



Rotork plc

2021 Interim Results

Good progress in H1 and a return to growth

Adjusted highlights	H1 2021	H1 2020	% change	OCC ³ % change
Order intake ¹	£298.2m	£300.5m	-0.8%	+3.2%
Revenue	£288.3m	£283.2m	+1.8%	+5.7%
Adjusted ² operating profit	£62.7m	£61.2m	+2.4%	+6.5%
Adjusted ² operating margin	21.8%	21.6%	+20bps	+20bps
Adjusted ² basic earnings per share	5.5p	5.4p	+1.9%	+6.4%
Cash conversion ⁴	94%	116%	-22%	-
Statutory highlights	H1 2021	H1 2020	% change	
Revenue	£288.3m	£283.2m	+1.8%	
Operating profit	£54.0m	£50.2m	+7.5%	
Operating margin	18.7%	17.7%	+100bps	
Profit before tax	£54.1m	£50.0m	+8.4%	
Basic earnings per share	4.7p	4.4p	+6.8%	
Interim dividend ⁵	2.35p	-		

Summary

- Orders and revenues were higher year-on-year on an OCC⁴ basis driven by encouraging performances from our Water & Power and Chemical, Process & Industrial Divisions
- Oil & Gas revenues were lower, with reduced spending by upstream customers. Sales to the less cyclical midstream / downstream sectors were ahead year-on-year (OCC basis)
- Adjusted operating margins were 20bps ahead at 21.8%, reflecting the increase in sales and Growth Acceleration Programme savings which were partly offset by higher supply chain costs
- Revenue opportunities linked to our purpose, keeping the world flowing for future generations, were identified and commitments made in our inaugural Sustainability Report
- Closing net cash £144.3m (June 2020: £143.6m)
- ROCE⁴ increased to 32.2%, up 150bps
- Full year guidance resumed and half year interim dividend reinstated

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

“I’m pleased to report that Rotork returned to underlying growth in the first half. Our strategy of focusing our sales teams on specific end markets and investing in targeted geographies and in aftermarket activities is delivering results. Margin improvement continued, despite significantly higher logistics and commodity costs, through our focus on managing inflation and the continued successful execution of our Growth Acceleration Programme.

Our first half performance demonstrates good momentum, and whilst mindful of the risks of additional Covid-19 disruption and of continuing component shortages, we anticipate 2021 to be a year of progress on a constant currency basis.”

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 4).

³ OCC⁴ is organic constant currency results excluding discontinued businesses and restated at 2020 exchange rates.

⁴ Adjusted figures, organic constant currency ('OCC') figures, cash conversion and ROCE are alternative performance measures and are used consistently throughout these results. They are defined in full and reconciled to the statutory measures in note 2.

⁵ Rotork did not pay an interim dividend in respect of H1 2020, however an interim dividend of 3.9p was paid which was equivalent to the 2019 final dividend which was previously deferred.

Rotork plc

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There will be a meeting for analysts and institutional investors at 8.30am BST today in the Great Hall at the offices of JPMorgan Cazenove, 60 Victoria Embankment, London, EC4Y 0JP. The presentation will also be webcast, with access via <https://www.investis-live.com/rotork/60eec6e42527a916004efc14/21hyr>. Please join the meeting a few minutes before 8.30am to complete registration.

Summary

Purpose

Our purpose and sustainability vision are one and the same: keeping the world flowing for future generations. We want to help drive the transition to a cleaner future where environmental resources are used responsibly. We have a major role to play in new energies and technologies that will support the transition to a low carbon economy, as well as helping preserve natural resources such as fresh water.

Health, safety and wellbeing

The wellbeing of our people and our wider stakeholders is the number one priority of everyone at Rotork. During the period we successfully rolled-out our new 'Rotork Life Saving Rules'. These are based on the globally recognised 'Life Saving Rules' which are widely used in industries including Oil & Gas.

Business performance

Group order intake in the period decreased 0.8% year-on-year, but increased 3.2% on an OCC basis, to £298.2m. Orders were solidly ahead at both Water & Power and Chemical, Process & Industrial ("CPI"). Oil & Gas faced tougher prior year comparisons and, as expected, is proving to be relatively late cycle.

Our customers continue to spend on automation and environmental projects as well as maintenance and upgrade activities. Large project activity remains generally subdued. 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.

Our operational teams performed well in what was a very challenging period due to Covid-19. Whilst we made every effort to keep our production facilities open, we did not hesitate to shut them if we believed there was any risk to our colleagues, and there were several closures in the period. The requirement for staff to isolate and quarantine affected many of our facilities. Similar issues were also faced by our component and logistics suppliers, causing supply chain delays and disruption, which were further impacted by the temporary closure of the Suez Canal in March. As widely reported these disruptions have had a very significant impact on logistics costs (particularly sea freight) and commodities. We have responded by utilising our global network to mitigate supply chain disruption and in some cases have built tactical inventories. Our Global Strategic Sourcing team have been focussed on mitigating the impact of rising commodity costs. We expect component supply and costs (including of electronics) to remain a challenge for the remainder of the year, as well as escalated logistics costs and logistics disruption.

Group revenue was 1.8% higher year-on-year (5.7% OCC). Oil & Gas sales were lower, the result of significantly reduced spending by upstream customers. Sales to the less cyclical midstream and downstream sectors (representing 75% of Oil & Gas sales) were in aggregate unchanged year-on-year on an OCC basis. CPI revenue was strongly ahead, driven by the chemical and process sectors. Water & Power sales were up 10.1% OCC, benefiting from increased activity in the water sector.

By geography, Asia Pacific revenues by destination grew double-digits year-on-year. Europe, Middle East & Africa ("EMEA") sales were lower, the result of a significant reduction in activity at Oil & Gas. Americas revenues were ahead on an OCC basis, benefiting from a strong performance in Latin America.

Rotork Site Services, our global service network and a key differentiator in our industry, made good progress in the period despite access to customer sites remaining a challenge in some countries. Revenues are back to pre-pandemic levels and our Lifetime Management and Reliability Services programmes are performing above expectations. Rotork Site Services is managed as a separate unit within Rotork's divisions and continues to contribute a significant proportion of Group sales (19% in the period).

Adjusted operating profit was 2.4% higher year-on-year (6.5% OCC) reflecting increased sales and benefits from the Growth Acceleration Programme which were partly offset by foreign exchange headwinds and significantly higher logistics costs. Adjusted operating margins increased 20 basis points to 21.8%. We introduced temporary logistics surcharges on the most affected routes early in the period. Given the customary lag we expect most of the benefits from these surcharges to be weighted to the second half.

Return on capital employed increased to 32.2% (H1 2020: 30.7%), driven by higher operating profit and lower capital employed. Cash conversion was 94% (116%) reflecting the lower working capital position at the start of this year and phasing of activity within the second quarter.

Our balance sheet remains strong, with a net cash position of £144m at the period end. This provides us with optionality in uncertain times and the financial flexibility to execute our organic investment plans and our targeted M&A strategy. It also enabled us to navigate the COVID-19 crisis without taking government funding or seeking material payroll support.

Strategy update

Our target is to deliver mid to high single-digit revenue growth through a combination of organic growth and acquisitions. We are targeting mid-20s adjusted operating margins over time through simplifying our core business, manufacturing improvements and development of our global supply chain. We aim to play our part in improving our world and making it more sustainable by helping our customers better their own environmental performance, while at the same time working to improve our own environmental and social performance as well as that of our suppliers.

Our Growth Acceleration Programme (“GAP”), which we began to implement in the second half of 2018, is designed to deliver these targets. This 5-year programme is about refining how we do things, building on our strong foundations, through people, processes and systems. During the period we made further good progress implementing our GAP initiatives.

Driving our growth

Several of our GAP initiatives are specifically designed to drive our future growth.

One of the most important is market re-alignment, focusing our sales teams more closely on end-market segments. We completed this transition in early 2020. Our new structure more closely addresses customer needs and facilitates closer customer relationships through key account management. We continue to see benefits of the change, as evidenced by the sales performance of CPI and Water & Power. To further improve the effectiveness of our sales efforts we recently launched a new digital sales enablement platform.

The expansion of Rotork Site Services is a key opportunity for us. We benefit from having the largest installed base of any electric actuator manufacturer and our customers are investing more in advanced analytics, with uptime and availability an increasingly important consideration. We are focused on driving new and recurring service revenue through our Lifetime Management and Reliability Services programmes and through targeted footprint expansion, including new service centres in actuator intensive locations.

Industry analysts forecast more than half of future global flow control spend to occur in Asia, meaning a strong presence in high growth regions such as China and India is an imperative. We have a leading position in many parts of the region and as part of GAP we are investing in additional sales and business development personnel and selectively localising production. The benefits of our position and investment to date was apparent in our first half sales performance.

We are reinvigorating and re-focusing our research, innovation, and new product development processes with a particular focus on enabling greater positive environmental impact. The benefits of improvements in these areas take time, but we are now seeing the launch of a greater number of more meaningful products, and there will be more in the second half of the year and into 2022. To be sure we are focusing on the correct customer challenges we completed a major voice-of-customer survey in the Spring.

We have identified adjacent markets which we believe could become major opportunities for growth in the future, including biofuels, hydrogen and carbon capture, utilisation and storage (CCUS) and we are investing to position ourselves to benefit from these. Additionally we see further growth opportunities arising from the energy transition such as the electrification of valve actuation.

Improving our margins

The Rotork mixed-model lean continuous improvement programme is well embedded within our larger plants and was rolled-out to our other facilities in 2020. Further good progress was made in the period with over 180 rapid improvement events completed, and we have ambitious plans for the second half. These events aim to improve quality and on-time-delivery as well as freeing-up factory space, enabling increased production and in some cases footprint consolidation.

We stepped-up our sourcing and supply chain initiatives in the period, as previously announced. Our work to focus on a smaller number of suppliers continues and we made good progress, reducing the number by over a thousand. As widely reported, we have seen a significant increase in logistics costs and higher commodity costs, reducing our near-term targets for net savings from these programmes.

Our footprint optimisation work continues on track. We recently announced plans to consolidate two mid-sized manufacturing plants into other locations in the second half. Upon completion we will have 17 manufacturing sites, down from 30 at the start of GAP. Site rationalisation has several benefits including improved cyclical resilience and reduced capital employed. We continued the back office consolidation work which was started in 2020.

Our inventory reduction initiatives continue, with the Rotork Inventory Optimiser tool now rolled-out across the Group. We saw a temporary increase in inventory in the first half as we introduced some buffer stocks in certain locations. These helped us to maintain customer service levels despite significant disruptions to global logistics.

We continue to find opportunities to improve our operational efficiency whilst at the same time delivering net positive environmental benefit. One such example is the shortly to be opened state-of-the-art paint line at our Rochester, US, manufacturing facility. Bringing the capability into our operation provides environmental benefits from avoided transportation and packaging when compared with outsourcing, though it will increase our own energy and water consumption at the site.

Enabling a sustainable future

Managing Environmental, Social & Governance (“ESG”) opportunities and risks is integrated throughout Rotork’s business. We have worked hard to articulate our ambitions and underpin our approach and in June we published our inaugural Sustainability Report. In it we reaffirm our full commitment to improving our ESG performance in all areas and highlight the many ways Rotork’s products and services can enable a sustainable future.

- We have a major role to play in the new energies and technologies that will support the transition to a low-carbon economy. Our products and services have applications in the production of low- and no- carbon fuels such as hydrogen and in climate change mitigation technologies, such as carbon capture and storage, and helping customers to tackle methane emissions from their operations.

- Rotork's products and services also have applications in processes that help preserve natural resources such as fresh water, through leak reduction, water recovery, recycling and treatment. Our products are widely used elsewhere to manage water, including in flood protection and desalination.
- In addition, Rotork can support a broad spread of industries, as they make greater use of automation, electrification and digitalisation to reduce the environmental impact of their operations, including through facilitating the use of renewable energy.

In the report we also present our commitments for each of the pillars of our sustainability framework: Operating Responsibly; Enabling a Sustainable Future; and Making a Positive Social Impact. We will:

- Aim to reduce our lost time injury rate each year and strive for a zero-harm workplace
- Embed social, ethical and environmental considerations into our Global Supplier Excellence Programme
- Aim to reduce carbon emissions generated per £1m revenue and work to develop a net-zero roadmap
- Enable sustainable management of water resources and greater water efficiency for our customers
- Support customers' energy and emissions reduction and enable them to incorporate renewable energy into their operations
- Play our part to enable the global energy transition and support a cleaner more sustainable future
- Develop and deliver initiatives to drive greater gender and ethnic diversity
- Contribute to a fairer society more broadly, including by ensuring 100% of employees are covered by our Fair Pay Framework

The Sustainability Report also provides additional information on our safety, diversity and environmental performance, as well as our current view of climate-related risks and opportunities, in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Capital deployment strategy

Rotork remains a highly cash generative business and our net cash balance was £144.3m at period end. Our cash position provides us with considerable financial flexibility in uncertain times. The priorities for our cash remain unchanged: organic development (new markets, new product development); our progressive dividend policy; followed by targeted acquisitions. We regularly review our capital requirements and in the event in the future we determine we have surplus cash, we will look to return it to shareholders.

Dividend

We recognise the importance of a growing dividend to our shareholders and are committed to a progressive dividend policy subject to satisfying cash requirements, which can vary significantly from year to year. The Board is declaring an interim dividend of 2.35p per share which is equivalent to 2.3 times cover based on adjusted earnings per share. The interim dividend will be payable on 24 September 2021 to shareholders on the register on 20 August 2021.

CEO transition

As announced separately today, Kevin Hostetler has informed the Board of his decision to return home to the US next year. Kevin is fully committed to leading Rotork through his notice period, and to ensuring an effective handover to his successor, at which time he will step down from the Board and as Chief Executive Officer of Rotork. The process is expected to conclude by 30 June 2022.

Outlook

Our first half performance demonstrates good momentum, and whilst mindful of the risks of additional Covid-19 disruption and of continuing component shortages, we anticipate 2021 to be a year of progress on a constant currency basis.

Divisional review

Oil & Gas

£m	H1 2021	H1 2020	Change	OCC ³ Change
Revenue	129.6	137.2	-5.6%	-1.9%
Adjusted operating profit	26.9	29.0	-7.1%	-3.6%
Adjusted operating margin	20.8%	21.1%	-30bps	-30bps

Oil & Gas' customers remained cautious regarding their discretionary spending in the period, particularly in the upstream sector which represented 25% of sales, meaning the division has so far experienced a slower post-pandemic recovery than our others. This supply side constraint has however led to hydrocarbon prices recently making multi-year highs. The division is well positioned to respond if these higher prices lead to increased customer spending.

Divisional revenues fell 5.6% year-on-year (-1.9% OCC) driven by the upstream sector. Sales to the less cyclical midstream / downstream sectors were in aggregate slightly lower year-on-year but ahead on an OCC basis. EMEA sales were lower with the upstream and downstream sectors declining. However, the resumption of spending on small/mid-sized automation projects benefited Rotork Site Services' regional revenues. Asia Pacific sales grew strongly, with increased downstream activity particularly in China more than offsetting Covid-19 related project slippage in India. Americas revenues were slightly ahead OCC, driven by the midstream sector, and we saw an increase in emissions reduction related activity. Our new US intermountain region service centre is performing well.

Adjusted operating profits were £26.9m, 7.1% lower year-on-year. The decline in profits reflected reduced sales and higher logistics costs, partly offset by GAP savings and a reduced share of costs shared across the divisions. Adjusted margins fell 30 basis points to 20.8%, reflecting the above factors and adverse mix.

Oil & Gas aims to outperform its markets through several strategic initiatives. These include leveraging our installed base (through Rotork Site Services and our iAM and Lifetime Management programmes), helping our customers improve their operational and environmental performance, and increasing our sales of low energy consumption and connected products. We are also making targeted investments in high growth regions such as the Middle East and Asia Pacific.

We consider the energy transition to be a significant opportunity where we play an important role. The production, distribution, and utilisation of low and zero carbon fuels (including hydrogen and biofuels such as HVO) is valve and actuator intensive. We have an important part to play in climate change mitigation technologies such as methane emissions reduction and carbon capture usage and storage. The focus on the oil & gas industry's methane emissions has stepped-up the policy agenda further following a widely reported United Nations Environment Programme campaign. We believe that electrification has an important role to play in the reduction of our customers' carbon emissions across their upstream, midstream and downstream processes, and that as the world leader in electric actuation we are well placed to assist them on this journey. Gasification / fuel switching in the power generation sector in the US and Europe and in the residential and industrial sectors in Asia Pacific is expected to benefit the midstream sector.

Water & Power

£m	H1 2021	H1 2020	Change	OCC ³ Change
Revenue	77.5	73.2	5.9%	10.1%
Adjusted operating profit	21.0	20.7	1.8%	5.8%
Adjusted operating margin	27.1%	28.2%	-110bps	-110bps

Water & Power's products and services, and those of its customers, are generally considered essential, and activity has largely continued without any significant disruption throughout the pandemic. The first half's encouraging progress therefore largely reflects the benefit of earlier initiatives such as our transition to an end-market aligned structure and value selling. Looking ahead, the world's governments have identified water infrastructure investment as a priority, not only for population health and safety reasons but also for economic development. The division is well placed to support these efforts.

Revenues increased 5.9% year-on-year (10.1% OCC) with higher sales in all geographic regions on an OCC basis. In Asia Pacific both segments achieved solid growth with particularly strong demand from the water sector and the waste-to-energy segment within the power sector. In the Americas, water sales were higher, whilst power sales were lower largely due to the strong comparison. The growth in EMEA sales was largely driven by the water sector. The region also saw strong growth in the currently small but high potential district heating segment. For the division overall, both water and power sector sales were ahead year-on-year on an OCC basis.

The division's adjusted operating profits were £21.0m, 1.8% higher year-on-year. Adjusted margins were 27.1%, down 110bps year-on-year. The margin decline reflected higher logistics costs and foreign exchange, which disproportionately affected the division, as well as an increased share of common costs, which together exceeded the savings derived from GAP.

Water & Power aims to outperform its markets through an optimised channel strategy, regional expansion and new product development. The division is focused on solving its customers' challenges. For example, water customers rely on Rotork's technologies to achieve higher water quality standards, lower operational costs, reduce water leakage and increase the lifecycle of assets above- and under- ground. In power, our teams are targeting environmental opportunities such as waste-to-energy investments, flue-gas desulphurisation retrofits and seeking refurbishment opportunities within our large installed base.

Chemical, Process & Industrial (“CPI”)

£m	H1 2021	H1 2020	Change	OCC³ Change
Revenue	81.2	72.9	11.5%	15.4%
Adjusted operating profit	20.6	16.8	23.0%	27.8%
Adjusted operating margin	25.4%	23.0%	240bps	250bps

CPI delivered a strong sales recovery in the first half. The division serves a broad range of end markets and has a higher proportion of short-cycle sales and a shorter order book than Rotork’s other divisions. CPI is seeing the benefits of the economic recovery as well as earlier GAP initiatives such as focusing on key niches for profitable growth. Examples include business wins in mining, hydrogen, semi-conductor, li-ion battery and data centre end markets and the addition of carefully selected specialist distribution partners.

Revenues grew 15.4% year-on-year on an OCC basis. Asia Pacific saw the strongest growth, with most end markets well ahead of the prior year period, including basic materials. EMEA sales were slightly lower year-on-year but unchanged on an OCC basis, with Covid-19 continuing to affect customer activity in some markets including the Iberian Peninsula. Americas revenues grew double digits OCC despite the naval and specialist marine end market remaining quiet.

The process sector represents a substantial proportion of CPI overall. Process revenues in EMEA were broadly unchanged. In Asia Pacific we continued to see strong demand from control valve OEMs in China. Americas process sales grew. Both chemical and industrial sector revenues were higher year-on-year.

The division’s adjusted operating profit was £20.6m, 23.0% up year-on-year. Adjusted operating margins increased 240bps to 25.4% reflecting the drop-through of higher sales, beneficial mix and GAP savings which were only partly offset by slightly higher logistics costs and a higher share of common costs.

CPI aims to outgrow its markets through focusing on niche sectors and high growth regions, optimising its channel coverage and developing the aftermarket. The division is targeting key sectors including HVAC, chemicals and basic materials. The decarbonisation trend presents a key opportunity for CPI – through new industrial processes such as hydrogen, carbon capture usage and storage and plastic recycling, as well as the substitution of high maintenance and inefficient pneumatic systems with electric actuators.

Financial Key Performance Indicators (KPIs)

	H1 2021	H1 2020	FY 2020
Revenue growth	1.8%	-11.1%	-9.7%
Adjusted operating margin	21.8%	21.6%	23.6%
Cash conversion	94.0%	116.1%	129.5%
Return on capital employed	32.2%	30.7%	31.9%
Adjusted EPS growth	1.9%	-7.3%	-3.9%

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).

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. Restructuring costs in the first half year were £4.1m, with GAP initiatives and other restructuring costs of £5.6m offset by gain on disposal of properties of £1.5m. 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	54.0	4.7	4.1	62.7
Profit before tax	54.1	4.7	4.1	62.9
Tax	(13.3)	(1.0)	(0.7)	(15.0)
Profit after tax	40.8	3.7	3.4	47.9

Financial position

The balance sheet remains strong and we ended the period with net cash of £144.3m (Dec 2020: £178.1m). The December cash balance benefited from the timing of dividend payments. Net cash comprises cash balances of £153.4m less loans and borrowings and leases of £9.1m.

Our focus on working capital management resulted in a net working capital decrease since the year end of £8.7m to £131.8m at the period end. This was offset by increases in other receivables relating to timing of treasury and sales tax inflows, resulting in a cash conversion KPI of 94.0% of adjusted operating profit into operating cash, down from 116.1% in H1 2020. Inventory increased £1.6m since year end, which is the normal pattern during the first half of the year, but is £18.1m lower than June 2020. A £8.5m 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, 57 days. In total, net working capital as a percentage of sales is 22.9% compared with 23.2% in December and 27.5% in June 2020.

The estimated average annual tax rate used for the year ending 31 December 2021 is 24.5% (2020: 23.5%) and the estimated adjusted effective tax rate for the year ending 31 December 2021, based on adjusted profit before tax, is 23.9% (2020: 23.4%). This increase is due to the balance of profits in the Group moving towards high tax jurisdictions. The 2020 effective tax rate also benefitted from a one-off reduction in the deferred tax liability on unremitted earnings driven by a decrease in Indian withholding tax rates.

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 decreased from £38.5m at 31 December 2020 to £22.2m at 30 June 2021, principally due to an increase in the discount rate.

Currency

Overall, currency headwinds decreased revenue by £11.1m (3.9%) compared with the first half of 2020. The average US dollar rate was \$1.39 (H1 2020: \$1.26) and the average Euro rate was €1.15 (H1 2020: €1.14), whilst the rates at 30 June 2021 were \$1.38 and €1.17 respectively (30 June 2020: \$1.24 and €1.10).

Dividend

The Board recommends an interim dividend of 2.35p per ordinary share. The interim dividend will be paid on 24 September 2021 to shareholders on the register at the close of business on 20 August 2021.

Principal risk and uncertainties

The Group has an established risk management process as part of the corporate governance framework set out in the 2020 Annual Report and Accounts. The principal risks and uncertainties facing our businesses are monitored on an ongoing basis in line with the Corporate Governance Code. The risk management process is described in detail on pages 38 to 39 of the 2020 Annual Report and Accounts. The Group's principal risks and uncertainties have been reviewed by the Board and the Board have concluded that they remain applicable for the second half of the financial year. A more detailed description of the Group's principal risks and uncertainties is set out on pages 42 to 45 of the 2020 Annual Report and Accounts.

Risk update

Whilst there has been no change in the principal risks and uncertainties under review by the business, the following risks have increased.

- Supply chain disruption - we continue to monitor impacts to our supply chain across the globe and have been working with our suppliers to reduce any impact to the business and our customers.

- Risks to our IT systems and cyber security - cyber risk has increased globally with all companies facing an increased threat of cyber-attacks. Threat intelligence has played a key role in the mitigation of this risk.

Impacts of COVID-19 on Rotork's risk profile

We continue to monitor the impact of COVID-19 across our principal risks and uncertainties. Many of the risks associated with COVID-19 are now part of our business as usual risk management practices. In the next six months, focus will be on the return to the workplace in a safe manner.

Climate risk

We continue to monitor climate risk closely given its significance internally and externally. As we noted in our 2020 Sustainability report, during 2021, we will undertake a TCFD-aligned scenario analysis as part of our journey to better understand, and quantify, climate risks and opportunities for Rotork. Outcomes of the scenario analysis will be published in our 2021 Annual Report and Accounts.

Emerging risks

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

Principal risks and uncertainties

- 1. Decline in market confidence:** A decline in government and private sector confidence and spending will lead to cancellations of expected projects or delays to existing expenditure commitments. This lower investment in Rotork's traditional market sectors would result in a smaller addressable market, which in turn could lead to a reduction in revenue from that sector.
- 2. Increased competition:** Increased competition on price or product offering leading to a loss of sales globally or market share.
- 3. Geopolitical instability:** Increasing social and political instability, including Brexit, results in disruption and increased protectionism in key geographic markets. Business disruption would impact our sales and might ultimately lead to loss of assets located in the affected region.
- 4. Failure of an acquisition to deliver value:** Failure of an acquisition to deliver the growth or synergies anticipated, either due to unforeseen changes in market conditions or failure to integrate an acquisition effectively. Significant financial under performance could lead to an impairment write down of the associated intangible assets.
- 5. Health, Safety and the Environment:** The nature of Rotork's core business and geographical locations involves potential risks to the Health and Safety of our employees or other stakeholders. A failure of our products or internal processes could have an impact on the environment.
- 6. Compliance with laws and regulations:** Failure of our staff or third parties who we do business with to comply with law or regulation or to uphold our high ethical standards and Values.
- 7. Major in-field product failure:** Major in-field failure of a new or existing Rotork product potentially leading to a product recall, major on-site warranty programme or the loss of an existing or potential customer.
- 8. Supply chain disruption:** Supply chain disruption which may arise such as a tooling failure at a key supplier, logistics issue, severe weather events impacting key suppliers which would cause disruption to manufacturing at a Rotork factory.

9. Critical IT system failure and cybersecurity: Failure to provide, maintain and update the systems and infrastructure required by the Rotork business. Failure to protect Rotork operations, sensitive or commercial data, technical specifications and financial information from cybercrime.

10. Growth Acceleration Programme: The Growth Acceleration Programme and other change projects lead to business disruption or have a negative effect on day-to-day operations.

Statement of Directors' Responsibilities

The directors confirm that, to the best of their knowledge, this condensed consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the United Kingdom, the interim financial statements give a true and fair view of the consolidated assets, liabilities, financial position and profit of the Company and its group companies taken as a whole; 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.

These interim financial statements and the interim management report are the responsibility of, and have been approved by, the directors. A list of the current directors can be found in the "About Us" section of the Rotork website: www.rotork.com. Sally James served as a director until the conclusion of the AGM on 30 April 2021.

By order of the Board

Kevin G. Hostetler

Chief Executive

2 August 2021

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 2021 which comprises the consolidated income statement, the consolidated statement of comprehensive income and expense, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated statement of cash flows and related notes 1 to 16. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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 will be prepared in accordance with United Kingdom adopted International Financial Reporting Standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34 "Interim Financial Reporting".

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 United Kingdom adopted International Accounting Standard 34 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

2 August 2021

Consolidated Income Statement

	Notes	First half 2021 £000	First half 2020 £000	Full year 2020 £000
Revenue	3	288,261	283,234	604,544
Cost of sales		(155,081)	(150,504)	(320,234)
Gross profit		133,180	132,730	284,310
Other income		220	393	1,581
Distribution costs		(2,504)	(2,525)	(5,271)
Administrative expenses		(76,858)	(80,351)	(157,336)
Other expenses		(34)	(29)	(710)
Adjusted operating profit	2	62,735	61,237	142,543
Adjustments				
- Amortisation of acquired intangible assets		(4,655)	(7,058)	(14,110)
- Other adjustments	4	(4,076)	(3,961)	(5,859)
Operating profit	3	54,004	50,218	122,574
Finance income	5	1,341	1,635	2,394
Finance expense	6	(1,196)	(1,888)	(2,931)
Profit before tax		54,149	49,965	122,037
Income tax expense	7	(13,265)	(11,728)	(28,709)
Profit for the period		40,884	38,237	93,328
		Pence	Pence	Pence
Basic earnings per share	9	4.7	4.4	10.7
Adjusted basic earnings per share	2	5.5	5.4	12.5
Diluted earnings per share	9	4.7	4.4	10.7
Adjusted diluted earnings per share	2	5.5	5.4	12.5

Consolidated Statement of Comprehensive Income and Expense

	First half 2021 £000	First half 2020 £000	Full year 2020 £000
Profit for the period	40,884	38,237	93,328
Other comprehensive income and expense			
<i>Items that may be subsequently reclassified to the income statement:</i>			
Foreign currency translation differences	(8,559)	15,699	(3,913)
Effective portion of changes in fair value of cash flow hedges net of tax	342	(1,738)	(12)
	(8,217)	13,961	(3,925)
<i>Items that are not subsequently reclassified to the income statement:</i>			
Actuarial gain / (loss) in pension scheme net of tax	10,241	(16,521)	(14,836)
Income and expenses recognised directly in equity	2,024	(2,560)	(18,761)
Total comprehensive income for the period	42,908	35,677	74,567

Consolidated Balance Sheet

		30 June 2021 £000	30 June 2020 £000	31 Dec 2020 £000
	<i>Notes</i>			
Goodwill		218,283	229,636	223,537
Intangible assets		46,450	37,809	25,145
Property, plant and equipment		80,593	96,571	100,620
Deferred tax assets		8,036	14,057	16,624
Other receivables		332	335	-
Total non-current assets		353,694	378,408	365,926
Inventories	10	63,077	81,166	61,467
Trade receivables		104,104	112,275	112,565
Current tax		5,740	4,237	7,180
Derivative financial instruments	16	1,676	44	1,582
Other receivables		33,308	30,799	25,868
Assets classified as held for sale		-	-	1,119
Cash and cash equivalents		153,361	153,811	187,204
Total current assets		361,266	382,332	396,985
Total assets		714,960	760,740	762,911
Ordinary shares	12	4,371	4,364	4,370
Share premium		17,153	14,858	16,826
Reserves		12,717	38,820	20,934
Retained earnings		533,067	515,918	540,400
Total equity		567,308	573,960	582,530
Interest-bearing loans and borrowings	13	5,051	6,020	5,396
Employee benefits		22,042	44,111	42,846
Deferred tax liabilities		1,060	2,674	8,705
Derivative financial instruments	16	40	495	-
Other payables		314	-	-
Provisions		1,707	1,854	1,720
Total non-current liabilities		30,214	55,154	58,667
Interest-bearing loans and borrowings	13	4,038	4,156	3,754
Trade payables		35,385	37,448	33,560
Employee benefits		19,006	18,904	23,645
Current tax		13,074	16,486	14,765
Derivative financial instruments	16	-	2,088	168
Other payables		38,316	44,852	41,334
Provisions		7,619	7,692	4,488
Total current liabilities		117,438	131,626	121,714
Total liabilities		147,652	186,780	180,381
Total equity and liabilities		714,960	760,740	762,911

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 2020	4,370	16,826	18,374	1,644	916	540,400	582,530
Profit for the period	-	-	-	-	-	40,884	40,884
<i>Other comprehensive (expense)/income</i>							
Foreign currency translation differences	-	-	(8,559)	-	-	-	(8,559)
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	422	-	422
Actuarial gain on defined benefit pension plans	-	-	-	-	-	12,837	12,837
Tax in other comprehensive (expense)/income	-	-	-	-	(80)	(2,596)	(2,676)
<i>Total other comprehensive (expense)/income</i>	-	-	(8,559)	-	342	10,241	2,024
Total comprehensive income	-	-	(8,559)	-	342	51,125	42,908
<i>Transactions with owners, recorded directly in equity</i>							
Equity settled share based payment transactions	-	-	-	-	-	(4,325)	(4,325)
Tax on equity settled share based payment transactions	-	-	-	-	-	817	817
Share options exercised by employees	1	327	-	-	-	-	328
Own ordinary shares acquired	-	-	-	-	-	(5,409)	(5,409)
Own ordinary shares awarded under share schemes	-	-	-	-	-	5,455	5,455
Dividends	-	-	-	-	-	(54,996)	(54,996)
Balance at 30 June 2021	4,371	17,153	9,815	1,644	1,258	533,067	567,308
	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/(expense)</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/(expense)	-	-	-	-	368	4,260	4,628
<i>Total other comprehensive income/(expense)</i>	-	-	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
Balance at 30 June 2020	4,364	14,858	37,986	1,644	(810)	515,918	573,960

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 2019	4,363	14,521	22,287	1,644	(928)	495,657	539,400
Profit for the year	-	-	-	-	-	93,328	93,328
<i>Other comprehensive expense</i>							
Foreign currency translation differences	-	-	(3,913)	-	-	-	(3,913)
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	6	-	6
Actuarial loss on defined benefit pension plans	-	-	-	-	-	(18,570)	(18,570)
Tax in other comprehensive expense	-	-	-	-	(18)	3,734	3,716
<i>Total other comprehensive expense</i>	-	-	(3,913)	-	(12)	(14,836)	(18,761)
Total comprehensive income	-	-	(3,913)	-	(12)	78,492	74,567
<i>Transactions with owners, recorded directly in equity</i>							
Equity settled share based payment transactions	-	-	-	-	-	(306)	(306)
Tax on equity settled share based payment transactions	-	-	-	-	-	(65)	(65)
Share options exercised by employees	7	2,305	-	-	-	-	2,312
Own ordinary shares acquired	-	-	-	-	-	(3,645)	(3,645)
Own ordinary shares awarded under share schemes	-	-	-	-	-	4,193	4,193
Dividends	-	-	-	-	-	(33,926)	(33,926)
Balance at 31 December 2020	4,370	16,826	18,374	1,644	916	540,400	582,530

Consolidated Statement of Cash Flows

	Notes	First half 2021 £000	First half 2020 £000	Full year 2020 £000
Cash flows from operating activities				
Profit for the period		40,884	38,237	93,328
Amortisation of acquired intangible assets		4,655	7,058	14,110
Other adjustments	4	4,076	3,961	5,859
Amortisation of development and software costs		978	1,098	2,967
Depreciation		7,905	7,600	16,313
Equity settled share based payment expense		1,951	2,172	3,685
Net (profit)/loss on sale of property, plant and equipment		(27)	-	146
Finance income		(1,341)	(1,626)	(2,394)
Finance expense		1,196	1,879	2,931
Income tax expense		13,265	11,728	28,709
		73,542	72,107	165,654
(Increase)/decrease in inventories		(3,070)	(4,618)	12,561
(Increase)/decrease in trade and other receivables		(1,070)	14,156	14,672
(Decrease)/increase in trade and other payables		(1,667)	302	(7,195)
Restructuring costs paid		(1,663)	(739)	(6,437)
Difference between pension charge and cash contribution		(3,733)	(6,496)	(10,109)
Decrease in provisions		(162)	(529)	(483)
Decrease in employee benefits		(8,615)	(10,339)	(622)
		53,562	63,844	168,041
Income taxes paid		(15,245)	(10,907)	(30,781)
Net cash flows from operating activities		38,317	52,937	137,260
Investing activities				
Purchase of property, plant and equipment		(7,541)	(11,595)	(25,279)
Development and software costs capitalised		(6,979)	(597)	(1,298)
Proceeds from sale of property, plant and equipment		3,028	(21)	272
Disposal of business		-	3,807	3,807
Settlement of hedging derivatives		205	(2,455)	(3,157)
Interest received		540	912	1,389
Net cash flows from investing activities		(10,747)	(9,949)	(24,266)
Financing activities				
Issue of ordinary share capital		328	338	2,312
Own ordinary shares acquired		(5,409)	(3,625)	(3,645)
Interest paid		(458)	(497)	(954)
Repayment of borrowings		(34)	(34)	(69)
Repayment of lease liabilities		(2,380)	(2,626)	(5,168)
Dividends paid on ordinary shares		(54,996)	-	(33,926)
Net cash flows from financing activities		(62,949)	(6,444)	(41,450)
Net (decrease)/increase in cash and cash equivalents		(35,379)	36,544	71,544
Cash and cash equivalents at 1 January		187,204	117,612	117,612
Effect of exchange rate fluctuations on cash held		1,536	(345)	(1,952)
Cash and cash equivalents at end of period		153,361	153,811	187,204

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 2021 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 2020 does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006, statutory accounts for the year ended 31 December 2020 were approved by the Board on 1 March 2021 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 2020 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 2021 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 United Kingdom. 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 2020, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) adopted by the United Kingdom.

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 on-going 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. The directors are satisfied that any downside scenarios are considered remote and that the Group would continue to have headroom on available 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.

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

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 2020.

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 2020, except for the adoption of new standards effective as of 1 January 2021. 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

During April 2021 the IFRS Interpretations Committee finalised their agenda decision regarding configuration and customisation costs in Cloud Computing Arrangements (Software as a Service, 'SaaS') under IAS 38. This agenda decision offers clarification of the treatment of implementation costs which is relevant to the Group's ongoing Growth Acceleration Programme ('GAP'). This programme is driving technology investments which are predominantly SaaS arrangements with third party implementation partners.

The Group's investment in IT infrastructure is large scale and complex, involving the configuration and customisation of both cloud-based and on-premises systems using multiple independent service vendors and incorporating a wider business controls transformation. Capitalised expenditure as at 30 June 2021 is £26.1m (30 June 2020: £12.5m, 31 December 2020: £20.0m). Hosting and licencing costs for SaaS arrangements have already been expensed.

The Group intends to change its accounting policy for capitalisation and configuration costs, to align with the agenda decision. However, a detailed assessment will need to be made by management to determine the amount of costs that will be accounted for differently in accordance with IFRICs interpretation and, given the complexities described, it has not been possible to complete that assessment in time for those adjustments to be reflected in these interim financial statements. As a consequence of the proposed change in accounting policy it is anticipated that there will be a material level of previously-capitalised costs that will be expensed and presented as other adjustments in the income statement. The timing and quantum of cash outflows for these costs will be unchanged.

Other amendments

A number of other 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 2022. 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 2021 £000	First half 2020 £000	Full year 2020 £000
Profit before tax	54,149	49,965	122,037
<i>Adjustments:</i>			
Amortisation of acquired intangible assets	4,655	7,058	14,110
Redundancy and executive change costs	2,863	3,961	5,744
Other restructuring costs	2,782	-	115
Gain on disposal of properties	(1,569)	-	-
Adjusted profit before tax	62,880	60,984	142,006

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 2021 £000	First half 2020 £000	Full year 2020 £000
Net profit attributable to ordinary shareholders	40,884	38,237	93,328
<i>Adjustments:</i>			
Amortisation of acquired intangible assets	4,655	7,058	14,110
Loss on disposal of businesses	-	-	-
Redundancy and executive change costs	2,863	3,961	5,744
Other restructuring costs	2,782	-	115
Gain on disposal of properties	(1,569)	-	-
Tax effect on adjusted items	(1,728)	(2,557)	(4,484)
Adjusted net profit attributable to ordinary shareholders	47,887	46,699	108,313

2. Alternative performance measures (continued)

c. Adjusted basic and diluted earnings per share (continued)

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 2021 £000	First half 2020 £000	Full year 2020 £000
Adjusted operating profit			
<i>As reported</i>	-	-	142,543
<i>Rolling 12 months</i>	144,041	145,003	-
Capital employed			
Shareholders' funds	567,308	573,960	582,530
Cash and cash equivalents	(153,361)	(153,811)	(187,204)
Interest bearing loans and borrowings	9,089	10,176	9,150
Pension deficit net of deferred tax	17,228	35,153	30,965
	440,264	465,478	435,441
Average capital employed	447,061¹	472,235 ¹	446,357 ²
Return on capital employed	32.2%	30.7%	31.9%

¹ defined as the average of the capital employed at June 2020, December 2020 and June 2021 (2019: June 2019, December 2019, and June 2020).

² defined as the average of the capital employed at December 2019 and December 2020.

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.

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 2021 half year results are restated using the average exchange rates applied for the 2020 comparative period.

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.

There are no acquisitions or disposals in the current and prior periods.

2. Alternative performance measures (continued)

f. Organic constant currency (OCC) (continued)

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

	30 June 2021	Currency adjustment	OCC 30 June 2021	30 June 2020
Revenue	288,261	11,011	299,272	283,234
Cost of sales	(155,082)	(6,642)	(161,724)	(150,504)
Gross margin	133,179	4,369	137,548	132,730
Net overheads	(70,444)	(1,875)	(72,319)	(71,493)
Adjusted operating profit	62,735	2,494	65,229	61,237
Adjusted operating margin	21.8%		21.8%	21.6%
Adjusted profit before tax	62,880	2,494	65,374	60,984
Adjusted basic earnings per share	5.5p	-	5.5p	5.4p

g. Flow through

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

	First half 2021 £000	First half 2020 £000	Change vs first half 2020 £000	Second half 2020 £000	Change vs second half 2020 £000
Revenue	288,261	283,234	5,027	321,310	(33,049)
Adjusted operating profit	62,735	61,237	1,498	81,306	(18,571)
Flow through			29.8%		56.2%

3. Analysis by operating segment

The Group has chosen to organise the management and financial structure by the grouping of end markets. 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.

3. Analysis by operating segment (continued)

Half year to 30 June 2021

	Oil & Gas	Water & Power	Chemical, Process & Industrial	Unallocated	Group
	£000	£000	£000	£000	£000
Revenue	129,562	77,496	81,203	-	288,261
Adjusted operating profit	26,924	21,019	20,627	(5,835)	62,735
Amortisation of acquired intangibles assets	(3,300)	(433)	(922)	-	(4,655)
Segment result before other adjustments	23,624	20,586	19,705	(5,835)	58,080
Other adjustments					(4,076)
Operating profit					54,004
Net financing income					145
Income tax expense					(13,265)
Profit for the period					40,884

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

3. Analysis by operating segment (continued)

Full year to 31 December 2020

	Oil & Gas	Water & Power	Chemical, Process & Industrial	Unallocated	Group
	£000	£000	£000	£000	£000
Revenue	292,173	157,766	154,605	-	604,544
Adjusted operating profit	67,949	47,037	38,553	(10,996)	142,543
Amortisation of acquired intangibles assets	(7,380)	(945)	(5,785)	-	(14,110)
Segment result before other adjustments	60,569	46,092	32,768	(10,996)	128,433
Other adjustments					(5,859)
Operating profit					122,574
Net financing expense					(537)
Income tax expense					(28,709)
Profit for the year					93,328

Revenue by location of subsidiary

	First half 2021 £000	First half 2020 £000	Full year 2020 £000
UK	29,569	29,641	66,077
Italy	27,440	31,230	62,176
Rest of Europe	51,860	53,498	106,940
USA	51,619	58,514	109,929
Other Americas	19,560	13,597	35,965
Rest of World	108,213	96,754	223,457
	288,261	283,234	604,544

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 2021 £000	First half 2020 £000	Full year 2020 £000
Gain on disposal of properties	1,569	-	-
Redundancy and executive change costs	(2,863)	(3,961)	(5,744)
Other restructuring costs	(2,782)	-	(115)
	(4,076)	(3,961)	(5,859)

In 2021 it was announced that the Group's operations in Cusago, Italy would cease during the second half of 2021 and the production. The closure of the Cusago facility will result in redundancy costs of £1,377,000 and other restructuring costs of £2,696,000.

A further £1,486,000 (2020: £3,961,000) redundancy and executive change costs have been incurred as a result of the progress made with the Growth Acceleration Programme.

The £1,569,000 (2020: £nil) gain on disposal of properties relates to the sale of two properties in the period.

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 2021 £000	First half 2020 £000	Full year 2020 £000
Interest income	697	916	1,517
Foreign exchange gains	644	719	877
	1,341	1,635	2,394

6. Finance expense

	First half 2021 £000	First half 2020 £000	Full year 2020 £000
Interest expense	376	610	872
Interest expense on lease liabilities	206	186	499
Interest charge on pension scheme liabilities	275	352	609
Foreign exchange losses	339	740	951
	1,196	1,888	2,931

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 2021 is 24.5%. This is higher than the effective tax rate for the year ended 31 December 2020 of 23.5%, reflecting the mix of taxable profits in group companies worldwide.

The estimated adjusted effective tax rate for the year ending 31 December 2021, based on the adjusted profit before tax, is 23.9%. This is higher than the effective tax rate for the year ended 31 December 2020 of 23.4% due to the balance of profits within the group moving towards high tax jurisdictions. The 2020 effective tax rate also benefitted from a one-off reduction in the deferred tax liability on unremitted earnings driven by a decrease in Indian withholding tax rates.

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:

6.30p final dividend
3.90p interim dividend

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

6.30p final dividend proposed
2.35p interim dividend declared (2020: 3.90p)

First half 2021 £000	First half 2020 £000	Full year 2020 £000
54,996	-	-
-	-	33,926
54,996	-	33,926
-	-	55,059
20,523	34,036	-
20,523	34,036	55,059

Last year in response to the COVID-19 pandemic the recommendation to pay a 3.90 pence per share final dividend in respect of 2019 was withdrawn and no dividend was paid in the period to 30 June 2020. An interim dividend of 3.90 pence was declared in the second half of 2020, which was equivalent to the previously deferred 2019 final dividend. In March 2021 a dividend, reflecting the combined interim and final dividends, was proposed in respect of the year to 31 December 2020 and this was paid in May 2021. This year we are returning to the regular schedule of dividend payments and are declaring an interim dividend of 2.35 pence which will be payable on 24 September 2021 to shareholders on the register on 20 August 2021.

9. Earnings per share

Earnings per share is calculated using the profit attributable to the ordinary shareholders for the period and 873.1m shares (six months to 30 June 2020: 871.3m; year to 31 December 2020: 871.7m) being the weighted average ordinary shares in issue.

Diluted earnings per share is based on the profit for the year attributable to the ordinary shareholders and 874.2m shares (six months to 30 June 2020: 872.8m; year to 31 December 2020: 873.3m). The number of shares is equal to the weighted average number of ordinary shares in issue (net of own ordinary shares held) adjusted to assume conversion of all potentially dilutive ordinary shares.

10. Inventories

	30 June 2020 £000	30 June 2020 £000	31 Dec 2020 £000
Raw materials and consumables	49,461	59,293	46,101
Work in progress	3,755	6,263	3,630
Finished goods	9,861	15,610	11,736
	63,077	81,166	61,467

11. Pension schemes - Defined benefit deficit

The defined benefit obligation at 30 June 2021 of £22,184,000 (30 June 2020: £44,440,000; 31 December 2020: £38,517,000) 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 2021 by independent actuaries to reflect updated assumptions regarding discount rates, inflation rates and asset values.

	30 June 2021 %	30 June 2020 %	31 Dec 2020 %
Discount rate	1.8	1.5	1.3
Rate of inflation	3.2	2.8	2.9

In addition, the defined benefit plan assets and liabilities have been updated to reflect the regular payments, the £3.4 million payment made in respect of past service and the benefits earned during the period to 30 June 2021.

12. Share capital and reserves

The number of ordinary 0.5p shares in issue at 30 June 2021 was 874,147,000 (30 June 2020: 872,730,000; 31 December 2020: 873,955,000). All issued shares are fully paid.

The Group acquired 1,468,000 of its own shares through purchases on the London Stock Exchange during the period (30 June 2020: 1,424,000; 31 December 2020: 1,431,000). The total amount paid to acquire the shares was £5,409,000 (30 June 2020: £3,625,000; 31 December 2020: £3,645,000), and this has been deducted from shareholders' equity. At 30 June 2021 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 814,000 (30 June 2020: 990,000; 31 December 2020: 997,000). In the period 803,000 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 2021 resulted in 193,000 ordinary 0.5p shares being issued (30 June 2020: 192,000 shares), with exercise proceeds of £328,000 (30 June 2020: £338,000). The weighted average market share price at the time of exercise was £3.46 (30 June 2020: £2.89) per share.

The share based payment charge for the period was £1,951,000 (30 June 2020: £2,172,000; 31 December 2020: £3,685,000).

13. Loans and borrowings

The following loans and borrowings were issued and repaid during the six months ended 30 June 2021:

	Lease liabilities £000	Bank loans £000	Preference shares £000	Total £000
Balance at 31 December 2020	8,302	797	40	9,139
Additions/drawdowns	2,534	-	-	2,534
Repayment	(2,380)	(34)	-	(2,414)
Disposals	(130)	-	-	(130)
Exchange differences	(8)	(32)	-	(40)
Balance at 30 June 2021	8,318	731	40	9,089

	Lease liabilities £000	Bank loans £000	Preference shares £000	Total £000
Current	3,972	66	-	4,038
Non-current	4,346	665	40	5,051
Balance at 30 June 2021	8,318	731	40	9,089

The Group has committed loan facilities of £60,000,000 (First half 2020: £60,000,000; Full year 2020: £60,000,000), of which £nil (30 June 2020: £nil; 31 December 2020: £nil) was drawn down at the balance sheet date. The facilities attract a blended interest rate of LIBOR plus 0.65%.

14. Share-based payments

A grant of share options was made on 24 March 2021 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	24 March 2021	24 March 2021	24 March 2021
Share price at grant date	£3.62	£3.62	£3.62
Shares awarded under scheme	401,664	401,664	401,666
Vesting period	3 years	3 years	3 years
Expected volatility	34.0%	34.0%	34.0%
Risk free rate	0.1%	0.1%	0.1%
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	£2.37	£3.62	£3.62

The basis of measuring fair value is consistent with that disclosed in the 2020 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 2020 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 2020 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 2021 the fair value of these contracts was a net asset of £1,636,000 (30 June 2020: a net liability of £2,539,000; 31 December 2020: a net asset of £1,414,000). 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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