Spirax-Sarco Engineering plc

# News Release

Thursday 11th August 2022
2022 Half Year Results

## Strong first half despite headwinds, improving full year outlook

**HIGHLIGHTS**

**Six months ended 30th June**

| **Statutory** | **2022** | **2021** | **Reported** |
|---|---|---|---|
| Revenue | £750.1m | £643.7m | +17% |
| Operating profit | £142.1m | £153.6m | -7% |
| Operating profit margin | 18.9% | 23.9% | -500 bps |
| Profit before taxation | £138.5m | £150.0m | -8% |
| Basic earnings per share | 131.8p | 147.6p | -11% |
| Dividend per share | 42.5p | 38.5p | +10% |

| **Adjusted** | **2022** | **2021** | **Reported** | **Organic**** |
|---|---|---|---|---|
| Revenue+ | £750.1m | £643.7m | +17% | +15% |
| Adjusted operating profit* | £178.8m | £162.9m | +10% | +9% |
| Adjusted operating profit margin* | 23.8% | 25.3% | -150 bps | -150 bps |
| Adjusted profit before taxation* | £175.2m | £159.3m | +10% | |
| Adjusted basic earnings per share* | 175.1p | 157.6p | +11% | |
| Adjusted cash conversion* | 44% | 85% | | |

- Revenues up 17%, or 15% organically, driven by volume growth and price increases
- Order books remain at record levels; global supply chain disruption being managed
- Statutory operating profit down 7% and margin down 500bps due to ETS restructuring
- Adjusted operating profit margin 23.8%, down 150bps organically; reflects revenue investments
- Steam Specialties sales up 11%; demand growth well above organic sales growth
- Electric Thermal Solutions sales up 18%; demand growth above organic sales growth
- Watson-Marlow sales up 27%; BioPharm demand lower, Process Industries very strong
- Agreement to acquire Vulcanic for €261.7 million; strengthens Electric Thermal Solutions
- Record capital investment during the first half; cash conversion of 44%
- Net debt^ of £202.7 million (H1 2021: £192.8 million); net debt to EBITDA* ratio of 0.5x
- Interim dividend up 10% to 42.5 pence, following 15% total increase in 2021

**Nicholas Anderson, Group Chief Executive, commenting on the results said:**
*"These strong first half results were achieved against the backdrop of a weakening IP, supply chain and COVID-19 related disruption, as well as rising inflation. I am grateful to all colleagues for their tireless efforts to support our customers in a challenging first half. It is this excellent execution and resilience that underpins our improved full year outlook.*

*"Our strong profitability and robust balance sheet support our continued investment in growth, including our sustainability, digital and manufacturing initiatives. We recently added to our expertise by acquiring Cotopaxi into our Steam Specialties Business and will shortly welcome Vulcanic into our Electric Thermal Solutions Business. Through these actions, we are building stronger foundations for continued organic growth beyond 2022, helping our customers achieve their net zero goals while also improving the safety and efficiency of their industrial processes."*

+ The term 'sales' is used interchangeably with 'revenue' when describing the financial performance of the business.
*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 (with our Russian Operating Companies treated as disposals from the date at which the Group suspended all trading with and within Russia).
^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.
See Note 2 to the Financial Statements for an explanation of alternative performance measures.

**For further information, please contact:**


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***Audio webcast***
*The meeting with analysts will be available as a live audio webcast at 9.00 am on the Company's website at www.spiraxsarcoengineering.com or via the following link:* https://edge.media-server.com/mmc/p/zb9i39ug *and a recording will be made available on the website shortly after the meeting.*

***Conference Call***
*The meeting with analysts will also be available via a full conference call with Q&A facility, at 9.00 am, participants must register in advance using the provided link below:*
https://register.vevent.com/register/BI236a81998470457b8cd98ab02c0a8fea

After completing the conference call registration, you will receive dial-in details on screen and via email.

**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 9,200 people, including over 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 2021 | Exchange | Organic | Acquisitions & disposals* | HY 2022 | Organic | Reported |
|---|---|---|---|---|---|---|---|
| Revenue | £643.7m | £11.3m | £99.8m | £(4.7)m | £750.1m | +15% | +17% |
| Adjusted operating profit | £162.9m | £3.5m | £14.2m | £(1.8)m | £178.8m | +9% | +10% |
| Adjusted operating profit margin | 25.3% | | | | 23.8% | -150bps | -150bps |
| Statutory operating profit | £153.6m | | | | £142.1m | | -7% |
| Statutory operating profit margin | 23.9% | | | | 18.9% | | -500bps |

*Includes the impact of (i) the acquisition of Cotopaxi Limited and (ii) the treatment of our Russian Operating Companies as disposals from the date at which the Group suspended all trading with and within Russia.

## OVERVIEW

### Recognising our colleagues

The Board would like to thank our more than 9,200 colleagues worldwide for their continued and outstanding efforts to support our customers, particularly in meeting the ongoing, exceptional demand for our products and solutions in 2022, against what has been a very challenging macroeconomic backdrop.

The health, safety and wellbeing of our teams is of paramount importance with COVID-19 still affecting our daily lives. We are continuing to monitor and respond to the situation at a local level, increasing our health and safety measures when needed to ensure our workplaces remain safe.

### Exit from Russia

In March, we announced our decision to suspend all Group trading with or within Russia. In 2021, our businesses in Russia represented close to 1% of Group revenues. During the second quarter we continued to support our colleagues in Russia, including paying salaries, as we prepared the operations for sale. On 6th July we concluded the disposal of our Spirax Sarco and Watson-Marlow operations to their respective General Managers for a nominal consideration. We have now fully exited our Russian Operating Companies and we wish our former colleagues well.

### Acquisition of Vulcanic to strengthen our Electric Thermal Solutions (ETS) Business

On 25th July, we announced a definitive agreement (subject to regulatory approvals) to acquire the Vulcanic Group of Companies (Vulcanic), from Qualium, a French private equity company, for a consideration of €261.7 million, on a cash and debt free basis, subject to customary closing adjustments. The acquisition is expected to complete by the end of the third quarter.

Vulcanic is a European industrial electric heating group and is the largest supplier in Europe of bespoke industrial electric heating solutions. Headquartered in Paris (France) with 10 manufacturing facilities worldwide, Vulcanic has over 700 employees of whom almost 90% are based in the Europe, Middle East and Africa (EMEA) region.

Vulcanic will support the delivery of growth in the Group's ETS Business through its existing customers, products and operational footprints that are mostly in the EMEA region and will complement our Chromalox Business that is mostly focused on the Americas. Vulcanic operates a direct sales model to end users, Original Equipment Manufacturers and contractors, serving a range of markets aligned to the core market sectors of ETS.

Vulcanic's strategic fit with ETS expands our platform to deploy the Group's business model and drive further improvements in sales growth and margin over time. As part of ETS, Vulcanic will play a significant role in supporting the Group's drive to help customers decarbonise their critical industrial processes through electrification, for which there is already strong demand from European customers.

Separately, on 23rd May 2022, we announced the start of a consultation process to address the financial underperformance of the Chromalox manufacturing facility in Soissons (France). We anticipate that the combination of these two separate strategic actions will enable our ETS Business to establish a large scale, profitable operating footprint in EMEA (the region that we expect to lead the way, in terms of demand, for our Group's decarbonisation solutions) and to balance our geographic presence in ETS more evenly across the Americas and EMEA.

**Market environment**

Global industrial production growth[1] (IP) was 2.9% in the first half of 2022, compared to 11.4% for the equivalent period in 2021. IP in all regions was lower than the equivalent period of 2021, which was characterised by the strong recovery from the impacts of the COVID-19 pandemic in 2020. IP was similar at around 3% in both mature and emerging markets, reflecting the higher IP in North America compared to other developed regions. In emerging markets IP was negatively affected by the COVID-19 related lockdowns in China, which significantly impacted the second quarter.

| | **IP Performance H1 2022** | **IP Performance H1 2021** |
|---|---|---|
| Europe, Middle East & Africa | +2.3% | +10.6% |
| *of which, Europe* | *+1.3%* | *+13.9%* |
| North America | +5.3% | +5.7% |
| Latin America | -0.8% | +13.8% |
| Asia Pacific | +2.8% | +13.9% |
| *of which, China* | *+3.2%* | *+16.0%* |

Since the Russian invasion of Ukraine on 24th February 2022, forecasters have reduced their expectations of IP growth for 2022 from 4.4% to 3.5%. IP for the second half of 2022 is forecast to be above the first half at 4.1%, driven by sustained IP of 5.3% in North America, IP in China recovering to 6.1% in the second half and IP in the balance of Asia Pacific increasing from 1.9% in the first half to 4.5% in the second half.

The ongoing disruptions to global supply chains have led to reduced availability of key components and manufacturing input cost inflation. In addition, Russia's invasion of Ukraine has driven higher energy prices in the short term and raised concerns over security of supply in regions such as Europe, which has a higher dependency on imports of Russian gas. The rising inflation of the first half has led to increases in interest rates globally, with expectations of further rises in the balance of the year. It remains unclear what impact these changes will have on the global economy during the second half. As a result, there remains a material level of uncertainty regarding the IP forecast for the remainder of 2022.

## PROGRESS IN THE HALF YEAR

**Impacts on supply chain**

In Q4 2021, global supply chains experienced significant disruption driven by the combination of strong returning demand for industrial products, as economies reopened, as well as continued operational challenges resulting from ongoing COVID-19 mitigation measures. This affected the availability of raw materials and disrupted freight markets, increasing delivery lead times and creating shortages.

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[1] Source for industrial production data: Oxford Economics, 15th July 2022

These challenges were still present in the first half of 2022, impacting the availability of key manufacturing components, such as nylon, printed circuit boards and semiconductors. We continued to deploy our mitigation strategies to manage this disruption, with initiatives such as engaging with our supply chain partners, expanding our sources of raw materials and improved forecasting and planning within our procurement activities.

In China, there was a specific further impact on global supply chains resulting from the extended COVID-19 lockdowns in Shanghai. China represented 13% of the Group's sales in H1, with the significant majority coming from the Steam Specialties Business based in Shanghai. This is predominantly an in-country focused business, with over 70% of sales in China being served from our manufacturing facility in Shanghai and almost 90% of our China manufacturing output being sold in China. As a result, there is limited impact of the Shanghai lockdowns on our Group beyond China and, since reopening, our team in China has made significant progress in reducing the resulting backlog, expecting to recover the impact on sales during the second half of the year. However, we are not immune to the broader disruption to global supply chains caused by the lockdowns in China, which may affect our ability to manufacture and ship orders in other plants that source components from China.

**Managing strong demand growth**
All three Businesses entered 2022 with record order books and all three Businesses have expanded their order books during the first half. This particularly strong demand partly reflects a higher proportion of larger project orders, which typically have longer lead times, driven by customers accelerating capital investments.

To meet this high level of demand, we have continued to advance capacity expansion plans across all three Businesses, such as increased output from our Steam Specialties supply organisation as we grow headcount and deliver our factory modernisation initiatives; debottlenecking key ETS facilities supported by investments in equipment, people and skills and progressing new manufacturing facilities and capacity in Watson-Marlow.

**Implementing our strategy**

***Increase direct sales effectiveness through market sector focus***
Our Businesses benefit from global talent mobility within our Group to share skills, knowledge and learnings across different parts of our organisation. As an example, ETS has been able to bring expertise from Steam Specialties to advance its direct sales activity and has also used an existing 'go to market' strategy, which has been adapted to suit the ETS market and portfolio.

All three of our Businesses have continued to develop new solutions in support of their sector specific growth programmes to accelerate demand in these focus areas where we know we are well positioned. This has been evidenced in the strong performance of the Process Industries sector within Watson-Marlow and the increased share of sales going to strategic target sectors within ETS.

All our Businesses are advancing Customer Value Propositions (CVPs) which our customers' changing requirements. In Steam Specialties, our teams are developing a CVP to support lithium mining projects in Argentina for the battery sector. ETS, together with Steam Specialties, has developed a new CVP linked to sustainability and energy efficiency which is delivered through a suite of solutions designed to enable the decarbonisation of industrial heating, including the raising of steam.

Watson-Marlow's response to rising demand for global battery production, as a result of the transition to electric vehicles in developed countries, is focused on a CVP for its Bredel hose pumps – used to accurately meter, dose and transfer various abrasive chemical slurries from raw material tanks to reaction tanks to create the liquids mix required for battery cell production.

***Develop the knowledge and skills of our expert sales and service teams***
Across the Group, our sales teams have been undertaking Sales Excellence training to develop or refresh skillsets in areas such as consultative and value-based selling. As an example, our Cotopaxi colleagues, who joined the Group at the end of January as part of our Steam Specialties Business, have been integrated into our Learning Management System (the Steam Academy). Work is currently underway with Cotopaxi to develop and launch a series of learning modules covering 'connected services capability development' to enable our sales teams to conduct steam loop energy benchmarking audits. A 'digital transformation' curriculum using third party content has also been launched to all colleagues across Steam Specialties.

Migration of content to the newly created ETS Academy is expected to complete in the third quarter of 2022. Chromalox has launched several CVP sales packages focused on its decarbonisation and net zero solutions. The CVP packages include training, marketing materials and decarbonisation calculators for the Engineered Chemicals, Sustainable Energy and Oil & Gas sectors.

***Broaden our global presence***
A key element of our strategy is the geographic expansion of our direct sales presence to increase coverage and access to customers. In the first half of 2022, we achieved this through both organic and inorganic investments. Organically, we increased our headcount in existing territories in both Steam Specialties and Watson-Marlow.

The acquisition of Vulcanic, as per our announcements on 4th and 25th July, will support the delivery of growth in our ETS Business through leveraging Vulcanic's existing customers, products and operational footprints which are mostly in the EMEA region.

***Leverage our research & development (R&D) investments***
All three Businesses launched new product, service, or solution offerings during the first half of 2022.

Following the completion of successful pilots, the first decarbonisation solutions developed through the Thermal Solutions Synergy project (a collaboration between Steam Specialties and ETS) are now available. Collectively known as *TargetZero*, these new and innovative solutions are designed to help our customers decarbonise their critical industrial processes, including the raising of steam.

The patent-pending *Steam Battery* thermal energy storage system, *SteamVolt* and *ElectroFit* boiler solutions have all been successfully tested in customer sites and we are already taking customer orders. All three of these solutions are currently being deployed within our largest manufacturing site in the UK to support the achievement of our own net zero commitments in line with our *One Planet* Sustainability Strategy.

Watson-Marlow has opened a new innovation centre in Cornwall (UK), investing in a new Research & Development (R&D) facility and in R&D capability with a total of 85 engineers expected to be working in the innovation centre by the end of 2022.

Watson-Marlow is also digitally-enabling its products and solutions, launching its EtherNet IP-enabled peristaltic pumps in the first half, which provide customers with fast, accurate performance data and seamless connectivity to their control systems and the Internet of Things, helping to improve process performance, reduce operating costs and minimise downtime.

***Optimise supply chain effectiveness***
In Watson-Marlow, our newly installed capacity at BioPure (Portsmouth, UK), Watson-Marlow Pumps and Tubing (Falmouth, UK) and Aflex (Huddersfield, UK) enabled almost 40% increased production output across those four plants in the second quarter of 2022, compared with the same period in 2021, to meet increased customer demand. We have been making significant progress with our new Watson-Marlow manufacturing facility in Massachusetts (USA) which is on track to produce its first shipments by the end of the year.

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, all three Businesses have experienced a reduction in customer service levels, due to the exceptional demand from customers, absences due to COVID-19 and disruptions along our global supply chains, but they have remained focused on driving high standards of customer response.

***Operate sustainably and help improve our customers' sustainability***
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, as well as helping our customers and suppliers to do the same.

*Our people and our communities*
In March, we welcomed a new Group Health & Safety Director to lead our Group-wide approach to Health & Safety, as well as implement improvements in our global Health & Safety Excellence framework. This includes overseeing a new Group-wide Health & Safety Management system which was deployed globally during the first half of the year and is primarily being used to manage incident reporting.

It is disappointing that our safety performance in the first six months of the year has reduced very slightly compared to the same period last year, with a Group-wide Lost Time Accident Rate of 0.13 (2021: 0.12). Alongside this, we have noted a higher incidence of hand and upper arm injuries. Our Health & Safety teams have increased focus on this area, including cascading the lessons learned and placing a renewed emphasis on engaging colleagues to prioritise their safety and that of colleagues, through our Behavioural Based Safety (BBS) programme. We are continually focused on improving Health & Safety awareness to reduce the potential for complacency leading to accidents and incidents across the Group. Efforts in this area have included implementing additional phases of our BBS training as well as the planned development of the new Group-wide Health and Safety Excellence Framework to be rolled out in the second half.

In July, our Steam Specialties Business in Cheltenham (UK) was awarded the prestigious Gold Medal Health & Safety Award from RoSPA, which follows five consecutive years of being awarded Gold Status from RoSPA and recognises their significant achievement in being world leaders in health & safety practice.

We now have over 9,200 colleagues across our Group, up from 8,700 at the year end. At the start of 2022, we launched *Everyone is Included*, our Group plan for an inclusive, equitable and healthy organisation. The Plan includes ten Inclusion Commitments, which are a set of global minimum standards that became effective on 1st February 2022. The launch included a short video and seven supporting toolkits covering parental leave, caregiver leave, domestic abuse, pregnancy loss, LGBTQ+ inclusion, menopause and hybrid working. We followed the launch with a series of inclusion masterclasses, webinars and workshops and have focused on supporting our colleagues to embed these Commitments into local policy and practice.

We formally signed the UN Women's Empowerment Principles, UN LGBTI Standards and joined the Women's Engineering Society and the Women in Science and Engineering organisation to help advance our gender equity journey. Our third Female Executive Mentoring Programme launched in June 2022 to support the progression of female talent within the Company. Across our Group we celebrated International Women's Day, International Women in Engineering Day and Pride.

Following an initial donation of £100,000 by the Group to the Red Cross Ukraine Appeal, almost £92,000 was raised and donated by our colleagues in the response to the humanitarian crisis in Ukraine which was matched by the Company. In June we were pleased to receive the first applications to our Group Education Fund and the Trustees made initial awards for a total of £230,000.

*Climate and environmental action*
*Net zero:* We have achieved a significant reduction in our absolute scope 1 and 2 market-based greenhouse gas emissions in the first half compared to the same period last year. In addition, each manufacturing site has developed a net zero roadmap that has been reviewed centrally and embedded in forward plans. Our Spirax Sarco manufacturing facility in China, which accounted for 9% of our total scope 1 and 2 emissions in 2021, secured a green tariff for its electricity supply and we expect this to drive a further reduction in emissions during the second half. At the end of the first half, we had secured green energy contracts for close to 40% of the Group's electricity supply and made further progress in implementing Project Clear Sky which will fully decarbonise Steam Specialties' UK manufacturing facility. We also signed a leasing contract to enable us to start a UK-wide transition to electric vehicles across all Group Companies.

*Biodiversity:* So far in 2022, 56 biodiversity projects were initiated by our Operating Companies globally. As an example, colleagues from our Steam Specialties Business in Italy designed and built three beehives, using recycled materials which are now installed on the roof of their building, providing a home to around 150,000 bees.

**Acquisitions and Disposals**
At the end of January, we completed the £12.7 million acquisition of Cotopaxi Limited, which was agreed in December 2021. The acquisition advances our journey of embedding digital enablement across the Group. This digitally enabled, global energy and consulting specialist will support the delivery of the Steam Specialties *Customer first*$^2$ Strategy, by digitally enhancing its customer bonding. During the first half of 2022 we continued investing in support of the Cotopaxi business, to meet the growing demand from our Steam Specialties customer base with 90 opportunities identified jointly since the acquisition.

On 25th July, we announced a definitive agreement (subject to regulatory approvals) to acquire Vulcanic, from Qualium, a French private equity company, for a consideration of €261.7 million, on a cash and debt free basis, subject to customary closing adjustments. The acquisition is expected to complete by the end of the third quarter and will significantly strengthen our ETS business.

On 6th July we concluded the disposal of our Spirax Sarco and Watson-Marlow operations in Russia to their respective General Managers for a nominal consideration for each operation. Those transactions completed our Group's full withdrawal from Russia, following suspension of all trading with and within Russia in March.

**Financial Performance**

***Sales***

Group sales increased by 17% in the first half of the year to £750.1 million (2021: £643.7 million), up 15% on an organic basis, which included the impact of price increases to offset inflation.  Volumes also increased as we ramped up shipments from our manufacturing facilities, successfully mitigating global supply chain disruption and the ongoing impact of COVID-19 on our workforce.  Currency movements had a 2% positive effect on sales, compared with the same period in 2021.

Steam Specialties sales of £400.6 million were up 11% or 10% up organically.  Demand for Steam Specialties products and solutions grew significantly above global IP in the first half of 2022 and well above sales, as the Business expanded its order book further from its record opening position.

ETS sales of £104.7 million were up 18% or 13% up organically, with the difference reflecting a currency tailwind as sterling depreciated against the US dollar.  This strong sales growth was driven primarily by Chromalox, which represented over 75% of ETS sales in the first half and achieved organic growth ahead of Steam Specialties.

Watson-Marlow sales of £244.8 million were up 27% or 26% up organically.  Sales to the Pharmaceutical & Biotechnology sector grew by close to 30%, accounting for 60% of total sales.  Sales to the Process Industries sectors grew significantly above IP.

***Adjusted operating profit***

Group adjusted operating profit of £178.8 million (2021: £162.9 million) was up 10%, or 9% up on an organic basis, the difference being due to currency movements that increased Group adjusted operating profit by 2% as well as the net effect of acquisitions and disposals.

In Steam Specialties, adjusted operating profit of £92.1 million was up 3%, or 2% up on an organic basis. Adjusted operating profit in ETS of £12.8 million was up 14%, or 9% up organically after adjusting for the currency tailwind.  Watson-Marlow's adjusted operating profit for the first half was up 22% to £87.0 million, or 21% up organically, driven by strong sales growth.

***Adjusted operating profit margin***

Group adjusted operating profit margin of 23.8% was down 150bps, on both a reported and organic basis, but above pre-pandemic levels and in line with our guidance.  As anticipated at the time of our full year 2021 results, this reduction in adjusted operating profit margin was driven by the full year impact of revenue investments made during 2021, with continued revenue investments in 2022.  We have continued to deploy our active approach to price management to offset the impact of inflation on our Group adjusted operating profit margin.

In Steam Specialties, adjusted operating profit margin of 23.0% was down 180bps, on both a reported and organic basis, reflecting our revenue investments, including in our Digital Strategy.

ETS adjusted operating profit margin was down 40bps, or 60bps down organically, at 12.2%. Within ETS, Chromalox increased its adjusted operating profit margin organically, driven by the continued strong performance in the Americas where margins are above 20%. Thermocoax's adjusted operating profit margin was lower than the first half of 2021, as a result of investment in our new manufacturing facility in Normandy (France).

In Watson-Marlow, adjusted operating profit margin of 35.5% was down 150bps, or 170bps down organically. In line with prior guidance, the reduction in adjusted operating profit margin reflects our continued revenue investments and the recruitment of additional colleagues for our new manufacturing facilities.

***Statutory operating profit and margin***

Statutory operating profit decreased 7% to £142.1 million (2021: £153.6 million) and the statutory operating profit margin decreased from 23.9% to 18.9%. Statutory operating profit is impacted by the same drivers as described in the adjusted operating profit section above. However, these positive impacts are more than offset by the reconciling items detailed below:

- A charge of £10.5 million (2021: £11.3 million) for the amortisation of acquisition-related intangible assets
- Accelerated depreciation and other associated one-off costs of £4.0 million relating to the Group Head Office building in Cheltenham (UK), which is being comprehensively re-developed
- A restructuring charge of £15.4 million relating to Chromalox's manufacturing operations in Soissons (France), which is part of ETS
- An impairment loss on the Group's Russian Operating Companies of £3.6 million resulting from the reclassification of assets and liabilities as held for sale, together with the associated disposal costs
- A charge of £3.2 million for costs related to the Cotopaxi and Vulcanic acquisitions

***Profit before tax***

The Group adjusted profit before tax of £175.2 million (2021: £159.3 million) was up 10%. The statutory profit before tax of £138.5 million (2021: £150.0 million) was down 8%. The reconciling items between the adjusted profit before tax and the statutory profit before tax are shown above and in Note 2.

***Financing expense***

Net financing expense remained at £3.6 million (2021: £3.6 million), comprising £2.6 million of net bank interest (2021: £2.3 million), £0.3 million of interest on net pension liabilities (2021: £0.8 million) and £0.7 million of interest on lease liabilities (2021: £0.5 million). We anticipate that the net financing expense in the second half of the year will be higher by approximately £2.0 million as a result of the acquisition of Vulcanic.

***Tax***

The Group adjusted effective tax rate of 26.3% (full year 2021: 25.1%), is based on the expected full year tax rate, in line with the previous guidance of approximately 26%.

The effective tax rate on statutory profit increased to 29.8% (full year 2021: 25.3%) due to the tax impact of the amortisation of acquired intangibles and the costs associated with (i) the restructuring of Chromalox's manufacturing operations in Soissons (France), (ii) the acquisition of Vulcanic and (iii) the re-development of the Group Head Office in Cheltenham (UK).

On 8th June 2022, the European Union (EU) General Court published its decision on the appeals for annulment made against the European Commission's (EC) 2019 decision that certain aspects of the UK's

Controlled Foreign Company regime constituted State Aid, finding in favour of the EC. The UK Government and the taxpayer have an option to appeal the decision of the EU General Court.

Whilst the EU General Court ruling was in favour of the EC, our assessment is that there are grounds for successful appeal. As a result, we have continued to recognise a receivable of £4.9 million in the Statement of Financial Position. This relates to the full amount paid to HM Revenue & Customs for Charging Notices received in 2021. The Group has not received a Charging Notice for either the benefit received prior to 2017, which is estimated to be £2.8 million, or the benefit received during 2019 of £1.0 million. No provisions have currently been recognised relating to these amounts and therefore they remain a contingent liability at 30th June 2022. Further details are included in Note 5 to the Financial Statements.

***Earnings per share***
Adjusted basic earnings per share of 175.1 pence (2021: 157.6 pence) was up 11%, in line with the increase in adjusted operating profit. Basic earnings per share on a statutory basis was 131.8 pence (2021: 147.6 pence). The fully diluted earnings per share were not materially different in either year.

***Dividends***
The Board has declared an interim dividend of 42.5 pence (2021: 38.5 pence) per ordinary share, an increase of 10%. This growth in the interim dividend follows an increase of 15% in the total dividend in respect of 2021. The dividend will be paid on 11th November 2022 to shareholders on the register at the close of business on 14th October 2022. The final dividend of 97.5 pence per share in respect of 2021 was paid on 20th May 2022 at a cash cost of £71.9 million.

***Financial Position and Cash Flow***
Capital employed (Note 2) increased to £766.9 million at 30th June 2022. In the first half, our capital expenditure was £49.3 million, up from £22.2 million in 2021, with nearly 85% of the increase coming from Watson-Marlow which now represents approximately two thirds of total Group capital expenditure as we invest to support future growth. For the full year, we expect capital expenditure to be approximately 7% of sales, as a result of increased investment in the second half in new production facilities for Watson-Marlow, as well as our factory modernisation projects and the rollout of our new ERP system in Steam Specialties. During the first half, tangible fixed assets (Property, Plant & Equipment (PPE) and IFRS 16 right-of-use-assets) increased by £35.0 million to £375.3 million.

The ratio of working capital to sales increased by 210bps (at constant currency) to 24.1% (2021: 22.0%). This reflects a planned rebuilding of stock, to meet increasing demand and mitigate supply-chain-related shortages of raw materials, as well as an increase in receivables. Going forward, we anticipate a reduction in the ratio of working capital to sales, to a similar level as reported in 2021, as shipments increase in the second half of the year.

Adjusted cash from operations of £78.4 million (2021: £139.1 million) was down £60.7 million due to increased capital expenditure and investment in working capital, resulting in cash conversion of 44% (2021: 85%). Adjusted cash from operations is a measure of the cash flow generated from our Operating 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.

After adjusting for the £4.9 million payment made to HM Revenue & Customs in relation to EU State Aid in the first half of 2021, tax paid in the period increased to £41.2 million driven by higher profitability.

Adjusted free cash flow decreased to £33.9 million (2021: £95.1 million) principally as a result of increased capital expenditure and investment in working capital.

Dividend payments were £72.2 million (2021: £62.6 million) including payments to minority shareholders.

Share purchases, net of new shares issued for the Group's various employee share schemes, resulted in a cash outflow of £10.4 million (2021: £11.8 million).

The net post-retirement benefit liability under IAS 19 decreased to £35.2 million (2021: £44.7 million). The fair value of assets decreased by £149.8 million from 31st December 2021 reflecting market movements. Liabilities were also lower by £159.3 million, largely driven by an increase in the AA corporate bond interest rates used to discount future cash flows.

At 30th June 2022, net debt (excluding leases) was £202.7 million, a net debt to EBITDA ratio of 0.5x, compared with net debt of £192.8 million at 30th June 2021. Net debt will increase in the second half following completion of the acquisition of Vulcanic, which will be funded through a new committed bank facility.

| **Adjusted cash flow** | **30th June 2022 £m** | **30th June 2021 £m** |
|---|---|---|
| Adjusted operating profit | 178.8 | 162.9 |
| Depreciation and amortisation (excluding IFRS 16) | 17.0 | 17.8 |
| Depreciation of leased assets | 6.4 | 5.7 |
| Payments to pension schemes above charge to adjusted operating profit | (2.9) | (2.4) |
| Equity-settled share plans | 4.8 | 4.8 |
| Working capital changes | (70.8) | (22.6) |
| Repayments of principal under lease liability | (6.2) | (5.7) |
| Capital expenditure (including software and development) | (49.3) | (22.2) |
| Capital disposals | 0.6 | 0.8 |
| **Adjusted cash from operations** | **78.4** | **139.1** |
| Net interest | (3.3) | (2.8) |
| Income taxes paid | (41.2) | (41.2) |
| **Adjusted free cash flow** | **33.9** | **95.1** |
| Net dividends paid | (72.2) | (62.6) |
| Purchase of employee benefit trust shares and issue of share capital | (10.4) | (11.8) |
| Acquisitions of subsidiaries | (12.7) | - |
| **Cash flow for the period** | **(61.4)** | **20.7** |
| Exchange movements | (8.5) | 15.3 |
| Cash transferred to assets classified as held for sale | (2.3) | - |
| Opening net debt | (130.5) | (228.8) |
| **Net debt at 30th June 2022 (excluding IFRS 16) (Note 2)** | **(202.7)** | **(192.8)** |
| IFRS 16 lease liability | (61.8) | (32.4) |
| **Net debt and lease liability at 30th June 2022 (Note 2)** | **(264.5)** | **(225.2)** |

***Currency movements***

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, 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 Operating Companies.

**OUTLOOK**

Macroeconomic forecasts for 2022 continue to deteriorate on increased uncertainty caused by the conflict in Ukraine and China's response to COVID-19, as well as actions taken by governments and central banks around the world to contain rising inflationary pressures, compounded by the global supply chain challenges that began in 2021. Over the past three months, forecasts for global industrial production growth (IP) in 2022 have reduced from 4.2% at the time of our full year results to 3.5% as of 15th July 2022.

We continue to be confident in our Group's resilience and ability to navigate the current uncertain macroeconomic climate. This is underpinned by our robust business model, our proven price management practices to offset inflation, record order books, ramp-up of our manufacturing capacity to meet customer needs and our ongoing mitigation of disruption caused by the global supply chain and COVID-19 impacts on our workforce.

If exchange rates at the end of July were to prevail for the remainder of the year, there would be a tailwind impact of approximately 3.0% on 2021 sales and approximately 3.5% on 2021 adjusted operating profit. Movements in exchange rates are often volatile and unpredictable, especially given the current geopolitical uncertainties, therefore the actual impact could be significantly different.

In the first half of the year, the acquisition of Cotopaxi and the suspension of trading as part of the exit from Russia, had a net impact of less than 1% on sales and just over 1% on profit. We expect a similar impact for the full year, excluding the impact of the Vulcanic acquisition.

Against current IP forecasts, for close to 80% of the Group's revenue streams we anticipate organic sales growth significantly above IP in 2022, supported by both strong volume growth and price increases. For the balance of the Group's revenue streams, in Watson-Marlow's Pharmaceutical & Biotechnology sector that now accounts for 60% of its sales, we continue to anticipate very strong organic sales growth of around 20% for the full year. Overall, we expect Group revenues in 2022, excluding contributions from the Vulcanic acquisition, will reflect the typical split of approximately 48% and 52% between the first half and second half of the year.

As anticipated, our 2021 and 2022 revenue investments in support of future organic growth have reduced the Group's adjusted operating profit margin in the first half of the year, partially offset by the benefit of operational gearing from higher sales. We expect the full year adjusted operating profit margin in 2022 will be similar to the first half, as we continue to invest for growth, remaining comfortably above pre-pandemic levels.

On 25th July, the Group announced a definitive agreement to acquire Vulcanic and the transaction is expected to close late in the third quarter of 2022, following the receipt of regulatory approvals. Proforma for Vulcanic's acquisition of EML in December 2021, the Company's revenues in 2021 were €89.4 million (£76.8 million) with adjusted earnings before interest, tax, depreciation and amortisation of €17.6 million (£15.2 million) and adjusted operating profit of €16.0 million (£13.8 million). Vulcanic's organic sales growth in 2021 and during the first half of 2022 was similar to ETS and we expect the full year 2022 sales growth to be similar to ETS.

We continue to expect that full year cash conversion will be higher than in the first half but lower than our historical levels of around 90%, as we step up capital investments to be approximately 7% of sales and increase working capital in line with revenue.

**CORPORATE GOVERNANCE**

Our diverse Board has remained stable in 2022 and has 40% female representation as well as 30% ethnic diversity. You can find details of our Directors on pages 96 and 97 of the 2021 Annual Report and Accounts. The Board met four times in the first half of the year, including a Strategy Meeting where the Board reviewed the Group's Medium Term Plan. Other key highlights of Board activity included overseeing the acquisition of Cotopaxi, the ongoing global rollout of the Group's *One Planet* Sustainability Strategy, the launch of the Group's Inclusion Plan, as well as a site visit to Spirax Sarco's Blythewood manufacturing facility in South Carolina (USA). The Board also met on 1st July to review and approve the acquisition of Vulcanic.

**PRINCIPAL RISKS AND UNCERTAINTIES**

The Group has processes in place to identify, evaluate and mitigate the principal risks that could have an impact on the Group's performance. The principal risks, as agreed at the most recent meeting of the Risk Management Committee, together with a description of why they are relevant and if the significance of the risk has changed during the first half of 2022, are set out below. Details of how they link with the Group's strategy, an explanation of the change in risk and how mitigation is managed are disclosed in the 2021 Annual Report & Accounts.

- ***Economic and political instability – Increased compared to 2021 year end***

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. The impact of the conflict in Ukraine has resulted in an increase to this risk.

- ***Significant exchange rate movements – Consistent compared to 2021 year end***

The Group reports its results and pays dividends in sterling. Operating and manufacturing companies trade 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 – Consistent compared to 2021 year end***

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

- ***Loss of manufacturing output at any Group factory – Consistent compared to 2021 year end***

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

- ***Failure to realise acquisition objectives – Consistent compared to 2021 year end***

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

- ***Breach of legal and regulatory requirements (including ABC laws) – Consistent compared to 2021 year end***

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 operations and 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 – Consistent compared to 2021 year end***

This risk could lead to a loss of business because of a failure to respond rapidly to changes in the needs of customers or technology shifts.

- ***Loss of critical supplier – Consistent compared to 2021 year end***

This risk is concerned with the impact of the loss of a critical supplier that could lead to logistical difficulties and delayed deliveries.

**Emerging risks**

We are monitoring the current conflict in Ukraine. Our business in the Ukraine is confined to Steam Specialties. We have ceased all trading with and within Russia and have disposed of our two Operating Companies in that country. In addition, we are monitoring macroeconomic risks, such as increased material and labour costs, energy cost inflation and changes to the interest rate environment. We are mitigating these risks through our embedded processes to manage key margin drivers such as our price management practices.

## OPERATING REVIEW

STEAM SPECIALTIES

| | HY 2021 | Exchange | Organic | Acquisitions & disposals* | HY 2022 | Organic | Reported |
|---|---|---|---|---|---|---|---|
| Revenue | £361.9m | £3.3m | £36.8m | £(1.4)m | £400.6m | +10% | +11% |
| Adjusted operating profit | £89.8m | £0.9m | £2.0m | £(0.6)m | £92.1m | +2% | +3% |
| Adjusted operating profit margin | 24.8% | | | | 23.0% | -180bps | -180bps |
| Statutory operating profit | £89.8m | | | | £87.7m | | -2% |
| Statutory operating profit margin | 24.8% | | | | 21.9% | | -290bps |

*Includes the impact of (i) the acquisition of Cotopaxi Limited and (ii) the treatment of Spirax Sarco Russia as a disposal from the date at which the Group suspended all trading with and within Russia.

**Market overview**

As part of its *Customer first*[2] Strategy, Steam Specialties is targeting eight priority end-use sectors through its dual brands of Spirax Sarco and Gestra. With the exception of Power Generation, which is served through Gestra and was impacted by uncertainty in the European power generation market following the Russian invasion of Ukraine, all priority sectors grew strongly in the first half, well above global IP. Demand was strongest in the Healthcare sector, as countries looked to catch-up maintenance following the pressures of the COVID-19 pandemic on hospitals. In addition, the Machine OEM and Boiler OEM segments both achieved double digit growth.

Global IP was 2.9% in the first half of 2022, compared to 11.4% for the equivalent period of 2021. Steam Specialties serves its customers through three regional divisions. In EMEA, IP of 2.3% in the first half was below the 10.6% for the equivalent period in 2021, with IP dropping to 1.6% in the second quarter driven by the combined impacts of COVID-19, global supply chain disruption and the Russian invasion of Ukraine. In North America, IP of 5.3% was similar to the 5.7% recorded in the first half of 2021, with quarterly IP strengthening sequentially over the last two quarters. In Asia Pacific, IP of 2.8% was significantly below H1 2021 driven primarily by the impact of the lockdown in China in Q2.

**Progress in the half year**

Steam Specialties sales of £400.6 million were up 11% or 10% up organically. Demand for Steam Specialties products and solutions grew significantly above global IP in the first half of 2022 and well above sales, as the Business expanded its order book further from its record opening position.

In EMEA, Steam Specialties achieved 8% organic sales growth. Across the four major markets of EMEA (UK, Germany, France and Italy), which collectively represent over 60% of sales in EMEA, demand and sales growth was particularly strong in Italy driven by the recovery in the marine business. Overall demand for large project orders, which typically have longer lead times and lower margins than base business and self-generated sales, was above the historical average.

In Asia Pacific, organic sales growth of 7% represented a strong performance against a backdrop of IP falling from 13.9% in the first half of 2021 to 2.8%. In China, which represents over 55% of sales in the Asia Pacific region, organic sales growth was a modest 3%, significantly behind demand growth as the lockdowns in Shanghai impacted our ability to ship. In Korea, the second largest market in the region, sales increased by over 20% organically.

In the Americas, sales were up 18% organically, significantly above IP, with demand growth even stronger. In the US, the largest market in the region representing around 50% of Americas revenues, sales were up 12% organically. We achieved exceptional growth across Latin America, including the largest markets of Brazil and Argentina, where we see demand from lithium mining projects to support electric vehicle battery production.

Adjusted operating profit of £92.1 million was up 3%, or 2% up on an organic basis. Adjusted operating profit margin of 23.0% was down 180bps, on both a reported and organic basis, reflecting our revenue investments including in our Digital Strategy.

Statutory operating profit of £87.7 million was down 2% from £89.8 million in the first half of 2021 and statutory operating profit margin of 21.9% was also down 290bps.

During the first half, Steam Specialties continued to implement its *Customer first*[2] Strategy, following the refresh that took place in 2021. This includes an increased focus on strategic sectors, such as Food & Beverage and machine OEMS, where sales were up 13% and 14% respectively. Steam Specialties continued to evolve its Natural Technology marketing campaign, including planning its COP27 marketing and communications campaign. Our plans to bring further digital capabilities to our sales engineers continue to progress with a rapid growth in the number of sales engineers trained during the first half.

**Business outlook**

During the first half, Steam Specialties experienced strong demand growth, expanding its order book, while also managing price to offset the impact of inflation on the adjusted operating profit margin. Volume growth, together with increased prices, underpinned the strong first half organic sales growth, significantly exceeding IP growth for the period. We anticipate sales growth for the full year 2022 will continue to outperform current full year forecasts for IP by a similar factor.

As anticipated, the first half adjusted operating profit margin was 180bps lower organically, due to the full year impact of our 2021 and 2022 revenue investments, which offset the benefit of operational gearing from higher sales. We expect a similar impact on the full year 2022 adjusted operating profit margin, compared to 2021.

**ELECTRIC THERMAL SOLUTIONS**

| | HY 2021 | Exchange | Organic | Acquisitions & disposals | HY 2022 | Organic | Reported |
|---|---|---|---|---|---|---|---|
| Revenue | £88.9m | £3.5m | £12.3m | - | £104.7m | +13% | +18% |
| Adjusted operating profit | £11.2m | £0.6m | £1.0m | - | £12.8m | +9% | +14% |
| Adjusted operating profit margin | 12.6% | | | | 12.2% | -60bps | -40bps |
| Statutory operating profit/ (loss) | £4.5m | | | | £(8.9)m | | -298% |
| Statutory operating profit/ (loss) margin | 5.1% | | | | (8.5)% | | -1,360bps |

**Market overview**
ETS focuses on its four strategic sectors of Energy Transition, Materials, Advanced Technology and Health & Nutrition, which comprise ten sub sectors served by either Chromalox or Thermocoax. As a result of this focus, ETS has a different balance of end use markets when compared to the rest of the Group, which includes providing solutions to industries such as Sustainable Energy, Nuclear, Semiconductor as well as Aerospace & Defence.

Chromalox, which represented over 75% of ETS sales in 2021, generates close to three-quarters of its sales in the Americas, with the significant majority of those sales in the USA where IP in the first half was 5.3%. Thermocoax continues to generate approximately two thirds of its revenue in EMEA, where IP in the first half was 2.3%. Following the completion of the acquisition of Vulcanic, which is a predominantly EMEA-focused business, the geographic footprint of ETS will materially rebalance with over 40% of sales in EMEA and almost 50% in the Americas (on a proforma based on 2021 sales).

**Progress in the first half**
Demand growth for ETS products was significantly ahead of IP and above sales. In Chromalox, demand growth was strongest in the strategically important sectors of Energy Transition and Health & Nutrition. Chromalox is also continuing to build a substantial pipeline of decarbonisation opportunities to support future growth. In Thermocoax, demand recovered strongly in the Aerospace & Defence market and customers in the Semiconductor sector brought forward orders fearing supply chain constraints could delay deliveries.

ETS sales of £104.7 million were up 18% or 13% up organically, with the difference reflecting a currency tailwind as sterling depreciated against the US dollar. This strong sales growth was driven primarily by Chromalox, which achieved organic growth ahead of Steam Specialties. In Thermocoax, organic growth was lower than the average for ETS, reflecting the longer lead times on shipments to the Nuclear and Semiconductor markets.

Sales in Chromalox Americas benefitted from higher output from our manufacturing sites as our operational improvement plans gained further traction. At our Ogden manufacturing facility in Utah

(USA) we conducted an extensive process mapping exercise to identify and reduce bottlenecks across a range of activities, which has resulted in increased shipments with further improvements targeted.

Sales from Chromalox EMEA were lower in the first half with a significant reduction in output from our plant in Soissons (France), which is subject to an ongoing consultation process with trade unions to address the lack of profitability at that site. In the event that the consultation results in collective dismissals, we expect key aspects of the process to be completed by the end of December 2022. In Asia Pacific, sales increased by over 50%, driven by continued growth in the region and improved shipment of the large existing order book.

Adjusted operating profit in ETS of £12.8m was up 14%, or 9% up organically after adjusting for the currency tailwind.

Adjusted operating profit margin was down 40bps, or 60bps down organically, at 12.2%. Within ETS, Chromalox increased its adjusted operating profit margin organically, driven by the continued strong performance in the Americas where margins are above 20%. Adjusting for losses incurred in Soissons (France) during the first half of 2022, the ETS adjusted operating profit margin would have been higher than in the first half of 2021. Thermocoax's adjusted operating profit margin was lower than the first half of 2021, as a result of investment in our new manufacturing facility in Normandy (France) as we ramped up production.

Statutory operating losses of £8.9 million, down from a profit of £4.5 million in the first half of 2021, reflected the impact of restructuring charges in relation to Chromalox EMEA. For the same reason, statutory operating profit margin of (8.5)% was also down 1,360bps.

**Business outlook**

ETS continues to benefit from strong demand growth, leading to further expansion of its order book that remains at record levels. First half organic sales growth was also supported by increased shipments, as we continued to improve operational capacity in Chromalox. For the full year 2022, we anticipate ETS organic sales growth will be significantly ahead of global IP and similar to the first half, growing above Steam Specialties.

As a result of the operational gearing from increased sales, we anticipate adjusted operating profit growth ahead of sales growth in 2022, with an increase in the adjusted operating profit margin for the full year.

**WATSON-MARLOW**

| | HY 2021 | Exchange | Organic | Acquisitions & disposals* | HY 2022 | Organic | Reported |
|---|---|---|---|---|---|---|---|
| Revenue | £192.9m | £4.5m | £50.7m | £(3.3)m | £244.8m | +26% | +27% |
| Adjusted operating profit | £71.3m | £2.0m | £14.9m | £(1.2)m | £87.0m | +21% | +22% |
| Adjusted operating profit margin | 37.0% | | | | 35.5% | -170bps | -150bps |
| Statutory operating profit | £68.7m | | | | £83.6m | | +22% |
| Statutory operating profit margin | 35.6% | | | | 34.2% | | -140bps |

*Includes the treatment of Watson-Marlow Russia as a disposal from the date at which the Group suspended all trading with and within Russia.

**Market overview**
Similar to both Steam Specialties and ETS, Watson-Marlow's sales to its customers in the Process Industries sectors benefitted from continued global IP growth.

The Pharmaceutical & Biotechnology sector, which accounted for 60% of Watson-Marlow sales in the first half of 2022, has historically grown at an annual rate of between 12% and 14%, while Watson-Marlow's sales to this sector have historically grown at close to 20% per annum.

**Progress in the first half**
Watson-Marlow entered 2022 with a record order book following exceptional growth in demand due to the global COVID-19 vaccine rollout. In the first half of 2022, demand from Watson-Marlow's customers in the Pharmaceutical & Biotechnology sector normalised, reflecting lower COVID-19 related demand, while growth from the Process Industries sectors was significantly above IP. Watson-Marlow's overall order book at the half year remains above the 2021 year-end position.

Watson-Marlow sales of £244.8 million were up 27% or 26% up organically. Sales to the Pharmaceutical & Biotechnology sector grew by close to 30%, reflecting increased deliveries against the significant order book. Sales to the Process Industries sectors grew significantly above IP, with all four priority sectors of Food & Beverage, Industrial, Mining and Water & Wastewater achieving double digit growth. In the first half of 2022, sales to the Pharmaceutical & Biotechnology sector accounted for 60% of Watson-Marlow's total sales, a similar level to the first half of 2021.

Watson-Marlow's adjusted operating profit for the first half was up 22% to £87.0 million, or 21% up organically driven by strong sales growth. Adjusted operating profit margin of 35.5% was down 150bps, or 170bps down organically. In line with prior guidance, the reduction in adjusted operating profit margin reflects our continued revenue investments and the recruitment of additional colleagues for our new manufacturing facilities.

Statutory operating profit of £83.6 million was up 22% compared to the first half of 2021, while statutory operating profit margin was down 140bps for the same reasons as set out above.

Watson-Marlow has continued to make significant progress in expanding its manufacturing capacity during the first half of 2022. In the UK, the third extrusion line at Watson-Marlow's Falmouth facility is now fully operational and validated. The new Biopure facility in Portsmouth (UK) commenced production in March 2022. At the end of July, eight injection moulding machines were operational and the site fitout is now complete, with all four cleanrooms passing air quality commissioning. In Massachusetts (USA) the construction of our new North American supply facility remains on track with first customer deliveries planned before the end of the year. Total investment in this facility is now expected to be US$106 million, as a result of enhanced sustainability investments, bringing forward capacity expansions and inflation.

In addition to expansions in manufacturing capacity, Watson-Marlow continues investing to drive future organic growth. Our regional sales teams increased headcount by almost 50 colleagues across EMEA, Asia Pacific and the Americas compared to the position at the end of the first half of 2021. We continued to invest in new products utilising conveying wave technology, including new product variants which operate at higher pressures and higher flow rates.

**Business outlook**
In 2022, supported both by ongoing demand and the record order book, we continue to anticipate around 20% organic sales growth to the Pharmaceutical & Biotechnology sector, which accounts for 60% of

Watson-Marlow sales.  Across the Process Industries sectors, we anticipate similar organic sales growth for 2022 to that of the first half, remaining significantly ahead of global IP.  While we expect strong sales growth in the second half of 2022, the organic sales growth rate will be lower than that achieved in the first half, reflecting the strong second half comparator in 2021.

Similar to Steam Specialties, the benefit of operational gearing from higher sales has been offset by the full year impact of our 2021 and 2022 revenue investments leading to a 170bps organic reduction in the adjusted operating profit margin in the first half of 2022.  We anticipate that for the full year 2022, the margin will be below the first half of 2022, reflecting ongoing investment as we ramp-up new manufacturing capacity, but comfortably above 2020.

**INDEPENDENT REVIEW REPORT TO SPIRAX-SARCO ENGINEERING PLC**

**Conclusion**

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30th June 2022, 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 16.

**Basis for Conclusion**

We conducted our review in accordance with International Standard on Review Engagements (UK) 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 Relating to Going Concern**

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the Directors have inappropriately adopted the going concern basis of accounting or that the Directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this ISRE (UK), however future events or conditions may cause the entity to cease to continue as a going concern.

**Responsibilities of the Directors**

The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's Responsibilities for the review of the financial information**

In reviewing the half-yearly financial report, we are responsible for expressing to the Group a conclusion on the condensed set of financial statement in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

**Use of our report**

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK) 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 2022

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | 30th June 2022 £m (unaudited) | 30th June 2021* £m (unaudited) | 31st December 2021 £m (audited) |
|---|---|---|---|---|
| ASSETS | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | | 311.1 | 257.9 | 277.4 |
| Right-of-use assets | | 64.2 | 34.7 | 62.9 |
| Goodwill | | 446.8 | 411.6 | 411.2 |
| Other intangible assets | | 263.8 | 262.1 | 255.7 |
| Prepayments | | 1.3 | 2.0 | 1.3 |
| Investment in Associate | | - | - | - |
| Taxation recoverable | | 4.9 | 4.9 | 4.9 |
| Deferred tax assets | | 50.0 | 41.6 | 46.1 |
| | | 1,142.1 | 1,014.8 | 1,059.5 |
| **Current assets** | | | | |
| Inventories | | 239.4 | 182.8 | 201.3 |
| Trade receivables | | 311.1 | 236.1 | 272.3 |
| Other current assets | | 58.7 | 43.6 | 44.7 |
| Taxation recoverable | | 9.4 | 7.9 | 10.8 |
| Assets classified as held for sale | 14 | 0.7 | - | - |
| Cash and cash equivalents | 9 | 304.9 | 253.6 | 274.6 |
| | | 924.2 | 724.0 | 803.7 |
| **Total assets** | | **2,066.3** | **1,738.8** | **1,863.2** |
| EQUITY AND LIABILITIES | | | | |
| **Current liabilities** | | | | |
| Trade and other payables | | 225.4 | 171.4 | 217.0 |
| Provisions | | 14.2 | 4.9 | 5.2 |
| Bank overdrafts | 9 | 74.3 | 46.9 | 55.6 |
| Current portion of long-term borrowings | 9 | 0.9 | 103.7 | 59.6 |
| Short-term lease liabilities | 9 | 12.6 | 10.1 | 11.2 |
| Liabilities directly associated with assets classified as held for sale | 14 | 0.5 | - | - |
| Current tax payable | | 33.8 | 33.0 | 33.1 |
| | | 361.7 | 370.0 | 381.7 |
| **Net current assets** | | **562.5** | **354.0** | **422.0** |
| **Non-current liabilities** | | | | |
| Long-term borrowings | 9 | 432.4 | 295.8 | 289.9 |
| Long-term lease liabilities | 9 | 49.2 | 22.3 | 48.9 |
| Deferred tax liabilities | | 88.1 | 76.5 | 81.8 |
| Post-retirement benefits | 8 | 35.2 | 52.6 | 44.7 |
| Provisions | | 1.6 | 1.5 | 1.5 |
| Long-term payables | | 6.2 | 5.3 | 4.7 |
| | | 612.7 | 454.0 | 471.5 |
| **Total liabilities** | | **974.4** | **824.0** | **853.2** |
| **Net assets** | 3 | **1,091.9** | **914.8** | **1,010.0** |
| **Equity** | | | | |
| Share capital | | 19.8 | 19.8 | 19.8 |
| Share premium account | | 86.6 | 85.0 | 86.3 |
| Translation and other reserves | | 2.6 | (47.8) | (58.2) |
| Retained earnings | | 982.1 | 857.0 | 961.1 |
| Equity shareholders' funds | | 1,091.1 | 914.0 | 1,009.0 |
| Non-controlling interest | | 0.8 | 0.8 | 1.0 |
| **Total equity** | | **1,091.9** | **914.8** | **1,010.0** |
| **Total equity and liabilities** | | **2,066.3** | **1,738.8** | **1,863.2** |

* The 30th June 2021 comparatives for Other intangible assets and Retained earnings have been restated following the IFRS Interpretations Committee agenda decision on configuration and customisation costs in cloud computing arrangements (Software as a Service (SaaS)), see Note 1 for further details. Due to the immaterial nature of the adjustment, no additional Statement of Financial Position as at the beginning of the prior year has been presented.

## CONDENSED CONSOLIDATED INCOME STATEMENT

| | Six months to 30th June 2022 | | | Six months to 30th June 2021 | | | Year ended 31st December 2021 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **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) | **750.1** | **-** | **750.1** | **643.7** | **-** | **643.7** | **1,344.5** | **-** | **1,344.5** |
| Operating costs | (571.3) | (36.7) | (608.0) | (480.8) | (9.3) | (490.1) | (1,004.2) | (19.4) | (1,023.6) |
| **Operating profit** (Note 2/3) | **178.8** | **(36.7)** | **142.1** | **162.9** | **(9.3)** | **153.6** | **340.3** | **(19.4)** | **320.9** |
| Financial expenses | (5.5) | - | (5.5) | (5.0) | - | (5.0) | (9.8) | - | (9.8) |
| Financial income | 1.9 | - | 1.9 | 1.4 | - | 1.4 | 3.4 | - | 3.4 |
| Net financing expense (Note 4) | (3.6) | - | (3.6) | (3.6) | - | (3.6) | (6.4) | - | (6.4) |
| Share of (loss)/profit of Associate | - | - | - | - | - | - | - | - | - |
| **Profit before taxation** | **175.2** | **(36.7)** | **138.5** | **159.3** | **(9.3)** | **150.0** | **333.9** | **(19.4)** | **314.5** |
| Taxation (Note 5) | (46.1) | 4.8 | (41.3) | (43.0) | 1.9 | (41.1) | (83.9) | 4.3 | (79.6) |
| **Profit for the period** | **129.1** | **(31.9)** | **97.2** | **116.3** | **(7.4)** | **108.9** | **250.0** | **(15.1)** | **234.9** |
| Attributable to: | | | | | | | | | |
| Equity shareholders | 129.0 | (31.9) | 97.1 | 116.2 | (7.4) | 108.8 | 249.7 | (15.1) | 234.6 |
| Non-controlling interest | 0.1 | - | 0.1 | 0.1 | - | 0.1 | 0.3 | - | 0.3 |
| **Profit for the period** | **129.1** | **(31.9)** | **97.2** | **116.3** | **(7.4)** | **108.9** | **250.0** | **(15.1)** | **234.9** |
| **Earnings per share** | | | | | | | | | |
| Basic earnings per share (Note 2/6) | 175.1p | | 131.8p | 157.6p | | 147.6p | 338.9p | | 318.3p |
| Diluted earnings per share (Note 2/6) | 174.8p | | 131.5p | 157.3p | | 147.3p | 338.0p | | 317.5p |
| **Dividends** | | | | | | | | | |
| Dividends per share (Note 7) | | | 42.5p | | | 38.5p | | | 136.0p |
| Dividends paid (per share) (Note 7) | | | 97.5p | | | 84.5p | | | 123.0p |

Adjusted figures exclude certain items as detailed in Notes 2 and 3. All amounts relate to continuing operations. The Notes on pages 29 to 46 form an integral part of the Interim Condensed Consolidated Financial Statements.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Six months to 30th June 2022 £m (unaudited) | Six months to 30th June 2021 £m (unaudited) | Year ended 31st December 2021 £m (audited) |
|---|---|---|---|
| **Profit for the period** | **97.2** | **108.9** | **234.9** |
| Items that will not be reclassified to profit or loss: | | | |
| Remeasurement gain on post-retirement benefits | 8.5 | 40.4 | 46.3 |
| Deferred tax on remeasurement gain on post-retirement benefits | (2.3) | (7.2) | (8.9) |
| | 6.2 | 33.2 | 37.4 |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange gain/(loss) on translation of foreign operations and net investment hedges | 63.8 | (10.7) | (6.8) |
| (Loss)/profit on cash flow hedges net of tax | (7.7) | 0.8 | (2.8) |
| | 56.1 | (9.9) | (9.6) |
| **Total comprehensive income for the period** | **159.5** | **132.2** | **262.7** |
| Attributable to: | | | |
| Equity shareholders | 159.4 | 132.1 | 262.4 |
| Non-controlling interest | 0.1 | 0.1 | 0.3 |
| **Total comprehensive income for the period** | **159.5** | **132.2** | **262.7** |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| **For the period ended 30th June 2022** (unaudited) | **Share capital £m** | **Share premium account £m** | **Translation Reserve** £m** | **Other reserves £m** | **Retained earnings £m** | **Equity shareholders' funds £m** | **Non-controlling interest £m** | **Total equity £m** |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1st January 2022** | **19.8** | **86.3** | **(53.2)** | **(5.0)** | **961.1** | **1,009.0** | **1.0** | **1,010.0** |
| **Profit for the period** | **-** | **-** | **-** | **-** | **97.1** | **97.1** | **0.1** | **97.2** |
| Other comprehensive income/(expense): | | | | | | | | |
| Foreign exchange translation differences and net investment hedges | - | - | 71.0 | (7.2) | - | 63.8 | - | 63.8 |
| Remeasurement gain on post-retirement benefits | - | - | - | - | 8.5 | 8.5 | - | 8.5 |
| Deferred tax on remeasurement gain on post-retirement benefits | - | - | - | - | (2.3) | (2.3) | - | (2.3) |
| Cash flow hedges | - | - | - | (7.7) | - | (7.7) | - | (7.7) |
| **Total other comprehensive income/(expense) for the period** | **-** | **-** | **71.0** | **(14.9)** | **6.2** | **62.3** | **-** | **62.3** |
| **Total comprehensive income/(expense) for the period** | **-** | **-** | **71.0** | **(14.9)** | **103.3** | **159.4** | **0.1** | **159.5** |
| Contributions by and distributions to owners of the Company: | | | | | | | | |
| Dividends paid | - | - | - | - | (71.9) | (71.9) | (0.3) | (72.2) |
| Equity-settled share plans net of tax | - | - | - | - | (10.4) | (10.4) | - | (10.4) |
| Issue of share capital | - | 0.3 | - | - | - | 0.3 | - | 0.3 |
| Employee Benefit Trust shares | - | - | - | 4.7 | - | 4.7 | - | 4.7 |
| **Balance at 30th June 2022** | **19.8** | **86.6** | **17.8** | **(15.2)** | **982.1** | **1,091.1** | **0.8** | **1,091.9** |

**In prior years, the translation reserve was included within other reserves with a breakdown being disclosed separately in the notes to the year-end Financial Statements. Due to the material value of this reserve, we have presented it as a separate heading in the Statement of Changes in Equity for the period ended 30th June 2022. The comparatives have also been amended to reflect this reclassification to ensure comparability and consistency.

Other reserves represent the Group's 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 2021** (unaudited) | **Share capital £m** | **Share premium account £m** | **Translation Reserve** £m** | **Other reserves £m** | **Retained earnings £m** | **Equity shareholders' funds £m** | **Non-controlling interest £m** | **Total equity £m** |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1st January 2021 (restated)*** | **19.8** | **84.8** | **(27.6)** | **(8.5)** | **782.8** | **851.3** | **1.0** | **852.3** |
| **Profit for the period** | **-** | **-** | **-** | **-** | **108.8** | **108.8** | **0.1** | **108.9** |
| Other comprehensive (expense)/income: | | | | | | | | |
| Foreign exchange translation differences and net investment hedges | - | - | (23.7) | 13.0 | - | (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) |
| Cash flow hedges | - | - | - | 0.8 | - | 0.8 | - | 0.8 |
| **Total other comprehensive (expense)/income for the period** | **-** | **-** | **(23.7)** | **13.8** | **33.2** | **23.3** | **-** | **23.3** |
| **Total comprehensive (expense)/income for the period** | **-** | **-** | **(23.7)** | **13.8** | **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** | **(51.3)** | **3.5** | **857.0** | **914.0** | **0.8** | **914.8** |

*As a result of the IFRS Interpretations Committee agenda decision released during 2021, the Group reassessed the accounting treatment in relation to customisation and configuration costs for cloud-based software (Software as a Service (SaaS)). This resulted in an adjustment to opening reserves of £3.7 million. See Note 1 for further details.

| **For the period ended 31st December 2021** (audited) | **Share Capital £m** | **Share Premium account £m** | **Translation Reserve** £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** | **(27.6)** | **(8.5)** | **782.8** | **851.3** | **1.0** | **852.3** |
| **Profit for the year** | **-** | **-** | **-** | **-** | **234.6** | **234.6** | **0.3** | **234.9** |
| Other comprehensive (expense)/income: | | | | | | | | |
| Foreign exchange translation differences and net investment hedges | - | - | (25.6) | 18.8 | - | (6.8) | - | (6.8) |
| Remeasurement gain on post-retirement benefits | - | - | - | - | 46.3 | 46.3 | - | 46.3 |
| Deferred tax on remeasurement gain on post-retirement benefits | - | - | - | - | (8.9) | (8.9) | - | (8.9) |
| Cash flow hedges | - | - | - | (2.8) | - | (2.8) | - | (2.8) |
| Total other comprehensive (expense)/income for the year | - | - | (25.6) | 16.0 | 37.4 | 27.8 | - | 27.8 |
| Total comprehensive (expense)/income for the year | - | - | (25.6) | 16.0 | 272.0 | 262.4 | 0.3 | 262.7 |
| Contributions by and distributions to owners of the Company: | | | | | | | | |
| Dividends paid | - | - | - | - | (90.7) | (90.7) | (0.3) | (91.0) |
| Equity settled share plans net of tax | - | - | - | - | (3.0) | (3.0) | - | (3.0) |
| Issue of share capital | - | 1.5 | - | - | - | 1.5 | - | 1.5 |
| Employee Benefit Trust shares | - | - | - | (12.5) | - | (12.5) | - | (12.5) |
| Transfer between reserves | - | - | - | - | - | - | - | - |
| **Balance at 31st December 2021** | **19.8** | **86.3** | **(53.2)** | **(5.0)** | **961.1** | **1,009.0** | **1.0** | **1,010.0** |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | Notes | Six months to 30th June 2022 £m (unaudited) | Six months to 30th June 2021 £m (unaudited) | Year ended 31st December 2021 £m (audited) |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Profit before taxation | | 138.5 | 150.0 | 314.5 |
| Depreciation, amortisation and impairment | | 40.9 | 35.3 | 69.0 |
| Profit on disposal of fixed assets | | (0.7) | (0.5) | (0.5) |
| Loss on impairment of assets classified as held for sale | 14 | 3.6 | - | - |
| Cash payments to the pension schemes greater than the charge to operating profit | | (2.9) | (4.4) | (7.6) |
| Restructuring related provisions and impairments | | 16.3 | - | - |
| Equity-settled share plans | | 4.8 | 4.8 | 9.2 |
| Net finance expense | | 3.6 | 3.6 | 6.4 |
| **Operating cash flow before changes in working capital and provisions** | | **204.1** | **188.8** | **391.0** |
| (Increase)/decrease in trade and other receivables | | (36.3) | (28.8) | (71.3) |
| (Increase)/decrease in inventories | | (29.7) | (7.0) | (26.7) |
| (Decrease)/increase in provisions | | (0.8) | (1.4) | (1.0) |
| (Decrease)/increase in trade and other payables | | (4.0) | 14.6 | 59.5 |
| **Cash generated from operations** | | **133.3** | **166.2** | 351.5 |
| Income taxes paid | | (41.2) | (41.2) | (78.1) |
| **Net cash from operating activities** | | **92.1** | **125.0** | **273.4** |
| **Cash flows from investing activities** | | | | |
| Purchase of property, plant and equipment | | (44.1) | (18.9) | (52.8) |
| Proceeds from sale of property, plant and equipment | | 0.6 | 0.8 | 2.0 |
| Purchase of software and other intangibles | | (3.5) | (2.1) | (8.1) |
| Development expenditure capitalised | | (1.7) | (1.2) | (3.2) |
| Acquisition of businesses net of cash acquired | 15 | (12.7) | - | - |
| Interest received | | 1.8 | 1.4 | 3.4 |
| **Net cash used in investing activities** | | **(59.6)** | **(20.0)** | **(58.7)** |
| **Cash flows from financing activities** | | | | |
| Proceeds from issue of share capital | | 0.3 | 0.2 | 1.5 |
| Employee Benefit Trust share purchase | | (10.7) | (12.0) | (26.1) |
| Repaid borrowings | 9 | (59.1) | (34.8) | (77.5) |
| New borrowings | 9 | 134.2 | 0.2 | - |
| Interest paid including interest on lease liabilities | | (5.1) | (4.2) | (8.5) |
| Repayment of lease liabilities | 9 | (6.2) | (5.7) | (11.7) |
| Dividends paid (including minority shareholders) | 7 | (72.2) | (62.6) | (91.0) |
| **Net cash used in financing activities** | | **(18.8)** | **(118.9)** | **(213.3)** |
| **Net change in cash and cash equivalents** | 9 | **13.7** | **(13.9)** | **1.4** |
| Net cash and cash equivalents at beginning of period | 9 | 219.0 | 224.0 | 224.0 |
| Cash transferred to assets held for sale | 14 | (2.3) | - | - |
| Exchange movement | 9 | 0.2 | (3.4) | (6.4) |
| **Net cash and cash equivalents at end of period** | 9 | **230.6** | **206.7** | **219.0** |
| Borrowings | 9 | (433.3) | (399.5) | (349.5) |
| **Net debt at end of period** | 9 | **(202.7)** | **(192.8)** | **(130.5)** |
| Lease liabilities | 9 | (61.8) | (32.4) | (60.1) |
| **Net debt and lease liabilities at end of period** | 9 | **(264.5)** | **(225.2)** | (190.6) |

## 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 2022 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 2021 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 2021 Annual Report. The comparative figures for the year ended 31st December 2021 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 2021 were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the United Kingdom. The statutory Consolidated Financial Statements for Spirax-Sarco Engineering plc in respect of the year ended 31st December 2021 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 2021 are available upon request from Mr A. J. Robson, General Counsel and Company Secretary, The Grange, Bishops Cleeve, Cheltenham, GL52 8YQ. The Report is also available on our website at www.spiraxsarcoengineering.com.

The Condensed Consolidated Interim Financial Statements for the six months ended 30th June 2022, 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 10th August 2022.

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 2022 Half Year Report. For this reason, it continues to adopt the going concern basis in preparing the Condensed Consolidated Interim Financial Statements.

Our financial position remains robust, with the Group holding committed total debt facilities of £698 million at 30th June 2022 giving headroom in excess of £330 million. The earliest maturity of any facility is not until September 2023, being the €225 million Private Placement debt, which is beyond the going concern assessment period. Committed facilities include a £400 million revolving credit facility with an initial maturity of April 2027 which has £265 million undrawn at 30th June 2022. The Group also has cash and cash equivalents, net of overdrafts, of £230.6 million.

On 2nd July 2022, the Group entered into a new committed bank facility for €265 million with a maturity date of up to July 2024. This facility was entered into in order to finance the acquisition of Vulcanic.

The Group's debt facilities contain a net debt to EBITDA covenant of a maximum of 3.5x. Certain debt facilities also contain an EBITDA to net bank interest 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 2022, net debt to EBITDA was 0.5x (30th June 2021: 0.6x and 31st December 2021: 0.35x). EBITDA to net bank interest was 91x at 30th June 2022 (30th June 2021: 79x and 31st December 2021: 93x).

The Group has prepared and reviewed the impact of a reasonably possible worst-case scenario, representing a decline in revenue and profitability more severe than that experienced by the Group in its recent history. Under this scenario, which has been modelled up to August 2023, the Group has access to sufficient liquidity within its current committed debt facilities and remains comfortably within the associated financial covenants.

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 testing undertaken does not take into account any mitigating actions which the Group could implement in the event of a severe and extended revenue and profitability decline, which would increase the headroom further. All scenario analysis undertaken included the forecast impact of the acquisition of Vulcanic.

This assessment indicates that the Group can operate within the level of its current committed debt facilities, 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 2022, 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 2022. Their adoption has not had a material impact on the Condensed Consolidated Financial Statements.

The economy in Argentina and Turkey are subject to high inflation. At 30th June 2022 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.

During 2021, the IFRS Interpretations Committee published its agenda decision regarding configuration and customisation costs in Cloud Computing Arrangements (Software as a Service, (SaaS)) under IAS 38. The primary theme from this agenda decision was that unless the underlying software meets the criteria for recognising a separate asset (i.e. the Group obtains control of the software) then it is expected that the costs associated with the configuration and customisation of this software will be recognised as an expense rather than capitalised as an intangible asset.

The Group performed a review of previously capitalised configuration and customisation costs, resulting in a £3.7 million adjustment to opening reserves and intangible assets in the 2020 opening Statement of Changes in Equity presented in the 2021 Financial Statements. As a result of this change in accounting policy, the comparator period in the Statement of Financial Position and Statement of Changes in Equity as at 30th June 2021 have been restated in line with the restatement at 31st December 2021 disclosed in the prior year. Due to the immaterial nature of the adjustment, no additional Statement of Financial Position as at the beginning of the prior year has been presented.

**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.

**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 2021.

**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 2022 are as listed in the 2021 Annual Report on pages 96 and 97.

**N. J. Anderson**
*Group Chief Executive*
10th August 2022

**N. B. Patel**
*Chief Financial Officer*
10th August 2022

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; and
- users of the Financial Statements might find them informative.

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. The term 'adjusted' is not defined under IFRS and may therefore not be comparable with similarly titled measures reported by other companies.

**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. 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 and impairment losses on disposal groups
- Significant restructuring costs
- Certain foreign exchange gains and losses on borrowings
- Significant profits or losses on disposal of property

- significant plan amendments and/or legal rulings requiring a past service cost or credit for post-retirement benefit plans
- accelerated depreciation, impairment and other related costs on one-off significant property redevelopments

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

| | Six months to 30th June 2022 £m | Six months to 30th June 2021 £m | Year ended 31st December 2021 £m |
|---|---|---|---|
| **Operating profit as reported under IFRS** | **142.1** | **153.6** | **320.9** |
| Amortisation of acquisition-related intangible assets | 10.5 | 11.3 | 21.4 |
| Restructuring costs | 15.4 | - | - |
| Impairment of Russia disposal groups | 3.6 | - | - |
| Acquisition-related items | 3.2 | - | - |
| Accelerated depreciation and other related costs on one-off property redevelopments | 4.0 | - | - |
| Post-retirement benefit plans in Germany being closed to future accrual | - | (2.0) | (2.0) |
| **Adjusted operating profit** | **178.8** | **162.9** | **340.3** |

## Adjusted earnings per share

| | Six months to 30th June 2022 | Six months to 30th June 2021 | Year ended 31st December 2021 |
|---|---|---|---|
| **Profit for the period attributable to equity holders as reported under IFRS (£m)** | **97.1** | **108.8** | **234.6** |
| Items excluded from adjusted operating profit disclosed above (£m) | 36.7 | 9.3 | 19.4 |
| Tax effects on adjusted items (£m) | (4.8) | (1.9) | (4.3) |
| **Adjusted profit for the period attributable to equity holders (£m)** | **129.0** | **116.2** | **249.7** |
| Weighted average shares in issue (million) | 73.7 | 73.7 | 73.7 |
| Basic adjusted earnings per share | 175.1p | 157.6p | 338.9p |
| Diluted weighted average shares in issue (million) | 73.8 | 73.9 | 73.9 |
| Diluted adjusted earnings per share | 174.8p | 157.3p | 338.0p |

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

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

### Adjusted cash flow

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

| | Six months to 30th June 2022 £m | Six months to 30th June 2021 £m | Year ended 31st December 2021 £m |
|---|---|---|---|
| **Net cash from operating activities as reported under IFRS** | **92.1** | **125.0** | **273.4** |
| Net capital expenditure excluding acquired intangibles from acquisitions | (48.7) | (21.4) | (62.1) |
| Income tax paid | 41.2 | 41.2 | 78.1 |
| Repayments of principal under lease liabilities | (6.2) | (5.7) | (11.7) |
| **Adjusted cash from operations** | **78.4** | **139.1** | **277.7** |

Adjusted cash conversion in the first half was 44% (2021: 85%). Cash conversion is calculated as adjusted cash from operations divided by adjusted operating profit. The adjusted cash flow is included on page 12.

### 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 on page 11.

An analysis of the components is as follows:

| | 30th June 2022 £m | 30th June 2021* £m | 31st December 2021 £m |
|---|---|---|---|
| Property, plant and equipment | 311.1 | 257.9 | 277.4 |
| Right-of-use assets (IFRS 16) | 64.2 | 34.7 | 62.9 |
| Software & development costs | 40.2 | 36.0 | 38.9 |
| Non-current prepayments | 1.3 | 2.0 | 1.3 |
| Inventories | 239.4 | 182.8 | 201.3 |
| Trade receivables | 311.1 | 236.1 | 272.3 |
| Other current assets | 58.7 | 43.6 | 44.7 |
| Tax recoverable | 14.3 | 12.8 | 15.7 |
| Trade, other payables and current provisions | (239.6) | (176.3) | (222.2) |
| Current tax payable | (33.8) | (33.0) | (33.1) |
| **Capital employed** | **766.9** | **596.6** | **659.2** |

* Restated following IFRS Interpretations Committee agenda decision on configuration and customisation costs in cloud computing arrangements (Software as a Service (SaaS)), see Note 1 for further details.

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 2022 £m | 30th June 2021 £m | 31st December 2021 £m |
|---|---|---|---|
| **Capital employed** | **766.9** | **596.6** | **659.2** |
| Goodwill and other intangible assets | 670.4 | 637.7 | 628.0 |
| Investment in Associate | - | - | - |
| Post-retirement benefits | (35.2) | (52.6) | (44.7) |
| Net deferred tax | (38.1) | (34.9) | (35.7) |
| Non-current provisions and long-term payables | (7.8) | (6.8) | (6.2) |
| Lease liabilities | (61.8) | (32.4) | (60.1) |
| Net assets classified as held for sale | 0.2 | - | - |
| Net debt | (202.7) | (192.8) | (130.5) |
| **Net assets as reported under IFRS** | **1,091.9** | **914.8** | **1,010.0** |

### 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 be consistent with how net debt is defined for external debt covenant purposes.

| | 30th June 2022 £m | 30th June 2021 £m | 31st December 2021 £m |
|---|---|---|---|
| Net debt | 202.7 | 192.8 | 130.5 |
| IFRS 16 lease liabilities | 61.8 | 32.4 | 60.1 |
| **Net debt and IFRS 16 lease liabilities** | **264.5** | **225.2** | **190.6** |

### 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 and cash equivalents less Bank overdrafts and external borrowings (excluding IFRS 16 lease liabilities).

### Organic measures

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

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 that occurred in either the current period or prior period are excluded from the results of the current period at current period exchange rates. For any disposals that

occurred in either the current period or prior period, the current period results remove the impact of the disposed business on the prior period results at current period exchange rates.

The organic percentage movement is calculated as the organic movement divided by the sum of the prior period, excluding disposals and exchange.

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 excluding disposals 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 2021** | **Exchange** | **Organic** | **Acquisitions and disposals*** | **Six months to 30th June 2022** | **Organic** | **Reported** |
|---|---|---|---|---|---|---|---|
| Revenue | £643.7m | £11.3m | £99.8m | £(4.7)m | £750.1m | +15% | +17% |
| Adjusted operating profit | £162.9m | £3.5m | £14.2m | £(1.8)m | £178.8m | +9% | +10% |
| Adjusted operating profit margin | 25.3% | | | | 23.8% | -150bps | -150bps |

*Includes the impact of (i) the acquisition of Cotopaxi Limited and (ii) the treatment of our Russian Operating Companies as disposals from the date at which the Group suspended all trading with and within Russia.

The reconciliation for each operating segment can be found on pages 15-20.

## 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 2022** | **Revenue £m** | **Total operating profit £m** | **Adjusted operating profit £m** | **Adjusted operating profit margin %** |
|---|---|---|---|---|
| Steam Specialties | 400.6 | 87.7 | 92.1 | 23.0% |
| Electric Thermal Solutions | 104.7 | (8.9) | 12.8 | 12.2% |
| Watson-Marlow | 244.8 | 83.6 | 87.0 | 35.5% |
| Corporate expenses | | (20.3) | (13.1) | |
| **Total** | **750.1** | **142.1** | **178.8** | **23.8%** |
| | | | | |
| Net finance expense | | (3.6) | (3.6) | |
| Share of (loss)/profit of Associate | | - | - | |
| **Profit before taxation** | | **138.5** | **175.2** | |

| **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)/profit of Associate | | - | - | |
| **Profit before taxation** | | **150.0** | **159.3** | |

| **Year ended 31st December 2021** | **Revenue £m** | **Total operating profit £m** | **Adjusted operating profit £m** | **Adjusted operating profit margin %** |
|---|---|---|---|---|
| Steam Specialties | 754.9 | 186.8 | 188.7 | 25.0% |
| Electric Thermal Solutions | 181.3 | 11.1 | 24.0 | 13.2% |
| Watson-Marlow | 408.3 | 145.4 | 150.0 | 36.7% |
| Corporate expenses | | (22.4) | (22.4) | |
| **Total** | **1,344.5** | **320.9** | **340.3** | 25.3% |
| | | | | |
| Net finance expense | | (6.4) | (6.4) | |
| Share of (loss)/profit of Associate | | - | - | |
| **Profit before taxation** | | **314.5** | **333.9** | |

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

| | **Six months to 30th June 2022 £m** | **Six months to 30th June 2021 £m** | **Year ended 31st December 2021 £m** |
|---|---|---|---|
| Europe, Middle East and Africa | 308.5 | 280.9 | 563.3 |
| Asia Pacific | 176.2 | 153.9 | 334.2 |
| Americas | 265.4 | 208.9 | 447.0 |
| **Total revenue** | **750.1** | **643.7** | **1,344.5** |

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

**Six months to 30th June 2022**

| | Amortisation of acquisition-related intangible assets £m | Restructuring costs £m | Accelerated depreciation and other related costs on one-off property redevelopments £m | Impairment of Russia disposal groups £m | Acquisition-related items £m | Total £m |
|---|---|---|---|---|---|---|
| Steam Specialties | (2.3) | - | - | (2.1) | - | (4.4) |
| Electric Thermal Solutions | (6.3) | (15.4) | - | - | - | (21.7) |
| Watson-Marlow | (1.9) | - | - | (1.5) | - | (3.4) |
| Corporate expenses | - | - | (4.0) | - | (3.2) | (7.2) |
| **Total** | **(10.5)** | **(15.4)** | **(4.0)** | **(3.6)** | **(3.2)** | **(36.7)** |

**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)** |

**Year ended 31st December 2021**

| | Amortisation of acquisition-related intangible assets £m | German pension plan closed to future accrual £m | Total £m |
|---|---|---|---|
| Steam Specialties | (3.9) | 2.0 | (1.9) |
| Electric Thermal Solutions | (12.9) | - | (12.9) |
| Watson-Marlow | (4.6) | - | (4.6) |
| **Total** | **(21.4)** | **2.0** | **(19.4)** |

**Net financing income and expense**

| | Six months to 30th June 2022 £m | Six months to 30th June 2021 £m | Year ended 31st December 2021 £m |
|---|---|---|---|
| Steam Specialties | 0.7 | 0.2 | 0.7 |
| Electric Thermal Solutions | (0.2) | (0.2) | (0.2) |
| Watson-Marlow | (0.2) | (0.2) | (0.4) |
| Corporate expenses | (3.9) | (3.4) | (6.5) |
| **Total net financing expense** | **(3.6)** | **(3.6)** | **(6.4)** |

## Net assets

| | 30th June 2022 | | 30th June 2021* | | 31st December 2021 | |
|---|---|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| | £m | £m | £m | £m | £m | £m |
| Steam Specialties | 728.7 | (179.8) | 635.3 | (154.9) | 658.0 | (182.1) |
| Electric Thermal Solutions | 581.7 | (42.1) | 514.5 | (29.9) | 536.9 | (33.0) |
| Watson-Marlow | 386.0 | (60.7) | 281.0 | (50.9) | 331.8 | (57.9) |
| | 1,696.4 | (282.6) | 1,430.8 | (235.7) | 1,526.7 | (273.0) |
| Liabilities | (282.6) | | (235.7) | | (273.0) | |
| Net deferred tax | (38.1) | | (34.9) | | (35.7) | |
| Net assets held for sale | 0.2 | | - | | - | |
| Net tax payable | (19.5) | | (20.2) | | (17.4) | |
| Net debt including lease liabilities | (264.5) | | (225.2) | | (190.6) | |
| **Net assets** | **1,091.9** | | **914.8** | | **1,010.0** | |

* Restated following IFRS Interpretations Committee agenda decision on configuration and customisation costs in cloud computing arrangements (Software as a Service (SaaS)), see Note 1 for further details.

## Capital additions, depreciation, amortisation and impairment

| | Six months to 30th June 2022 | | Six months to 30th June 2021 | | Year ended 31st December 2021 | |
|---|---|---|---|---|---|---|
| | Capital additions | Depreciation, amortisation and impairment | Capital additions | Depreciation, amortisation and impairment | Capital additions | Depreciation, amortisation and impairment |
| | £m | £m | £m | £m | £m | £m |
| Steam Specialties | 19.6 | 19.6 | 13.9 | 17.4 | 35.6 | 33.9 |
| Electric Thermal Solutions | 3.3 | 11.8 | 1.4 | 9.5 | 16.6 | 18.3 |
| Watson-Marlow | 35.2 | 9.5 | 11.7 | 8.4 | 51.0 | 16.8 |
| **Total** | **58.1** | **40.9** | **27.0** | **35.3** | **103.2** | **69.0** |

Capital additions include property, plant and equipment at 30th June 2022 of £44.1 million (at 30th June 2021: £18.9 million; and at 31st December 2021: £52.8 million). Capital additions also include other intangible assets at 30th June 2022 of £8.0 million (at 30th June 2021: £3.3 million; and at 31st December 2021: £11.3 million), of which £2.8 million relates to acquisition related intangibles (at 30th June 2021: £nil; and at 31st December 2021: £nil). Right-of-use asset additions at 30th June 2022 were £6.0 million (at 30th June 2021: £4.8 million; and at 31st December 2021: £39.1 million).

## 4. NET FINANCING INCOME AND EXPENSE

| | Six months to 30th June 2022 | Six months to 30th June 2021 | Year ended 31st December 2021 |
|---|---|---|---|
| | £m | £m | £m |
| **Financial expenses:** | | | |
| Bank and other borrowing interest payable | (4.5) | (3.7) | (7.4) |
| Interest expense on lease liabilities | (0.7) | (0.5) | (1.1) |
| Net interest on pension scheme liabilities | (0.3) | (0.8) | (1.3) |
| | (5.5) | (5.0) | (9.8) |
| **Financial income:** | | | |
| Bank interest receivable | 1.9 | 1.4 | 3.4 |
| **Net financing expense** | **(3.6)** | **(3.6)** | **(6.4)** |
| | | | |
| Net bank interest | (2.6) | (2.3) | (4.0) |
| Interest expense on lease liabilities | (0.7) | (0.5) | (1.1) |
| Net pension scheme financial expense | (0.3) | (0.8) | (1.3) |
| **Net financing expense** | **(3.6)** | **(3.6)** | **(6.4)** |

## 5. TAXATION

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

| | Six months to 30th June 2022 | | | Six months to 30th June 2021 | | | 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 | (0.8) | - | (0.8) | 2.6 | - | 2.6 | 7.0 | - | 7.0 |
| Foreign tax | 40.7 | - | 40.7 | 39.2 | - | 39.2 | 73.0 | - | 73.0 |
| Deferred tax | 6.2 | (4.8) | 1.4 | 1.2 | (1.9) | (0.7) | 3.9 | (4.3) | (0.4) |
| **Total taxation** | **46.1** | **(4.8)** | **41.3** | **43.0** | **(1.9)** | **41.1** | **83.9** | **(4.3)** | **79.6** |
| **Effective tax rate** | **26.3%** | **13.0%** | **29.8%** | **27.0%** | **20.6%** | **27.4%** | **25.1%** | **22.2%** | **25.3%** |

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 2022 includes a credit of £4.8 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)
- Restructuring of the Chromalox manufacturing operations in Soissons (France) (£1.7 million credit)
- Costs associated with the acquisition of Vulcanic (£0.5 million credit)
- Costs associated with the redevelopment of the Group Head Office building in Cheltenham (UK) (£0.1 million credit)

In October 2017, the European Commission (EC) opened a formal State Aid investigation into an exemption within the UK's 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, the Group submitted its own appeal. The EU General Court delivered its decision on the appeals on 8th June 2022, ruling in favour of the EC, although the UK Government and the taxpayer have the option to appeal this decision.

The Group's benefit from the FCE, in the period from 2013 to date, is approximately £8.7 million including compound interest. 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 in the Statement of Financial Position. No provision has been recognised for the estimated amounts where Charging Notices have not been received, therefore these amounts continue to be recognised 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 changes will impact the tax charged on UK profits from the effective date. However, as a result of being substantively enacted at the balance sheet date 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%.

## 6. EARNINGS PER SHARE

| | Six months to 30th June 2022 | Six months to 30th June 2021 | Year ended 31st December 2021 |
|---|---|---|---|
| Profit attributable to equity shareholders (£m) | 97.1 | 108.8 | 234.6 |
| Weighted average shares in issue (million) | 73.7 | 73.7 | 73.7 |
| Dilution (million) | 0.1 | 0.2 | 0.2 |
| Diluted weighted average shares in issue (million) | 73.8 | 73.9 | 73.9 |
| **Basic earnings per share** | **131.8p** | **147.6p** | **318.3p** |
| **Diluted earnings per share** | **131.5p** | **147.3p** | **317.5p** |

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

The dilution is in respect of the share awards granted to employees under share plans.

## 7. DIVIDENDS

| | Six months to 30th June 2022 £m | Six months to 30th June 2021 £m | Year ended 31st December 2021 £m |
|---|---|---|---|
| Amounts paid in the period: | | | |
| Final dividend for the year ended 31st December 2021 of 97.5p (2020: 84.5p) per share | 71.9 | 62.3 | 62.3 |
| Interim dividend for the year ended 31st December 2021 of 38.5p (2020: 33.5p) per share | - | - | 28.4 |
| **Total dividends paid** | **71.9** | **62.3** | **90.7** |
| | | | |
| Amounts arising in respect of the period: | | | |
| Interim dividend for the year ending 31st December 2022 of 42.5p (2021: 38.5p) per share | 31.3 | 28.4 | 28.4 |
| Final dividend for the year ended 31st December 2021 of 97.5p (2020: 84.5p) per share | - | - | 71.9 |
| **Total dividends arising** | **31.3** | **28.4** | **100.3** |

The interim dividend for the year ending 31st December 2022 was approved by the Board after 30th June 2022. 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 2022 interim dividend.

In addition, dividends paid to minority shareholders at 30th June 2022 were £0.3 million (31st December 2021: £0.3 million, 30th June 2021: £0.3 million)

## 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 2021 is included in the Group's Annual Report.

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

| | 30th June 2022 £m | 30th June 2021 £m | 31st December 2021 £m |
|---|---|---|---|
| Post-retirement benefits | (35.2) | (52.6) | (44.7) |
| Related deferred tax asset | 9.2 | 13.8 | 12.0 |
| **Net pension liability** | **(26.0)** | **(38.8)** | **(32.7)** |

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

| | 1st January 2022 £m | Cash flow £m | Acquired debt* £m | Cash transferred to assets classified as held for sale £m | Exchange £m | 30th June 2022 £m |
|---|---|---|---|---|---|---|
| Current portion of long-term borrowings | (59.6) | | | | | (0.9) |
| Non-current portion of long-term borrowings | (289.9) | | | | | (432.4) |
| **Total borrowings** | **(349.5)** | | | | | **(433.3)** |
| | | | | | | |
| Comprising: | | | | | | |
| Borrowings | (349.5) | (75.1) | - | - | (8.7) | (433.3) |
| **Changes in liabilities arising from financing** | **(349.5)** | **(75.1)** | **-** | **-** | **(8.7)** | **(433.3)** |
| | | | | | | |
| Cash at bank | 274.6 | 30.8 | - | (2.3) | 1.8 | 304.9 |
| Bank overdrafts | (55.6) | (17.1) | - | - | (1.6) | (74.3) |
| **Net cash and cash equivalents** | **219.0** | **13.7** | - | **(2.3)** | **0.2** | **230.6** |
| **Net debt** | **(130.5)** | **(61.4)** | **-** | **(2.3)** | **(8.5)** | **(202.7)** |
| Lease liability | (60.1) | 6.2 | (6.0) | - | (1.9) | (61.8) |
| **Net debt and lease liability** | **(190.6)** | **(55.2)** | **(6.0)** | **(2.3)** | **(10.4)** | **(264.5)** |

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

At 30th June total lease liabilities consist of £12.6 million (31st December 2021: £11.2 million, 30th June 2021: £10.1 million) short-term and £49.2 million (31st December 2021: £48.9 million, 30th June 2021: £22.3 million) long-term

| | 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)** |

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

| | 1st January 2021 £m | Cash flow £m | Acquired debt* £m | Exchange movement £m | 31st December 2021 £m |
|---|---|---|---|---|---|
| Current portion of long-term borrowings | (0.6) | | | | (59.6) |
| Non-current portion of long-term borrowings | (452.2) | | | | (289.9) |
| Short-term borrowings | - | | | | - |
| **Total borrowings** | **(452.8)** | | | | **(349.5)** |
| | | | | | |
| Comprising: | | | | | |
| Borrowings | (452.8) | 77.5 | - | 25.8 | (349.5) |
| **Changes in liabilities arising from financing** | (452.8) | 77.5 | - | 25.8 | (349.5) |
| Cash at bank | 246.2 | 35.7 | - | (7.3) | 274.6 |
| Bank overdrafts | (22.2) | (34.3) | - | 0.9 | (55.6) |
| **Net cash and cash equivalents** | **224.0** | **1.4** | **-** | **(6.4)** | **219.0** |
| **Net debt** | **(228.8)** | **78.9** | **-** | **19.4** | **(130.5)** |
| Lease liabilities | (34.1) | 11.7 | (39.1) | 1.4 | (60.1) |
| **Net debt and lease liabilities** | **(262.9)** | **90.6** | **(39.1)** | **20.8** | **(190.6)** |

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

## 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 2021. 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 2022 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 2022 | | 30th June 2021 | | 31st December 2021 | |
|---|---|---|---|---|---|---|
| | Carrying value £m | Fair value £m | Carrying value £m | Fair value £m | Carrying value £m | Fair value £m |
| **Financial assets:** | | | | | | |
| Cash and cash equivalents | 304.9 | 304.9 | 253.6 | 253.6 | 274.6 | 274.6 |
| Trade, other receivables and contract assets | 342.3 | 342.3 | 261.6 | 261.6 | 298.1 | 298.1 |
| **Total financial assets** | **647.2** | **647.2** | **515.2** | **515.2** | **572.7** | **572.7** |
| | | | | | | |
| **Financial liabilities:** | | | | | | |
| Loans | 433.3 | 423.1 | 399.5 | 409.2 | 349.5 | 358.3 |
| Lease liabilities | 61.8 | 61.8 | 32.4 | 32.4 | 60.1 | 60.1 |
| Bank overdrafts | 74.3 | 74.3 | 46.9 | 46.9 | 55.6 | 55.6 |
| Trade payables | 69.6 | 69.6 | 52.8 | 52.8 | 67.8 | 67.8 |
| Other payables and contract liabilities | 63.7 | 63.7 | 45.3 | 45.3 | 56.2 | 56.2 |
| Long-term payables | 6.2 | 6.2 | 5.3 | 5.3 | 4.7 | 4.7 |
| Accruals | 84.3 | 84.3 | 66.3 | 66.3 | 85.7 | 85.7 |
| **Total financial liabilities** | **793.2** | **783.0** | **648.5** | **658.2** | **679.6** | **688.4** |

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 2022 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 2022 the Group had contracts outstanding to economically hedge or to purchase £34.0 million with US dollars, £55.4 million with euros, £7.7 million with Korean won, £14.5 million with Chinese renminbi, £1.9 million with Singapore dollars, €11.3 million with US dollars, €2.4 million with Korean won, €6.2 million with Chinese renminbi and DKK40.3 million with euros. Derivative financial instruments are measured at fair value. The fair value at the end of the reporting period is a £7.9 million liability (31st December 2021: £0.2 million liability, 30th June 2021: £3.4 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 2022 was £60.4 million (31st December 2021: £40.5 million; 30th June 2021: £14.9 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 2021 and half year 2022.

| | **Average half year 2022** | **Average half year 2021** | **Change %** |
|---|---|---|---|
| US dollar | 1.30 | 1.38 | 6% |
| euro | 1.19 | 1.15 | -3% |
| renminbi | 8.40 | 8.96 | 6% |
| won | 1,593 | 1,546 | -3% |
| real | 6.63 | 7.42 | 11% |
| Argentine peso | 145.55 | 125.98 | -16% |

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 increased by 1.8% and adjusted operating profit increased by 1.6%, with transactional currency impacts also increasing profit, giving a total benefit to profit from currency movements of 2.1%.

## 14. HELD FOR SALE

At the 30th June 2022, Spirax Sarco Russia and Watson-Marlow Russia disposal groups were available for immediate sale in their present condition. The assets and liabilities have been classified as held for sale at 30th June 2022.

On the 9th June, the Board approved the disposal of the Group's Russian Operating Companies as a result of the decision to cease all trading with, or within, Russia in March. The disposal of these Operating Companies completed on 6th July and therefore they have been classified as disposal groups held for sale and presented separately in the Statement of Financial Position at 30th June 2022. Impairment losses of £3.6 million have been recognised in the Consolidated Income Statement as a result of the classification of these operations as held for sale. This loss represents the difference between the fair value less cost to sell and the carrying amount of the businesses net assets. The impairment losses have been shown as an adjusting item as disclosed in Note 2, included within the impairment of Russia disposal groups. The disposal groups are presented within the respective Steam Specialties and Watson-Marlow reporting segments as appropriate.

**15. PURCHASE OF BUSINESSES**

The acquisition of 100% of the share capital of the digitally enabled, global energy consulting and optimisation specialist, Cotopaxi Limited was completed on 30th January 2022. The acquisition method of accounting has been used. Cotopaxi is a UK company whose digital solutions experience in steam installations will accelerate Steam Specialties' objective to connect to its customers' steam systems and analyse their data. Total consideration on a cash-free, debt-free basis at the acquisition date was £12.7 million with no further amounts deferred or contingent on future performance.

Separately identified intangibles are recorded as part of the fair value adjustment. The goodwill recognised represents the opportunity to develop in the digital market from being part of the Group. Goodwill arising is not expected to be tax deductible.

On acquisition, net assets of Cotopaxi were £1.3 million with £2.8 million of acquired intangibles and £10.0 million of Goodwill being recognised. Since acquisition Cotopaxi Limited has made revenue and pre-tax profit of 1.2 million and £0.3 million. Had the acquisition been made on 1st January 2022, the H1 2022 revenue and pre-tax profit would not have been materially different from the figure disclosed.

**16. EVENTS AFTER THE BALANCE SHEET DATE**

In July 2022 the Group announced a definitive agreement to acquire 100% of the share capital of the Vulcanic Group of Companies from Qualium, a French private equity company. Vulcanic is a European industrial electric heating group and the largest supplier in Europe of bespoke industrial electric heating solutions. Headquartered in Paris (France) with 10 manufacturing facilities worldwide, Vulcanic has over 700 employees, of whom almost 90% are based in the Europe, Middle East and Africa (EMEA) region.

In the year ended 31st December 2021, Vulcanic recorded revenues of €89.4 million (£76.8 million), earnings before interest, tax, depreciation and amortisation (EBITDA) of €17.6 million (£15.2 million) and earnings before interest and tax (EBIT) of €16.0 million (£13.8 million) on an adjusted proforma basis for Vulcanic’s acquisition of EML in December 2021.