

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%
Adjusted¹ operating margin	18.2%	19.2%	-100bps	-70bps
Adjusted¹ profit before tax	£52.0m	£50.1m	+3.7%	-7.5%
Adjusted¹ 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.

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."

² Organic Constant Currency ("OCC") or underlying results exclude acquisitions and are restated at 2016 exchange rates.

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Martin Lamb, Executive Chairman

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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.

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

				OCC ²
£m	H1 2017	H1 2016	Change	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%
Adjusted¹ 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

				OCC ²
£m	H1 2017	H1 2016	Change	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

				OCC ²
£m	H1 2017	H1 2016	Change	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
Adjusted¹ 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

		First half	First half	Full year
		2017	2016	2016
	Notes	£000	£000	£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	First half	Full year
	2017	2016	2016
	£000	£000	£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

		30 June	30 June	31 Dec
		2017	2016	2016
	Notes	£000	£000	£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	10	129,130	118,858	131,891
Current tax		2,552	5,177	4,349
Derivative financial instruments		550	3,177	4,349
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 current assets		300,224	300,998	303,770
Total assets		755,183	766 764	775 272
Total assets		755,165	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
		101,100	,	,
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 Effective portion of changes in fair value of	-	-	31,114	-	-	-	31,114
cash flow hedges Actuarial loss on defined benefit pension	-	-	-	-	(5,955)	-	(5,955)
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 Transactions with owners, recorded directly in equity Equity settled share based payment	-	-	31,114	-	(4,741)	10,728	37,101
transactions	-	-	-	-	-	(914)	(914)
Tax on equity settled share based payment transactions	-	-	-	-	-	183	183
Share options exercised by employees	-	106	-	-	-	-	106
Own ordinary shares acquired Own ordinary shares awarded under share	-	-	-	-	-	(1,007)	(1,007)
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
	laaad			Capital			
	Issued equity capital £000	Share premium £000	Translation reserve £000	redemption reserve £000	Hedging reserve £000	Retained earnings £000	Total £000
Balance at 31 December 2015	equity capital	premium £000	reserve	redemption reserve	reserve	earnings	
Balance at 31 December 2015 Profit for the year	equity capital £000	premium	reserve £000	redemption reserve £000	reserve £000	earnings £000	£000 407,802
Profit for the year	equity capital £000	premium £000	reserve £000	redemption reserve £000	reserve £000	earnings £000	£000
Profit for the year Other comprehensive income Foreign currency translation differences	equity capital £000	premium £000	reserve £000	redemption reserve £000	reserve £000	earnings £000	£000 407,802
Profit for the year Other comprehensive income	equity capital £000	premium £000	reserve £000 (4,712)	redemption reserve £000	reserve £000	earnings £000	£000 407,802 67,173
Profit for the year Other comprehensive income Foreign currency translation differences Effective portion of changes in fair value of cash flow hedges	equity capital £000	premium £000	reserve £000 (4,712)	redemption reserve £000	reserve £000 (921)	earnings £000	£000 407,802 67,173 36,854
Profit for the year Other comprehensive income Foreign currency translation differences Effective portion of changes in fair value of cash flow hedges Actuarial loss on defined benefit pension	equity capital £000	premium £000	reserve £000 (4,712)	redemption reserve £000 1,644 -	reserve £000 (921)	earnings £000 397,424 67,173	407,802 67,173 36,854 (7,822)
Profit for the year Other comprehensive income Foreign currency translation differences Effective portion of changes in fair value of cash flow hedges Actuarial loss on defined benefit pension plans	equity capital £000	premium £000	reserve £000 (4,712)	redemption reserve £000 1,644 -	reserve £000 (921) - - (7,822)	earnings £000 397,424 67,173	407,802 67,173 36,854 (7,822) (37,923)
Profit for the year Other comprehensive income Foreign currency translation differences Effective portion of changes in fair value of cash flow hedges Actuarial loss on defined benefit pension plans Tax in other comprehensive income Total other comprehensive income Total comprehensive income Transactions with owners, recorded directly in equity	equity capital £000	premium £000 10,018 - - - - -	reserve £000 (4,712) - 36,854 - -	redemption reserve £000 1,644 - - -	reserve £000 (921) - (7,822) - 1,408	earnings £000 397,424 67,173 - - (37,923) 7,191	407,802 67,173 36,854 (7,822) (37,923) 8,599
Profit for the year Other comprehensive income Foreign currency translation differences Effective portion of changes in fair value of cash flow hedges Actuarial loss on defined benefit pension plans Tax in other comprehensive income Total other comprehensive income Transactions with owners, recorded directly in equity Equity settled share based payment transactions	equity capital £000	premium £000 10,018 - - - - - -	reserve £000 (4,712) - 36,854 - - - 36,854	redemption reserve £000 1,644 - - - - -	reserve £000 (921) - (7,822) - 1,408 (6,414)	earnings £000 397,424 67,173 - - (37,923) 7,191 (30,732)	407,802 67,173 36,854 (7,822) (37,923) 8,599 (292)
Profit for the year Other comprehensive income Foreign currency translation differences Effective portion of changes in fair value of cash flow hedges Actuarial loss on defined benefit pension plans Tax in other comprehensive income Total other comprehensive income Total comprehensive income Transactions with owners, recorded directly in equity Equity settled share based payment transactions Tax on equity settled share based payment transactions	equity capital £000 4,349	premium £000 10,018 - - - - - - - - - - - - -	reserve £000 (4,712) - 36,854 - - - 36,854	redemption reserve £000 1,644 - - - - -	reserve £000 (921) - (7,822) - 1,408 (6,414)	earnings £000 397,424 67,173 - (37,923) 7,191 (30,732) 36,441	£000 407,802 67,173 36,854 (7,822) (37,923) 8,599 (292) 66,881
Profit for the year Other comprehensive income Foreign currency translation differences Effective portion of changes in fair value of cash flow hedges Actuarial loss on defined benefit pension plans Tax in other comprehensive income Total other comprehensive income Transactions with owners, recorded directly in equity Equity settled share based payment transactions Tax on equity settled share based payment transactions Share options exercised by employees	equity capital £000	premium £000 10,018 - - - - - -	reserve £000 (4,712) - 36,854 - - - 36,854	redemption reserve £000 1,644 - - - - -	reserve £000 (921) - (7,822) - 1,408 (6,414)	earnings £000 397,424 67,173 - (37,923) 7,191 (30,732) 36,441 1,557 74	£000 407,802 67,173 36,854 (7,822) (37,923) 8,599 (292) 66,881 1,557 74 465
Profit for the year Other comprehensive income Foreign currency translation differences Effective portion of changes in fair value of cash flow hedges Actuarial loss on defined benefit pension plans Tax in other comprehensive income Total other comprehensive income Total comprehensive income Transactions with owners, recorded directly in equity Equity settled share based payment transactions Tax on equity settled share based payment transactions Share options exercised by employees Own ordinary shares acquired Own ordinary shares awarded under share	equity capital £000 4,349	premium £000 10,018 - - - - - - - - - - - - -	reserve £000 (4,712) - 36,854 - - - 36,854	redemption reserve £000 1,644 - - - - -	reserve £000 (921) - (7,822) - 1,408 (6,414) (6,414)	earnings £000 397,424 67,173 - (37,923) 7,191 (30,732) 36,441 1,557 74 - (1,019)	£000 407,802 67,173 36,854 (7,822) (37,923) 8,599 (292) 66,881 1,557 74 465 (1,019)
Profit for the year Other comprehensive income Foreign currency translation differences Effective portion of changes in fair value of cash flow hedges Actuarial loss on defined benefit pension plans Tax in other comprehensive income Total other comprehensive income Total comprehensive income Transactions with owners, recorded directly in equity Equity settled share based payment transactions Tax on equity settled share based payment transactions Share options exercised by employees Own ordinary shares acquired Own ordinary shares awarded under share schemes	equity capital £000 4,349	premium £000 10,018 - - - - - - - - - - - - -	reserve £000 (4,712) - 36,854 - - - 36,854	redemption reserve £000 1,644 - - - - -	(921) - (7,822) - 1,408 (6,414) (6,414)	earnings £000 397,424 67,173 - (37,923) 7,191 (30,732) 36,441 1,557 74 - (1,019) 2,202	£000 407,802 67,173 36,854 (7,822) (37,923) 8,599 (292) 66,881 1,557 74 465 (1,019) 2,202
Profit for the year Other comprehensive income Foreign currency translation differences Effective portion of changes in fair value of cash flow hedges Actuarial loss on defined benefit pension plans Tax in other comprehensive income Total other comprehensive income Total comprehensive income Transactions with owners, recorded directly in equity Equity settled share based payment transactions Tax on equity settled share based payment transactions Share options exercised by employees Own ordinary shares acquired Own ordinary shares awarded under share	equity capital £000 4,349	premium £000 10,018 - - - - - - - - - - - - -	reserve £000 (4,712) - 36,854 - - - 36,854	redemption reserve £000 1,644 - - - - -	reserve £000 (921) - (7,822) - 1,408 (6,414) (6,414)	earnings £000 397,424 67,173 - (37,923) 7,191 (30,732) 36,441 1,557 74 - (1,019)	£000 407,802 67,173 36,854 (7,822) (37,923) 8,599 (292) 66,881 1,557 74 465 (1,019)

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 Actuarial gain on defined benefit pension	-	-	-	-	3,443	-	3,443
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 <i>Transactions with owners, recorded directly in equity</i>	-	-	(21)	-	2,789	47,627	50,395
Equity settled share based payment transactions Tax on equity settled share based payment	-	-	-	-	-	(1,150)	(1,150)
transactions	-	-	-	-	-	218	218
Share options exercised by employees	1	156	-	-	-	-	157
Own ordinary shares acquired Own ordinary shares awarded under share	-	-	-	-	-	(1,158)	(1,158)
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	First half	Full year
	2017	2016	2016
	£000	£000	£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)
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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)
	(33) 101 /	(3,032)	(30,330)
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
Sault and Sault Equitations at Cha of period	00,030	50,071	01,723

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.

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	First half	Full year
	2017	2016	2016
	£000	£000	£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	First half	Full year
	2017	2016	2016
	£000	£000	£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
Adjusted het profit attributable to ordinary shareholders	30,401	30,003	00,343

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 Amortisation of acquired	39,951	1,099	6,313	9,976	-	(2,909)	54,430
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)	-	<u>-</u>
Total revenue	132,469	61,816	32,644	44,984	(8,002)	-	263,911
Г							
Adjusted operating profit Amortisation of acquired	36,244	814	6,522	10,260	-	(3,124)	50,716
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						<u>-</u>	(10,134)
Profit for the period						<u>-</u>	28,193

3. Analysis by operating segment (continued)

Full year to 31 December 2016

•		Fluid					
	Controls	Systems	Gears	Instruments	Elimination	Unallocated	Group
_	£000	£000	£000	£000	£000	£000	£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 Amortisation of acquired	87,293	6,181	14,051	20,130	-	(7,067)	120,588
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	First half	Full year
	2017	2016	2016
	£000	£000	£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

Bank interest income
Foreign exchange gain
Other interest income

First half	First half	Full year
2017	2016	2016
£000	£000	£000
254	346	727
154	800	810
238	118	207
646	1,264	1,744
	•	<u> </u>

6. Finance expense

	First half	First half	Full year
	2017	2016	2016
	£000	£000	£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	First half	Full year
	2017	2016	2016
	£000	£000	£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	30 June	31 Dec
	2017	2016	2016
	£000	£000	£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	30 June	31 Dec
	2017	2016	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
Balance at 1 January 2017	110,411
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	30 June	31 Dec
	2017	2016	2016
	£000	£000	£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 Current	- 802	2,020 4,101	2,020 4,903
Carrent	802	6,121	6,923
Maturity at 31 December 2016 Non-current Current	10,000 1,708	1,947 3,895	11,947 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:

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Company website:

www.rotork.com

Investor Section:

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