020 £m	31st December 2020 £m
Net debt	192.8	326.0	228.8
IFRS 16 lease liabilities	32.4	37.2	34.1
Net debt and IFRS 16 lease liabilities	**225.2**	**363.2**	**262.9**

Earnings before interest, tax, depreciation and amortisation (EBITDA)

EBITDA is calculated by adding back depreciation and amortisation of property, plant and equipment, software and development to adjusted operating profit. When calculated at a half year it is based on the results for the last 12 months all translated at the exchange rate used for the half year period.

Net debt to EBITDA

To assess the size of the net debt balance relative to the size of the earnings for the Group, we analyse net debt as a proportion of EBITDA. Net debt is calculated as Cash & cash equivalents less Bank overdrafts and external borrowings (excluding IFRS 16 lease liabilities).

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. Organic measures are at constant currency and exclude contributions from acquisitions or disposals. 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.

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

The organic bps change in adjusted operating margin is the difference between the current period margin excluding acquisitions and disposals and the prior period margin at current period exchange rates.

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

	Six months to 30th June 2020	**Exchange**	**Organic**	**Acquisitions and disposals**	**Six months to 30th June 2021**	**Organic**	**Reported**
Revenue	£569.7m	(£21.2m)	£95.2m	-	£643.7m	+17%	+13%
Adjusted operating profit	£119.0m	(£4.4m)	£48.3m	-	£162.9m	+42%	+37%
Adjusted operating profit margin	20.9%				25.3%	+440 bps	+440 bps

The reconciliation for each segment is included in the Operating Review.

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 operating segment

Six months to 30th June 2021	**Revenue £m**	**Total operating profit £m**	**Adjusted operating profit £m**	**Adjusted operating profit margin %**
Steam Specialties	361.9	89.8	89.8	24.8%
Electric Thermal Solutions	88.9	4.5	11.2	12.6%
Watson-Marlow	192.9	68.7	71.3	37.0%
Corporate expenses		(9.4)	(9.4)	
Total	**643.7**	**153.6**	**162.9**	**25.3%**
Net finance expense		(3.6)	(3.6)	
Share of loss of Associate		-	-	
Profit before taxation		**150.0**	**159.3**	

Six months to 30th June 2020	Revenue £m	Total operating profit £m	Adjusted operating profit £m	Adjusted operating profit margin %
Steam Specialties	331.7	73.9	68.0	20.5%
Electric Thermal Solutions	88.9	(3.1)	9.4	10.6%
Watson-Marlow	149.1	47.0	48.6	32.6%
Corporate expenses		(7.0)	(7.0)	
Total	**569.7**	**110.8**	**119.0**	**20.9%**
Net finance expense		(4.4)	(4.4)	
Share of loss of Associate		(0.1)	(0.1)	
Profit before taxation		**106.3**	**114.5**	

Year ended 31st December 2020	Revenue £m	Total operating profit £m	Adjusted operating profit £m	Adjusted operating profit margin %
Steam Specialties	694.1	157.8	154.3	22.2%
Electric Thermal Solutions	178.0	4.8	24.6	13.8%
Watson-Marlow	321.3	102.2	107.3	33.4%
Corporate expenses		(15.8)	(15.8)	
Total	**1,193.4**	**249.0**	**270.4**	22.7%
Net finance expense		(8.7)	(8.7)	
Share of profit of Associate		(0.2)	(0.2)	
Profit before taxation		**240.1**	**261.5**	

The following table details the split of revenue by geography for the combined Group:

	Six months to 30th June 2021 £m	Six months to 30th June 2020 £m	Year ended 31st December 2020 £m
Europe, Middle East and Africa	280.9	248.0	507.8
Asia Pacific	153.9	129.6	288.5
Americas	208.9	192.1	397.1
Total revenue	**643.7**	**569.7**	**1,193.4**

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

Six months to 30th June 2021	Amortisation of acquisition-related intangible assets £m	German pension plan closed to future accrual £m	Total £m
Steam Specialties	(2.0)	2.0	-
Electric Thermal Solutions	(6.7)	-	(6.7)
Watson-Marlow	(2.6)	-	(2.6)
Total	(11.3)	2.0	(9.3)

Six months to 30th June 2020	Amortisation of acquisition-related intangible assets £m	Restructuring costs £m	Reversal of acquisition-related fair value adjustments to inventory £m	UK pension plans closed to future accrual £m	Total £m
Steam Specialties	(2.6)	-	-	8.5	5.9
Electric Thermal Solutions	(7.3)	(4.2)	(1.0)	-	(12.5)
Watson-Marlow	(3.5)	-	-	1.9	(1.6)
Total	(13.4)	(4.2)	(1.0)	10.4	(8.2)

Year ended 31st December 2020	Amortisation of acquisition-related intangible assets £m	Restructuring costs £m	UK and Canada pension plans closed to future accrual £m	Reversal of acquisition-related fair value adjustments to inventory £m	Total £m
Steam Specialties	(5.0)	-	8.5	-	3.5
Electric Thermal Solutions	(14.5)	(4.3)	-	(1.0)	(19.8)
Watson-Marlow	(7.1)	-	2.0	-	(5.1)
Total	**(26.6)**	**(4.3)**	**10.5**	**(1.0)**	**(21.4)**

Net financing income and expense

	Six months to 30th June 2021 £m	Six months to 30th June 2020 £m	Year ended 31st December 2020 £m
Steam Specialties	0.2	(0.8)	(1.1)
Electric Thermal Solutions	(0.2)	(0.1)	(0.3)
Watson-Marlow	(0.2)	(0.2)	(0.4)
Corporate expenses	(3.4)	(3.3)	(6.9)
Total net financing expense	**(3.6)**	**(4.4)**	**(8.7)**

Net assets

	30th June 2021		30th June 2020		31st December 2020	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Steam Specialties	639.0	(154.9)	671.2	(187.0)	640.8	(198.0)
Electric Thermal Solutions	514.5	(29.9)	576.6	(33.9)	530.0	(27.5)
Watson-Marlow	281.0	(50.9)	274.2	(38.6)	269.1	(46.5)
	1,434.5	(235.7)	1,522.0	(259.5)	1,439.9	(272.0)
Liabilities	(235.7)		(259.5)		(272.0)	
Net deferred tax	(34.9)		(38.0)		(28.5)	
Net tax payable	(20.2)		(19.9)		(20.5)	
Net debt including lease liabilities	(225.2)		(363.2)		(262.9)	
Net assets	**918.5**		**841.4**		**856.0**	

Capital additions, depreciation, amortisation and impairment

	Six months to 30th June 2021		Six months to 30th June 2020		Year ended 31st December 2020	
	Capital additions £m	Depreciation, amortisation and impairment £m	Capital additions £m	Depreciation, amortisation and impairment £m	Capital additions £m	Depreciation, amortisation and impairment £m
Steam Specialties	13.9	17.4	15.1	18.4	34.5	36.4
Electric Thermal Solutions	1.4	9.5	2.0	10.4	3.8	20.8
Watson-Marlow	11.7	8.4	11.4	8.9	19.6	18.2
Total	**27.0**	**35.3**	**28.5**	**37.7**	**57.9**	**75.4**

Capital additions include property, plant and equipment at 30th June 2021 of £18.9 million; at 30th June 2020 of £21.7 million; and at 31st December 2020 of £42.0 million. Capital additions also include other intangible assets at 30th June 2021 of £3.3 million; at 30th June 2020 of £3.6 million; and at 31st December 2020 of £7.6 million. Right-of-use asset additions at 30th June 2021 were £4.8 million; at 30th June 2020 were £3.2 million and at 31st December 2020 were £8.3 million.

4. NET FINANCING INCOME AND EXPENSE

	Six months to 30th June 2021 £m	Six months to 30th June 2020 £m	Year ended 31st December 2020 £m
Financial expenses:			
Bank and other borrowing interest payable	(3.7)	(3.6)	(7.4)
Interest expense on lease liabilities	(0.5)	(0.6)	(1.2)
Net interest on pension scheme liabilities	(0.8)	(0.7)	(1.5)
	(5.0)	(4.9)	(10.1)
Financial income:			
Bank interest receivable	1.4	0.5	1.4
Net financing expense	**(3.6)**	**(4.4)**	**(8.7)**
Net pension scheme financial expense	(0.8)	(0.7)	(1.5)
Interest expense on lease liabilities	(0.5)	(0.6)	(1.2)
Net bank interest	(2.3)	(3.1)	(6.0)
Net financing expense	**(3.6)**	**(4.4)**	**(8.7)**

5. TAXATION

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

	Six months to 30th June 2021			Six months to 30th June 2020			Year ended 31st December 2020		
	Adjusted £m	Adj't £m	Total £m	Adjusted £m	Adj't £m	Total £m	Adjusted £m	Adj't £m	Total £m
UK corporation tax	2.6	-	2.6	1.2	-	1.2	10.7	-	10.7
Foreign tax	39.2	-	39.2	31.4	(1.0)	30.4	61.0	-	61.0
Deferred tax	1.2	(1.9)	(0.7)	(0.5)	(1.7)	(2.2)	0.3	(5.8)	(5.5)
Total taxation	**43.0**	**(1.9)**	**41.1**	**32.1**	**(2.7)**	**29.4**	**72.0**	**(5.8)**	**66.2**
Effective tax rate	**27.0%**	**20.6%**	**27.4%**	**28.0%**	**32.9%**	**27.7%**	**27.5%**	**27.1%**	**27.5%**

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

The Group's tax charge for the six months ended 30th June 2021 included a credit of £1.9 million in relation to certain items (as disclosed in Note 2). The tax impacts of these items are:

- Amortisation of acquisition-related intangible assets (£2.5 million credit);
- Closure of defined benefit pension scheme to future accrual (£0.6 million debit).

In October 2017, the European Commission (EC) opened a formal State Aid investigation into an exemption within the UK's current Controlled Foreign Company (CFC) regime. In April 2019, the EC published its final decision that the UK CFC Finance Company Exemption (FCE) constituted State Aid in certain circumstances, following which the UK Government appealed the decision. Similar to other UK companies, in October 2019, the Group submitted its own appeal. The Group's benefit from the FCE, in the period from 2013 to date, is approximately £8.7 million including compound interest. During 2021, the Group has received and paid Charging Notices, issued by the UK tax authority, totalling £4.9 million assessed for the period from 1st January 2017 to 31st December 2018. The Group has appealed the Charging Notices and expects this amount to be repayable in full following a successful appeal and has recognised a recoverable amount at the period end balance sheet date. The Group has not received a charging notice for the balance of £3.8 million, being £2.7 million for the period from 1st January 2013 to 31st December 2016 and £1.1 million for the period from 1st January 2019 to the balance sheet date. No provision has been recognised in the period end balance sheet date for the estimated amounts where Charging Notices have not been received, therefore these amounts continue to be disclosed as contingent liabilities.

The UK Government announced on 3rd March 2021 that the standard rate of UK corporation tax would increase to 25% from 1st April 2023. The change will impact the tax charged on UK profits from the effective date. However, as a result of being substantively enacted in the period all UK deferred tax balances at the period end, which are forecast to remain at 1st April 2023 have been calculated at a tax rate of 25%.

On 7th April 2021, the US Treasury published 'The Made in America Tax Plan' and the proposals included a US Federal corporate income tax rate of 28%. At 30th June 2021, this change had not been substantively enacted and has been excluded when calculating all US deferred tax balances at 30th June 2021.

6. EARNINGS PER SHARE

	Six months to 30th June 2021	Six months to 30th June 2020	Year ended 31st December 2020
Profit attributable to equity shareholders (£m)	108.8	76.7	173.6
Weighted average shares in issue (million)	73.7	73.7	73.7
Dilution (million)	0.2	0.2	0.2
Diluted weighted average shares in issue (million)	73.9	73.9	73.9
Basic earnings per share	147.6p	104.2p	235.5p
Diluted earnings per share	147.3p	103.9p	234.8p

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

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

7. DIVIDENDS

	Six months to 30th June 2021 £m	Six months to 30th June 2020 £m	Year ended 31st December 2020 £m
Amounts paid in the period:			
Final dividend for the year ended 31st December 2020 of 84.5p (2019: 78.0p) per share	62.3	57.5	57.5
Interim dividend for the year ended 31st December 2020 of 33.5p (2019: 32.0p) per share	-	-	24.7
Total dividends paid	**62.3**	**57.5**	**82.2**
Amounts arising in respect of the period:			
Interim dividend for the year ending 31st December 2021 of 38.5p (2020: 33.5p) per share	28.4	24.7	24.7
Final dividend for the year ended 31st December 2020 of 84.5p (2019: 78.0p) per share	-	-	62.3
Total dividends arising	**28.4**	**24.7**	**87.0**

The interim dividend for the year ending 31st December 2021 was approved by the Board after 30th June 2021. 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 2021 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 2020 is included in the Group's Annual Report.

On 1st January 2021 the defined benefit pension scheme in Germany was closed to future accrual resulting in a £2.0 million credit to the income statement, which has been taken as an adjusting item as disclosed in Note 2.

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

	30th June 2021 £m	30th June 2020 £m	31st December 2020 £m
Post-retirement benefits	(52.6)	(94.9)	(98.6)
Related deferred tax asset	13.8	22.3	22.7
Net pension liability	**(38.8)**	**(72.6)**	**(75.9)**

9. ANALYSIS OF CHANGES IN NET DEBT, INCLUDING CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	1st January 2021 £m	Cash flow £m	Acquired debt* £m	Exchange £m	30th June 2021 £m
Current portion of long-term borrowings	(0.6)				(103.7)
Non-current portion of long-term borrowings	(452.2)				(295.8)
Total borrowings	**(452.8)**				**(399.5)**
Comprising:					
Borrowings	(452.8)	34.6	-	18.7	(399.5)
Changes in liabilities arising from financing	(452.8)	34.6	-	18.7	(399.5)
Cash at bank	246.2	11.2	-	(3.8)	253.6
Bank overdrafts	(22.2)	(25.1)	-	0.4	(46.9)
Net cash and cash equivalents	**224.0**	**(13.9)**	-	**(3.4)**	**206.7**
Net debt	**(228.8)**	**20.7**	**-**	**15.3**	**(192.8)**
Lease liability	(34.1)	5.7	(4.6)	0.6	(32.4)
Net debt and lease liability	**(262.9)**	**26.4**	**(4.6)**	**15.9**	**(225.2)**

** Debt acquired comprises debt recognised on the Statement of Financial Position due to entry into new leases under IFRS 16.*

The cash flow for borrowings included a repayment on the €160 million euro term loan of €40 million (£34.3 million).

	1st January 2020 £m	Cash flow £m	Acquired debt* £m	Exchange £m	30th June 2020 £m
Current portion of long-term borrowings	(34.3)				(0.4)
Non-current portion of long-term borrowings	(429.2)				(491.3)
Total borrowings	**(463.5)**				**(491.7)**
Comprising:					
Borrowings	(463.5)	4.4	-	(32.6)	(491.7)
Changes in liabilities arising from financing	(463.5)	4.4	-	(32.6)	(491.7)
Cash at bank	330.6	(10.8)	-	0.2	320.0
Bank overdrafts	(162.3)	8.9	-	(0.9)	(154.3)
Net cash and cash equivalents	**168.3**	**(1.9)**	-	**(0.7)**	**165.7**
Net debt	**(295.2)**	**2.5**	**-**	**(33.3)**	**(326.0)**
Lease liability	(38.9)	5.9	(2.5)	(1.7)	(37.2)
Net debt and lease liability	**(334.1)**	**8.4**	**(2.5)**	**(35.0)**	**(363.2)**

	At 1st Jan 2020 £m	Cash flow £m	Acquired debt* £m	Exchange movement £m	At 31st Dec 2020 £m
Current portion of long-term borrowings	(34.3)				(0.6)
Non-current portion of long-term borrowings	(429.2)				(452.2)
Short-term borrowings	-				-
Total borrowings	**(463.5)**				**(452.8)**
Comprising:					
Borrowings	(463.5)	36.7	-	(26.0)	(452.8)
Changes in liabilities arising from financing	(463.5)	36.7	-	(26.0)	(452.8)
Cash at bank	330.6	(84.4)	-	-	246.2
Bank overdrafts	(162.3)	140.0	-	0.1	(22.2)
Net cash and cash equivalents	**168.3**	**55.6**	**-**	**0.1**	**224.0**
Net debt	**(295.2)**	**92.3**	**-**	**(25.9)**	**(228.8)**
Lease liabilities	(38.9)	12.2	(7.1)	(0.3)	(34.1)
Net debt and lease liabilities	**(334.1)**	**104.5**	**(7.1)**	**(26.2)**	**(262.9)**

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 2020. 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 2021 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 2021		30th June 2020		31st December 2020	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets:						
Cash and cash equivalents	253.6	253.6	320.0	320.0	246.2	246.2
Trade, other receivables and contract assets	261.6	261.6	248.9	248.9	245.5	245.5
Total financial assets	**515.2**	**515.2**	**568.9**	**568.9**	**491.7**	**491.7**
Financial liabilities:						
Loans	399.5	409.2	491.7	491.7	452.8	464.1
Lease liabilities	32.4	32.4	37.2	37.2	34.1	34.1
Bank overdrafts	46.9	46.9	154.3	154.3	22.2	22.2
Trade payables	52.8	52.8	53.6	53.6	45.6	45.6
Other payables and contract liabilities	45.3	45.3	43.2	43.2	44.4	44.4
Total financial liabilities	**576.9**	**586.6**	**780.0**	**780.0**	**599.1**	**610.4**

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 2021 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 where 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.

Lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at the incremental borrowing rate for the related geographical location, unless the rate implicit in the lease is readily determinable.

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 hedging instruments in a cash flow hedging relationship. At 30th June 2021 the Group had contracts outstanding to economically hedge or to purchase £35.9 million with US dollars, £72.6 million with euros, £7.8 million with Korean won, £14.1 million with Chinese renminbi, £5.6 million with Singapore dollars, €28.8 million with US dollars, €3.9m with Korean won, €8.0 million with Chinese renminbi and DKK43.4 million with euros. Derivative financial instruments are measured at fair value. The fair value at the end of the reporting period is a £3.4 million asset (31st December 2020: £2.6 million 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 2021 was £14.9 million (31st December 2020: £7.3 million; 30th June 2020: £4.6 million). All capital commitments related to property, plant and equipment.

13. EXCHANGE RATES

Set out below is an additional disclosure (not required by IAS 34) that highlights movements in a selection of average exchange rates between half year 2020 and half year 2021.

	Average half year 2021	**Average half year 2020**	**Change %**
US dollar	1.38	1.27	-9%
Euro	1.15	1.15	0%
Renminbi	8.96	8.94	0%
Won	1,546	1,531	-1%
Real	7.42	6.21	-19%
Argentine peso	125.98	82.01	-54%

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 decreased by 3.7% and adjusted operating profit decreased by 4.2%, while transaction increased profit, giving a total reduction to profit from currency movements of 3.7%.