



Rotork plc
2020 Half Year Results

Margin expansion in uncertain times

	H1 2020	H1 2019	% change	OCC ³ % change
Order intake ¹	£300.5m	£362.5m	-17.1%	-15.6%
Revenue	£283.2m	£318.6m	-11.1%	-9.6%
Adjusted ² operating profit	£61.2m	£67.2m	-8.9%	-8.0%
Adjusted ² operating margin	21.6%	21.1%	+50bps	+40bps
Profit before tax	£50.0m	£52.2m	-4.3%	-4.0%
Basic earnings per share	4.4p	4.6p	-4.3%	-3.9%
Adjusted ² basic earnings per share	5.4p	5.8p	-7.3%	-7.1%

Summary

- Order intake was lower year-on-year, reflecting a sharp reduction in global economic activity, the strong comparative period and extreme volatility in hydrocarbon prices
- Revenues declined in the period, largely due to COVID-19 disruption to production facilities and Rotork Site Services, but increased sequentially through May and June
- Water & Power provides essential products and services and reported an encouraging performance with sales growing 7% OCC driven by increased refurbishment activity
- Flow through⁵ of lower revenue to adjusted operating profit from H1 2019 was limited to just 17%, and from H2 2019 was 33%, demonstrating improved cyclical resilience
- Profit margins benefited from continued execution of our Growth Acceleration Programme, cost mitigation actions, reduced discretionary spend and mix
- Strong balance sheet maintained, bolstered by 116% cash conversion, with period end net cash of £144m. ROCE 30.7%, +100 bps compared with H1 2019

¹ Order intake represents the value of orders received during the period.

² Adjusted⁴ figures exclude the amortisation of acquired intangible assets and restructuring costs (see note 2).

³ OCC⁴ is organic constant currency results excluding discontinued businesses and restated at 2019 exchange rates.

⁴ Adjusted and OCC figures are alternative performance measures and are used consistently throughout these half year results. They are defined in full and reconciled to the statutory measures in note 2.

⁵ Flow through is calculated as the change in adjusted operating profit as reported, divided into the change in revenue

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

"I am pleased to report that, thanks largely to the extraordinary efforts of all our people, Rotork delivered a resilient first half performance in the face of a challenging economic environment. Adjusted operating profit margin was higher year-on-year despite lower revenue, and cash conversion remained strong. We continue to make good progress on our strategic initiatives,

bringing forward some actions that we had planned for the latter years of the Growth Acceleration Programme and investing in our facilities.

Due to the unprecedented level of uncertainty, on 31 March we withdrew our forward guidance for the current year. We retain this position as considerable uncertainty remains, and therefore we are not announcing a dividend in respect of this period today. We are however pleased to announce that we will be paying the previously deferred 2019 final dividend of 3.9p per share. We will consider the dividend payable in respect of the whole of 2020 at the end of the year, and pay this in May 2021.

Whilst the outlook for our end markets remains uncertain, we entered the second half with our production facilities operating at close to normal output levels, a solid order book and the considerable flexibility provided by our strong balance sheet. We are confident that we will successfully navigate the current challenges and will be a stronger business going forward.”

Rotork plc

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There will be a virtual meeting for analysts and institutional investors at 9.00 am BST today.

The webcast can be accessed at:

<https://www.investis-live.com/rotork/5eecac467b676e1e009b9f91/yhfd>

Participants can alternatively dial-in on the following numbers:

UK dial-in number: 020 3936 2999

All other locations: +44 20 3936 2999

Access code: 853157

Please join the meeting a few minutes before 9.00am to complete registration.

Business review

We completed the implementation of our new market aligned structure in early 2020 and following this Rotork is structured as three divisions: Oil & Gas, Water & Power and Chemical, Process & Industrial (“CPI”).

Group order intake in the first half decreased 17.1% year-on-year, or 15.6% on an OCC basis, to £300.5m. The reduction, which was largely in the second quarter and impacted all of our divisions, reflected a sharp increase in economic uncertainty, the strong comparative period and extreme volatility in hydrocarbon prices.

Despite the uncertainty our customers continue to spend on automation and environmental projects as well as maintenance and upgrades. Larger capital projects we are tracking are seeing delays, and in a very few cases cancellations. However the majority of Rotork’s activity is driven by customers’ operational rather than capital expenditure. We estimate that maintenance, repair and small to mid-sized automation/upgrade projects (individual orders less than £100k) generate 75% of Group orders by value in a typical year, and that orders above £1m represent only 5% of Group order intake.

Group revenue was 11.1% lower (9.6% OCC). Water & Power sales grew year-on-year, with growth in both its principal end markets. The division provides essential products and services and reported an encouraging performance with sales driven by increased refurbishment and upgrade activity, including power sector work won in the first half of 2019. We currently expect this power sector refurbishment work to continue through into 2021. Oil & Gas and CPI sales declined, largely due to COVID-19 related disruption on production facilities, logistics and Rotork Site Services.

By geography, Europe, Middle East & Africa (“EMEA”) revenues by destination were only modestly lower year-on-year. Asia Pacific sales were down slightly less than for the Group, with increased sales at Water & Power offset by declines elsewhere. Revenues fell double-digits in the Americas reflecting the disposal of a distribution business at year end and a significant reduction in activity within the Oil & Gas division.

Rotork Site Services, our global service network, is a key differentiator in our industry and made important strategic progress in the period despite COVID-19 making access to customer sites more challenging. One priority for Rotork Site Services is increasing the number of actuators under annual service agreements. The launches of our new Lifetime Management and Reliability Services programmes were important steps in this regard. During lockdown in April and May we put the output of our earlier global survey of training requirements to good use, with 3,600 unique development sessions being completed by Site Services employees. Rotork Site Services is managed as a separate unit within Rotork’s divisions and continues to contribute a significant proportion of Group sales.

Adjusted operating profit was 8.9% down year-on-year (8.0% OCC) reflecting reduced volumes and higher logistics costs which were partly offset by Growth Acceleration Programme savings, cost mitigation actions and reduced discretionary spend (including travel). Margin however increased, benefiting from the ongoing Growth Acceleration Programme initiatives to improve Rotork’s cyclical

resilience, cost savings and mix. With lower intangible amortisation, adjustments to profit and net finance charges, profit before tax has declined by 4.3%.

Strategic progress

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

To deliver this commitment we developed our Growth Acceleration Programme comprising of four pillars: Commercial Excellence; Operational Excellence; Talent & Culture; and IT/core business processes. The programme is not a fundamental reinvention of Rotork, but rather refining how we do things, building on our strong foundations, through people, processes and systems. This 5-year programme, which we began to implement in the second half of 2018, continues on track with progress across all pillars.

Commercial Excellence

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

One of the most significant Commercial Excellence initiatives is market re-alignment; focusing our sales teams more closely on end-market segments and customer needs. We completed this transition earlier this year, on time and to budget. Our new divisional structure will more closely address customer needs and facilitate closer customer relations through key account management. We are already seeing the benefits of the re-alignment and have included examples in the operating review section. We continued the rollout of our value selling training programme, which commenced last year, following its conversion to a digital format. The programme now forms part of the sales team's regular training and is completed by all new joiners.

We are making good progress on our route to market strategy. We have now completed our review of our channel partners. We made several important new re-seller appointments in Asia Pacific during the period, and are planning to shortly make further appointments in the Americas and in EMEA.

We now have robust processes supporting our innovation and new product development initiatives and our resources are concentrated on the most promising and profitable products and on accelerating their commercialisation. Our earlier new product launches are making good progress and contributed £6.5m to revenues in the period. We are targeting 15 new product launches in the full year. Our new products are in most cases targeting specific challenges such as energy conservation (including reducing power requirements to enable equipment to run from locally generated renewable energy) and emissions reduction and offering the latest control systems (including wireless).

Operational Excellence

Our Operational Excellence initiatives aim to improve significantly our operational efficiency whilst maintaining our reputation for high quality products and services. Initiatives underway include supply chain consolidation, inventory reduction, continuous improvement and footprint rationalisation.

Our global supply chain programme continues on track. We put in place supply chain resilience processes early on in the programme and these have provided improved visibility and greater agility, enabling us better to manage COVID-19 related disruption in the period. As expected, procurement savings will be lower year-on-year in 2020 reflecting reduced purchase volumes. We are however pleased with the momentum in the programme which will benefit our sourcing in 2021 and beyond. We continue to look to balance our purchasing efforts so as to manage down our goods-in inventory. Our initiatives in this area contributed towards the net £6.6m inventory reduction compared with a year ago. This reduction came despite a managed increase in certain areas as part of our tactical COVID-19 response.

The Rotork mixed-model lean continuous improvement programme continues and we made good progress in the first half notwithstanding the COVID-19 related disruption. During the period we completed 124 rapid improvement events across 25 locations. The space freed-up by our lean work is an important enabler of footprint optimisation and we are on track to close two production facilities this year. Another enabler is investment in our larger factories which will continue through the year.

As already announced we have brought forward some restructuring actions that we had planned for the latter years of the Growth Acceleration Programme. One example is the simplification of our regional back offices. This action will remove complexity whilst improving our customer-centricity. Another example is our factory footprint optimisation programme. During the period we announced that we would combine a North American mid-sized assembly facility with a larger one. We continue to review additional footprint opportunities.

Talent & Culture

In challenging times such as those we have experienced this year, the extraordinary strength of Rotork's people is more apparent than ever. Whether staff are working in our factories, at our customers' sites, in our offices or at home (where a large proportion are), they have embraced the changing circumstances quickly and with professionalism. Our people are truly living our purpose, 'keeping the world flowing for future generations', and embracing our values 'stronger together', 'always innovating' and 'trusted partner'.

Our priority is always the health & safety of our staff but this has been particularly the case in recent months. Early in the COVID-19 crisis we undertook a series of comprehensive COVID-19 risk assessments and formed a steering committee which met on a daily basis. The committee worked with local operational management, monitored day-to-day developments and ensured best practice was shared across the Group.

Communication and wellbeing have been especially important topics given the changes in working practices and the impacts COVID-19 has meant for our team and their families. We have introduced a 'virtual' recognition programme and increased our all-staff communication significantly, including more frequent emails from our CEO. We have also stepped-up our wellbeing initiatives. We have offered a variety of opportunities including learning (how to successfully work from home), exercise classes and team events. Our response to COVID-19 has been well received, as evidenced by high scores in our recent staff survey.

Our people have also been working hard actively supporting their communities. Examples include production of personal protective equipment for hospitals and care homes and food collections for the less fortunate. Recognising the difficulties facing some, we launched Rotork Benevolent Support, a charity intended to provide additional short-term financial support to employees and ex-employees facing financial difficulties. The charity's first year focus is on serious hardship brought about by COVID-19.

As previously announced, Rotork has appointed a Board-level Environmental, Social and Governance committee with oversight of the Group's sustainability and societal impact. The committee will provide oversight, direction and coordination helping Rotork to operate responsibly, be environmentally sustainable and contribute positively to society. It will ensure that ESG is an integral part of the company's strategy and culture from the top down.

IT/core business processes

The development of our new IT system continues. In addition to core ERP, this system incorporates CRM, project tracking and a global HR platform. This is a multi-year programme and we look forward to all our sites operating on a common platform. During the first half we rolled-out enhancements to our global HR platform and implemented our new CRM systems across all sites. Recognising the practical difficulties presented by COVID-19 to our ERP roll-out we have deferred deployment to our first factory until 2021. This decision defers some of this year's planned capital expenditure to next year. Like many other organisations our recent Microsoft Teams global deployment has significantly helped with communication and remote working during this difficult period.

Financial Key Performance Indicators (KPIs)

	H1 2020	H1 2019	FY 2019
Revenue growth	-11.1%	-3.7%	-3.8%
Adjusted operating margin	21.6%	21.1%	22.6%
Cash conversion	116.1%	117.4%	131.4%
Return on capital employed	30.7%	29.7%	31.8%
Adjusted EPS growth	-7.3%	+2.7%	+3.2%

The KPIs are defined below:

- Revenue growth is defined as the increase in revenue divided by prior period revenue.
- Adjusted operating margin is defined as adjusted operating profit as a percentage of revenue (note 2a).

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

New divisional structure

Towards the end of the first quarter we completed the transition to a new global sales force orientation when the Americas became the final region to switch to end market facing sales teams. This change from product focussed divisions to end market facing divisions was one of the key initiatives of the Commercial pillar of the Growth Acceleration Programme. Changing the divisional structure also necessitates a change in our reporting and we signalled earlier this year that in 2020 we would be reporting under the three new divisions of Oil & Gas, Water & Power and Chemical, Process & Industrial.

The process of converting our reporting to the new divisions started in 2019. In the same way that customers are allocated to a sales team, in order to strengthen that relationship, each customer is allocated to a division. Sales to that customer, along with all directly associated costs of that sale, be that the cost of materials or cost of labour in a service job, are reported under the division to which that customer is allocated. Where some of our customers sell into multiple end markets, a lead end market is identified and that sales team supports the customer. Sales to these customers will generally be allocated to the lead end market unless the sale is of significance and an alternative end market has been identified, in which case it will be reported under the alternative end market. There are some small differences to our previous end market analysis as a result of this customer based analysis and as we have reclassified certain petrochemical customers who previously were reported under Oil & Gas.

For all costs not directly attributed to a sale, these are allocated across the three divisions within each of our businesses. There are some costs which are directly attributable to a division, for example the sales team themselves, market managers and the divisional leadership team, but most support costs and facility costs are not directly attributable to a division and are generally allocated based on split of revenue. Group central costs are not allocated to the divisions and remain the same as they were under the previous product division structure. Equally as many of our facilities and inventory are not specific to one of the divisions, we are unable to report divisional balance sheets.

The reports to the Board and all internal reporting switched to the new end market divisions in the second quarter of 2020. This is already bringing an improved clarity to our internal performance management and much clearer alignment with the market drivers affecting performance.

Adjusted items

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

The statutory profit measures are adjusted to exclude amortisation of acquired intangibles and other adjustments, which in both periods comprise restructuring costs, including redundancy costs, asset write downs relating to the merger of businesses and other restructuring costs. The costs in the first half year were £4.0m as the bringing forward of certain Growth Acceleration Programme initiatives and other restructuring costs picked up towards the end of the period. Restructuring costs are currently expected to be lower in the second half.

£m	Amortisation			Adjusted results
	Statutory results	of acquired intangibles	Restructuring costs (note 4)	
Operating profit	50.2	7.1	4.0	61.2
Profit before tax	50.0	7.1	4.0	61.0
Tax	(11.7)	(1.6)	(1.0)	(14.3)
Profit after tax	38.2	5.5	3.0	46.7

Financial position

The balance sheet remains strong and we ended the period with net cash of £143.6m (Dec 2019: £106.1m). Net cash comprises cash balances of £153.8m less loans and borrowings and leases of £10.2m.

Net working capital at the period end was £156.0m, a decrease of £6.1m since the year end. Our focus on working capital management resulted in continued strong cash generation and our KPI showed a conversion of 116.1% of adjusted operating profit into operating cash. Inventory increased £7.3m since year end, which is the normal pattern during the first half of the year, but is £6.6m lower than June 2019. A £17.1m reduction in trade receivables since the year end more than offsets the increase in inventory and the days sales outstanding remains at the same level it was in December, 56 days. In total, net working capital as a percentage of sales is 27.5% compared with 24.2% in December but 28.6% in June 2019.

The estimated average annual tax rate used for the year ending 31 December 2020 is 23.5% (2019: 23.6%) and the estimated adjusted effective tax rate for the year ending 31 December 2020, based on adjusted profit before tax, is 23.4% (2019: 23.5%). This small reduction is driven by the geographic mix of profits plus tax rate reductions in some specific markets.

Retirement benefits

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

The pension scheme deficit increased from £29.6m at 31 December 2019 to £44.4m at 30 June 2020, principally due to a reduction in the discount rate.

Currency

Overall, currency headwinds decreased revenue by £0.7m (0.2%) compared with the first half of 2019. The average US dollar rate was \$1.26 (H1 2019: \$1.29) and the average Euro rate was €1.14

(H1 2019: €1.15), whilst the rates at 30 June 2020 were \$1.24 and €1.10 respectively (30 June 2019: \$1.27 and €1.12).

Dividend

On 31 March this year the Board decided to withdraw the recommendation to pay the 2019 final dividend of 3.9p per share. This was to reflect the exceptional set of circumstances and one of a number of mitigating actions taken to ensure we continued to act from a position of strength. Reflecting on events since that earlier decision and the performance of the business in the first half, the Board has now decided to pay the 3.9p per share in full in September. The dividend will be declared as an interim dividend and paid on 25 September 2020 to shareholders on the register at the close of business on 21 August 2020. We will consider the dividend payable in respect of the whole of 2020 at the end of the year, and pay this in May 2021.

Operating review

Oil & Gas

£m	H1 2020	H1 2019	Change	OCC change
Revenue	137.2	158.1	-13.2%	-12.8%
Adjusted operating profit	29.0	34.8	-16.8%	-16.6%
Adjusted operating margin	21.1%	22.0%	-90bps	-100bps

The Oil & Gas division experienced very challenging trading conditions in the first half. COVID-19 related disruption impacted Asia Pacific activity in February before spreading to other regions of the world in subsequent months. The break-up of the OPEC+ consortium in March resulted in volatility in hydrocarbon prices and in response many customers announced they would revisit their capital investment plans. The impact is expected to be most significantly felt in the North American upstream segment, where Rotork has relatively limited exposure. The downstream segment, representing over half of divisional sales, is expected to be comparatively resilient.

Revenues fell 13.2% year-on-year (12.8% OCC) with the greatest decline seen in the Americas. EMEA sales were broadly unchanged year-on-year with the downstream growing. Asia Pacific sales declined close to the divisional average, with the downstream holding up better than the upstream and midstream. There are signs that several significant downstream projects in the region are to be accelerated, however this is yet to be confirmed. Activity in the Americas was already lower pre COVID-19 reflecting the weaker economic activity seen towards the end of the previous year. Americas downstream activity held up better than the upstream and midstream segments.

The division's adjusted operating profits were £29.0m, 16.8% lower year-on-year. Adjusted margins were relatively resilient considering the lower revenues, down only 90 basis points at 21.1%, and benefited from mix, lower headcount and reduced discretionary expenses.

Oil & Gas is targeting to outgrow its markets through a number of strategic initiatives including leveraging the installed base (through Rotork Site Services), tackling environment challenges (for example, expanding our offering of products enabling customers to lower their energy consumption and satisfy new emissions regulations) and increased onboard sensing and computational capabilities. We consider the energy transition to be an opportunity for us. The substantial majority of our revenues are linked to brownfield spend which Wood Mackenzie forecast to remain stable under a range of scenarios. New segments, such as carbon capture and storage, will likely be actuator intensive and represent exciting medium-term opportunities for us.

The division's customers have set themselves challenging environmental targets which they will strive to achieve regardless of the current challenging economic circumstances. For example, they are very large users of water, and specify Rotork's products extensively to control and manage their usage whilst minimising their environmental impact, including the recovery, recycling and treatment.

Water & Power

£m	H1 2020	H1 2019	Change	OCC change
Revenue	73.2	69.1	5.9%	7.0%
Adjusted operating profit	20.7	18.0	14.8%	14.9%
Adjusted operating margin	28.2%	26.0%	220bps	190bps

Water & Power reported an encouraging performance in the first half. Whilst the division is not totally immune from COVID-19 related disruption, its products and services and that of its customers are generally considered essential, meaning activity largely continued without any significant delays. The division is already seeing the early benefits of its transition to an end-market alignment. An example is an Australian water utility, which historically has not dealt with Rotork, having been impressed with Rotork Site Service's offering declaring Rotork their primary actuator supplier and service provider for the next five years. Another is a Malaysian water treatment plant, previously only a Rotork electric actuator customer, broadening its relationship with us through placing a material order for fluid power actuators and instrumentation products.

Revenues grew 5.9% year-on-year (7.0% OCC) with higher sales in both Asia Pacific and the Americas. Both the water and power segments grew in Asia Pacific, with water markets particularly strong in China, driven in part by the government's 'China Water Ten Actions' initiative. In the Americas, power sales grew strongly driven by refurbishment work which was won in the first half of 2019, whilst water sales were largely unchanged. EMEA sales were lower year-on-year in both segments. In UK water, we commenced a promising wireless communications trial with a major utility customer. Overall however the UK water sector was quiet due to the start of a new five-year asset management plan period (AMP7). For the division as a whole both water and power sales were ahead year-on-year.

The division's adjusted operating profits were £20.7m, 14.8% higher year-on-year. Adjusted margins were 28.2%, up 220bps reflecting lower headcount and reduced discretionary spend which more than compensates for a negative price/mix impact.

Water & Power targets outgrowing its markets through an optimised go-to-market strategy and focusing on high growth regions and digital solutions (including network management opportunities). The division is focused on solving its customers' challenges. For example water customers rely on Rotork's technologies to reduce water leakage, increase the lifecycle of assets above- and under- ground, lower operational costs and meet ever higher water quality standards. In the traditional power generation segment Rotork teams are targeting waste-to-energy projects whilst seeking refurbishment opportunities within the installed base.

Chemical, Process & Industrial

£m	H1 2020	H1 2019	Change	OCC change
Revenue	72.9	91.4	-20.3%	-16.8%
Adjusted operating profit	16.8	19.8	-15.2%	-12.7%
Adjusted operating margin	23.0%	21.6%	140bps	100bps

CPI experienced mixed trading conditions in the first half. COVID-19 related disruption impacted Asia Pacific activity in February before spreading to other regions of the world. In the Americas, industrial production was already slowing prior to the arrival of the pandemic. Whilst the outlook remains uncertain we are seeing some encouraging signs, most notably in Asia Pacific where our shipyard partners have won significant LNG vessel construction orders and where key process industry customers are proceeding with expansion plans. CPI is already seeing the early benefits of its transition to an end-market alignment. Examples include increased customer wallet share and early success in new applications (e.g. initial healthcare equipment orders).

Revenues fell 20.3% year-on-year with the greatest decline seen in the Americas. In EMEA the non-repeat of a large HVAC project completed last year meant that sales were lower year-on-year but less than for the division overall. Asia Pacific sales saw a similar decline to EMEA, with the reduction in part due to COVID-19 related logistics challenges. Revenues fell double-digits in the Americas, with a significant proportion of this reflecting the disposal of our Pittsburgh industrial distribution business at the end of 2019.

Sales into the process segment, representing a substantial proportion of the division overall, were down less than the division year-on-year. Process revenues in EMEA were modestly lower, partly the result of COVID-19 related disruption. Asia Pacific was slightly ahead, benefiting from increased activity in China. Continuing Americas process sales were down double-digits.

The division's adjusted operating profit was £16.8m, 15.2% down year-on-year. Adjusted margins increased 140bps to 23.0% despite the lower revenues, benefiting from positive price/mix, procurement savings and lower headcount.

CPI aims to outgrow its markets through focusing on high growth regions and sectors, optimised channel coverage and developing the aftermarket. The division is targeting a number of key sectors including HVAC, chemicals and basic materials. Across all of these, the drive to lower CO2 emissions is gaining momentum. This trend presents a key opportunity for CPI - the electrification of actuation, ie the substitution of electric actuators for high maintenance and inefficient compressed air valve systems. Carbon capture, usage and storage and hydrogen are exciting medium-term opportunities with project pipelines building.

Principal risk and uncertainties

The Group has an established risk management process as part of the corporate governance framework set out in the 2019 Annual Report and 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 32 to 33 of the 2019 Annual Report and Accounts.

Impacts of Covid-19 on Rotork's risk profile

The COVID-19 pandemic has impacted almost every part of our business and immediate actions were put in place to mitigate those short term effects. The Group's principal risks and uncertainties have been reviewed by the Board in light of the impact of COVID-19 and concluded that they remain applicable for the second half of the financial year.

The most impacted principal risks have been:

- Risks to our supply chain - we continue to monitor impacts to our supply chain across the globe arising from localised lockdowns or disruption to logistics and have been working with our suppliers to reduce any impact to our customers.
- Risks to our people such as health and safety – there is an ongoing risk to continue to comply with all laws and regulations and continue to put in place the safeguards to protect our people, in the short to medium term this will be focus on the return to the workplace in a safe manner.
- Risks to our IT systems and cyber security - cyber risk has increased globally with all companies facing an increase in cyber-attacks. Threat intelligence has played a key role in the mitigation of this risk.

We have also considered the impact of COVID-19 across the risks that sit outside our principal risks. Beyond the immediate impact of COVID-19, global economies are likely to be impacted to varying degrees of severity.

Towards the end of March, as the UK entered lockdown, we carried out a scenario-planning exercise to examine the potential impact of a range of outcomes from COVID-19. These scenarios modelled impacts to our people and facilities, our supply chain and logistics channels and the knock-on impact to the end markets we serve. We also considered a range of possible working capital and funding assumptions. We continue to monitor these scenarios as circumstances change.

The Group will continue to monitor the impact of the pandemic and the potential impacts on our risk profile.

Emerging risks

We continue to monitor and review emerging risks that may impact our business including environmental, climate and sustainability risks.

The UK government has stated that the transitional period to withdraw from the EU ends on 31 December 2020. There is a risk of no agreement being reached which could adversely affect our operations. Our Brexit Committee continues to monitor the situation and is ready to initiate its contingency plans to mitigate any short-term risks around supply chain and logistics disruption in particular.

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 2019. 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

3 August 2020

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 2020 which comprises the consolidated income statement, the consolidated statement of changes in comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated statement of cash flows and related notes 1 to 16. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

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

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 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

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.

Deloitte LLP
Statutory Auditor
London, United Kingdom
[3 August 2020]

Consolidated Income Statement

	Notes	First half 2020 £000	First half 2019 £000	Full year 2019 £000
Revenue	3	283,234	318,634	669,344
Cost of sales		(150,504)	(173,060)	(357,718)
Gross profit		132,730	145,574	311,626
Other income		393	176	2,875
Distribution costs		(2,525)	(3,111)	(6,408)
Administrative expenses		(80,351)	(88,877)	(180,434)
Other expenses		(29)	(70)	(649)
Adjusted operating profit	2	61,237	67,239	151,005
Adjustments				
- Amortisation of acquired intangible assets		(7,058)	(8,983)	(18,841)
- Other adjustments	4	(3,961)	(4,564)	(5,154)
Operating profit	3	50,218	53,692	127,010
Finance income	5	1,635	1,071	2,087
Finance expense	6	(1,888)	(2,529)	(5,040)
Profit before tax		49,965	52,234	124,057
Income tax expense	7	(11,728)	(12,331)	(29,957)
Profit for the period		38,237	39,903	94,100
		Pence	Pence	Pence
Basic earnings per share	9	4.4	4.6	10.8
Adjusted basic earnings per share	2	5.4	5.8	13.0
Diluted earnings per share	9	4.4	4.6	10.8
Adjusted diluted earnings per share	2	5.4	5.8	13.0

Consolidated Statement of Comprehensive Income and Expense

	First half 2020 £000	First half 2019 £000	Full year 2019 £000
Profit for the period	38,237	39,903	94,100
Other comprehensive income and expense			
<i>Items that may be subsequently reclassified to the income statement:</i>			
Foreign currency translation differences	15,699	(1,855)	(12,643)
Effective portion of changes in fair value of cash flow hedges net of tax	(1,738)	124	2,081
	13,961	(1,731)	(10,562)
<i>Items that are not subsequently reclassified to the income statement:</i>			
Actuarial loss in pension scheme net of tax	(16,521)	(9,258)	(6,705)
Income and expenses recognised directly in equity	(2,560)	(10,989)	(17,267)
Total comprehensive income for the period	35,677	28,914	76,833

Consolidated Balance Sheet

		30 June 2020 £000	30 June 2019 £000	31 Dec 2019 £000
	<i>Notes</i>			
Goodwill		229,636	228,404	222,052
Intangible assets		37,809	52,196	40,848
Property, plant and equipment		96,571	91,175	89,062
Deferred tax assets		14,057	14,622	14,582
Other receivables		335	211	-
Total non-current assets		378,408	386,608	366,544
Inventories	10	81,166	87,724	73,905
Trade receivables		112,275	137,028	129,390
Current tax		4,237	1,650	4,830
Derivative financial instruments	16	44	1,265	2,196
Other receivables		30,799	26,971	27,558
Cash and cash equivalents		153,811	75,951	117,612
Total current assets		382,332	330,589	355,491
Total assets		760,740	717,197	722,035
Ordinary shares	12	4,364	4,360	4,363
Share premium		14,858	13,698	14,521
Reserves		38,820	33,690	24,859
Retained earnings		515,918	457,864	495,657
Total equity		573,960	509,612	539,400
Interest-bearing loans and borrowings	13	6,020	8,104	6,791
Employee benefits		44,111	33,660	33,576
Deferred tax liabilities		2,674	8,537	10,745
Derivative financial instruments	16	495	93	124
Provisions		1,854	2,119	1,964
Total non-current liabilities		55,154	52,513	53,200
Interest-bearing loans and borrowings	13	4,156	24,782	4,752
Trade payables		37,448	42,212	41,195
Employee benefits		18,904	19,763	24,734
Current tax		16,486	14,398	13,270
Derivative financial instruments	16	2,088	3,156	52
Other payables		44,852	43,733	40,581
Provisions		7,692	7,028	4,851
Total current liabilities		131,626	155,072	129,435
Total liabilities		186,780	207,585	182,635
Total equity and liabilities		760,740	717,197	722,035

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 2019	4,363	14,521	22,287	1,644	928	495,657	539,400
Profit for the period	-	-	-	-	-	38,237	38,237
<i>Other comprehensive income</i>							
Foreign currency translation differences	-	-	15,699	-	-	-	15,699
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	(2,106)	-	(2,106)
Actuarial loss on defined benefit pension plans	-	-	-	-	-	(20,781)	(20,781)
Tax in other comprehensive income	-	-	-	-	368	4,260	4,628
Total other comprehensive income	-	-	15,699	-	(1,738)	(16,521)	(2,560)
Total comprehensive income	-	-	15,699	-	(1,738)	21,716	35,677
<i>Transactions with owners, recorded directly in equity</i>							
Equity settled share based payment transactions	-	-	-	-	-	(2,495)	(2,495)
Tax on equity settled share based payment transactions	-	-	-	-	-	473	473
Share options exercised by employees	1	337	-	-	-	-	338
Own ordinary shares acquired	-	-	-	-	-	(3,625)	(3,625)
Own ordinary shares awarded under share schemes	-	-	-	-	-	4,192	4,192
Dividends	-	-	-	-	-	-	-
Balance at 30 June 2020	4,364	14,858	37,986	1,644	(810)	515,918	573,960

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

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 2018	4,358	13,024	34,930	1,644	(1,153)	460,825	513,628
Profit for the year	-	-	-	-	-	94,100	94,100
<i>Other comprehensive income</i>							
Foreign currency translation differences	-	-	(12,643)	-	-	-	(12,643)
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	2,548	-	2,548
Actuarial gain on defined benefit pension plans	-	-	-	-	-	(8,058)	(8,058)
Tax in other comprehensive income	-	-	-	-	(467)	1,353	886
<i>Total other comprehensive income</i>	-	-	(12,643)	-	2,081	(6,705)	(17,267)
Total comprehensive income	-	-	(12,643)	-	2,081	87,395	76,833
<i>Transactions with owners, recorded directly in equity</i>							
Equity settled share based payment transactions	-	-	-	-	-	(1,011)	(1,011)
Tax on equity settled share based payment transactions	-	-	-	-	-	(8)	(8)
Share options exercised by employees	5	1,497	-	-	-	-	1,502
Own ordinary shares acquired	-	-	-	-	-	(5,287)	(5,287)
Own ordinary shares awarded under share schemes	-	-	-	-	-	6,030	6,030
Dividends	-	-	-	-	-	(52,287)	(52,287)
Balance at 31 December 2019	4,363	14,521	22,287	1,644	928	495,657	539,400

Consolidated Statement of Cash Flows

	Notes	First half 2020 £000	First half 2019 £000	Full year 2019 £000
Profit for the period		38,237	39,903	94,100
Amortisation of acquired intangible assets		7,058	8,983	18,841
Other adjustments	4	3,961	4,564	5,154
Amortisation of development costs		1,098	1,132	2,874
Depreciation		7,600	8,141	16,359
Equity settled share based payment expense		2,172	2,081	4,702
Net profit on sale of property, plant and equipment		-	(34)	5
Finance income		(1,626)	(1,071)	(2,087)
Finance expense		1,879	2,528	5,040
Income tax expense		11,728	12,331	29,957
		72,107	78,558	174,945
(Increase)/decrease in inventories		(4,618)	7,081	18,176
Decrease in trade and other receivables		14,156	5,297	7,198
Increase/(decrease) in trade and other payables		302	(858)	(391)
Restructuring costs paid		(739)	(2,165)	(5,151)
Difference between pension charge and cash contribution		(6,496)	(4,035)	(6,070)
Decrease in provisions		(529)	(111)	(347)
Decrease in employee benefits		(10,339)	(11,031)	(1,160)
		63,844	72,736	187,200
Income taxes paid		(10,907)	(13,020)	(32,769)
Net cash flows from operating activities		52,937	59,716	154,431
Purchase of property, plant and equipment		(11,595)	(8,149)	(17,306)
Development costs capitalised		(597)	(1,190)	(1,937)
Proceeds from sale of property, plant and equipment		(21)	150	663
Disposal of business		3,807	-	-
Settlement of hedging derivatives		(2,455)	(2,098)	(3,070)
Interest received		912	802	1,628
Net cash flows from investing activities		(9,949)	(10,485)	(20,022)
Issue of ordinary share capital		338	676	1,501
Own ordinary shares acquired		(3,625)	(3,787)	(5,287)
Interest paid		(497)	(1,610)	(2,828)
Proceeds from issue of borrowings		-	20,000	-
Repayment of borrowings		(34)	(59,916)	(59,967)
Repayment of lease liabilities		(2,626)	(2,656)	(4,717)
Dividends paid on ordinary shares		-	(32,248)	(52,287)
Net cash flows from financing activities		(6,444)	(79,541)	(123,585)
Net increase/(decrease) in cash and cash equivalents		36,544	(30,310)	10,824
Cash and cash equivalents at 1 January		117,612	104,489	104,489
Effect of exchange rate fluctuations on cash held		(345)	1,772	2,299
Cash and cash equivalents at end of period		153,811	75,951	117,612

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 2020 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 2019 does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006, statutory accounts for the year ended 31 December 2019 were approved by the Board on 2 March 2020 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 2019 are available from the Company's registered office or website.

Basis of preparation

The condensed consolidated interim financial statements of the Company for the six months ended 30 June 2020 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 2019, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Going concern

The directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, we continue to adopt the going concern basis in preparing the condensed consolidated interim financial information.

In forming this view, the potential impact of COVID-19 on the Group has been considered. The directors have reviewed: the current financial position of the Group, which has net cash of £144m and unused committed debt facilities of £60m as at the period end; the significant order book, which contains customers spread across different geographic areas and industries; and the trading and cash flow forecasts for the Group, which have been updated for the expected impact of COVID-19. Multiple scenarios were then run against the most recent forecasts, which modelled a severe but plausible reduction in trading performance over the period to December 2022. The most severe of these exceeded any historic downturn in trading the Group has experienced over the last 20 years. The directors have reverse stress tested the forecasts and are satisfied that the downside scenarios are considered remote and that the Group would continue to have headroom on existing facilities. The Group also has a number of mitigating actions that it can take at short notice to preserve cash, for example reduction in capital programmes, dividend deferral and other reductions in discretionary spend.

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 2019.

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

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 2019, except for the adoption of new standards effective as of 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New accounting standards and interpretations

Other amendments

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

New standards and interpretations not yet adopted

Other amendments

Further narrow scope amendments have been issued which are mandatory for periods commencing on or after 1 January 2021. The application of these amendments will not have any material impact on the disclosures, net assets or results of the Group.

2. Alternative performance measures

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

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

a. Adjusted operating profit

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

b. Adjusted profit before tax

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

	First half 2020 £000	First half 2019 £000	Full year 2019 £000
Profit before tax	49,965	52,234	124,057
<i>Adjustments:</i>			
Amortisation of acquired intangible assets	7,058	8,983	18,841
Loss on disposal of businesses	-	-	(2,539)
Redundancy and executive change costs	3,961	1,807	2,791
Other restructuring costs	-	2,757	4,902
Adjusted profit before tax	60,984	65,781	148,052

2. Alternative performance measures (continued)

c. Adjusted basic and diluted earnings per share

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

	First half 2020 £000	First half 2019 £000	Full year 2019 £000
Net profit attributable to ordinary shareholders	38,237	39,903	94,100
<i>Adjustments:</i>			
Amortisation of acquired intangible assets	7,058	8,983	18,841
Loss on disposal of businesses	-	-	(2,539)
Redundancy and executive change costs	3,961	1,807	2,791
Other restructuring costs	-	2,757	4,902
Tax effect on adjusted items	(2,557)	(3,126)	(4,908)
Adjusted net profit attributable to ordinary shareholders	46,699	50,324	113,187

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

d. Return on capital employed

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

	First half 2020 £000	First half 2019 £000	Full year 2019 £000
Adjusted operating profit			
<i>As reported</i>	-	-	151,005
<i>Rolling 12 months</i>	145,003	147,825	-
Capital employed			
Shareholders' funds	573,960	509,612	539,400
Cash and cash equivalents	(153,811)	(75,951)	(117,612)
Interest bearing loans and borrowings	10,176	32,886	11,543
Pension deficit net of deferred tax	35,153	27,406	23,942
	465,478	493,953	457,273
Average capital employed	472,235¹	497,083 ¹	474,647 ²
Return on capital employed	30.7%	29.7%	31.8%

¹ defined as the average of the capital employed at June 2019, December 2019 and June 2020 (2019: June 2018, December 2018, and June 2019).

² defined as the average of the capital employed at December 2018 and December 2019.

e. Working capital as a percentage of revenue

Working capital as a percentage of revenue is monitored as control of working capital is key to achieving our cash generation targets. It is calculated as inventory plus trade receivables, less trade payables, divided by revenue.

2. Alternative performance measures (continued)

f. Organic constant currency (OCC)

OCC results remove the results of businesses acquired or disposed of during the period that are not consistently presented in both periods' results. The 2020 half year results are restated at 2019 exchange rates.

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

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

	30 June 2020	Currency adjustment	Impact of disposals	OCC 30 June 2020
Revenue	283,234	734	-	283,968
Cost of sales	(150,504)	(564)	-	(151,068)
Gross margin	132,730	170	-	132,900
Net overheads	(71,493)	(58)	-	(71,551)
Adjusted operating profit	61,237	112	-	61,349
Adjusted operating margin	21.6%			21.6%
Adjusted profit before tax	60,984	112	-	61,096
Adjusted basic earnings per share	5.4p	-	-	5.4p

	30 June 2019	Currency adjustment	Impact of disposals	OCC 30 June 2019
Revenue	318,634	-	(4,560)	314,074
Cost of sales	(173,060)	-	3,399	(169,661)
Gross margin	145,574	-	(1,161)	144,413
Net overheads	(78,335)	-	575	(77,760)
Adjusted operating profit	67,239	-	(586)	66,653
Adjusted operating margin	21.1%			21.2%
Adjusted profit before tax	65,781	-	(589)	65,192
Adjusted basic earnings per share	5.8p	-	-	5.8p

g. Flow through

Flow through is calculated as the change in adjusted operating profit as reported, divided into the change in revenue.

	First half 2020 £000	First half 2019 £000	Change vs first half 2019 £000	Second half 2019 £000	Change vs second half 2019 £000
Revenue	283,234	318,634	(35,400)	350,710	(67,476)
Adjusted operating profit	61,237	67,239	(6,002)	83,766	(22,529)
Flow through			17.0%		33.4%

3. Analysis by operating segment

The Group has chosen to organise the management and financial structure by the grouping of end markets, as detailed in the 'new divisional structure' section of the announcement. The three identifiable operating segments where the financial and operating performance is reviewed monthly by the chief operating decision maker are as follows:

- Oil & Gas
- Water & Power
- Chemical, Process & Industrial

Unallocated expenses comprise corporate expenses.

Segmental information has been restated for the six months ended 30 June 2019 and year ended 31 December 2019 to reflect the change in Group structure.

Half year to 30 June 2020

	Oil & Gas	Water & Power	Chemical, Process & Industrial	Unallocated	Group
	£000	£000	£000	£000	£000
Revenue	137,189	73,194	72,851	-	283,234
Adjusted operating profit	28,969	20,654	16,769	(5,155)	61,237
Amortisation of acquired intangibles assets	(3,691)	(473)	(2,894)	-	(7,058)
Segment result before other adjustments	25,278	20,181	13,875	(5,155)	54,179
Other adjustments					(3,961)
Operating profit					50,218
Net financing expense					(253)
Income tax expense					(11,728)
Profit for the period					38,237

Half year to 30 June 2019

	Oil & Gas	Water & Power	Chemical, Process & Industrial	Unallocated	Group
	£000	£000	£000	£000	£000
Revenue	158,116	69,126	91,392	-	318,634
Adjusted operating profit	34,830	17,996	19,764	(5,351)	67,239
Amortisation of acquired intangibles assets	(5,120)	(1,258)	(2,605)	-	(8,983)
Segment result before other adjustments	29,710	16,738	17,159	(5,351)	58,256
Other adjustments					(4,564)
Operating profit					53,692
Net financing expense					(1,458)
Income tax expense					(12,331)
Profit for the period					39,903

3. Analysis by operating segment (continued)

Full year to 31 December 2019

	Oil & Gas	Water & Power	Chemical, Process & Industrial	Unallocated	Group
	£000	£000	£000	£000	£000
Revenue	330,049	154,880	184,415	-	669,344
Adjusted operating profit	75,544	45,095	41,976	(11,610)	151,005
Amortisation of acquired intangibles assets	(9,290)	(4,360)	(5,191)	-	(18,841)
Segment result before other adjustments	66,254	40,735	36,785	(11,610)	132,164
Other adjustments					(5,154)
Operating profit					127,010
Net financing expense					(2,953)
Income tax expense					(29,957)
Profit for the year					94,100

Revenue by location of subsidiary

	First half 2020 £000	First half 2019 £000	Full year 2019 £000
UK	29,641	35,101	70,779
Italy	31,230	35,585	68,448
Rest of Europe	53,498	57,060	121,118
USA	58,514	70,574	140,965
Other Americas	13,597	15,905	40,732
Rest of World	96,754	104,409	227,302
	283,234	318,634	669,344

4. Other adjustments

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

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

	First half 2020 £000	First half 2019 £000	Full year 2019 £000
Gain on disposal of businesses	-	-	2,539
Redundancy and executive change costs	(3,961)	(1,807)	(2,791)
Other restructuring costs	-	(2,757)	(4,902)
	(3,961)	(4,564)	(5,154)

The £3,961,000 (2019: £1,807,000) redundancy and executive change costs have been incurred as a result of the progress made with the Growth Acceleration Programme. An update on the Growth Acceleration Programme is included in the 'strategic progress' section of the announcement.

All adjustments are included in administrative expenses. The adjustments are taxable or tax deductible in the country in which the expense is incurred.

5. Finance income

	First half 2020 £000	First half 2019 £000	Full year 2019 £000
Interest income	916	874	1,803
Foreign exchange gains	719	197	284
	1,635	1,071	2,087

6. Finance expense

	First half 2020 £000	First half 2019 £000	Full year 2019 £000
Interest expense	796	1,811	3,117
Interest charge on pension scheme liabilities	352	375	750
Foreign exchange losses	740	343	1,173
	1,888	2,529	5,040

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 2020 is 23.5%. This is lower than the effective tax rate for the year ended 31 December 2019 of 23.6%, reflecting the mix of taxable profits in group companies worldwide.

The adjusted effective tax rate for the year ending 31 December 2020, based on the adjusted profit before tax, is 23.4%. This is lower than the effective tax rate for the year ended 31 December 2019 of 23.5% due to small reductions in the statutory corporate tax rates in certain countries in which Rotork operates.

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

8. Dividends

The following dividends were paid in the period per qualifying ordinary share:

The 2019 final dividend was postponed (2019: 3.70p)
2.20p interim dividend

The following dividends per qualifying ordinary share were declared/proposed at the balance sheet date:

3.90p final dividend proposed
3.90p interim dividend declared (2019: 2.30p)

	First half 2020 £000	First half 2019 £000	Full year 2019 £000
	-	32,248	32,248
	-	-	20,039
	-	32,248	52,287
	-	-	34,029
	34,036	20,057	-
	34,036	20,057	34,029

The recommendation to pay a 3.90 pence per share final dividend in respect of 2019 was withdrawn on 31 March 2020 in response to the uncertainty arising from the COVID-19 pandemic. The Board has now decided to pay this dividend and has declared an interim dividend of 3.90 pence which will be payable to shareholders on 25 September 2020 to those on the register on 21 August 2020. The Board will consider the dividend payable in respect of the whole of 2020 at the end of the year, and pay this in May 2021.

9. Earnings per share

Earnings per share is calculated using the profit attributable to the ordinary shareholders for the period and 871.3m shares (six months to 30 June 2019: 870.8m; year to 31 December 2019: 871.0m) 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 872.8m shares (six months to 30 June 2019: 873.5m; year to 31 December 2019: 873.6m). 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 2020 £000	30 June 2019 £000	31 Dec 2019 £000
Raw materials and consumables	59,293	65,948	58,153
Work in progress	6,263	6,061	3,751
Finished goods	15,610	15,715	12,001
	81,166	87,724	73,905

11. Pension schemes - Defined benefit deficit

The defined benefit obligation at 30 June 2019 of £44,440,000 (30 June 2019: £33,918,000; 31 December 2019: £29,576,000) is estimated based on the latest full actuarial valuations at 31 March 2019 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 2020 by independent actuaries to reflect updated assumptions regarding discount rates, inflation rates and asset values.

	30 June 2020 %	30 June 2019 %	31 Dec 2019 %
Discount rate	1.5	2.3	2.1
Rate of inflation	2.8	3.2	2.9

In addition, the defined benefit plan assets and liabilities have been updated to reflect the regular payments, the £4.7 million payment made in respect of past service and the benefits earned during the period to 30 June 2019.

12. Share capital and reserves

The number of ordinary 0.5p shares in issue at 30 June 2020 was 872,730,000 (30 June 2019: 872,063,000; 31 December 2019: 872,538,000). All issued shares are fully paid.

The Group acquired 1,424,000 of its own shares through purchases on the London Stock Exchange during the period (30 June 2019: 1,297,000; 31 December 2019: 1,769,000). The total amount paid to acquire the shares was £3,625,000 (30 June 2019: £3,687,000; 31 December 2019: £5,287,000), and this has been deducted from shareholders' equity. At 30 June 2020 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 990,000 (30 June 2018: 664,000; 31 December 2019: 1,136,000). In the period 1,051,000 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 2020 resulted in 192,000 ordinary 0.5p shares being issued (30 June 2019: 438,000 shares), with exercise proceeds of £338,000 (30 June 2019: £676,000). The weighted average market share price at the time of exercise was £2.89 (30 June 2019: £2.83) per share.

The share based payment charge for the period was £2,172,000 (30 June 2018: £2,081,000; 31 December 2018: £4,702,000).

13. Loans and borrowings

The following loans and borrowings were issued and repaid during the six months ended 30 June 2020:

	Lease liabilities £000	Bank loans £000	Preference shares £000	Total £000
Balance at 31 December 2019	10,675	828	40	11,543
Additions/drawdowns	930	-	-	930
Repayment	(2,626)	(34)	-	(2,660)
Exchange differences	313	50	-	363
Balance at 30 June 2020	9,292	844	40	10,176

	Lease liabilities £000	Bank loans £000	Preference shares £000	Total £000
Current	4,085	70	-	4,156
Non-current	5,207	774	40	6,020
Balance at 30 June 2020	9,292	844	40	10,176

The Group has committed loan facilities of £60,000,000 (First half 2019: £60,000,000; Full year 2019: £60,000,000), of which nil (30 June 2019: £20,000,000; 31 December 2019: £nil) was drawn down at the balance sheet date. The outstanding amount attracts a blended interest rate of LIBOR plus 0.65%.

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

	30 June 2020 £000	30 June 2019 £000	31 Dec 2019 £000
One to two years	2,547	3,077	2,843
Two to five years	3,217	4,554	3,633
More than five years	256	473	315
	6,020	8,104	6,791

14. *Share-based payments*

A grant of share options was made on 7 April 2020 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 April 2020	7 April 2020	7 April 2020
Share price at grant date	£2.39	£2.39	£2.39
Shares awarded under scheme	575,441	575,441	575,452
Vesting period	3 years	3 years	3 years
Expected volatility	31.3%	31.3%	31.3%
Risk free rate	0.2%	0.2%	0.2%
Expected dividends expressed as a dividend yield	nil	nil	nil
Probability of ceasing employment before vesting	5% p.a.	5% p.a.	5% p.a.
Fair value	£1.62	£2.80	£2.80

The basis of measuring fair value is consistent with that disclosed in the 2019 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 2019 Annual Report and Accounts. Transactions between key subsidiaries for the sale and purchase of products or between the subsidiary and parent for management charges are priced on an arm's length basis.

There were no significant changes in the nature and size of related party transactions for the period to those reported in the 2019 Annual Report and Accounts.

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 2020 the fair value of these contracts was a net liability of £2,539,000 (30 June 2019: a net liability of £1,984,000; 31 December 2019: a net asset of £2,020,000). 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.

Shareholder information

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

General shareholder contact numbers:

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