rotork

The world leader in actuation solutions

Interim Report 2005

FINANCIAL HIGHLIGHTS

Continued growth in turnover, operating profit and order book

- *Turnover increased by 17% to £78.3m (2004: £66.8m)*
- *Profit from operations increased by 17% to £16.2m (2004: £13.9m)*
- *EPS 12.7p up 14% (2004: 11.1p)*
- *Order intake 23% higher than first half of 2004*
- *Record order book up 29% since June 2004 excluding impact of PCI acquisition*
- *Interim dividend of 5.9p up 10% (2004: 5.35p)*
- *Interim Report and all comparative figures prepared under IFRS*

REVIEW OF OPERATIONS

Financial Results

We are pleased to report strong growth in all of our divisions. Turnover increased by 17% in a period little affected by exchange rate movements. Profit from operations increased by 17% compared with the 2004 results which have been restated under International Financial Reporting Standards. Order intake once again exceeded sales output leading to a new record order book level.

Operating Review

Our worldwide markets were generally favourable with a continued increase in projects requiring valve automation. The order input increase of over 23% was slightly flattered by two substantial orders being received towards the end of the second quarter. The increase was, however, broadly based with each of the three divisions increasing order intake and with most of our geographic and end user markets performing well. The largest increases came from the Asia and Far East region with order intake from China, India and Singapore being particularly strong. This was supported by good input in North America, RFS in Italy and the various UK activities. The order book, excluding acquisitions, at the end of the period was 29% up on the same period last year and 37% up on the end of last year. Although the impact of currencies was broadly neutral for the comparative period the order book benefited from the stronger dollar on 30th June 2005.

Electric Actuators

Electric actuator input value was up 22% on the prior year. Most operations benefited from increased activity albeit in some of these cases the increase in business was due to projects outside of their territories being placed through local OEM customers. The power market was particularly active and represented 33% of the input units in the period, up from 23% in the corresponding period. The main markets for these actuators are China and India which continued to show impressive growth. However we also had important contract wins in the Middle East/Africa region and the UK which further boosted this figure. Units ordered by the oil & gas sector increased by 15% with substantial increases again being seen in Asia and the Far East although as a percentage of total input it fell from 37% to 34%. We benefited from an increasing number of Chinese pipeline, tank farm and refinery projects in addition to a number of large contracts elsewhere in the region. Actuators being sold into the water market represented 25% of our total units with good levels of business in South East Asia and the U.S.

Both the IQT and AWT ranges sold well above expectations in the period and had a positive impact on our ability to win major projects.

Operating profit increased by over 19% in a period where, for once, there was a broadly neutral currency impact. Profits from the Bath plant were up as we continued to achieve increased output levels. The service & retrofit businesses, based in Bath and Leeds, were also very active. In Europe, good profit increases were achieved in Italy, Germany and Spain. The U.S. continued to see an impressive increase in its sales and profits as did nearly all of our Asian and Far Eastern operations. Material costs were kept under good control although some increases, due to high raw material and energy costs, came through into our component prices. Actions aimed at strengthening our supply chain were also responsible for some modest cost increases but a number of initiatives being worked upon at the moment will mean that savings in component costs should be re-established next year.

Rotork Fluid System

We continued to achieve rapid growth in this business with total order intake rising 41%. On a like for like basis, excluding PCI which was purchased during the first half of the year, order intake was up 29%. In addition to the continued growth of this business through our international network of sales companies, a number of large contracts were won by the Italian and U.S. operations. Due to the timing of these projects the order book climbed by 63% excluding PCI. The upstream oil and gas, transmission markets and projects connected with LNG production and shipments remain active. This means that we are confident that there will be good progress for the year as a whole in spite of the modest first half performance, when the return on sales was negatively impacted by losses in the U.S. and Canada. These operations were profitable in 2004 and are forecasting profits for the year as a whole.

The acquisition of PCI in March has helped to add new high pressure products and new markets to this division. This business, which is based in Northern Germany, was purchased in March for €9.8m including deferred consideration. During our period of ownership it has contributed £2.1m of output with a net to sales return of 13% before adjustments for IFRS intangible amortisation.

Rotork Gears

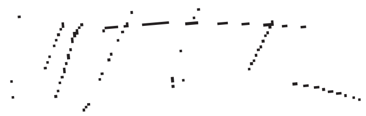
Gears' input grew at 6% despite some weaknesses within its business. The order book, which tends to be shorter within this division due to the nature and application of its products, grew by 32%. During the half year sales output grew by 12% and operating profits by a particularly strong 23% due to good performances at both the Leeds and Losser plants, which have focussed on their costs of materials and operational efficiency.

Dividend

The interim dividend is to be increased by 10% to 5.9p, and will be payable on 27 September to all shareholders on the register at 2 September 2005.

Outlook

Many of our important geographic and end user markets remain active with continuing high levels of investment being planned. However we may not benefit from specific large project orders to the same extent as in the first half of the year. The output comparisons are flattered by a somewhat production constrained first half of 2004. Further production increases are anticipated in the second half, which are supported by the order book at the end of June. This makes us confident of meeting our growth expectations for the year.



Bill Whiteley
Chief Executive
2 August 2005

CONSOLIDATED INCOME STATEMENT

Unaudited

	Notes	**First half 2005 £'000**	First half 2004 £'000	Full year 2004 £'000
Revenue	2	**78,324**	66,829	146,883
Profit from operations	2	**16,224**	13,871	30,432
Financial income	3	**2,169**	2,206	4,766
Financial expenses	3	**(2,116)**	(1,829)	(3,692)
Profit before tax		**16,277**	14,248	31,506
Tax expense		**(5,372)**	(4,581)	(10,508)
Profit for the period		**10,905**	9,667	20,998
		pence	pence	pence
Basic earnings per share	4	**12.7**	11.1	24.5
Diluted earnings per share	4	**12.6**	11.0	24.3

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

Unaudited

	First half 2005 £'000	First half 2004 £'000	Full year 2004 £'000
Foreign exchange translation differences	**890**	(1,792)	(1,212)
Cash flow hedges: effective portion of changes in fair value	**(210)**	–	–
Actuarial loss in pension scheme	**–**	–	(5,792)
Movement on deferred tax relating to actuarial loss	**–**	–	237
Net gain / (loss) recognised directly in equity	**680**	(1,792)	(6,767)
Profit for the period	**10,905**	9,667	20,998
Total recognised income and expense for the period	**11,585**	7,875	14,231

CONSOLIDATED BALANCE SHEET

Unaudited

	30 June 2005 £'000	30 June 2004 £'000	31 December 2004 £'000
Property, plant and equipment	**17,644**	14,091	13,877
Intangible assets	**21,536**	19,955	20,169
Deferred tax assets	**5,905**	6,500	6,988
Other receivables	**231**	493	489
Total non-current assets	**45,316**	41,039	41,523
Inventories	**26,310**	20,929	21,015
Trade receivables	**31,094**	27,566	34,060
Income tax receivable	**2,147**	1,194	2,176
Other receivables	**3,887**	3,485	2,525
Cash and cash equivalents	**20,502**	18,794	25,298
Total current assets	**83,940**	71,968	85,074
Total assets	**129,256**	113,007	126,597
Issued capital	**4,308**	4,297	4,300
Preference shares	**–**	47	47
Share premium	**5,498**	4,871	4,993
Reserves	**1,299**	(155)	425
Retained earnings	**61,299**	57,098	58,489
Total equity	**72,404**	66,158	68,254
Interest bearing loans and borrowings	**1,415**	163	268
Employee benefits	**22,023**	17,985	23,569
Deferred tax liabilities	**989**	740	1,155
Provisions	**531**	427	521
Total non-current liabilities	**24,958**	19,315	25,513
Bank overdraft	**268**	–	473
Interest bearing loans and borrowings	**197**	61	253
Trade payables	**13,909**	12,623	15,609
Income tax payable	**7,062**	6,280	5,779
Other payables	**9,396**	7,715	9,674
Provisions	**1,062**	855	1,042
Total current liabilities	**31,894**	27,534	32,830
Total liabilities	**56,852**	46,849	58,343
Total equity and liabilities	**129,256**	113,007	126,597

CONSOLIDATED STATEMENT OF CASH FLOWS

Unaudited

	First half 2005 £'000	First half 2004 £'000	Full year 2004 £'000
Profit from operations	**16,224**	13,871	30,432
Amortisation of intangibles	**169**	47	70
Amortisation of development costs	**146**	161	322
Depreciation	**1,357**	1,181	2,577
Charge for share schemes	**134**	76	208
Loss / (profit) on sale of fixed assets	**42**	–	(72)
	18,072	15,336	33,537
Increase in inventories	**(3,680)**	(2,615)	(2,600)
Decrease / (increase) in trade and other receivables	**4,225**	(815)	(6,228)
(Decrease) / increase in trade and other payables	**(1,551)**	220	4,130
Decrease in provisions	**(16)**	(443)	(130)
Difference between pension charge and cash contribution	**(753)**	(5,243)	(5,633)
(Decrease) / increase in other employee benefits	**(794)**	(191)	748
Income taxes paid	**(3,933)**	(3,609)	(10,441)
Cash flows from operating activities	**11,570**	2,640	13,383
Purchase of tangible fixed assets	**(738)**	(1,903)	(3,099)
Development costs capitalised	**(120)**	(51)	(102)
Proceeds from sale of tangible fixed assets	**11**	35	295
Acquisition of subsidiary net of cash acquired	**(7,256)**	(784)	(912)
Interest received	**285**	674	973
Cash flows from investing activities	**(7,818)**	(2,029)	(2,845)
Issue of ordinary share capital	**513**	333	458
Purchase of ordinary share capital	**(913)**	(691)	(691)
Purchase of own preference shares	**–**	(5)	(5)
Interest paid	**(75)**	(16)	(136)
Repayment of amounts borrowed	**(319)**	(33)	188
Repayment of finance lease liabilities	**(53)**	(34)	(58)
New borrowings	**1,503**	–	–
Dividends on ordinary shares	**(8,342)**	(13,157)	(17,751)
Dividends on preference shares	**–**	(2)	(4)
Cash flows from financing activities	**(7,686)**	(13,605)	(17,999)
Net decrease in cash and cash equivalents	**(3,934)**	(12,994)	(7,461)
Cash and cash equivalents at 1 January	**24,825**	32,134	32,134
Effect of exchange rate fluctuations on cash held	**(657)**	(346)	152
Cash and cash equivalents at end of period	**20,234**	18,794	24,825

NOTES TO THE INTERIM REPORT

1. Status of Interim Report and accounting policies

The interim report was approved by the directors on 2 August 2005. It should be read in conjunction with the 2004 audited IFRS restated accounts announced on 21 June 2005, which contain the accounting policies adopted under IFRS and a reconciliation of the 2004 income statement and opening and closing balance sheets from UK GAAP to IFRS.

The financial information for the six months to 30 June 2005 and the comparative figures for the six months to 30 June 2004 are unaudited and have been prepared on the basis of the accounting policies set out in the Group's audited IFRS restated accounts announced on 21 June 2005 for the year ended 31 December 2004. A reconciliation of the adjustments made to the June 2004 income statement and balance sheet is shown in note 6.

The directors have assumed that the December 2004 amendment to IAS 19 – Employee Benefits and the 2005 amendments to IAS 39 will be adopted by the EU in sufficient time that they will be available for use in the IFRS financial statements for the year ending 31 December 2005. In addition, the adopted IFRSs that will be effective (or available for early adoption) in the financial statements are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly the accounting policies for the year ended 31 December 2005 will be determined finally only when the financial statements for that year are prepared.

As permitted by IFRS 1, the following standards: IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations, IAS 32 – Financial Instruments: Disclosure and Presentation and IAS 39 – Financial Instruments: Recognition and Measurement have not been applied until 1 January 2005 and accordingly no adjustment has been made to the 30 June 2004 or 31 December 2004 numbers.

The comparative figures for the financial year ended 31 December 2004 are not the Company's statutory accounts for that financial year. Those accounts, which were prepared under UK GAAP, have been reported on by the Company's auditors and delivered to the registrar of companies. The report of the auditors was unqualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985. The IFRS financial information for the year ended 31 December 2004 is an abridged version of the accounts for that year which received an unqualified report from the auditors prior to their release on 21 June 2005.

2. Segmental reporting

	First half 2005 £'000	First half 2004 £'000	Full year 2004 £'000	**First half 2005 £'000**	First half 2004 £'000	Full year 2004 £'000
		Revenue			**Profit from operations**	
Analysis by operation						
Electrics	**58,243**	50,574	109,345	**14,554**	12,179	26,054
Gears	**9,339**	8,334	17,806	**1,857**	1,507	3,203
Fluid system	**13,267**	9,976	23,802	**784**	967	3,016
Unallocated costs	**–**	–	–	**(971)**	(782)	(1,841)
Inter-segmental elimination	**(2,525)**	(2,055)	(4,070)	**–**	–	–
	78,324	66,829	146,883	**16,224**	13,871	30,432
		Segment assets			**Segment liabilities**	
Electrics	**59,942**	55,842	58,083	**37,684**	33,510	43,081
Gears	**13,025**	14,024	12,997	**2,681**	3,126	3,901
Fluid system	**27,741**	16,653	21,054	**6,556**	2,969	3,433
Unallocated	**28,548**	26,488	34,463	**9,931**	7,244	7,928
	129,256	113,007	126,597	**56,852**	46,849	58,343

2. Segmental reporting (continued)

	First half 2005 £'000	First half 2004 £'000	Full year 2004 £'000
Revenue from external customers by location of customer			
Europe	**33,761**	29,630	66,036
Americas	**22,544**	19,877	41,704
Rest of world	**22,019**	17,322	39,143
	78,324	66,829	146,883

	First half 2005 £'000	First half 2004 £'000	Full year 2004 £'000
Segment assets by location of assets			
Europe	**63,024**	52,983	58,494
Americas	**23,608**	21,513	20,139
Rest of world	**14,076**	12,023	13,501
Unallocated	**28,548**	26,488	34,463
	129,256	113,007	126,597

3. Financial income / expenses

	First half 2005 £'000	First half 2004 £'000	Full year 2004 £'000
Interest income	**309**	464	849
Expected return on assets in the pension schemes	**1,828**	1,738	3,477
Foreign exchange gain	**32**	4	440
	2,169	2,206	4,766
Interest expense	**(80)**	(33)	(136)
Interest charge on pension scheme liabilities	**(1,965)**	(1,778)	(3,556)
Foreign exchange loss	**(71)**	(18)	–
	(2,116)	(1,829)	(3,692)

4. 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 2004: 85.7 million; year to 31 December 2004: 85.8 million) being the weighted average ordinary shares in issue.

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.

5. Reconciliation of movements in equity

	Share capital	Preference shares	Share premium	Translation reserve	Hedging reserve	Capital redemption reserve	Retained earnings	Total
Equity at 1 January 2005	4,300	47	4,993	(1,212)	–	1,637	58,489	68,254
Reclassification of preference share capital as debt under IAS32	–	(47)	–	–	–	–	–	(47)
Hedging reserve at 1 January 2005 on implementation of IAS39	–	–	–	–	194	–	–	194
Restated equity at 1 January 2005	4,300	–	4,993	(1,212)	194	1,637	58,489	68,401
Profit for the period	–	–	–	–	–	–	10,905	10,905
Other items in the statement of recognised income and expense	–	–	–	890	(210)	–	–	680
Equity settled transactions net of tax	–	–	–	–	–	–	11	11
Share options exercised by employees	8	–	505	–	–	–	–	513
Own ordinary shares acquired	–	–	–	–	–	–	(913)	(913)
Own ordinary shares awarded under share schemes	–	–	–	–	–	–	1,149	1,149
Dividends to shareholders	–	–	–	–	–	–	(8,342)	(8,342)
Equity at 30 June 2005	**4,308**	**–**	**5,498**	**(322)**	**(16)**	**1,637**	**61,299**	**72,404**
Equity at 1 January 2004	4,292	50	4,543	–	–	1,634	60,567	71,086
Profit for the period	–	–	–	–	–	–	9,667	9,667
Other items in the statement of recognised income and expense	–	–	–	(1,792)	–	–	–	(1,792)
Equity settled transactions net of tax	–	–	–	–	–	–	17	17
Share options exercised by employees	5	–	328	–	–	–	–	333
Own ordinary shares acquired	–	–	–	–	–	–	(691)	(691)
Own ordinary shares awarded under share schemes	–	–	–	–	–	–	702	702
Own preference shares acquired	–	(3)	–	–	–	3	(5)	(5)
Preference share dividends	–	–	–	–	–	–	(2)	(2)
Dividends to shareholders	–	–	–	–	–	–	(13,157)	(13,157)
Equity at 30 June 2004	4,297	47	4,871	(1,792)	–	1,637	57,098	66,158
Equity at 1 January 2004	4,292	50	4,543	–	–	1,634	60,567	71,086
Profit for the period	–	–	–	–	–	–	20,998	20,998
Other items in the statement of recognised income and expense	–	–	–	(1,212)	–	–	(5,555)	(6,767)
Equity settled transactions net of tax	–	–	–	–	–	–	228	228
Share options exercised by employees	8	–	450	–	–	–	–	458
Own ordinary shares acquired	–	–	–	–	–	–	(691)	(691)
Own ordinary shares awarded under share schemes	–	–	–	–	–	–	702	702
Own preference shares acquired	–	(3)	–	–	–	3	(5)	(5)
Preference share dividends	–	–	–	–	–	–	(4)	(4)
Dividends to shareholders	–	–	–	–	–	–	(17,751)	(17,751)
Equity at 31 December 2004	4,300	47	4,993	(1,212)	–	1,637	58,489	68,254

6. Explanation of transition to IFRS

An explanation of the impact of the transition to IFRS on the December 2004 financial statements was included in the audited 2004 accounts restated under IFRS announced on 21 June 2005. This note identifies the impact of restatement on the income statement for the six months to June 2004 and the balance sheet at 30 June 2004.

Balance sheets		1 January 2004			**30 June 2004**		
	Notes	Previous GAAP	Effect of transition to IFRS	IFRS	**Previous GAAP**	**Effect of transition to IFRS**	**IFRS**
Assets							
Property, plant and equipment		13,640	–	13,640	**14,091**	**–**	**14,091**
Intangible assets	a, c	19,057	992	20,049	**18,484**	**1,471**	**19,955**
Deferred tax assets	b	–	6,605	6,605	**–**	**6,500**	**6,500**
Other receivables		486	–	486	**493**	**–**	**493**
Total non-current assets		33,183	7,597	40,780	**33,068**	**7,971**	**41,039**
Inventories		18,570	–	18,570	**20,929**	**–**	**20,929**
Trade receivables		28,973	–	28,973	**27,566**	**–**	**27,566**
Income tax receivable		1,226	–	1,226	**–**	**1,194**	**1,194**
Other receivables	b, e	2,767	(954)	1,813	**9,453**	**(5,968)**	**3,485**
Cash and cash equivalents		32,253	–	32,253	**18,794**	**–**	**18,794**
Total current assets		83,789	(954)	82,835	**76,742**	**(4,774)**	**71,968**
Total assets		116,972	6,643	123,615	**109,810**	**3,197**	**113,007**
Equity							
Issued capital		4,292	–	4,292	**4,297**	**–**	**4,297**
Preference shares		50	–	50	**47**	**–**	**47**
Share premium		4,543	–	4,543	**4,871**	**–**	**4,871**
Reserves	d	4,039	(2,405)	1,634	**4,042**	**(4,197)**	**(155)**
Retained earnings		49,569	10,998	60,567	**47,393**	**9,705**	**57,098**
Total equity		62,493	8,593	71,086	**60,650**	**5,508**	**66,158**
Liabilities							
Interest bearing loans and borrowings		129	–	129	**163**	**–**	**163**
Employee benefits	e	13,653	9,113	22,766	**13,511**	**4,474**	**17,985**
Deferred tax liabilities	f	128	665	793	**108**	**632**	**740**
Provisions	e	1,612	(1,037)	575	**1,618**	**(1,191)**	**427**
Total non-current liabilities		15,522	8,741	24,263	**15,400**	**3,915**	**19,315**
Bank overdraft		119	–	119	**–**	**–**	**–**
Interest bearing loans and borrowings		118	–	118	**61**	**–**	**61**
Trade payables		12,460	–	12,460	**12,623**	**–**	**12,623**
Income tax payable		5,020	–	5,020	**5,086**	**1,194**	**6,280**
Other payables	e, g	20,090	(10,691)	9,399	**15,135**	**(7,420)**	**7,715**
Provisions		1,150	–	1,150	**855**	**–**	**855**
Total current liabilities		38,957	(10,691)	28,266	**33,760**	**(6,226)**	**27,534**
Total liabilities		54,479	(1,950)	52,529	**49,160**	**(2,311)**	**46,849**
Total equity and liabilities		116,972	6,643	123,615	**109,810**	**3,197**	**113,007**

6. Explanation of transition to IFRS (continued)

Notes to the explanation of transition to IFRS

Following completion of an actuarial valuation of the main defined benefit pension scheme in the second half of 2004, the Board decided that the accounting requirements of FRS17 should be adopted for the 2004 financial statements. This was reflected as a prior year adjustment in the 2004 accounts. In the 2004 accounts restated under IFRS announced on 21 June 2005 the adjustments arising from adopting FRS17 were included in the UK GAAP numbers for both 1 January and 31 December 2004. To ensure consistency the UK GAAP numbers for 30 June 2004 have also been restated from those announced last year to reflect FRS17, the impact of this prior year adjustment is:

	First half 2004 £'000	Full year 2004 £'000
Increase in profit from operations	243	633
Increase in financial expenses	(39)	(79)
Increase in tax expense	(61)	(137)
Increase in retained profit	143	417
Increase in employee benefits	(13,510)	(13,885)

a) Intangible assets

No amortisation of goodwill is charged to the income statement in the period under IFRS. Under UK GAAP £636,000 was charged during the period so this has been reversed.

Development costs of £992,000 at 1 January 2004 and £882,000 at 30 June 2004 that qualified for recognition as an intangible asset under IFRSs had not been recognised under UK GAAP. They are recognised under IFRS at the date of transition and at 30 June 2004 respectively. During the first half of 2004 £161,000 of development expenditure was amortised and £51,000 of costs expensed under UK GAAP were capitalised.

Total adjustments to intangibles are made up as follows:

	1 January 2004	30 June 2004
Reverse goodwill amortised through the income statement	–	636
Capitalised development costs	992	882
Amortised intangible assets	–	(47)
	992	1,471

b) Deferred tax assets

Under UK GAAP the defined benefit pension scheme liability was reflected in the financial statements net of deferred taxation. On transition to IFRS this has been shown in the accounts as a deferred tax asset. The deferred tax asset on accumulated actuarial gains and losses at 1 January 2004 was £5,850,000, the tax credit in the period was £62,000 resulting in an asset of £5,788,000 at 30 June 2004. Deferred tax assets which were shown within debtors have been transferred to non-current assets and deferred tax has been provided on the share based payments and the amortisation of intangibles:

	1 January 2004	Movement	30 June 2004
Deferred tax asset			
Previously in employee benefits under UK GAAP	5,850	(62)	5,788
Previously in other receivables under UK GAAP	954	14	968
Amortisation of intangibles	–	14	14
Share based payments	155	(71)	84
Set off of tax	(354)	–	(354)
Total	6,605	(105)	6,500

6. Explanation of transition to IFRS (continued)

c) Acquisition of subsidiary

The acquisition of Deanquip Valve Automation in January 2004 has been restated under IFRS3. As a consequence of applying IFRS3 the acquisition has been re-examined with a view to identifying specific intangibles. As a result intangibles previously treated as goodwill and amortised over 20 years are now being held on the balance sheet and are amortised over their estimated useful lives. The intangible assets identified and the charge to the accounts in 2004 in respect of these intangibles is as follows:

	Intangible at acquisition	Amortisation charge in 2004
Company name	31	10
Customer relationships	233	8
Order backlog at acquisition	25	25
Agency agreements	60	6
Currency adjustment	–	(2)
	349	47
Goodwill	322	–
	671	47

The intangible amortisation for the period has been charged partly in cost of sales (£37,000) and partly in administration expenses (£10,000).

d) Reserves

A number of reserves are required under IFRS which were not recorded under UK GAAP. The breakdown of this movement at 30 June 2004 is as follows:

	UK GAAP	Adjustment	IFRS
Capital redemption reserve	1,637	–	1,637
Revaluation reserve	2,405	(2,405)	–
Translation reserve	–	(1,792)	(1,792)
Total	4,042	(4,197)	(155)

The revaluation reserve is eliminated under IFRS as on first time adoption the value at which the assets are held is deemed to be cost.

The translation reserve historically under UK GAAP has been included in the retained earnings reserve.

6. Explanation of transition to IFRS (continued)

e) Employee benefits

Rotork adopted FRS17 for the 2004 year end under UK GAAP. Liabilities under the Group defined benefit pension schemes were shown on the face of the balance sheet but were stated net of the associated deferred tax asset. Under IFRS the deferred tax has been transferred to non-current assets (see note b) and the pension liability shown gross under employee liabilities. At 1 January 2004 the gross liability was £19,503,000 and at 30 June 2004, £19,299,000.

Under IFRS certain liabilities have been reclassified as employee benefits from payables and provisions. These are:

	1 January 2004	Movement	30 June 2004
UK GAAP employee benefit (defined benefit pension scheme deficit net of deferred tax)	13,653	(142)	13,511
Transfer to deferred tax assets (see note b)	5,850	(62)	5,788
Transfer from other receivables – pension lump sum contribution	–	(5,000)	(5,000)
Transfer from provisions	1,037	154	1,191
Transfer from other payables – non share based payment accruals	1,447	9	1,456
Transfer from other payables – share based payment accruals	1,102	375	1,477
Adjustment of share based payments to IFRS	(323)	(115)	(438)
Total	22,766	(4,781)	17,985

f) Deferred taxation liabilities

Under UK GAAP certain properties had been revalued. This revaluation was shown within reserves as a separate reserve but under IFRS this has been consolidated into retained earnings. On transition, following IFRS1 the past revaluations have been adopted as deemed cost. As a consequence deferred tax of £722,000 has been provided on the balance at 1 January and 30 June 2004. In addition, the capitalisation of development costs has led a reduction in the historic charge to the income statement and requires the creation of a deferred tax liability. The liability at 1 January 2004 was £297,000 reducing by £33,000 during the period to £264,000 at 30 June 2004.

	1 January 2004	Movement	30 June 2004
Deferred tax liability			
UK GAAP deferred tax liabilities	128	(20)	108
Revaluation reserve tax liability	722	–	722
Capitalised development costs liability	297	(33)	264
Set off of tax	(354)	–	(354)
Total	793	(53)	740

6. Explanation of transition to IFRS (continued)

g) Other payables

Under UK GAAP dividends are accounted for once proposed but IFRS only reports dividends as a charge to the accounts once paid. Reversal of the proposed dividend has reduced other payables by £4,487,000. Together with the £2,933,000 transfer in respect of UK GAAP employee benefits noted above this accounts for the £7,420,000 reduction in other payables.

Income statement	Notes	Previous GAAP	Effect of transition to IFRS	IFRS
Revenue		66,829	–	66,829
Profit from operations	a, c, h, j	13,346	525	13,871
Net financial income	j	390	(13)	377
Profit before tax		13,736	512	14,248
Tax expense	i	(4,616)	35	(4,581)
Net profit for the year		9,120	547	9,667
Basic earnings per share		10.5p	0.6p	11.1p
Diluted earnings per share		10.4p	0.6p	11.0p

h) Employee share schemes

The Group applied IFRS2 to its active share based payment arrangements at 1 January 2004 except for those granted before 7 November 2002 and not vested by date of transition or 1 January 2005. The effect of accounting for equity settled share based payment transactions at fair value is to increase profit from operations by £33,000. The increase in profit reflects the reversal of provisions made under UK GAAP for the Long-Term Incentive Plan offsetting the charges for the option and Save As You Earn schemes.

i) Tax expense

The income tax charge in the income statement has changed as a result by the tax effect of some of the UK GAAP to IFRS adjustments.
The analysis of the net change is:

Amortisation of intangibles (see note b)	14
Capitalised development costs (see note f)	33
Cash settled share based payments	13
Equity settled share based payments	(25)
	35

j) Exchange gains and losses

Under UK GAAP exchange gains and losses were reported in operating profit. Under IFRS any gains and losses resulting from retranslation of currency deposits are shown in net financial income which has resulted in profit from operations being increased by £13,000 and net financial income being reduced by the same amount.

7. 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.

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The Causeway
Worthing
West Sussex
BN99 6DA

Share dividend helpline number - 0870 241 3018

8. Group information

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