

rotork



Global Actuation Solutions

Interim Report 2003

Continued growth in turnover, earnings and cashflow

- ✕ Profit before taxation and goodwill amortisation increased by 8.6% to £13.9m (2002: £12.8m)
- ✕ Earnings per share increased by 13.3% to 10.2p (2002: 9.0p)
- ✕ Orderbook up 10.7% since year-end 2002
- ✕ Interim dividend increased by 5% to 5.25p (2002: 5.0p)

Review of Operations

Financial Results

We are pleased to report continued growth in turnover, earnings and cashflow in the six months to 30 June.

Turnover on continuing operations was up 2% over the prior year, with operating profit up 5%. Net profit before tax and goodwill, on continuing operations, was up 6% and represented an increase in net margin from 20.0% to 20.7%. Earnings per share on this pre-exceptional basis increased from 9.0p to 9.5p.

When adding in the gain on sale at the end of April of the freehold in Luton, occupied by the Rotork Control & Safety business disposed of in November last year, net profit was up 9% year on year and earnings per share at 10.2p increased by 13%.

Order book at the end of June was up 11% over the year-end figure, with the biggest increase being in the Fluid System business where a large oil and gas project remained in work in progress at the half year.

Completion of the Luton property sale created a net cash inflow of £1.6m and produced a profit on disposal of £0.6m. Operating cash inflow was strong at £3.0m which, when combined with the receipt from the property disposal and the payment of £1.2m on share buybacks in March, resulted in cash balances of £23.8m, up £3.4m since the year-end.

Operating review

Electric Actuators

Order input values for electric actuators were similar to the first half of last year, and 6% higher than the second half. Within this there was a change in both the industry and geographic mix. Oil and gas input represented nearly half of our unit input as project activity which was evident last year came through in increased order flow in the first six months of the current year. This was particularly marked in the Far East and Europe. Water industry demand was down on the comparative period in spite of a modest increase in units sold to the UK. This was due to reduced activity in North America and the Far East. The proportion of electric actuators going to the power market was down slightly due to the lack of activity in this sector other than in the Far East where we recorded further gains. Geographically there was an increase in units destined for Europe and the Far East at the expense of the Americas.

Overall sales output was up 4% and profits up 9% over the comparative period. The improved margin was due to continued cost initiatives and a favourable product mix. Good profit progress was achieved in a number of our European and Far Eastern companies while sales and profits were down in the US and Canada. The Venezuela operation, which recorded a loss in 2002, traded at above break even despite continued difficulties in the country. The Malaysian manufacturing plant, which commenced production in December 2002, has, as expected, recorded a small

operating loss. While still operating at below break even, production levels have increased as the year progressed.

The quarter turn variant of our successful IQII range of intelligent actuators, the IQT, will be launched on target in the second half of the current year.

Rotork Fluid System

The manufacturing facility of this division successfully moved into much larger premises in Lucca, Italy, which has enabled it to take on larger and more complex projects. Order intake is slightly up on the prior year. Phasing of shipments has resulted in output and profits being down on the comparative period, although results for the year are still expected to be ahead of the prior year. A large Middle Eastern project, which was won in the period under review, will be delivered in the second half. The US division's performance was disappointing and recorded a loss in the period. Progress in terms of international coverage and increased breadth of product offering continues to be made.

Rotork Gears

Gears made good progress with sales output up 10% and profits up 18%. The operation in Leeds benefited from improved margins due in part to purchasing initiatives. The results of Gears BV, based in the Netherlands, have responded well to the management changes made towards the end of last year, recording much improved profitability.

Dividend

An interim dividend of 5.25p per ordinary share will be paid on 29 September to all shareholders on the register at 15 August 2003. This represents an increase of 5% year on year.

Outlook

As indicated above progress resulting from good activity levels in the oil and gas sector and in important markets in Asia and Europe is being constrained by reduced levels of demand in the Americas, which performed well in 2002. The extent of our growth for the year will depend upon the performance of the US market in the second half.

As previously notified we intend to give a trading update in late November.



Bill Whiteley

Chief Executive
5 August 2003

Consolidated Profit and Loss Account

Unaudited

	First half 2003 £m	First half 2002 £m	Full year 2002 £m
Turnover			
Continuing operations	64.3	63.1	129.7
Discontinued operations	–	1.9	3.8
	64.3	65.0	133.5
Operating profit			
Continuing operations	12.3	11.7	25.2
Discontinued operations	–	0.2	0.5
	12.3	11.9	25.7
Operating profit before amortisation of goodwill	13.0	12.6	27.0
Amortisation of goodwill (all continuing operations)	(0.7)	(0.7)	(1.3)
Operating profit	12.3	11.9	25.7
Profit on disposal of fixed assets (discontinued operations)	0.6	–	–
Net interest and similar income	0.3	0.2	0.5
Profit on ordinary activities before taxation	13.2	12.1	26.2
Taxation			
UK	(1.6)	(1.5)	(4.1)
Overseas	(2.8)	(2.9)	(4.8)
Profit on ordinary activities after taxation	8.8	7.7	17.3
Dividend	(4.5)	(4.3)	(12.0)
Retained profit	4.3	3.4	5.3
	pence	pence	pence
Earnings per share	10.2	9.0	20.1
Earnings per share before goodwill amortisation	11.0	9.8	21.6
Diluted earnings per share	10.2	9.0	20.0

Statement of the Group's Total Recognised Gains and Losses

	First half 2003 £m	First half 2002 £m	Full year 2002 £m
Profit for the period	8.9	7.7	17.3
Exchange differences	1.2	(0.7)	(1.6)
Total recognised gains and losses for the period	10.1	7.0	15.7

Balance Sheet

Unaudited

	30 June 2003 £m	30 June 2002 £m	31 Dec 2002 £m
Fixed assets			
Intangibles	20.2	21.3	20.9
Tangibles	14.0	14.8	14.8
Investments	0.4	0.3	0.9
	34.6	36.4	36.6
Current assets			
Stock	18.7	20.0	17.7
Debtors	32.1	36.2	32.8
Cash	23.8	13.2	20.4
	74.6	69.4	70.9
Creditors: amounts falling due within one year	(30.7)	(33.0)	(33.6)
Net current assets	43.9	36.4	37.3
Total assets less current liabilities	78.5	72.8	73.9
Creditors: amounts falling due after more than one year	(0.2)	(0.3)	(0.2)
Provisions for liabilities and charges	(2.3)	(2.3)	(2.0)
Net assets	76.0	70.2	71.7
Share capital	4.3	4.4	4.4
Reserves	71.7	65.8	67.3
Shareholders' funds	76.0	70.2	71.7

Cash Flow

	First half 2003 £m	First half 2002 £m	Full year 2002 £m
Net cashflow from operating activities	15.6	10.8	25.8
Returns on investments and servicing of finance	0.3	0.2	0.3
Taxation	(3.9)	(4.6)	(9.0)
Net capital expenditure and financial investments			
Sale of Luton property	1.6	–	–
Other	(1.2)	(0.9)	(2.3)
	0.4	(0.9)	(2.3)
Acquisitions and disposals	–	(7.7)	(6.2)
Dividends paid	(7.6)	(7.1)	(11.4)
Financing			
Purchase of own equity ordinary shares	(1.2)	–	–
Other	(0.2)	0.3	0.1
	(1.4)	0.3	0.1
Increase/(decrease) in cash and term deposits	3.4	(9.0)	(2.7)

Notes to the Interim Report

1. Status of Interim Report

The interim report was approved by the Directors on 5 August 2003. It should be read in conjunction with the 2002 Annual Report, which contains the most recent audited financial statements.

The financial information for the six months to 30 June 2003 and the comparative figures for the six months to 30 June 2002 are unaudited and have been prepared on the basis of the accounting policies set out in the Group's statutory accounts for the year ended 31 December 2002.

The financial information for the year ended 31 December 2002 is an abridged version of the full accounts for that year, which received an unqualified report from the auditors and which have been filed with the Registrar of Companies.

2. Geographical analysis

	Turnover			Operating profit before goodwill amortisation			Operating profit after goodwill amortisation		
	First half 2003	First half 2002	Full year 2002	First half 2003	First half 2002	Full year 2002	First half 2003	First half 2002	Full year 2002
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Analysis by geographical origin									
Europe	33.2	31.4	62.5	7.7	7.5	15.5	7.3	7.1	14.6
Americas	19.1	22.2	45.4	2.5	2.7	6.7	2.3	2.5	6.4
Rest of world	12.0	9.5	21.8	2.8	2.2	4.3	2.7	2.1	4.2
Continuing operations	64.3	63.1	129.7	13.0	12.4	26.5	12.3	11.7	25.2
Discontinued operations	–	1.9	3.8	–	0.2	0.5	–	0.2	0.5
	64.3	65.0	133.5	13.0	12.6	27.0	12.3	11.9	25.7

Analysis by operation

Electrics	51.3	49.5	102.3	11.2	10.3	22.2	10.9	10.0	21.7
Gears	7.8	7.1	14.5	1.5	1.3	2.6	1.3	1.1	2.1
Fluid system	7.2	8.3	16.7	0.3	0.8	1.7	0.1	0.6	1.4
Inter-segmental elimination	(2.0)	(1.8)	(3.8)	–	–	–	–	–	–
Continuing operations	64.3	63.1	129.7	13.0	12.4	26.5	12.3	11.7	25.2
Discontinued operations	–	1.9	3.8	–	0.2	0.5	–	0.2	0.5
	64.3	65.0	133.5	13.0	12.6	27.0	12.3	11.9	25.7

	First half 2003	First half 2002	Full year 2002
	£m	£m	£m
Turnover – analysis by destination			
Europe	29.2	26.3	52.8
Americas	19.8	23.4	47.8
Rest of world	15.3	13.4	29.1
Continuing operations	64.3	63.1	129.7
Discontinued operations	–	1.9	3.8
	64.3	65.0	133.5

Notes to the Interim Report

	First half 2003 £m	First half 2002 £m	Full year 2002 £m
Net assets by geographical origin			
Europe	45.3	39.6	37.6
Americas	20.7	21.7	22.2
Rest of world	10.0	8.4	11.5
Continuing operations	76.0	69.7	71.3
Discontinued operations	–	0.5	0.4
	76.0	70.2	71.7
Net assets by operation			
Electric	54.3	46.5	47.9
Gears	11.5	12.0	12.5
Fluid system	10.2	11.2	10.9
Continuing operations	76.0	69.7	71.3
Discontinued operations	–	0.5	0.4
	76.0	70.2	71.7

The prior year segmental information has been restated to reflect the re-allocation of goodwill to each segment.

3. Earnings per share

Earnings per share is calculated using the profit attributable to the ordinary shareholders for the period and 86.0 million shares (six months to 30 June 2002: 86.0 million; year to 31 December 2002: 86.1 million) being the weighted average ordinary shares in issue.

The adjusted earnings per share is based on the profit for the period attributable to the ordinary shareholders before the amortisation of goodwill. The adjusted numbers provide a more consistent measure of operating performance.

Diluted earnings per share is calculated using the profit attributable to the ordinary shareholders for the period and the weighted average ordinary shares in issue adjusted to assume conversion of all dilutive potential ordinary shares under the group's option schemes.

4. Reconciliation of operating profit to operating cashflow

	First half 2003 £m	First half 2002 £m	Full year 2002 £m
Operating profit	12.3	11.9	25.7
Depreciation and amortisation	1.8	1.8	3.5
Profit on sale of fixed assets	–	–	(0.5)
(Increase)/decrease in stock	(0.6)	(0.5)	0.8
Decrease/(increase) in debtors	0.9	0.5	(1.2)
Increase/(decrease) in creditors	1.2	(2.9)	(2.5)
Net cashflow from operating activities	15.6	10.8	25.8

5. Disposal

On 30 April 2003 the freehold property occupied by Rotork Control and Safety, the business disposed of in November 2002, was sold for £1,675,000. The net gain on the disposal was £600,000.

6. Shareholder information

This interim report is being sent to all shareholders and copies are available to the public from the Registered Office at the address below. The interim report is also available on the company's website at www.rotork.com.

We offer shareholders a dividend reinvestment plan (DRIP) under which shareholders can reinvest their cash dividends in the company, by buying shares in the market at competitive dealing rates. If you have already elected to join the DRIP, there is no further action for you to take.

If you would like to join for the first time, please contact our registrars below.

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA

Share dividend helpline number - 0870 241 3018

7. Group information

Secretary and registered office:
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Bath BA1 3JQ

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www.rotork.com