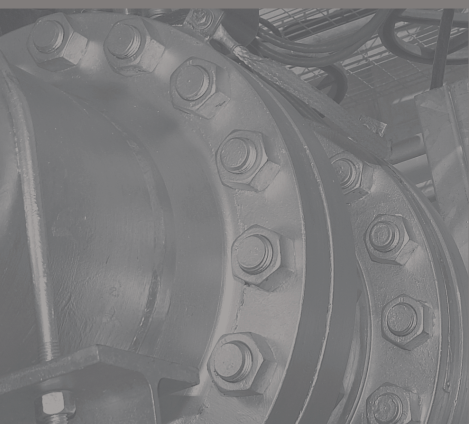
rotork

THE WORLD LEADER
IN ACTUATION SOLUTIONS



Interim Report **2006**

rotork




Excellent growth in all three divisions

- *Turnover at £101m up 29% (26% at constant currency)*
- *Order intake up 28% year on year*
- *Profit before tax at £23m up 38% (32% at constant currency)*
- *Earnings per share up 39% to 17.6p*
- *Order book at £79m is a new record*
- *Interim dividend at 6.5p up over 10%*
- *New Chinese production facility now operational*
- *Successful integration of the new Italian Gears business since acquisition in January*

REVIEW OF OPERATIONS

Financial Results

We are pleased to report particularly strong financial results for the first half of 2006. Revenue increased by 29%, while operating profits increased by 36% compared with the prior year. Rotork's innovative and comprehensive product portfolio, breadth of marketing and lean production structure allowed it to take full advantage of increased investment in energy infrastructures around the world. The results were enhanced by a stronger US dollar in the first quarter which meant that the first half rates were 1.80 against 1.85 in the comparative period. The strong order intake at the start of the year coupled with increased production capacity at the Bath plant meant that first half output was not affected by the same constraints as had been the case in the first halves of 2005 and 2004.

Operating Review

Order intake was up 28%. Nearly all our end user and geographic markets were busy. Middle Eastern oil and gas projects were particularly active which resulted in business through valvemakers in Europe and elsewhere. The order book stood at £79m at the end of June, which was 24% above the start of the year and 26% above the same point in 2005.

Electric Actuators

Electric input value was up 24% on the prior year and extends the period of strong growth we have seen in recent years. Order intake was particularly high in January which led to an exceptional first quarter. The biggest jump in input units was for those destined for the Middle East and Africa. As a percentage of total electric actuator input units this region increased from 8% in the first half of 2005 to 13%. Business in Asia and the Far East remained at very high levels but there was a decline in units destined for China, compared with the unsustainably high levels experienced in the first half of last year. This, together with the lack of the very large Singapore water project won in the first half of last year, meant that this region declined from 54% of our total destination units to 47%. Most other Asian and Far Eastern offices recorded good increases in business. The Indian market, which is important to Rotork, recorded a near doubling of input from the excellent prior year figure. We saw more activity from UK customers, particularly the water and power companies, and the UK increased as a percentage of our total destination units from 8% to 9%. Additional Eastern European orders helped raise European business from 13% to 14%. The increase in units for the Americas was mainly destined for US water & waste water plants with a reduction of units destined for South America. The total Americas' share of business remained at 17%.

In terms of end user industry, oil and gas increased from 34% to 38% mainly on the back of significant Middle Eastern activity. Power remained a similar percentage due to the increase in Indian business more than offsetting reductions in China. Shipments increased by 26% with profit from electric operations increasing by 29%. Nearly all our profit centres performed well, most recording good increases in operating profits over the comparative period. The Bath production plant performed particularly well maintaining consistently high levels of output which allowed us to reduce our delivery times, in spite of the heavy levels of order intake.

Continued increases in energy costs and raw materials costs such as copper and aluminium put pressure on the price of our components. However, these increases are to a substantial extent being mitigated by our sourcing and engineering cost reduction initiatives.

The new Shanghai assembly plant has progressed on schedule, within budget and is now operational. Production of gearboxes commenced in the second quarter and electric actuators will commence, as planned, in the third quarter.

Good progress has also been made within R&D. The new generation of Pakscan, our two wire actuator control system, will be launched in the third quarter, while the development of our new concept for the process control market continues to advance.

Rotork Fluid System

This division continues to display exceptional growth levels. Order intake for the six months is up 36% on the comparative period and the order book is up 36% on the start of the year. Revenue and operating profits are up 44% and 150% respectively against the relatively weak comparative period.

Upstream oil and gas work, coupled with transmission and LNG projects, continue to drive this business which has benefited from Middle Eastern projects but unlike the comparative period the order input does not include a dominant project.

The Italian plant remains very busy while the PCI facility in Germany has provided us with important extra capacity. The business generated by the international sales subsidiaries continues to build and now represents a significant contribution.

The increase in size of this division in recent years has encouraged us to strengthen the top management team in order to further develop this operation both in terms of size and profitability. Recent recruitments have completed the process.

Rotork Gears

The Gears business has had a very successful first half year meeting its management goals and exceeding its financial targets. Order input was up 46% compared with the comparative period. Sales revenue and operating profits were up 25% and 22% respectively.
There has been a smooth management transition following the retirement of the divisional managing director. Omag Srl, which became Rotork Gears Srl after purchase, has performed very well since its acquisition in January. Its range of large gearboxes complements our existing products and its relationship with important Italian valvemakers benefits our wider business. As already mentioned production of gearboxes has commenced in the new Shanghai plant on schedule. Progress has also been made in developing new business alliances with significant customers.

Dividend

The interim dividend is to be increased by 10% to 6.5p and will be payable on 28 September 2006 to all shareholders on the register at 8 September 2006. During 2006 Rotork has committed to an increased dividend, outside the regular interim and final dividends, totalling £10m to be paid in two instalments, in July and December 2006. Taken together with the 2005 final there will be four dividends paid to shareholders during 2006.

Outlook

The level of business has exceeded our expectations in the first half of the year. Most of our markets continue to be healthy with significant levels of investment planned for the future. With buoyant markets and record order books we anticipate delivering a strong performance for the year as a whole. Nevertheless as indicated at the time of our AGM we continue to expect the financial results of the two halves of the current year to be more evenly balanced than in the recent past. This view, which was based on the timing of projects and the improvements in productivity, has been reinforced by the recent movement of the US dollar.

Bill

Bill Whiteley
Chief Executive
2 August 2006

CONSOLIDATED INCOME STATEMENT

Unaudited

	Notes	**First half 2006 £'000**	First half 2005 £'000	Full year 2005 £'000
Revenue	2	**101,255**	78,324	174,839
Operating profit	2	**22,030**	16,224	36,530
Financial income	3	**2,774**	2,169	4,479
Financial expenses	3	**(2,265)**	(2,116)	(4,352)
		509	53	127
Profit before tax		**22,539**	16,277	36,657
Tax expense				
UK		**(2,711)**	(2,052)	(4,833)
Overseas		**(4,639)**	(3,320)	(7,210)
		(7,350)	(5,372)	(12,043)
Profit for the period	7	**15,189**	10,905	24,614
		pence	pence	pence
Basic earnings per share	5	**17.6**	12.7	28.6
Diluted earnings per share	5	**17.5**	12.6	28.4

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

Unaudited

	First half 2006 £'000	First half 2005 £'000	Full year 2005 £'000
Foreign exchange translation differences	**(2,165)**	890	2,190
Cash flow hedges: effective portion of changes in fair value	**470**	(293)	(487)
Actuarial loss in pension scheme	**–**	–	(3,452)
Movement on deferred tax relating to actuarial loss	**–**	–	2,552
Net gain recognised directly in equity	**(1,695)**	597	803
Profit for the period	**15,189**	10,905	24,614
Total recognised income and expense for the period	**13,494**	11,502	25,417
Reclassification of preference shares		(47)	(47)
Effective cash flow hedges at 1 January 2005		277	277
		11,732	25,647

CONSOLIDATED BALANCE SHEET

Unaudited

	Notes	**30 June 2006 £'000**	30 June 2005 £'000	31 December 2005 £'000
Property, plant and equipment		**16,978**	17,644	17,214
Intangible assets		**22,627**	21,536	22,038
Deferred tax assets		**6,898**	5,905	9,115
Other receivables		**660**	231	633
Total non-current assets		**47,163**	45,316	49,000
Inventories	6	**31,535**	26,310	26,697
Trade receivables		**38,520**	31,094	36,492
Income tax receivable		**2,331**	2,147	2,225
Other receivables		**5,006**	3,887	2,560
Cash and cash equivalents		**26,912**	20,502	27,878
Total current assets		**104,304**	83,940	95,852
Total assets		**151,467**	129,256	144,852
Issued capital	7	**4,314**	4,308	4,310
Share premium	7	**5,841**	5,498	5,609
Reserves	7	**712**	1,299	2,405
Retained earnings	7	**75,640**	61,299	68,241
Total equity	7	**86,507**	72,404	80,565
Interest bearing loans and borrowings		**769**	1,415	236
Employee benefits		**20,545**	22,023	25,078
Deferred tax liabilities		**416**	989	1,164
Provisions		**748**	531	654
Total non-current liabilities		**22,478**	24,958	27,132
Bank overdraft		**19**	268	698
Interest bearing loans and borrowings		**280**	197	1,016
Trade payables		**19,008**	13,909	14,937
Income tax payable		**6,916**	7,062	5,620
Other payables		**14,318**	9,396	13,129
Provisions		**1,941**	1,062	1,755
Total current liabilities		**42,482**	31,894	37,155
Total liabilities		**64,960**	56,852	64,287
Total equity and liabilities		**151,467**	129,256	144,852

CONSOLIDATED STATEMENT OF CASH FLOWS

Unaudited

	First half 2006 £'000	First half 2005 £'000	Full year 2005 £'000
Profit for the period	**15,189**	10,905	24,614
Amortisation of intangibles	**55**	169	179
Amortisation of development costs	**130**	146	293
Depreciation	**1,235**	1,357	2,671
Equity settled share based payment expense	**231**	134	312
Profit on sale of fixed assets	**(1)**	42	22
Financial income	**(2,774)**	(2,169)	(4,479)
Financial expenses	**2,265**	2,116	4,352
Income tax expense	**7,350**	5,372	12,043
	23,680	18,072	40,007
Increase in inventories	**(5,326)**	(3,680)	(3,359)
(Increase) / decrease in trade and other receivables	**(4,029)**	4,225	(685)
Increase / (decrease) in trade and other payables	**7,086**	(1,551)	1,325
Increase / (decrease) in provisions	**322**	(16)	709
Difference between pension charge and cash contribution	**(4,379)**	(753)	(3,243)
(Decrease) / increase in other employee benefits	**(750)**	(794)	1,509
	16,604	15,503	36,263
Income taxes paid	**(4,791)**	(3,933)	(11,296)
Cash flows from operating activities	**11,813**	11,570	24,967
Purchase of tangible fixed assets	**(1,246)**	(738)	(1,396)
Development costs capitalised	**(151)**	(120)	(291)
Proceeds from sale of tangible fixed assets	**48**	11	94
Acquisition of subsidiary net of cash acquired	**(1,590)**	(7,256)	(7,227)
Interest received	**510**	285	776
Cash flows from investing activities	**(2,429)**	(7,818)	(8,044)
Issue of ordinary share capital	**236**	513	626
Purchase of ordinary share capital	**(700)**	(913)	(2,236)
Purchase of own preference shares	**(6)**	–	–
Interest paid	**(76)**	(75)	(232)
New loans less repayment of amounts borrowed	**(177)**	1,184	677
Repayment of finance lease liabilities	**(59)**	(53)	(100)
Dividends on ordinary shares	**(8,537)**	(8,342)	(13,437)
Cash flows from financing activities	**(9,319)**	(7,686)	(14,702)
Net increase/(decrease) in cash and cash equivalents	**65**	(3,934)	2,221
Cash and cash equivalents at 1 January	**27,180**	24,825	24,825
Effect of exchange rate fluctuations on cash held	**(352)**	(657)	134
Cash and cash equivalents at end of period	**26,893**	20,234	27,180

NOTES TO THE INTERIM REPORT

1. Status of Interim Report and accounting policies

The interim report was approved by the Directors on 1 August 2006. It should be read in conjunction with the 2005 Annual Report, which contains the most recent audited financial statements.

The financial information for the six months to 30 June 2006 and the comparative figures for the six months to 30 June 2005 are unaudited and have been prepared applying the accounting policies and presentation that were applied in the preparation of the company's published consolidated financial statements for the year ended 31 December 2005.

The financial information for the year ended 31 December 2005 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. Analysis of revenue, profit and net assets

	First half 2006 £'000	First half 2005 £'000	Full year 2005 £'000	**First half 2006 £'000**	First half 2005 £'000	Full year 2005 £'000
		Revenue			**Operating profit**	
Analysis by operation						
Electrics	**73,377**	58,243	128,535	**18,820**	14,554	30,912
Gears	**11,660**	9,339	19,063	**2,261**	1,857	3,825
Fluid system	**19,079**	13,267	32,321	**1,962**	784	3,669
Unallocated costs	**–**	–	–	**(1,013)**	(971)	(1,876)
Inter-segmental elimination	**(2,861)**	(2,525)	(5,080)	**–**	–	–
	101,255	78,324	174,839	**22,030**	16,224	36,530
		Segment assets			**Segment liabilities**	
Electrics	**66,732**	59,942	63,973	**42,168**	37,684	44,666
Gears	**15,756**	13,025	12,964	**4,032**	2,681	2,743
Fluid system	**32,838**	27,741	28,691	**10,360**	6,556	8,145
Unallocated	**36,141**	28,548	39,224	**8,400**	9,931	8,733
	151,467	129,256	144,852	**64,960**	56,852	64,287

Revenue from external customers by location of customer

	First half 2006 £'000	First half 2005 £'000	Full year 2005 £'000
Europe	**44,117**	33,761	73,967
Americas	**28,224**	22,544	50,544
Rest of world	**28,914**	22,019	50,328
	101,255	78,324	174,839

Segment assets by location of assets

	First half 2006 £'000	First half 2005 £'000	Full year 2005 £'000
Europe	**79,918**	63,024	67,102
Americas	**19,726**	23,608	23,578
Rest of world	**15,682**	14,076	14,948
Unallocated	**36,141**	28,548	39,224
	151,467	129,256	144,852

3. Net financing income

	First half 2006 £'000	First half 2005 £'000	Full year 2005 £'000
Interest income	**512**	309	599
Expected return on assets in the pension schemes	**2,204**	1,828	3,770
Foreign exchange gain	**58**	32	110
	2,774	2,169	4,479
Interest expense	**(101)**	(80)	(221)
Interest charge on pension scheme liabilities	**(2,149)**	(1,965)	(4,048)
Foreign exchange loss	**(15)**	(71)	(83)
	(2,265)	(2,116)	(4,352)

4. Dividends

	First half 2006 £'000	First half 2005 £'000	Full year 2005 £'000
The following dividends were paid in the period:			
9.9p (2005: 9.7p) per qualifying ordinary share	**8,537**	8,342	8,342
5.9p per qualifying ordinary share	**–**	–	5,095
	8,537	8,342	13,437
The following dividends were declared / proposed at the balance sheet date:			
9.9p final dividend proposed	**–**	–	8,521
6.5p (2005: 5.9p) interim dividend declared	**5,603**	5,095	–
5.8p first additional dividend declared (payable in July)	**5,000**	–	–
5.8p second additional dividend declared (payable in December)	**5,000**	–	–
	15,603	5,095	8,521

5. Earnings per share

Earnings per share is calculated using the profit attributable to the ordinary shareholders for the period and 86.1 million shares (six months to 30 June 2005: 86.0 million; year to 31 December 2005: 86.1 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.

6. Inventories

	First half 2006 £'000	First half 2005 £'000	Full year 2005 £'000
Raw materials and consumables	**17,955**	17,596	16,592
Work in progress and finished goods	**13,580**	8,714	10,105
	31,535	26,310	26,697

7. Capital and reserves

	Share capital	Preference shares	Share premium	Translation reserve	Capital redemption reserve	Hedging reserve	Retained earnings	Total
Balance at 1 January 2006	4,310	–	5,609	978	1,637	(210)	68,241	80,565
Profit for the period	–	–	–	–	–	–	15,189	15,189
Other items in the statement of recognised income and expense	–	–	–	(2,165)	–	470	–	(1,695)
Equity settled transactions net of tax	–	–	–	–	–	–	213	213
Share options exercised by employees	4	–	232	–	–	–	–	236
Own ordinary shares acquired	–	–	–	–	–	–	(700)	(700)
Own ordinary shares awarded under share schemes	–	–	–	–	–	–	1,234	1,234
Own preference shares acquired	–	–	–	–	2	–	–	2
Dividends to shareholders	–	–	–	–	–	–	(8,537)	(8,537)
Balance at 30 June 2006	**4,314**	**–**	**5,841**	**(1,187)**	**1,639**	**260**	**75,640**	**86,507**
Balance at 1 January 2005	4,300	47	4,993	(1,212)	1,637	–	58,489	68,254
Adoption of IAS32 and IAS39	–	(47)	–	–	–	277	–	230
Restated equity at 1 January 2005	4,300	–	4,993	(1,212)	1,637	277	58,489	68,484
Profit for the period	–	–	–	–	–	–	10,905	10,905
Other items in the statement of recognised income and expense	–	–	–	890	–	(293)	–	597
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)
Balance at 30 June 2005	4,308	–	5,498	(322)	1,637	(16)	61,299	72,404
Balance at 1 January 2005	4,300	47	4,993	(1,212)	1,637	–	58,489	68,254
Adoption of IAS32 and IAS39	–	(47)	–	–	–	277	–	230
Restated equity at 1 January 2005	4,300	–	4,993	(1,212)	1,637	277	58,489	68,484
Profit for the period	–	–	–	–	–	–	24,614	24,614
Other items in the statement of recognised income and expense	–	–	–	2,190	–	(487)	(900)	803
Equity settled transactions net of tax	–	–	–	–	–	–	562	562
Share options exercised by employees	10	–	616	–	–	–	–	626
Own ordinary shares acquired	–	–	–	–	–	–	(2,236)	(2,236)
Own ordinary shares awarded under share schemes	–	–	–	–	–	–	1,149	1,149
Dividends to shareholders	–	–	–	–	–	–	(13,437)	(13,437)
Balance at 30 December 2005	4,310	–	5,609	978	1,637	(210)	68,241	80,565

8. 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

9. Group information

Secretary and registered office:
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