Rotork plc

2013 Full Year Results

	2013	2012	% change	OCC *2 % change
Revenue	**£578.4m**	£511.7m	+13.0%	+6.3%
Adjusted*1 operating profit	**£151.4m**	£131.9m	+14.8%	+8.5%
Adjusted*1 operating margin	**26.2%**	25.8%	+40 bps	+50 bps
Profit before tax	**£138.0m**	£124.2m	+11.1%	+8.8%
Adjusted*1 profit before tax	**£150.1m**	£131.6m	+14.1%	+7.8%
Basic earnings per share	**114.8p**	103.1p	+11.3%	+9.0%
Adjusted*1 basic earnings per share	**124.9p**	109.3p	+14.3%	+7.9%
Full year dividend	**48.05p**	43.00p	+11.7%	

*1 Adjusted figures are before the amortisation of acquired intangible assets
*2 OCC is organic constant currency

Key Points

- Record order intake, revenue and profit in each division
- Order intake up 7.3%
- Orderbook at £187.8m, up 3.8% from December 2012
- Operating margin increased 40 bps to 26.2%
- Sales to oil & gas market up 24%
- Continued expansion of product portfolio
- Four acquisitions completed in the year

Peter France, Chief Executive, commenting on the results, said:
"Our strategy of expanding our product portfolio, geographic reach and end market exposure has enabled us to deliver another year of record order intake, revenue and profit.

We continue to invest for growth, increasing our international sales network and expanding our product portfolio both organically and by acquisition to strengthen our presence in the wider flow control market.

The global markets that we serve remain active, providing further opportunities for growth, although we recognise that we are likely to experience weakness within some regions due to economic conditions and a headwind from currency. Nevertheless the Board remains confident of achieving further progress in the coming year."

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Chairman's Statement

Our strategy of expanding our product portfolio, geographic reach and end market exposure has enabled us to deliver another year of record order intake, revenue and profit.

Financial Highlights

The 13% growth in revenue this year to £578m benefited from the four acquisitions made during the year and a currency tailwind. On an organic constant currency basis revenue grew 6% with currency adding 2% and acquisitions providing the remaining 5%. Adjusted* operating profit increased by 15% to £151m, or 9% on an organic constant currency basis, delivering an operating margin of 26.2%, compared with 25.8% in 2012. Each of the divisions reported improved margins compared with the prior year. Earnings per share increased 11% to 114.8 pence per share or, based on adjusted profit*, by 14% to 124.9 pence. With operating cash conversion of 100% in the year, net cash balances increased by £9m to £69m at the year end.

Growth has been generated this year from developing both new end markets and new geographies and from a combination of organic expansion and acquisition. Acquisitions have always been a part of our growth strategy and this year we acquired four companies that supplemented our organic growth.

At the beginning of 2013 we acquired the Schischek group of companies, which performed very well in the year, and mid-year we acquired GTA Group, a rack and pinion actuator manufacturer. The products of both acquisitions are now being sold through Rotork's network of sales subsidiaries and the process of integration is well underway. Flowco, acquired in July, services the water utilities after-market and has become part of our Rotork UK business. Renfro, acquired in August, provides Rotork with the opportunity to create a US-based valve adaption business similar to our current Valvekits business in the UK. All of the acquisitions made positive contributions during the year, as did Soldo, the Italian switchbox manufacturer acquired in November 2012, which delivered a good first full year of trading within the Instruments division.

Innovation has always been one of Rotork's core strengths. This year saw a number of product launches with more planned in each division for 2014. The Rotork Innovation Design & Engineering Centre (RIDEC) based in Chennai, India, has supported these efforts, working with all Rotork divisions and helping accelerate the pace of innovation.

I would like to acknowledge the high level of commitment and professionalism of our employees and to congratulate them on their contribution in delivering another year of record results.

Board Composition

After serving on our Board for nine years, latterly as the Senior Independent Director, Ian King will retire at the June Board meeting. I would like to thank Ian on behalf of the Board for his excellent contribution to the Group over this period. We are currently recruiting to fill the vacancy that Ian's departure will create and we will announce this and any consequent changes in positions in due course. The Board is compliant with the Corporate Governance Code at present in that half the Board, excluding myself as Chairman, are independent non-executives and following the changes outlined above it will remain compliant. In addition the Board meets our stated aim that 25% of our independent non-executives are women.

Board Performance

We have used external consultants to conduct an independent appraisal of Board effectiveness for a number of years and did so again this year. The feedback from the review was positive and there was a strong sense that the Board has continued to build on the progress made in prior years. There is a level of openness and support between Board members which allows the Board to function effectively and in a way that all members are comfortable with. The review noted that improvements had been made this year in the process of setting strategy and monitoring the performance of new initiatives and acquisitions. The focus areas for the coming year include succession planning, talent management and continuing to manage the growth of the Company, whether that is within the existing operations or through the making and integration of acquisitions. Overall, I remain satisfied that the composition of the Board with its broad range of experience and skills enables it to fulfil its role to full effect.

Corporate Governance

The Board is committed to high standards of governance, we see this as central to delivering increasing shareholder value over the long term. The Board considers all the aspects of the business necessary to provide good governance and these are set out in the Corporate Governance Report. I am pleased to be able to confirm that Rotork complies with all aspects of the 2010 and 2012 versions of the UK Corporate Governance Code.

Dividend

The Board recommends a final dividend of 30.0p per share which, taken together with the 2013 interim dividend, gives a payment of 48.05p per share (2012 dividend: 43.0p), representing a 11.7% increase in dividends. This dividend will be payable on 19 May 2014 to shareholders on the register on 11 April 2014.

Outlook

We continue to invest for growth, increasing our international sales network and expanding our product portfolio both organically and by acquisition to strengthen our presence in the wider flow control market.

The global markets that we serve remain active, providing further opportunities for growth, although we recognise that we are likely to experience weakness within some regions due to economic conditions and a headwind from currency. Nevertheless the Board remains confident of achieving further progress in the coming year.

Roger Lockwood
Chairman
3 March 2014

* References to adjusted profit throughout this document are defined as the IFRS profit, whether operating profit or profit before tax, with £12.1m (2012: £7.4m) of amortisation of acquired intangibles added back.

Business Review

Rotork's performance once again highlights the benefits of our diverse end market exposure and the critical role that our products play in keeping the world flowing. We have continued to invest in our product portfolio and international sales channels and each of our divisions has achieved record results this year.

Our geographic presence continues to grow and during the year we expanded our factories in Shanghai and Houston, moved to new facilities in Malaysia, Mexico, Middle East and Brazil and opened a new office in Bath, UK. We now have 24 manufacturing sites, 58 national offices and 81 regional locations in 34 countries. In total we have over 800 sales channels in 95 countries. In line with our strategy and the requirements of our customers, we remain focused on building a truly global operation with a local presence.

The year ended strongly, with order intake returning to the levels we saw at the start of 2013, although the strengthening of sterling reduced the fourth quarter reported order intake by 6.1% compared with the first quarter. For the year as a whole order intake was £578.7m, 7.3% higher than 2012. Acquisitions contributed 4.9% of the growth and currency a further 1.6%.

During the year, we delivered on orders from a number of the larger projects won in 2012. As a result, revenue grew 13.0% to £578.4m and was boosted by a record output in the last quarter, beating the previous record set in the final quarter of 2012, with organic constant currency growth of 6.3%. The adjusted* operating profit margin was 26.2%, a 40 basis point improvement on 2012.

At our Capital Markets Day in November we introduced our new strapline, 'Keeping the World Flowing'. As a flow control company, Rotork's products impact our everyday lives from the moment we wake until the end of the day, whether we are turning on a light, filling a kettle or putting fuel in our car. Our products operate in some of the most remote and challenging environments, where reliability and local support are vital to keep our customers' operations running. The industries we serve often have high barriers to entry and our products often require certification because of their mission-critical nature. Our strategy is to continue to expand our product portfolio and strengthen our geographic reach, whilst broadening our end-market exposure.

In 2013 we saw a 24% increase in sales to the oil & gas market, which now represents 59% of Group revenue. These sales were into many different parts of the oil & gas industry with upstream sales increasing to 11% of Group revenue, mid-stream to 22% and downstream reducing to 26%. The increases in upstream and midstream were driven partly by the major projects delivered during the year in Australia and Mexico. The Indian power market has still not regained its former strength and, combined with the consequential effect this has had on demand from Chinese boiler makers, revenue from the power market declined 13%. The long-term drivers behind this market remain positive and we remain confident that it will return to growth. Water sales grew 4% with products serving this end market now to be found in each of the divisions. The growth of our Instruments division and recent acquisitions such as Schischek have boosted our industrial and mining sales, which rose by 18% such that revenue from these end markets is now very close to our sales in the water market.

During the year we invested in our infrastructure and will continue to do so in 2014. Our sales office network will continue to grow as we look at opportunities for new offices in Eastern Europe, China, Southern Africa and Australia. These new locations have been identified as areas where either there is a significant installed base of our products which will provide service opportunities or where there are opportunities for new product sales. We will also continue to invest in our existing locations with the new factory in Leeds due to complete in 2014, the planned expansion of our Singapore office and our business in Bilbao, Spain, relocated to new and larger premises.

Rotork Controls

£m	2013	2012	Change	OCC change
Revenue	321.9	293.3	+9.7%	+3.1%
Adjusted operating profit	105.5	94.8	+11.3%	+5.2%
Adjusted operating margin	32.8%	32.3%	+50bps	+70bps

The year ended with improving order input and strong fourth quarter revenue. This resulted in full year revenue growth of 9.7% which in turn drove a 50 basis point improvement in adjusted* operating profit margin.

Having launched the third generation of our flagship IQ actuator in 2012, this year was one of transition with IQ2 volumes diminishing and IQ3 growing. IQ3 was first manufactured at our site in Bath, UK, where it now accounts for the vast majority of IQ production and has now been rolled out to our factory in Rochester, USA. Innovation has been key to Rotork's success over the years and the benefits and features of the IQ3 have reinforced our reputation for being the market leader for medium to heavy-duty electric actuators. The Compact Modulating Actuator (CMA), launched at the end of 2012, gained market acceptance during 2013 and we saw sales of this product line supplement those of the Control Valve Actuator (CVA) and expand our process control sales.

In 2012 we received a number of large Australian coal seam gas project orders that we did not expect to be repeated in 2013. As a result, although order intake increased by 2.9% on a reported basis, on an organic constant currency basis it was 3.4% lower than 2012. Overall activity levels improved towards the end of the year but the orderbook closed the year 2.6% lower at £100.3m.

Revenue grew 9.7% to £321.9m, supported by the delivery of the projects referred to above. Removing the impact of currency and acquisitions revenue growth was 3.1%. Schischek performed in line with our expectations whilst the impact of currency, which had been a tailwind in the first half, was neutral in the second half. Adjusted* operating profit increased by 11.3% to £105.5m, producing a margin of 32.8%, which was 50 basis points higher than 2012 and mainly arose from lower material costs. Whilst currency increased the reported profit, it had a slight dampening effect on margin. Schischek margins were in line with the division as a whole, resulting in organic constant currency margins of 33.0%, with adjusted operating profit growth on this basis of 5.2%.

Our North American offices performed well overall and this was due to a number of factors including; the continued expansion of tight oil & gas exploration and production in the US; our targeted growth in municipal water infrastructure; and a strong export market from the US valvemakers focused on the global oil & gas markets. China continued to deliver growth and despite the downturn in power projects globally, there were still significant projects in power.

Following the investment in our facilities in China we continue to focus on expanding our domestic business alongside our international one. Korea was an important market for us this year due to the success of Korean contractors securing international EPC contracts. As expected, Australia had a positive year, benefiting from coal seam gas projects. Some of the domestic markets of our European companies were still subdued but this was offset by our export business with European valvemakers, whose international markets were strong. Following our investment in the Middle East, this office produced a year of good growth. The Indian power market did not regain its previous highs in the year and this impacted our Indian subsidiary with our electric actuator sales flat year on year.

At the beginning of 2013 we acquired Schischek, an electric actuator company focused on the HVAC market, and we have started integrating it into our international sales network and reorganising how we operate in Germany. The business met our expectations in the year and we expect further growth in 2014 as the integration continues and our offices identify opportunities in Schischek's end markets. In July 2013 we acquired Flowco, an actuator service company based near our headquarters in Bath, UK and the company has been successfully integrated into our Rotork UK sales subsidiary.

During 2013 we relocated our offices in Mexico and Malaysia. The investment in Mexico will facilitate further growth in this active market whilst the new Malaysian office will allow us to serve the local market better and grow our valve automation and retrofit sales. As planned, Rotork expanded into a new office, workshop and production storage facility near its headquarters in Bath, UK. During 2014 we plan to develop our international network further and broaden the range of products offered through our existing facilities.

Product development remains an important part of our growth strategy and 2013 saw the continued development of our IQ3 and CMA product ranges, with the full range of sizes and options becoming available. In 2014 we look forward to continuing to launch innovative new products.

Rotork Fluid Systems

£m	2013	2012	Change	OCC change
Revenue	187.0	160.9	+16.2%	+11.7%
Adjusted operating profit	31.0	24.6	+25.9%	+23.5%
Adjusted operating margin	16.6%	15.3%	+130bps	+160bps

Rotork Fluid Systems (RFS) had another strong year with double-digit growth in order intake and revenue. We also saw adjusted* operating margin increase by 130 basis points to 16.6% in the year, reflecting the benefit of operational gearing and our focus on cost management.

RFS manufactures a wide range of pneumatic, hydraulic and electro-hydraulic actuators mainly for the oil & gas market. Oil & gas covers a wide range of applications and RFS benefited from strong demand from LNG, gas and liquids pipelines, gas storage and off-shore projects during the year. Our diverse product portfolio and engineering capability enables us to participate in the upstream, mid-stream and downstream markets.

Revenue grew 16.2% to £187.0m, a new record, with the second half accounting for 52% of annual revenue. This weighting was in line with the Group as a whole and less pronounced than the 56% second half weighting in the division last year. Removing the small contribution from the GTA acquisition and the positive currency impact, revenue grew 11.7%. Order intake grew at a slower rate than revenue, up 12.2%, but still exceeded revenue which led to a 14.3% increase in order book during the year to £76.0m. Adjusted* operating profit of £31.0m was 25.9% higher than the prior year and set a record operating margin of 16.6%, a 130 basis point improvement on 2012. Both currency and acquisitions were a headwind, so on an organic constant currency basis adjusted operating profit margins were 16.9%. The positive impact of operational gearing and improvements to material costs were the main contributors to the further improvement in margins.

Oil & gas remained the largest end-market for RFS with revenue from this segment increasing 21%. This represented 77% of the division's revenue in the year but was spread across many aspects of the oil & gas market, ranging from wellhead skids in Australia in upstream, to safety systems in tank storage applications in downstream. We also saw good increases in our sales destined for the water, industrial and mining markets, albeit slower than the rate of growth in oil & gas.

In August 2013 we acquired the GTA Group, comprising G.T. Attuatori Italia S.r.l. based in Milan, Italy, together with G.T. Attuatori Europe GmbH and Max Process GmbH, both of which are in Germany. This acquisition extends our product portfolio with a small rack and pinion actuator which is often sold in petrochemical and industrial applications. Since the acquisition we have focused our attention on improving GTA's supply chain and sales channels and we anticipate that we will see the benefit of this in 2014 and beyond.

We have continued to integrate K-Tork, based in Dallas, USA, into our business and are focused on developing its products to cover a wider range of sizes and options. This is in conjunction with a review of component sourcing to take advantage of our international supply chain. K-Tork's products are often used in power, water and the process control market and will further diversify RFS's end market exposure.

Geographically, we saw strong performances from around the world with the biggest improvements in Italy, Russia, Spain, Singapore and Australia. Australia benefited in particular from coal seam gas investment. Mexico continues to be an important market following the large pipeline projects we won a few years ago and we have grown our service business significantly. In 2011 we acquired full ownership of the Mexican business and in 2013 we opened a new Centre of Excellence (CoE) in Mexico to meet the increasing demands of our local customers. The CoEs provide valve automation facilities for factory fitting, testing, panel build, actuator overhaul capabilities and other local support.

To ensure that we continue to provide support to our customers locally we made further investment in our facilities, with several office moves and expansions during the year. The Middle East workshop was opened in April and a new Malaysian facility opened in August. We also expanded our facilities in Brazil and Mexico.

Increasingly the market is requiring safety systems as standard in hazardous applications and we have made considerable investment in R&D in this area of the business. We have continued to develop our existing product portfolio and have four products planned to launch in 2014, including a new product from Rotork Hiller, our US-based company focused on the nuclear power industry.

Rotork Gears

£m	2013	2012	Change	OCC change
Revenue	56.0	52.9	+6.0%	+2.2%
Adjusted operating profit	13.0	12.1	+7.3%	+4.9%
Adjusted operating margin	23.1%	22.9%	+20bps	+60bps

For the first time sales to third party customers accounted for over 80% of revenue, reflecting the success of our strategy of expanding our international sales presence and reducing reliance on intragroup sales.

The Gears division manufactures manual and motorised gearboxes and accessories. There are two sales channels for gearboxes and accessories; sales made to a Rotork division or to a third party valvemaker. A gearbox is effectively a component of the valve and, with the majority of valves still being manually operated, most require a gearbox to provide the necessary mechanical advantage to operate the valve. Each valvemaker therefore requires a supply of gearboxes and whilst some make their own, our sales proposition is attractive. We provide high quality, reliable gearboxes which we are able to support throughout the world. Our scale and international supply chain allows us to offer the valvemaker an outsourced solution at a competitive price.

Positive performances were seen in the year from our businesses in Italy, The Netherlands and Spain. The market in India also improved as we strengthened our local manufacturing capabilities in the year. The establishment of our Indian Gears manufacturing plant has strengthened our international component supply chain.

Order intake ended the year ahead of 2012, up 5.1% in total, or 1.5% on an organic constant currency basis. Revenue increased by 6.0% to £56.0m resulting in the order book reducing by 0.9% during the year. However, without the positive impacts of Renfro and currency, revenue growth was 2.2%. Adjusted* operating profit increased by 7.3% to £13.0m and the margin improved 20 basis points to 23.1%. Whilst product mix was positive in the Italian factory it was negative in China but, by careful management of the cost base, net margins improved slightly. Currency and acquisitions were both slightly dilutive to adjusted operating margins, so with organic constant currency profit growth of 4.9%, the margin was 60 basis points higher at 23.5%.

Rotork Valvekits is our valve adaption business based in the UK. As part of our strategy to expand this product offering internationally, in August we acquired Renfro Associates Inc., a valve adaption and mounting business based in Broken Arrow, USA. This long established business has an excellent reputation for delivering high quality product and service to its customers and provides us with the opportunity to replicate our successful UK business model across the USA.

During 2013 we expanded our manufacturing facilities in Shanghai, China and in Houston, USA. The extra capacity in both locations will enable us to service the local markets more efficiently. 2014 will see the completion of the new Leeds facility and the businesses there relocate into a modern manufacturing plant.

Sales into the various oil & gas markets remained constant at 52% of Gears' revenue this year but within this we saw growth in sales of subsea gearboxes. These heavily engineered gearboxes are manufactured in Italy close to the valvemakers. Like other divisions, we saw a reduction in sales into power but this was offset by growth in the water market.

In 2012 we created a new product introduction team dedicated to developing new products. During 2013 we brought to market a range of new products including two manual gearboxes and a motorised gearbox and we have continued to offer project specific subsea product solutions. A new multi-turn gearbox has been specifically designed to comply with GOST, a standard for valves in the oil, gas, power generation and utility industries throughout Russia and the neighbouring countries. We are continuing to invest in Research & Development in terms of recruiting additional engineers and in our testing capability to improve further our ability to bring new products to market. The new FB fire protection series of gearboxes also enables us to access a market that we have yet to address.

Rotork Instruments

£m	2013	2012	Change	OCC change
Revenue	24.9	16.4	+51.8%	+16.6%
Adjusted operating profit	7.8	5.1	+53.5%	+20.0%
Adjusted operating margin	31.4%	31.1%	+30bps	+90bps

The first full year contribution from Soldo has provided a solid platform for growth for the Instruments division.

The Instruments division was formed in late 2011 and is Rotork's vehicle to expand our addressable market beyond actuators into the wider flow control market. The division now comprises two companies both of which make products that measure or control flow and pressure. Rotork Fairchild, which is based in Winston-Salem, USA, manufactures precision pneumatic and electro-pneumatic control products whilst Soldo, based in Desenzano, Italy, is a switchbox manufacturer. These products can be used in conjunction with actuators but are also used in other end markets, further broadening our end-market exposure as we implement our strategy of organic as well as acquisition-led growth.

With a first full year contribution from Soldo, revenue grew 51.8% to £24.9m, or 16.6% on a like for like basis. Investment in product development and the sales infrastructure continued through the year and the increase in revenue supported a 30 basis point rise in adjusted operating profit margin to 31.4%. The £7.8m adjusted* operating profit is 53.5% higher than 2012 or 20.0% higher on an organic constant currency basis.

Rotork Fairchild experienced good growth in North America, Europe and Japan. Our strong performance in North America was due to the reorganisation and strengthening of the sales team, an improved trading environment and growth in the medical industry sales supported by a new product introduction. North Asia performed well with project successes in the tyre sector being one of the highlights. Our European sales were supported by customers there winning export projects around the world. Australia and Brazil are less well developed markets for Fairchild, with Brazil affected by a slower than expected pulp and paper industry. Both will be focus markets for the coming year.

The Instruments division has the most diversified end market exposure of all Rotork's divisions. 34% of sales are now into oil & gas and this has increased with the addition of Soldo which has a greater oil & gas focus than the Fairchild products. Water and power accounted for 5% between them with industrial and mining a further 18%. The balance fell into our "Other" category reflecting the fact that pneumatic control is used in a wide range of industries.

During the year we moved a number of offices to take advantage of improved facilities, foster closer working relationships with other divisions and control costs. We moved the Soldo USA office from Cincinnati to Winston-Salem, where it has been a successfully integrated into the Fairchild operation. In Brazil we moved Fairchild into the Rotork Sao Paulo facility and in China the Fairchild office in Chengdu moved to a new building where the Rotork sales team in Chengdu has now joined them. In 2014 we have already merged the Soldo Asia business into Rotork Singapore and will continue to look for similar opportunities in other parts of the world.

Rotork Instruments operates an asset-light business model and has outsourced the majority of component manufacture. Rotork's international supply chain provides opportunities to support our ongoing material cost management programme. In 2013 there were a number of products launched for Rotork Fairchild whereas the focus for Soldo was on integration. New products are currently under development in both companies and we will see several of these launched during 2014.

There are further opportunities with both product lines to grow sales organically using the Rotork global sales offices. Whilst the route to market is typically not the same as the other divisions, being more distribution sales than project sales, the sales offices provide a base from which to enter a new territory. Growth will also be through acquisitions as we look to build the product portfolio with other devices used in flow control which share the same technologies, routes to market, customers or end markets.

Research and Development

Innovation remains a core driver of our growth and 2013 has seen product launches or range expansions in all divisions. In Controls we extended the range of IQ3 sizes and options available and continued the process of certifying the product for more of the markets we sell into. In Fluid Systems the second phase of the Gas-over-oil product range was launched and both Gears and Instruments launched a number of new ranges.

We have continued to add to the number of engineers who are focused on product development and we have restructured our electronics development team to reflect the fact that this resource supports all of the divisions rather than just Controls. Our spend on R&D increased once again this year, up 13.4% to £8.4m, despite the investment in IQ3 now being past the peak spend prior to initial launch. The initiatives currently being worked on will support product launches in 2014 and beyond.

Rotork Site Services

RSS predominately operates within Rotork Controls and Rotork Fluid Systems and we have built on this position to provide a standard approach to how we service customers of all our products and divisions. The team focuses on their ability to provide service and support in virtually every country in the world through preventative maintenance contracts, onsite and workshop service and retrofit solutions.

Our flow control products are often required to support operations in some of the most remote and challenging environments and our customers demand reliable products. Should they require support, local service is critical. To extend our current offering we are launching a new Client Support Programme in 2014 that will offer a tailor-made service that precisely fits the specific needs of every customer.

The performance of RSS is measured against key metrics including the number of service engineers. In 2013 we increased the number of service engineers by 9% so that we now have over 350 service employees around the world. The number of actuators under some form of preventative maintenance contract is greater than 120,000.

Acquisitions

Rotork has grown through a combination of organic expansion and acquisitions. Acquisitions are made on the basis that they will provide a product we currently don't have, improve our access to a geographic or end-user market or some combination of these objectives. During the year we completed four acquisitions for a total consideration of £48.0m. Schischek, acquired in January 2013 for £35.0m, was the largest of these with the three other mid-year acquisitions of Flowco, GTA and Renfro costing a combined £13.0m. Taking all four acquisitions together, £24.2m of the consideration was attributed to intangible assets which will be amortised and £24.9m is goodwill which will be subject to an annual impairment review.

The increased number and value of acquisitions this year led to a rise in the amortisation charge related to acquired intangible assets to £12.1m (2012: £7.4m). With the acquisitions taking place throughout the year, and Soldo acquired in November 2012, in order to adjust the income statement to show a like-for-like period for each acquisition, 2013 revenue has to be reduced by £25.2m and adjusted* operating profit by £7.3m. The profit margin in the acquired business was slightly accretive in aggregate, at 28.9%, with Schischek the key contributor to this.

Currency

The weakness of sterling in 2013 compared with 2012 resulted in a significant tailwind for our 2013 results. The tailwind was very much stronger in the first half of the year but sterling strengthened appreciably in the second half, particularly against the Australian dollar, Indian rupee and South African rand. Looking at the constant currency adjustment to revenue, of the £9.1m full year impact, £7.2m was felt in the first half with only the remaining £1.9m in the second half of the year. US dollar and related currencies represented around 40% of Group sales and are our largest non-sterling currency flows. The largest influence on the reduced second half currency tailwind was the US dollar moving from 3% stronger than sterling in the first half compared with 2012 to only 1% stronger in the second half. The euro remained 4% stronger in both halves of the year and with a greater euro-denominated sales base, Fluid Systems and Gears therefore benefited from the positive currency in the second half which Controls and Instruments did not.

These currency impacts were a mix of both translation and transaction and the £1.0m increase in operating profit was net of any cost / benefit of sourcing components from outside the respective factories' home country. Whilst we manufacture and sell from offices based in 34 countries, with 19 different currencies, and source components from a wide geographic footprint, the Group is still a net seller of euros and US dollars. It is the net sale of these currencies which we principally address through our hedging policy, covering up to 75% of trading transactions in the next 12 months and up to 50% between 12 and 24 months.
In order to estimate the impact of currency, at the current exchange rates we consider the effect of a 1 cent movement versus sterling. For euro a 1 cent movement now results in a £325,000 adjustment to profit and for US dollar a £450,000 adjustment.

Return on capital employed (ROCE)

Our asset-light business model and high profit margins mean Rotork generates high ROCE. Our definition of ROCE is based on adjusted* operating profit as a return on the average net assets excluding net cash and the pension scheme liability net of the related deferred tax. This means that as we make acquisitions our capital base grows with intangible assets and goodwill being recognised. During the year intangibles and goodwill increased by £37.2m in total which, after allowing for the related deferred tax, accounts for approximately half of the increase in capital employed which rose 21.4% to £281.0m. As a result of this, ROCE reduced to 59.1% despite the improved profit margin and growth in revenue this year.

Taxation

The Group's effective tax rate fell from 28.1% to 27.9%. This is a blended rate from the 25 countries in which we currently pay tax and is affected by the mix of where our taxable profits are generated, as well as changes to the tax rates within those jurisdictions. We continue to see a general reduction in the rate of corporation tax in a number of jurisdictions where we operate, including the UK. Our approach to tax continues to be to operate on the basis of full disclosure and co-operation with all tax authorities and, where possible, to mitigate the burden of tax within the local legislation.

Cash generation

Net cash balances finished the year at £68.9m, £9.0m higher than the start of the year. The three largest categories of cash expenditure were: £43.2m on acquisitions, £39.9m of tax paid and £38.7m of dividends paid. These were all higher than the previous year but the higher value of acquisitions, more than double the £20.7m spent in 2012, represented the largest increase. Capital expenditure of £10.4m was £2.2m lower than the prior year, partly due to rescheduling of the investment in the new Leeds factory, with the majority of the fit out spend deferred to 2014.

Our cash generation KPI, which compares operating cash generation with adjusted operating profit, improved again this year to 99.6%(2012: 95.4%). Control of working capital is key to improving this measure and working capital has reduced as a function of revenue in the year despite a weighting of revenue to the fourth quarter. Inventory, trade receivables and trade payables have all reduced as a function of revenue with net working capital as a whole falling from 25.5% of revenue to 24.7%. We measure our performance for trade receivable collections using days' sales outstanding and have reduced this a further day this year to 56 days.

Peter France
Chief Executive
3 March 2014

* References to adjusted profit throughout this document are defined as the IFRS profit, whether operating profit or profit before tax, with £12.1m (2012: £7.4m) of amortisation of acquired intangibles added back.

Consolidated income statement

For the year ended 31 December 2013

	Notes	2013 £000	2012 £000
Revenue	2	**578,440**	511,747
Cost of sales		**(304,066)**	(272,199)
Gross profit		**274,374**	239,548
Other income		**206**	908
Distribution costs		**(5,623)**	(4,214)
Administrative expenses		**(129,576)**	(111,743)
Other expenses		**(116)**	(32)
Adjusted operating profits		**151,412**	131,866
Amortisation of acquired intangible assets		**(12,147)**	(7,399)
Operating profit	2	**139,265**	124,467
Net finance expense	4	**(1,268)**	(273)
Profit before tax		**137,997**	124,194
Income tax expense	5	**(38,488)**	(34,879)
Profit for the year		**99,509**	89,315
Basic earnings per share	12	**114.8p**	103.1p
Adjusted basic earnings per share	12	**124.9p**	109.3p
Diluted earnings per share	12	**114.3p**	102.6p
Adjusted diluted earnings per share	12	**124.3p**	108.8p

Consolidated statement of comprehensive income

For the year ended 31 December 2013

	2013 £000	2012 £000
Profit for the year	**99,509**	89,315
Other comprehensive income		
Items that may be subsequently reclassified to the income statement:		
Foreign exchange translation differences	**(4,981)**	(3,967)
Effective portion of changes in fair value of cash flow hedges net of tax	**1,274**	399
Items that are not subsequently reclassified to the income statement:		
Actuarial gain / (loss) in pension scheme net of tax	**5,528**	(8,598)
Income and expenses recognised directly in equity	**1,821**	(12,166)
Total comprehensive income for the year	**101,330**	77,149

Consolidated balance sheet

At 31 December 2013

	Notes	**2013 £000**	2012 £000
Non-current assets			
Property, plant and equipment		**45,871**	38,445
Goodwill	6	**105,150**	80,729
Intangible assets	7	**53,481**	40,743
Derivative financial instruments		**804**	-
Deferred tax assets		**11,778**	12,984
Other receivables	9	**1,532**	1,674
Total non-current assets		**218,616**	174,575
Current assets			
Inventories	8	**75,081**	71,100
Trade receivables	9	**105,976**	95,822
Current tax	9	**1,145**	1,946
Derivative financial instruments		**2,933**	2,254
Other receivables	9	**12,152**	9,662
Cash and cash equivalents	10	**68,873**	59,868
Total current assets		**266,160**	240,652
Total assets		**484,776**	415,227
Equity			
Issued equity capital	11	**4,344**	4,340
Share premium		**8,840**	8,258
Reserves		**6,649**	10,356
Retained earnings		**312,246**	246,369
Total equity		**332,079**	269,323
Non-current liabilities			
Interest bearing loans and borrowings		**1,678**	116
Employee benefits	13	**22,705**	32,060
Deferred tax liabilities		**16,920**	13,488
Provisions	14	**2,628**	2,701
Total non-current liabilities		**43,931**	48,365
Current liabilities			
Interest bearing loans and borrowings		**532**	56
Trade payables	15	**38,019**	36,355
Employee benefits	13	**17,479**	14,065
Current tax	15	**14,836**	11,143
Derivative financial instruments		**32**	96
Other payables	15	**31,002**	31,889
Provisions	14	**6,866**	3,935
Total current liabilities		**108,766**	97,539
Total liabilities		**152,697**	145,904
Total equity and liabilities		**484,776**	415,227

Consolidated statement of changes in equity

	Issued equity capital	Share premium	Translation reserve	Capital redemption reserve	Hedging reserve	Retained earnings	Total
Balance at 31 December 2011	4,338	7,835	11,616	1,644	664	198,072	224,169
Profit for the year	–	–	–	–	–	89,315	89,315
Other comprehensive income							
Foreign exchange translation differences	–	–	(3,967)	–	–	–	(3,967)
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	539	–	539
Actuarial loss on defined benefit pension plans	–	–	–	–	–	(9,912)	(9,912)
Tax in other comprehensive income	–	–	–	–	(140)	1,314	1,174
Total other comprehensive income	–	–	(3,967)	–	399	(8,598)	(12,166)
Total comprehensive income	–	–	(3,967)	–	399	80,717	77,149
Transactions with owners, recorded directly in equity							
Equity settled share-based payments transactions	–	–	–	–	–	1,117	1,117
Tax on equity settled share-based payment transactions	–	–	–	–	–	102	102
Share options exercised by employees	2	423	–	–	–	–	425
Own ordinary shares acquired	–	–	–	–	–	(2,850)	(2,850)
Own ordinary shares awarded under share schemes	–	–	–	–	–	3,135	3,135
Dividends	–	–	–	–	–	(33,924)	(33,924)
Balance at 31 December 2012	4,340	8,258	7,649	1,644	1,063	246,369	269,323
Profit for the year	**–**	**–**	**–**	**–**	**–**	**99,509**	**99,509**
Other comprehensive income							
Foreign exchange translation differences	**–**	**–**	**(4,981)**	**–**	**–**	**–**	**(4,981)**
Effective portion of changes in fair value of cash flow hedges	**–**	**–**	**–**	**–**	**1,598**	**–**	**1,598**
Actuarial loss on defined benefit pension plans	**–**	**–**	**–**	**–**	**–**	**7,669**	**7,669**
Tax in other comprehensive income	**–**	**–**	**–**	**–**	**(324)**	**(2,141)**	**(2,465)**
Total other comprehensive income	**–**	**–**	**(4,981)**	**–**	**1,274**	**5,528**	**1,821**
Total comprehensive income	**–**	**–**	**(4,981)**	**–**	**1,274**	**105,037**	**101,330**
Transactions with owners, recorded directly in equity							
Equity settled share-based payments transactions	**–**	**–**	**–**	**–**	**–**	**143**	**143**
Tax on equity settled share-based payment transactions	**–**	**–**	**–**	**–**	**–**	**632**	**632**
Share options exercised by employees	**4**	**582**	**–**	**–**	**–**	**-**	**586**
Own ordinary shares acquired	**–**	**–**	**–**	**–**	**–**	**(5,601)**	**(5,601)**
Own ordinary shares awarded under share schemes	**–**	**–**	**–**	**–**	**–**	**4,401**	**4,401**
Dividends	**–**	**–**	**–**	**–**	**–**	**(38,735)**	**(38,735)**
Balance at 31 December 2013	**4,344**	**8,840**	**2,668**	**1,644**	**2,337**	**312,246**	**332,079**

Detailed explanations for equity capital, the translation reserve, capital redemption reserve and hedging reserve can be seen in note 11.

Consolidated statement of cash flows

For the year ended 31 December 2013

	Notes	2013 £000	2013 £000	2012 £000	2012 £000
Cash flows from operating activities					
Profit for the year		**99,509**		89,315	
Adjustments for:					
Amortisation of intangibles		**12,147**		7,399	
Amortisation of development costs		**1,214**		924	
Depreciation		**6,801**		5,452	
Equity settled share-based payment expense		**2,178**		2,030	
Profit on sale of property, plant and equipment		**(25)**		(859)	
Net finance expense		**1,268**		273	
Income tax expense		**38,488**		34,879	
		161,580		139,413	
Increase in inventories		**(1,740)**		(9,474)	
Increase in trade and other receivables		**(10,786)**		(2,220)	
Decrease in trade and other payables		**(1,778)**		(3,341)	
Difference between pension charge and cash contribution		**(534)**		(7,211)	
Increase / (decrease) in provisions		**863**		(264)	
Increase in other employee benefits		**2,621**		1,711	
		150,226		118,614	
Income taxes paid		**(39,866)**		(37,641)	
Cash flows from operating activities			**110,360**		80,973
Investing activities					
Purchase of property, plant and equipment		**(10,419)**		(12,564)	
Development costs capitalised		**(2,033)**		(2,075)	
Sale of property, plant and equipment		**159**		1,007	
Acquisition of businesses, net of cash acquired	3	**(43,235)**		(20,674)	
Contingent consideration paid		**(250)**		(200)	
Interest received		**917**		623	
Cash flows from investing activities			**(54,861)**		(33,883)
Financing activities					
Issue of ordinary share capital		**586**		425	
Purchase of ordinary share capital		**(5,601)**		(2,850)	
Interest paid		**(653)**		(163)	
Repayment of amounts borrowed		**(618)**		(64)	
Repayment of finance lease liabilities		**(34)**		(68)	
Dividends paid on ordinary shares		**(38,735)**		(33,924)	
Cash flows from financing activities			**(45,055)**		(36,644)
Increase in cash and cash equivalents			**10,444**		10,446
Cash and cash equivalents at 1 January			**59,868**		48,519
Effect of exchange rate fluctuations on cash held			**(1,439)**		903
Cash and cash equivalents at 31 December	10		**68,873**		59,868

Notes to the Financial Statements
For the year ended 31 December 2013

Except where indicated, values in these notes are in £000.

Rotork plc is a company domiciled in England. The consolidated financial statements of the Company for the year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the 'Group').

1. Accounting policies

Basis of preparation

The consolidated financial statements of Rotork plc have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention subject to the items referred to in the derivative financial instruments accounting policy below.

New accounting standards and interpretations

The amendments to IAS19 Employee benefits have been applied from 1 January 2013. The principal change relates to the requirement to use the schemes' discount rate to calculate the return on assets rather than using a rate of return appropriate to the various asset classes.

The amended standard also requires administration costs to be recognised separately from the current service cost in the income statement as they are incurred. Due to the Group already expensing administration costs as they are incurred the current service cost has been split to separately disclose the administration cost comparative.

The application of the amended standard in the 2012 financial year would have increased the net pension interest cost by £588,000 from £390,000 to £978,000, reducing the pre-tax profit by £588,000. The impact on the 2012 basic earnings per share would be a reduction of 0.5p to 102.6p. As a result of the adjustments not being material to the income statement, balance sheet or shareholders' equity prior year balances have not been restated.

The following standards and amendments have also been applied from 1 January 2013:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IAS 1 Presentation of Financial Statements(amendments)

Application of these standards and amendments has not had any material impact on the disclosures, net assets or results of the Group.

Recent accounting developments

IFRS 9 Financial Instruments has been issued but is not yet effective and has not been adopted as application was not mandatory for the year. The directors anticipate that the adoption of this standard will not have a material impact on the disclosures, net assets or results of the Group.

Going concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. In forming this view, the directors have considered trading and cash flow forecasts, financial commitments, the significant order book with customers spread across different geographic areas and industries and the significant net cash position.

Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year to 31 December 2013. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. Intra-group balances and any unrealised gains or losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Status of this preliminary announcement

The financial information contained in this preliminary announcement does not constitute the Company's statutory accounts for the years ended 31 December 2013 or 2012. Statutory accounts for 2012, which were prepared under International Financial Reporting Standards as adopted by the EU, have been delivered to the registrar of companies, and those for 2013 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. Full financial statements for the year ended 31 December 2013, will shortly be posted to shareholders, and after adoption at the Annual General Meeting on 25 April 2014 will be delivered to the registrar.

2. Operating segments

The Group has chosen to organise the management and financial structure by the grouping of related products. The four identifiable operating segments where the financial and operating performance is reviewed monthly by the chief operating decision maker are as follows:

Controls – the design, manufacture and sale of electric valve actuators
Fluid Systems – the design, manufacture and sale of pneumatic and hydraulic valve actuators
Gears – the design, manufacture and sale of gearboxes, adaption and ancillaries for the valve industry
Instruments – the manufacture of high precision pneumatic controls and power transmission products for a wide range of industries

Unallocated expenses comprise corporate expenses.

Geographic analysis
Rotork has a worldwide presence in all four operating segments through its subsidiary selling offices and through an agency network. A full list of locations can be found at www.rotork.com.

Analysis by operating segment:

	Controls 2013	**Fluid Systems 2013**	**Gears 2013**	**Instruments 2013**	**Elimination 2013**	**Unallocated 2013**	**Group 2013**
Revenue from external customers	**321,902**	**186,969**	**45,353**	**24,216**	**–**	**–**	**578,440**
Inter segment revenue	**–**	**–**	**10,682**	**706**	**(11,388)**	**–**	**–**
Total revenue	**321,902**	**186,969**	**56,035**	**24,922**	**(11,388)**	**–**	**578,440**
Adjusted operating profit	**105,472**	**31,010**	**12,972**	**7,833**	**–**	**(5,875)**	**151,412**
Amortisation of acquired intangibles	**(4,363)**	**(1,920)**	**(403)**	**(5,461)**	**–**	**–**	**(12,147)**
Operating profit	**101,109**	**29,090**	**12,569**	**2,372**	**–**	**(5,875)**	**139,265**
Net finance expense							**(1,268)**
Income tax expense							**(38,488)**
Profit for the year							**99,509**

	Controls 2012	Fluid Systems 2012	Gears 2012	Instruments 2012	Elimination 2012	Unallocated 2012	Group 2012
Revenue from external customers	293,342	160,946	41,039	16,420	–	–	511,747
Inter segment revenue	–	–	11,844	–	(11,844)	–	–
Total revenue	293,342	160,946	52,883	16,420	(11,844)	–	511,747
Adjusted operating profit	94,773	24,628	12,088	5,103	–	(4,726)	131,866
Amortisation of acquired intangibles	(733)	(2,249)	(218)	(4,199)	–	–	(7,399)
Operating profit	94,040	22,379	11,870	904	–	(4,726)	124,467
Net finance expense							(273)
Income tax expense							(34,879)
Profit for the year							89,315

2. Operating segments (continued)

	Controls 2013	Fluid Systems 2013	Gears 2013	Instruments 2013	Unallocated 2013	Group 2013
Depreciation	**4,353**	**1,692**	**427**	**329**	**–**	**6,801**
Amortisation:						
– Other intangibles	**4,363**	**1,920**	**403**	**5,461**	**–**	**12,147**
– Development costs	**1,193**	**9**	**12**	**–**	**–**	**1,214**
Non-cash items : equity settled share-based payments	**881**	**427**	**271**	**35**	**563**	**2,177**
Net financing expense	**–**	**–**	**–**	**–**	**(1,268)**	**(1,268)**
Acquired as part of business combinations:						
– Goodwill	**19,766**	**3,688**	**1,398**	**–**	**–**	**24,852**
– Intangible assets	**19,548**	**3,277**	**1,413**	**–**	**–**	**24,238**
Capital expenditure	**7,108**	**2,350**	**581**	**281**	**–**	**10,320**

	Controls 2012	Fluid Systems 2012	Gears 2012	Instruments 2012	Unallocated 2012	Group 2012
Depreciation	3,708	1,258	251	235	–	5,452
Amortisation:						
– Other intangibles	733	2,249	218	4,199	–	7,399
– Development costs	924	–	–	–	–	924
Non-cash items : equity settled share-based payments	698	396	271	–	665	2,030
Net financing expense	–	–	–	–	(273)	(273)
Acquired as part of business combinations:						
– Goodwill	–	–	–	13,952	–	13,952
– Intangible assets	–	–	–	9,668	–	9,668
Capital expenditure	8,656	2,113	1,295	372	–	12,436

Balance sheets are reviewed by operating subsidiary and operating segment balance sheets are not prepared, as such no further analysis of operating segments assets and liabilities are presented.

Geographical analysis:

	UK 2013	Rest of Europe 2013	USA 2013	Other Americas 2013	Rest of World 2013	Group 2013
Revenue from external customers by location of customer	**31,765**	**180,865**	**117,346**	**59,112**	**189,352**	**578,440**
Non-current assets:						
– Goodwill	**5,691**	**55,205**	**40,154**	**770**	**3,330**	**105,150**
– Intangible assets	**5,538**	**27,317**	**20,351**	**–**	**275**	**53,481**
– Property, plant and equipment	**16,304**	**15,176**	**6,706**	**768**	**6,917**	**45,871**

	UK 2012	Rest of Europe 2012	USA 2012	Other Americas 2012	Rest of World 2012	Group 2012
Revenue from external customers by location of customer	28,448	156,525	106,027	53,323	167,424	511,747
Non-current assets:						
– Goodwill	5,009	31,925	39,603	776	3,416	80,729
– Intangible assets	4,496	11,107	24,288	506	346	40,743
– Property, plant and equipment	13,944	10,529	6,005	622	7,345	38,445

3. Acquisitions

2013

i) Schischek

On 15 January 2013 the Group acquired 100% of the share capital of the Schischek Group of companies (Schischek) for £35,030,000. Schischek is a leader in the design, manufacture and sale of explosion-proof electric actuators, sensors, transmitters and controller products for a wide range of industries, based in Langenzenn, Bavaria, Germany. The acquired business is reported within the Controls division. In the fifty weeks to 31 December 2013 Schischek contributed £15,109,000 to Group revenue and £4,979,000 to consolidated operating profit before amortisation. The amortisation charge in the fifty week period from the acquired intangible assets was £3,322,000. If the acquisition had occurred on 1 January 2013 the contribution made by the business would not be materially different. It is not practicable to disclose profit before tax or profit attributable to equity shareholders as the Group manages its Treasury function on a Group basis.

ii) Other acquisitions

On 2 August 2013 the Group acquired 100% of the share capital of:

- the GTA Group (GTA) for £8,064,000. GTA is a leading manufacturer of rack and pinion pneumatic valve actuators and is principally based in Milan, Italy. The acquired businesses are reported within the Rotork Fluid System division.
- Renfro (Renfro) for £2,786,000. Renfro is a valve adaptation and accessories business based in Broken Arrow, Oaklahoma, USA. The acquired business is reported within the Rotork Gears division.

On 5 July 2013 the Group acquired 100% of the share capital of Flowco Limited (Flowco) based near Bath, UK for a consideration of £2,151,000. Flowco is a valve and actuator service company and is reported as part of the Controls division.

In the period from acquisition to 31 December 2013 the businesses contributed £4,894,000 to Group revenue and £445,000 to consolidated operating profit before amortisation. The amortisation charge in respect of these acquisitions during the year was £896,000.

If these other acquisitions had occurred on 1 January 2013 the businesses would have contributed £11,573,000 to Group revenue and £1,178,000 to Group operating profit. It is not practicable to disclose profit before tax or profit attributable to equity shareholders as the Group manages its Treasury function on a Group basis.

iii) Acquisitions fair value table

The four acquisitions had the following effect on the Group's assets and liabilities.

	Schischek			Other acquisitions			Total
	Book value	Adjustments	Fair value	Book value	Adjustments	Fair value	Fair value
Non-current assets							
Property, plant and equipment	3,238	–	**3,238**	1,745	(20)	**1,725**	**4,963**
Intangible assets	–	18,541	**18,541**	–	5,697	**5,697**	**24,238**
Current assets							
Inventory	1,353	(135)	**1,218**	3,198	(476)	**2,722**	**3,940**
Trade and other receivables	2,197	(81)	**2,116**	2,508	(91)	**2,417**	**4,533**
Cash	1,610	–	**1,610**	1,211	–	**1,211**	**2,821**
Current liabilities							
Trade and other payables	(2,211)	–	**(2,211)**	(3,361)	(142)	**(3,503)**	**(5,714)**
Warranty provision	(97)	(144)	**(241)**	–	(148)	**(148)**	**(389)**
Corporation tax	(745)	(418)	**(1,163)**	(272)	(157)	**(429)**	**(1,592)**
Loans and other borrowings	(295)	–	**(295)**	(840)	–	**(840)**	**(1,135)**
Non-current liabilities							
Deferred tax liability	–	(5,043)	**(5,043)**	(14)	(1,567)	**(1,581)**	**(6,624)**
Loans and other borrowings	(1,824)	–	**(1,824)**	(38)	–	**(38)**	**(1,862)**
Total net assets	3,226	12,720	**15,946**	4,137	3,096	**7,233**	**23,179**
Goodwill			**19,084**			**5,768**	**24,852**
Purchase consideration			**35,030**			**13,001**	**48,031**
Paid in cash			**35,030**			**11,026**	**46,056**
Contingent consideration			**–**			**1,975**	**1,975**
Purchase consideration			**35,030**			**13,001**	**48,031**
Purchase consideration paid in cash			**35,030**			**11,026**	**46,056**
Cash held in subsidiary			**(1,610)**			**(1,211)**	**(2,821)**
Cash outflow on acquisition			**33,420**			**9,815**	**43,235**

The adjustments shown in the table represent the alignment of accounting policies of the acquired businesses to Rotork Group policies and the fair value adjustments of the assets and liabilities at the acquisition date of each of the businesses.

Goodwill has arisen on these acquisitions as a result of the value attributed to staff expertise and the assembled workforce, which did not meet the recognition criteria for an intangible asset.

The intangible assets identified comprise customer relationships, brands, product design patents and acquired order books.

4. Net finance expense

Recognised in the income statement	2013	Restated 2012
Interest income	**917**	616
Expected return on assets in the pension schemes	**-**	-
Foreign exchange gains	**256**	30
	1,173	646
Interest expense	**(653)**	(162)
Interest charge on pension scheme liabilities	**(1,168)**	(390)
Foreign exchange losses	**(620)**	(367)
	(2,441)	(919)
Net Finance expense	**(1,268)**	(273)

The comparative balances for expected return from pension scheme assets have been reclassified to show a net interest charge on pension scheme liabilities in line with the changes in IAS19 which are explained in note1.

Recognised in equity	2013	2012
Effective portion of changes in fair value of cash flow hedges	**3,035**	1,063
Fair value of cash flow hedges transferred to income statement	**(1,437)**	(664)
Foreign currency translation differences for foreign operations	**(4,981)**	(3,967)
	(3,383)	(3,568)
Recognised in:		
Hedging reserve	**1,598**	399
Translation reserve	**(4,981)**	(3,967)
	(3,383)	(3,568)

5. Income tax expense

	2013	2013	2012	2012
Current tax:				
UK corporation tax on profits for the year	**7,986**		9,017	
Adjustment in respect of prior years	**156**		(295)	
		8,142		8,722
Overseas tax on profits for the year	**34,790**		27,892	
Adjustment in respect of prior years	**(59)**		480	
		34,731		28,372
Total current tax		**42,873**		37,094
Deferred tax:				
Origination and reversal of other temporary differences	**(4,177)**		(2,531)	
Adjustment in respect of prior years	**(208)**		316	
Total deferred tax		**(4,385)**		(2,215)
Total tax charge for year		**38,488**		34,879
Effective tax rate (based on profit before tax)		**27.9%**		28.1%
Profit before tax		**137,997**		124,194
Profit before tax multiplied by standard rate of corporation tax in the UK of 23.25% (2012: 24.5%)		**32,084**		30,428
Effects of:				
Different tax rates on overseas earnings		**6,019**		3,942
Permanent differences		**497**		14
Utilisation of overseas tax holidays		**(1)**		(6)
Adjustments to tax charge in respect of prior years		**(111)**		501
Total tax charge for year		**38,488**		34,879

A tax credit of £632,000 (2012: £102,000) in respect of share-based payments has been recognised directly in equity in the year.

The Group continues to expect its effective rate of corporation tax to be higher than the standard UK rate due to higher rates of tax in the USA, Canada, France, Germany, Italy, Japan and India.

A credit of £3,611,000 (2012: £2,399,000) in respect of acquired intangible asset amortisation is included in the deferred tax credit of £4,385,000 (2012: £2,215,000).

There is an unrecognised deferred tax liability for temporary differences associated with investments in subsidiaries. Rotork plc controls the dividend policies of its subsidiaries and subsequently the timing of the reversal of the temporary differences. It is not practical to quantify the unprovided temporary differences as acknowledged within paragraph 40 of IAS 12.

6. Goodwill

	2013	2012
Cost		
At 1 January	**80,729**	68,459
Acquisition through business combinations	**24,852**	13,952
Exchange adjustments	**(431)**	(1,682)
At 31 December	**105,150**	80,729
Provision for impairment		
At 1 January and 31 December	**–**	–
Carrying amounts	**105,150**	80,729

Cash generating units

Goodwill acquired through business combinations have been allocated to the lowest level of cash generating unit (CGU) and to the division in which it is reported. Where the acquired entities' growth into new markets is through the Group's existing sales network the lowest level of CGU is considered to be at the divisional level.

The carrying value of goodwill is allocated as follows:

	2013	2012
Controls		
Schischek	**19,003**	-
Other cash generating units	**9,279**	8,707
	28,282	8,707
Fluid Systems		
Rotork Fluid Systems	**7,594**	7,422
Rotork Sweden	**6,796**	6,837
Other cash generating units	**11,978**	8,611
	26,368	22,870
Gears		
Other cash generating units	**9,069**	7,709
	9,069	7,709
Instruments		
Fairchild	**26,722**	27,247
Soldo	**14,709**	14,196
	41,431	41,443
Total Group	**105,150**	80,729

Impairment testing

Goodwill is not amortised but is tested annually for impairment.
Value in use calculations are used to determine the recoverable amount of goodwill allocated to each of the CGUs. These calculations use cash flow projections on actual operating results and management forecasts.

The key assumptions in the annual impairment review which cover all CGUs are set out below:

i) Management forecasts

The three year plan is a bottom up process which takes place as part of the annual budget process. The three year plan is prepared by each reporting entities' management reflecting their view of the local market, known projects and experience of past performance. The annual budget and the three year plan are approved by the Board each year.

ii) Long term growth rates

In the period after the three year plan growth rates are forecast at 2% per annum for each CGU (2012: 2%). A rate of 2% is considered to be prudent given the significant organic growth of the business over the last 10 years.

iii) Discount rates

All Rotork divisions operate in the same industry sectors and markets around the world. Therefore discount rates for each of the CGUs are considered to be 10.5 % (2012: 10.4%) which represents a reasonable rate for a market participant in this sector.

6. Goodwill (continued)

Sensitivity analysis

Sensitivity analysis has been undertaken for each CGU to assess the impact of any reasonable change in assumptions. Using the key assumptions above there is no reasonable change that would cause the carrying values of any CGU to exceed the recoverable amount apart from Soldo and Fairchild, the sensitivities for which are explained below.

With regard to Soldo, which has only been part of the Group for 14 months, downside sensitivities have been assessed. An increase in the discount rate to 14.9% would result in the goodwill being impaired. If the long term growth rate was 3% rather than 2%, the discount rate would need to increase to 15.7% for the goodwill to become impaired.

With regard to Fairchild downside sensitivities have been assessed and an increase in the discount rate to 15.0% (2012: 12.8%) would result in the goodwill being impaired. If the long term growth rate was 3% rather than 2%, the discount rate would need to increase to 15.8% (2012: 13.6%) for the goodwill to become impaired.

It is anticipated that as Soldo and Fairchild become more established within the Group and each of the companies leverage the sales network opportunities the long term growth rate should comfortably exceed the 2.0% growth rate assumed in the forecast.

7. Intangible assets

		Business combinations acquired intangible assets			
	Research & development costs	Brands	Customer relationships	Other	Total
Cost					
1 January 2012	6,994	17,678	22,593	3,789	51,054
Acquisition through business combinations	–	4,808	4,706	154	9,668
Internally developed	2,075	–	–	–	2,075
Exchange adjustments	–	(532)	(577)	(101)	(1,210)
31 December 2012	9,069	21,954	26,722	3,842	61,587
Acquisition through business combinations	–	7,968	12,298	3,972	24,238
Internally developed	2,033	–	–	–	2,033
Exchange adjustments	(6)	(242)	(584)	(84)	(916)
31 December 2013	**11,096**	**29,680**	**38,436**	**7,730**	**86,942**
Amortisation					
1 January 2012	3,926	1,912	4,203	2,688	12,729
Charge for the year	924	2,256	4,669	474	8,323
Exchange adjustments	–	(58)	(80)	(70)	(208)
31 December 2012	4,850	4,110	8,792	3,092	20,844
Charge for the year	1,214	3,816	6,684	1,647	13,361
Exchange adjustments	–	(201)	(456)	(87)	(744)
31 December 2013	**6,064**	**7,725**	**15,020**	**4,652**	**33,461**
Net Book Value					
31 December 2012	4,219	17,844	17,930	750	40,743
31 December 2013	**5,032**	**21,955**	**23,416**	**3,078**	**53,481**

Other acquired intangible assets represent order books and intellectual property.

The amortisation charge is recognised within administrative expenses in the income statement.

8. Inventories

	2013	2012
Raw materials and consumables	**51,844**	48,279
Work in progress	**8,445**	11,474
Finished goods	**14,792**	11,347
	75,081	71,100

Included in cost of sales was £217,697,000 (2012: £199,710,000) in respect of inventories consumed in the year.

9. Trade and other receivables

	2013	2012
Non-current assets:		
Insurance policy	**1,465**	1,368
Other	**67**	306
Other receivables	**1,532**	1,674
Current assets:		
Trade receivables	**107,801**	97,635
Less provision for impairment of receivables	**(1,825)**	(1,813)
Trade receivables – net	**105,976**	95,822
Corporation tax	**1,145**	1,946
Current tax	**1,145**	1,946
Other non-trade receivables	**7,333**	5,196
Prepayments and accrued income	**4,819**	4,466
Other receivables	**12,152**	9,662

10. Cash and cash equivalents

	2013	2012
Bank balances	**40,747**	42,746
Cash in hand	**43**	101
Short term deposits	**28,083**	17,021
Cash and cash equivalents	**68,873**	59,868
Bank overdraft	**–**	–
Cash and cash equivalents in the Consolidated Statement of Cash Flows	**68,873**	59,868

11. Capital and reserves

Share capital and share premium

	5p Ordinary shares Issued and fully paid up 2013	£1 Non-redeemable preference shares 2013	5p Ordinary shares Issued and fully paid up 2012	£1 Non-redeemable preference shares 2012
At 1 January	**4,340**	**40**	4,338	40
Issued under employee share schemes	**4**	**–**	2	–
At 31 December	**4,344**	**40**	4,340	40
Number of shares (000)	**86,871**		86,808	

The ordinary shareholders are entitled to receive dividends as declared and are entitled to vote at meetings of the Company.

The Group received proceeds of £586,000 (2012: £425,000) in respect of the 62,904 (2012: 57,481) ordinary shares issued during the year: £4,000 (2012: £2,000) was credited to share capital and £582,000 (2012: £423,000) to share premium.

The preference shareholders take priority over the ordinary shareholders when there is a distribution upon winding up the Company or on a reduction of equity involving a return of capital. The holders of preference shares are entitled to vote at a general meeting of the Company if a preference dividend is in arrears for six months or the business of the meeting includes the consideration of a resolution for winding up the Company or the alteration of the preference shareholders' rights.

Within the retained earnings reserve are own shares held. The investment in own shares represents 162,518 (2012: 169,511) ordinary shares of the Company held in trust for the benefit of directors and employees for future payments under the Share Incentive Plan and Long Term Incentive Plan. The dividends on these shares have been waived.

Translation reserve
The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Capital redemption reserve
The capital redemption reserve arises when the Company redeems shares wholly out of distributable profits.

Hedging reserve
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments that are determined to be an effective hedge.

Dividends
The following dividends were paid in the year per qualifying ordinary share:

	2013 Payment date	2013	2012
26.6p final dividend (2012: 22.75p)	**16 May**	**23,082**	19,718
18.05p interim dividend (2012: 16.4p)	**24 September**	**15,653**	14,206
		38,735	33,924

After the balance sheet date the following dividends per qualifying ordinary share were proposed by the directors. The dividends have not been provided for and there are no corporation tax consequences.

	2013	2012
Final proposed dividend per qualifying ordinary share		
30.0p	**26,061**	
26.6p		23,091

12. Earnings per share

Basic earnings per share

Earnings per share is calculated for both the current and previous years using the profit attributable to the ordinary shareholders for the year. The earnings per share calculation is based on 86.7m shares (2012: 86.6m shares) being the weighted average number of ordinary shares in issue (net of own ordinary shares held) for the year.

	2013	2012
Net profit attributable to ordinary shareholders	**99,509**	89,315
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	**86,638**	86,523
Effect of own shares held	**44**	55
Effect of shares issued under Share option schemes / Sharesave plans	**9**	14
Weighted average number of ordinary shares during the year	**86,691**	86,592
Basic earnings per share	**114.8p**	103.1p

Adjusted basic earnings per share

Adjusted basic earnings per share is calculated for both the current and previous years using the profit attributable to the ordinary shareholders for the year after adding back the after tax amortisation charge.

	2013	2012
Net profit attributable to ordinary shareholders	**99,509**	89,315
Amortisation	**12,147**	7,399
Tax effect on amortisation at effective rate	**(3,388)**	(2,078)
Adjusted net profit attributable to ordinary shareholders	**108,268**	94,636
Weighted average number of ordinary shares during the year	**86,691**	86,592
Adjusted basic earnings per share	**124.9p**	109.3p

Diluted earnings per share

Diluted earnings per share is based on the profit for the year attributable to the ordinary shareholders and 87.1m shares (2012: 87.0m shares). 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. The Company has three categories of potentially dilutive ordinary shares: those share options granted to employees under the Share option scheme and Sharesave plan where the exercise price is less than the average market price of the Company's ordinary shares during the year and contingently issuable shares awarded under the Long Term Incentive Plan (LTIP).

	2013	2012
Net profit attributable to ordinary shareholders	**99,509**	89,315
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares for the year	**86,691**	86,592
Effect of Sharesave options in issue	**103**	106
Effect of LTIP shares in issue	**277**	343
Weighted average number of ordinary shares (diluted) during the year	**87,071**	87,041
Diluted earnings per share	**114.3p**	102.6p
Adjusted diluted earnings per share	**124.3p**	108.8p

13. Employee benefits

	2013	Restated 2012
Recognised liability for defined benefit obligations:		
- Present value of funded obligations	**152,882**	151,501
- Fair value of plan assets	**(132,684)**	(122,802)
	20,198	28,699
Other pension scheme liabilities	**477**	1,291
Employee bonuses	**14,726**	11,958
Long term incentive plan	**576**	620
Employee indemnity provision	**1,833**	1,329
Other employee benefits	**2,374**	2,228
	40,184	46,125
Non-current	**22,705**	32,060
Current	**17,479**	14,065
	40,184	46,125

The comparatives of employee bonuses, other employee benefits and other payables (note 15) have been reclassified to improve the information provided in the disclosure. The effect of this restatement is that the total current employee benefits have increased by £3,323,000 to £14,065,000. This change has no impact on the Consolidated income statements, the Consolidated statement of changes in equity, the consolidated statement of cash flows or the net assets of the Group.

14. Provisions

	Contingent consideration	Warranty provision	Total
Balance at 1 January 2013	1,122	5,514	6,636
Exchange differences	(29)	(117)	(146)
Increase as a result of business combinations	1,975	389	2,364
Provisions used during the year	(250)	(978)	(1,228)
Charged in the year	(9)	1,877	1,868
Balance at 31 December 2013	**2,809**	**6,685**	**9,494**
Maturity at 31 December 2013			
Non-current	**400**	**2,228**	**2,628**
Current	**2,409**	**4,457**	**6,866**
	2,809	**6,685**	**9,494**
Maturity at 31 December 2012			
Non-current	863	1,838	2,701
Current	259	3,676	3,935
	1,122	5,514	6,636

The warranty provision is based on estimates made from historical warranty data associated with similar products and services. The provision relates mainly to products sold during the last 12 months, the typical warranty period is now 18 months.

Contingent consideration relates to amounts outstanding in respect of the acquisitions of Soldo srl, Flowco Limited and the GTA Group. It is anticipated that the non-current balance will be settled in 2015.

15. Trade and other payables

	2013	Restated 2012
Trade payables	**38,019**	36,355
Corporation tax	**14,836**	11,143
Current tax	**14,836**	11,143
Other taxes and social security	**6,922**	5,795
Payments on account	**7,995**	9,108
Other payables and accrued expenses	**16,085**	16,986
Other payables	**31,002**	31,889

The comparatives of other payables and accrued expenses and employee benefits (note 13) have been reclassified to improve the information provided in the disclosure. The effect of this restatement is that other payables and accrued expenses have decreased by £3,323,000 to £16,986,000. This change has no impact on the consolidated income statements, the consolidated statement of changes in equity, the consolidated statement of cash flows or the net assets of the Group.

16. Related parties

The Group has a related party relationship with its subsidiaries and with its directors and key management. Transactions between two subsidiaries for the sale and purchase of products or the subsidiary and parent Company for management charges are priced on an arms length basis.

Sales to subsidiaries and associates of BAE Systems plc, a related party by virtue of non-executive director IG King's directorship of that company, totalled £49,000 during the year (2012: £34,000) and £nil was outstanding at 31 December 2013 (2012: £15,000).

UBS Investment Bank are a related party by virtue of non-executive director SA James' directorship of UBS Limited. UBS Investment Bank provides the Group financial advice and stockbroking services. The current arrangement with UBS Investment Limited is that out of pocket expenses will be reimbursed and no fees will be charged for their regular advisory or broking services. Expenses of £4,000 have been reimbursed in the year (2012: £4,000) and no balance was outstanding at 31 December 2013 (2012: £nil).

Key management emoluments
The emoluments of those members of the management team, including directors, who are responsible for planning, directing and controlling the activities of the Group were:

	2013	2012
Emoluments including social security costs	**4,816**	4,510
Post employment benefits	**287**	270
Pension supplement	**206**	187
Share-based payments	**1,465**	1,418
	6,774	6,385

17. Financial calendar

4 March 2014	Preliminary announcement of annual results for 2013
9 April 2014	Ex-dividend date for final proposed 2013 dividend
11 April 2014	Record date for final proposed 2013 dividend
25 April 2014	Annual General Meeting held at Rotork House, Brassmill Lane, Bath, BA1 3JQ
19 May 2014	Payment date for final proposed 2013 dividend
5 August 2014	Announcement of interim financial results for 2014