# Rotork plc
# 2018 Half Year Results

| | HY 2018 | HY 2017 | % change | OCC [2] % change |
|---|---|---|---|---|
| Order intake[3] | **£364.7m** | **£334.2m** | +9.1% | +13.3% |
| Revenue | **£331.0m** | **£299.7m** | +10.4% | +14.8% |
| Adjusted[1] operating profit | **£65.4m** | **£54.4m** | +20.2% | +25.1% |
| Adjusted[1] operating margin | **19.8%** | **18.2%** | +160bps | +160bps |
| Profit before tax | **£54.7m** | **£48.8m** | +12.1% | +17.2% |
| Adjusted[1] profit before tax | **£64.3m** | **£52.0m** | +23.8% | +28.9% |
| Basic earnings per share | **4.7p** | **4.3p** | +10.3% | +15.3% |
| Adjusted[1] basic earnings per share | **5.6p** | **4.4p** | +27.0% | +32.3% |
| Interim dividend | **2.20p** | **2.05p** | +7.3% | |

*[1] Adjusted figures exclude the amortisation of acquired intangible assets and other adjustments, comprising restructuring costs and a credit arising from the closure of the UK defined benefit pension scheme to future accrual (see note 2).*
*[2] OCC is organic constant currency results excluding acquisitions and restated at 2017 exchange rates.*
*[3] Order intake represents the value of orders received during the period.*

## Summary

- Market outlook remains positive
- Strong order intake, +13.3% OCC
- Revenue growth +14.8% OCC
- Adjusted operating margin improvement, +160 bps
- Growth acceleration plan review phase complete, transitioning to implementation phase
- Management expectations for the full year OCC outcome unchanged

**Kevin Hostetler, Chief Executive, commenting on the results, said:**
“During the first half of the year we saw a continuation of the more favourable market trends seen during the final quarter of 2017 as well as the receipt of several larger orders in the first quarter.

“We have made significant progress on the reviews of our routes to market, innovation funnel, operations footprint, supply chain, talent development and IT systems. We have completed the data capture and analysis phase of most workstreams.

“To support the implementation phase of our growth acceleration plan we have initiated an investment programme consisting of an expansion of our service infrastructure, development of our operational and procurement expertise and accelerated investment in our IT. Spend in these areas will continue to increase through the year.

“Management expectations for OCC growth are unchanged. We expect revenues for the full year to show high single digit growth over last year on a reported basis, with currency headwinds reduced to circa 3% at current exchange rates. We continue to expect adjusted operating margins to be slightly ahead of the prior year.”


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*There will be a meeting for analysts and institutional investors at 8.30 am GMT this morning 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 more favourable market trends seen during the last quarter of 2017 and the receipt of several significant orders.

Group order intake in the first half increased 9.1%, or 13.3% on an organic constant currency (OCC) basis. Customers’ spend on maintenance and upgrades appears to be increasing to compensate for the lack of investment over the previous few years and we saw an improvement in investment in larger projects during the first quarter. The rate of growth was significantly higher in Q1 against much softer comparatives for Controls and Fluid Systems, with order intake in Q2 slightly ahead of Q2 2017, the strongest quarter last year.

The order book at 30 June 2018 was £226.2m, 17.5% (17.5% OCC) higher than at 31 December 2017, giving good visibility entering the second half.

The end market environment continues to improve. In the Group’s oil and gas markets, we saw growth in upstream and the improvement that we saw in downstream in the last quarter of 2017 continued. Midstream remained challenging and we do not expect this to improve until we see an improvement in the LNG market which is not anticipated this year. We saw steady progress across the industrial process market, while water and power activity was slightly down.

Revenue increased by 10.4% (14.8% OCC). Overall, oil and gas was 53.3% (H1 2017: 48.5%) of revenue with a significant increase in the percentage of downstream sales as a proportion of revenue offsetting a small reduction in the percentage contribution from upstream and a larger decrease in midstream. In upstream, which accounted for 16.6% (H1 2017: 17.0%) of revenue, we saw good activity in Europe with other regions lower. The increase in downstream activity was strongest in the Far East with North America also positive and, in total, downstream represented 27.7% (H1 2017: 21.1%) of revenue.

In the industrial process markets, OCC revenue increased over the prior period by 19.1%, reflecting improving macroeconomic conditions. Revenue from water was down 3.2%, mainly due to North America, while power decreased by 6.6%, with small increases across most regions offset by a reduction in the Middle East. We continue to see significant growth opportunities across our other end markets.

Geographically, the Middle East declined as increased sales in midstream and downstream were more than offset by the decrease in the upstream and power markets. All other regions grew in total with the Far East and Europe increasing their share of Group revenue. We remain well placed internationally to benefit from opportunities in all of our key geographies.

Rotork Site Services, our global service network, is a key differentiator in our industry and continued to perform well as customers look to manage their assets more efficiently and avoid unplanned shutdowns. We have increased the number of service engineers by 26 in the first half of the year and are on track to continue to grow this team. We continue to grow our Client Support Programme (CSP) which offers maintenance contracts tailored to our customers' specific needs, adding new CSP sales to the renewal of existing agreements as customers see the benefits of this level of support and continue the relationship.

Adjusted operating profit increased 20.2% despite a currency headwind of 4.9% and after investing in new products, expanding our service infrastructure and accelerating investment in our IT infrastructure to support our growth acceleration plan. The initial gains from the growth acceleration plans are anticipated to come from procurement and operational improvement activities where we have been utilising outside support. We are now actively strengthening our internal teams in these areas to achieve the benefits.

**Strategic progress**

As previously communicated, we are committed to returning Rotork over the next five years to the higher levels of organic growth and margins previously delivered by the Group. We have now concluded the reviews which started last year to examine six areas - our routes to market, innovation funnel, operational footprint, supply chain, talent development and IT systems. These reviews have validated our initial hypothesis, that we can accelerate growth though investing in innovation, service and routes to market, funded by savings generated from restructuring our operational footprint and consolidating our global supply chain.

*Routes to market*
The review of our routes to market has emphasised the benefits of working directly with end users and at the same time how we can work more effectively with our other channel partners. We have already instigated a number of initiatives to improve our customer experience, particularly for our larger customers, and part of the investment in our business systems will enable our sales teams to spend more time with customers. We have a knowledgeable sales force with long-established customer relationships and will gradually align the project orientated sales teams to the end markets they serve. This transition from product focussed to end market focussed divisions will be phased. Investment in IT will also ensure we are able to respond quicker to orders for simple solutions where speed of response is critical.

We have reviewed our various markets and assessed the future for each to ensure we are focusing our resources on those end markets, geographies and product lines which have the highest growth and margin potential. This overall portfolio review has also led us to withdraw resources from less attractive markets and as a consequence our first steps are to initiate the exit of three areas which are non-core to the future of Rotork. These are our nuclear island actuators, valve adaption businesses and a regional engineering office. The sale of the Fluid Systems nuclear actuator business was completed in July for £3m. The valve adaption businesses and the engineering office will be closed during the second half of the year. These businesses account for around 1% of Group revenue and with overheads of circa £5m are dilutive to Group margins. The payback on these initiatives will be less than one year. Additionally, we initiated a detailed product line review identifying a number of product lines which will be withdrawn from production over the next 18 months. Sales of most of these product lines will be transferred to alternatives, in most cases to a newer generation of products, within the core product portfolio.

*Innovation*
We have completed a high level review of our innovation funnel, our in-flight new product development activities and our core engineering competencies. We have developed a framework for analysing opportunities against markets and are now examining the most promising areas more closely. Where we have identified gaps in the competencies we require for our future, we are putting in place a plan to either build, partner or acquire these competencies, focusing on the key market drivers of lower energy consumption, reduced emissions, increased operating efficiencies and advanced communications protocols.

*Operational footprint*
The workstream to review the operating footprint is well underway, with phase one (data capture and initial actions) complete. We have implemented a number of site performance improvements, focusing first on our largest facilities, and these are starting to deliver results. The improvement areas differ from site to site but lean and value stream mapping techniques are being used to improve efficiency and reduce inventory across the Group. We have recently hired a number of new people well-versed in these techniques to lead this work and drive further improvements.

*Supply chain*
The procurement review has analysed the opportunities and broken them down into waves based upon overall complexity, savings opportunity and the time needed in order to execute these savings initiatives. These initiatives cover both our direct and indirect spend categories. Work on the first wave has started with travel, insurance and the supply of some component lines. We are now creating a central procurement team, with a combination of external and internal appointments, rather than this activity being led at a divisional or local level. Work on the next waves of the programme, which contain higher value components used in manufacture of our products, will commence in the third quarter.

*Talent development*
As I have travelled around numerous Rotork facilities in my first six months I have been struck by the passion of our employees and their desire to see Rotork prosper. Our people will be key to the success of our initiatives. We selected a cross section of senior leaders representing all regions of the globe for the initial phase of our talent development programme and over 140 people have now been through the process. This review has confirmed that with the addition of some targeted recruitment, Rotork will have both the intellectual horsepower and focus on execution to drive our desired results. Our next step is to implement an internal talent review process along with a training and development suite that will support the future needs of our organisation.

*IT*
The other key enabler that impacts all of the other workstreams is IT. Evaluation of the key elements of our IT strategy is continuing but will move into implementation phase very shortly. This will be the platform for delivering many of the benefits identified in the other workstreams. We are now transition planning and sequencing these changes with a new business intelligence platform being the first deliverable.

Our growth acceleration plan is now being developed using the output of these reviews to form a new operating environment comprising four pillars. The first pillar, commercial excellence, will build on the route to market and innovation workstreams. The second pillar, operational excellence, will be achieved through the operational footprint and supply chain work. Core business processes, of which IT will be a major enabler, and talent development are the other two pillars.

We will be transparent around our achievements across all the workstreams, splitting out the underlying trading performance from the restructuring costs, the investment in the customer offering and how these are funded by cost savings. As previously stated, we will fund any increased investments from cost savings over time, taking a balanced approach to risk and returns and taking a phased approach so that we can benefit from lessons learned as we roll out changes across the Group.

**Financial Key Performance Indicators (KPIs)**

| | H1 2018 | H1 2017 | FY 2017 |
|---|---|---|---|
| Revenue growth | **+10.4%** | +13.6% | +8.8% |
| Return on sales | **+19.4%** | +17.3% | +19.4% |
| Cash conversion | **100.0%** | 108.5% | 109.1% |
| Return on capital employed | **27.2%** | 23.1% | 24.9% |
| Earnings per share growth | **+27.0%** | +4.2% | +6.0% |

The KPIs are defined below:

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

**Adjusted items**

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

The statutory profit measures are adjusted to exclude amortisation of acquired intangibles and other adjustments, comprising restructuring costs and the one-off actuarial credit arising from the closure of the UK defined benefit pension scheme to future accrual. Restructuring costs comprise mainly the various consultants' costs during the analysis phase of the workstreams. As anticipated in March, the costs in the first half year at £5.5m were very close to the run-rate in the second half of last year of £5.4m. Once the work moves to implementation these are generally regarded as normal trading expenses. Restructuring costs are therefore expected to continue in the second half at a similar run-rate to the first half of the year.

| £m | Statutory Results | Amortisation | Pension related | Restructuring costs | Adjusted results |
|---|---|---|---|---|---|
| Operating profit | 55.8 | 9.9 | (5.8) | 5.5 | 65.4 |
| Profit before tax | 54.7 | 9.9 | (5.8) | 5.5 | 64.3 |
| Tax | (13.5) | (2.3) | 1.3 | (0.8) | (15.3) |
| Profit after tax | 41.2 | 7.6 | (4.5) | 4.7 | 49.0 |

**Cash flow**
Our strong cash generation resulted in a reduction in net debt of £6.9m to £5.7m at the end of the period. Our cash generation KPI shows a conversion of 100.0% of operating profit into operating cash. This allowed us to invest £6.4m in capital expenditure, pay dividends of £29.2m and we made tax payments of £11.3m.

**Financial position**
The balance sheet remains strong and at the period end net debt was £5.7m (Dec 2017: £12.6m), with the ratio of net debt to adjusted EBITDA improving to 0.04:1 (Dec 2017: 0.09:1). Committed facilities totalled £120m of which £75m were drawn at the period end (Dec 2017: £135m committed facilities of which £75m were drawn). The committed facilities both expire in August 2020.

Net working capital at the period end was £192.2m, an increase of £3.9m since the year end.

**Retirement benefits**
The Group operates two defined benefit pension schemes, the larger of which is in the UK. During 2017 we completed a consultation process with members of the UK scheme and this scheme closed to future accrual in April 2018. The active members of the scheme have been offered membership of the UK defined contribution plan.

The pension scheme deficit decreased from £48.2m at 31 December 2017 to £32.8m at 30 June 2018 due to changes in the discount rate and inflation assumptions and changes to assumptions impacting the schemes' liabilities following the closure to future accrual. The credit of £5.8m resulting from the closure is included in other income in the income statement and has been shown as an adjusted item.

**Currency**
Overall, currency headwinds reduced revenue by £13.1m (4.4%) compared with the first half of 2017. The average US dollar rate was $1.38 (H1 2017: $1.26) and the average Euro rate was €1.14 (H1 2017: €1.16), whilst the rates at 30 June 2018 were $1.32 and €1.13 (30 June 2017: $1.30 and €1.14).

**Dividend**
The Board has decided to increase the interim dividend by 7.3% to 2.2p, reflecting confidence in progress for the full year. The interim dividend of 2.2p per ordinary share will be paid on 21 September 2018 to shareholders on the register at the close of business on 24 August 2018.

**Board composition**
On 12 February I joined the board and then on 12 March assumed the role of Chief Executive. At the same time Martin Lamb resumed his role as non-executive Chairman. The workstreams that were initiated during this period have provided a huge amount of information that has enabled the rapid development of the growth acceleration plan. In my first six months I have travelled to more than a dozen Rotork facilities across North America, Europe and Asia and met many Rotork employees and customers. The insights gained from these meetings are playing a key role in shaping the operating environment we are now creating.

## Operating Review

### Rotork Controls

| £m | H1 2018 | H1 2017 | Change | OCC[2] Change |
|---|---|---|---|---|
| Order intake | **182.8** | 164.7 | +11.0% | +16.0% |
| Revenue | **163.6** | 151.1 | +8.3% | +13.4% |
| Adjusted[1] operating profit | **45.2** | 40.0 | +13.2% | +17.1% |
| Adjusted[1] operating margin | **27.6%** | 26.4% | +120bps | +90bps |

Controls performed well during the period, with order intake and revenue increasing by 11.0% (OCC: 16.0%) and 8.3% (OCC: 13.4%) respectively, driven by improvements in downstream oil and gas in Asia and North America.

Adjusted operating margins increased by 120 basis points to 27.6%. The higher levels of revenue growth exceeded the inflationary pressures and investment in overheads, driving the improved operating margin. Material costs decreased 60 basis points but increased 40 basis points at constant currency reflecting in part increases in commodity costs but also the delivery of two large lower margin projects in the Far East, and this resulted in gross margins being slightly lower (30 basis points) than the first half of 2017.

### Rotork Fluid Systems

| £m | H1 2018 | H1 2017 | Change | OCC[2] Change |
|---|---|---|---|---|
| Order intake | **91.7** | 82.6 | +11.0% | +14.7% |
| Revenue | **79.4** | 68.1 | +16.6% | +20.6% |
| Adjusted[1] operating profit | **5.9** | 1.1 | +432.5% | +464.1% |
| Adjusted[1] operating margin | **7.4%** | 1.6% | +580bps | +590bps |

Fluid Systems, the division most exposed to the oil and gas market, benefited from an increase in order intake of 11.0% (OCC: 14.7%). Revenue increased by 16.6% (OCC: 20.6%), mainly across upstream and downstream oil and gas in Europe, the Far East and North America and industrial processes in Europe.

Adjusted operating margins increased by 580 basis points, reflecting the significant increase in revenue over a cost base which has risen modestly. Gross margins improved 410 basis points at constant currency with improvements to labour productivity and utilisation of facilities as well as improved material content.

**Rotork Gears**

| £m | H1 2018 | H1 2017 | Change | OCC[2] Change |
|---|---|---|---|---|
| Order intake | **46.1** | 45.4 | +1.7% | +4.2% |
| Revenue | **41.7** | 40.3 | +3.7% | +6.1% |
| Adjusted[1] operating profit | **7.9** | 6.3 | +25.1% | +29.4% |
| Adjusted[1] operating margin | **18.9%** | 15.7% | +320bps | +340bps |

Gears order intake increased by 1.7% (OCC: 4.2%) and revenue by 3.7% (OCC: 6.1%) with oil and gas slightly lower but other end markets showing improvements and all geographies higher, except Europe which was affected by a reduction in midstream.

Adjusted operating margin increased by 320 basis points, reflecting the improved operational efficiencies after Mastergear was fully integrated into the Cusago site at the end of 2017.

**Rotork Instruments**

| £m | H1 2018 | H1 2017 | Change | OCC[2] Change |
|---|---|---|---|---|
| Order intake | **52.4** | 51.0 | +2.8% | +5.4% |
| Revenue | **54.5** | 48.6 | +12.2% | +14.9% |
| Adjusted[1] operating profit | **11.7** | 10.0 | +17.0% | +21.8% |
| Adjusted[1] operating margin | **21.4%** | 20.5% | +90bps | +130bps |

Instruments saw an increase in order intake of 2.8% (OCC: 5.4%) while revenue grew by 12.2% (OCC: 14.9%) with growth in oil and gas and industrial processes as well as increases across the remaining end markets and all geographies except the Middle East.

Product mix within the division led to an increase in material content but higher revenues meant gross margins improved 100 basis points at constant currency. The margin improvement expanded to 130 basis points for adjusted operating margins but currency trimmed this to 90 basis points as reported.

## Outlook

During the first half of the year we saw a continuation of the more favourable market trends seen during the final quarter of 2017 as well as the receipt of several larger orders in the first quarter.

We have made significant progress on the reviews of our routes to market, innovation funnel, operations footprint, supply chain, talent development and IT systems. We have completed the data capture and analysis phase of most workstreams.

To support the implementation phase of our growth acceleration plan we have initiated an investment programme consisting of an expansion of our service infrastructure, development of our operational and procurement expertise and accelerated investment in our IT. Spend in these areas will continue to increase through the year.

Management expectations for OCC growth are unchanged. We expect revenues for the full year to show high single digit growth over last year on a reported basis, with currency headwinds reduced to circa 3% at current exchange rates. We continue to expect adjusted operating margins to be slightly ahead of the prior year.

## Principal risks and uncertainties

The Group has an established risk management process as part of the corporate governance framework set out in the 2017 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 18 to 24 of the 2017 Annual Report & Accounts. We have since updated our risk appetite framework and enhanced the method of application of this framework. We have also reviewed the Group's principal risks and concluded that they remain applicable to the second half of the financial year.

The principal risks and uncertainties are: decline in government and private sector confidence and spending; increased competition on price or product offering; increasing social and political instability; 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 to protect Rotork operations, sensitive or commercial data from cybercrime; failure of our staff or third parties to comply with law or regulation or to uphold our high ethical standards and values; and failure to recruit and retain the talented staff needed to deliver to our core strategic challenges.

The Group continues to monitor the implications of increased geopolitical uncertainty, including the implications on the Group of Brexit, as well as the rise in protectionist sentiment in the global trading environment. The Board remains confident that the geographic spread of our businesses and diverse end markets in which we operate substantially limits the risk associated with instability in any given territory.

## Statement of Directors' Responsibilities

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

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

The Directors of Rotork plc are listed in the Rotork plc Annual Report & Accounts for 31 December 2017. A list of current directors is maintained in the "About Us" section of the Rotork website: www.rotork.com.

**By order of the Board**
Kevin G. Hostetler
Chief Executive
6 August 2018

## 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 2018 which comprises the Consolidated Income Statement, 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 18. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

**Directors’ responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure 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 Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 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
6 August 2018

## Consolidated Income Statement

| | Notes | **First half 2018 £000** | First half 2017 £000 | Full year 2017 £000 |
|---|---|---|---|---|
| **Revenue** | *3* | **331,039** | 299,745 | 642,229 |
| Cost of sales | | **(183,070)** | (169,059) | (358,090) |
| **Gross profit** | | **147,969** | 130,686 | 284,139 |
| Other income | *4* | **6,020** | 10,332 | 10,651 |
| Distribution costs | | **(3,431)** | (2,977) | (6,271) |
| Administrative expenses | | **(94,689)** | (86,504) | (202,233) |
| Other expenses | | **(65)** | (236) | (314) |
| Adjusted operating profit | *2* | **65,429** | 54,430 | 130,162 |
| Adjustments | | | | |
| - Amortisation of acquired intangible assets | | **(9,916)** | (13,129) | (27,183) |
| - Other adjustments | *4* | **291** | 10,000 | (17,007) |
| **Operating profit** | *3* | **55,804** | 51,301 | 85,972 |
| Finance income | *5* | **983** | 646 | 1,381 |
| Finance expense | *6* | **(2,069)** | (3,116) | (6,767) |
| **Profit before tax** | | **54,718** | 48,831 | 80,586 |
| **Income tax expense** | *7* | **(13,522)** | (11,514) | (24,973) |
| **Profit for the period** | | **41,196** | 37,317 | 55,613 |
| | | pence | pence | Pence |
| **Basic earnings per share** | *9* | **4.7** | 4.3 | 6.4 |
| **Adjusted basic earnings per share** | *2* | **5.6** | 4.4 | 10.6 |
| **Diluted earnings per share** | *9* | **4.7** | 4.3 | 6.4 |
| **Adjusted diluted earnings per share** | *2* | **5.6** | 4.4 | 10.5 |

## Consolidated Statement of Comprehensive Income and Expense

| | **First half 2018 £000** | First half 2017 £000 | Full year 2017 £000 |
|---|---|---|---|
| **Profit for the period** | **41,196** | **37,317** | 55,613 |
| **Other comprehensive income and expense** | | | |
| ***Items that may be subsequently reclassified to the income statement:*** | | | |
| Foreign currency translation differences | **(1,312)** | **(21)** | (376) |
| Effective portion of changes in fair value of cash flow hedges net of tax | **(78)** | **2,789** | 6,188 |
| | **(1,390)** | **2,768** | 5,812 |
| ***Items that are not subsequently reclassified to the income statement:*** | | | |
| Actuarial gain in pension scheme net of tax | **5,009** | **10,310** | 3,709 |
| **Income and expenses recognised directly in equity** | **3,619** | **13,078** | 9,521 |
| **Total comprehensive income for the period** | **44,815** | **50,395** | 65,134 |

# Consolidated Balance Sheet

| | Notes | **30 June 2018 £000** | 30 June 2017 £000 | 31 Dec 2017 £000 |
|---|---|---|---|---|
| Goodwill | | **228,020** | 251,648 | 228,028 |
| Intangible assets | | **71,815** | 95,707 | 81,456 |
| Property, plant and equipment | | **79,018** | 82,675 | 81,725 |
| Deferred tax assets | | **14,689** | 18,545 | 21,218 |
| Other receivables | | **-** | 384 | 142 |
| **Total non-current assets** | | **393,542** | 448,959 | 412,569 |
| Inventories | *10* | **101,609** | 91,767 | 91,908 |
| Trade receivables | | **142,676** | 129,130 | 145,529 |
| Current tax | | **1,979** | 2,552 | 2,726 |
| Derivative financial instruments | | **339** | 550 | 3,468 |
| Other receivables | | **26,065** | 21,535 | 19,202 |
| Cash and cash equivalents | | **70,148** | 60,690 | 63,192 |
| **Total current assets** | | **342,816** | 306,224 | 326,025 |
| **Total assets** | | **736,358** | 755,183 | 738,594 |
| Ordinary shares | *12* | **4,353** | 4,351 | 4,352 |
| Share premium | | **11,304** | 10,638 | 11,193 |
| Reserves | | **30,873** | 29,219 | 32,263 |
| Retained earnings | | **426,957** | 413,250 | 409,392 |
| **Total equity** | | **473,487** | 457,458 | 457,200 |
| Interest-bearing loans and borrowings | *13* | **45,874** | 60,857 | 45,879 |
| Employee benefits | | **32,787** | 43,325 | 52,293 |
| Deferred tax liabilities | | **13,443** | 18,606 | 19,379 |
| Derivative financial instruments | | **426** | 1,038 | 245 |
| Provisions | | **2,098** | 2,020 | 1,929 |
| **Total non-current liabilities** | | **94,628** | 125,846 | 119,725 |
| Interest-bearing loans and borrowings | *13* | **29,970** | 46,951 | 29,928 |
| Trade payables | | **52,113** | 44,949 | 49,183 |
| Employee benefits | | **19,005** | 15,493 | 21,464 |
| Current tax | | **15,357** | 14,335 | 13,093 |
| Derivative financial instruments | | **2,608** | 5,328 | 1,521 |
| Other payables | | **44,535** | 39,920 | 42,165 |
| Provisions | | **4,655** | 4,903 | 4,315 |
| **Total current liabilities** | | **168,243** | 171,879 | 161,669 |
| **Total liabilities** | | **262,871** | 297,725 | 281,394 |
| **Total equity and liabilities** | | **736,358** | 755,183 | 738,594 |

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

| | 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 year | - | - | - | - | - | 55,613 | 55,613 |
| *Other comprehensive income* | | | | | | | |
| Foreign currency translation differences | - | - | (376) | - | - | - | (376) |
| Effective portion of changes in fair value of cash flow hedges | - | - | - | - | 7,546 | - | 7,546 |
| Actuarial gain on defined benefit pension plans | - | - | - | - | - | 5,849 | 5,849 |
| Tax in other comprehensive income | - | - | - | - | (1,358) | (2,140) | (3,498) |
| *Total other comprehensive income* | - | - | (376) | - | 6,188 | 3,709 | 9,521 |
| **Total comprehensive income** | - | - | (376) | - | 6,188 | 59,322 | 65,134 |
| *Transactions with owners, recorded directly in equity* | | | | | | | |
| Equity settled share based payment transactions | - | - | - | - | - | 1,089 | 1,089 |
| Tax on equity settled share based payment transactions | - | - | - | - | - | 252 | 252 |
| Share options exercised by employees | 2 | 711 | - | - | - | - | 713 |
| Own ordinary shares acquired | - | - | - | - | - | (1,157) | (1,157) |
| Own ordinary shares awarded under share schemes | - | - | - | - | - | 2,301 | 2,301 |
| Dividends | - | - | - | - | - | (45,218) | (45,218) |
| **Balance at 31 December 2017** | 4,352 | 11,193 | 31,766 | 1,644 | (1,147) | 409,392 | 457,200 |

## Consolidated Statement of Changes in Equity (continued)

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

## Consolidated Statement of Cash Flows

| | First half 2018 £000 | First half 2017 £000 | Full year 2017 £000 |
|---|---|---|---|
| Profit for the period | **41,196** | 37,317 | 55,613 |
| Amortisation of acquired intangible assets | **9,916** | 13,129 | 27,183 |
| Other adjustments | **(291)** | (10,000) | 17,007 |
| Amortisation of development costs | **1,443** | 1,182 | 2,699 |
| Depreciation | **5,640** | 6,171 | 12,232 |
| Equity settled share based payment expense | **2,665** | 1,371 | 3,390 |
| Net (profit) / loss on sale of property, plant and equipment | **(90)** | 61 | (147) |
| Finance income | **(963)** | (646) | (1,381) |
| Finance expense | **2,049** | 3,116 | 6,767 |
| Income tax expense | **13,522** | 11,514 | 24,973 |
| | **75,087** | 63,215 | 148,336 |
| Increase in inventories | **(9,648)** | (6,440) | (7,390) |
| (Increase) / decrease in trade and other receivables | **(2,891)** | 3,109 | (13,172) |
| Increase in trade and other payables | **10,187** | 1,483 | 6,926 |
| Restructuring costs paid | **(4,604)** | - | (2,775) |
| Difference between pension charge and cash contribution | **(3,628)** | (3,393) | (4,782) |
| Increase in provisions | **478** | 293 | 147 |
| (Decrease) / increase in employee benefits | **(7,816)** | (2,579) | 7,158 |
| | **57,165** | 55,688 | 134,448 |
| Income taxes paid | **(11,261)** | (11,464) | (28,243) |
| **Cash flows from operating activities** | **45,904** | 44,224 | 106,205 |
| | | | |
| Purchase of property, plant and equipment | **(4,575)** | (6,244) | (12,457) |
| Development costs capitalised | **(1,803)** | (1,763) | (3,356) |
| Proceeds from sale of property, plant and equipment | **159** | 898 | 2,450 |
| Contingent consideration paid | **-** | (921) | (1,347) |
| Settlement of hedging derivatives | **2,610** | 1,152 | 662 |
| Interest received | **578** | 378 | 1,191 |
| **Cash flows from investing activities** | **(3,031)** | (6,500) | (12,857) |
| | | | |
| Issue of ordinary share capital | **112** | 157 | 713 |
| Own ordinary shares acquired | **(2,150)** | (1,158) | (1,157) |
| Interest paid | **(1,171)** | (1,442) | (2,975) |
| Increase / (decrease) in borrowings | **42** | (8,567) | (40,579) |
| Repayment of finance lease liabilities | **(1)** | (66) | (68) |
| Dividends paid on ordinary shares | **(29,154)** | (27,391) | (45,218) |
| **Cash flows from financing activities** | **(32,322)** | (38,467) | (89,284) |
| | | | |
| **Net increase / (decrease) in cash and cash equivalents** | **10,551** | (743) | 4,064 |
| | | | |
| Cash and cash equivalents at 1 January | **63,192** | 61,423 | 61,423 |
| Effect of exchange rate fluctuations on cash held | **(3,595)** | 10 | (2,295) |
| **Cash and cash equivalents at end of period** | **70,148** | 60,690 | 63,192 |

# 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 2018 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 2017 does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006, statutory accounts for the year ended 31 December 2017 were approved by the Board on 5 March 2018 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 2017 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 2018 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 2017, 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 2017.

### 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 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

***New accounting standards and interpretations***

***IFRS 15 'Revenue from contracts with customers'***
IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Group has adopted IFRS 15 from 1 January 2018, using the modified retrospective method (retrospectively with the cumulative effect at the date of initial application).

During 2017, the Group performed a detailed analysis of significant revenue streams, communicated to key stakeholders within the business the key aspects of the accounting change and had specific targeted training for key finance employees. In early 2018, further work targeted service revenue to assess the impact of the change over the transition date. Adoption of IFRS 15 had no material impact on the recognition and measurement of the Group's revenue. No adjustments to equity have been made.

The Group's accounting policy for revenue has been updated as follows:

> Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control of a product or service to a customer and is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.
>
> Revenue from the sale of actuators, gearboxes and flow control products is recognised in the income statement when control of the goods has transferred, being when the goods have been shipped to the customer in accordance with the contracted shipping terms.
>
> The Group provides service and support through preventative maintenance contracts, on-site and workshop service, retrofit solutions and the Client Support Programme. Revenue is recognised for these services based on the stage of completion of the contract. The directors have assessed that the long-term service contracts are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Group. For other service work revenue is recognised on completion of the work and after all performance obligations have been completed.
>
> No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated completion costs, the possible return of goods or continuing management involvement with the goods.

***IFRS 9 'Financial instruments'***
IFRS 9 introduced a new model for classification and measurement of financial assets and financial liabilities, a single, forward-looking "expected loss" model for measuring impairment of financial assets (including trade receivables) and a new approach to hedge accounting that is more closely aligned with an entity's risk management activities. Adoption of IFRS 9 had no immediate material impact on the Group's results or financial position.

There has been a small change to the way the Group documents its hedging relationships to reflect specific changes in the standard. The Group's accounting policy for derivative financial instruments has been updated to include the following paragraph:

> At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

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

***New standards and interpretations not yet adopted***

***IFRS 16 'Leases'***

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective for annual periods beginning on or after 1 January 2019.
IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and are replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

Since the Group last reported, the Board has decided to apply the modified retrospective method when the standard is first adopted in its financial statements for the year ended 31 December 2019. Therefore, there will be no impact on any comparative accounting period (interim or annual) up to and including 31 December 2018, with any leases recognised on balance sheet on the date of initial application of IFRS 16 (1 January 2019). The Group has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 January 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

***Other amendments***

Further narrow scope amendments have been issued which are mandatory for periods commencing on or after 1 January 2019. The application of these amendments will not have any material impact on the disclosures, net assets or results of the Group.

## 2. *Alternative performance measures*

The Group uses adjusted figures as key performance measures in addition to those reported under adopted IFRS, as management believe these measures 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. Further details on these adjustments are given in note 4.

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

### b. Adjusted profit before tax

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

| | **First half 2018 £000** | First half 2017 £000 | Full year 2017 £000 |
|---|---|---|---|
| Profit before tax | **54,718** | 48,831 | 80,586 |
| *Adjustments:* | | | |
| Amortisation of acquired intangible assets | **9,916** | 13,129 | 27,183 |
| Closure of UK defined benefit pension scheme to future accrual | **(5,840)** | - | - |
| Impairment of goodwill | **-** | - | 21,594 |
| Release of contingent consideration provision | **-** | (10,000) | (10,000) |
| Restructuring costs | **5,549** | - | 5,413 |
| **Adjusted profit before tax** | **64,343** | 51,960 | 124,776 |

### 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 2018 £000** | First half 2017 £000 | Full year 2017 £000 |
|---|---|---|---|
| Net profit attributable to ordinary shareholders | **41,196** | 37,317 | 55,613 |
| *Adjustments:* | | | |
| Amortisation of acquired intangible assets | **9,916** | 13,129 | 27,183 |
| Closure of UK defined benefit pension scheme to future accrual | **(5,840)** | - | - |
| Impairment of goodwill | **-** | - | 21,594 |
| Release of contingent consideration provision | **-** | (10,000) | (10,000) |
| Restructuring costs | **5,549** | - | 5,413 |
| Tax effect on adjusted items | **(1,868)** | (1,965) | (7,879) |
| **Adjusted net profit attributable to ordinary shareholders** | **48,953** | 38,481 | 91,924 |

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

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

### d. Organic constant currency (OCC)

OCC results exclude the incremental impact of acquisitions and are restated at 2017 exchange rates. Key headings in the income statement are reconciled to OCC as follows:

| | **30 June 2018** | Currency adjustment | Impact of acquisitions | **OCC 30 June 2018** |
|---|---|---|---|---|
| Revenue | **331,039** | 13,097 | - | 344,136 |
| Cost of sales | **(183,070)** | (8,350) | - | (191,420) |
| Gross margin | **147,969** | 4,747 | - | 152,716 |
| Net overheads | **(82,540)** | (2,095) | - | (84,635) |
| Adjusted operating profit | **65,429** | 2,652 | - | 68,081 |
| Adjusted operating margin | **19.8%** | | | 19.8% |
| | | | | |
| Adjusted profit before tax | **64,343** | 2,652 | - | 66,995 |
| Adjusted basic earnings per share | **5.6p** | 0.3p | - | 5.9p |

### e. Return on capital employed

| | **First half 2018 £000** | First half 2017 £000 | Full year 2017 £000 |
|---|---|---|---|
| **Adjusted operating profit** | | | |
| *As reported* | **-** | - | 130,162 |
| *Rolling 12 months* | **141,161** | 124,302 | - |
| | | | |
| **Capital employed** | **473,487** | 457,458 | 457,200 |
| Cash and cash equivalents | **(70,148)** | (60,690) | (63,192) |
| Interest bearing loans and borrowings | **75,844** | 107,808 | 75,807 |
| Pension deficit net of deferred tax | **26,093** | 35,979 | 38,924 |
| | **505,276** | 540,555 | 508,739 |
| Average capital employed | **518,190**[1] | 538,183 | 522,141[2] |
| Return on capital employed | **27.2%** | 23.1% | 24.9% |

[1] defined as the average of the capital employed at June 2017, December 2017 and June 2018.
[2] defined as the average of the capital employed at December 2016 and December 2017.

### 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 2018**

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

**Half year to 30 June 2017**

| | Controls £000 | Fluid Systems £000 | Gears £000 | Instruments £000 | Elimination £000 | Unallocated £000 | Group £000 |
|---|---|---|---|---|---|---|---|
| Revenue from external customers | 151,104 | 68,114 | 34,930 | 45,597 | - | - | 299,745 |
| Inter segment revenue | - | - | 5,333 | 2,985 | (8,318) | - | - |
| Total revenue | 151,104 | 68,114 | 40,263 | 48,582 | (8,318) | - | 299,745 |
| Adjusted operating profit | 39,951 | 1,099 | 6,313 | 9,976 | - | (2,909) | 54,430 |
| Amortisation of acquired intangibles assets | (1,424) | (579) | (1,032) | (10,094) | - | - | (13,129) |
| Segment result before adjustments | 38,527 | 520 | 5,281 | (118) | - | (2,909) | 41,301 |
| Adjustments | | | | | | | 10,000 |
| Operating profit | | | | | | | 51,301 |
| Net financing expense | | | | | | | (2,470) |
| Income tax expense | | | | | | | (11,514) |
| Profit for the period | | | | | | | 37,317 |

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

**Full year to 31 December 2017**

| | Controls £000 | Fluid Systems £000 | Gears £000 | Instruments £000 | Elimination £000 | Unallocated £000 | Group £000 |
|---|---|---|---|---|---|---|---|
| Revenue from external customers | 325,174 | 150,117 | 72,814 | 94,124 | - | - | 642,229 |
| Inter segment revenue | - | - | 11,086 | 6,498 | (17,584) | - | - |
| Total revenue | 325,174 | 150,117 | 83,900 | 100,622 | (17,584) | - | 642,229 |
| Adjusted operating profit | 92,903 | 9,019 | 15,724 | 20,457 | - | (7,941) | 130,162 |
| Amortisation of acquired intangibles assets | (2,888) | (1,409) | (2,021) | (20,865) | - | - | (27,183) |
| Segment result before adjustments | 90,015 | 7,610 | 13,703 | (408) | - | (7,941) | 102,979 |
| Adjustments | | | | | | | (17,007) |
| Operating profit | | | | | | | 85,972 |
| Net financing expense | | | | | | | (5,386) |
| Income tax expense | | | | | | | (24,973) |
| Profit for the year | | | | | | | 55,613 |

**Revenue by location of subsidiary**

| | **First half 2018 £000** | First half 2017 £000 | Full year 2017 £000 |
|---|---|---|---|
| UK | **36,418** | 34,495 | 76,281 |
| Italy | **41,059** | 40,543 | 82,165 |
| Rest of Europe | **60,238** | 52,132 | 113,822 |
| USA | **71,182** | 71,633 | 149,526 |
| Other Americas | **17,188** | 13,203 | 31,549 |
| Rest of World | **104,954** | 87,739 | 188,886 |
| | **331,039** | 299,745 | 642,229 |

### *4. Adjustments to profit*

Adjustments are those items that management consider to be significant and where separate disclosure enables stakeholders to assess the trading performance of the Group on a consistent basis.

The adjustments to profit are as follows:

| | **First half 2018 £000** | First half 2017 £000 | Full year 2017 £000 |
|---|---|---|---|
| Closure of UK defined benefit pension scheme to future accrual | **5,840** | - | - |
| Release of contingent consideration | **-** | 10,000 | 10,000 |
| Goodwill impairment | **-** | - | (21,594) |
| | **5,840** | 10,000 | (11,594) |
| Restructuring costs | **(5,549)** | - | (5,413) |
| | **291** | 10,000 | (17,007) |

During 2017 we completed a consultation process with members of the UK defined benefit pension scheme and this scheme closed to future accrual in April 2018. The resulting credit of £5.8m is included in other income.

The restructuring costs include:

i. Consultancy costs associated with the growth acceleration plan (included in administrative expenses).
ii. Executive termination and associated recruitment costs (included in administrative expenses).
iii. Redundancy costs and asset write-downs which have arisen following the reorganisation of operations (included in administrative expenses).

The adjustments are tax deductible in the country in which the expense is incurred.

### *5. Finance income*

| | **First half 2018 £000** | First half 2017 £000 | Full year 2017 £000 |
|---|---|---|---|
| Bank interest income | **159** | 254 | 387 |
| Foreign exchange gain | **275** | 154 | 175 |
| Other interest income | **549** | 238 | 819 |
| | **983** | 646 | 1,381 |

### *6. Finance expense*

| | **First half 2018 £000** | First half 2017 £000 | Full year 2017 £000 |
|---|---|---|---|
| Interest expense on bank loans and overdrafts | **479** | 723 | 1,409 |
| Interest charge on pension scheme liabilities | **528** | 803 | 1,607 |
| Foreign exchange loss | **223** | 766 | 1,976 |
| Other interest expense | **839** | 824 | 1,775 |
| | **2,069** | 3,116 | 6,767 |

### *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 2018 is 24.7%. This is lower than the effective tax rate for the year ended 31 December 2017 of 31.0%, primarily due to the fall in the US federal tax rate from 35% to 21% which came into force on 1 January 2018, combined with the goodwill impairment and the release of the contingent consideration in 2017 being non-deductible.

The adjusted effective tax rate for the year ending 31 December 2018, based on the adjusted profit before tax, is 24.3%. This is lower than the effective tax rate for the year ended 31 December 2017 of 26.3%, primarily due to the fall in the US federal tax rate from 35% to 21% which came into force on 1 January 2018.

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

### *8. Dividends*

| | **First half 2018 £000** | First half 2017 £000 | Full year 2017 £000 |
|---|---|---|---|
| ***The following dividends were paid in the period per qualifying ordinary share:*** | | | |
| 3.35p final dividend (2017: 3.15p) | **29,154** | **27,391** | 27,391 |
| 2.05p interim dividend | **-** | **-** | 17,827 |
| | **29,154** | **27,391** | 45,218 |
| ***The following dividends per qualifying ordinary share were declared / proposed at the balance sheet date:*** | | | |
| 3.35p final dividend | **-** | **-** | 29,159 |
| 2.20p interim dividend declared (2017: 2.05p) | **19,151** | **17,826** | - |
| | **19,151** | **17,826** | 29,159 |

The interim dividend of 2.20p pence will be payable to shareholders on 21 September 2018 to those on the register on 24 August 2018.

### *9. Earnings per share*

Earnings per share is calculated using the profit attributable to the ordinary shareholders for the period and 870.0m shares (six months to 30 June 2017: 869.3m; year to 31 December 2017: 869.4m) being the weighted average ordinary shares in issue.

Diluted earnings per share is based on the profit for the year attributable to the ordinary shareholders and 873.5m shares (six months to 30 June 2017: 873.7m; year to 31 December 2017: 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 2018 £000** | 30 June 2017 £000 | 31 Dec 2017 £000 |
|---|---|---|---|
| Raw materials and consumables | **75,141** | 62,466 | 67,758 |
| Work in progress | **8,393** | 10,020 | 8,135 |
| Finished goods | **18,075** | 19,281 | 16,015 |
| | **101,609** | 91,767 | 91,908 |

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

The defined benefit obligation at 30 June 2018 of £32,780,000 (30 June 2017: £45,293,000; 31 December 2017: £48,210,000) 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 2018 by independent actuaries to reflect the closure of the UK defined benefit scheme to future accrual and updated assumptions regarding discount rates, inflation rates and asset values.

| | **30 June 2018 %** | 30 June 2017 % | 31 Dec 2017 % |
|---|---|---|---|
| Discount rate | **2.6** | 2.6 | 2.4 |
| Rate of inflation | **3.1** | 3.2 | 3.2 |

In addition, the defined benefit plan assets and liabilities have been updated to reflect the regular payments, the £1.9 million payment made in March 2018 in respect of past service and the benefits earned during the period to 30 June 2018.

### *12. Share capital and reserves*

The number of ordinary 0.5p shares in issue at 30 June 2018 was 870,489,000 (30 June 2017: 870,139,000; 31 December 2017: 870,429,000). All issued shares are fully paid.

The Group acquired 705,000 of its own shares through purchases on the London Stock Exchange during the period (30 June 2017: 465,000; 31 December 2017: 465,000). The total amount paid to acquire the shares was £2,150,000 (30 June 2017: £1,158,000; 31 December 2017: £1,157,000), and this has been deducted from shareholders' equity. At 30 June 2018 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 490,000 (30 June 2017: 566,000; 31 December 2017: 566,000). In the period 781,000 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 2018 resulted in 60,000 ordinary 0.5p shares being issued (30 June 2017: 88,000 shares), with exercise proceeds of £112,000 (30 June 2017: £157,000). The weighted average market share price at the time of exercise was £3.14 (30 June 2017: £2.45) per share.

The share based payment charge for the period was £2,665,000 (30 June 2017: £1,371,000; 31 December 2017: £3,390,000).

### *13. Loans and borrowings*

The following loans and borrowings were issued and repaid during the six months ended 30 June 2018:

| | **Carrying value £000** |
|---|---|
| Balance at 1 January 2018 | 75,807 |
| *Movement in the period:* | |
| Repayment of Euro denominated loans | (34) |
| Repayment of finance leases | (1) |
| Movement on GBP denominated loans | 76 |
| Exchange differences | (4) |
| **Balance at 30 June 2018** | 75,844 |
| Current | 29,970 |
| Non-current | 45,874 |
| | **75,844** |

The Group has committed loan facilities of £120,000,000 (First half 2017: £170,000,000; Full year 2017: £135,000,000), of which £75,000,000 (30 June 2017: £107,000,000; 31 December 2017: £75,000,000) has been drawn down. The outstanding amount attracts a blended interest rate of LIBOR plus 0.81%.

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

| | **30 June 2018 £000** | 30 June 2017 £000 | 31 Dec 2017 £000 |
|---|---|---|---|
| 1-2 years | **44,993** | 30,001 | 44,928 |
| 2-5 years | **206** | 30,135 | 911 |
| > 5 years | **675** | 721 | 40 |
| | **45,874** | 60,857 | 45,879 |

### *14. Share-based payments*

A grant of shares was made on 7 March 2018 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 | 7 March 2018 | 7 March 2018 | 7 March 2018 |
| Share price at grant date | £2.64 | £2.64 | £2.64 |
| Shares awarded under scheme | 417,263 | 417,263 | 417,267 |
| Vesting period | 3 years | 3 years | 3 years |
| Expected volatility | 30.9% | 30.9% | 30.9% |
| Risk free rate | 0.8% | 0.8% | 0.8% |
| Expected dividends expressed as a dividend yield | 2.0% | 2.0% | 2.0% |
| Probability of ceasing employment before vesting | 5% p.a. | 5% p.a. | 5% p.a. |
| Fair value | £1.49 | £2.50 | £2.50 |

The basis of measuring fair value is consistent with that disclosed in the 2017 Annual Report & Accounts.

### *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 2017 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.

### *16. Financial instruments fair value disclosure*

The Group held forward currency contracts designated as hedge instruments in a cash flow hedging relationship. At 30 June 2018 the fair value of these contracts was a net liability of £2,695,000 (30 June 2017: a net liability of £5,816,000; 31 December 2017: a net asset of £1,702,000). 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.

### *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
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West Sussex
BN99 6DA

Tel: 0371 384 2268

### *18. Group information*

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

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