Spirax-Sarco Engineering PLC - SPX Final Results
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News Release

Thursday 9th March 2017

Delivering strong performance in challenging markets

HIGHLIGHTS

Adjusted*	2016	2015	Reported	Organic⁺
Revenue	£757.4m	£667.2m	+14%	+4%
Adjusted operating profit*	£180.6m	£152.4m	+18%	+8%
Adjusted operating profit margin*	23.8%	22.8%	+100 bps	+80 bps
Adjusted profit before taxation*	£177.9m	£151.1m	+18%	
Adjusted basic earnings per share*	171.5p	142.6p	+20%	
Dividend per share	76.0p	69.0p	+10%	
Cash conversion	101%	95%		

**All profit measures exclude certain non-operational items, as set out and explained in the Financial Review and in Note 2.*
⁺ Organic measures are at constant currency and exclude acquisitions and disposals.

Statutory	2016	2015	Reported
Operating profit	£174.1m	£142.8m	+22%
Profit before taxation	£171.4m	£139.7m	+23%
Basic earnings per share	165.0p	129.9p	+27%

- Organic sales growth of 4%
- Record operating margin of 23.8%
- Another excellent performance in Watson-Marlow

- Robust cash generation, 101% cash conversion
- Full Year dividend increased by 10%

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

"I am very pleased with the results delivered in 2016, which again demonstrate the robustness of our strategy and strong direct sales business model. We achieved good organic growth and expanded our margin to a record high, against a backdrop of very low global industrial production growth that improved in the latter part of the year. We increased investment in 2016 and, during 2017, will prioritise accelerating revenue and capital investments for growth over further margin expansion, to ensure we continue outperforming our markets by delivering organic sales growth. Assuming no significant deterioration in trading conditions, the Board expects to make further progress in 2017."

For further information, please contact:
Nicholas Anderson, Chief Executive
Kevin Boyd, Group Finance Director
Tel: 020 7638 9571 at Citigate Dewe Rogerson until 6.00 p.m.
The meeting with analysts will be available as a live audio webcast on the Company's website at www.spiraxsarcoengineering.com or via the following link: http://edge.media-server.com/m/p/42epghr9 *at 8.45 a.m. and a recording will be posted on the website shortly after the meeting. For access from any iOS Apple or Android device please use the following QR code:*

Unless otherwise stated, the figures quoted in the text below are based on the adjusted Group results (see Note 2). References to "organic" changes are like-for-like excluding acquisitions, disposals and the effects of exchange rate movements.

Chairman's statement

I am pleased to report a good set of results in 2016 despite a backdrop of low industrial production growth rates and a year of economic and political uncertainty.

Performance

Sales for the year were £757.4 million, an organic increase of 4%. Following the result of the UK Referendum on EU membership (Brexit referendum), sterling depreciated sharply against almost all currencies and this generated a significant favourable currency movement, increasing sales on translation by 8%. The net effect of acquisitions and disposals was to add an additional 1% to revenues. As a result, reported sales were 14% higher than 2015. Our Watson-Marlow Fluid Technology Group (WMFTG or Watson-Marlow) followed up a good 2015 with another strong year which saw organic sales up 10%, spread across all geographic regions. The Spirax Sarco Steam Specialties business also performed well with organic sales increasing by over 2%, with gains in all divisions.

Adjusted operating profit increased by 8% on an organic basis to a reported £180.6 million. Watson-Marlow delivered organic profit growth of 16%, with the Steam Specialties business up 6% driven by EMEA and the Americas. Organic operating profit in Asia Pacific was marginally ahead of 2015. Favourable translation and transaction currency movements increased adjusted operating profit by a further 9% while acquisitions and disposals had a marginally positive impact leaving adjusted operating profit in total up 18%. The adjusted operating margin improved by 100 bps, to a record 23.8%.

Net finance costs increased from £1.5 million to £2.6 million reflecting the reduction in interest from reduced bank deposits following the payment of the special dividend in 2015, while the total income from Associates was a loss of £0.1 million. The Group adjusted pre-tax profit was therefore £177.9 million, 18% ahead at reported currency. Adjusted basic earnings per share was 20% ahead at 171.5 pence (2015: 142.6 pence).

The pre-tax profit on a statutory basis was £171.4 million (2015: £139.7 million) and includes non-operational items, explained in Note 2. The statutory basic earnings per share was 165.0 pence (2015: 129.9 pence).

Cash and dividends

Cash generation was robust, with very good cash conversion and we finished the year with net cash of £27 million compared with £5 million at 31st December 2015. Foreign exchange gains boosted net cash by £12 million.

The interim dividend for 2016, paid on 11th November 2016, was raised by 8.2% to 22.5 pence per share (2015: 20.8 pence per share). The Board is recommending an increase in the final dividend of 11.0% to 53.5 pence per share (2015: 48.2 pence). The total Ordinary dividend for the year, subject to approval by shareholders at the AGM on 9th May 2017 of the final proposed dividend, is therefore 76.0 pence per share, an increase of 10.1% over the 69.0 pence per share for the prior year. The proposed dividend is in line with the Group's dividend policy, which is to increase progressively the dividend to appropriately reflect the underlying trading performance while having regard to the maintenance of a healthy dividend cover, the level of cash generation and the future capital requirements of the business.

Governance and Board changes

On 10th May 2016, following 27 years of employment with the Company and nearly 24 years as Group Finance Director, David Meredith retired from the Board of Directors. On behalf of shareholders and the Board, I acknowledge the outstanding contribution that David made to the Company and express my thanks for his many years of dedicated service.

Following a rigorous selection process we were pleased to welcome Kevin Boyd to the Group on 11th April 2016, and to the Board on 11th May 2016, as David's successor. Kevin brings with him a wealth of experience; immediately prior to joining the Company he was Group Finance Director for Oxford Instruments plc and before that held the same position at Radstone Technology plc. Kevin is a Chartered Engineer, a Chartered Accountant, a Fellow of the Institute of Chartered Accountants and a Fellow of the Institution of Engineering and Technology. He is a Non-Executive Director of EMIS Group plc. Kevin's pragmatic approach and broad experience facilitated a smooth transition and enabled him to make an immediate contribution to the operation of the Board.

The Board is committed to ensuring the smooth transition of key Board positions. Following an independent, external Board effectiveness review in 2015, during 2016 the Nomination Committee placed particular emphasis on enhanced succession planning.

On 1st September 2016 we welcomed Jane Kingston to the Group as an Independent Non-Executive Director and member of the Audit, Nomination and Remuneration Committees; in November 2016 she was appointed Chairman of the Remuneration Committee. From 2006 until her retirement in December 2015, Jane served as Group Human Resources Director of Compass

Group PLC and prior to that held the same position at BPB plc. Jane has worked in a wide variety of sectors and brings with her the skills and experience needed to support the Group's strategy for growth. She is a Non-Executive Director of National Express Group plc.

It was with great sadness that the Board was informed of the death of Dr Krishnamurthy Rajagopal (Raj) in November 2016. Raj had been an Independent Non-Executive Director of the Board since February 2009 and was Chairman of the Remuneration Committee from 2014 to October 2016. On behalf of the Board and shareholders, I express my appreciation for his great contribution to the Company during his years as a Non-Executive Director.

Employees

During 2016, we were delighted to receive recognition as "Britain's Most Admired Company" within the engineering sector and to be acknowledged as Britain's sixth "Most Admired Company" by *Management Today*, following extensive peer research. This is an excellent achievement and is testament to the hard work that our employees put into ensuring the Company's continued success. On Behalf of the Board, I would like to thank all our employees throughout the world for their individual and collective contributions that have enabled us to deliver another set of good results in 2016.

Prospects

The wide diversity of our customer base across industry sectors and geography; the widespread global use of steam as an industrial energy source; and the extensive application of pumps and fluid path technologies, cause our markets to be strongly influenced by industrial production growth rates.

In the first half of 2016 the global industrial production growth rate was around zero, having progressively slowed in prior years. During the second half there was a modest upturn, driven mostly by improvements in emerging markets, resulting in a full year average of 0.5%, a similarly low average as the previous year.

The outlook for 2017 remains unclear, with continued political and economic uncertainty in a number of our key markets. Global industrial production growth rates are therefore forecast to remain low, at less than 2% for the year. Given the lacklustre condition of our markets, we remain focused on delivering self-generated growth through the rigorous application of our business strategy, with strategic initiatives designed to increase the effectiveness of our highly skilled direct sales force, through sector-alignment and investment in training; broaden our global presence, through early entry into new and emerging markets; increase our ability to leverage new product developments; increase the agility and efficiency of our supply chain; and improve the sustainability of our and our customers' operations.

With an effective direct sales business model and approximately 85% of revenue generated from our customers' maintenance and operational budgets, we have a degree of resilience which enables us to consistently outperform our markets.

In 2017 we could see a further favourable benefit from foreign exchange as 2017 will include a full year of post-Brexit referendum currency rates. As a guide, if current exchange rates were to prevail for the remainder of the year, revenues would be 6% higher due to translation. Movements in exchange rates are often volatile and unpredictable, therefore the actual impact could be significantly different.

Following the one-off impacts that benefited the first half of 2016, in the second half, as expected, we saw over 1% organic sales growth in the Steam Specialties business, a level more representative of the improving global industrial production growth rates of that period. In 2017, we anticipate modestly higher organic growth than in 2016, as global industrial production growth is expected to rise to just under 2% for the year. Watson-Marlow continued to exceed our expectations by delivering 10% organic growth in 2016. However, we do not expect this level to continue and, for 2017, maintain our expectations of mid-to-high single-digit organic growth.

Group operating margin rose to a record level in 2016 and, as predicted in our Half Year Report, we did not see any margin expansion in the second half of the year compared to the same period in 2015. In particular, Watson-Marlow saw margins grow to an exceptional 33.1% for the year. Our expectation is that on an organic basis we will be able to sustain these full year margins, while increasing investments in new products and routes to market as a means to continue delivering organic sales growth. Assuming no significant deterioration in trading conditions, the Board expects to make further progress in 2017.

Group Chief Executive's Report

	2015	Exchange	Organic	Acquisitions & Disposals	2016	Organic	Reported
Revenue	£667.2m	£52.6m	£30.3m	£7.3m	£757.4m	+4%	+14%
Adjusted operating profit	£152.4m	£14.5m	£13.2m	£0.5m	£180.6m	+8%	+18%
Adjusted operating margin	22.8%				23.8%	+80 bps	+100 bps

Introduction
The Group achieved a good financial result in 2016, delivering positive organic growth against a backdrop of very low to zero industrial production growth and for the first time since 2010 enjoyed a significant currency tailwind. We again expanded our geographical reach, opening three new sales companies in the year and we completed two acquisitions, one each in the Steam Specialties business and in Watson-Marlow.

Our direct sales business model in both our Steam Specialties and Watson-Marlow businesses, driven through our team of nearly 1,400 highly skilled and experienced sales and service engineers, is effective in uncovering opportunities to improve customers' steam systems and fluid path processes. This "self-generated" element of our business, combined with the high proportion of sales that derive from end users' maintenance and operating budgets, makes our business highly resilient, especially in the current low market growth environment. Our sales and service engineers generate solutions for customers' problems and deliver benefits to end users in the shape of reduced energy usage and lower CO_2 emissions, water savings, increased productivity, improved quality, better reliability, reduced costs, reduced chemical use and enhanced regulatory compliance, to help meet our stated goal of outperforming our markets.

Strategy implementation
Effective implementation of our strategy for growth has been key in delivering above market organic growth in 2016. We will continue to invest in the strategic objective of outperforming our markets by delivering self-generated growth, which we achieve through focusing on our six strategic themes:

- increase direct sales effectiveness through sector focus;
- develop the knowledge and skills of our expert sales and service teams;
- broaden our global presence;
- leverage R&D investments;

- optimise supply chain effectiveness; and
- operate sustainably and help improve our customers' sustainability.

Notable progress in implementing our strategy has been made in:

- delivering greater alignment with our selected target industries, notably Food & Beverage, Healthcare, Pharmaceutical, Oil & Gas, Chemical and OEM customers, as we have further progressed the sectorisation of our direct sales force;
- establishing the Spirax Sarco Academy to oversee the training and development needs of the Steam Specialties business's sales and service organisation, developing its curriculum, training materials and assessment systems;
- continued geographic expansion, with three new direct sales companies established and operating in the year and a further four operating units established that will commence direct selling in 2017;
- leveraging R&D investments, with a number of key product launches occurring during 2016, including the MasoSine Certa™ pump range, Qdos 120 pump, Watson-Marlow 530 and 630 pumps, Spirax Sarco STAPS ISA100 Wireless Steam Trap Monitor, and Spirax Sarco FT62 High Pressure Float Trap;
- developing the capacity and efficiency of our supply chain, with the completion of a new state-of-the-art manufacturing facility in India, the opening of a new clean steam manufacturing facility in the UK and the expansion of our manufacturing plant in China; and
- the Group-wide roll out of our sustainability strategy.

We have concentrated on the alignment of the entire organisation behind our strategic themes. Improvements have been made to our health & safety management processes, and our risk management processes have also been enhanced and integrated further into the everyday business.

Market environment

Steam is used in a huge range of manufacturing processes for heating, curing, cooking, drying and cleaning across a diverse range of different industries, including Food & Beverage, Pharmaceutical, Oil & Gas, Chemical and Pulp & Paper. Steam is also used in hospitals and buildings for space heating, humidification and sterilisation, and to provide a reliable source of hot water at constant temperature. Likewise, peristaltic and niche pumps are also used across a wide range of similar industries to address difficult pumping problems. This wide spread of industry sectors and relatively large proportion of revenues that derive from end users' maintenance and operating budgets, means that our markets tend to be correlated to the growth in industrial production. Our exposure to large capital projects is limited, accounting for approximately 15% of our revenues, with the proportion of capital projects historically higher in emerging markets.

Following a strong declining trend in 2014 and 2015, driven by slowing emerging economies, global industrial production growth stabilised around zero percent in the first half of 2016 before experiencing a recovery in some emerging economies in the second half of the year. Overall, global industrial production growth in 2016 averaged 0.5%, the same very low levels of 2015, but exited the year with an annualised growth rate below 2%, which is predicted to continue in the first half of 2017.

In EMEA, industrial production growth, which had slowed modestly in 2015, returned to just below its 2014 levels at 1.1%, with the Eurozone and the UK remaining at broadly the same low levels of previous years. Russia experienced a broadly flat year after the industrial recession of 2015.

Asia Pacific, excluding China, remained at the same weak levels of 2015, posting sub one percent growth, while industrial production in China returned to higher growth rates during the second half of the year, comparable to those of 2013 and 2014.

In the Americas, industrial production growth was negative in both North and South America, with the latter being particularly hard hit by the recession in Brazil and the effect of the currency devaluation in Argentina at the end of 2015. Although not immune from the severe economic turmoil in the region, our strong long-standing businesses across Latin America, that include local manufacturing, have helped insulate us against the impact of currency weakness and enabled us to outperform the market.

Progress in 2016

Overall we saw organic sales growth of 4%. The strongest performance was again in Watson-Marlow where we achieved growth in all geographic regions. Organic sales in the Steam Specialties business grew by over 2% after a flat 2015, registering growth in all three geographic segments.

Group sales at £757.4 million were up 14% at reported exchange rates (2015: £667.2 million). The weakening of sterling following the UK referendum on EU membership gave a translation boost to sales of 8% with the pound weakening against all our major trading currencies with the notable exception of the Argentine peso. Currency movements have been volatile for some time, making projections increasingly uncertain. However, if recent exchange rates prevail for the full year, sales in 2017 would be 6% higher on translation into sterling compared to 2016, as we would see a similar uplift in the first half of 2017 as we saw in the second half of 2016. The two acquisitions we made in the year, combined with the full year effects of the acquisitions made in 2015, offset the disposal of M&M and resulted in a net contribution of £7.3 million or around 1% of sales. We estimate that the full year effect of the acquisitions made in 2016 should add 3% to sales in 2017.

In our Steam Specialties business, which accounted for 74% of Group revenues, organic sales growth was over 2%. At reported exchange rates sales were up 10%, helped by favourable currency movements that increased sales by 7% and the net effect of the acquisition of Hiter in July 2016 offset by the loss of sales due to the disposal of M&M in the prior year. We again saw a small decline in the number of large project sales as the Oil & Gas industry continues to contract, however this was more than countered for by gains in our strategic target industries and product groups. Our business remains very resilient, reflecting the high proportion of sales that are derived from our end users' operating and maintenance spend.

Geographically, we achieved a modest organic sales increase in EMEA, with gains in the UK and Germany but small declines in Italy and France. The devaluation of the Argentine peso in December 2015 and the ensuing price rises in that country, combined with excellent performance from our smaller Latin America territories, offset a decline in recession-hit Brazil and a much smaller decline in the USA to deliver 5% organic growth in the Americas. Hiter is successfully being integrated into the Group and is performing to plan. As expected it was loss making in 2016 due to pre-trading losses and ramp up costs. These losses are expected to narrow in the current year as revenues build. In Asia Pacific an excellent performance in the first half of the year, helped by large one-off projects in China and Korea, helped organic sales to grow by 3%. Pleasingly, Korea delivered growth against the backdrop of a difficult economic environment and China recorded much improved growth compared to 2015 despite industrial overcapacity continuing to reduce the level of project work. While much smaller than China or Korea, Australia had an excellent year as did some of our businesses in Southeast Asia.

Watson-Marlow, which accounted for 26% of Group revenues, grew sales by 27% at reported exchange rates and by 10% on an organic basis. The effect of having a full year of the three acquisitions made in 2015 plus the acquisition of Aflex at the end of November 2016 was to add a further 7% to sales. Growth was achieved across all geographic regions, with our strategy of geographic expansion leading to excellent growth in Asia Pacific. We continue to benefit from positive conditions in our key Pharmaceutical & Biotechnology market where recent acquisitions combined with the launch of innovative new products have expanded the width and depth of our product portfolio.

Group adjusted operating profit of £180.6 million was 8% ahead of the prior year on an organic basis. The operating profit at reported exchange rates grew by 18%, helped by a 9% benefit from translational and transactional exchange rate gains following the devaluation of sterling and a net 0.3% from acquisitions and disposals. Three of our four segments delivered double digit organic operating profit growth, with Watson-Marlow deserving particular praise. Asia Pacific posted a more subdued profit growth.

The Group adjusted operating profit margin expanded by 100 bps to a record 23.8% (2015: 22.8%). We continued to benefit from low input costs although we believe that we reached a turning point in the second half of the year as we began to see modest material price increases. The restructuring carried out in the UK and USA in 2015 had a beneficial impact on margins, as did transactional foreign exchange gains since we are a net exporter from the UK. In the face of a relatively stagnant market, we continued to invest in the business to deliver growth and will accelerate that programme in 2017 in order to support our goal to deliver organic growth ahead of our markets, now and in the future. As a result, while our aim is to sustain these margins, we would not expect to see them expand in the current year.

Market outlook

We are pleased with our progress in 2016 against a backdrop of near zero industrial production growth. We have seen good organic growth, improved margins and made two acquisitions that are performing well. In addition, we continue to make progress on our strategic themes, facilitating self-generated growth and making us less reliant on external market conditions.

Global industrial production remained stagnant during the first half of the year, recovering in the latter part of 2016. While the growth rates at the end of 2016 suggest an improvement for 2017, we remain cautious in predicting a sustained market upturn and continue to focus on the implementation of our strategy, with its emphasis on self-generated growth. We have a strong direct sales business model which, combined with a large proportion of our revenues being derived from end users' maintenance and operating budgets, gives us a high degree of resilience in difficult economic conditions. We increased investment in 2016 and, during 2017, will prioritise accelerating revenue and capital investments for growth over further margin expansion, to ensure we continue delivering organic sales growth. Assuming no significant deterioration in trading conditions, the Board expects to make further progress in 2017.

Europe, Middle East and Africa (EMEA)

	2015	Exchange	Organic	Disposals	2016	Organic	Reported
Revenue	£219.4m	£17.5m	£1.4m	(£4.0m)	£234.3m	+1%	+7%
Adjusted operating profit	£42.7m	£3.6m	£4.5m	(£0.8m)	£50.0m	+10%	+17%
Adjusted operating margin	19.5%				21.3%	+180 bps	+190 bps

Market overview
Industrial production growth rates remained at very low levels, around 1%, throughout the year as successively forecasted growth failed to materialise. Economic and political uncertainty created a challenging backdrop. Despite this, the Middle East and Egypt, in particular, generated strong growth, but investment confidence in Turkey was low. The UK referendum on EU membership had a small impact on UK investments during the summer months as uncertainty stalled decision making. However, disruption was short-lived and normal market conditions returned by September, with the Brexit referendum having no material impact on the underlying business for the full year. Significant currency movements occurred within the region, with sterling, Turkish lire and the Egyptian pound weakening considerably. Record low oil prices reduced investment projects in our Oil & Gas sector, which we somewhat off-set through a strategic focus on after-market opportunities. We achieved above market growth in the Food & Beverage industries. The OEM markets proved challenging in 2016 despite an increased number of buying customers, which offer the potential for uplift in 2017.

Progress in 2016

In EMEA, sales increased by 1% on an organic basis to a reported £234.3 million with significant favourable currency movements increasing sales on translation by 8% and the 2015 disposal of M&M reducing sales by 2%, giving a reported sales increase of 7%. The favourable currency movements reflect the strengthening of the majority of currencies in the region against sterling following the Brexit referendum, including the euro which strengthened by 11%. Organic sales growth in the major territories of the region was mixed, with the UK and Germany up while France and Italy were down.

Our business performed well in 2016 and operating profit of £50.0 million was ahead 10% on an organic basis, driven mostly by manufacturing efficiencies and lower material costs. This included the actions taken in 2015 to reduce headcount by 8% in our UK manufacturing operations, incurring one-off costs of £1.0 million that delivered annualised benefits of £2.2 million from April 2015. As expected, these annualised benefits have been fully realised and contributed to a £1.6 million profit increase in 2016. Continuing price management initiatives, as well as strict overhead control, also contributed to increase operating profit by 17% on a reported basis, with favourable currency movements enhancing profit by 8% and the 2015 disposal of M&M reducing profit by 2%. Operating profits were mixed across the region with organic growth in the key territories of the UK, Germany, France and Italy offset to a degree by some of the smaller businesses in the region such as Poland and Egypt.

This strong profit growth delivered an operating profit margin of 21.3%, or 180 bps higher on an organic basis, with the manufacturing efficiencies contributing 140 bps of margin improvement.

Strategy update
We have made pleasing progress generally with the implementation of our strategy for growth, particularly strengthening our market presence in the Netherlands with good results and in Egypt, where we began trading in 2015. We have completed the groundwork to begin trading through a newly established operating company in Kenya (Spirax Sarco East Africa) in 2017. We completed the establishment of the Spirax Sarco Academy, ready for roll-out in 2017, which will accelerate the development of the knowledge and skills of our sales teams, and have continued to implement sales force sectorisation across the division, making steady progress as we align our sales engineers to better serve our target sectors. As a result of this focus, we have seen strong growth in the Chemicals sector and in the Food & Beverage sector, with progress in the Dairy industry in particular. We have strengthened our strategic account management process, with some notable success, and are evolving our service capability to further improve customer

support and strengthen business relationships, as well as making further improvements to the wider supply chain. Together, these strategic actions are underpinning our ability to deliver self-generated growth that outperforms our markets.

Outlook

We anticipate that our markets will remain challenging with, at best, a modest improvement in industrial production growth rates. Continuing uncertainty around Brexit could act as a headwind during 2017 and beyond, although it is too early to determine the extent of the impact until the UK exit strategy is more clearly defined. We are monitoring the situation carefully, have a contingency plan prepared and are well-placed to mitigate the challenges and capitalise on the opportunities that may arise. Oil prices are likely to remain subdued and to act as a drag on levels of investment in new Oil & Gas capacity throughout 2017. Despite the challenging conditions, we are well-positioned to continue to deliver progress as we strengthen the capabilities of our sales and service engineers; better align our organisation to the industries that we serve; and carefully balance investments, aligned to market opportunities, whilst controlling costs.

Asia Pacific

	2015	Exchange	Organic	Acquisitions/ Disposals	2016	Organic	Reported
Revenue	£171.8m	£15.4m	£6.1m	-	£193.3m	+3%	+13%
Adjusted operating profit	£44.7m	£4.9m	£0.3m	-	£49.9m	+1%	+12%
Adjusted operating margin	26.0%				25.8%	-70 bps	-20 bps

Market Overview

After four successive years of declining industrial production growth rates, China saw a modest improvement in 2016 with 2% year-on-year growth. Whilst this increase is encouraging, the current modest growth rate is forecast to prevail in 2017, suggesting the continuation of a relatively subdued operating environment in China in the short-to-medium term. Elsewhere in Asia Pacific, economic conditions were mixed, with Japan in negative growth and low growth rates (less than 1%) in India and Korea, with the latter returning from a negative 2015. Some of our smaller markets, such as the Philippines and Malaysia, saw good growth. The Oil & Gas market continued to struggle as a result of the low global oil price, although we were able to achieve growth as a result of our strategic focus on this important industry. Project work remained weak across the region, reflecting overcapacity and lower investment confidence in many Asian markets. Despite this we still achieved modest growth in project sales during 2016. We continued to successfully implement changes in our direct sales approach, reducing our reliance on large capex projects by strengthening our ability to identify and deliver smaller-scale operational efficiency improvement projects for our customers. As a result of these changes, self-generated sales increased.

Progress in 2016

Sales in Asia Pacific were £193.3 million, up 3% on an organic basis and up 13% at reported exchange rates. The favourable currency movements reflect the strengthening of all currencies in the region against sterling following the Brexit referendum, including the Chinese renminbi and Korean won which strengthened by 6% and 9% respectively. Despite tough economic conditions, organic sales were ahead in all regions, except Japan and Singapore, as we continue to reap the benefits of the successful implementation of our strategy.

Our largest sales and profit contributor, which accounted for just over 10% of total Group sales in 2016, is China, where over-capacity and reduced investments in the manufacturing sector persist, reducing large project orders. Despite this China performed strongly, with sales and profit up on 2015 as we continued our transformation from reliance on big projects to self-generated business. The £13 million plant expansion project is nearly complete and this should help to further increase efficiency and improve customer delivery performance.

In Korea, our second largest territory in Asia Pacific, sales and profit were slightly up on an organic basis, benefiting from the delivery of project sales carried over from 2015.

Elsewhere in Asia Pacific, Australia, Malaysia, the Philippines and Thailand enjoyed strong sales growth. Vietnam, in its first year of operation, had good sales volumes in line with expectations and we delivered good expansion in other developing markets including Myanmar and Cambodia. Singapore had a challenging year with sales down on 2015, while Japan was flat after strong sales growth in the previous year.

In March 2015, we completed the separation from our long-standing joint venture in India via the sale of the Group's interest in Spirax Marshall. Our new wholly owned direct sales operation commenced trading in the second half of 2015 and has made a small contribution to sales in 2016. As expected, the company made an operating loss during the year as we continue to incur start-up costs to develop the business. The state-of-the art manufacturing, training and office facilities are now complete and manufacturing commenced in June 2016. We are seeing a steadily improving trend of business as our brand value becomes better understood. The availability of locally manufactured products and world-class service levels, position us well to penetrate the market and we look forward to sales growing over the coming years.

Operating profit increased by 1% on an organic basis, with good progress in most of the established companies. On a reported basis, profits were up 12% to £49.9 million. There was a moderate decline in the operating margin to 25.8% due to continued investment around the region, including the start-up costs in India and Vietnam, as well as lower margin on some larger project sales.

Strategy update

We have continued to invest in the strategic alignment of our sales engineers, matching them to key industries as geography allows, and enhancing training to further develop their application knowledge and skills. By the end of 2016, approximately 30% of the division's sales and services engineers had a designated sector focus. This increased alignment with core industries delivered good growth in the Oil & Gas industry and to OEM customers in particular. Sales to the Food & Beverage and Healthcare industries also achieved above market growth. We have focused on increasing supply chain efficiency, improving customer service, cost effectiveness and flexibility.

Outlook

Overall, industrial production growth rates in Asia Pacific, excluding China, are expected to improve in 2017, with increases predicted in Korea, India and Japan, while China remains at around 2%. Nevertheless, the outlook remains uncertain with the impacts of India's "demonetarisation" experiment yet to be fully seen and weak domestic demand and political scandal having the potential to undermine business confidence in Korea. We remain focused on further developing our direct sales business model, strategical alignment with key industry sectors and strengthening our presence in new markets, to generate our own growth opportunities.

The Americas

	2015	Exchange	Organic	Acquisitions	2016	Organic	Reported
Revenue	£123.4m	£5.6m	£6.2m	£0.7m	£135.9m	+5%	+10%
Adjusted operating profit	£27.1m	£0.2m	£2.6m	(£0.7m)	£29.2m	+9%	+8%
Adjusted operating margin	22.0%				21.5%	+90 bps	-50 bps

Market overview
Industrial production growth rate forecasts for 2016 were consistently undermined by recessionary economic growth realities, especially in the USA, Argentina and Brazil. Oil prices remained low, depressing upstream investments, particularly in Canada, Brazil and the USA, leading to a drag on the energy sector with no sign of improvement during the year. Industrial confidence was low in the Americas with elections, political scandals and general uncertainty weighing heavily and providing little impetus for economic growth. Conditions in Latin America remained challenging with the Brazilian Presidential impeachment, recession in Argentina and global commodity prices acting as a brake in most countries. Latin America has remained in an industrial recession since 2014 with strongly negative industrial production growth rates in the period, while North America also saw negative growth of just under 1%.

Progress in 2016
On an organic basis, sales increased by 5% in the Americas to a reported £135.9 million despite a tough economic climate. Latin America grew 22%, driven largely by the benefit of US dollar-based pricing in Argentina, partially offsetting a 3% reduction in North America. There were significant currency fluctuations in the region. Against sterling, the Brazilian real rose 7% and the US dollar was up 11% while the Argentine peso fell 40% due to the devaluation at the end of 2015. This resulted in net exchange gains of £5.6 million and reported sales up 10%.

Total operating profit was up 9% on an organic basis to a reported £29.2 million reflecting higher margin sales in Argentina, prudent control of overheads in inflationary environments and positive pricing strategies. Including an expected pre-operating loss following the acquisition of the assets of Brazilian control valve manufacturer Hiter, as well as slightly favourable exchange movements, the reported operating profit increased by 8%. The organic operating profit margin was 22.1% (2015: 21.2%).

In North America, sales declined modestly in Canada due to the generally inactive Oil & Gas sector. Within the USA, slow economic conditions affected our distributors, particularly within the Oil & Gas markets, who reduced stock levels accordingly. Despite uncertain conditions, we continued to invest in our sales force as we develop our direct sales model. The journey to strengthen the direct channel to our customers not only enables us to respond to growing end user expectations for more sophisticated solutions but also creates incremental opportunities for our distribution partners that continue to provide an important route to market. The self-generated progress made this year against tough economic conditions helped to restrict the decline in sales in North America to 3%, with operating profits modestly lower on an organic basis.

In Latin America, despite the difficult trading conditions in Brazil and Argentina, we reported strong progress; sales were up 22% on an organic basis, with all operations except Brazil ahead.

Despite the well documented economic problems in Brazil, we still managed to outperform the market and our smaller operations in Latin America, including our new company in Peru, performed well while our new acquisition in Colombia performed in line with expectations. Operating profits were significantly ahead on an organic basis driven by an increase in Argentina, largely due to dollar-based pricing, as well as increased sales across the region except in Brazil.

On 1st July 2016 we acquired the assets of Hiter Indústria e Comércio de Controles Termo-Hidráulicos Ltda (Hiter), a process control valve manufacturer based in Brazil. Hiter is highly synergistic with Spirax Sarco's Brazilian steam and process fluid applications business. The Hiter brand has a well established reputation in Brazil with a large installed base. Following the acquisition, Spirax Sarco became the only significant manufacturer of both control and safety valves in Brazil. After re-establishing Hiter's market position during 2017, this business is expected to make a positive contribution to Group earnings from 2018.

Excluding the acquisition the adjusted operating profit margin increased to 22.1% (2015: 22.0%) driven by higher margin sales in Argentina, savings from the closure of the small manufacturing site in Colorado, USA in 2015, prudent control of overheads and positive pricing strategies. The pre-operating loss on the Hiter acquisition diluted the margin by 60 bps.

Strategy update

Good progress has been made in implementing our strategy across the Americas, with a focus on the Food & Beverage, Pharmaceutical and Chemical industries countering the worst effects of the Oil & Gas slowdown. Of particular note has been growth in the Food & Beverage industry where our re-structured sales teams have developed deeper relationships with major global food manufacturers to deliver good growth.

We have significantly invested in developing the sector-specific and applications knowledge of our sales and service engineers during 2016, and have continued the process of reorganising our sales force, where appropriate, by industry. This better enables our sales engineers to deliver value to customers by identifying improvement projects, with the additional benefit of bringing new technology to many of those solutions.

Our manufacturing operations have made good progress in planning, sourcing and health & safety, while driving significant improvements in our delivery performance of both components and fabricated systems.

Outlook

In North America, economies remain generally weak with some uncertainty arising from the outcome of the US Presidential election and Canada still suffering from a slow Oil & Gas business. Industrial production is forecast to grow in 2017, albeit at the relatively low rate of slightly above 1%, following a shrinkage of almost 1% in 2016. Oil & Gas spending is unlikely to restart in 2017, though existing facilities should still generate good levels of maintenance business across the Americas.

In Latin America, Brazil's decline over the past three years is expected to bottom-out in 2017, with slight signs of confidence returning to the economy, although political uncertainty remains a threat to an economic turnaround in the short term. Argentina's austerity measures are expected to stabilise the economy in 2017. Within Latin America as a whole, a further reduction in industrial production, of less than 1%, is forecast for 2017, a significantly lower reduction than in the past two years. While the short-term economic outcome remains uncertain, we are well-positioned to continue benefiting from our self-generated growth initiatives.

Watson-Marlow Fluid Technology Group (WMFTG)

	2015	Exchange	Organic	Acquisitions	2016	Organic	Reported
Revenue	£152.6m	£14.1m	£16.6m	£10.6m	£193.9m	+10%	+27%
Adjusted operating profit	£48.0m	£5.7m	£8.6m	£2.0m	£64.3m	+16%	+34%
Adjusted operating margin	31.4%				33.1%	+180 bps	+170 bps

Market Overview

General economic conditions and industrial production growth rates mirror the Steam Specialties business across the various territories in which our Watson-Marlow niche pumps and associated fluid path technologies business operates. However Watson-Marlow continues to benefit from exposure to faster growing market segments, as well as its initiatives to expand its addressable market by displacing other pumping technologies. We saw good growth across all regions, with Asia Pacific having a particularly strong year, and delivered growth across almost all industries. Our largest market, Pharmaceutical & Biotechnology, which accounts for over 40% of Watson-Marlow's sales was buoyant, with BioPure, Asepco and Flexicon all growing well. Food & Beverage was more challenging, but showed recovery in the fourth quarter following the launch of the new Certa™ pump range, designed specifically for that industry. Overall, large project orders increased, with a number of orders from Biopharmaceutical customers, in particular, contributing to this growth.

Progress in 2016

Sales increased by an outstanding 10% on an organic basis to a reported £193.9 million, boosted by an excellent fourth quarter. Acquisitions made in 2015 have performed well and together with Aflex, acquired in November 2016, contributed a further £10.6 million to sales. We received a significant exchange benefit of £14.1 million which resulted in sales increasing by 27% on a reported basis.

On an organic basis, sales growth was achieved in all geographic regions. Asia Pacific enjoyed an outstanding year, benefiting from our strategy of geographical expansion. Europe also performed strongly given market uncertainties, with organic sales growth of 9%, led by Germany, France, Belgium and Russia. In the Americas, all operations reported an increase in sales on an organic basis. North America, our most mature market, was solid with the USA up 3% while Latin America continued to rebound with Mexico and Brazil seeing double-digit organic sales growth and Argentina benefiting from the impact of the Argentine peso devaluation.

Asepco, acquired in April 2015, had a very strong year and has exceeded our sales and profit expectations while FlowSmart, acquired in November 2015, had sales in line with, and operating profit above, expectations.

New product development continues to be a priority, with 2016 launches including the Watson-Marlow 530 and 630 pumps, Qdos 120 pump and MasoSine Certa™ 250, 300 and 400 pumps. The 2017 pipeline for new products releases remains strong.

On 30th November 2016 we acquired Aflex Hose Limited and its subsidiary Aflex Hose USA LLC (Aflex) for £61.4 million. Aflex specialises in the design and manufacture of PTFE-lined flexible hoses for the Pharmaceutical, Food, Chemical and Automotive industries. Aflex is a natural extension to the WMFTG fluid path product portfolio and further strengthens WMFTG's already strong global presence in the Biotechnology, Pharmaceutical, Industrial, Chemical and Food &

Beverage sectors. Aflex's premium PTFE-lined hoses complement our FlowSmart silicone hoses and WMFTG's other fluid path products, as part of our strategy to provide a complete value-added hose and tubing range. Its initial performance reinforces our confidence that it is an excellent fit for the Watson-Marlow group.

Watson-Marlow's operating profit of £64.3 million was an excellent performance, up 16% on an organic basis and 34% on a reported basis. The operating profit margin increased 180 bps on an organic basis benefiting from gains on transaction and operational gearing. The reported margin of 33.1% grew 10 bps less than the organic measure as the dilutionary effect of acquisitions fully offset the margin benefit due to exchange.

Strategy Update

We have consistently executed our strategy, which focuses on market, product and direct sales force development, and geographic expansion, supported by our Global Excellence in Manufacturing programme and related acquisitions, to expand our addressable market. During 2016 we established new sales companies in Ireland and Canada, to take advantage of the opportunities that these markets present, and established sales offices in Indonesia, Thailand and Vietnam in preparation for commencing direct sales in 2017. We continue to strengthen our market sectorisation approach and to invest in the professional development of our employees. New product development is a key driver of sales growth and we develop innovative products that grow the addressable market of our niche pumps and associated fluid path technologies and expand our addressable market. Through the strategic acquisition of Aflex, we extended our product portfolio and our position in a number of important markets.

We have invested extensively in a new ERP system and the successful implementation of this project is now almost complete with the vast majority of our business now being transacted through the new system.

Outlook

Our market conditions are shaped by levels of investment in our core focus sectors, as well as industrial production growth rates and general macroeconomic conditions in the countries in which we operate. Our largest market, Pharmaceutical & Biotechnology, is expected to remain resilient, although political rhetoric surrounding drug prices in the USA may dampen capital investment in this important market. We are able to self-generate opportunities for growth as we demonstrate the benefits of peristaltic pumping technology and develop new applications for our pumps, gaining market share from other pump types; and expand our addressable market through product development and geographical expansion. In 2017, we will continue to invest in new product development and expand our routes to market in order to maintain above market organic sales growth. Our expectation of mid-to-high single-digit organic growth remains unchanged.

Financial Review

The Group reports under International Financial Reporting Standards (IFRS) and also uses adjusted and organic figures where the Board believe that they help to effectively monitor the performance of the Group and help users of the Financial Statements to draw comparisons with our peers. Unless otherwise stated, adjusted figures are used throughout this section and exclude the amortisation and impairment of acquisition-related intangible assets and costs associated with acquisitions. A reconciliation of adjusted operating profit to statutory operating profit is given below and more detail can be found in Note 2 to the Financial Statements. As we are a multi-national Group of companies, who trade in a large number of foreign currencies and regularly acquire and sometimes dispose of companies, we also refer to organic performance measures. These strip out the effects of the movement of foreign currency exchange rates and of acquisitions and disposals. The Board believe that this allows users of the Financial Statements to gain a further understanding of how the Group has performed.

	Adjusted operating profit 2016 £m	**Adjusted operating margin 2016£m**	Adjusted operating profit 2015£m	Adjusted operating margin 2015£m
Europe, Middle East and Africa	50.0	21.3%	42.7	19.5%
Asia Pacific	49.9	25.8%	44.7	26.0%
Americas	29.2	21.5%	27.1	22.0%
Steam Specialties business	**129.1**	**22.9%**	**114.5**	**22.3%**
Watson-Marlow	64.3	33.1%	47.9	31.4%
Corporate expenses	(12.8)		(10.0)	
Adjusted operating profit	**180.6**	**23.8%**	**152.4**	**22.8%**
Amortisation of acquisition-related intangible assets	(6.0)		(4.7)	
Acquisition and disposal costs	(0.5)		(0.8)	
Loss on closure of USA metering unit			(3.8)	
Profit on disposal, less recycled exchange losses			(0.3)	
Statutory operating profit	**174.1**		**142.8**	

A good financial result was achieved in 2016 against the background of effectively zero industrial production growth. Sales at reported exchange rates grew 14% to £757.4 million (2015: £667.2 million). Organic sales grew by 4% overall. Watson-Marlow had another excellent year with 10% organic growth, spread across the business but with a particularly good performance in Asia Pacific. Organic sales grew by over 2% in the Steam Specialties business, with a 1% advance in EMEA, 3% gain in Asia Pacific helped by two large project sales in the first half, and 5% growth in the Americas boosted by currency devaluation in Argentina which led to significant price increases. The net effect of the three small acquisitions in Watson-Marlow and one disposal in the Steam Specialties business in 2015 combined with the acquisitions of Hiter and Aflex in 2016 added 1% to sales.

The weakening of sterling following the UK referendum to leave the EU had a dramatic effect on revenue in the second half of the year giving a gain of 8% for the full year. The only major trading currency of ours that sterling strengthened against was the Argentine peso (+40%). Due to the sterling devaluation happening mid-year in 2016 it is likely to also have an effect on revenue in 2017. If recent exchange rates prevail for the whole of 2017 we would expect to see a 6% exchange gain to sales on translation versus 2016.

Adjusted operating profit of £180.6 million (2015: £152.4 million) was 18% ahead at reported exchange rates and 8% ahead on an organic basis (constant currency, excluding acquisitions and disposals). On the same basis the Steam Specialties business saw profits increase by 6% with 10% growth in EMEA, 9% in the Americas but only 1% in Asia Pacific. On the back of good sales growth, Watson-Marlow's profits grew 16% on an organic basis.

Currency movements boosted operating profit by 9%, a mixture of translational and transactional gains. The net transactional gain of £3.3 million was impacted by adverse currency hedges which were entered into prior to the post-Brexit referendum devaluation. The main transactional exposure flow affecting the Group is the export of products from our factories in the UK invoiced in sterling, less the import of goods from overseas Group factories and third parties priced predominately in euros and US dollars. The net exposure is in the range £60-65 million. If recent exchange rates prevail for the whole of 2017 we would expect to see a 9% uplift to profit, as a result of transactional and translation foreign exchange movements.

Adjusted operating profit margins in the Steam Specialties business grew 70 bps to 22.9% and in Watson-Marlow by 170 bps to an exceptional 33.1%.

The statutory operating profit was £174.1 million (2015: £142.8 million).

Interest
Net interest rose from £1.5 million to £2.6 million. Net bank interest decreased from a credit of £0.8 million in 2015 to a neutral position in 2016 reflecting the lower average cash balances held by the Group as a result of the £91 million special dividend paid in 2015 and the £67 million spent on acquisitions in 2016. Net finance costs under IAS19 in respect of the Group's defined benefit pension schemes increased slightly to £2.6 million (2015: £2.3 million).

Associates
Following the disposal of the Group's interest in Spirax Marshall, India in March 2015, the Group has only one Associate holding, a 38.9% interest in Econotherm heat pipe technology business. Econotherm's performance in 2016 was similar to 2015, with our share, net of tax, amounting to a loss of £0.1 million (2015: £0.1 million loss)

Pre-tax profit
The adjusted profit before tax of £177.9 million (2015: £151.1 million) was 18% ahead at reported exchange rates. As outlined earlier, currency movements were favourable in the year. At constant currency, adjusted profit before tax increased by 8%.

The statutory profit before tax was £171.4 million (2015: £139.7 million) and includes the non-operating items listed below that have been excluded from the adjusted profit:

- a charge of £6.0 million (2015: £4.7 million) for the amortisation of acquisition-related intangible assets; and
- acquisition and disposal costs of £0.5 million (2015: £0.8 million).

Taxation
The tax charge on the adjusted profit before tax, excluding the results of the Associate (which is presented on an after-tax basis), fell to 29.1% (2015: 29.8%) primarily as a result of lower withholding tax payments in China. The Group's overall tax rate essentially reflects the blended average of the tax rates in over 40 tax jurisdictions around the world in which our operations trade and generate profit. The Group comprises over 80, mainly small, operating units reflecting our local direct sales business model. We would anticipate a broadly similar tax rate in 2017.

Earnings per share
Adjusted basic earnings per share increased by 20% to 171.5 pence (2015: 142.6 pence). The 2016 earnings per share benefited marginally from a reduction in the number of shares in issue from 15th June 2015, following the share consolidation of 28 existing Ordinary shares into 27 new Ordinary shares, in conjunction with the 120.0 pence per share special dividend paid in July 2015. Statutory earnings per share was 165.0 pence (2015: 129.9 pence). The fully diluted earnings per share was not materially different in either year.

Dividends
We have a progressive dividend policy where dividend payments follow underlying earnings per share growth while maintaining prudent levels of dividend cover. The aim is to provide

sustainable, affordable dividend growth, building on our 49 year record of dividend growth, with a compound annual increase of 10.9% over that period; in line with the 11.2% per annum increase over the last 10 years. The Board is proposing a final dividend of 53.5 pence per share for 2016 (2015: 48.2 pence) payable on 26th May 2017 to shareholders on the register at 28th April 2017. Together with the interim dividend of 22.5 pence per share (2015: 20.8 pence), total Ordinary dividends are therefore 76.0 pence per share, which is an increase of 10.1% on Ordinary dividends of 69.0 pence in 2015.

The total amount paid in dividends during the year was £51.9 million. This compares with £140.3 million, including the special dividend £91.0 million, paid in 2015.

Acquisitions and disposals

Acquisitions are an important complement to our strategy for growth. Dedicated resource is focused on identifying opportunities to add attractive businesses that closely match our strategic, industrial and commercial requirements. We have a strong Balance Sheet and considerable debt capacity, giving us significant flexibility. In 2016 we made two acquisitions at a total cost of £67 million. Both fulfil one or more of our three broad acquisition criteria:

- geographic expansion, typically through the acquisition of a distributor in a developing market;
- products that can be integrated into our existing businesses; and
- related acquisitions that fit alongside our existing Steam Specialties and Watson-Marlow businesses.

On 9th August 2016 we announced the acquisition of the assets of the Brazilian process control valve manufacturer, Hiter Indústria e Comércio de Controles Termo-Hidráulicos Ltda (Hiter) for consideration of £3.9 million. Hiter is highly synergistic with Spirax Sarco's successful Brazilian steam and process fluid applications business. Following the acquisition, Spirax became the only significant manufacturer of both control and safety valves in Brazil.

We acquired Aflex Hose Limited and its subsidiary Aflex Hose USA LLC (Aflex) on 30th November 2016 for £61.4 million plus taxes and working capital adjustments. This business joined the Watson-Marlow Fluid Technology Group. Aflex specialises in the design and manufacture of PTFE-lined flexible hoses for the Pharmaceutical, Food, Chemical and Automotive industries. It is highly synergistic with, and a natural extension to, the Watson-Marlow fluid path product portfolio.

The three acquisitions that Watson-Marlow made in 2015, Asepco, Masosine (Japan) and FlowSmart, have all been integrated successfully into the business and are performing in-line with or ahead of expectations.

Research and development

The development of innovative new products, and getting those products to market faster and sold more effectively, is an important element of our strategy for growth.

Our Steam Specialties business continued its focus on sector specific innovation, with over a third of our development projects now being sector specific. For the Oil & Gas sector, we launched STAPS ISA100, a wireless steam trap monitoring solution and a new float trap to expand our offer in higher pressure steam systems. We also released a ready to install, compact clean steam generator for the Food & Beverage sector.

In our Watson-Marlow niche peristaltic pump and associated fluid path technologies business, the drive is for truly innovative products that target attractive market opportunities and expand our addressable market by taking market share from other positive displacement pump types. We have concentrated, through 2016, on making MasoSine sinusoidal pumps a first choice in the Food & Beverage market and developing both pumps and fluid path components for 2017 launch, to further strengthen our position in the Pharmaceutical & Biotechnology market.

Overall the Group's total investment in research and development was £10.6 million (2015: £9.9 million).

Capital employed

Capital employed	**2016** **£m**	2015 £m
Property, plant and equipment	201.8	169.9
Inventories	112.5	92.5
Trade receivables	185.5	152.1
Prepayments and other current assets/(liabilities)	(89.8)	(70.0)
Capital employed	**410.0**	**344.5**
Intangibles and investment in Associate	169.7	109.0
Post-retirement benefits	(94.2)	(73.7)
Deferred tax	15.0	15.3
Non-current provisions and long-term payables	(3.5)	(1.6)
Net cash	27.4	4.8
Net assets	**524.4**	**398.3**
Adjusted operating profit	**180.6**	**152.4**
Average capital employed	**377.3**	**345.4**
Return on capital employed	**47.9%**	**44.1%**

Total capital employed has increased 19% at reported exchange rates but was flat if the effects of currency and acquisitions are excluded. This compares with organic sales growth of 4%.

Tangible fixed assets increased by £32 million to £201.8 million. Of this increase, £16 million was due to changes in exchange rates, and £9 million came from acquisitions giving organic growth of £7 million, just under 4%. Significant capital expenditure projects included the completion of the new plant in Chennai, India and the extension of our plant in Shanghai, China, where work commenced late in 2015 and is scheduled for completion in early 2017, and the opening of the first sector-focused manufacturing unit dedicated to clean steam products, in the UK. Watson-Marlow continued with the implementation of a global ERP solution and the vast majority of their business is now transacted through the new system. We generate significant cash flow and our first priority is to reinvest in the business, taking opportunities to generate good returns from increased efficiency, reduced costs and flexibility.

Total working capital increased by just under £34 million, all of which is down to currency effects and acquisitions. Trade receivables grew 4% on an organic basis in line with a 4% organic growth in sales while inventory levels remained flat, a reflection on the focus that we have on maintaining efficient levels of inventory around the world to help better service our customers while effectively managing our resources.

The ratio of working capital to sales increased to 27.5% (2015: 26.2%) purely due to foreign exchange effects and acquisitions. On a constant currency basis, excluding acquisitions, working capital as a percentage of sales fell 140 bps.

Return on capital employed (ROCE)

This is an important key performance indicator and forms a meaningful element of Executive Directors' annual bonuses. ROCE measures effective management of fixed assets and working capital relative to the profitability of the business. ROCE increased to 47.9% (2015: 44.1%), an increase of 380 bps due to our close control of the various components of capital employed and improvement in the operating profit margin.

Post-retirement benefits

The net post-retirement benefit liability under IAS19 rose to £94.2 million (2015: £73.7 million) primarily as a result of the increase in liabilities due to the reduction in the AA corporate bond rates used to discount future cash flows. In total, liabilities rose by £101 million (24%) which could not be fully compensated by the £80 million rise in assets (23%).

The main UK schemes, which constitute 88% of assets, were closed to new members in 2001 but have remained open to future service accrual. These schemes continue to be managed under a dynamic de-risking strategy whereby asset and liability values are monitored on a daily basis by the asset manager and appropriate asset allocation decisions taken as the funding level improves against pre-agreed trigger points. Due to the fall in the discount rate the cost of future accrual is expected to increase by £2.5 million in 2017.

The last actuarial valuation of the UK schemes, as at the 31st December 2013, was completed in September 2014 and showed those schemes to be broadly in balance. As a consequence, deficit reduction cash contributions by the Company ceased with effect from October 2014. The next actuarial valuation will be as at the 31st December 2016 and as a result of higher liabilities it is anticipated that deficit reduction cash contributions will recommence in 2017.

Cash flow and treasury

Cash generation in 2016 was very strong, driven by conversion of operating profit into cash, whilst continuing to invest in capital expenditure projects that generate good returns from improvements in efficiency and cost reduction, and in support of sales growth.

Adjusted cash flow	**2016** **£m**	2015 £m
Operating profit	180.6	152.4
Depreciation and amortisation	25.6	22.2
Cash payments to the pension schemes less than the charge to operating profit	1.6	1.2
Equity settled share plans	1.9	3.3
Working capital changes	4.3	(2.7)
Net capital expenditure (including capitalised R&D)	(31.3)	(30.9)
Cash from operations	**182.7**	**145.5**
Net interest		0.8
Tax paid	(56.5)	(43.3)
Free cash flow	**126.2**	**103.0**
Net dividends paid	(52.1)	(140.5)
Provisions	2.3	0.7
Proceeds from issue of shares / purchase of employee benefit trust shares	1.3	4.7
Acquisitions and disposals	(66.5)	(10.2)
Adjustments	(0.5)	(2.1)
Cash flow for the year	**10.7**	**(44.4)**
Exchange movements	11.9	(3.3)

Opening net cash	4.8	52.5
Net cash at 31st December	**27.4**	**4.8**

Cash from operations increased to £182.7 million (2015: £145.5 million) representing 101% cash conversion. This improvement reflects a £4.3 million inflow of working capital versus an outflow of £2.7 million in 2015, in part due to sales being more evenly spread over the year and a continuing focus on inventory efficiency.

Capital expenditure was £31.3 million (2015: £30.9 million) and we would expect capital expenditure in the current year to increase as we continue to invest in the Group. In particular we are considering new facilities in Australia, a new distribution centre for Southeast Asia, a consolidation of distribution in the UK and an accelerated equipment upgrade programme for some of our manufacturing facilities to continue the efficiency gains seen in 2016.

Tax paid in the year was £56.5 million (2015: £43.3 million) reflecting the higher level of profit and payments made on account in the USA. Excluding these, tax paid was broadly in line with the tax charge in the profit & loss account and included tax paid in virtually every one of the 44 countries in which the Group has operating units. Free cash flow rose to £126.2 million (2015: £103.0 million), providing funds for dividends to shareholders and acquisitions.

Dividend payments were £52.1 million, including payments to minorities, (2015: £140.5 million) and represent the final dividend for 2015 and the interim dividend for 2016. The prior year comparative also includes the special dividend of £91.0 million paid in July 2015.

There was a net cash outflow of £66.5 million for acquisitions in the year compared with a net figure for the prior year of £10.2 million, comprising a cash cost of £23.6 million for acquisitions, net of an inflow of £13.3 million in respect of disposals. Shares issued under the Group's various employee share schemes gave a cash inflow of £1.3 million (2015: £4.7 million).

Net cash in the year increased by £22.6 million aided by exchange movements of £11.9 million, resulting in a net cash balance of £27.4 million at 31st December 2016.

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

Capital structure

The Board keeps the capital requirements of the Group under regular review, maintaining a strong Balance Sheet to protect the business and provide flexibility of funding for growth. The Group earns a high return on capital, which is reflected in strong cash generation over time. Our first priority is to maximise investment in the business to generate further good returns in the future, aligned with our strategy for growth and targeting improvement in our key performance indicators. We also prioritise finding suitable acquisitions that can expand our addressable market through increasing our geographic reach, deepening our market penetration and broadening our product range. Acquisition targets need to exhibit good strategic fit and meet strict commercial, economic and return on investment criteria. Where cash resources significantly exceed expected future requirements, we will seek to return capital to shareholders, as evidenced by the cash return of £91.0 million via the special dividend of 120.0 pence per share that was paid in July 2015.

Spirax-Sarco Engineering plc

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31ST DECEMBER 2016

	Note	2016 £m	2015 £m
ASSETS			
Non-current assets			
Property, plant and equipment		201.8	169.9
Goodwill		88.5	54.1
Other intangible assets		81.2	54.8
Prepayments		5.9	5.5
Investment in Associate			0.1
Deferred tax assets		36.5	33.0
		413.9	317.4
Current assets			
Inventories		112.5	92.5
Trade receivables		185.5	152.1
Other current assets		21.7	20.4
Taxation recoverable		11.2	9.5
Cash and cash equivalents	8	119.2	99.8
		450.1	374.3
Total assets		864.0	691.7
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables		107.8	84.3
Provisions		2.2	
Bank overdrafts	8	0.4	3.9
Short-term borrowing	8	33.0	10.1
Current portion of long-term borrowings	8	0.2	0.3
Current tax payable		18.6	21.1
		162.2	119.7
Net current assets		287.9	254.6
Non-current liabilities			
Long-term borrowings	8	58.2	80.7
Deferred tax liabilities		21.5	17.7
Post-retirement benefits		94.2	73.7
Provisions		2.0	1.2
Long-term payables		1.5	0.4
		177.4	173.7
Total liabilities		339.6	293.4
Net assets	3	524.4	398.3
Equity			
Share capital		19.8	19.7
Share premium account		72.7	69.7
Other reserves		44.6	(18.7)
Retained earnings		386.3	326.8
Equity shareholders' funds		523.4	397.5
Non-controlling interest		1.0	0.8

Total equity	524.4	398.3
Total equity and liabilities	864.0	691.7

Spirax-Sarco Engineering plc

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2016

	Note	Adjusted 2016 £m	Adj't 2016 £m	Total 2016 £m	Adjusted 2015 £m	Adj't 2015 £m	Total 2015 £m
Revenue	2/3	757.4	-	757.4	667.2	-	667.2
Operating costs		(576.8)	(6.5)	(583.3)	(514.8)	(9.6)	(524.4)
Operating profit	2/3	180.6	(6.5)	174.1	152.4	(9.6)	142.8
Financial expenses		(4.0)	-	(4.0)	(3.6)		(3.6)
Financial income		1.4	-	1.4	2.1		2.1
Net financing expense	4	(2.6)	-	(2.6)	(1.5)		(1.5)
Share of profit of Associates		(0.1)	-	(0.1)	0.2	(1.8)	(1.6)
Profit before taxation		177.9	(6.5)	171.4	151.1	(11.4)	139.7
Taxation	5	(51.8)	1.7	(50.1)	(45.0)	2.0	(43.0)
Profit for the period		126.1	(4.8)	121.3	106.1	(9.4)	96.7
Attributable to:							
Equity shareholders	2	125.9	(4.8)	121.1	105.9	(9.4)	96.5
Non-controlling interest		0.2	-	0.2	0.2	-	0.2
Profit for the period		126.1	(4.8)	121.3	106.1	(9.4)	96.7
Earnings per share	2/6						
Basic earnings per share		171.5p		165.0p	142.6p		129.9p
Diluted earnings per share		171.0p		164.5p	141.9p		129.4p
Dividends	7						
Dividends per share				76.0p			69.0p
Dividends paid during the year (per share)				70.7p			185.8p

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

Spirax-Sarco Engineering plc

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST DECEMBER 2016

	2016 £m	2015 £m
Profit for the year	121.3	96.7
Items that will not be reclassified to profit or loss:		
Remeasurement (loss)/gain on post-retirement benefits	(10.0)	5.7
Deferred tax on remeasurement loss/(gain) on post-retirement benefits	1.9	(0.6)
	(8.1)	5.1
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange translation differences	61.6	(14.1)
Non-controlling interest foreign exchange translation differences	0.2	-
Gain on cash flow hedges net of tax	0.4	-
	62.2	(14.1)
Total comprehensive income for the year	**175.4**	**87.7**

Attributable to:		
Equity shareholders	175.0	87.5
Non-controlling interest	0.4	0.2
Total comprehensive income for the year	175.4	87.7

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

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

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2015

	Share Capital £m	Share premium account £m	Other reserves £m	Retained Earnings £m	Equity shareholders' funds £m	Non-controlling interest £m	Total Equity £m
Balance at 1st January 2015	19.6	65.1	(6.5)	362.8	441.0	0.9	441.9
Profit for the year	-	-	-	96.6	96.6	0.1	96.7
Other comprehensive (expense)/income							
Foreign exchange translation differences	-	-	(14.1)	-	(14.1)	-	(14.1)

Remeasurement profit on post-retirement benefits	-	-	-	5.7	5.7	-	5.7
Deferred tax on remeasurement profit on post-retirement benefits	-	-	-	(0.6)	(0.6)	-	(0.6)
Total other comprehensive (expense)/income for the year	-	-	(14.1)	5.1	(9.0)	-	(9.0)
Total comprehensive (expense)/income for the year	-	-	(14.1)	101.7	87.6	0.1	87.7
Contributions by and distributions to owners of the Company							
Dividends paid	-	-	-	(140.3)	(140.3)	(0.2)	(140.5)
Equity settled share plans net of tax	-	-	-	2.6	2.6	-	2.6
Issue of share capital	0.1	4.6	-	-	4.7	-	4.7
Employee Benefit Trust shares	-	-	1.9	-	1.9	-	1.9
Balance at 31st December 2015	19.7	69.7	(18.7)	326.8	397.5	0.8	398.3

Spirax-Sarco Engineering plc

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST DECEMBER 2016

	Note	2016 £m	2015* £m
Cash flows from operating activities			
Profit before taxation		171.4	139.7
Depreciation, amortisation and impairment		33.1	29.3
Profit on disposal of fixed assets		(1.5)	(0.5)
Contribution from Associates		0.1	2.0
Cash payments to the pension schemes less than the charge to operating profit		1.6	1.2
Equity settled share plans		1.9	3.3
Net finance expense		2.6	1.5
Operating cash flow before changes in working capital and provisions		209.2	176.5
Change in trade and other receivables		(4.7)	(1.9)
Change in inventories		0.3	3.5
Change in provisions		2.3	0.7
Change in trade and other payables		8.7	(3.8)
Cash generated from operations		215.8	175.0
Interest paid		(1.4)	(1.3)
Income taxes paid		(56.5)	(43.4)
Net cash from operating activities	2	157.9	130.3
Cash flows from investing activities			
Purchase of property, plant and equipment		(28.1)	(26.0)
Proceeds from sale of property, plant and equipment		3.3	2.4
Sale of businesses		-	13.3
Purchase of software and other intangibles		(3.5)	(4.8)
Development expenditure capitalised		(3.0)	(2.4)
Acquisition of businesses		(66.5)	(23.6)
Bank deposits		-	24.3
Interest received		1.4	2.1
Net cash used in investing activities		(96.4)	(14.7)
Cash flows from financing activities			
Proceeds from issue of share capital		3.0	4.7
Employee Benefit Trust share purchase		(1.7)	-
Repaid borrowings		(20.4)	(79.4)

New borrowings		18.7	81.3
Change in finance lease liabilities	8	(0.1)	(0.4)
Dividends paid (including minorities)	7	(52.1)	(140.5)
Net cash used in financing activities		(52.6)	(134.3)
Net change in cash and cash equivalents	8	8.9	(18.7)
Net cash and cash equivalents at beginning of period		95.9	117.5
Exchange movement		14.0	(2.9)
Net cash and cash equivalents at end of period	8	118.8	95.9
Borrowings and finance leases		(91.4)	(91.1)
Net cash at end of period	8	27.4	4.8

*2015 recategorised to be consistent with 2016. A cash inflow of £1.2m in 2015 has been recatergorised from 'change in trade and other payables' to 'cash payments to the pension schemes less than the charge to operating profit'.

1. NOTES TO THE ACCOUNTS

This announcement is based on the Company's Financial Statements, which are prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union (EU) and therefore comply with Article 4 of the EU IAS legislation and with those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS.
With the exception of the new standards adopted in the year, as discussed below, there have been no significant changes in accounting policies from those set out in the Spirax-Sarco Engineering plc 2015 Annual Report. The accounting policies have been applied consistently throughout the years ended 31 December 2015 and 31 December 2016.

In the current year the group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB). Their adoption has not had a material impact on the disclosures or on the amounts reported in these financial statements. The following amendments were applied:

- IAS 1 Presentation of Financial Statements - Disclosure initiative;
- IAS 16 Property Plant and Equipment, and IAS 38 Intangibles assets in relation to acceptable methods of depreciation and amortisation; and
- Annual improvements to IFRSs 2012-2014 Cycle including the amendments to IAS 19 which clarify the rate to be used to discount post-employment benefit obligations.

Having made appropriate enquiries, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that therefore it is appropriate to adopt the going concern basis in preparing the Annual Report.

The Group has processes in place to identify, evaluate and mitigate the principal risks that could have an impact on the Group's performance. The principal risks together with a description of why they are relevant are set out below. Details of how they link with the Group's strategy and how mitigation is managed are included in the Group's 2015 Annual Report on page 33 and they will be disclosed in the 2016 Annual Report on pages 30-31.

- ***Economic and political instability***

  Economic and political instability creates risks for our locally based direct operations, including the impact of regime changes.
- ***Significant exchange rate movements***

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

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

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

- ***Defined benefit pension deficit***

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

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

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

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

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

- ***Solution specification failure***

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

The 2016 Financial Statements were approved by the Board of Directors and authorised for issue on 8th March 2017.

2. ALTERNATIVE PERFORMANCE MEASURES

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

Adjusted operating profit

Adjusted operating profit excludes the amortisation and impairment of acquisition-related intangible assets and costs associated with acquisitions. A reconciliation between operating profit as reported under IFRS and adjusted operating profit is given below.

	2016 £m	2015 £m
Operating profit as reported under IFRS	**174.1**	**142.8**
Amortisation of acquisition-related intangible assets	6.0	4.7
Acquisition and disposal costs	0.5	0.8
Loss on closure of USA metering unit	-	3.8
Profit on disposal, less recycled exchange losses	-	0.3
Adjusted operating profit	**180.6**	**152.4**

Adjusted earnings per share

	2016	2015
Profit for the period attributable to equity holders as reported under IFRS (£m)	**121.1**	**96.5**

Non-operational items excluded from adjusted operating profit disclosed above (£m)	6.5	9.6
Non-operational items excluded from share of profit from Associates (see Note 3) (£m)	-	1.8
Tax effects on non-operational items (£m)	(1.7)	(2.0)
Adjusted profit for the period attributable to equity holders (£m)	**125.9**	**105.9**
Weighted average shares in issue (million)	73.4	74.3
Basic adjusted earnings per share	171.5p	142.6p
Diluted weighted average shares in issue (million)	73.6	74.6
Diluted adjusted earnings per share	171.0p	141.9p

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

Adjusted cash flow

Adjusted net cash from operating activities excludes costs associated with acquisitions and disposals, capital expenditure, profit on disposal of fixed assets, movement in provisions and tax paid. A reconciliation of net cash from operating activities reported under IFRS to adjusted net cash from operating activities is given below.

	2016 £m	2015 £m
Net cash from operating activities as reported under IFRS	**157.9**	**130.3**
Acquisition and disposal costs	0.5	3.9
Capital expenditure excluding acquired intangibles from acquisitions	(32.8)	(33.2)
Profit on disposal of fixed assets	1.5	0.5
Movement in provisions	(2.3)	(0.7)
Tax paid	56.5	43.3
Interest paid	1.4	1.3
Other	-	0.1
Adjusted net cash from operating activities	**182.7**	**145.5**

Cash conversion in 2016 is 101% (2015: 95%). Cash conversion is calculated as adjusted net cash from operating activities divided by adjusted operating profit. The adjusted cash flow is included in the Financial Review on page 20.

Return on capital employed (ROCE)

This is an important key performance indicator and forms a meaningful element of Executive Directors' annual bonuses but is a non-statutory measure. ROCE measures effective management of fixed assets and working capital relative to the profitability of the business. ROCE is calculated as adjusted operating profit divided by average capital employed. Average capital employed is based on capital employed at 31st December 2016 and 31st December 2015 at reported exchange rates. More information on ROCE can be found in the Capital Employed and ROCE sections of the Financial Review on page 19.

An analysis of the components is as follows:

Capital Employed	2016 £m	2015 £m
Property, plant and equipment	201.8	169.9
Prepayments	5.9	5.5
Inventories	112.5	92.5
Trade receivables	185.5	152.1
Other current assets	21.7	20.4
Tax recoverable	11.2	9.5
Trade, other payables and current provisions	(110.0)	(84.3)

Current tax payable	(18.6)	(21.1)
Capital employed	410.0	344.5
Average capital employed	377.3	345.4
Operating profit	174.1	142.8
Adjustments (see adjusted operating profit above)	6.5	9.6
Adjusted operating profit	**180.6**	**152.4**
Return on capital employed	**47.9%**	**44.1%**

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

	2016 £m	**2015 £m**
Capital employed	**410.0**	**344.5**
Intangibles and investment in Associate	169.7	109.0
Post-retirement benefits	(94.2)	(73.7)
Deferred tax	15.0	15.3
Non-current provisions and long-term payables	(3.5)	(1.6)
Net cash	27.4	4.8
Net assets as reported under IFRS	**524.4**	**398.3**

Organic measures

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

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

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

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

	2015	**Exchange**	**Organic**	**Acquisitions & Disposals**	**2016**	**Organic**	**Reported**
Revenue	£667.2m	£52.6m	£30.3m	£7.3m	£757.4m	+4%	+14%
Adjusted operating profit	£152.4m	£14.5m	£13.2m	£0.5m	£180.6m	+8%	+18%
Adjusted operating margin	22.8%				23.8%	+80 bps	+100 bps

The reconciliation for each segment is included in the Group Chief Executive's Report.

3. SEGMENTAL REPORTING

Analysis by location of operation

2016

	Gross Revenue	**Inter-Segment**	**Revenue**	**Total Operating**	**Adjusted Operating**	**Adjusted Operating**

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

2015

	Gross Revenue	Inter-Segment revenue	Revenue	Total Operating Profit	Adjusted Operating Profit	Adjusted Operating Margin
	£m	£m	£m	£m	£m	%
Europe, Middle East & Africa	253.7	34.3	219.4	41.4	42.7	19.5%
Asia Pacific	176.3	4.5	171.8	44.2	44.7	26.0%
Americas	128.9	5.5	123.4	21.6	27.1	22.0%
Steam Specialties business	558.9	44.3	514.6	107.2	114.5	22.3%
Watson-Marlow	152.6	-	152.6	45.6	47.9	31.4%
Corporate Expenses				(10.0)	(10.0)	
	711.5	44.3	667.2	142.8	152.4	22.8%
Intra Group	(44.3)	(44.3)				
Total	667.2	-	667.2	142.8	152.4	22.8%
Net finance expense				(1.5)	(1.5)	
Share of profit of Associates				(1.6)	0.2	
Profit before tax				139.7	151.1	

Net revenue generated by Group companies based in the USA is £146.3m (2015: £125.3m), in China is £90.6m (2015: £78.6m) in the UK is £70.4m (2015: £66.5m), and the rest of the world is £450.1m (2015: £396.8m)

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

2016

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

2015

	Amortisation of acquisition-related intangible assets £m	Loss on closure of USA metering unit £m	Profit on disposal of M&M less recycled exchange losses £m	Acquisition and disposal costs £m	Total £m
Europe, Middle East & Africa	(0.6)	-	(0.3)	(0.4)	(1.3)
Asia Pacific	(0.5)	-	-	-	(0.5)
Americas	(1.7)	(3.8)	-	-	(5.5)
Steam Specialties business	(2.8)	(3.8)	(0.3)	(0.4)	(7.3)
Watson-Marlow	(1.9)	-	-	(0.4)	(2.3)
Total non-operational items	(4.7)	(3.8)	(0.3)	(0.8)	(9.6)

Share of profit of Associates

The share of profit of associates analysed between adjusted income and total (including non-operational items) is as follows:

	2016 Adjusted £m	2016 Total £m	2015 Adjusted £m	2015 Total £m
Europe, Middle East & Africa	(0.1)	(0.1)	(0.1)	(0.3)
Asia Pacific	-	-	0.3	(1.3)
Americas	-	-	-	-
Steam Specialties business	(0.1)	(0.1)	0.2	(1.6)
Watson-Marlow	-	-	-	-
Total share of profit of Associates	(0.1)	(0.1)	0.2	(1.6)

In 2015 adjusted share of profit of Associates excludes amortisation and impairment of acquisition-related intangible assets of £0.2m, recycled exchange losses and a final adjustment to the date of sale to the impairment of tangible assets in respect of Spirax Marshall in India of £1.6m. No non-operational items occurred in 2016.

Net financing income and expense

	2016 £m	2015 £m
Europe, Middle East & Africa	(1.5)	(1.4)
Asia Pacific	0.2	1.1
Americas	(0.7)	(0.2)
Steam Specialties business	(2.0)	(0.5)
Watson-Marlow	-	-
Corporate	(0.6)	(1.0)
Total net financing expense	(2.6)	(1.5)

Net assets

	2016 Assets £m	Liabilities £m	2015 Assets £m	Liabilities £m
Europe, Middle East & Africa	195.3	(106.8)	182.8	(91.2)
Asia Pacific	163.1	(38.5)	140.3	(30.4)
Americas	127.0	(38.6)	102.4	(24.0)

Watson-Marlow	211.7	(23.8)	123.9	(14.0)
	697.1	(207.7)	549.4	(159.6)
Liabilities	(207.7)		(159.6)	
Deferred Tax	15.0		15.3	
Current Tax payable	(7.4)		(11.6)	
Net Cash	27.4		4.8	
Net assets	524.4		398.3	

Non-current assets in the UK were £156.5m (2015: £98.2m)

Capital additions and depreciation and amortisation

	2016 Capital additions £m	**Depreciation and amortisation £m**	**2015 Capital additions £m**	**Depreciation and amortisation* £m**
Europe, Middle East & Africa	11.1	12.4	13.0	11.2
Asia Pacific	12.6	6.9	11.0	5.6
Americas	8.0	5.9	10.4	5.1
Watson-Marlow	38.5	7.9	11.9	7.4
Group total	70.2	33.1	46.3	29.3

Capital additions include property, plant and equipment of £36.9m (2015: £26.3m), of which £9.0m (2015: £0.6m) was from acquisitions in the period, and other intangible assets of £33.3m (2015: £20.0m) of which £26.8m (2015: £12.8m) relates to acquired intangibles from acquisitions in the period. Capital additions split between the UK and rest of the world are UK £41.9m (2015: £11.6m), rest of the world £28.3m (2015: £34.7m).

*Restated, to exclude profit on disposal of fixed assets (£0.5m), to be on a consistent basis as 2016.

4. NET FINANCING INCOME AND EXPENSE

	2016 £m	**2015 £m**
Financial expenses:		
Bank and other borrowing interest payable	(1.4)	(1.3)
Interest on pension scheme liabilities	(2.6)	(2.3)
	(4.0)	(3.6)
Financial income:		
Bank interest receivable	1.4	2.1
Net financing expense	(2.6)	(1.5)
Net pension scheme financial expense	(2.6)	(2.3)
Net bank interest	-	0.8
Net financing expense	(2.6)	(1.5)

5. TAXATION

	2016 £m	2015 £m
Analysis of charge in period		
UK corporation tax:		
Current tax on income for the period	3.2	2.0
Adjustments in respect of prior periods	(0.1)	(0.7)
	3.1	1.3
Double taxation relief	-	(0.4)
	3.1	0.9
Foreign tax:		
Current tax on income for the period	48.6	44.2
Adjustments in respect of prior periods	(0.8)	(0.6)
	47.8	43.6
Total current tax charge	50.9	44.5
Deferred tax - UK	0.8	1.1
Deferred tax - Foreign	(1.6)	(2.6)
Tax on profit on ordinary activities	50.1	43.0

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

6. EARNINGS PER SHARE

	2016	2015
Profit attributable to equity shareholders (£m)	121.1	96.5
Weighted average shares in issue (million)	73.4	74.3
Dilution (million)	0.2	0.3
Diluted weighted average shares in issue (million)	73.6	74.6
Basic earnings per share	165.0p	129.9p
Diluted earnings per share	164.5p	129.4p

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

7. DIVIDENDS

	2016 £m	2015 £m
Amounts paid in the year:		
Final dividend for the year ended 31st December 2015 of 48.2p (2014: 45.0p) per share	35.4	34.1
Special dividend for the year ended 31st December 2015 of nil (2014: 120.0p) per share		91.0
Interim dividend for the year ended 31st December 2016 of 22.5p (2015: 20.8p) per share	16.5	15.2
Total dividends paid	51.9	140.3
Amounts arising in respect of the year:		
Interim dividend for the year ended 31st December 2016 of 22.5p (2014: 20.8p) per share	16.5	15.2
Proposed final dividend for the year ended 31st December 2016 of 53.5p (2015: 48.2p) per share	39.3	35.4
Total dividends arising	55.8	50.6

8. ANALYSIS OF CHANGES IN NET CASH

	At 1st Jan 2016 £m	Cash flow £m	Exchange movement £m	At 31st Dec 2016 £m
Current portion of long term borrowings	(0.3)			(0.2)
Non-current portion of long term borrowings	(80.7)			(58.2)
Short term borrowing	(10.1)			(33.0)
Total borrowings	**(91.1)**			**(91.4)**
Comprising:				
Borrowings	(90.6)	1.7	(2.1)	(91.0)
Finance Leases	(0.5)	0.1	-	(0.4)
	(91.1)	1.8	(2.1)	(91.4)
Cash at bank	99.8	5.0	14.4	119.2
Bank overdrafts	(3.9)	3.9	(0.4)	(0.4)
Net cash and cash equivalents	**95.9**	**8.9**	**14.0**	**118.8**
Net cash	**4.8**	10.7	11.9	**27.4**

9. PURCHASE OF BUSINESSES

2016

	Acquisitions		
	Book value £m	**Fair value adjustment £m**	**Fair value £m**
Non-current assets:			
Property, plant and equipment	6.9	2.1	9.0
Intangibles	-	26.8	26.8
	6.9	28.9	35.8
Current assets:			
Inventories	6.8	(0.3)	6.5
Trade receivables	3.8	-	3.8
Other receivables	0.4	-	0.4
Total assets	17.9	28.6	46.5
Current liabilities:			
Trade payables	2.3	-	2.3
Deferred tax	-	4.8	4.8
Total liabilities	2.3	4.8	7.1
Total net assets	15.6	23.8	39.4
Goodwill			27.1
Total			66.5
Satisfied by			
Cash paid			66.5
Deferred consideration			
			66.5
Cash outflow for acquired businesses in the Cash Flow Statement:			
Cash paid for businesses acquired in the period			66.5
Less cash acquired			-
Deferred consideration for businesses acquired in prior years			-
Net cash outflow			66.5

1. The acquisition of the assets of the process control valve manufacturer, Hiter Industria e Comercio de Controles Termo-Hidraulicos Ltda (Hiter) was completed on 1st July 2016. The acquisition method of accounting has been used. Consideration of £3.9 million was paid on completion. Separately identified intangibles are recorded as part of the fair value adjustment. The goodwill recognised represents the opportunity to achieve synergies from being part of the Group and to sell to a wider customer base. Goodwill arising is not expected to be tax deductible. Hiter has generated £0.7 million of revenue and a small pre-tax loss since acquisition. Had the acquisition been made on 1st January 2016, the revenue and pre-tax profit would have been approximately double the figures disclosed above.
2. The acquisition of Aflex Hose Limited and its subsidiary Aflex Hose USA LLC was completed on 30th November 2016. The acquisition method of accounting has been used. Consideration of £62.5 million was paid on completion. Separately identified intangibles are recorded as part of the provisional fair value adjustment. The goodwill recognised represents the skilled workforce acquired and the opportunity to achieve synergies from being part of a larger Group. Goodwill arising is not expected to be tax deductible. The acquisition has generated £2.0 million of revenue and £0.5 million of pre-tax profit since acquisition. Had the acquisition been made on 1st January 2016, the revenue and pre-tax profit would have been approximately twelve times the figures disclosed.
3. £0.5 million of acquisition related costs were incurred during the year. The acquired intangibles relate to manufacturing designs and core technology, brand names and trademarks, customer relationships and non-compete undertakings.

10. BASIS OF PREPARATION

The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 31st December 2016 or 31st December 2015. Statutory accounts for 2015, which were prepared under accounting standards adopted by the EU, have been delivered to the registrar of companies and those for 2016 will be delivered following the Company's Annual General Meeting. The Auditors have reported on these accounts; their report was (i) unqualified, (ii) did not include any references to any matters to which the auditors drew attention by way of emphasis without qualifying and (iii) did not contain statements under sections 498(2) or (3) of the Companies Act 2006.

If approved at the Annual General Meeting on 9th May 2017, the final dividend will be paid on 26th May 2017 to shareholders on the register at 28th April 2017. No scrip alternative to the cash dividends is being offered.

Copies of the Annual Report will be sent on 24th March 2017 to shareholders who have requested a hard copy and can be obtained from our registered office at Charlton House, Cirencester Road, Cheltenham, Gloucestershire GL53 8ER. The report is also available on our website at www.SpiraxSarcoEngineering.com.

11. RESPONSIBILITY STATEMENT OF THE DIRECTORS ON THE ANNUAL REPORT

The Responsibility Statement below has been prepared in connection with the company's full Annual Report for the year ending 31st December 2016. Certain parts thereof are not included within this announcement.

We confirm to the best of our knowledge:

- the Financial Statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit and loss of the company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary to assess the Company's performance, business model and strategy.

This Responsibility Statement was approved by the Board of Directors on 8th March 2017 and is signed on its behalf by:

N.J. Anderson, Chief Executive K.J. Boyd, Group Finance Director

12. CAUTIONARY STATEMENT

All statements other than statements of historical fact included in this document, including, without limitation, those regarding the financial condition, results, operations and businesses of Spirax-Sarco Engineering plc and its strategy, plans and objectives and the markets and economies in which it operates, are forward-looking statements. These forward-looking statements which reflect management's assumptions made on the basis of information available to it at this time, involve known and unknown risks, uncertainties and other important factors which could cause the actual results, performance or achievements of Spirax-Sarco Engineering plc or the markets and economies in which we operate to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Spirax-Sarco Engineering plc and its Directors accept no liability to third parties in respect of this report save as would arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with schedule 10A of the Financial Services and Markets Act 2000. It should be noted that schedule 10A contains limits on the liability of the Directors of Spirax-Sarco Engineering plc so that their liability is solely to Spirax-Sarco Engineering plc.

13. EXCHANGE RATE IMPACTS

Whilst not an IFRS disclosure or part of the audited accounts, set out below is an additional disclosure that highlights the movements in a selection of average exchange rates between 2016 and 2015.

Average exchange rates to sterling have been as follows:

	Average 2016	**Average 2015**	**Change %**
Bank of England sterling index	82.3	91.4	+10%
US$	1.36	1.53	+11%
Euro	1.23	1.38	+11%
Renminbi	9.00	9.60	+6%

Won	1,574	1,728	+9%
Real	4.74	5.11	+7%
Argentine Peso	19.99	14.28	-40%

About Spirax Sarco
Spirax-Sarco Engineering plc is the world leader in each of its two businesses, Spirax Sarco for steam specialties and Watson-Marlow Fluid Technology Group for niche peristaltic pumps and associated fluid path technologies. The Steam Specialties business provides a broad range of fluid control products, engineered packages, site services and systems expertise for a diverse range of industrial and institutional customers. The Company helps its end users to improve production efficiency, reduce energy costs, water usage and emissions, improve product quality and enhance the safety of their operations. Watson-Marlow Fluid Technology Group offers the ideal solution for a wide variety of demanding fluid path applications with highly accurate, controllable and virtually maintenance free pumps and associated technologies. The Group is headquartered in Cheltenham, England, has strategically located manufacturing plants around the world and employs over 5,300 people, of whom nearly 1,400 are direct sales and service engineers. Its shares have been listed on the London Stock Exchange since 1959 (symbol: SPX).

Further information can be found at www.spiraxsarcoengineering.com

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