



Rotork plc 2016 Half Year Results

	HY 2016	HY 2015	% change	OCC ² % change
Revenue	£263.9m	£274.2m	-3.7%	-15.3%
Adjusted ¹ operating profit	£50.7m	£65.0m	-22.0%	-32.5%
Adjusted ¹ operating margin	19.2%	23.7%	-450bps	-480bps
Profit before tax	£38.3m	£56.3m	-31.9%	-35.6%
Adjusted ¹ profit before tax	£50.1m	£64.1m	-21.8%	-32.4%
Basic earnings per share	3.25p	4.77p	-32.0%	-35.7%
Adjusted ¹ basic earnings per share	4.25p	5.44p	-21.9%	-32.5%
Interim dividend	1.95p	1.95p		

¹ Adjusted figures are before the amortisation of acquired intangible assets

² OCC is organic constant currency which has all the acquisitions removed and are restated at 2015 exchange rates.

Summary

- Order intake increased 2.0% (OCC: -10.2%) against a strong comparative period.
- Order book increased 22.2% (OCC: 9.0%) from December 2015, and 15.4% (OCC: -3.1%) compared with June 2015.
- Revenue was 3.7% lower (OCC: -15.3%) than prior year, reflecting the slowdown in oil & gas markets and challenging conditions in key end markets.
- Adjusted operating margin impacted by lower volumes, particularly in Fluid Systems, and the dilutive effect of acquisitions in Gears and Instruments.
- Cost management programme on track to deliver targeted savings from both 2015 and 2016 initiatives.
- Acquisition of Mastergear, expanding product portfolio in Gears.
- Strong on-going cash generation, 131.5% cash conversion.
- Strong balance sheet, interim dividend maintained at 1.95p.

Peter France, Chief Executive, commenting on the results, said: “The trading environment in the first half of the year remained challenging, with the low oil price continuing to delay project activity and geopolitical tensions affecting certain key markets. The cost management programme previously announced is progressing as planned. We expect to benefit further from these cost initiatives in the second half of the year and into 2017, and continue to examine opportunities to drive improvements throughout the business. In line with our strategy, we continue to invest in new and existing markets by opening new sales channels and developing new products.

We now expect our second half weighting to be more pronounced than previously indicated, in part due to recent currency movements, with the second half margins ahead of those in the first half. However, we anticipate that margins for the full year will be lower than in 2015 due to a combination of increased overheads, product mix and pricing pressure.

We anticipate that activity in the oil and gas markets will remain subdued, and the timing of order placement will be difficult to forecast. However, based on our current order book, project visibility and market-focused opportunities, the Board believes that the Group remains well placed for the current year and beyond.”

Rotork plc

Peter France, Chief Executive

Jonathan Davis, Finance Director

Cynthia Alers, Head of Investor Relations and Strategy

Tel: +44 (0)1225 733 535

FTI Consulting

Nick Hasell / Susanne Yule

Tel: + 44 (0)20 3727 1340

There will be a meeting for analysts and institutional investors at 8.30 am BST on 2 August 2016 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.

Business Review

In the six months to 30 June 2016, order intake rose 2.0% (Organic Constant Currency, “OCC”: -10.2%), driven by contributions from the acquisitions we made last year. Reported revenue declined 3.7% (OCC: -15.3%), reflecting the weak order intake we experienced in Q3 and Q4 of last year, which would normally drive revenue growth in this period. The order book grew 15.4% (OCC: -3.1%) compared with June 2015, and 22.2% (OCC: 9.0%) since December 2015, with sequential improvement in the order book from Q1 to Q2 since January 2016.

As we flagged in our first quarter trading update, the lower revenue levels were reflected in the adjusted operating margin for the half year, which declined to 19.2% (H1 2015: 23.7%). As part of our cost management programme announced in 2015 and at the full year results in March this year, we have been implementing a number of measures to manage our cost base to reflect current market conditions, including implementing global procurement strategies, value engineering our products and reviewing the overhead cost base. These initiatives delivered the anticipated savings of £4.2m in the first half of the year, with the incremental benefit from sourcing initiatives contributing £2.9m and overhead savings the remaining £1.3m.

Rotork has continued to face challenging market conditions resulting from the sharp fall in oil prices in the second half of 2014 and throughout 2015. The oil price has stabilised to some degree in recent months, but the continuing uncertainty of market conditions has affected our customers’ medium to long-term investment decisions, with a number of projects becoming uneconomic to develop, particularly in the shale industry. Our customers are therefore more cautious in committing to long term investment decisions. Our financial results for this period reflect those

market uncertainties but also demonstrate the resilience of our businesses. Our business continues to be underpinned by steady order intake, increasing order book and after sales support which maintain our global market position and set us up well for market recovery.

Globally, the Oil & Gas market, which accounts for 51% of our revenue, remained weak and declined 5% overall, although there were some areas of growth. Bifold increased our exposure to the upstream market which grew 7%, with good activity in Europe and Middle East/Africa. Midstream benefited from LNG activity in the Americas, and also grew in Europe and Middle East/Africa but declined in other geographies. Downstream grew in Europe and the Middle East where storage solutions were in demand.

Our strategy of diversifying our business in terms of geography, end markets and products is proving successful, as our strength in Water, Power and Industrial Processes has helped to counter the weakness in Oil & Gas. Water, which accounts for 13% of revenue, grew by 6% and benefited from investment in infrastructure in both developed and emerging markets. Our Centork and K-Tork product ranges have been very successful in the water industry where we experienced good growth in the American municipal market, in Asia where governments are investing in infrastructure for growing populations and in the UK following the beginning of the AMP6 investment cycle.

Power, accounting for 16% of revenue, grew in the Americas with investment in ageing and inefficient power facilities, although it declined in other markets. Industrial Processes, including HVAC, grew strongly in Europe, the UK and Middle East/Africa.

Rotork Site Services (“RSS”) continued to perform well, as customers look to manage their assets more efficiently and avoid unplanned plant shutdowns. We continue to develop our Client Support Programme, offering tailored maintenance contracts to suit customers’ specific needs, and have a global team of highly trained field service staff on site with many of our customers providing regular maintenance and retrofit support, and often on site full time.

Geographically, the Middle East/Africa showed good growth in upstream and downstream Oil & Gas and Industrial Processes. Eastern Europe, the UK and the US performed broadly in line with last year. Western Europe recorded good growth in Oil & Gas and Industrial Processes. Latin America contracted severely, reflecting the political uncertainty in a number of our end markets in this region. China showed early signs of recovery in project activity but India was very weak across all our end markets. Asia overall showed some recovery later in the period, especially in Water, but remained weak across most other markets.

In light of the prolonged downturn in many of our key end markets, we continue to manage our cost base and find production efficiencies. Our global footprint enables us to shift production to meet customer demand from various locations. The 2015 cost management programme identified £10.3m of annualised savings, £5.4m of which were delivered in 2015, with a further £4.9m of savings anticipated in 2016. This £4.9m consisted of £2.8m of component cost savings, of which £2.1m was delivered in the first half, and £2.1m of overhead savings, of which £1.3m benefited the first half of 2016. The remaining impact of these initiatives, £0.7m of component cost savings and £0.8m of overhead savings, is expected to be realised in the second half of the year. The

consolidation of our plant in Italy is now complete, and the consolidation of our three factories in Tulsa, USA, is expected to complete in Q3 this year.

In March this year, we announced further cost-saving initiatives which were forecast to deliver approximately £7m of annualised savings in material costs and overheads. Procurement initiatives are on track to deliver the £5m target, of which £3.3m will benefit 2016 and £0.8m has been delivered in the first half of 2016. The overhead savings in 2016 are largely related to the consolidation of manufacturing sites and, whilst these activities are underway, the savings will not accrue until the last quarter of the current year.

Earlier this year, we acquired Mastergear which expanded our Gears portfolio with new products in motorised and manual gears. We can now offer our customers one of the most complete Gears portfolios in the industry which will consolidate our market leadership in this segment. We will continue to seek out acquisitions that support our business diversification, but our focus this year will be integrating the acquisitions made last year and leveraging their product portfolios to drive growth.

Financial Key Performance Indicators (KPIs)

	H1 2016	H1 2015	FY 2015
Sales growth	-3.7%	-1.6%	-8.1%
Return on sales	19.0%	23.4%	22.5%
Cash generation	131.5%	110.2%	115.4%
Return on capital employed	19.6%	34.9%	28.6%
Earnings per share growth	-21.9%	-5.1%	-21.0%

The half year KPIs are calculated in a consistent way with those presented at the year end, with the exception of return on capital employed (ROCE), where the first half year profit has been doubled to calculate the result. The large number of acquisitions completed over the past year, particularly Bifold, our largest acquisition to date, accounts for the majority of the reduction in ROCE in 2016. Our business tends to have a second half profit weighting and, as a consequence, the first half ROCE will generally be lower than the full year result. As stated, we expect to have a more pronounced second half profit weighting, which has accentuated this pattern.

Cash flow

Whilst the sharp weakening of Sterling at the end of June impacted the closing balance sheet for the period, our cash flows for the period are somewhat insulated from this as they are based on average exchange rates for the full six months. In contrast to the movement in the balance sheet, net working capital has generated a £10.4m inflow, with an £11.8m reduction in trade receivables from the usual year end high point as the largest contributor. This compares with a £3.5m net working capital inflow in the comparative period last year and is the main reason cash generation increased to 132%. Acquisitions of £16.9m and the final dividend of £26.9m are the two largest cash outflows, with borrowings increasing by £23.4m in the period. Cash and cash equivalents rose by £7.7m since December.

Financial position

Sterling moved sharply in June relative to both the US dollar and the Euro, following the outcome of the UK referendum on EU membership. Overall, currency added £10.0m to revenue, or 3.7%, compared with the rates in the first half of 2015. Currency had a larger impact on the closing balance sheet than the income statement for the period, given the timing of the currency movement. The average USD rate for the comparable period last year was \$1.43 and the Euro was €1.29, whilst the rates at 30 June 2016 were \$1.34 and €1.20, respectively.

The balance sheet remains strong, and, at the period end, included net debt of £86.9m (Dec 2015: £71.1m). Gross cash balances of £56.6m were offset by borrowings of £143.6m, £142.1m of which is provided under three committed facilities, all Sterling denominated. Net working capital at the period end was £177.1m, an increase of £7.8m since the year end. This increase is heavily influenced by the weakening of Sterling at the balance sheet date, as well as the acquisition of Mastergear. On an OCC basis, net working capital would have reduced £13.4m.

The Group operates two defined benefit pension schemes, the larger of which is in the UK. Following the result of the EU referendum, we have seen a reduction in the yield on the long-dated gilts which are used to value the liabilities of this pension scheme. As a consequence of this, and despite a strong performance from the scheme assets in the period, the total deficit on the balance sheet under IAS19 has increased from £23.3m in December 2015 to £41.2m at 30 June 2016.

Dividend

In view of the performance of the business and the current market conditions, the Board has decided to maintain the interim dividend at its current level to maintain financial flexibility. The interim dividend of 1.95p per ordinary share will be paid on 23 September 2016 to shareholders on the register at the close of business on 26 August 2016.

Operating Review

Rotork Controls

£m	H1 2016	H1 2015	Change	OCC² Change
Order intake	138.8	143.3	-3.2%	-7.7%
Order book	96.3	85.9	12.1%	-1.3%
Revenue	132.5	146.0	-9.2%	-13.3%
Gross margin	52.0%	53.0%	-100bps	-10bps
Adjusted ¹ operating profit	36.2	45.2	-19.7%	-23.3%
Adjusted operating margin	27.4%	30.9%	-350bps	-350bps

Market conditions in the Oil & Gas markets remain challenging, and consequently impacted both order intake and revenue. Order intake declined 3.2% (OCC: -7.7%) compared to a very strong first half performance in 2015, with some mitigation from favourable currency movements. However, Controls has now recorded a consistent performance over the past four quarters, showing some stabilisation in project activity, albeit at lower levels than seen previously. The order book is strong

at £96.3m, an increase of 19.0% (OCC: 7.8%) since December 2015, and a 12.1% increase (OCC: -1.3%) compared with June 2015. Revenue declined by 9.2% (OCC: -13.3%), reflecting the weak order intake reported in the second half of 2015. Oil & Gas now accounts for 44.7% of the Division's revenues, reflecting in part our successful strategic diversification into Water, Power and Industrial Processes.

The gross margin held up well, with the material cost savings sufficient to offset any pricing pressure and the impact of lower revenues on the relatively fixed cost of the division's factories. The gross margin was only 10bps lower than the first half of 2015 at 52.9% on an OCC basis, although currency resulted in the headline figure reducing 100bps to 52.0%. The lower revenue had a more significant impact on the adjusted operating margin, which reduced 350bps on both a reported and OCC basis to 27.4%. Overheads in the division were broadly flat against the comparative period with the incremental benefit of cost saving initiatives offsetting inflationary pressures and any areas of targeted investment.

Europe and the Middle East recorded good activity levels, ahead of the comparable period last year. In China, project activity was stronger following last year's poor market conditions, especially in Power, where we have a good market position. The US experienced reasonable project activity in midstream Oil & Gas, although the up and downstream activity continued to be subdued. Sequentially, Q2 this year was slightly stronger than Q1 in all markets. However, forecasting project delivery continues to be challenging, especially in Oil & Gas.

The US water industry, where we have a leading market position, grew strongly, although there were some project delays in other geographic markets. There is growing interest in our Centork product range which was introduced last year, and is completing the usual approvals, variant model development and customer specification modifications. Industrial Process solutions, including our CVA and CMA ranges, performed well, as did our products designed for the HVAC market. Last year we launched the IQT3 actuator, the quarter-turn variant of the IQ3. We continue to develop the IQ range with the introduction of the IQT3000 and the IQ19 late last year. These two new products complement the larger IQ range and are successfully targeting market niches where we can now offer a more competitive solution to meet customer requirements.

Rotork Fluid Systems

£m	H1 2016	H1 2015	Change	OCC² Change
Order intake	70.1	80.5	-13.0%	-17.3%
Order book	84.2	76.3	+10.3%	-4.8%
Revenue	61.8	76.9	-19.6%	-23.2%
Gross margin	27.5%	31.7%	-420bps	-400bps
Adjusted ¹ operating profit	0.8	7.8	-89.5%	-94.3%
Adjusted ¹ operating margin	1.3%	10.1%	-880bps	-940bps

Fluid Systems continued to be affected by weak project activity in the global oil & gas market, as 65% of the Division's revenues derives from this end market. Order intake declined 13.0% (OCC: -

17.3%) relative to the strong comparable period last year. The order book, however, is £84.2m, a strong increase of 24.6% (OCC: 12.2%) since December 2015, and a 10.3% increase (OCC: -4.8%) compared with June 2015, which helps support management expectations of an improved second half.

Revenue declined 19.6% relative to the comparable period in 2015, reflecting both on-going project delays and the very weak order intake in Q3 and Q4 2015 which affected revenue in this half of the year. On an OCC basis, revenue declined 23.2%, with favourable currency movements contributing £2.8m to reported revenue. There was some sequential uplift in revenue in Q2 versus Q1 this year, driven by deliveries on some of the LNG projects.

Lower revenues in the last four consecutive quarters were also reflected in the gross margin which declined to 27.5% (H1 2015: 31.7%). The cost of components has remained at a consistent percentage of sales but the manufacturing labour and facility costs have not been reduced in line with revenue and account for the 420bps reduction in the gross margin. Similarly, whilst overheads have been reduced on an OCC basis by £0.7m, this is not sufficient for the reduction in revenue, resulting in adjusted operating profit falling to £0.8m in the period. The benefits from our new facility in Italy will begin contributing later this year, and we are managing overheads prudently in light of market conditions. These actions and an order book supporting higher volumes in the second half will drive a better performance in the second half of the year.

The US recorded good activity in the LNG market, although the upstream and downstream markets remained subdued. Latin America suffered from economic and political instability, which impacted project orders, with Mexico in particular affected by delays at a major customer. Activity in Middle East/Africa was stronger in upstream and downstream. Oil & Gas continued to be weak in the Far East and Europe. Activity levels in Water and Power were broadly consistent with the comparative period across all geographies.

The new generation SI3 actuator introduced last year has been well-received, with a strong order book for the second half of the year. The K-Tork product for the water and industrial processes industries is well-established in the US and is now developing new markets in Europe and the rest of the world. The range of actuators we developed for the water industry is increasingly being cross-sold into industrial process applications and the vehicle market, in line with our strategy of product innovation and diversifying our end markets. We anticipate that this opportunity will continue to develop in the medium term.

Rotork Gears

£m	H1 2016	H1 2015	Change	OCC² Change
Order intake	33.0	28.4	+16.0%	-0.9%
Order book	13.7	8.7	+57.8%	+3.2%
Revenue	32.6	29.8	+9.5%	-4.7%
Gross margin	35.1%	35.5%	-40bps	-180bps
Adjusted ¹ operating profit	6.5	6.1	+6.8%	-17.6%

Adjusted ¹ operating margin	20.0%	20.5%	-50bps	-280bps
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Gears performed well over the period, with order intake increasing 16.0%, including contributions from the recent acquisitions, Roto Hammer and Mastergear. On an OCC basis, order intake declined modestly relative to a strong comparable period last year. The order book stood at £13.7m, an increase of 36.4% (OCC: -4.3%) since the beginning of the year and a 57.8% (OCC: 3.2%) increase compared to H1 2015.

Revenue grew 9.5% with a contribution from Roto Hammer which was acquired in the second half of 2015. The acquisition of Mastergear contributed one month's revenue following completion in June 2016. On an OCC basis, revenue fell 4.7%, primarily due to the continued slowdown in Oil & Gas.

Both acquisitions and currency were accretive to gross margin, so, whilst gross margin reduced 40bps on a reported basis, on an OCC basis, the reduction was 180bps. Material costs accounted for 20bps of this reduction, with the remainder due to an increase in manufacturing labour and facility costs set against the decline in revenue. Adjusted operating profit increased 6.8% to £6.5m, but fell 17.6% after removing the positive impact of acquisitions and currency. OCC overheads have increased by less than £0.1m, but the lower OCC gross margin and reduction in revenue combined to reduce OCC adjusted operating margin by 280bps. On a reported basis, the benefit of acquisitions resulted in adjusted operating margin falling by only 50bps relative to the comparative period.

Oil & Gas accounted for 51% of Gears' divisional revenue, with contribution from recent acquisitions. Upstream was weak, but midstream and downstream both grew. Water grew 18% over the prior period, despite weakness in Latin America and Middle East/Africa. Power, a newer market for Gears, was stable with some growth in Eastern Europe. The Americas and Europe both experienced good growth across most markets.

The acquisitions of Mastergear and Roto Hammer have added a number of new product ranges to our customer offering, especially in the chain and manual gear market. Our gears product range is now one of the most complete in our industry, which will allow us to leverage our strong customer relationships. We expect that this increased product portfolio and synergies between our existing products and Mastergear will continue to drive future growth.

Rotork Instruments

£m	H1 2016	H1 2015	Change	OCC ² Change
Order intake	45.5	29.2	+55.8%	-8.3%
Order book	8.8	5.0	77.3%	-21.4%
Revenue	45.0	28.8	+56.3%	-9.1%
Gross margin	44.2%	50.1%	-590bps	-130bps
Adjusted ¹ operating profit	10.3	9.0	+13.6%	-23.8%
Adjusted ¹ operating margin	22.8%	31.4%	-860bps	-510bps

Instruments benefited both from the acquisitions completed over the past year and favourable exchange rates, with order intake increasing 55.8%. On an OCC basis, order intake declined due to a large rail order in the previous period that was not repeated this year, which also affected the order book on an OCC basis. Revenue increased by 56.3% with contributions from acquisitions and currency movement. On an OCC basis, revenue and order intake both declined as a result of on-going tight conditions in the tyre market and the conditions in the oil & gas market. Instruments supplies a number of components to our Fluid Systems Division, and the weak revenue growth in that Division also affected Instruments as a result. The order book was £8.8m, an increase of 15.9% (OCC: 11.0%) since the beginning of the year, and a 77.3% increase (OCC: -21.4%) compared with H1 2015.

The 2015 acquisitions have, as anticipated, been dilutive to the Division's margins. Whilst the reported gross margin has reduced by 590bps, the OCC gross margin also declined by 130bps. This reduction resulted from a tighter tyre market and an increase in lower margin rail sales, and whilst manufacturing labour and factory costs have remained at the same level as the comparative period, revenue declined.

Adjusted operating profit grew 13.6% (OCC: -23.8%) but on an OCC basis was affected by subdued activity in the tyre and oil & gas markets. Adjusted operating margin was also affected by the recent acquisitions several of which have lower margins than that of Instruments' historical margins. As these acquisitions are integrated into the Rotork global sales portfolio, we expect the overall adjusted operating margin to improve. On an organic constant currency basis, adjusted operating margin declined by 510bps as a result of additional investment in engineering resource and the larger division now taking a greater share of allocated central Group costs. Net of the cost saving initiatives, this added £0.5m to overheads. When combined with the lower OCC gross profit, this resulted in a lower adjusted operating margin.

Instruments benefited from the acquisition of Bifold which delivered good growth in the upstream oil & gas market across all geographies, as well as downstream growth in all markets except Asia. Water, although small, benefited from investment in infrastructure in several regions. Power and Industrial Processes recorded double digit growth in their markets overall. There was some softness in the Chinese market for positioners, and continuing delays in large rail projects. Midland continued to experience project delays in a number of its businesses, due to on-going market conditions.

Our focus this year is on gaining product approvals, training our global sales team on the new products and introducing Rotork management systems into these new businesses. We now have a very broad range of solutions to offer customers, often as an integrated solution combined with Fluid Systems products, which is proving very attractive to customers at a competitive price. There is also increasing cross-division innovation developing between the various businesses, such as collaboration between Bifold and Midland on solenoid valves, as well as between YTC/Fairchild/Bifold and M&M/Fluid Systems in component supply. We expect these opportunities to drive future growth as they develop, and remain confident that the synergies between our product portfolios will drive cross-divisional growth and will leverage our strengths across a range of end markets.

Principal risks and uncertainties

The Group has an established risk management process as part of the corporate governance framework set out in the 2015 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 44 to 47 of the 2015 Annual Report & Accounts. We identify risks in the form of strategic, operational and financial 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:

- Competition on price as a result of a competitor moving to manufacture in a lower cost area of the world;
- Rotork not having the appropriate products, either in terms of features or costs;
- Lower investment in Rotork's traditional market sectors;
- Volatility in exchange rates that impact Rotork's reported results and competitive position;
- Political instability in a key end market;
- Growth of the defined benefit pension scheme deficit;
- Major in field product failure arising from a component defect or warranty issue which might require a product recall;
- Failure of a key supplier or a tooling failure at a supplier causing disruption to planned manufacturing;
- Failure of an acquisition to deliver the growth or synergies anticipated, due to incorrect assumptions or changing market conditions, or failure to integrate an acquisition to ensure compliance with Rotork's policies and procedures;
- Failure of IT security systems to prevent penetration by unauthorised people and access to commercially sensitive data.

We note that the United Kingdom's referendum on 23 June 2016 to leave the European Union has added an increased level of uncertainty to global economic growth. We are confident that our global sales and service network, flexible manufacturing footprint and asset-light model provide us with some resilience against these possible market headwinds. We continue to monitor our markets and manage our business prudently to manage these potential new risks. Should there be a prolonged period of Sterling weakness, the Group's reported results would benefit from a translational impact on its overseas earnings.

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 2015. A list of current directors is maintained in the “About Us” section of the Rotork website: www.rotork.com.

Outlook

The trading environment in the first half of the year remained challenging, with the low oil price continuing to delay project activity and geopolitical tensions affecting certain key markets. The cost management programme previously announced is progressing as planned. We expect to benefit further from these cost initiatives in the second half and into 2017, and continue to examine opportunities to drive improvements throughout the business. In line with our strategy, we continue to invest in new and existing markets by opening new sales channels and developing new products.

We now expect our second half weighting to be more pronounced than previously indicated, in part due to recent currency movements, with the second half margins ahead of those in the first half. However, we anticipate that margins for the full year will be lower than in 2015 due to a combination of increased overheads, product mix and increased pricing pressure.

We anticipate that activity in the oil and gas markets will remain subdued, and the timing of order placement will be difficult to forecast. However, based on our current order book, project visibility and market-focused opportunities, the Board believes that the Group remains well placed for the current year and beyond.

By order of the Board

Peter France
Chief Executive
1 August 2016

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 2016 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 16. 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 2016 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
Chartered Accountants and Statutory Auditor
London
1 August 2016

Consolidated Income Statement

		First half 2016 £000	First half 2015 £000	Full year 2015 £000
	Notes			
Revenue	2	263,911	274,158	546,459
Cost of sales		(146,618)	(147,490)	(296,944)
Gross profit		117,293	126,668	249,515
Other income		416	120	427
Distribution costs		(2,357)	(2,317)	(4,613)
Administrative expenses		(76,339)	(67,265)	(140,877)
Other expenses		(84)	(15)	(66)
Operating profit before the amortisation of acquired intangible assets		50,716	65,016	125,272
Amortisation of acquired intangible assets		(11,787)	(7,825)	(20,886)
Operating profit	2	38,929	57,191	104,386
Finance income	3	1,264	788	1,740
Finance expense	4	(1,866)	(1,693)	(4,257)
Profit before tax		38,327	56,286	101,869
Income tax expense	5	(10,134)	(14,874)	(27,012)
Profit for the period		28,193	41,412	74,857
		pence	pence	pence
Basic earnings per share	8	3.25	4.77	8.60
Adjusted basic earnings per share	8	4.25	5.44	10.40
Diluted earnings per share	8	3.24	4.76	8.60
Adjusted diluted earnings per share	8	4.24	5.42	10.40

Consolidated Statement of Comprehensive Income and Expense

	First half 2016 £000	First half 2015 £000	Full year 2015 £000
Profit for the period	28,193	41,412	74,857
Other comprehensive income and expense			
<i>Items that may be subsequently reclassified to the income statement:</i>			
Foreign currency translation differences	31,114	(14,014)	(6,511)
Effective portion of changes in fair value of cash flow hedges net of tax	(4,741)	1,665	(1,448)
	26,373	(12,349)	(7,959)
<i>Items that are not subsequently reclassified to the income statement:</i>			
Actuarial (loss) / gain in pension scheme net of tax	(17,465)	4,994	8,049
Income and expenses recognised directly in equity	8,908	(7,355)	90
Total comprehensive income for the period	37,101	34,057	74,947

Consolidated Balance Sheet

		30 June 2016 £000	30 June 2015 £000	31 Dec 2015 £000
	<i>Notes</i>			
Goodwill		244,672	143,503	222,086
Intangible assets		120,640	63,789	118,555
Property, plant and equipment		81,782	61,975	72,008
Deferred tax assets		18,672	12,740	13,698
Derivative financial instruments		-	851	-
Other receivables		-	2,102	2,234
Total non-current assets		465,766	284,960	428,581
Inventories	9	100,347	84,508	87,210
Trade receivables		118,858	104,774	118,801
Current tax		5,177	2,045	4,458
Derivative financial instruments		-	3,518	25
Other receivables		19,975	15,134	13,225
Cash and cash equivalents		56,641	58,541	48,968
Total current assets		300,998	268,520	272,687
Total assets		766,764	553,480	701,268
Ordinary shares	11	4,349	4,347	4,349
Share premium		10,124	9,563	10,018
Reserves		22,384	(8,379)	(3,989)
Retained earnings		381,683	377,692	397,424
Total equity		418,540	383,223	407,802
Interest-bearing loans and borrowings	12	93,372	1,075	69,756
Employee benefits		41,894	26,985	26,320
Deferred tax liabilities		23,756	18,212	28,973
Derivative financial instruments		3,784	-	431
Provisions	13	11,934	1,743	11,990
Total non-current liabilities		174,740	48,015	137,470
Interest-bearing loans and borrowings	12	50,196	20,233	50,352
Trade payables		42,112	37,021	36,724
Employee benefits		13,605	10,601	11,118
Current tax		12,392	16,213	14,276
Derivative financial instruments		11,570	247	3,601
Other payables		38,005	33,053	34,612
Provisions	13	5,604	4,874	5,313
Total current liabilities		173,484	122,242	155,996
Total liabilities		348,224	170,257	293,466
Total equity and liabilities		766,764	553,480	701,268

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 2014	4,346	9,422	1,799	1,644	527	359,057	376,795
Profit for the period	-	-	-	-	-	41,412	41,412
<i>Other comprehensive income</i>							
Foreign currency translation differences	-	-	(14,014)	-	-	-	(14,014)
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	2,073	-	2,073
Actuarial gain on defined benefit pension plans	-	-	-	-	-	6,382	6,382
Tax in other comprehensive income	-	-	-	-	(408)	(1,388)	(1,796)
<i>Total other comprehensive income</i>	-	-	(14,014)	-	1,665	4,994	(7,355)
Total comprehensive income	-	-	(14,014)	-	1,665	46,406	34,057
<i>Transactions with owners, recorded directly in equity</i>							
Equity settled share based payment transactions	-	-	-	-	-	(2,999)	(2,999)
Tax on equity settled share based payment transactions	-	-	-	-	-	629	629
Share options exercised by employees	1	141	-	-	-	-	142
Own ordinary shares acquired	-	-	-	-	-	(2,785)	(2,785)
Own ordinary shares awarded under share schemes	-	-	-	-	-	4,219	4,219
Dividends	-	-	-	-	-	(26,835)	(26,835)
Balance at 30 June 2015	4,347	9,563	(12,215)	1,644	2,192	377,692	383,223

	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 2014	4,346	9,422	1,799	1,644	527	359,057	376,795
Profit for the year	-	-	-	-	-	74,857	74,857
<i>Other comprehensive income</i>							
Foreign currency translation differences	-	-	(6,511)	-	-	-	(6,511)
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	(1,790)	-	(1,790)
Actuarial gain on defined benefit pension plans	-	-	-	-	-	9,704	9,704
Tax in other comprehensive income	-	-	-	-	342	(1,655)	(1,313)
<i>Total other comprehensive income</i>	-	-	(6,511)	-	(1,448)	8,049	90
Total comprehensive income	-	-	(6,511)	-	(1,448)	82,906	74,947
<i>Transactions with owners, recorded directly in equity</i>							
Equity settled share based payment transactions	-	-	-	-	-	(1,447)	(1,447)
Tax on equity settled share based payment transactions	-	-	-	-	-	(799)	(799)
Share options exercised by employees	3	596	-	-	-	-	599
Own ordinary shares acquired	-	-	-	-	-	(2,785)	(2,785)
Own ordinary shares awarded under share schemes	-	-	-	-	-	4,257	4,257
Dividends	-	-	-	-	-	(43,765)	(43,765)
Balance at 31 December 2015	4,349	10,018	(4,712)	1,644	(921)	397,424	407,802

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 2015	4,349	10,018	(4,712)	1,644	(921)	397,424	407,802
Profit for the period	-	-	-	-	-	28,193	28,193
<i>Other comprehensive income</i>							
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
<i>Total other comprehensive income</i>	-	-	31,114	-	(4,741)	(17,465)	8,908
Total comprehensive income	-	-	31,114	-	(4,741)	10,728	37,101
<i>Transactions with owners, recorded directly in equity</i>							
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

Consolidated Statement of Cash Flows

	First half 2016 £000	First half 2015 £000	Full year 2015 £000
Profit for the period	28,193	41,412	74,857
Amortisation of acquired intangible assets	11,787	7,825	20,886
Amortisation of development costs	1,052	868	1,814
Depreciation	5,660	4,513	9,759
Equity settled share based payment expense	1,471	1,849	2,810
Net gain on sale of property, plant and equipment	(209)	(61)	(280)
Finance income	(1,264)	(788)	(1,740)
Finance expense	1,866	1,693	4,257
Income tax expense	10,134	14,874	27,012
	58,690	72,185	139,375
(Increase) / decrease in inventories	(2,654)	(7,151)	731
Decrease in trade and other receivables	11,784	12,276	15,664
Increase / (decrease) in trade and other payables	1,292	(1,597)	(6,931)
Difference between pension charge and cash contribution	(4,542)	(4,249)	(5,051)
Decrease in provisions	(200)	(151)	(56)
Decrease in employee benefits	(2,216)	(3,938)	(4,226)
	62,154	67,375	139,506
Income taxes paid	(15,173)	(15,600)	(35,716)
Cash flows from operating activities	46,981	51,775	103,790
Purchase of property, plant and equipment	(8,443)	(4,873)	(11,762)
Development costs capitalised	(1,294)	(1,655)	(3,063)
Proceeds from sale of property, plant and equipment	341	204	1,508
Acquisition of businesses, net of cash acquired	(16,851)	(2,843)	(133,857)
Contingent consideration paid	(245)	(4,000)	(4,536)
Settlement of hedging derivatives	(10,007)	4,054	(1,703)
Interest received	415	296	1,103
Cash flows from investing activities	(36,084)	(8,817)	(152,310)
Issue of ordinary share capital	106	142	599
Purchase of ordinary share capital	(1,007)	(2,785)	(2,785)
Interest paid	(1,176)	(249)	(1,759)
Increase / (decrease) in borrowings	23,444	(120)	98,326
Repayment of finance lease liabilities	(126)	(9)	(100)
Dividends paid on ordinary shares	(26,933)	(26,835)	(43,765)
Cash flows from financing activities	(5,692)	(29,856)	50,516
Net increase in cash and cash equivalents	5,205	13,102	1,996
Cash and cash equivalents at 1 January	48,968	46,816	46,816
Effect of exchange rate fluctuations on cash held	2,468	(1,377)	156
Cash and cash equivalents at end of period	56,641	58,541	48,968

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 6 months ended 30 June 2016 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 2015 does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006, statutory accounts for the year ended 31 December 2015 were approved by the Board on 29 February 2016 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 2015 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 2016 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 2015, 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 2015.

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 2015.

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

New accounting standards and interpretations

The narrow scope amendments which were issued in 2014 as part of the IFRS Annual improvement cycle were effective from 1 January 2016. The application of these amendments has not had any material impact on the disclosures, net assets or results of the Group.

Recent accounting developments

IFRS15 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. An assessment will be carried to understand the impact of this standard prior to it becoming effective in January 2018.

IFRS16 Leases was issued on 13 January 2016 and has a mandatory effective date of 1 January 2019. 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 the profit in any year. An assessment will be carried out to understand the full impact of the standard prior to it becoming effective in January 2019.

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.

Further narrow scope amendments have been issued which are mandatory for periods commencing on or after 1 January 2017. The application of these amendments will not have any material impact on the disclosures, net assets or results of the Group.

2. 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.

2. Analysis by operating segments (continued)

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
Operating profit before amortisation of acquired intangible assets	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

Half year to 30 June 2015

	Controls £000	Fluid Systems £000	Gears £000	Instruments £000	Elimination £000	Unallocated £000	Group £000
Revenue from external customers	145,956	76,888	23,571	27,743	-	-	274,158
Inter segment revenue	-	-	6,234	1,034	(7,268)	-	-
Total revenue	145,956	76,888	29,805	28,777	(7,268)	-	274,158
Operating profit before amortisation of acquired intangible assets	45,154	7,764	6,104	9,034	-	(3,040)	65,016
Amortisation of acquired intangibles assets	(1,651)	(995)	(232)	(4,947)	-	-	(7,825)
Operating profit	43,503	6,769	5,872	4,087	-	(3,040)	57,191
Net financing expense							(905)
Income tax expense							(14,874)
Profit for the period							41,412

Full year to 31 December 2015

	Controls £000	Fluid Systems £000	Gears £000	Instruments £000	Elimination £000	Unallocated £000	Group £000
Revenue from external customers	286,708	149,228	46,072	64,451	-	-	546,459
Inter segment revenue	-	-	12,562	2,875	(15,437)	-	-
Total revenue	286,708	149,228	58,634	67,326	(15,437)	-	546,459
Operating profit before amortisation of acquired intangible assets	85,479	15,215	11,991	18,306	-	(5,719)	125,272
Amortisation of acquired intangibles assets	(3,326)	(2,300)	(990)	(14,270)	-	-	(20,886)
Operating profit	82,153	12,915	11,001	4,036	-	(5,719)	104,386
Net financing expense							(2,517)
Income tax expense							(27,012)
Profit for the year							74,857

2. Analysis by operating segments (continued)

Revenue by location of subsidiary

	First half 2016 £000	First half 2015 £000	Full year 2015 £000
UK	37,430	29,312	64,415
Italy	28,761	26,503	57,254
Rest of Europe	50,925	45,252	92,908
USA	64,631	70,032	137,898
Other Americas	11,120	16,382	30,698
Rest of World	71,044	86,677	163,286
	263,911	274,158	546,459

3. Finance income

	First half 2016 £000	First half 2015 £000	Full year 2015 £000
Interest income	464	598	1,119
Foreign exchange gain	800	190	621
	1,264	788	1,740

4. Finance expense

	First half 2016 £000	First half 2015 £000	Full year 2015 £000
Interest expense	1,325	527	1,811
Interest charge on pension scheme liabilities	385	582	1,181
Foreign exchange loss	156	584	1,265
	1,866	1,693	4,257

5. 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 2016 is 26.4% (the effective tax rate for the year ended 31 December 2015 was 26.5%).

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 20% due to higher tax rates in the majority of overseas subsidiaries.

6. Acquisitions

On 2 June 2016 the Group completed the acquisition of the Mastergear business based in the US and Italy for £17,040,000, which was fully paid in cash. Mastergear is a leading manufacturer of manual and motorised gearboxes for valves focused on the oil and gas markets, water and distribution, chemical processing and wider industrial markets. The Mastergear business will be reported in the Gears Division. In the one month to 30 June 2016 the Mastergear businesses contributed £899,000 to Group revenue and a loss of £60,000 to the Group operating profit.

The provisional fair value of the net assets acquired was £11,159,000 of which £6,797,000 were separable intangible assets. The amortisation charge of these intangible assets was £120,000 in the period from acquisition to 30 June 2016. The provisional value of goodwill of £5,881,000 represents the value attributed to staff expertise and the assembled workforce, which did not meet the recognition criteria for a separate intangible asset.

Due to the proximity of the acquisition to the date of approval of the interim financial statements the initial accounting for this business combination is incomplete and therefore the disclosures regarding the amount of goodwill expected to be deductible for tax purposes, the fair value of contingent liabilities and assets and the amount and treatment of acquisition costs has not yet been made.

7. Dividends

	First half 2016 £000	First half 2015 £000	Full year 2015 £000
<i>The following dividends were paid in the period per qualifying ordinary share:</i>			
3.10p final dividend (2015: 3.09p)	26,933	26,835	26,835
1.95p interim dividend	-	-	16,930
	26,933	26,835	43,765
<i>The following dividends per qualifying ordinary share were declared / proposed at the balance sheet date:</i>			
3.10p final dividend	-	-	26,962
1.95p interim dividend declared (2015: 1.95p)	16,961	16,954	-
	16,961	16,954	26,962

The interim dividend of 1.95p pence will be payable to shareholders on 23 September 2016 to those on the register on 26 August 2016.

8. Earnings per share

Earnings per share is calculated using the profit attributable to the ordinary shareholders for the period and 868.5m shares (*six months to 30 June 2015: 867.6m; year to 31 December 2015: 867.8m*) 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 871.4m shares (*six months to 30 June 2015: 870.7m; year to 31 December 2015: 869.3m*). 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.

Adjusted basic and diluted earnings per share is calculated using the profit attributable to the ordinary shareholders for the period after adding back the amortisation charge net of tax.

	First half 2016 £000	First half 2015 £000	Full year 2015 £000
Net profit attributable to ordinary shareholders	28,193	41,412	74,857
Amortisation	11,787	7,825	20,886
Tax effect on amortisation at effective rate	(3,117)	(2,068)	(5,538)
Adjusted net profit attributable to ordinary shareholders	36,863	47,169	90,205

9. Inventories

	30 June 2016 £000	30 June 2015 £000	31 Dec 2015 £000
Raw materials and consumables	69,576	59,531	60,604
Work in progress	9,987	8,967	8,890
Finished goods	20,784	16,010	17,716
	100,347	84,508	87,210

10. Pension schemes - Defined benefit deficit

The defined benefit obligation at 30 June 2016 of £41,230,000 (30 June 2015: £26,083,000; 31 December 2015: £23,275,000) is estimated based on the latest full actuarial valuations at 31 March 2014 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 2016 by independent actuaries to reflect updated assumptions regarding discount rates, inflation rates and asset values.

	30 June 2016 %	30 June 2015 %	31 Dec 2015 %
Discount rate	2.9	3.9	3.8
Rate of inflation	2.9	3.3	3.2

In addition, the defined benefit plan assets and liabilities have been updated to reflect the regular payments, the £3.7 million payment made in March 2016 in respect of past service and the benefits earned during the period to the 30 June 2016.

11. Share capital and reserves

The number of ordinary 0.5p shares in issue at 30 June 2016 was 869,808,000 (30 June 2015: 869,425,000; 31 December 2015: 869,738,000). All issued shares are fully paid.

The Group acquired 557,000 of its own shares through purchases on the London Stock Exchange during the period (30 June 2015: 1,113,000; 31 December 2015: 1,113,000). The total amount paid to acquire the shares was £1,007,000 (30 June 2015: £2,785,000; 31 December 2015: £2,785,000), and this has been deducted from shareholders equity. At 30 June 2016 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 963,000 (30 June 2015: 1,421,000; 31 December 2015: 1,406,000).

Awards under the Group's long-term incentive plan and share investment plan vested during the period. Under the share investment plan 1,000,000 shares were transferred to employees. No shares were awarded under the Group's long-term incentive plan as the minimum performance criteria was not achieved.

Employee share option schemes: options exercised during the period to 30 June 2016 resulted in 70,000 ordinary 0.5p shares being issued (30 June 2015: 146,050 shares), with exercise proceeds of £106,000 (30 June 2015: £142,000). The weighted average market share price at the time of exercise was £1.88 (30 June 2015: £2.46) per share.

The share based payment charge for the period was £1,471,000 (30 June 2015: £1,849,000; 31 December 2015: £2,810,000).

12. Loans and borrowings

The following loans and borrowings were issued and repaid during the six months ended 30 June 2016:

	Year of maturity	Interest rates	Carrying value £000
Balance at 1 January 2016			120,108
<i>Movement in the period:</i>			
Repayment of Euro denominated loans	2016-32	1.4-4.5%	(116)
Repayment of finance leases	2015-20	1.9% - 10.6%	(126)
Movement on GBP denominated loans	2016-20	variable	23,560
Exchange differences			142
Balance at 30 June 2016			143,568
Current			50,196
Non-current			93,372
			143,568

The Group has committed loan facilities of £170,000,000 (First half 2015: £75,000,000; Full year 2015: £170,000,000), of which £142,500,000 (30 June 2015: £20,000,000; 31 December 2015: £119,000,000) has been drawn down, the outstanding amount attracts a blended interest rate of LIBOR plus 0.75%. The maturity profile of the non-current debt is as follows:

	30 June 2016 £000	30 June 2015 £000	31 Dec 2015 £000
1-2 years	30,004	211	30,084
2-5 years	62,555	165	38,975
> 5 years	813	699	697
	93,372	1,075	69,756

13. Provisions

	Contingent consideration £000	Warranty provision £000	Carrying value £000
Balance at 1 January 2016	11,775	5,528	17,303
Exchange differences	146	448	594
Increase as a result of business combinations	-	86	86
Utilisation of provision	(245)	(403)	(648)
Additional provision in the period	-	203	203
Balance at 30 June 2016	11,676	5,862	17,538
Maturity at 30 June 2016			
Non-current	10,000	1,934	11,934
Current	1,676	3,928	5,604
	11,676	5,862	17,538
Maturity at 31 December 2015			
Non-current	10,147	1,843	11,990
Current	1,628	3,685	5,313
	11,775	5,528	17,303

The non-current contingent consideration is related to the Bifold acquisition and will become payable if an EBITDA target is achieved at the end of the 2017 financial year.

14. *Financial instruments fair value disclosure*

The Group held forward currency contracts designated as hedge instruments in a cash flow hedging relationship. At 30 June 2016 the fair value of these contracts was a net liability of £15,354,000 (30 June 2015: a net asset of £4,122,000; 31 December 2015: a net liability of £4,007,000). 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.

15. *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 2015 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.

Sales to subsidiaries and associates of Severn Trent PLC, a related party by virtue of Martin Lamb's directorship of that company, totalled £490,000 during the period to 30 June 2016 (Full year 2015: £1,229,000) and £121,000 was outstanding at 30 June 2016 (31 December 2015: £106,580).

16. *Share-based payments*

A grant of shares was made on 12 April 2016 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
Grant date	12 April 2016	12 April 2016
Share price at grant date	£1.63	£1.63
Shares awarded under scheme	1,052,622	1,052,622
Vesting period	3 years	3 years
Expected volatility	28.4%	28.4%
Risk free rate	0.4%	0.4%
Expected dividends expressed as a dividend yield	3.1%	3.1%
Probability of ceasing employment before vesting	5% p.a.	5% p.a.
Fair value	£0.85	£1.50

The basis of measuring fair value is consistent with that disclosed in the 2015 Annual Report & Accounts.

17. 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

18. Group information

Secretary and registered office:

Stephen Rhys Jones
Rotork plc
Rotork House
Brassmill Lane
Bath
BA1 3JQ

Company website:

www.rotork.com

Investor Section:

<http://www.rotork.com/en/investors/index/>