Rotork plc
2019 Half Year Results

	HY 2019	HY 2018	% change	OCC [3] % change
Order intake[1]	**£362.5m**	**£364.7m**	-0.6%	-1.3%
Revenue	**£318.6m**	**£331.0m**	-3.7%	-4.3%
Adjusted[2] operating profit	**£67.2m**	**£65.4m**	+2.8%	+1.7%
Adjusted[2] operating margin	**21.1%**	**19.8%**	+130bps	+120bps
Profit before tax	**£52.2m**	**£54.7m**	-4.5%	-5.8%
Adjusted[2] profit before tax	**£65.8m**	**£64.3m**	+2.2%	+1.1%
Basic earnings per share	**4.6p**	**4.7p**	-2.9%	-4.6%
Adjusted[2] basic earnings per share	**5.8p**	**5.6p**	+2.7%	+1.5%
Interim dividend	**2.30p**	**2.20p**	+4.5%	

[1] Order intake represents the value of orders received during the period.
[2] Adjusted[4] figures exclude the amortisation of acquired intangible assets, restructuring costs and the exceptional pension curtailment credit in H1 2018 (see note 4).
[3] OCC[4] is organic constant currency results excluding discontinued businesses and restated at 2018 exchange rates.
[4] Adjusted and OCC figures are alternative performance measures and are used consistently throughout these half year results. They are defined in full and reconciled to the statutory measures in note 2.

Summary

- Margin improvement continued with H1 adjusted operating margins 130bps higher, benefiting from Growth Acceleration Programme savings and mix
- Order intake in Q2 was ahead sequentially and year-on-year on an OCC basis, continuing the gradual improvement in overall activity levels seen in recent quarters
- As expected, order intake and revenues were lower year-on-year in H1 reflecting the strong comparative period which included several large greenfield projects
- Strong cash conversion (117%) with closing net cash of £43m
- ROCE 29.7%, +250 bps compared with June 2018

Kevin Hostetler, Chief Executive, commenting on the results, said:

"We are committed to delivering sustainable mid to high single digit revenue growth and mid 20s adjusted operating margins over time, and are pleased to report good progress in H1 despite sales, as expected, reducing year-on-year.

Whilst macroeconomic uncertainty remains, with recent order intake and the momentum of our Growth Acceleration Programme we now expect to deliver flat sales on an OCC basis in 2019, with full year adjusted operating margins showing clear progress year-on-year."

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Kevin Hostetler, Chief Executive
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Nick Hasell / Susanne Yule

There will be a meeting for analysts and institutional investors at 8.30 am BST today at the offices of FTI Consulting, 200 Aldersgate, Aldersgate Street, London EC1A 4HD. The presentation will also be webcast (audio only). Please register for the webcast at www.rotork.com.

Business review

Group order intake in the first half decreased 0.6% year-on-year, or -1.3% on an OCC basis. Customers' spend on maintenance and upgrades remained healthy although we are still experiencing some delay in the placement of large project orders. The pattern of order intake remains uneven and the market environment uncertain. However, encouragingly, Q2 order intake was ahead sequentially and year-on-year on an OCC basis, continuing the gradual improvement in overall activity levels we have seen in recent quarters.

The order book at 30 June 2019 was £225m, 25.5% (24.5% OCC) higher than at 31 December 2018.

Group revenue decreased by 3.7% (4.3% OCC). Oil and gas sales were down year-on-year, with growth in midstream more than offset by sales declines in both upstream and downstream. The declines in these markets largely reflected the strength of the prior year period, which included several significant large projects and sales to countries subsequently placed under sanction. We saw steady growth across water and waste water markets, whilst power markets were down as expected.

Overall, oil and gas accounted for 54.3% (H1 2018: 53.3%) of Group revenue, with a significant increase in the percentage of midstream sales as a proportion of revenue offsetting a small reduction in the percentage contribution from upstream. In upstream, which accounted for 15.6% (H1 2018: 16.6%) of revenue, we saw lower sales in Eastern Europe, partly offset by growth in the Far East and Western Europe. Midstream sales growth was driven by the Far East, Eastern Europe and Latin America. Downstream sales were lower overall despite encouraging growth in North America. In total, downstream represented 28.1% (H1 2018: 27.7%) of revenue.

In our other end markets, revenue from water and waste water was up mid-single digits, reflecting increased activity in the Far East and the temporary weakness seen in North America in early 2018. Sales in our power market declined double digits, partly as a result of the disposal of our nuclear actuator business last year. Industrial process sales were flat.

Geographically, Far East sales declined low-single digits, with growth in upstream and midstream oil and gas and industrial processes offset by lower downstream and power sales. North American sales were fractionally higher, with good growth in the downstream and water and waste water markets. We remain well placed to benefit from opportunities in all of our key geographies.

Rotork Site Services, our global service network, is a key differentiator in our industry and continues to perform well as customers look to manage their assets more efficiently and avoid unplanned shutdowns. We continue to grow our Client Support Programme (CSP) which offers maintenance contracts tailored to our customers' specific needs, adding new CSP sales to the renewal of existing agreements as customers see the benefits of this level of support.

Adjusted operating profit was modestly ahead year-on-year. Early Growth Acceleration Programme savings were partly offset by the impact of lower revenues year-on-year as well as our investment in people, IT and factories. Adjusted operating margins rose however, benefiting from Growth Acceleration Programme savings and favourable mix.

Strategic progress

As previously communicated, we are committed to delivering sustainable mid to high single digit revenue growth and mid 20s adjusted operating margins over time.

To deliver this commitment we developed our Growth Acceleration Programme comprising of four pillars: Commercial Excellence; Operational Excellence; Talent & Culture; and IT/core business processes. This programme continues on track with progress across all four pillars.

Commercial Excellence
We are focused on providing our customers with the products and services they require whilst at the same time making it simple for them to buy from Rotork wherever they are in the world. To improve our commercial performance we are working on initiatives including market re-alignment and new routes to market, innovation and new product development and investment in Site Services.

One of the most significant Commercial Excellence initiatives currently underway is market re-alignment; focusing our sales teams more closely on end-market segments and customer needs. Most of our key account managers are now in place. Our focus now is on the re-alignment of our wider sales team and this is now under way region by region. During Q2 we successfully completed the transition of our China, Japan and South Korea sales organisations. This work will continue in the second half with the remainder of Asia Pacific, followed by EMEA and then the Americas. We expect to complete this process in 2020.

As part of the Growth Acceleration Programme we put in place robust processes supporting our innovation and new product development initiatives. Our resources are now concentrated on the most promising and profitable products and on accelerating their commercialisation. We are also better able to monitor the effectiveness of this investment. We launched seven new products in the first half and target fifteen in the full year. In parallel with our new product launches we continue to rationalise our overall product offering.

Operational Excellence
Our Operational Excellence initiatives aim to improve significantly our operational efficiency whilst maintaining our reputation for high quality products and services. Initiatives under way include lean/continuous improvement; footprint optimisation; supply chain consolidation; and inventory reduction.

The Rotork mixed-model lean / continuous improvement programme is now embedded in all of our major manufacturing sites and subsidiaries and we are pleased with our first half progress, particularly in the Far East. The space freed-up by our lean work is an important enabler of our footprint optimisation initiative and we are on track to close three manufacturing facilities this year. Our supply chain procurement initiatives are on track to save £5m in 2019. Wave 2, which focuses on certain significant component categories including machined parts, castings and PCBAs, is on schedule to complete this year after which Wave 3 follows. We are balancing our purchasing efforts so as to manage down our goods-in inventory. Our stock reduction programme drove a net £7.0m reduction in the period or a £13.9m reduction compared with June 2018.

Talent & Culture

Having the right team in place and suitably motivated is crucial to achieving our aspirations. We continued to develop our existing people and recruit world-class external talent during the period. Our new Performance Management and Objective Setting approach has bedded in well. In April we announced our new divisional structure internally. This has been well received and will come into effect in 2020. The majority of roles have now been filled, with some internal and external recruitment remaining.

We recently launched our global purpose, in advance of the launch of our values and behaviours in September. Our purpose is "keeping the world flowing for future generations". Our new purpose highlights not only what we do, but also our longevity and our commitment as a responsible company.

IT/core business processes

The development of our new IT system continues on track. In addition to core ERP, this system incorporates CRM, project tracking and a global HR platform. This is a multi-year programme and we look forward to all our sites operating on a common platform. During the period, a significant number of solution design workshops were completed and a suite of important business information dashboards were rolled out.

Financial Key Performance Indicators (KPIs)

	H1 2019	H1 2018	FY 2018
Revenue growth	**-3.7%**	+10.4%	+8.3%
Adjusted operating margin	**21.1%**	19.8%	21.0%
Cash conversion	**117.4%**[1]	100.0%	110.7%
Return on capital employed	**29.7%**	27.2%	29.2%
Adjusted EPS growth	**+2.7%**	+27.0%	+18.9%

[1] The adoption of IFRS16 'Leases' has been favourable to this metric. Preparing in accordance with IAS17 'Leases', to enable comparison with prior periods, would have resulted in the H1 KPI being slightly lower at 113.6%.

The KPIs are defined below:

- Revenue growth is defined as the increase in revenue divided by prior period revenue.
- Adjusted operating margin is defined as adjusted operating profit as a percentage of revenue (note 2a).
- Cash conversion is defined as cash flow from operating activities before tax outflows, payments of restructuring charges and the pension charge to cash adjustment as a percentage of adjusted operating profit (note 2a).
- Return on capital employed is defined as adjusted operating profit as a percentage of average capital employed. Capital employed is defined as shareholders' funds less net cash held, with the pension fund deficit net of related deferred tax asset added back (note 2d).
- Adjusted EPS growth is defined as the increase in adjusted basic EPS (based on adjusted profit after tax) divided by the prior year adjusted basic EPS (note 2c).

Adjusted items

Adjusted profit measures are presented alongside statutory results as the directors believe they provide a useful comparison of business trends and performance from one period to the next.

The statutory profit measures are adjusted to exclude amortisation of acquired intangibles and other adjustments, which in 2019 comprise restructuring costs, including redundancy costs, asset write downs relating to the merger of businesses and other restructuring costs. The 2018 comparative comprises restructuring costs, consultancy costs and the one-off actuarial credit arising from the closure of the UK defined benefit pension scheme to future accrual. The costs in the first half year were £4.6m, close to the level anticipated. Restructuring costs are expected to be lower in the second half.

£m	Statutory results	Amortisation	Restructuring costs (note 4)	Adjusted results
Operating profit	53.7	9.0	4.6	67.3
Profit before tax	52.2	9.0	4.6	65.8
Tax	(12.3)	(2.1)	(1.1)	(15.5)
Profit after tax	39.9	6.9	3.5	50.3

Financial position

The balance sheet remains strong and we ended the period with net cash of £43.0m.

The new leases standard IFRS 16 'Leases' has been adopted in the period using the modified retrospective method. This resulted in a right of use asset of £12.2m and a lease liability of £12.0m being recognised on 1 January 2019. The transition method has not required the balance sheet comparatives to be restated. The table below sets out how net cash is affected after the increase in loans and borrowings as a result of the adoption of IFRS16. It also shows the calculation of net cash at 30 June 2019 which shows an increase of £11.4m over the period.

	31 Dec 2018	On adoption of IFRS 16 1 Jan 2019	30 June 2019
Cash	104.5	104.5	75.9
Loans and borrowings	(60.9)	(72.9)	(32.9)
Net cash	43.6	31.6	43.0

Committed facilities totalled £60m, of which £20m were drawn at the period end (Dec 2018: £120m committed facilities of which £60m were drawn). The committed facilities expire in August 2020.

Net working capital at the period end was £182.6m, a decrease of £10.4m since the year end.

The estimated average annual tax rate used for the year ending 31 December 2019 is 23.6% (2018: 24.0%) and the estimated adjusted effective tax rate for the year ending 31 December 2019, based on adjusted profit before tax, is 23.5% (2018: 23.7%). This small reduction is driven by the geographic mix of profits plus tax rate reductions in some specific markets.

Cash flow

Our focus on working capital management resulted in continued strong cash generation and our KPI showed a conversion of 117.4% of adjusted operating profit into operating cash. During the period we repaid £39.9m of bank loans, paid dividends of £32.2m and invested £8.1m in capital expenditure.

Following the adoption of IFRS 16, the principal portion of lease payments is now classified within financing activities where previously under IAS 17 they would have been included in cash flows from operating activities. Under IAS 17 the H1 cash flows from operating activities would have been £57.0m rather than the £59.7m as reported under IFRS 16.

Retirement benefits

The Group operates two defined benefit pension schemes, the larger of which is in the UK. Both the UK and US schemes are closed to future accrual.

The pension scheme deficit increased from £27.3m at 31 December 2018 to £33.9m at 30 June 2019, principally due to a reduction in the discount rate.

Currency

Overall, currency tailwinds increased revenue by £4.1m (1.3%) compared with the first half of 2018. The average US dollar rate was $1.29 (H1 2018: $1.38) and the average Euro rate was €1.15 (H1 2018: €1.14), whilst the rates at 30 June 2019 were $1.27 and €1.12 (30 June 2018: $1.32 and €1.13).

Dividend

The Board has decided to increase the interim dividend by 4.5% to 2.3p, reflecting confidence in progress for the full year. The interim dividend of 2.3p per ordinary share will be paid on 27 September 2019 to shareholders on the register at the close of business on 29 August 2019.

Board composition

As previously announced, following eight years as Chair of the Remuneration Committee and nine years on the Rotork plc Board, Gary Bullard retired on 26 April 2019. We thank Gary for his invaluable contribution. Tim Cobbold, who joined the Board in 2018, has assumed the role of Chair of the Remuneration Committee.

Operating review

Rotork Controls

£m	H1 2019	H1 2018	Change	OCC[3] Change
Order intake	**192.3**	182.8	+5.2%	+3.7%
Revenue	**161.8**	163.6	-1.1%	-2.5%
Adjusted[2] operating profit	**48.0**	45.2	+6.2%	+4.6%
Adjusted[2] operating margin	**29.7%**	27.6%	+210bps	+210bps

Controls faced a strong comparative period having won several large downstream projects in the Far East in H1 2018. We were therefore pleased to see a year-on-year increase in order intake of 5.2% (OCC: 3.7%). As expected, divisional revenues were modestly down. Adjusted operating margins increased by 210 basis points to 29.7%. The improved margin reflected the absence of the two large lower margin projects in the Far East, procurement savings, productivity improvement and lower overheads. Some elements of the overhead reduction are expected to unwind in the second half as we invest to capitalise on growth in faster growing geographies.

Industrial processes and water and waste water revenues grew steadily in the period. Industrial processes increased from 17% of divisional revenues to 18%, with water and waste water increasing from 15% to 17%. The Far East was the largest growth contributor to industrial process. Water and waste water revenues were ahead low double digits benefiting from weak comparatives in North America. The oil and gas contribution to divisional revenue was little changed at 50%.

Rotork Fluid Systems

£m	H1 2019	H1 2018	Change	OCC[3] Change
Order intake	**76.0**	91.7	-17.1%	-17.2%
Revenue	**66.7**	79.4	-16.0%	-15.1%
Adjusted[2] operating profit	**3.9**	5.9	-33.7%	-31.3%
Adjusted[2] operating margin	**5.8%**	7.4%	-160bps	-130bps

Fluid Systems order intake declined 17.1% (OCC: -17.2%) in H1 2019, relative to a very strong comparative period last year (particularly Q1). Revenue fell 16.0% (OCC: -15.1%), due to lower large project activity and the loss of sales to countries subsequently placed under sanction. Initiatives to control costs successfully helped to limit the impact of lower volumes on operating profits. Fluid Systems remained the Rotork division with the highest exposure to the oil and gas end market.

Midstream oil and gas revenues increased low double digits but this growth was insufficient to offset declines elsewhere, notably in upstream oil and gas markets which saw lower activity in most geographies including particularly in Eastern Europe. Sales to power and water and waste water markets also declined with the change in power partly due to the sale of the nuclear actuator business last year. The oil and gas contribution to divisional revenue was modestly higher at 68%.

Rotork Gears

£m	H1 2019	H1 2018	Change	OCC[3] Change
Order intake	**43.6**	46.1	-5.5%	-4.8%
Revenue	**42.8**	41.7	+2.6%	+3.2%
Adjusted[2] operating profit	**7.3**	7.9	-7.4%	-7.9%
Adjusted[2] operating margin	**17.1%**	18.9%	-180bps	-210bps

Gears revenue increased by 2.6% (OCC: 3.2%), despite some modest impact of our product rationalisation initiative, driven by strength in oil and gas. The division's adjusted operating margin was 17.1%. This represented a decrease of 180 basis points, the largest part of which is due to US/China tariff costs. The latter more than offset increased labour productivity and lower overheads, and are expected to increased further in the second half.

Oil and gas sales grew strongly, driven by midstream in all geographies and downstream in North America. The oil and gas market overall increased from 48% of divisional sales last year to 60%. Oil and gas growth was partly offset by water and waste water which declined by low double digits. Geographically the revenue increase was driven by North America and Middle East/Africa.

Rotork Instruments

£m	H1 2019	H1 2018	Change	OCC[3] Change
Order intake	**57.3**	52.4	+9.3%	+8.3%
Revenue	**54.0**	54.5	-1.0%	-2.0%
Adjusted[2] operating profit	**13.4**	11.7	+14.7%	+13.2%
Adjusted[2] operating margin	**24.8%**	21.4%	+340bps	+330bps

Instruments order intake was up an encouraging 9.3% year-on-year (OCC: 8.3%) and benefited from a notable pickup in subsea orders towards the end of the period. Revenues were down 1.0% year-on-year (OCC: -2.0%) with the decline reflecting lower intra-group sales. Adjusted operating profit was £13.4m, up 14.7%, benefiting from productivity improvement and a reduction in overheads. The division's adjusted operating margin of 24.8% was slightly ahead of the 23.6% achieved in H2 2018.

Oil and gas sales declined low single digits, with weaker downstream activity in the Far East and Western Europe more than offsetting growth in upstream in the Middle East/Africa. All other markets grew modestly, resulting in oil and gas contributing 46% of Instruments revenues (47% in H1 2018). The Far East and Middle East/Africa grew their shares of divisional sales.

Outlook

We are committed to delivering sustainable mid to high single digit revenue growth and mid 20s adjusted operating margins over time, and are pleased to report good progress in H1 despite sales, as expected, reducing year-on-year.

Whilst macroeconomic uncertainty remains, with recent order intake and the momentum of our Growth Acceleration Programme we now expect to deliver flat sales on an OCC basis in 2019, with full year adjusted operating margins showing clear progress year-on-year.

Principal risks and uncertainties

The Group has an established risk management process as part of the corporate governance framework set out in the 2018 Annual Report & Accounts. The principal risks and uncertainties facing our businesses are being monitored on an ongoing basis in line with the Corporate Governance Code. The risk management process is described in detail on pages 22 to 25 of the 2018 Annual Report & Accounts. We have since reviewed our risk appetite framework and enhanced the method of application of this framework. We have also considered risk horizon scanning for longer term risks such as climate change. We have reviewed the Group's principal risks and concluded that they remain applicable to the second half of the financial year.

The principal risks and uncertainties are: decline in government and private sector confidence and spending; increased competition on price or product offering; increasing social and political instability including Brexit; failure of an acquisition to deliver the growth or synergies anticipated; potential risks to the health and safety of our employees and other stakeholders; failure of our staff or third parties to comply with law or regulation or to uphold our high ethical standards and values; major in-field product failure; failure of a key supplier or a tooling failure at a supplier; failure to provide, maintain and update the IT systems; failure to protect Rotork operations, sensitive or commercial data from cybercrime; and change projects lead to business disruption in the short term.

The Group continues to monitor the implications of increased geopolitical uncertainty, including the implications on the Group of Brexit as well as the continuing political protectionism in respect of trade tariffs. The Board remains confident that the geographic spread of our businesses and diverse end markets in which we operate substantially limits the risk associated with instability in any given territory.

Statement of Directors' Responsibilities

The directors confirm that this condensed consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- An indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- Material related-party transactions in the first six months, and any material changes in the related-party transactions described in the last annual report.

The directors of Rotork plc are listed in the Rotork plc Annual Report & Accounts for 31 December 2018. A list of current directors is maintained in the "About Us" section of the Rotork website: www.rotork.com.

By order of the Board
Kevin G. Hostetler
Chief Executive
5 August 2019

Independent Review Report to Rotork plc

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 which comprises the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes 1 to 17. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended

30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
London, UK
5 August 2019

Consolidated Income Statement

	Notes	First half 2019 £000	First half 2018 £000	Full year 2018 £000
Revenue	3	**318,634**	331,039	695,713
Cost of sales		**(173,060)**	(183,070)	(384,253)
Gross profit		**145,574**	147,969	311,460
Other income		**176**	6,020	8,990
Distribution costs		**(3,111)**	(3,431)	(7,260)
Administrative expenses		**(88,877)**	(94,689)	(189,474)
Other expenses		**(70)**	(65)	(798)
Adjusted operating profit	2	**67,239**	65,429	146,015
Adjustments				
- Amortisation of acquired intangible assets		**(8,983)**	(9,916)	(20,284)
- Other adjustments	4	**(4,564)**	291	(2,813)
Operating profit	3	**53,692**	55,804	122,918
Finance income	5	**1,071**	983	2,278
Finance expense	6	**(2,529)**	(2,069)	(4,448)
Profit before tax		**52,234**	54,718	120,748
Income tax expense	7	**(12,331)**	(13,522)	(29,004)
Profit for the period		**39,903**	41,196	91,744
		pence	pence	Pence
Basic earnings per share	9	**4.6**	4.7	10.5
Adjusted basic earnings per share	2	**5.8**	5.6	12.6
Diluted earnings per share	9	**4.6**	4.7	10.5
Adjusted diluted earnings per share	2	**5.8**	5.6	12.6

Consolidated Statement of Comprehensive Income and Expense

	First half 2019 £000	First half 2018 £000	Full year 2018 £000
Profit for the period	**39,903**	41,196	91,744
Other comprehensive income and expense			
Items that may be subsequently reclassified to the income statement:			
Foreign currency translation differences	**(1,855)**	(1,312)	3,164
Effective portion of changes in fair value of cash flow hedges net of tax	**124**	(78)	(6)
	(1,731)	(1,390)	3,158
Items that are not subsequently reclassified to the income statement:			
Actuarial (loss)/gain in pension scheme net of tax	**(9,258)**	5,009	8,055
Income and expenses recognised directly in equity	**(10,989)**	3,619	11,213
Total comprehensive income for the period	**28,914**	44,815	102,957

Consolidated Balance Sheet

	Notes	30 June 2019 £000	30 June 2018 £000	31 Dec 2018 £000
Goodwill		**228,404**	228,020	230,157
Intangible assets		**52,196**	71,815	61,517
Property, plant and equipment		**91,175**	79,018	79,338
Deferred tax assets		**14,622**	14,689	17,337
Other receivables		**211**	-	352
Total non-current assets		**386,608**	393,542	388,701
Inventories	*11*	**87,724**	101,609	94,739
Trade receivables		**137,028**	142,676	145,509
Current tax		**1,650**	1,979	1,429
Derivative financial instruments	*17*	**1,265**	339	308
Other receivables		**26,971**	26,065	23,161
Cash and cash equivalents		**75,951**	70,148	104,489
Total current assets		**330,589**	342,816	369,635
Total assets		**717,197**	736,358	758,336
Ordinary shares	*13*	**4,360**	4,353	4,358
Share premium		**13,698**	11,304	13,024
Reserves		**33,690**	30,873	35,421
Retained earnings		**457,864**	426,957	460,825
Total equity		**509,612**	473,487	513,628
Interest-bearing loans and borrowings	*14*	**8,104**	45,874	30,871
Employee benefits		**33,660**	32,787	31,274
Deferred tax liabilities		**8,537**	13,443	15,722
Derivative financial instruments	*17*	**93**	426	-
Provisions		**2,119**	2,098	2,149
Total non-current liabilities		**52,513**	94,628	80,016
Interest-bearing loans and borrowings	*14*	**24,782**	29,970	30,010
Trade payables		**42,212**	52,113	47,332
Employee benefits		**19,763**	19,005	26,489
Current tax		**14,398**	15,357	11,792
Derivative financial instruments	*17*	**3,156**	2,608	2,682
Other payables		**43,733**	44,535	40,150
Provisions		**7,028**	4,655	6,237
Total current liabilities		**155,072**	168,243	164,692
Total liabilities		**207,585**	262,871	244,708
Total equity and liabilities		**717,197**	736,358	758,336

Consolidated Statement of Changes in Equity

	Issued equity capital £000	Share premium £000	Translation reserve £000	Capital redemption reserve £000	Hedging reserve £000	Retained earnings £000	Total £000
Balance at 31 December 2018	**4,358**	**13,024**	**34,930**	**1,644**	**(1,153)**	**460,825**	**513,628**
Profit for the period	-	-	-	-	-	39,903	39,903
Other comprehensive income							
Foreign currency translation differences	-	-	(1,855)	-	-	-	(1,855)
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	153	-	153
Actuarial loss on defined benefit pension plans	-	-	-	-	-	(10,478)	(10,478)
Tax in other comprehensive income	-	-	-	-	(29)	1,220	1,191
Total other comprehensive income	-	-	(1,855)	-	124	(9,258)	(10,989)
Total comprehensive income	-	-	(1,855)	-	124	30,645	28,914
Transactions with owners, recorded directly in equity							
Equity settled share based payment transactions	-	-	-	-	-	(4,445)	(4,445)
Tax on equity settled share based payment transactions	-	-	-	-	-	844	844
Share options exercised by employees	2	674	-	-	-	-	676
Own ordinary shares acquired	-	-	-	-	-	(3,787)	(3,787)
Own ordinary shares awarded under share schemes	-	-	-	-	-	6,030	6,030
Dividends	-	-	-	-	-	(32,248)	(32,248)
Balance at 30 June 2019	**4,360**	**13,698**	**33,075**	**1,644**	**(1,029)**	**457,864**	**509,612**

	Issued equity capital £000	Share premium £000	Translation reserve £000	Capital redemption reserve £000	Hedging reserve £000	Retained earnings £000	Total £000
Balance at 31 December 2017	**4,352**	**11,193**	**31,766**	**1,644**	**(1,147)**	**409,392**	**457,200**
Profit for the period	-	-	-	-	-	41,196	41,196
Other comprehensive income							
Foreign currency translation differences	-	-	(1,312)	-	-	-	(1,312)
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	(113)	-	(113)
Actuarial gain on defined benefit pension plans	-	-	-	-	-	6,426	6,426
Tax in other comprehensive income	-	-	-	-	35	(1,417)	(1,382)
Total other comprehensive income	-	-	(1,312)	-	(78)	5,009	3,619
Total comprehensive income	-	-	(1,312)	-	(78)	46,205	44,815
Transactions with owners, recorded directly in equity							
Equity settled share based payment transactions	-	-	-	-	-	549	549
Tax on equity settled share based payment transactions	-	-	-	-	-	(104)	(104)
Share options exercised by employees	1	111	-	-	-	-	112
Own ordinary shares acquired	-	-	-	-	-	(2,150)	(2,150)
Own ordinary shares awarded under share schemes	-	-	-	-	-	2,219	2,219
Dividends	-	-	-	-	-	(29,154)	(29,154)
Balance at 30 June 2018	**4,353**	**11,304**	**30,454**	**1,644**	**(1,225)**	**426,957**	**473,487**

Consolidated Statement of Changes in Equity (continued)

	Issued equity capital £000	Share premium £000	Translation reserve £000	Capital redemption reserve £000	Hedging reserve £000	Retained earnings £000	Total £000
Balance at 31 December 2017	4,352	11,193	31,766	1,644	(1,147)	409,392	457,200
Profit for the year	-	-	-	-	-	91,744	91,744
Other comprehensive income							
Foreign currency translation differences	-	-	3,164	-	-	-	3,164
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	(24)	-	(24)
Actuarial gain on defined benefit pension plans	-	-	-	-	-	9,501	9,501
Tax in other comprehensive income	-	-	-	-	18	(1,446)	(1,428)
Total other comprehensive income	-	-	3,164	-	(6)	8,055	11,213
Total comprehensive income	-	-	3,164	-	(6)	99,799	102,957
Transactions with owners, recorded directly in equity							
Equity settled share based payment transactions	-	-	-	-	-	2,457	2,457
Tax on equity settled share based payment transactions	-	-	-	-	-	98	98
Share options exercised by employees	6	1,831	-	-	-	-	1,837
Own ordinary shares acquired	-	-	-	-	-	(4,850)	(4,850)
Own ordinary shares awarded under share schemes	-	-	-	-	-	2,217	2,217
Dividends	-	-	-	-	-	(48,288)	(48,288)
Balance at 31 December 2018	4,358	13,024	34,930	1,644	(1,153)	460,825	513,628

Consolidated Statement of Cash Flows

	Notes	First half 2019 £000	First half 2018 £000	Full year 2018 £000
Profit for the period		**39,903**	41,196	91,744
Amortisation of acquired intangible assets		**8,983**	9,916	20,284
Other adjustments	*4*	**4,564**	(291)	2,813
Amortisation of development costs		**1,132**	1,443	2,575
Depreciation		**8,141**	5,640	11,642
Equity settled share based payment expense		**2,081**	2,665	4,674
Net profit on sale of property, plant and equipment		**(34)**	(90)	(134)
Finance income		**(1,071)**	(963)	(2,278)
Finance expense		**2,528**	2,049	4,448
Income tax expense		**12,331**	13,522	29,004
		78,558	75,087	164,772
Decrease/(increase) in inventories		**7,081**	(9,648)	(2,140)
Decrease/(increase) in trade and other receivables		**5,297**	(2,891)	(2,322)
(Decrease)/increase in trade and other payables		**(858)**	10,187	(5,761)
Restructuring costs paid		**(2,165)**	(4,604)	(7,795)
Difference between pension charge and cash contribution		**(4,035)**	(3,628)	(5,809)
(Decrease)/increase in provisions		**(111)**	478	2,333
(Decrease)/increase in employee benefits		**(11,031)**	(7,816)	4,690
		72,736	57,165	147,968
Income taxes paid		**(13,020)**	(11,261)	(30,084)
Net cash flows from operating activities		**59,716**	45,904	117,884
Purchase of property, plant and equipment		**(8,149)**	(4,575)	(10,430)
Development costs capitalised		**(1,190)**	(1,803)	(3,831)
Proceeds from sale of property, plant and equipment		**150**	159	201
Disposal of businesses		**-**	-	4,340
Contingent consideration paid		**-**	-	(10)
Settlement of hedging derivatives		**(2,098)**	2,610	(815)
Interest received		**802**	578	1,309
Net cash flows from investing activities		**(10,485)**	(3,031)	(9,236)
Issue of ordinary share capital		**676**	112	1,837
Own ordinary shares acquired		**(3,787)**	(2,150)	(4,850)
Interest paid		**(1,610)**	(1,171)	(2,837)
Proceeds from issue of borrowings		**20,000**	15,000	15,000
Repayment of borrowings		**(59,916)**	(14,958)	(29,934)
Repayment of lease liabilities		**(2,656)**	(1)	(3)
Dividends paid on ordinary shares		**(32,248)**	(29,154)	(48,288)
Net cash flows from financing activities		**(79,541)**	(32,322)	(69,075)
Net (decrease)/increase in cash and cash equivalents		**(30,310)**	10,551	39,573
Cash and cash equivalents at 1 January		**104,489**	63,192	63,192
Effect of exchange rate fluctuations on cash held		**1,772**	(3,595)	1,724
Cash and cash equivalents at end of period		**75,951**	70,148	104,489

Notes to the Half Year Report

1. Status of condensed consolidated interim statements, accounting policies and basis of significant estimates

General information

Rotork plc is a company domiciled in England and Wales. The Company has its premium listing on the London Stock Exchange.

The condensed consolidated interim financial statements for the six months ended 30 June 2019 are unaudited and the auditor has reported in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'.

The information shown for the year ended 31 December 2018 does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006, statutory accounts for the year ended 31 December 2018 were approved by the Board on 4 March 2019 and delivered to the Registrar of Companies. The auditor's report on those financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 (2) or (3) of the Companies Act 2006. The consolidated financial statements of the Group for the year ended 31 December 2018 are available from the Company's registered office or website; see note 19.

Basis of preparation

The condensed consolidated interim financial statements of the Company for the six months ended 30 June 2019 comprise the Company and its subsidiaries (together referred to as 'the Group'). These condensed consolidated interim financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with International Accounting Standard 34, 'Interim Financial Reporting' as adopted by the European Union. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2018, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Going concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the condensed consolidated interim financial information. In forming this view, the directors have considered trading and cash flow forecasts, financial commitments, the significant order book with customers spread across different geographic areas and industries and the significant net cash position.

Critical accounting estimates and judgements

The Group makes estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience, and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In the future, actual experience may deviate from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the current financial year are discussed in the financial statements for the year ended 31 December 2018.

Accounting policies

The accounting policies applied and significant estimates used by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

1. *Status of condensed consolidated interim statements, accounting policies and basis of significant estimates (continued)*

New accounting standards and interpretations

IFRS 16 'Leases'

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'). The new standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of transition, being 1 January 2019, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of transition. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of transition, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight line basis over the remaining lease term.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 4.5%.

The following is a reconciliation of total operating lease commitments at 31 December 2018 to the lease liabilities recognised at 1 January 2019:

	£000
Total operating lease commitments disclosed at 31 December 2018	**17,789**
Recognition exemptions:	
Leases of low value assets	(324)
Leases with remaining lease term of less than 12 months	(4,428)
Operating lease liabilities before discounting	13,037
Discounted using incremental borrowing rate	(993)
Total lease liabilities recognised under IFRS 16 at 1 January 2019	**12,044**

1. Status of condensed consolidated interim statements, accounting policies and basis of significant estimates (continued)

Leases - Accounting policy applicable from 1 January 2019

The Group as a lessee

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments, variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the balance sheet, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in loans and borrowings.

Leases - Accounting policy applicable before 1 January 2019

The Group as a lessee

Where fixed assets are financed by leasing agreements, which give rights approximating to ownership, the assets are treated as if they had been purchased and the capital element of the leasing commitments are shown as obligations under finance leases. Assets acquired under finance leases are initially recognised at the present value of the minimum lease payments. The rentals payable are apportioned between interest, which is charged to the income statement, and liability, which reduces the outstanding obligation so as to give a constant rate of charge on the outstanding lease obligations. Costs in respect of operating leases are charged on a straight-line basis over the term of the lease in arriving at the operating profit.

1. *Status of condensed consolidated interim statements, accounting policies and basis of significant estimates (continued)*

Other amendments
A number of amended standards became applicable for the current reporting period. The application of these amendments has not had any material impact on the disclosures, net assets or results of the Group.

New standards and interpretations not yet adopted

Other amendments
Further narrow scope amendments have been issued which are mandatory for periods commencing on or after 1 January 2020. The application of these amendments will not have any material impact on the disclosures, net assets or results of the Group.

2. *Alternative performance measures*

The Group uses adjusted figures as key performance measures in addition to those reported under adopted IFRS, as management believe these measures facilitate greater comparison of the Group's underlying results with prior periods and assessment of trends in financial performance.

The key alternative performance measures used by the Group include adjusted profit measures and organic constant currency (OCC). Explanations of how they are calculated and how they are reconciled to IFRS statutory results are set out below.

a. Adjusted operating profit

Adjusted operating profit is the Group's operating profit excluding the amortisation of acquired intangible assets and other adjustments that are considered to be significant and where treatment as an adjusted item provides stakeholders with additional useful information to assess the trading performance of the Group on a consistent basis. Further details on these adjustments are given in note 4.

b. Adjusted profit before tax

The adjustments in calculating adjusted profit before tax are consistent with those in calculating adjusted operating profit above.

	First half 2019 £000	First half 2018 £000	Full year 2018 £000
Profit before tax	**52,234**	54,718	120,748
Adjustments:			
Amortisation of acquired intangible assets	**8,983**	9,916	20,284
Closure of defined benefit pension schemes to future accrual	**-**	(5,840)	(8,575)
Guaranteed Minimum Pension equalisation expense	**-**	-	920
Consultancy costs related to the Growth Acceleration Programme	**-**	3,309	4,052
Loss on disposal of businesses	**-**	-	658
Redundancy and executive change costs	**1,807**	389	2,896
Other restructuring costs	**2,757**	1,851	2,862
Adjusted profit before tax	**65,781**	64,343	143,845

2. *Alternative performance measures (continued)*

c. Adjusted basic and diluted earnings per share

Adjusted basic earnings per share is calculated using the adjusted net profit attributable to the ordinary shareholders and dividing it by the weighted average ordinary shares in issue. Adjusted net profit attributable to ordinary shareholders is calculated as follows:

	First half 2019 £000	First half 2018 £000	Full year 2018 £000
Net profit attributable to ordinary shareholders	**39,903**	41,196	91,744
Adjustments:			
Amortisation of acquired intangible assets	**8,983**	9,916	20,284
Closure of defined benefit pension schemes to future accrual	**-**	(5,840)	(8,575)
Guaranteed Minimum Pension equalisation expense	**-**	-	920
Consultancy costs related to the Growth Acceleration Programme	**-**	3,309	4,052
Loss on disposal of businesses	**-**	-	658
Redundancy and executive change costs	**1,807**	389	2,896
Other restructuring costs	**2,757**	1,851	2,862
Tax effect on adjusted items	**(3,126)**	(1,868)	(5,025)
Adjusted net profit attributable to ordinary shareholders	**50,324**	48,953	109,816

Diluted earnings per share is calculated by using the adjusted net profit attributable to ordinary shareholders and dividing it by the weighted average ordinary shares in issue adjusted to assume conversion of all potentially dilutive ordinary shares (see note 9).

d. Return on capital employed

The return on capital employed ratio is used by management to help ensure that capital is used efficiently.

	First half 2019 £000	First half 2018 £000	Full year 2018 £000
Adjusted operating profit			
As reported	**-**	-	146,015
Rolling 12 months	**147,825**	141,161	-
Capital employed			
Shareholders' funds	**509,612**	473,487	513,628
Cash and cash equivalents	**(75,951)**	(70,148)	(104,489)
Interest bearing loans and borrowings	**32,886**	75,844	60,881
Pension deficit net of deferred tax	**27,406**	26,093	22,001
	493,953	505,276	492,021
Average capital employed	**497,083**[1]	518,190[1]	500,380[2]
Return on capital employed	**29.7%**[3]	27.2%	29.2%

[1] defined as the average of the capital employed at June 2018, December 2018 and June 2019 (2018: June 2017, December 2017, and June 2018).
[2] defined as the average of the capital employed at December 2017 and December 2018.
[3] The impact of the adoption of IFRS 16 from 1 January 2019 using a modified retrospective approach (see note 1) has not had a material impact on this KPI

2. *Alternative performance measures (continued)*

e. Organic constant currency (OCC)

OCC results remove the results of businesses acquired or disposed of during the period that are not consistently presented in both periods' results. The 2019 half year results are restated at 2018 exchange rates.

For businesses acquired, the full results are removed from the year of acquisition. In the following year, the results for the number of months equivalent to the pre-acquisition period in the prior year are removed. For disposals and closure of businesses, the results are removed from the current and prior periods.

Key headings in the income statement are reconciled to OCC as follows:

	30 June 2019	Currency adjustment	Impact of disposals	**OCC 30 June 2019**
Revenue	**318,634**	(4,053)	-	314,581
Cost of sales	**(173,060)**	2,322	-	(170,738)
Gross margin	**145,574**	(1,731)	-	143,843
Net overheads	**(78,335)**	620	-	(77,715)
Adjusted operating profit	**67,239**	(1,111)	-	66,128
Adjusted operating margin	**21.1%**			21.0%
Adjusted profit before tax	**65,781**	(1,111)	-	64,670
Adjusted basic earnings per share	**5.8p**	(0.1p)	-	5.7p

	30 June 2018	Currency adjustment	Impact of disposals	**OCC 30 June 2018**
Revenue	**331,039**	-	(2,486)	328,553
Cost of sales	**(183,070)**	-	1,441	(181,629)
Gross margin	**147,969**	-	(1,045)	146,924
Net overheads	**(82,540)**	-	651	(81,889)
Adjusted operating profit	**65,429**	-	(394)	65,035
Adjusted operating margin	**19.8%**			19.8%
Adjusted profit before tax	**64,343**	-	(397)	63,946
Adjusted basic earnings per share	**5.6p**	-	-	5.6p

3. Analysis by operating segment

The Group has chosen to organise the management and financial structure by the grouping of related products. The four identifiable operating segments where the financial and operating performance is reviewed monthly by the chief operating decision maker are as follows:

- **Controls** – the design, manufacture and sale of electric actuators
- **Fluid Systems** – the design, manufacture and sale of pneumatic and hydraulic actuators
- **Gears** – the design, manufacture and sale of gearboxes, adaption and ancillaries for the valve industry
- **Instruments** – the manufacture of high precision pneumatic controls and power transmission products for a wide range of industries

Unallocated expenses comprise corporate expenses.

Half year to 30 June 2019

	Controls £000	**Fluid Systems £000**	**Gears £000**	**Instruments £000**	**Elimination £000**	**Unallocated £000**	**Group £000**
Revenue from external customers	**161,774**	**66,677**	**38,119**	**52,064**	**-**	**-**	**318,634**
Inter segment revenue	**-**	**-**	**4,703**	**1,887**	**(6,590)**	**-**	**-**
Total revenue	**161,774**	**66,677**	**42,822**	**53,951**	**(6,590)**	**-**	**318,634**
Adjusted operating profit	**48,045**	**3,879**	**7,310**	**13,391**	**-**	**(5,386)**	**67,239**
Amortisation of acquired intangibles assets	**(719)**	**(151)**	**(1,208)**	**(6,905)**	**-**	**-**	**(8,983)**
Segment result before other adjustments	**47,326**	**3,728**	**6,102**	**6,486**	**-**	**(5,386)**	**58,256**
Other adjustments							**(4,564)**
Operating profit							**53,692**
Net financing expense							**(1,458)**
Income tax expense							**(12,331)**
Profit for the period							**39,903**

Half year to 30 June 2018

	Controls £000	Fluid Systems £000	Gears £000	Instruments £000	Elimination £000	Unallocated £000	Group £000
Revenue from external customers	**163,586**	**79,402**	**36,525**	**51,526**	**-**	**-**	**331,039**
Inter segment revenue	**-**	**-**	**5,211**	**2,964**	**(8,175)**	**-**	**-**
Total revenue	**163,586**	**79,402**	**41,736**	**54,490**	**(8,175)**	**-**	**331,039**
Adjusted operating profit	**45,224**	**5,852**	**7,895**	**11,673**	**-**	**(5,215)**	**65,429**
Amortisation of acquired intangibles assets	**(1,431)**	**(381)**	**(950)**	**(7,154)**	**-**	**-**	**(9,916)**
Segment result before other adjustments	**43,793**	**5,471**	**6,945**	**4,519**	**-**	**(5,215)**	**55,513**
Other adjustments							**291**
Operating profit							**55,804**
Net financing expense							**(1,086)**
Income tax expense							**(13,522)**
Profit for the period							**41,196**

3. Analysis by operating segment (continued)

Full year to 31 December 2018

	Controls £000	Fluid Systems £000	Gears £000	Instruments £000	Elimination £000	Unallocated £000	Group £000
Revenue from external customers	351,858	166,328	76,260	101,267	-	-	695,713
Inter segment revenue	-	-	9,352	5,887	(15,239)	-	-
Total revenue	351,858	166,328	85,612	107,154	(15,239	-	695,713
Adjusted operating profit	101,344	16,135	15,307	24,085	-	(10,856)	146,015
Amortisation of acquired intangibles assets	(2,851)	(779)	(2,082)	(14,572)	-	-	(20,284)
Segment result before other adjustments	98,493	15,356	13,225	9,513	-	(10,856)	125,731
Other adjustments							(2,813)
Operating profit							122,918
Net financing expense							(2,170)
Income tax expense							(29,004)
Profit for the year							91,744

Revenue by location of subsidiary

	First half 2019 £000	First half 2018 £000	Full year 2018 £000
UK	**35,101**	36,418	71,458
Italy	**35,585**	41,059	80,772
Rest of Europe	**57,060**	60,238	127,960
USA	**70,574**	71,182	149,180
Other Americas	**15,905**	17,188	42,235
Rest of World	**104,409**	104,954	224,108
	318,634	331,039	695,713

4. Other adjustments

The other adjustments are adjustments that management consider to be significant and where separate disclosure enables stakeholders to assess the underlying trading performance of the Group on a consistent basis.

The other adjustments to profit included in statutory profit are as follows:

	First half 2019 £000	First half 2018 £000	Full year 2018 £000
Closure of defined benefit pension schemes to future accrual	**-**	5,840	8,575
Guaranteed Minimum Pension equalisation expense	**-**	-	(920)
	-	5,840	7,655
Consultancy costs related to the Growth Acceleration Programme	**-**	(3,309)	(4,052)
Loss on disposal of businesses	**-**	-	(658)
Redundancy and executive change costs	**(1,807)**	(389)	(2,896)
Other restructuring costs	**(2,757)**	(1,851)	(2,862)
	(4,564)	(5,549)	(10,468)
	(4,564)	291	(2,813)

The operations in Tulsa, USA ceased on 30 June 2019 and the production transferred to other manufacturing plants in the USA. The closure of the Tulsa facility has resulted in redundancy costs of £415,000 and other restructuring costs of £1,916,000, including asset write-downs of £1,654,000.

On 28 February 2019 it was announced that the Group's operations in Taunton, UK would cease during the second half of 2019 and the production would transfer to the Group's manufacturing plant in Manchester, UK. The closure of the Taunton facility will result in redundancy costs of £752,000 and other restructuring costs of £841,000.

A further £640,000 (2018: £389,000) redundancy and executive change costs have been incurred as a result of the progress made with the Growth Acceleration Programme.

All 2019 adjustments are included in administrative expenses. In 2018 all adjustments were included in administrative expenses, with the exception of the credit related to the closure of the defined benefit pension scheme to future which was included in other income. The adjustments are taxable or tax deductible in the country in which the expense is incurred.

5. Finance income

	First half 2019 £000	First half 2018 £000	Full year 2018 £000
Interest income	**874**	708	1,618
Foreign exchange gains	**197**	275	660
	1,071	983	2,278

6. Finance expense

	First half 2019 £000	First half 2018 £000	Full year 2018 £000
Interest expense	**1,811**	1,318	3,072
Interest charge on pension scheme liabilities	**375**	528	1,055
Foreign exchange losses	**343**	223	321
	2,529	2,069	4,448

Included in interest expense in 2019 is £222,000 lease interest resulting from the adoption of IFRS 16 on 1 January 2019 (see note 1).

7. Income taxes

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year ending 31 December 2019 is 23.6%. This is lower than the effective tax rate for the year ended 31 December 2018 of 24.0%, reflecting the mix of taxable profits in group companies worldwide.

The adjusted effective tax rate for the year ending 31 December 2019, based on the adjusted profit before tax, is 23.5%. This is lower than the effective tax rate for the year ended 31 December 2018 of 23.7% due to small reductions in the statutory corporate tax rates in certain countries in which Rotork operates.

The Group continues to operate in many jurisdictions where local profits are taxed at their national statutory rates. As a result, the Group income tax charge will be subject to fluctuation depending on the actual profit mix. The Group continues to expect its effective corporation tax rate to be higher than the standard UK rate of 19% due to higher tax rates in the majority of overseas subsidiaries.

8. *Dividends*

	First half 2019 £000	First half 2018 £000	Full year 2018 £000
The following dividends were paid in the period per qualifying ordinary share:			
3.70p final dividend (2018: 3.35p)	**32,248**	**29,154**	29,154
2.20p interim dividend	**-**	**-**	19,134
	32,248	**29,154**	48,288
The following dividends per qualifying ordinary share were declared/proposed at the balance sheet date:			
3.70p final dividend proposed	**-**	**-**	32,250
2.30p interim dividend declared (2018: 2.20p)	**20,057**	**19,151**	-
	20,057	**19,151**	32,250

The interim dividend of 2.30 pence will be payable to shareholders on 27 September 2019 to those on the register on 29 August 2019.

9. *Earnings per share*

Earnings per share is calculated using the profit attributable to the ordinary shareholders for the period and 870.8m shares (six months to 30 June 2018: 870.0m; year to 31 December 2018: 869.9m) being the weighted average ordinary shares in issue.

Diluted earnings per share is based on the profit for the year attributable to the ordinary shareholders and 873.5m shares (six months to 30 June 2018: 873.5m; year to 31 December 2018: 874.0m). The number of shares is equal to the weighted average number of ordinary shares in issue (net of own ordinary shares held) adjusted to assume conversion of all potentially dilutive ordinary shares.

10. *Leases*

The Group leases many assets including land and buildings, vehicles, machinery and IT equipment. Information about leases for which the Group is a lessee is presented below.

Right-of-use assets

	Land and buildings £000	Plant and equipment £000	Total £000
Balance at 31 December 2018	-	-	-
Adjustment on transition to IFRS 16	8,942	3,227	12,169
Balance at 1 January 2019 after adoption of IFRS 16	8,942	3,227	12,169
Additions	1,165	575	1,740
Depreciation charge	(1,431)	(702)	(2,133)
Impairment	(695)	-	(695)
Exchange differences	188	57	245
Balance at 30 June 2019	**8,169**	**3,157**	**11,326**

The right-of-use assets are disclosed as a non-current asset and are part of the property, plant and equipment balance of £91,175,000 at 30 June 2019.

10. Leases (continued)

Lease liabilities

Lease liabilities are presented in the balance sheet within borrowings as follows:

	30 June 2019 £000	30 June 2018 £000	31 Dec 2018 £000
Lease liabilities (current)	**4,713**	3	2
Lease liabilities (non-current)	**7,213**	-	-
	11,926	3	2

Maturity analysis – contractual undiscounted cash flows:

	30 June 2019 £000	30 June 2018 £000	31 Dec 2018 £000
Less than one year	**5,078**	3	2
One to two years	**3,207**	-	-
Two to five years	**3,940**	-	-
More than five years	**433**	-	-
Total undiscounted lease liabilities	**12,668**	3	2

Amounts recognised in profit or loss

The Group has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred.

During the six months to 30 June 2019, in relation to leases under IFRS 16 the Group recognised the following amounts in the consolidated income statement:

	30 June 2019 £000
Depreciation charge	**2,133**
Impairment	**695**
Interest expense	**222**
Short-term lease expense	**410**
Low-value lease expense	**497**
Total expense	**3,957**

Amounts recognised in the statement of cash flows

	30 June 2019 £000
Interest paid	**222**
Short-term lease expense	**410**
Low-value lease expense	**497**
Repayment of lease liabilities	**2,656**
Total cash outflow for leases	**3,785**

11. Inventories

	30 June 2019 £000	30 June 2018 £000	31 Dec 2018 £000
Raw materials and consumables	**65,948**	75,141	70,866
Work in progress	**6,061**	8,393	6,897
Finished goods	**15,715**	18,075	16,976
	87,724	101,609	94,739

12. Pension schemes - Defined benefit deficit

The defined benefit obligation at 30 June 2019 of £33,918,000 (30 June 2018: £32,780,000; 31 December 2018: £27,293,000) is estimated based on the latest full actuarial valuations at 31 March 2016 for UK and US plans. The valuation of the most significant plan, namely the Rotork Pension and Life Assurance Scheme in the UK, has been updated at 30 June 2019 by independent actuaries to reflect updated assumptions regarding discount rates, inflation rates and asset values.

	30 June 2019 %	30 June 2018 %	31 Dec 2018 %
Discount rate	**2.3**	2.6	2.8
Rate of inflation	**3.2**	3.1	3.2

In addition, the defined benefit plan assets and liabilities have been updated to reflect the regular payments, the £1.9 million payment made in respect of past service and the benefits earned during the period to 30 June 2019.

13. Share capital and reserves

The number of ordinary 0.5p shares in issue at 30 June 2019 was 872,063,000 (30 June 2018: 870,489,000; 31 December 2018: 871,625,000). All issued shares are fully paid.

The Group acquired 1,297,000 of its own shares through purchases on the London Stock Exchange during the period (30 June 2018: 705,000; 31 December 2018: 1,601,000). The total amount paid to acquire the shares was £3,787,000 (30 June 2018: £2,150,000; 31 December 2018: £4,850,000), and this has been deducted from shareholders' equity. At 30 June 2019 the number of shares held in trust for the benefit of directors and employees for future payments under the Share Incentive Plan and Long-term incentive plan was 664,000 (30 June 2018: 490,000; 31 December 2018: 1,387,000). In the period 955,000 shares were transferred from the trust to employees in respect of the share investment plan and the overseas profit linked share plan.

In respect of the SAYE scheme, options exercised during the period to 30 June 2019 resulted in 438,000 ordinary 0.5p shares being issued (30 June 2018: 60,000 shares), with exercise proceeds of £676,000 (30 June 2018: £112,000). The weighted average market share price at the time of exercise was £2.83 (30 June 2018: £3.14) per share.

The share based payment charge for the period was £2,081,000 (30 June 2018: £2,665,000; 31 December 2018: £4,674,000).

14. Loans and borrowings

The following loans and borrowings were issued and repaid during the six months ended 30 June 2019:

	Lease liabilities £000	Bank loans £000	Preference shares £000	Total £000
Balance at 31 December 2018	2	60,839	40	60,881
Adjustment on transition to IFRS 16	12,044	-	-	12,044
Balance at 1 January 2019 after adoption of IFRS 16	12,046	60,839	40	72,925
Additions/drawdowns	2,277	20,000	-	22,277
Repayment	(2,656)	(59,916)	-	(62,572)
Exchange differences	259	(3)	-	256
Balance at 30 June 2019	**11,926**	**20,920**	**40**	**32,886**

	Lease liabilities £000	Bank loans £000	Preference shares £000	**Total £000**
Current	4,713	20,069	-	24,782
Non-current	7,213	851	40	8,104
Balance at 30 June 2019	**11,926**	**20,920**	**40**	**32,886**

The Group has committed loan facilities of £60,000,000 (First half 2018: £120,000,000; Full year 2018: £120,000,000), of which £20,000,000 (30 June 2018: £75,000,000; 31 December 2018: £60,000,000) was drawn down at the balance sheet date. The outstanding amount attracts a blended interest rate of LIBOR plus 0.85%.

The maturity profile of the non-current loans and borrowings is as follows:

	30 June 2019 £000	30 June 2018 £000	31 Dec 2018 £000
One to two years	**3,077**	44,993	30,030
Two to five years	**4,554**	206	801
More than five years	**473**	675	40
	8,104	45,874	30,871

15. Share-based payments

A grant of share options was made on 16 May 2019 to selected members of senior management at the discretion of the Remuneration Committee. The key information and assumptions from this grant were:

	Equity Settled TSR condition	**Equity Settled EPS condition**	**Equity Settled ROIC condition**
Grant date	16 May 2019	16 May 2019	16 May 2019
Share price at grant date	£2.92	£2.92	£2.92
Shares awarded under scheme	451,557	451,557	451,557
Vesting period	3 years	3 years	3 years
Expected volatility	27.3%	27.3%	27.3%
Risk free rate	0.7%	0.7%	0.7%
Expected dividends expressed as a dividend yield	2.0%	2.0%	2.0%
Probability of ceasing employment before vesting	5% p.a.	5% p.a.	5% p.a.
Fair value	£1.42	£2.74	£2.74

The basis of measuring fair value is consistent with that disclosed in the 2018 Annual Report & Accounts.

16. Related parties

The Group has a related party relationship with its subsidiaries and with its directors and key management. A list of subsidiaries is shown in the 2018 Annual Report & Accounts. Transactions between key subsidiaries for the sale and purchase of products or between the subsidiary and parent for management charges are priced on an arm's length basis.

There were no significant changes in the nature and size of related party transactions for the period to those reported in the 2018 Annual Report and Accounts.

17. Financial instruments fair value disclosure

The Group held forward currency contracts designated as hedge instruments in a cash flow hedging relationship. At 30 June 2019 the fair value of these contracts was a net liability of £1,984,000 (30 June 2018: a net liability of £2,695,000; 31 December 2018: a net liability of £2,375,000). The fair value was estimated using period end spot rates adjusted for the forward points to the appropriate value dates, and gains and losses are taken to equity estimated using market foreign exchange rates at the balance sheet date. All derivative financial instruments are categorised at Level 2 of the fair value hierarchy. There was no ineffectiveness to be recorded from the use of foreign exchange contracts.

The other financial instruments, comprising trade and other receivables/payables and contingent consideration, are classified as Level 3 in the fair value hierarchy and their carrying amount is deemed to reflect the fair value. The Group had no derivative financial instruments in the current or previous year with fair values that would be classified as Level 3 in the fair value hierarchy.

18. Shareholder information

The interim report and half year results presentation is available on the Rotork website at www.rotork.com.

General shareholder contact numbers:

Shareholder General Enquiry Number (UK):	0371 384 2280
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19. Group information

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