# Rotork plc
## 2017 Half Year Results

| | HY 2017 | HY 2016 | % change | OCC [2] % change |
|---|---|---|---|---|
| Revenue | **£299.7m** | £263.9m | +13.6% | 0.0% |
| Adjusted[1] operating profit | **£54.4m** | £50.7m | +7.3% | -3.7% |
| Adjusted[1] operating margin | **18.2%** | 19.2% | -100bps | -70bps |
| Adjusted[1] profit before tax | **£52.0m** | £50.1m | +3.7% | -7.5% |
| Adjusted[1] basic earnings per share | **4.4p** | 4.3p | +4.2% | -7.3% |
| Profit before tax | **£48.8m** | £38.3m | +27.4% | |
| Basic earnings per share | **4.3p** | 3.3p | +32.1% | |
| Interim dividend | **2.05p** | 1.95p | +5.1% | |

[1] *Adjusted figures exclude the amortisation of acquired intangible assets and adjustment for contingent consideration.*
[2] *Organic Constant Currency ("OCC") or underlying results exclude acquisitions and are restated at 2016 exchange rates.*

### Summary

- Improving order intake (+19.6%, OCC: +4.8%) reflects our sales initiatives and slightly more favourable market trends
- Order book of £213m increased 17.8% (OCC: +16.5%) from December 2016, giving good visibility for H2
- Adjusted operating margin lower due to phasing of revenue and inflationary cost increases
- 11% currency tailwind in H1 on revenue and profit
- Strong balance sheet and ongoing cash generation at 109%
- Interim dividend increased 5.1% to 2.05p
- Management expectations for the full year remain unchanged

**Martin Lamb, Executive Chairman, commenting on the results, said:** "The slightly more favourable market trends seen towards the end of 2016 continued in the first half of 2017. In oil and gas, we have seen an improvement in levels of activity in upstream and although the midstream and downstream sectors remain subdued, there has been a gradual improvement in project activity levels. We saw steady progress across the water, power and industrial process markets.

As in prior years we anticipate a second half weighting and consequently expect margins to be ahead of those in the first half. Overall we anticipate that full year margins will be similar to the prior year. Based on our project visibility, current order book and its anticipated conversion to revenue, management expectations for the full year remain unchanged."

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*There will be a meeting for analysts and institutional investors at 8.30 am BST on 8 August 2017 at the offices of FTI Consulting, 200 Aldersgate, Aldersgate Street, London EC1A 4HD. The presentation will also be webcast (audio only). Please register at [www.rotork.com](www.rotork.com).*

## Business Review

During the first half of the year we saw a continuation of the slightly more favourable market trends seen towards the end of 2016 with modest recovery in certain markets and geographical areas.

Group order intake in the first half increased 19.6%, benefiting from favourable exchange rates and the contribution from acquisitions. Currency contributed 12.1%, with the contribution from acquisitions being 2.7%. On an organic constant currency (OCC) basis, order intake increased by 4.8%. OCC order intake increased across each division. The order book at 30 June 2017 was £212.8m, 17.8% (16.5% OCC) higher than at 31 December 2016, giving good visibility into the second half.

In the Group's oil and gas markets there has been some improvement in market sentiment. The oil industry appears to be stabilising around a lower oil price, with a gradual increase in levels of project activity and sequential order intake growth. While this takes time to convert into revenue, the benefit of this activity is expected to be seen in the second half of the year.

Revenue increased by 13.6%, with currency contributing 11.5% and the contribution from acquisitions being 2.1%. On an OCC basis, revenue was flat, reflecting the traditional lag in order activity flowing through to revenue.

Overall, oil and gas represented 48.5% (H1 2016: 51.2%) of revenue with an increase in the percentage of upstream sales but a decrease in midstream and downstream. In upstream, which accounted for 17.0% of revenue, we saw good activity in North American onshore and the Middle East. Midstream benefited from an increase in gas pipeline activity and the extension of some LNG projects. Although it has not yet converted into revenue, we are starting to see more activity in downstream and we are well positioned to take advantage of any recovery in this market.

In the water, power and industrial markets, underlying revenue increased over the prior period by 10.2%, 4.2% and 13.2% respectively, illustrating the resilience of our business and demonstrating that our strategy of diversifying our end markets continues to make progress.

Geographically, we saw growth in the Middle East and parts of Asia and Europe while parts of North America and Latin America remained subdued. We remain well placed internationally to benefit from opportunities in all our key markets.

Rotork Site Services, our global service network, is a key differentiator in our industry and continued to perform well as customers look to manage their assets more efficiently and avoid unplanned shutdowns. We continue to grow our Client Support Programme which offers maintenance contracts tailored to our customers' specific needs.

Adjusted operating profit increased 7.3% after a currency tailwind of 11.0%. As anticipated in our first quarter trading update, while our gross margins have held up well, operating margins for the first half of 2017 were lower than those for the comparative period at 18.2% (H1 2016: 19.2%). This was largely due to inflationary cost increases which are spread evenly throughout the year; whereas the expected increase in activity is traditionally second half weighted, as are the additional cost savings from our continuing cost management programme.

Cost control remains a priority as we look to mitigate inflationary pressures through our operating base. We are on track to deliver the savings we have previously announced for the full year, anticipating £4.2m of savings from prior year initiatives. We continue to expect a £2m benefit from the current year initiatives, which will benefit the second half of the year.

The Mastergear acquisition, completed in June 2016, expanded our Gears portfolio, making our gears product range one of the most comprehensive in the industry. The integration of the business into existing Rotork facilities in China and the USA is now complete.

The acquisition of Bifold in 2015 included a stretching £10m earn-out. Given current market conditions, it is no longer considered probable that this will become payable and therefore the related provision has been released. We continue to seek acquisitions that meet our stated acquisition criteria and support the diversification of our portfolio.

**Financial Key Performance Indicators (KPIs)**

| | **H1 2017** | **H1 2016** | **FY 2016** |
|---|---|---|---|
| Sales growth | **+13.6%** | -3.7% | +8.0% |
| Return on sales | **+17.3%** | +19.0% | +20.0% |
| Cash generation | **+108.5%** | +131.5% | +130.1% |
| Return on capital employed | **+23.1%** | +23.8% | +23.4% |
| Earnings per share growth | **+4.2%** | -21.9% | -3.8% |

The KPIs are calculated in a consistent manner with those presented at year end and are defined in the 2016 Annual Report & Accounts, with the exception of Return on Capital Employed (ROCE), for which a rolling 12 month calculation is used. Our asset-light business model and strong profit margins mean Rotork generates a high ROCE, which may reduce as we acquire new businesses but increases as profits grow and intangible assets are amortised, although it is also impacted by currency.

**Cash flow**

Our strong cash generation and disciplined working capital management resulted in a reduction in net debt of £7.9m to £47.1m at the end of the period. Our cash generation KPI shows a conversion of 108.5% of operating profit into operating cash. This allowed us to invest £8.0m in capital expenditure, pay dividends of £27.4m and make tax payments of £11.5m.

**Financial position**

The balance sheet remains strong and at the period end included net debt of £47.1m (Dec 2016: £55.0m), with a net debt: adjusted EBITDA ratio of 0.4:1 (Dec 2016: 0.4:1). Committed facilities totalled £170m of which £107m were drawn at the period end. £35m of the committed facility expires in August 2017.

Net working capital at the period end was £175.9m, a reduction of £2.1m since the year end. On an OCC basis, net working capital would have reduced by £1.0m.

The Group operates two defined benefit pension schemes, the larger of which is in the UK. Both schemes are closed to new entrants. The deficit decreased from £58.5m at 31 December 2016 to £45.3m at 30 June 2017 due to a good performance from the assets and changes to assumptions which impact the schemes' liabilities.

**Currency**

Overall, currency added £30.4m (11.5%) to revenue compared with the first half of 2016. The average US dollar rate was \$1.26 (H1 2016: \$1.43) and the average Euro rate was €1.16 (H1 2016: €1.29), whilst the rates at 30 June 2017 were \$1.30 and €1.14 (30 June 2016: \$1.34 and €1.20).

**Dividend**

The Board has decided to increase the interim dividend by 5.1% to 2.05p, reflecting confidence in progress for the full year. The interim dividend of 2.05p per ordinary share will be paid on 22 September 2017 to shareholders on the register at the close of business on 25 August 2017.

## Operating Review

### Rotork Controls

| £m | H1 2017 | H1 2016 | Change | OCC[2] Change |
|---|---|---|---|---|
| Order intake | **164.7** | 138.8 | +18.7% | +6.3% |
| Order book | **102.5** | 96.3 | +6.4% | +3.1% |
| Revenue | **151.1** | 132.5 | +14.1% | +2.2% |
| Gross margin | **51.4%** | 52.0% | -60bps | +60bps |
| Adjusted[1] operating profit | **40.0** | 36.2 | +10.2% | +1.1% |
| Adjusted[1] operating margin | **26.4%** | 27.4% | -100bps | -30bps |

Controls performed well during the period, with order intake and revenue increasing by 18.7% (OCC: 6.3%) and 14.1% (OCC: 2.2%) respectively, driven by improvements in the water, power and industrial markets and upstream oil and gas.

Underlying gross margins increased, reflecting material cost saving initiatives while the adjusted operating margin was down 30 basis points on an OCC basis due primarily to increases in staff costs.

In oil and gas, we saw good activity levels in upstream in both the USA and the Middle East. Downstream remained challenging across all geographies except Asia where we saw an increase in activity due to investment in China. We also saw growth in the water market in a number of areas with growing interest in our CK product range. Activity in the power market also increased in a number of areas. Industrial process solutions performed well in North America, Asia and Europe.

### Rotork Fluid Systems

| £m | H1 2017 | H1 2016 | Change | OCC[2] Change |
|---|---|---|---|---|
| Order intake | **82.6** | 70.1 | +17.8% | +5.3% |
| Order book | **81.6** | 84.2 | -3.1% | -6.8% |
| Revenue | **68.1** | 61.8 | +10.2% | -1.8% |
| Gross margin | **27.2%** | 27.5% | -30bps | -10bps |
| Adjusted[1] operating profit | **1.1** | 0.8 | +35.2% | -3.3% |
| Adjusted[1] operating margin | **1.6%** | 1.3% | +30bps | 0bps |

Fluid Systems, which was the division impacted most by the difficult oil and gas market, benefited from an increase in order intake of 17.8% (OCC: 5.3%). Revenue increased by 10.2% on a reported basis but decreased by 1.8% on an OCC basis as there is traditionally a lag in improvement in order intake flowing through to revenue. The increase in project activity and the level of the order book gives good coverage for the second half of the year.

Underlying gross margins reduced by 10 basis points, reflecting the impact of several lower margin projects in the first half of 2017. However, at an operating margin level, this was offset by overhead savings from site consolidations in the second half of last year.

Upstream oil and gas activity revenues increased in the Middle East and Africa and also Eastern Europe. Midstream also benefited from an increase in the Middle East and Africa while other areas were down, as were most downstream markets. The water market was broadly flat, while in the power market increases in the Middle East and Africa were partially offset by a decline in North America.

**Rotork Gears**

| £m | H1 2017 | H1 2016 | Change | OCC[2] Change |
|---|---|---|---|---|
| Order intake | **45.4** | 33.0 | +37.5% | +3.3% |
| Order book | **17.0** | 13.7 | +23.4% | +19.2% |
| Revenue | **40.3** | 32.6 | +23.3% | -3.7% |
| Gross margin | **33.4%** | 35.1% | -170bps | +160bps |
| Adjusted[1] operating profit | **6.3** | 6.5 | -3.2% | -12.9% |
| Adjusted[1] operating margin | **15.7%** | 20.0% | -430bps | -190bps |

Gears order intake increased by 37.5% (OCC: 3.3%) and reported revenue by 23.3% while OCC revenue fell by 3.7% due to the timing of order conversion.

Underlying gross margin increased by 160 basis points, reflecting material cost saving initiatives, while the adjusted operating margin reduced by 190 basis points due to lower underlying revenue and increases in staff costs. Reported margins were impacted by one-off integration costs relating to Mastergear.

In oil and gas, upstream remained flat, while midstream increased, benefiting from the contribution from Mastergear. Downstream revenues from North America grew modestly. There were also modest increases across each of the power, water and industrial process markets, with the biggest growth in North America.

**Rotork Instruments**

| £m | H1 2017 | H1 2016 | Change | OCC[2] Change |
|---|---|---|---|---|
| Order intake | **51.0** | 45.5 | +12.0% | +3.4% |
| Order book | **11.8** | 8.8 | +34.3% | +32.0% |
| Revenue | **48.6** | 45.0 | +8.0% | -0.5% |
| Gross margin | **43.4%** | 44.2% | -80bps | -150bps |
| Adjusted[1] operating profit | **10.0** | 10.3 | -2.8% | -15.8% |
| Adjusted[1] operating margin | **20.5%** | 22.8% | -230bps | -350bps |

Instruments saw an increase in order intake of 12.0% (OCC: 3.4%) while revenue grew by 8.0% (OCC: -0.5%).

Underlying gross margin reduced by 150 basis points due to a change in the mix of products sold with operating margins further affected by inflationary cost increases combined with the lower underlying revenue.

The division recorded double digit growth in the water, power and industrial process markets across Asia and Europe. In the oil and gas market, while midstream and downstream held up well, upstream fell due to reduced activity in Europe.

## Board changes

On 28 July 2017 we announced the resignation of Peter France as Chief Executive. The Board has asked me to assume the role of full time Executive Chairman on an interim basis until a successor can be appointed.

The announcement followed a period of reflection by the Board, together with Peter, on the steps required to foster a return to higher growth and margin levels in what is likely to be a generally lower growth macro environment. Such steps include accelerating investment in key areas such as product innovation and customer service whilst, at the same time, driving greater efficiencies throughout the business. The Board is now focused on identifying the right leader to deliver the greatest shareholder value from this next phase in the Company's development.

The Board thanks Peter for all his efforts and achievements throughout a long and successful career with the Company and wishes him every success in the future.

We are also announcing the appointment of Peter Dilnot to the Board as a non-executive director with effect from 1 September 2017. He will be a member of the Audit, Nomination and Remuneration Committees of the Board.  Peter is Chief Executive Officer of Renewi plc, the international waste-to-product company created in 2017 by the merger of Shanks Group plc and Van Gansewinkel Groep B.V.. We are delighted to welcome Peter to the Board.

## Outlook

As in prior years we anticipate a second half weighting and consequently expect margins to be ahead of those in the first half. Overall we anticipate that full year margins will be similar to the prior year. Based on our project visibility, current order book and its anticipated conversion to revenue, management expectations for the full year remain unchanged.

## Principal risks and uncertainties

The Group has an established risk management process as part of the corporate governance framework set out in the 2016 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 28 to 35 of the 2016 Annual Report & Accounts. We identify risks and set out mitigations and improvements to our processes and procedures as necessary to manage these risks. The Group has reviewed these 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; increase in the defined benefit pension scheme deficit; volatility of exchange rates; potential risks to the health and safety of our employees and other stakeholders; major in-field product failure; failure of a key supplier or a tooling failure at a supplier; failure of an acquisition to deliver the growth or synergies anticipated; failure to provide, maintain and update the IT systems; failure of the IT security systems to protect operations or sensitive data from cybercrime; and failure to comply with law or regulation or to uphold our high ethical standards and values.

## 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 2016. A list of current directors is maintained in the "About Us" section of the Rotork website: www.rotork.com.

**By order of the Board**
Martin Lamb
Executive Chairman
7 August 2017

## 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 2017 which comprises the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income and Expense, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows 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 Auditing Practices Board. 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 and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

**Our responsibility**

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

**Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) 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 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
London
7 August 2017

## Consolidated Income Statement

| | Notes | First half 2017 £000 | First half 2016 £000 | Full year 2016 £000 |
|---|---|---|---|---|
| **Revenue** | 3 | **299,745** | 263,911 | 590,078 |
| Cost of sales | | **(169,059)** | (146,618) | (328,410) |
| **Gross profit** | | **130,686** | 117,293 | 261,668 |
| Other income | 4 | **10,332** | 416 | 629 |
| Distribution costs | | **(2,977)** | (2,357) | (5,138) |
| Administrative expenses | | **(86,504)** | (76,339) | (163,165) |
| Other expenses | | **(236)** | (84) | (217) |
| Adjusted operating profit | 2 | **54,430** | 50,716 | 120,588 |
| Release of contingent consideration provision | 4 | **10,000** | - | - |
| Amortisation of acquired intangible assets | | **(13,129)** | (11,787) | (26,811) |
| **Operating profit** | 3 | **51,301** | 38,929 | 93,777 |
| Finance income | 5 | **646** | 1,264 | 1,744 |
| Finance expense | 6 | **(3,116)** | (1,866) | (4,451) |
| **Profit before tax** | | **48,831** | 38,327 | 91,070 |
| **Income tax expense** | 7 | **(11,514)** | (10,134) | (23,897) |
| **Profit for the period** | | **37,317** | 28,193 | 67,173 |
| | | pence | pence | pence |
| **Basic earnings per share** | 9 | **4.3** | 3.3 | 7.7 |
| **Adjusted basic earnings per share** | 2 | **4.4** | 4.3 | 10.0 |
| **Diluted earnings per share** | 9 | **4.3** | 3.2 | 7.7 |
| **Adjusted diluted earnings per share** | 2 | **4.4** | 4.2 | 10.0 |

## Consolidated Statement of Comprehensive Income and Expense

| | First half 2017 £000 | First half 2016 £000 | Full year 2016 £000 |
|---|---|---|---|
| **Profit for the period** | **37,317** | 28,193 | 67,173 |
| **Other comprehensive income and expense** | | | |
| ***Items that may be subsequently reclassified to the income statement:*** | | | |
| Foreign currency translation differences | **(21)** | 31,114 | 36,854 |
| Effective portion of changes in fair value of cash flow hedges net of tax | **2,789** | (4,741) | (6,414) |
| | **2,768** | 26,373 | 30,440 |
| ***Items that are not subsequently reclassified to the income statement:*** | | | |
| Actuarial gain / (loss) in pension scheme net of tax | **10,310** | (17,465) | (30,732) |
| **Income and expenses recognised directly in equity** | **13,078** | 8,908 | (292) |
| **Total comprehensive income for the period** | **50,395** | 37,101 | 66,881 |

# Consolidated Balance Sheet

| | Notes | **30 June 2017 £000** | 30 June 2016 £000 | 31 Dec 2016 £000 |
|---|---|---|---|---|
| Goodwill | | **251,648** | 244,672 | 251,407 |
| Intangible assets | | **95,707** | 120,640 | 109,019 |
| Property, plant and equipment | | **82,675** | 81,782 | 83,766 |
| Deferred tax assets | | **18,545** | 18,672 | 25,259 |
| Other receivables | | **384** | - | 146 |
| **Total non-current assets** | | **448,959** | 465,766 | 469,597 |
| | | | | |
| Inventories | *10* | **91,767** | 100,347 | 85,772 |
| Trade receivables | | **129,130** | 118,858 | 131,891 |
| Current tax | | **2,552** | 5,177 | 4,349 |
| Derivative financial instruments | | **550** | - | - |
| Other receivables | | **21,535** | 19,975 | 22,341 |
| Cash and cash equivalents | | **60,690** | 56,641 | 61,423 |
| **Total current assets** | | **306,224** | 300,998 | 305,776 |
| | | | | |
| **Total assets** | | **755,183** | 766,764 | 775,373 |
| | | | | |
| Ordinary shares | *12* | **4,351** | 4,349 | 4,350 |
| Share premium | | **10,638** | 10,124 | 10,482 |
| Reserves | | **29,219** | 22,384 | 26,451 |
| Retained earnings | | **413,250** | 381,683 | 392,803 |
| **Total equity** | | **457,458** | 418,540 | 434,086 |
| | | | | |
| Interest-bearing loans and borrowings | *13* | **60,857** | 93,372 | 51,303 |
| Employee benefits | | **43,325** | 41,894 | 62,593 |
| Deferred tax liabilities | | **18,606** | 23,756 | 24,848 |
| Derivative financial instruments | | **1,038** | 3,784 | 2,483 |
| Provisions | *14* | **2,020** | 11,934 | 11,947 |
| **Total non-current liabilities** | | **125,846** | 174,740 | 153,174 |
| | | | | |
| Interest-bearing loans and borrowings | *13* | **46,951** | 50,196 | 65,108 |
| Trade payables | | **44,949** | 42,112 | 39,652 |
| Employee benefits | | **15,493** | 13,605 | 14,256 |
| Current tax | | **14,335** | 12,392 | 13,352 |
| Derivative financial instruments | | **5,328** | 11,570 | 8,143 |
| Other payables | | **39,920** | 38,005 | 41,999 |
| Provisions | *14* | **4,903** | 5,604 | 5,603 |
| **Total current liabilities** | | **171,879** | 173,484 | 188,113 |
| | | | | |
| **Total liabilities** | | **297,725** | 348,224 | 341,287 |
| | | | | |
| **Total equity and liabilities** | | **755,183** | 766,764 | 775,373 |

# 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 2015** | 4,349 | 10,018 | (4,712) | 1,644 | (921) | 397,424 | 407,802 |
| Profit for the period | - | - | - | - | - | 28,193 | 28,193 |
| *Other comprehensive income* | | | | | | | |
| Foreign currency translation differences | - | - | 31,114 | - | - | - | 31,114 |
| Effective portion of changes in fair value of cash flow hedges | - | - | - | - | (5,955) | - | (5,955) |
| Actuarial loss on defined benefit pension plans | - | - | - | - | - | (22,112) | (22,112) |
| Tax in other comprehensive income | - | - | - | - | 1,214 | 4,647 | 5,861 |
| *Total other comprehensive income* | - | - | 31,114 | - | (4,741) | (17,465) | 8,908 |
| **Total comprehensive income** | - | - | 31,114 | - | (4,741) | 10,728 | 37,101 |
| *Transactions with owners, recorded directly in equity* | | | | | | | |
| Equity settled share based payment transactions | - | - | - | - | - | (914) | (914) |
| Tax on equity settled share based payment transactions | - | - | - | - | - | 183 | 183 |
| Share options exercised by employees | - | 106 | - | - | - | - | 106 |
| Own ordinary shares acquired | - | - | - | - | - | (1,007) | (1,007) |
| Own ordinary shares awarded under share schemes | - | - | - | - | - | 2,202 | 2,202 |
| Dividends | - | - | - | - | - | (26,933) | (26,933) |
| **Balance at 30 June 2016** | 4,349 | 10,124 | 26,402 | 1,644 | (5,662) | 381,683 | 418,540 |

| | 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 2015** | 4,349 | 10,018 | (4,712) | 1,644 | (921) | 397,424 | 407,802 |
| Profit for the year | - | - | - | - | - | 67,173 | 67,173 |
| *Other comprehensive income* | | | | | | | |
| Foreign currency translation differences | - | - | 36,854 | - | - | - | 36,854 |
| Effective portion of changes in fair value of cash flow hedges | - | - | - | - | (7,822) | - | (7,822) |
| Actuarial loss on defined benefit pension plans | - | - | - | - | - | (37,923) | (37,923) |
| Tax in other comprehensive income | - | - | - | - | 1,408 | 7,191 | 8,599 |
| *Total other comprehensive income* | - | - | 36,854 | - | (6,414) | (30,732) | (292) |
| **Total comprehensive income** | - | - | 36,854 | - | (6,414) | 36,441 | 66,881 |
| *Transactions with owners, recorded directly in equity* | | | | | | | |
| Equity settled share based payment transactions | - | - | - | - | - | 1,557 | 1,557 |
| Tax on equity settled share based payment transactions | - | - | - | - | - | 74 | 74 |
| Share options exercised by employees | 1 | 464 | - | - | - | - | 465 |
| Own ordinary shares acquired | - | - | - | - | - | (1,019) | (1,019) |
| Own ordinary shares awarded under share schemes | - | - | - | - | - | 2,202 | 2,202 |
| Dividends | - | - | - | - | - | (43,876) | (43,876) |
| **Balance at 31 December 2016** | 4,350 | 10,482 | 32,142 | 1,644 | (7,335) | 392,803 | 434,086 |

## 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 2016** | **4,350** | **10,482** | **32,142** | **1,644** | **(7,335)** | **392,803** | **434,086** |
| Profit for the period | - | - | - | - | - | 37,317 | 37,317 |
| *Other comprehensive income* | | | | | | | |
| Foreign currency translation differences | - | - | (21) | - | - | - | (21) |
| Effective portion of changes in fair value of cash flow hedges | - | - | - | - | 3,443 | - | 3,443 |
| Actuarial gain on defined benefit pension plans | - | - | - | - | - | 12,963 | 12,963 |
| Tax in other comprehensive income | - | - | - | - | (654) | (2,653) | (3,307) |
| *Total other comprehensive income* | - | - | (21) | - | 2,789 | 10,310 | 13,078 |
| **Total comprehensive income** | - | - | (21) | - | 2,789 | 47,627 | 50,395 |
| *Transactions with owners, recorded directly in equity* | | | | | | | |
| Equity settled share based payment transactions | - | - | - | - | - | (1,150) | (1,150) |
| Tax on equity settled share based payment transactions | - | - | - | - | - | 218 | 218 |
| Share options exercised by employees | 1 | 156 | - | - | - | - | 157 |
| Own ordinary shares acquired | - | - | - | - | - | (1,158) | (1,158) |
| Own ordinary shares awarded under share schemes | - | - | - | - | - | 2,301 | 2,301 |
| Dividends | - | - | - | - | - | (27,391) | (27,391) |
| **Balance at 30 June 2017** | **4,351** | **10,638** | **32,121** | **1,644** | **(4,546)** | **413,250** | **457,458** |

## Consolidated Statement of Cash Flows

| | **First half 2017 £000** | First half 2016 £000 | Full year 2016 £000 |
|---|---|---|---|
| Profit for the period | **37,317** | 28,193 | 67,173 |
| Amortisation of acquired intangible assets | **13,129** | 11,787 | 26,811 |
| Amortisation of development costs | **1,182** | 1,052 | 2,226 |
| Depreciation | **6,171** | 5,660 | 11,759 |
| Equity settled share based payment expense | **1,371** | 1,471 | 3,759 |
| Release of contingent consideration provision | **(10,000)** | - | - |
| Net gain on sale of property, plant and equipment | **61** | (209) | (254) |
| Finance income | **(646)** | (1,264) | (1,744) |
| Finance expense | **3,116** | 1,866 | 4,451 |
| Income tax expense | **11,514** | 10,134 | 23,897 |
| | **63,215** | 58,690 | 138,078 |
| (Increase) / decrease in inventories | **(6,440)** | (2,654) | 14,416 |
| Decrease in trade and other receivables | **3,109** | 11,784 | 2,511 |
| Increase in trade and other payables | **1,483** | 1,292 | 1,309 |
| Difference between pension charge and cash contribution | **(3,393)** | (4,542) | (5,297) |
| Increase / (decrease) in provisions | **293** | (200) | (496) |
| (Decrease) / increase in employee benefits | **(2,579)** | (2,216) | 1,047 |
| | **55,688** | 62,154 | 151,568 |
| Income taxes paid | **(11,464)** | (15,173) | (32,876) |
| **Cash flows from operating activities** | **44,224** | 46,981 | 118,692 |
| | | | |
| Purchase of property, plant and equipment | **(6,244)** | (8,443) | (14,692) |
| Development costs capitalised | **(1,763)** | (1,294) | (2,957) |
| Proceeds from sale of property, plant and equipment | **898** | 341 | 648 |
| Acquisition of businesses, net of cash acquired | **-** | (16,851) | (16,109) |
| Contingent consideration paid | **(921)** | (245) | (257) |
| Settlement of hedging derivatives | **1,152** | (10,007) | (25,867) |
| Interest received | **378** | 415 | 180 |
| **Cash flows from investing activities** | **(6,500)** | (36,084) | (59,054) |
| | | | |
| Issue of ordinary share capital | **157** | 106 | 466 |
| Purchase of ordinary share capital | **(1,158)** | (1,007) | (1,019) |
| Interest paid | **(1,442)** | (1,176) | (2,649) |
| (Decrease) / increase in borrowings | **(8,567)** | 23,444 | (3,619) |
| Repayment of finance lease liabilities | **(66)** | (126) | (253) |
| Dividends paid on ordinary shares | **(27,391)** | (26,933) | (43,876) |
| **Cash flows from financing activities** | **(38,467)** | (5,692) | (50,950) |
| | | | |
| **Net (decrease) / increase in cash and cash equivalents** | **(743)** | 5,205 | 8,688 |
| | | | |
| Cash and cash equivalents at 1 January | **61,423** | 48,968 | 48,968 |
| Effect of exchange rate fluctuations on cash held | **10** | 2,468 | 3,767 |
| **Cash and cash equivalents at end of period** | **60,690** | 56,641 | 61,423 |

# 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 2017 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 2016 does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006, statutory accounts for the year ended 31 December 2016 were approved by the Board on 27 February 2017 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 2016 are available from the Company's registered office or website, see note 18.

**Basis of preparation**

The condensed consolidated interim financial statements of the Company for the six months ended 30 June 2017 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 2016, 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 2016.

**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 2016.

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

***New accounting standards and interpretations***

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.

***Recent accounting developments***

IFRS 15, 'Revenue from contracts with customers' has been issued but is not yet effective and has not been adopted as application was not mandatory for the year. The new standard requires the separation of performance obligations within contracts with customers and the contractual value to be allocated to the performance obligations. Once a performance obligation is satisfied revenue should be recognised on that element of the contract. The introduction of the standard is likely to have some impact on Rotork but this is unlikely to be material due to the relatively straightforward contractual terms and conditions with customers. Training of senior finance staff is in progress and the directors continue to assess the impact of this standard before it becomes effective in January 2018.

IFRS 9, 'Financial Instruments' has been issued but is not yet effective and has not been adopted as application was not mandatory for the year. The directors anticipate that the adoption of this standard will not have a material impact on the disclosures, net assets or results of the Group.

IFRS 16, 'Leases' has been issued but is not yet effective and has not been adopted as application was not mandatory for the year. The new standard will eliminate the classification of leases as either operating or finance leases and result in operating leases being treated as finance leases. This will result in previously recognised operating leases being treated as property, plant and equipment and a finance lease creditor. The introduction of the standard will increase the value of property, plant and equipment and the finance lease liability on the balance sheet but it is unlikely to have a material impact on profit in any year. An assessment is in progress to understand the full impact of the standard before it becomes effective in January 2019.

Further narrow scope amendments have been issued which are mandatory for periods commencing on or after 1 January 2018. The application of these amendments will not have any material impact on the disclosures, net assets or results of the Group.

IFRIC 22 Foreign currency transactions and advance consideration which becomes effective on 1 January 2018 and IFRS 23 Uncertainty over income tax treatments which becomes effective on 1 January 2019 are not expected to 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 enable management and stakeholders to assess the underlying trading performance of the Group.

The key alternative performance measures that the Group use 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 items 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. In 2017 we have included the release of contingent consideration to arrive at adjusted operating profit as this is a one off non-cash item and is explained in note 4.

A reconciliation of operating profit to adjusted operating profit across the reportable segments is shown in note 3.

## 2. *Alternative performance measures (continued)*

### b. Adjusted profit before tax

| | **First half 2017 £000** | First half 2016 £000 | Full year 2016 £000 |
|---|---|---|---|
| Profit before tax | **48,831** | 38,327 | 91,070 |
| *Adjustments:* | | | |
| Amortisation of acquired intangible assets | **13,129** | 11,787 | 26,811 |
| Release of contingent consideration provision | **(10,000)** | - | - |
| **Adjusted profit before tax** | **51,960** | 50,114 | 117,881 |

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

### 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 (see note 9). Adjusted net profit attributable to ordinary shareholders is calculated as follows:

| | **First half 2017 £000** | First half 2016 £000 | Full year 2016 £000 |
|---|---|---|---|
| Net profit attributable to ordinary shareholders | **37,317** | 28,193 | 67,173 |
| *Adjustments:* | | | |
| Amortisation of acquired intangible assets | **13,129** | 11,787 | 26,811 |
| Release of contingent consideration provision | **(10,000)** | - | - |
| Tax effect on adjusted items | **(1,965)** | (3,117) | (7,035) |
| **Adjusted net profit attributable to ordinary shareholders** | **38,481** | 36,863 | 86,949 |

Diluted earnings per share is calculated by using the adjusted net profit attributable to ordinary shareholders and dividing it by potentially dilutive ordinary shares (see note 9).

### d. Organic constant currency (OCC)

OCC results exclude the incremental impact of acquisitions and are restated at 2016 exchange rates. Key headings in the income statement are reconciled to OCC as follows:

| | **30 June 2017** | Currency adjustment | Impact of acquisitions | **OCC 30 June 2017** |
|---|---|---|---|---|
| Revenue | **299,745** | (30,390) | (5,438) | 263,917 |
| Cost of sales | **(169,059)** | 18,968 | 4,647 | (145,444) |
| Gross margin | **130,686** | (11,422) | (791) | 118,473 |
| Net overheads | **(76,256)** | 5,831 | 779 | (69,646) |
| Adjusted operating profit | **54,430** | (5,591) | (12) | 48,827 |
| Adjusted operating margin | **18.2%** | | | 18.5% |
| | | | | |
| Adjusted profit before tax | **51,960** | (5,591) | (12) | 46,357 |
| Adjusted basic earnings per share | **4.4p** | (0.5p) | - | 3.9p |

### *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 2017**

| | Controls £000 | Fluid Systems £000 | Gears £000 | Instruments £000 | Elimination £000 | Unallocated £000 | Group £000 |
|---|---|---|---|---|---|---|---|
| Revenue from external customers | **151,104** | **68,114** | **34,930** | **45,597** | **-** | **-** | **299,745** |
| Inter segment revenue | **-** | **-** | **5,333** | **2,985** | **(8,318)** | **-** | **-** |
| Total revenue | **151,104** | **68,114** | **40,263** | **48,582** | **(8,318)** | **-** | **299,745** |
| Adjusted operating profit | **39,951** | **1,099** | **6,313** | **9,976** | **-** | **(2,909)** | **54,430** |
| Amortisation of acquired intangibles assets | **(1,424)** | **(579)** | **(1,032)** | **(10,094)** | **-** | **-** | **(13,129)** |
| Release of contingent consideration provision | **-** | **-** | **-** | **10,000** | **-** | **-** | **10,000** |
| Operating profit | **38,527** | **520** | **5,281** | **9,882** | **-** | **(2,909)** | **51,301** |
| Net financing expense | | | | | | | **(2,470)** |
| Income tax expense | | | | | | | **(11,514)** |
| Profit for the period | | | | | | | **37,317** |

**Half year to 30 June 2016**

| | Controls £000 | Fluid Systems £000 | Gears £000 | Instruments £000 | Elimination £000 | Unallocated £000 | Group £000 |
|---|---|---|---|---|---|---|---|
| Revenue from external customers | 132,469 | 61,816 | 27,464 | 42,162 | - | - | 263,911 |
| Inter segment revenue | - | - | 5,180 | 2,822 | (8,002) | - | - |
| Total revenue | 132,469 | 61,816 | 32,644 | 44,984 | (8,002) | - | 263,911 |
| Adjusted operating profit | 36,244 | 814 | 6,522 | 10,260 | - | (3,124) | 50,716 |
| Amortisation of acquired intangibles assets | (1,848) | (758) | (498) | (8,683) | - | - | (11,787) |
| Operating profit | 34,396 | 56 | 6,024 | 1,577 | - | (3,124) | 38,929 |
| Net financing expense | | | | | | | (602) |
| Income tax expense | | | | | | | (10,134) |
| Profit for the period | | | | | | | 28,193 |

### 3. *Analysis by operating segment (continued)*

**Full year to 31 December 2016**

| | Controls £000 | Fluid Systems £000 | Gears £000 | Instruments £000 | Elimination £000 | Unallocated £000 | Group £000 |
|---|---|---|---|---|---|---|---|
| Revenue from external customers | 298,381 | 145,317 | 60,802 | 85,578 | - | - | 590,078 |
| Inter segment revenue | - | - | 11,577 | 5,592 | (17,169) | - | - |
| Total revenue | 298,381 | 145,317 | 72,379 | 91,170 | (17,169) | - | 590,078 |
| Adjusted operating profit | 87,293 | 6,181 | 14,051 | 20,130 | - | (7,067) | 120,588 |
| Amortisation of acquired intangibles assets | (3,860) | (1,582) | (1,698) | (19,671) | - | - | (26,811) |
| Operating profit | 83,433 | 4,599 | 12,353 | 459 | - | (7,067) | 93,777 |
| Net financing expense | | | | | | | (2,707) |
| Income tax expense | | | | | | | (23,897) |
| Profit for the year | | | | | | | 67,173 |

**Revenue by location of subsidiary**

| | **First half 2017 £000** | First half 2016 £000 | Full year 2016 £000 |
|---|---|---|---|
| UK | **34,495** | 37,430 | 74,144 |
| Italy | **40,543** | 28,761 | 63,040 |
| Rest of Europe | **52,132** | 50,925 | 112,759 |
| USA | **71,633** | 64,631 | 145,473 |
| Other Americas | **13,203** | 11,120 | 27,365 |
| Rest of World | **87,739** | 71,044 | 167,297 |
| | **299,745** | 263,911 | 590,078 |

### 4. *Other Income*

Included in the provision balance at 31 December 2016 is £10,000,000 contingent consideration relating to the Bifold acquisition. Due to the reduced likelihood of the challenging EBITDA performance target being met in respect of the 2017 financial year, the fair value of the contingent consideration has been reduced to £nil. Accordingly a £10,000,000 credit has been recognised in the income statement in the period to 30 June 2017 reflecting the reduction in the fair value of the provision.

### 5. *Finance income*

| | **First half 2017 £000** | First half 2016 £000 | Full year 2016 £000 |
|---|---|---|---|
| Bank interest income | **254** | 346 | 727 |
| Foreign exchange gain | **154** | 800 | 810 |
| Other interest income | **238** | 118 | 207 |
| | **646** | 1,264 | 1,744 |

### *6. Finance expense*

| | **First half 2017 £000** | First half 2016 £000 | Full year 2016 £000 |
|---|---|---|---|
| Interest expense on bank loans and overdrafts | **723** | 1,018 | 2,028 |
| Interest charge on pension scheme liabilities | **803** | 385 | 767 |
| Foreign exchange loss | **766** | 157 | 714 |
| Other interest expense | **824** | 306 | 942 |
| | **3,116** | 1,866 | 4,451 |

### *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 2017 is 23.6%. This is lower than the effective tax rate for the year ended 31 December 2016 of 26.2%, primarily due to the release of the non-taxable contingent consideration (see note 4). The estimated average annual tax rate for the year ending 31 December 2017 before accounting for the contingent consideration release is 25.9%.

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 19.25% due to higher tax rates in the majority of overseas subsidiaries.

### *8. Dividends*

| | **First half 2017 £000** | First half 2016 £000 | Full year 2016 £000 |
|---|---|---|---|
| ***The following dividends were paid in the period per qualifying ordinary share:*** | | | |
| 3.15p final dividend (2016: 3.10p) | **27,391** | 26,933 | 26,933 |
| 1.95p interim dividend | **-** | - | 16,943 |
| | **27,391** | 26,933 | 43,876 |
| ***The following dividends per qualifying ordinary share were declared / proposed at the balance sheet date:*** | | | |
| 3.15p final dividend | **-** | - | 27,407 |
| 2.05p interim dividend declared (2016: 1.95p) | **17,826** | 16,961 | - |
| | **17,826** | 16,961 | 27,407 |

The interim dividend of 2.05p pence will be payable to shareholders on 22 September 2017 to those on the register on 25 August 2017.

### *9. Earnings per share*

Earnings per share is calculated using the profit attributable to the ordinary shareholders for the period and 869.3m shares (six months to 30 June 2016: 868.5m; year to 31 December 2016: 868.7m) 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 873.7m shares (six months to 30 June 2016: 871.4m; year to 31 December 2016: 872.0m). 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. Inventories*

| | **30 June 2017 £000** | 30 June 2016 £000 | 31 Dec 2016 £000 |
|---|---|---|---|
| Raw materials and consumables | **62,466** | 69,576 | 59,398 |
| Work in progress | **10,020** | 9,987 | 10,211 |
| Finished goods | **19,281** | 20,784 | 16,163 |
| | **91,767** | 100,347 | 85,772 |

### *11. Pension schemes - Defined benefit deficit*

The defined benefit obligation at 30 June 2017 of £45,293,000 (30 June 2016: £41,230,000; 31 December 2016: £58,498,000) 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 2017 by independent actuaries to reflect updated assumptions regarding discount rates, inflation rates and asset values.

| | **30 June 2017 %** | 30 June 2016 % | 31 Dec 2016 % |
|---|---|---|---|
| Discount rate | **2.6** | 2.9 | 2.6 |
| Rate of inflation | **3.2** | 2.9 | 3.4 |

In addition, the defined benefit plan assets and liabilities have been updated to reflect the regular payments, the £1.9 million payment made in March 2017 in respect of past service and the benefits earned during the period to 30 June 2017.

### *12. Share capital and reserves*

The number of ordinary 0.5p shares in issue at 30 June 2017 was 870,139,000 (30 June 2016: 869,808,000; 31 December 2016: 870,051,000). All issued shares are fully paid.

The Group acquired 465,000 of its own shares through purchases on the London Stock Exchange during the period (30 June 2016: 557,000; 31 December 2016: 557,000). The total amount paid to acquire the shares was £1,158,000 (30 June 2016: £1,007,000; 31 December 2016: £1,019,000), and this has been deducted from shareholders equity. At 30 June 2017 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 566,000 (30 June 2016: 963,000; 31 December 2016: 963,000). In the period 862,000 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 2017 resulted in 88,000 ordinary 0.5p shares being issued (30 June 2016: 70,000 shares), with exercise proceeds of £157,000 (30 June 2016: £106,000). The weighted average market share price at the time of exercise was £2.45 (30 June 2016: £1.88) per share.

The share based payment charge for the period was £1,371,000 (30 June 2016: £1,471,000; 31 December 2016: £3,759,000).

### *13. Loans and borrowings*

The following loans and borrowings were issued and repaid during the six months ended 30 June 2017:

| | **Carrying value £000** |
|---|---|
| Balance at 1 January 2017 | 116,411 |
| *Movement in the period:* | |
| Repayment of Euro denominated loans | (127) |
| Repayment of finance leases | (66) |
| Movement on GBP denominated loans | (8,440) |
| Exchange differences | 30 |
| **Balance at 30 June 2017** | **107,808** |
| Current | 46,951 |
| Non-current | 60,857 |
| | **107,808** |

The Group has committed loan facilities of £170,000,000 (First half 2016: £170,000,000; Full year 2016: £170,000,000), of which £107,000,000 (30 June 2016: £142,500,000; 31 December 2016: £115,500,000) has been drawn down, the outstanding amount attracts a blended interest rate of LIBOR plus 0.73%.

The maturity profile of the non-current debt is as follows:

| | **30 June 2017 £000** | 30 June 2016 £000 | 31 Dec 2016 £000 |
|---|---|---|---|
| 1-2 years | **30,001** | 30,004 | 44,968 |
| 2-5 years | **30,135** | 62,555 | 5,600 |
| > 5 years | **721** | 813 | 735 |
| | **60,857** | 93,372 | 51,303 |

### *14. Provisions*

| | Contingent consideration £000 | Warranty provision £000 | Carrying value £000 |
|---|---|---|---|
| Balance at 1 January 2017 | 11,708 | 5,842 | 17,550 |
| Exchange differences | 15 | (52) | (37) |
| Utilisation of provision | (921) | (619) | (1,540) |
| (Release) / additional provision in the period | (10,000) | 950 | (9,050) |
| **Balance at 30 June 2017** | **802** | **6,121** | **6,923** |
| | | | |
| **Maturity at 30 June 2017** | | | |
| Non-current | - | 2,020 | 2,020 |
| Current | 802 | 4,101 | 4,903 |
| | **802** | **6,121** | **6,923** |
| | | | |
| Maturity at 31 December 2016 | | | |
| Non-current | 10,000 | 1,947 | 11,947 |
| Current | 1,708 | 3,895 | 5,603 |
| | 11,708 | 5,842 | 17,550 |

### *15. Share-based payments*

A grant of shares was made on 8 May 2017 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 | 8 May 2017 | 8 May 2017 | 8 May 2017 |
| Share price at grant date | £2.39 | £2.39 | £2.39 |
| Shares awarded under scheme | 472,208 | 472,208 | 472,212 |
| Vesting period | 3 years | 3 years | 3 years |
| Expected volatility | 32.0% | 32.0% | 32.0% |
| Risk free rate | 0.2% | 0.2% | 0.2% |
| Expected dividends expressed as a dividend yield | 2.1% | 2.1% | 2.1% |
| Probability of ceasing employment before vesting | 20% p.a. | 20% p.a. | 20% p.a. |
| Fair value | £1.14 | £2.26 | £2.26 |

A Return on Invested Capital (ROIC) performance criteria has been introduced in the 2017 LTIP award, details of this performance condition are shown in the 2016 Annual Report & Accounts.

The basis of measuring fair value for TSR and EPS is consistent with that disclosed in the 2016 Annual Report & Accounts. The fair value of the ROIC condition has been measured using the Black-Scholes model.

### *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 2016 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.

### *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 2017 the fair value of these contracts was a net liability of £5,816,000 (30 June 2016: a net liability of £15,354,000; 31 December 2016: a net liability of £10,626,000). 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 2030 |
| International Shareholders – General Enquiries: | (00) 44 121 415 7047 |

For enquires regarding the Dividend Reinvestment Plan (DRIP) contact:

The Share Dividend Team
Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Tel: 0371 384 2268

### *19. Group information*

**Secretary and registered office:**
Stephen Rhys Jones
Rotork plc
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Brassmill Lane
Bath
BA1 3JQ

**Company website:**
www.rotork.com

**Investor Section:**
http://www.rotork.com/en/investors/index/