

rotork

The world leader in actuation solutions



Interim Report 2004

Financial Highlights

Continued growth in turnover, profit and order book

- ✘ Turnover increased by 4% to £66.8m and by 9% at constant currency
- ✘ Profit before tax, excluding goodwill and exceptional items increased by 7% to £14.2m and by 18% at constant currency
- ✘ Margin increased by 0.6% to 21.2% despite adverse currency impact
- ✘ EPS pre goodwill and exceptional items up 9%
- ✘ Record order book up 18% since year-end 2003
- ✘ Interim dividend of 5.35p added to the special interim dividend paid on 28 May giving a total interim dividend of 11.20p for 2004 (2003: 5.25p)

Financial Results

We are pleased to report continued growth in the business during the period. Turnover increased by 4% despite the effect of a strengthening currency. At constant currency, the business saw turnover increase by 9%. Operating profit increased by 7%, but again at constant currency this would have been significantly more, increasing by 18%. Orders into the business outperformed sales output leading to a record order book level.

The profile of output, oriented towards the second quarter, has led to an increase in receivables which, coupled with an increase in inventory ahead of a strong July programme, has resulted in a lowered operational cash flow. Cash flow has also been impacted by investment into extending our Leeds production facility, totalling £0.8m, returning £4.9m to our shareholders via an enhanced interim dividend, a £5m cash contribution into the UK defined benefit pension scheme, and the acquisition of Deanquip in January for £0.8m.

Operating Review

Order intake in the first half of 2004 was relatively robust, recording an 11% increase over the comparative period and a 9% increase over the second half of 2003. On a constant currency basis the order intake increased 16%. The order book at the end of June was 18% ahead of the end of 2003 and 7% ahead of the same period in 2003, despite erosion of values caused by the decline in the US\$ and related currencies in the Far East.

Electric Actuators

Order intake was up 8% on the comparative period which left the order book up 13% over the end of year position. We again experienced quite significant shifts in the end user and geographic destination markets for our actuators. The Far Eastern region was particularly active with the majority of products being sold into the power and water markets. The Americas saw a strong rebound from the poor first half of 2003 with a welcome resurgence of business from the US

water utilities, this was in spite of quiet markets in Latin America and Canada. The Middle East was active with the emphasis on oil and gas projects. Europe suffered from lower levels of Eastern Europe oil and gas input, more than offsetting a continued improvement in our power markets. The UK as a destination territory was generally weak, however, we did see an increase in actuators ordered in this area for destination elsewhere.

The AWT and new IQT ranges sold very well in the period under review and exceeded our expectations. Both ranges, particularly the AWT, increased our presence in the power and water markets around the world. AWT production at the Malaysia plant continued to increase during the period and made a positive contribution to the results.

The trading results, held back by the severe decline in the US\$ and related currencies, showed a modest increase against the comparative period. On a constant currency basis we would have recorded an increase in net profits of 15%. Good profit increases were recorded at the Bath, Rochester N.Y., and Indian plants, coupled with growth at our Hong Kong, Australia and South Africa sales subsidiaries. These results were partially offset by weaker performances from our German, Canadian, Singaporean and Japanese subsidiaries.

Rotork Fluid System

Order intake continued to grow rapidly, up 23% on the comparative period due to a healthy level of upstream oil and gas transmission work, combined with the recently enhanced product ranges, manufacturing facilities and sales outlets. Encouragingly most of our sales companies are actively involved in selling our fluid power product line and are helping widen the customer base around the world. As a result the order book has grown 37% since the end of 2003.

Sales recorded a 38% increase and profits a 280% increase over the modest results recorded in the first half of 2003. Profit increases were recorded at our Italian plant

and most of the sales subsidiaries. Additionally the US operation recorded a useful profit against a loss at this time last year. Deanquip Valve Automation, the Australian fluid power actuator distributor acquired in January, made a positive profit contribution.

Rotork Gears

The market for valve gearboxes and related products was quite healthy and the division recorded an 11% increase in order intake in the period. The order book grew by 24% from the end of 2003.

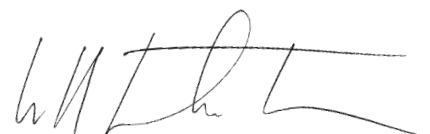
Although sales increased by 7%, profits were constant due in the main to the impact of US\$ sales from sterling and euro based plants. The purchase of the portion of the plant in Leeds which we did not own has allowed the Gears, Fluid System and other Rotork businesses that operate from that location to make their operations more efficient and allow for expansion.

Dividend

The core interim dividend is to be increased by 2% to 5.35p, and will be payable on 27 September to all shareholders on the register at 3 September 2004. Together with the special 2004 dividend paid on 28 May this makes a total interim dividend of 11.20p, an increase of over 100% year on year.

Outlook

The order book gives us confidence of continued progress. The main production plants have enhanced capacity. If order input continues to be buoyant and there is no further strengthening of sterling, output and profit levels will increase in the second half of the year in line with our expectations.



Bill Whiteley
Chief Executive
5 August 2004

Consolidated Profit and Loss Account

Unaudited

	First half 2004 £m	First half 2003 £m	Full year 2003 £m
Turnover	66.8	64.3	136.0
Operating profit	13.1	12.3	26.7
Operating profit before amortisation of goodwill	13.8	13.0	28.0
Amortisation of goodwill (all continuing operations)	(0.7)	(0.7)	(1.3)
Operating profit	13.1	12.3	26.7
Profit on disposal of fixed asset (discontinued operations)	–	0.6	0.6
Net interest and similar income	0.4	0.3	0.8
Profit on ordinary activities before taxation	13.5	13.2	28.1
Profit before tax, excluding goodwill and exceptional items	14.2	13.3	28.8
Taxation			
UK	(1.7)	(1.6)	(3.9)
Overseas	(2.8)	(2.8)	(5.6)
Profit on ordinary activities after taxation	9.0	8.8	18.6
Dividend	(9.5)	(4.5)	(12.6)
Retained profit	(0.5)	4.3	6.0
	pence	pence	pence
Earnings per share	10.5	10.2	21.7
Earnings per share before goodwill amortisation	11.2	11.0	23.3
Diluted earnings per share	10.4	10.2	21.6

Statement of the Group's Total Recognised Gains and Losses

	First half 2004 £m	First half 2003 £m	Full year 2003 £m
Profit for the period	9.0	8.8	18.6
Exchange differences	(1.8)	1.3	(0.5)
Total recognised gains and losses for the period	7.2	10.1	18.1

Balance Sheet

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Unaudited

	30 June 2004 £m	30 June 2003 £m	31 Dec 2003 £m
Fixed assets			
Intangibles	18.5	20.2	19.0
Tangibles	14.1	14.0	13.6
	32.6	34.2	32.6
Current assets			
Stock	20.9	18.7	18.6
Debtors	37.5	32.1	33.4
Cash	18.8	23.8	32.3
	77.2	74.6	84.3
Creditors: amounts falling due within one year	(32.9)	(30.7)	(37.8)
Net current assets	44.3	43.9	46.5
Total assets less current liabilities	76.9	78.1	79.1
Creditors: amounts falling due after more than one year	(0.1)	(0.2)	(0.1)
Provisions for liabilities and charges	(2.6)	(2.3)	(2.9)
Net assets	74.2	75.6	76.1
Share capital	4.3	4.3	4.3
Reserves	69.9	71.3	71.8
Shareholders' funds	74.2	75.6	76.1

Cash Flow

	First half 2004 £m	First half 2003 £m	Full year 2003 £m
Net cash flow from operating activities	5.5	15.6	33.8
Returns on investments and servicing of finance	0.7	0.3	0.6
Taxation	(3.6)	(3.9)	(9.2)
Net capital expenditure and financial investments			
Sale of Luton property	–	1.6	1.6
Other	(1.9)	(1.2)	(2.1)
	(1.9)	0.4	(0.5)
Acquisitions and disposals	(0.8)	–	–
Dividends paid	(13.2)	(7.6)	(12.1)
Financing			
Purchase of own equity ordinary shares	–	(1.2)	(1.2)
Issue of own equity ordinary shares	0.3	–	0.5
Other	–	(0.2)	(0.1)
	0.3	(1.4)	(0.8)
(Decrease) / increase in cash and term deposits	(13.0)	3.4	11.8

Notes to the Interim Report

1. Status of Interim Report

The interim report was approved by the Directors on 5 August 2004. It should be read in conjunction with the 2003 Annual Report, which contains the most recent audited financial statements.

The financial information for the six months to 30 June 2004 and the comparative figures for the six months to 30 June 2003 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 2003.

The financial information for the year ended 31 December 2003 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.

The 31 December and 30 June 2003 financial information has been restated to reflect the adoption of UITF Abstract 38, Accounting for ESOPs. As a result the former fixed asset investment in own shares is now shown within shareholders' funds. Earnings per share have been recalculated to exclude these shares from the weighted average ordinary shares in issue.

2. Geographical analysis

	Turnover			Profit before interest, tax and goodwill amortisation			Profit before interest and tax		
	First half 2004 £m	First half 2003 £m	Full year 2003 £m	First half 2004 £m	First half 2003 £m	Full year 2003 £m	First half 2004 £m	First half 2003 £m	Full year 2003 £m
Analysis by operation									
Electrics	50.6	51.3	105.6	12.1	11.8	24.4	11.8	11.6	24.0
Fluid system	10.0	7.2	18.8	1.0	0.3	2.0	0.8	0.0	1.6
Gears	8.3	7.8	16.3	1.5	1.5	2.9	1.3	1.3	2.4
Unallocated costs	–	–	–	(0.8)	(0.6)	(1.3)	(0.8)	(0.6)	(1.3)
Inter-segmental elimination	(2.1)	(2.0)	(4.7)	–	–	–	–	–	–
Continuing operations	66.8	64.3	136.0	13.8	13.0	28.0	13.1	12.3	26.7
Discontinued operations	–	–	–	–	0.6	0.6	–	0.6	0.6
	66.8	64.3	136.0	13.8	13.6	28.6	13.1	12.9	27.3
Analysis by geographical origin									
Europe	33.8	33.2	70.1	8.7	8.4	19.9	8.3	7.9	19.0
Americas	18.8	19.1	40.0	2.8	2.4	4.0	2.6	2.2	3.7
Rest of world	14.2	12.0	25.9	3.1	2.8	5.4	3.0	2.8	5.3
Unallocated costs	–	–	–	(0.8)	(0.6)	(1.3)	(0.8)	(0.6)	(1.3)
Continuing operations	66.8	64.3	136.0	13.8	13.0	28.0	13.1	12.3	26.7
Discontinued operations	–	–	–	–	0.6	0.6	–	0.6	0.6
	66.8	64.3	136.0	13.8	13.6	28.6	13.1	12.9	27.3
Turnover – analysis by destination									
Europe						First half 2004 £m	First half 2003 £m	Full year 2003 £m	
Americas						29.6	29.2	62.4	
Rest of world						19.9	19.8	41.6	
						17.3	15.3	32.0	
						66.8	64.3	136.0	

	First half 2004 £m	First half 2003 £m	Full year 2003 £m
Net assets by operation			
Electric	38.6	31.6	29.7
Fluid system	10.7	9.5	12.0
Gears	10.7	10.9	10.7
Unallocated	14.2	23.6	23.7
	74.2	75.6	76.1
Net assets by geographical origin			
Europe	36.8	25.9	23.8
Americas	17.2	19.6	16.7
Rest of world	6.0	6.5	11.9
Unallocated	14.2	23.6	23.7
	74.2	75.6	76.1

The 2003 interim net assets have been restated to reflect the re-designation of certain assets as unallocated.

3. Earnings per share

Earnings per share is calculated using the profit attributable to the ordinary shareholders for the period and 85.7 million shares (six months to 30 June 2003: 85.9 million; year to 31 December 2003: 85.7 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 and Long-Term Incentive Plan.

The 31 December and 30 June 2003 weighted average ordinary shares in issue have been restated to reflect the number of own shares held which are now shown as a reduction in shareholders' funds.

4. Reconciliation of operating profit to operating cash flow

	First half 2004 £m	First half 2003 £m	Full year 2003 £m
Operating profit	13.1	12.3	26.7
Depreciation and amortisation	1.8	1.8	3.6
Increase in stock	(2.6)	(0.6)	(1.0)
(Increase) / decrease in debtors	(0.8)	0.9	0.3
Increase in pension prepayment	(5.0)	–	–
(Decrease) / increase in creditors	(1.0)	1.2	4.2
Net cash flow from operating activities	5.5	15.6	33.8

Notes to the Interim Report

Continued

5. 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

6. Group information

Secretary and registered office:

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Bath BA1 3JQ

Company website:

www.rotork.com