



Rotork plc

2015 Full Year Results

	2015	2014	% change	OCC ^{*2} % change
Revenue	£546.5m	£594.7m	-8.1%	-11.9%
Adjusted ^{*1} operating profit	£125.3m	£157.2m	-20.3%	-23.4%
Adjusted ^{*1} operating margin	22.9%	26.4%	-350bps	-340bps
Profit before tax	£101.9m	£141.2m	-27.8%	-26.2%
Adjusted ^{*1} profit before tax	£122.8m	£156.1m	-21.4%	-24.3%
Basic earnings per share	8.6p	11.9p	-27.7%	-25.8%
Adjusted ^{*1} basic earnings per share	10.4p	13.2p	-21.0%	-24.1%
Full year dividend	5.05p	5.01p	+0.8%	

^{*1} Adjusted figures are before the amortisation of acquired intangible assets

^{*2} OCC is organic constant currency

Key Points

- Results in line with September and November trading update guidance
- Oil & Gas market remained weak
- Accelerated cost management programme delivering greater than anticipated annualised savings
- New product launches and continued investment to expand product portfolio
- Six acquisitions, including Bifold, completed in the year for £147.6m
- Strong cash generation with net debt of £71.1m at year end
- Full year dividend increased by 0.8% to 5.05p (2014: 5.01p)

Peter France, Chief Executive, commenting on the results, said:

“The challenging market conditions that we saw in the first half of the year continued for the remainder of 2015, with many of our key markets and geographies impacted by the weakness of the oil price, political instability and the slowdown in China.

“We were encouraged by the progress of our accelerated cost management programme in 2015 and further actions to mitigate the effect of end market weakness will remain a key focus in the current year. We continue to see opportunities to gain market share by expanding our product portfolio and through both organic development and acquisition. By continuing to implement our strategy for growth and targeted investment we will ensure that Rotork is well placed to make further progress over the medium to long term.”

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An analyst presentation will be held at 8.30am today. This will be available as a live webcast on the company's website at www.rotork.com and a recording will be posted on the website shortly after the meeting.

Chairman's Statement

In this my first year as Chairman, Rotork has delivered a robust set of results despite increasingly difficult trading conditions. Although we do not expect conditions to improve in the near term, the increasing diversity of our end markets and geographies, together with our strong market positions, leave us well placed to navigate the current turbulence whilst continuing to put the building blocks in place for superior medium to long term growth.

At times such as these, the fundamentals of the business are tested to the full. This includes the appropriateness and resilience of the strategy, the strength of our market positions, the quality of the management, and the cohesiveness of our culture and values. I have found Rotork to be in good shape in all these respects.

Over many years, Rotork has established clear leadership positions in well-defined end markets, based on innovative technology and excellent customer service, delivered by a team of highly motivated and experienced employees who put the customer at the heart of what they do. Our asset-light model provides considerable flexibility in prioritising resource according to the greatest need or opportunity, whilst preserving capital for investment in technology and innovation.

Financial Highlights

Order intake was 15.2% lower than the prior year on an organic constant currency (OCC) basis but the contributions from acquisitions, which were mainly completed in the second half of the year, offset in part by the 0.9% currency headwind, resulted in a reported reduction of 11.7%.

Revenue of £546.5m was supported by the order book at the start of the year so reduced by less than order intake and was 11.9% lower on an OCC basis and 8.1% lower on a reported basis.

Adjusted* operating profit reduced 20.3% to £125.3m. Adjusted* operating margins reduced by 350 basis points to 22.9%, impacted by lower sales volumes and the mix effect of newly acquired businesses at lower margins, partially offset by a £4.0m reduction in overheads. The reduction at gross margin level to 45.7% was contained to 230 basis points, with only a small increase in overall material cost percentage, reflecting effective control over material and labour costs, and good pricing resilience in challenging market conditions.

Acquisitions

Rotork had a very active year for acquisitions as we continued to implement our strategy for growth, and invested £147.6m on acquisitions in total. This year we acquired Bifold Group Ltd (Bifold), M&M Srl, Eltav Wireless Monitoring Ltd, all of which sit in our Instruments Division, and Roto Hammer Industries Inc for our Gears Division. We also acquired our agents' businesses in the South of France and Turkey. The acquisition of Bifold for up to £125m in August is the largest acquisition completed by Rotork to date and provides a platform for the accelerated growth of the Instruments division, expanding our addressable market by a further £750m. Bifold performed in line with our expectations during the year.

Board Composition and Performance

I would like to thank my fellow directors for welcoming me as their new Chairman and for their considerable support in my first year in the role.

The Board currently comprises three executive directors, four independent non-executive directors and myself as Chairman. Two out of the eight directors are women (25%), which remains the same as last year.

We are announcing today that Bob Arnold will retire in August this year. Bob has been President of Rotork Controls Inc. since 1988 and a member of the Board since 2001. I would like to thank Bob for his contribution since joining Rotork in 1978 and in particular his significant role in supporting the expansion of the business throughout the Americas.

The annual performance review of the Board is scheduled to take place during February and March 2016.

Corporate Governance

The Board continues to be committed to the highest standards of governance. During the year, the Board and Audit Committee were involved in continuing consideration of and work related to risk appetite and the monitoring and disclosure of risk following the revisions in 2014 to the UK Corporate Governance Code (the Code).

Our Employees

I would like to thank all of our employees for their continued high level of commitment and professionalism during this challenging year.

Dividend

The Board recommends a final dividend of 3.1p per share, a 0.3% increase over the 2014 final dividend. Taken with the 2015 interim dividend, the total dividend is 5.05p per share (2014: 5.01p), representing a 0.8% increase in the total dividend on 2014. The final dividend will be payable on 16 May 2016 to shareholders on the register on 8 April 2016.

Outlook

The challenging market conditions that we saw in the first half of the year continued for the remainder of 2015, with many of our key markets and geographies impacted by the weakness of the oil price, political instability and the slowdown in China.

We were encouraged by the progress of our accelerated cost management programme in 2015 and further actions to mitigate the effect of end market weakness will remain a key focus in the current year. We continue to see opportunities to gain market share by expanding our product portfolio and through both organic development and acquisition. By continuing to implement our strategy for growth and targeted investment we will ensure that Rotork is well placed to make further progress over the medium to long term.

Martin Lamb

Chairman

29 February 2016

Chief Executive's Statement

The challenging market conditions that we saw in the first half of the year continued to dominate for the remainder of 2015, with many of our key markets and geographies impacted by the ongoing weakness of the oil price, political instability and the slowdown in China. We saw lower overall activity levels and an increased number of project deferrals and cancellations. We continue to see opportunities to gain market share by expanding our product portfolio and through both organic development and acquisition. By implementing our strategy for growth and making careful investments we will ensure that Rotork is well placed to make further progress over the medium to long term.

The end of the year usually sees an upturn in revenue as customers look to complete orders and 2015 was no exception. However, fourth quarter revenue was 10.7% lower than the record fourth quarter of 2014 despite the acquisitions completed in the year and 15.1% lower on an organic constant currency (OCC) basis. Revenue for the year was 8.1% lower than the previous year, which on an OCC basis was 11.9% lower. Order intake is usually less driven by this year-end pattern but the fourth quarter nevertheless showed an improvement of 3.2% on the third quarter on an OCC basis or 12.8% with the inclusion of acquisitions. Full year order intake was 11.7% below 2014, or 15.2% lower on an OCC basis. Lower revenue was the main driver of the 20.3% reduction in adjusted* operating profit to £125.3m. Cost control and the accelerated cost management programme delivered more than the anticipated savings in the year but this was not sufficient to offset the reduction in revenue.

In 2015, we invested £147.6m in six acquisitions. In line with our strategy, together these businesses bring additional products that enhance Rotork's product portfolio and technology, expand our geographical presence and give us access to new markets. Our focus in 2016 will be to continue to integrate the newly-acquired businesses and drive the potential revenue synergies. We will also continue to look for acquisition opportunities as part of our growth strategy.

During the year we opened four new sales and services offices and started the move into the new Lucca (Italy) factory, which is due to be completed in the second quarter of 2016. We now have 31 manufacturing sites, 73 national offices, and 84 regional locations in 38 countries. In total we have over 850 sales channels in 101 countries. Strengthening our global presence to provide local support to our customers remains a core part of our strategy.

Our Markets

The long-term drivers of our markets remain positive with population growth, urbanisation and automation continuing to drive increased demand for flow control products and services. Our customers are also increasingly focused on reducing power consumption, increasing efficiency, maximising cost reduction, improved safety and minimising their carbon footprints, which will drive long-term growth in our markets.

In the shorter term our markets continue to be impacted by various headwinds. In 2015, the oil and gas markets remained active despite the fall in the oil price. Oil and gas represented 53.3% of our revenue in 2015, a decline of 360 basis points on the previous year. In the water and industrial markets, revenue was up on the previous year, with water showing a small increase of £1.3m and industrial showing a larger increase of £10.2m demonstrating that our strategy of diversifying our end markets is continuing to make progress. The slowdown in China's economy also impacted our revenue for the year with sales in the power market declining by £7.3m (7.5%), with £6.5m of that total attributable to China.

Rotork Controls

£m	2015	2014	Change	OCC change
Revenue	286.7	324.5	-11.7%	-11.7%
Adjusted operating profit	85.5	104.7	-18.4%	-18.6%
Adjusted operating margin	29.8%	32.3%	-250bps	-250bps

Order intake was £277.0m, a 13.6% reduction compared with the prior year. On an OCC basis the movement was very similar to the reported change at -13.5%, as the small benefit from acquisitions was offset by a modest currency headwind. Revenue was £286.7m, 11.7% lower than the prior year, on both a reported and OCC basis, resulting in a £10.7m reduction in the order book to £81.0m. The lower revenue had a knock-on impact on profitability for the division. Adjusted* operating profit fell 18.4% to £85.5m, an adjusted* operating margin of 29.8%, 250 basis points lower than 2014. The reduced margin is largely attributable to the lower sales volumes with the cost of components similar to the prior year.

Sales to the oil and gas markets were the most heavily impacted during the year, with reduced revenue across upstream, midstream and downstream applications. The proportion of revenue from oil and gas reduced from 51% to 48% during the year with a majority of the division's revenue now coming from other markets. North America continued to grow in total and across all end markets (oil and gas, water, power and industrial), with the Middle East seeing good growth in oil and gas and power. The gains in these markets were insufficient to offset the reduction in revenue in the Far East, Controls' largest market, where all end markets apart from water showed a decline. Within this region, the reduced activity in China in both the oil and gas and power markets had the biggest impact. Latin America was also impacted, with sales in the oil and gas markets substantially down, particularly in Mexico.

The integration of our Turkish sales and services agent's actuator business acquired earlier in 2015 is progressing well and resulted in us opening a new office and expanding our team in Turkey. This will enable us to grow our market share in the region. The purchase of Servo Moteurs Service in France in September further extended our service coverage in southern France.

We continue to focus on product innovation to support growth in our markets. During the year, we launched further variants of our IQ3 range to target profitable niche applications. The main variants of Centork used in the water and power markets were also launched in the year with the remaining variants due to be released in 2016. Two of our existing factories have been set up to produce this range, with a third factory due to commence production in 2016 as volumes grow. The ExMax M has been adapted for outside applications as part of the continued expansion of our product range in the growing HVAC market. A new variant of our compact modulating actuator (CMA) was also launched, adding further features to the current CMA range.

Rotork Fluid Systems

£m	2015	2014	Change	OCC change
Revenue	149.2	180.3	-17.2%	-16.3%
Adjusted operating profit	15.2	31.2	-51.2%	-48.8%
Adjusted operating margin	10.2%	17.3%	-710bps	-670bps

As the Rotork division with the largest exposure to oil and gas, 2015 was a difficult year for Rotork Fluid Systems (RFS). Within the other end markets results were mixed with industrial process sales the largest growth area but this was insufficient to offset the decline in oil and gas. However, oil and gas continues to provide opportunities for RFS in some areas. Both our comprehensive product portfolio and other end market exposure will continue to drive growth.

The second half of the year proved more challenging than the first. Order intake in the second half was 27.1% lower than the second half of 2014, resulting in full year order intake that was 23.4% lower than the prior year. The currency headwind was greater than the contribution from acquisitions, so on an OCC basis full year order intake was 22.2% lower than 2014. Revenue of £149.2m was 17.2% lower, with the negative impact of currency again greater than the contribution from acquisitions, resulting in a reduction in revenue on an OCC basis of 16.3%. Volume, mix and pricing all impacted the top line but the containment of overhead costs at all levels was insufficient to offset this so adjusted* operating profit was down 51.2% to £15.2m, a margin of 10.2% compared with 17.3% last year.

The division's exposure to the oil and gas market reduced once again in 2015, down from 72% to 68% of the division's revenue, with upstream, midstream and downstream all reporting a reduction. Industrial process became the second largest end market with 17% whilst power remained at 9% of a reduced divisional revenue figure. Geographically, North America is RFS's largest market, and the value of its sales remained constant year-on-year. Canada continued to grow, despite the difficult market conditions. In the USA we had a good year in securing key Gulf Coast LNG project work, as well as good project activity around gas pipeline and compressor stations. Western Europe also saw some growth with most of the increase in industrial sales coming from that region. All other regions saw a decline in revenue, with the weakest performer being the Far East, where project deliveries in Australia and India fell from historically high levels in 2014.

The improvement and consolidation of our existing facilities remains a focus as part of our drive to manage costs in the current market conditions. Our new factory in Lucca (Italy) is due to be fully operational in the second quarter of 2016. In addition, in early 2016 we will complete the integration of our three existing Milan facilities into one combined site in Cusago (Italy) and by the end of 2016 we expect to complete the consolidation of three existing

Tulsa (USA) facilities into one combined site. The integration of Masso, our marine focussed business acquired at the end of 2014, is progressing well and Masso is starting to benefit from being part of the Rotork Group and from our global sales network.

We continue to develop our supply chain in India, China and Malaysia for our higher volume products to control and accelerate material cost reductions. We also continue to realise synergistic initiatives with the expanding range of devices within the Instruments division.

Product development continues to be a focus for RFS as we look to build on opportunities to extend or improve our product range to address new or existing market requirements. During the year we launched SI3, our third generation Skilmatic SI electric fail-safe actuator with IQ3 technology, and the CQ range of actuators. CQ can be used in harsh environments where safety is required and where space is limited. During the year we also expanded our range of K-Tork actuators (used in power and industrial markets) by introducing a wider range of sizes and made further progress with our nuclear qualification programme.

Rotork Gears

£m	2015	2014	Change	OCC change
Revenue	58.6	57.8	+1.4%	+1.3%
Adjusted operating profit	12.0	13.0	-7.8%	-3.4%
Adjusted operating margin	20.5%	22.5%	-200bps	-100bps

The Gears division made progress during the year, developing its addressable market, identifying new customers, markets and products, and completing the acquisition of Roto Hammer Industries Inc. (Roto Hammer) in the USA. Our industry leading expertise enables us to deliver innovative solutions to meet our customers' individual valve gearbox and accessory requirements, drawing on a wide range of products. We maintained our focus on profitability, return on sales and world class service. We also continued our efforts to streamline production processes and reduce costs.

Order intake and revenue grew modestly during 2015 on both a reported and OCC basis. Order intake was 0.4% higher than 2014, and revenue 1.3% higher, both on an OCC basis. Whilst currency was neutral for divisional revenue in the first half of the year, it was a headwind in the second half but the second half also benefited from the acquisition of Roto Hammer in September. Revenue was £58.6m, 1.4% ahead of last year, fractionally ahead of order intake, so the order book reduced 6.0% to £10.1m at the end of the year. Gears saw the largest adverse impact of currency on reported margins as a result of its combination of factory locations and supply channels. Adjusted* operating profit of £12.0m (2014: £13.0m) gives a margin of 20.5%, 200 basis points lower than 2014, but on an OCC basis this gap narrows to 100 basis points. This margin reduction can be attributed to the reduction in oil and gas sales which were largely replaced by sales into the power and industrial markets, which are typically at a lower margin.

The £8.2m acquisition of Roto Hammer, a US-based manufacturer of custom designed chain wheel manual valve operators, adds a new product line to the Gears' product range and increases our presence in the important US market. Gears further developed its global sales and service network, providing local support to our customers around the world. We secured new OEM accounts in the growth markets of Korea, Japan, China, India and Eastern Europe. In addition, we saw growth in our sub-sea business, and in the USA we developed "Factory Stores" short lead-time sales.

Oil and gas remained our largest end market but reduced from 57% to 50% of sales, whilst sales in power, water and industrial all grew as we continued to diversify our end market exposure. In terms of the regional split of sales, North America reduced, despite the contribution from Roto Hammer from September, as did the Far East. Western Europe was the best performing region and is our largest end destination market, representing 31% of sales, up from 28% in the prior year.

Our Leeds facility is the worldwide headquarters of Gears. Gearboxes are manufactured here and also at our facilities in China, India, USA and Continental Europe. Our Leeds-based team is responsible for research, product development and product testing.

We continue to work closely with our customers, providing them with the benefits of innovative, technically advanced, high quality products and associated services. Our dedicated research and development team are responsible for new product design and development, from concept to customer. During 2015, we further strengthened our diverse product range with the launch of the AB550M and HOS/MPR gearbox ranges. The

AB550M is motorised for quarter-turn applications, whilst the HOS/MPR is a hand operated spur gearbox offering comprehensive solutions for multi-turn valves.

Rotork Instruments

£m	2015	2014	Change	OCC change
Revenue	67.3	46.0	+46.5%	-5.8%
Adjusted operating profit	18.3	14.4	+26.8%	-14.5%
Adjusted operating margin	27.2%	31.4%	-420bps	-290bps

2015 was another year of strong growth for the Instruments division, with the completion of three acquisitions doubling our addressable market and providing Instruments with excellent foundations for the future. During the year, we focused on: the integration of Soldo and YTC; continuing to widen our product range through synergistic acquisitions and innovating our existing products; leveraging our sales synergies through our global sales network; and delivering cost reduction and productivity improvements.

Order intake grew 43.0% in the year due to the significant contribution from acquisitions and supported by a currency tailwind. On an OCC basis order intake was 9.1% lower than the prior year, with Soldo and Rotork Midland affected by the lower oil and gas activity and Rotork Midland also impacted by the lumpy nature of its rail projects. The pattern with revenue was similar, being 46.5% higher as reported at £67.3m but this was 5.8% lower on an OCC basis. Gross margins were 50 basis points lower than the prior year on an OCC basis, with the mix impact of lower margin acquisitions reducing gross margin by a further 200 basis points, down to 46.3%. Adjusted* operating profit was £18.3m, 26.8% higher than 2014, a 27.2% adjusted* operating margin. OCC adjusted* operating profit was £12.3m, 14.5% lower than 2014, a margin of 28.5%.

In August, we completed the acquisition of Bifold Group Ltd (Bifold) which has operations in Manchester and Taunton (UK) for up to £125m. Bifold is a manufacturer of pneumatic and hydraulic instrument valves focused on the oil and gas industry and wider industrial markets, with expertise in a number of niche sectors such as subsea and wellhead control systems and was a long held target of Rotork's. It has market leading technology in areas that include the development of solenoid valves with ultra-low power requirements. The combination of Bifold's extensive product portfolio and leading technology with Rotork's international sales network and geographic reach will support the continued growth of the Instruments division in the future. Bifold performed in line with expectations during the year.

In August we also acquired M&M International Srl (M&M), based in Bergamo (Italy). M&M is a manufacturer of solenoid valves, piston actuated valves and automatic drain valves for use in commercial and industrial flow control industries and will complement Rotork Midland's range of solenoid valves. Our third acquisition for the year was Eltav Technologies. Eltav produces an innovative industrial wireless monitoring solution for actuated valves. Its diagnostic software enables predictive maintenance on actuated valves, reducing capital and operational expenses while increasing safety and productivity in the plant. These acquisitions support our strategy of broadening our product portfolio and expanding our addressable markets. Activities to integrate our routes to market, train the sales teams on the broader product portfolio and align our product development strategies are all well underway and progressing according to plan.

Instruments had less exposure than the other divisions to the oil and gas market in 2015, although it was still the largest end market at 44% of divisional revenue and that proportion will increase in the current year with a full year contribution from Bifold. There was a decline in oil and gas sales in some areas but these were offset by gains in other areas. We have continued to be successful in gaining traction in new geographic markets through selling our growing product portfolio through our integrated global sales channels. In particular, Rotork Midland and YTC saw good growth in India, Korea, China and the USA.

In 2015, each of the businesses developed extensions to their existing product ranges and new variants of products, supporting global expansion and key end markets. Soldo developed ECL, a multi-turn manual switch box, in collaboration with Rotork Gears; Rotork Midland developed a pioneering control system on a Biomass wagon for the Drax power station that controls the door opening and locking process; YTC's new TMP-3000 industrial positioner will open new markets for YTC in the control of piston valves; and Bifold continues to expand its range of products for the wellhead market with electro hydraulic power packs and pressure transmitters and switches.

Rotork Site Services (RSS)

The RSS team provide service and support to our customers locally around the world through preventative maintenance contracts, onsite and workshop service, retrofit solutions and the tailor-made Client Support

Programme (CSP). In 2015, RSS opened new service centres in Glasgow and Korea, expanded its service provision in France and Turkey and improved existing facilities to accommodate the CSP and changes in service. With 402 directly-employed service engineers and other service technicians employed by our agents around the world (2014: 370), we provide the infrastructure to effectively support all of our customers' service needs.

Research and Development (R&D)

Innovation continues to be a core part of our strategy as we work with our customers to find ways of reducing power consumption, increasing efficiency, lowering the costs of asset ownership and minimising carbon footprint. Following the acquisition of Bifold Group Ltd in August, Gary Jacobson was appointed as Group Innovation Director in October and will head the new Group Innovation Department. Gary brings a wealth of experience and technical knowledge of products and markets relevant to Rotork and I am delighted to have him leading our future development in this area. 2015 saw the launch of a number of new products across the divisions and our spend on R&D for the year was £9.6m or 1.8% of revenue.

Our People

Rotork's culture and values are an integral part of our business model and are embedded in the day to day behaviour of all employees. Our employees act and behave as smaller family units, part of the larger Rotork family. This is supported by Rotork being structured as a number of smaller business units, with individuals working collaboratively across teams and projects.

Rotork aims to be an employer of choice and is considered a great place to work by the majority of our employees. We foster an open and honest culture based on the engagement of our employees. Our annual employee satisfaction is used to improve the experience of working at Rotork and has helped to drive many changes around the Rotork globe. Our annual survey was completed by 2,350 employees, with the response rate being slightly down (71% compared to 75% last year) and the overall satisfaction score remaining the same as last year at 3.6. The global results showed that on average people are most satisfied with Rotork's products and services, our approach to health and safety and our values and ethics and they are planning to stay with Rotork for at least another year.

Rotork had a total of 3,759 employees at the end of 2015, an increase of 300 employees. From the various acquisitions, 389 employees joined the Rotork family. Excluding the acquisitions, the total number of employees decreased by 89 as a result of the cost management initiatives that were implemented during the year.

In 2015, there were two changes to our management team, with the retirement of Graham Ogden in March and Gary Jacobson joining the Rotork Management Board in October following his appointment as Group Innovation Director.

The success of Rotork is down to the hard work and dedication of our people. I would like to personally thank each and every one of them for making Rotork the world class business that it is today.

Acquisitions

In August we completed the acquisition of Bifold, the largest single acquisitions in our history. Taken with M&M, Roto Hammer, SMS, Eltav and the purchase of the sales and service activities of our agent in Turkey, acquisition spend was £136.7m in the year with a further £10.9m of contingent consideration most of which is in respect of Bifold. Each of these acquisitions provides a new product range, access to a new end-user market or access to a new geographic market or some combination of these benefits in line with our stated acquisition strategy.

Taking all these acquisitions together, £66.7m of the consideration was attributed to intangible assets which will be amortised and £74.5m is goodwill which will be subject to an annual impairment review. The increased value of acquisitions this year and last year led to a rise in the amortisation charge related to acquired intangible assets to £20.9m (2014: £14.9m). In order to adjust the income statement to show a like-for-like period for each acquisition, 2015 revenue has to be reduced by £26.8m and adjusted* operating profit by £6.0m. The profit margin of the acquired business was slightly dilutive in aggregate, at 22.2%. The professional fees associated with the acquisitions amounted to £1.3m (2014: £0.6m) and are included in adjusted* operating profit.

Accelerated cost management programme

At our Half Year results in August we presented an accelerated cost management programme as part of our response to the changing market conditions. The programme identified £8m of annualised savings, split equally between material costs and overheads with £2m of these savings due to be realised in 2015. The sourcing initiatives launched in 2015 have been implemented quicker than anticipated, with annualised savings of £5.6m identified and introduced, and with a material cost benefit of £2.8m in the year. This helped contain the material cost percentage so that the net impact of pricing, mix, and material cost was only an 80 basis point increase.

The initiatives to reduce overheads also delivered greater savings in the year than anticipated with the income statement benefiting from £2.6m of savings which when annualised will be £4.6m. Not replacing leavers and consolidating roles led to a net headcount reduction of 89 people in the year, including some senior posts, before the 389 people added with acquisitions are reflected. This was the largest contributor to both the savings in the year and the annualised total. Facility consolidation is underway in a number of locations and is most advanced in Milan. As these moves were completed in early 2016, the benefit will only start to be felt in the current year.

Overall, the accelerated cost management programme produced savings of £5.4m in 2015 which on an annualised basis will increase to £10.2m. In addition to these savings, 2015 benefited from a reduction in variable pay as bonuses at all levels of the organisation were lower than the prior year. Excluding the impact of acquisitions and removing the benefit of the specific cost management programme changes identified above, the like for like payroll cost decreased marginally but the cost of bonuses and similar variable benefits reduced by £11m.

Currency

The overall impact of currency on our reported results for 2015 was closer to neutral than in 2014. This was particularly true in the first half of the year when the adjustment to revenue to restate it at 2014 rates was a net nil. In the second half of the year both the US dollar and euro strengthened relative to sterling, resulting in a £4.3m (0.8%) headwind to revenue for the full year. Within this our two main currencies fared very differently, with US dollar average rates strengthening 7.2% and the euro weakening 11.0% for the year. Amongst the other 16 currencies that are home currencies to one or more of our subsidiaries, there was a net weakening of currencies with seven of the currencies weakening by more than 10%.

The impact of currency on the Group is both translational and transactional. Given the locations in which we have operations and the international nature of our supply base and sales currencies, the impact of transaction differences can be very different from the translation impact. We are able to partially mitigate the transaction impact through matching supply currency with sales currency, but ultimately we are still net sellers of both US dollars and euros. 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. Net of these mitigating actions adjusted* operating profit was £1.1m (0.7%) lower than it would have been at 2014 rates.

In order to estimate the impact of currency, at the current exchange rates we consider the effect of a 1 cent movement versus sterling. A 1 euro cent movement now results in approximately a £235,000 adjustment to profit and for US dollar, and dollar related currencies, a 1 cent movement equates to approximately a £400,000 adjustment. Both these adjustments were lower compared with the equivalent figures in 2014 as a result of the lower underlying currency flows. If current exchange rates were to apply for the whole of 2016, this would be a 7% tailwind to both revenue and profit compared with the average rates for 2015.

Return on capital employed (ROCE)

Our asset-light business model and strong profit margins mean Rotork generates a high ROCE. Our definition of ROCE is based on adjusted* operating profit as a return on the average net assets excluding net debt and the pension scheme liability net of the related deferred tax. This means that as we make acquisitions our capital base grows when the associated intangible assets and goodwill are recognised. During the year intangibles and goodwill increased by a net £119m in total which, after allowing for the related deferred tax, accounted for more than 23% of the increase in capital employed, which rose 31% to £496m. With the larger acquisitions taking place in the second half of the year and therefore only contributing a part year profit together with the lower organic sales, ROCE reduced to 28.6%.

Group Tax Policy

The Group's 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 framework of local legislation. This approach to tax balances the various interests of shareholders, governments, employees and the communities in which we operate and is aligned with our strategy, enhancing shareholder value whilst protecting the Group's reputation. In an increasingly complex international environment and with the broad geographic spread of our businesses, a degree of tax risk is inevitable. We manage and control these risks proactively seeking local professional advice where needed.

The Group's effective tax rate reduced from 26.9% to 26.5%. The Group continues to operate in many jurisdictions where local profits are taxed at their national statutory rates, ranging from nil to over 35%, compared to a UK statutory rate of 20.25% for the year. In the year, the change in profit mix across the Group resulted in a decrease in the effective tax rate of 0.4 percentage points. In contrast, the Group benefitted from the reduction in the UK

Corporation Tax rate, generating a one off 0.6% rate benefit. In addition, the Group continues to benefit from the UK patent box regime and R&D tax relief.

Cash generation

Following the acquisition of Bifold our net debt position at the end of the year was £71.1m compared with net cash at the start of the year of £25.2m. The three largest categories of cash expenditure were: £138.4m on acquisitions, £43.8m of dividends and £35.7m of tax paid. The increase in acquisition spend, from £82.7m last year, was the largest increase and was funded by a £98.3m net increase in bank borrowing during the year. Capital expenditure was £11.8m compared with £17.5m in 2014, with the £3.8m spent on the fit out of the new Lucca facility the only major project during taking place during the year.

Our cash generation KPI shows a conversion of 115.4% of operating profit into operating cash. Control of working capital as defined in the cashflow statement, using average exchange rates and excluding acquisitions, is key to achieving this performance measure. Looking at the balance sheet figures, inventory increased £6.1m to £87.2m in the year and represented 16.0% of annual revenue but on an OCC basis was a decrease of £0.7m, 15.3% of revenue. Trade receivables fell £9.7m as reported, with debtor days outstanding increasing 2 days to 62 days. In total, net working capital increased to 31.0% of annual revenue compared with 28.5% in December 2014. This year the combination of acquisitions taking place late in the year and currency movements at the end of the year affecting the balance sheet values of working capital impacted this measure in 2015.

Dividends

The Board is proposing a 0.3% increase in the final dividend to 3.1p per share. When taken together with the 1.95p interim dividend paid in September, this represents a 0.8% increase in dividends over the prior year, having taken into account the 10 for 1 share split which took place in May 2015. This gives dividend cover of 1.7 times (2014: 2.4 times), with the reduction in cover reflecting the reduction in profits in 2015. Our long-standing dividend policy is to grow core dividends in line with earnings and supplement core dividends with additional dividends when the Board considers it appropriate to do so having considered the near-term expected cash requirements of the Group.

Peter France

Chief Executive Officer
29 February 2016

* References to adjusted profit throughout this document are defined as the IFRS profit, whether operating profit or profit before tax, with £20.9m (2014: £14.9m) of amortisation of acquired intangibles added back.

Consolidated income statement

For the year ended 31 December 2015

	Notes	2015 £000	2014 £000
Revenue	2	546,459	594,739
Cost of sales		(296,944)	(309,280)
Gross profit		249,515	285,459
Other income		427	277
Distribution costs		(4,613)	(5,466)
Administrative expenses		(140,877)	(137,832)
Other expenses		(66)	(211)
Operating profit before the amortisation of intangible assets		125,272	157,167
Amortisation of acquired intangible assets		(20,886)	(14,940)
Operating profit	2	104,386	142,227
Finance income	4	1,740	1,421
Finance expense	4	(4,257)	(2,483)
Profit before tax		101,869	141,165
Income tax expense	5	(27,012)	(37,963)
Profit for the year		74,857	103,202
Basic earnings per share	12	8.6p	11.9p ¹
Adjusted basic earnings per share	12	10.4p	13.2p ¹
Diluted earnings per share	12	8.6p	11.9p ¹
Adjusted diluted earnings per share	12	10.4p	13.1p ¹

¹ Restated to reflect subdivision of 5p ordinary shares into 0.5p ordinary shares.

Consolidated statement of comprehensive income

For the year ended 31 December 2015

	2015 £000	2014 £000
Profit for the year	74,857	103,202
Other comprehensive income		
<i>Items that may be subsequently reclassified to the income statement:</i>		
Foreign exchange translation differences	(6,511)	(869)
Effective portion of changes in fair value of cash flow hedges net of tax	(1,448)	(1,810)
	(7,959)	(2,679)
<i>Items that are not subsequently reclassified to the income statement:</i>		
Actuarial gain / (loss) in pension scheme net of tax	8,049	(15,341)
Income and expenses recognised directly in equity	90	(18,020)
Total comprehensive income for the year	74,947	85,182

Consolidated balance sheet

At 31 December 2015

	Notes	2015 £000	2014 £000
Non-current assets			
Goodwill	6	222,086	149,679
Intangible assets	7	118,555	72,270
Property, plant and equipment		72,008	64,050
Deferred tax assets		13,698	15,703
Other receivables	9	2,234	1,976
Total non-current assets		428,581	303,678
Current assets			
Inventories	8	87,210	81,090
Trade receivables	9	118,801	128,472
Current tax	9	4,458	1,962
Derivative financial instruments		25	1,913
Other receivables	9	13,225	12,586
Cash and cash equivalents	10	48,968	46,816
Total current assets		272,687	272,839
Total assets		701,268	576,517
Equity			
Issued equity capital	11	4,349	4,346
Share premium		10,018	9,422
Reserves		(3,989)	3,970
Retained earnings		397,424	359,057
Total equity		407,802	376,795
Non-current liabilities			
Interest bearing loans and borrowings	13	69,756	1,303
Employee benefits	14	26,320	38,864
Deferred tax liabilities		28,973	20,358
Derivative financial instruments		431	-
Provisions	15	11,990	1,913
Total non-current liabilities		137,470	62,438
Current liabilities			
Interest bearing loans and borrowings	13	50,352	20,274
Trade payables	16	36,724	40,162
Employee benefits	14	11,118	16,018
Current tax	16	14,276	15,200
Derivative financial instruments		3,601	1,119
Other payables	16	34,612	35,191
Provisions	15	5,313	9,320
Total current liabilities		155,996	137,284
Total liabilities		293,466	199,722
Total equity and liabilities		701,268	576,517

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 2013	4,344	8,840	2,668	1,644	2,337	312,246	332,079
Profit for the year	-	-	-	-	-	103,202	103,202
Other comprehensive income							
Foreign exchange translation differences	-	-	(869)	-	-	-	(869)
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	(2,368)	-	(2,368)
Actuarial loss on defined benefit pension plans	-	-	-	-	-	(19,832)	(19,832)
Tax in other comprehensive income	-	-	-	-	558	4,491	5,049
Total other comprehensive income	-	-	(869)	-	(1,810)	(15,341)	(18,020)
Total comprehensive income	-	-	(869)	-	(1,810)	87,861	85,182
Transactions with owners, recorded directly in equity							
Equity settled share-based payments transactions	-	-	-	-	-	2,799	2,799
Tax on equity settled share-based payment transactions	-	-	-	-	-	(274)	(274)
Share options exercised by employees	2	582	-	-	-	-	584
Own ordinary shares acquired	-	-	-	-	-	(6,300)	(6,300)
Own ordinary shares awarded under share schemes	-	-	-	-	-	5,427	5,427
Dividends	-	-	-	-	-	(42,702)	(42,702)
Balance at 31 December 2014	4,346	9,422	1,799	1,644	527	359,057	376,795
Profit for the year	-	-	-	-	-	74,857	74,857
Other comprehensive income							
Foreign exchange translation differences	-	-	(6,511)	-	-	-	(6,511)
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	(1,790)	-	(1,790)
Actuarial gain on defined benefit pension plans	-	-	-	-	-	9,704	9,704
Tax in other comprehensive income	-	-	-	-	342	(1,655)	(1,313)
Total other comprehensive income	-	-	(6,511)	-	(1,448)	8,049	90
Total comprehensive income	-	-	(6,511)	-	(1,448)	82,906	74,947
Transactions with owners, recorded directly in equity							
Equity settled share-based payments transactions	-	-	-	-	-	(1,447)	(1,447)
Tax on equity settled share-based payment transactions	-	-	-	-	-	(799)	(799)
Share options exercised by employees	3	596	-	-	-	-	599
Own ordinary shares acquired	-	-	-	-	-	(2,785)	(2,785)
Own ordinary shares awarded under share schemes	-	-	-	-	-	4,257	4,257
Dividends	-	-	-	-	-	(43,765)	(43,765)
Balance at 31 December 2015	4,349	10,018	(4,712)	1,644	(921)	397,424	407,802

Consolidated statement of cash flows

For the year ended 31 December 2015

	Notes	2015 £000	2015 £000	2014 £000	2014 £000
Cash flows from operating activities					
Profit for the year		74,857		103,202	
<i>Adjustments for:</i>					
Amortisation of intangibles		20,886		14,940	
Amortisation of development costs		1,814		1,461	
Depreciation		9,759		7,996	
Equity settled share-based payment expense		2,810		5,160	
(Profit) / loss on sale of property, plant and equipment		(280)		88	
Finance income		(1,740)		(1,421)	
Finance expense		4,257		2,483	
Income tax expense		27,012		37,963	
		139,375		171,872	
Decrease / (Increase) in inventories		731		(1,891)	
Decrease / (increase) in trade and other receivables		15,664		(16,349)	
Decrease in trade and other payables		(6,931)		(1,327)	
Difference between pension charge and cash contribution		(5,051)		(5,241)	
Decrease in provisions		(56)		(1,379)	
(Decrease) / increase in employee benefits		(4,226)		2,176	
		139,506		147,861	
Income taxes paid		(35,716)		(42,992)	
Cash flows from operating activities			103,790		104,869
Investing activities					
Purchase of property, plant and equipment		(11,762)		(17,518)	
Development costs capitalised		(3,063)		(2,676)	
Sale of property, plant and equipment		1,508		224	
Acquisition of businesses, net of cash acquired	3	(133,857)		(81,263)	
Contingent consideration paid		(4,536)		(1,463)	
Interest received		1,103		1,048	
Cash flows from investing activities			(150,607)		(101,648)
Financing activities					
Issue of ordinary share capital		599		584	
Own ordinary shares acquired		(2,785)		(6,300)	
Interest paid		(1,759)		(1,120)	
Increase in bank loans		98,326		19,496	
Repayment of finance lease liabilities		(100)		(36)	
Dividends paid on ordinary shares		(43,765)		(42,702)	
Cash flows from financing activities			50,516		(30,078)
Increase / (decrease) in cash and cash equivalents			3,699		(26,857)
Cash and cash equivalents at 1 January			46,816		68,873
Effect of exchange rate fluctuations on cash held			(1,547)		4,800
Cash and cash equivalents at 31 December	10		48,968		46,816

Notes to the Financial Statements

For the year ended 31 December 2015

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 2015 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.

New accounting standards and interpretations

The following narrow scope amendments which were issued as part of the IFRS Annual improvement cycles have been applied from 1 January 2015:

- Amendment to IAS19 Defined benefit plans – Employee contributions
- IFRS2 Share-based payment – Definition of vesting condition
- IFRS3 Business combination – Accounting for contingent consideration
- IFRS8 Operating segments – Aggregation of operating segments and Reconciliation of the total of reportable assets
- IFRS13 Fair value measurement – Short-term receivable and payables
- IAS24 Related party disclosure – Key management personnel services

Application of these standards and amendments has not had any material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements

Recent accounting developments

IFRS15 Revenue from contracts with customers has been issued but is not yet effective and has not been adopted as application was not mandatory for the year. The new standard requires the separation of performance obligations within contracts with customers and the contractual value to be allocated to the performance obligations. Once a performance obligation is satisfied revenue should be recognised on that element of the contract. The introduction of the standard is likely to have some impact on Rotork but this is unlikely to be material due to the relatively straightforward contractual terms and conditions with customers. An assessment will be carried to understand the impact of this standard prior to it becoming effective in January 2018.

IFRS9 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.

IFRS16 Leases was issued on 13 January 2016 and has a mandatory effective date of 1 January 2019. The new standard will eliminate the classification of leases as either operating or finance leases and result in operating leases being treated as finance leases. This will result in previously recognised operating leases being treated as property, plant and equipment and a finance lease creditor. The introduction of the standard will increase the value of property, plant and equipment and the finance lease liability on the balance sheet but it is unlikely to have a material impact on the profit in any year. An assessment will be carried out to understand the full impact of the standard prior to it becoming effective in January 2019.

The narrow scope amendments in the Annual Improvements to IFRSs: 2012 – 2014 cycle which are mandatory for periods commencing after 1 January 2016 will not have a material impact on the disclosures, net assets or results of the Group.

Going concern

After carrying out a detailed review of the viability of the business, 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 net cash position.

Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year to 31 December 2015. 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.

2. OPERATING SEGMENTS (CONTINUED)

	Controls 2015	Fluid Systems 2015	Gears 2015	Instruments 2015	Unallocated 2015	Group 2015
Depreciation	4,585	2,560	1,194	1,369	51	9,759
Amortisation:						
– Other intangibles	3,326	2,300	990	14,270	–	20,886
– Development costs	1,514	148	67	85	–	1,814
Non-cash items : equity settled share-based payments	1,911	549	351	103	(104)	2,810
Net financing expense	–	–	–	–	(2,517)	(2,517)
Acquired as part of business combinations:						
– Goodwill	1,321	–	3,933	69,206	–	74,460
– Intangible assets	3,048	–	4,951	58,685	–	66,684
Capital expenditure	5,093	4,970	811	818	46	11,738

	Controls 2014	Fluid Systems 2014	Gears 2014	Instruments 2014	Unallocated 2014	Group 2014
Depreciation	4,396	2,012	813	715	60	7,996
Amortisation:						
– Other intangibles	3,477	1,585	428	9,450	–	14,940
– Development costs	1,342	20	44	55	–	1,461
Non-cash items : equity settled share-based payments	2,779	1,162	574	181	464	5,160
Net financing expense	–	–	–	–	(1,062)	(1,062)
Acquired as part of business combinations:						
– Goodwill	–	1,753	–	43,301	–	45,054
– Intangible assets	–	1,346	–	31,042	–	32,388
Capital expenditure	6,082	6,820	3,875	613	2	17,392

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

Geographical analysis:

Revenue by location of subsidiary	2015	2014
UK	64,415	57,424
Italy	57,254	66,447
Rest of Europe	92,908	110,790
USA	137,898	144,366
Other Americas	30,698	36,327
Rest of the World	163,286	179,385
	546,459	594,739

	UK 2015	Rest of Europe 2015	USA 2015	Other Americas 2015	Rest of World 2015	Group 2015
Non-current assets:						
– Goodwill	81,328	53,645	48,817	740	37,556	222,086
– Intangible assets	60,917	20,833	16,827	–	19,978	118,555
– Property, plant and equipment	25,675	22,362	7,834	618	15,519	72,008

	UK 2014	Rest of Europe 2014	USA 2014	Other Americas 2014	Rest of World 2014	Group 2014
Non-current assets:						
– Goodwill	14,107	53,409	42,565	759	38,839	149,679
– Intangible assets	11,972	21,767	16,824	–	21,707	72,270
– Property, plant and equipment	21,770	18,257	7,265	801	15,957	64,050

3. ACQUISITIONS

i) Bifold

On 27 August 2015 the Group acquired 100% of the share capital of Bifold Group Limited. ("Bifold") for £125,643,000. Bifold is a leading manufacturer of pneumatic and hydraulic instrument valves and components focused on the oil and gas industry and wider industrial markets, headquartered in Manchester, UK. The acquired business is reported within the Instruments division. In the four months to 31 December 2015 Bifold contributed £10,893,000 to Group revenue and £2,004,000 to consolidated operating profit before amortisation. The amortisation charge in the four month period from the acquired intangible assets was £4,141,000.

If the acquisition had occurred on 1 January 2015 the business would have contributed £33,296,000 to Group revenue, £4,388,000 to Group operating profit and £3,534,000 to profit attributable to equity shareholders.

ii) Other acquisitions

The Group acquired 100% of the share capital of M&M International Srl ("M&M") for £7,649,000 on 3 August 2015. M&M is a leading manufacturer of solenoid valves, piston actuated valves and automatic drain valves for use in commercial and industrial flow control industries based in Bergamo, Italy. The acquired businesses is reported within the Instruments division.

The Group acquired 100% of the share capital of Roto Hammer Industries Inc. ("Roto Hammer") for £8,215,000 on 24 September 2015. Roto Hammer is a manufacturer of custom-designed chain wheel manual valve operators based in Tulsa, USA. The acquired business is reported within the Gears division.

The Group acquired 100% of the share capital of Servo Moteurs Service sarl ("SMS") for £1,303,000 on 29 September 2015. SMS, an actuator service business is based in Marseilles, France. The acquired business is reported within the Controls division.

The Group acquired 100% of the share capital of Eltav Wireless Monitoring Limited ("Eltav") for £1,980,000 on 30 October 2015. Eltav is engaged in the research and development of wireless systems for monitoring production activity in the process industry based in Tel-Aviv, Israel. The acquired business is reported within the Instruments division.

The Group purchased the assets of the actuator and service business of a former Rotork agent, OMAS Teknik based in Turkey ("Turkey") for £2,843,000 on 26 February 2015. This purchase is reported within the Controls division.

In the period from acquisition to 31 December 2015, the other acquisitions contributed £4,305,000 to Group revenue and £836,000 to consolidated operating profit before amortisation. The amortisation charge in respect of these acquisitions during the year was £1,031,000. If these other acquisitions had occurred on 1 January 2015 they would have contributed £11,497,000 to Group revenue, £1,372,000 to Group operating profit and £730,000 profit attributable to equity shareholders.

3. ACQUISITIONS (CONTINUED)

iii) Acquisitions fair value table

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

	Bifold			Other acquisitions			Total
	Book value	Adjustments	Provisional Fair value	Book value	Adjustments	Provisional fair value	Provisional fair value
Non-current assets							
Property, plant and equipment	5,251	–	5,251	1,308	1,448	2,756	8,007
Intangible assets	–	53,599	53,599	11	13,074	13,085	66,684
Deferred tax asset	–	–	–	–	518	518	518
Current assets							
Inventory	7,115	(304)	6,811	1,835	(260)	1,575	8,386
Trade and other receivables	7,849	(80)	7,769	2,454	8	2,462	10,231
Corporation tax	–	–	–	188	–	188	188
Cash	1,030	–	1,030	1,117	–	1,117	2,147
Current liabilities							
Trade and other payables	(4,643)	(271)	(4,914)	(1,667)	(285)	(1,952)	(6,866)
Employee benefits	–	–	–	(544)	–	(544)	(544)
Warranty provision	(182)	–	(182)	–	(50)	(50)	(232)
Corporation tax	(263)	(200)	(463)	(55)	–	(55)	(518)
Loans and other borrowings	(397)	–	(397)	(18)	–	(18)	(415)
Non-current liabilities							
Deferred tax liability	(102)	(9,980)	(10,082)	–	(4,331)	(4,331)	(14,413)
Total net assets	15,658	42,764	58,422	4,629	10,122	14,751	73,173
Goodwill			67,221			7,239	74,460
<hr/>							
Purchase consideration			125,643			21,990	147,633
Paid in cash			115,143			21,604	136,747
Contingent consideration			10,500			386	10,886
<hr/>							
Purchase consideration			125,643			21,990	147,633
<hr/>							
							Total
Cash movements in respect of acquisitions							
Purchase consideration paid in cash							136,747
Cash held in acquired subsidiary							(2,147)
Price adjustment in respect of YTC acquisition in 2014							(743)
							133,857

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.

Due to their contractual dates, the fair value of receivables (shown above) approximate to the gross contractual amounts receivable. The amount of gross contractual receivables not expected to be recovered is immaterial.

The contingent consideration in respect of Bifold is payable in 2017 or 2018 and is dependent on an EBITDA target being achieved.

The goodwill arising from these acquisitions represents the opportunity to grow by exploiting new routes to market via the Rotork sales network and the technical expertise of the acquired workforce. Goodwill arising on acquisition is not deductible for income tax purposes except for the £1,320,000 in respect of the asset purchase.

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

iv) Acquisition costs

Acquisition costs of £1,321,000 have been expensed in administration expenses in the income statement (2014: £598,000).

4. FINANCE INCOME AND EXPENSE**Recognised in the income statement**

	2015	2014
Interest income	1,119	1,057
Foreign exchange gains	621	364
Finance income	1,740	1,421

	2015	2014
Interest expense	(1,811)	(1,159)
Interest charge on pension scheme liabilities	(1,181)	(788)
Foreign exchange losses	(1,265)	(536)
Finance expense	(4,257)	(2,483)

Recognised in equity

	2015	2014
Effective portion of changes in fair value of cash flow hedges	(1,123)	667
Fair value of cash flow hedges transferred to income statement	(667)	(3,035)
Foreign currency translation differences for foreign operations	(6,511)	(869)
	(8,301)	(3,237)
Recognised in:		
Hedging reserve	(1,790)	(2,368)
Translation reserve	(6,511)	(869)
	(8,301)	(3,237)

5. INCOME TAX EXPENSE

	2015	2015	2014	2014
Current tax:				
UK corporation tax on profits for the year	3,154		6,122	
Adjustment in respect of prior years	(668)		(766)	
		2,486		5,356
Overseas tax on profits for the year	28,995		36,283	
Adjustment in respect of prior years	(232)		229	
		28,763		36,512
Total current tax		31,249		41,868
Deferred tax:				
Origination and reversal of other temporary differences	(3,540)		(3,650)	
Impact of rate change	(732)		-	
Adjustment in respect of prior years	35		(255)	
Total deferred tax		(4,237)		(3,905)
Total tax charge for year		27,012		37,963
Effective tax rate (based on profit before tax)		26.5%		26.9%
Profit before tax		101,869		141,165
Profit before tax multiplied by the blended standard rate of corporation tax in the UK of 20.25% (2014: 21.5%)		20,629		30,350
<i>Effects of:</i>				
Different tax rates on overseas earnings		7,910		8,841
Permanent differences		1,331		1,444
Losses not recognised		463		-
Research and development credits		(1,724)		(1,880)
Impact of rate change		(732)		-
Adjustments to tax charge in respect of prior years		(865)		(792)
Total tax charge for year		27,012		37,963

A tax expense of £799,000 (2014: £274,000) in respect of share-based payments has been recognised directly in equity in the year.

The reduction in the effective tax rate from 26.9% to 26.5% is primarily due the impact of the reduction of the UK rate of corporation tax substantively enacted on 26 October 2015. 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, China, Canada, France, Germany, Italy, Japan and India.

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 the timing of the reversal of the temporary differences. The value of temporary differences associated with unremitted earnings of subsidiaries for which deferred tax has not been recognised is £307,714,000 (2014: £292,704,000).

6. GOODWILL

	2015	2014
Cost		
At 1 January	149,679	105,150
Acquisition through business combinations (note 3)	74,460	45,054
Other movements	(743)	–
Exchange adjustments	(1,310)	(525)
At 31 December	222,086	149,679
Provision for impairment		
At 1 January and 31 December	–	–
Carrying amounts	222,086	149,679

Other movements represents a final purchase price adjustment in respect of YTC which was acquired in 2014.

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 entity's growth into new markets is through the Group's existing sales network and/or where manufacturing of certain products is transferred to other divisional businesses the lowest level of CGU is considered to be at a divisional sub-group level. During the year Fairchild, Soldo, YTC and Midland were combined to form an Instruments sub-group.

Cash generating unit	Discount rates		2015	2014
Controls				
Schischek	14.7%	(2014: 13.3%)	16,835	17,874
Other cash generating units	12.7% - 16.7%	(2014: 14.8% -15.1%)	10,723	9,428
			27,558	27,302
Fluid Systems				
Rotork Fluid Systems	14.4%	(2014: 15.1%)	6,728	7,143
Rotork Sweden	13.7%	(2014: 13.3%)	5,818	5,965
Other cash generating units	13.5% - 14.8%	(2014: 14.1% -15.1%)	13,717	13,786
			26,263	26,894
Gears				
Other cash generating units	12.1% - 14.7%	(2014:13.1% -15.1%)	12,963	8,991
			12,963	8,991
Instruments				
Bifold	12.5%	n.a	67,221	–
Instruments sub-group	12.5%	(2014: 13.8%)	86,016	86,492
Other cash generating units	14.6%	n.a	2,065	–
			155,302	86,492
Total Group			222,086	149,679

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 from management forecasts which are based on the budget and the three year plan. The three year plan is a bottom up process which takes place as part of the annual budget process. Once the budget for the next financial year is finalised years 2 and 3 of the three year plan are prepared by each reporting entity's management reflecting their view of the local market, known projects and experience of past performance. The annual budget and the three year plan are reviewed and approved by the Board each year.

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

i) Long term growth rates

In the period after the three year plan growth rates are forecast at 5% per annum for the first two years and 2% thereafter for each CGU. The 5% rate reflects a realistic market forecast for the flow control market up until 2020. The continued need for our customers to improve their infrastructure by automating valves gives confidence that the growth rate of our market will exceed the long term growth rate of 2% used in the impairment calculations.

ii) Discount rates

The discount rates presented above are pre-tax nominal weighted average cost of capital (WACC) for each of the CGUs. The WACC is the weighted average of the pre-tax cost of debt financing and the pre-tax cost of equity finance.

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 and applying sensitivities to these assumptions below, Bifold and the Instruments sub-group would be the first CGUs to trigger a potential impairment. Apart from these there is no reasonable change that would cause the carrying amount of any other CGU goodwill to exceed the recoverable amount.

The Instruments sub-group downside sensitivities have been assessed. A decrease in the growth rate by 7% in each of the next five years or an increase in the discount rate by 3% to 15.5% would result in the headroom being reduced from £44,500,000 in the base case to zero. It is anticipated that as the acquired businesses continue to leverage the sales network opportunities from being part of the Rotork Group the long term growth rate of the CGU should comfortably exceed the growth rates assumed in the impairment review.

Bifold downside sensitivities have also been assessed. A growth rate of 2% per annum from year three of the 3 year plan would result in a reduction of the headroom from £39,200,000 in the base case to zero. It is anticipated that as Bifold continues to develop its sales of recently launched products, brings more products to market over the next couple of years and at the same time develops the sales network opportunities from being part of the Group, the growth rates will exceed the long term growth rate of 2% used in the impairment review.

7. INTANGIBLE ASSETS

	Research & development costs	Acquired intangible assets			Total
		Brands	Customer relationships	Other	
Cost					
1 January 2014	11,096	29,680	38,436	7,730	86,942
Acquisition through business combinations	226	4,808	22,579	4,775	32,388
Internally developed	2,746	–	–	–	2,746
Exchange adjustments	16	(135)	82	(77)	(114)
31 December 2014	14,084	34,353	61,097	12,428	121,962
Acquisition through business combinations	–	11,004	45,414	10,266	66,684
Internally developed	3,050	–	–	–	3,050
Exchange adjustments	13	(25)	(364)	(134)	(510)
31 December 2015	17,147	45,332	106,147	22,560	191,186
Amortisation					
1 January 2014	6,064	7,725	15,020	4,652	33,461
Charge for the year	1,461	4,188	8,255	2,497	16,401
Exchange adjustments	1	(38)	(121)	(12)	(170)
31 December 2014	7,526	11,875	23,154	7,137	49,692
Charge for the year	1,814	4,974	12,014	3,898	22,700
Exchange adjustments	1	196	74	(32)	239
31 December 2015	9,341	17,045	35,242	11,003	72,631
Net Book Value					
31 December 2014	6,558	22,478	37,943	5,291	72,270
31 December 2015	7,806	28,287	70,905	11,557	118,555

Other acquired intangible assets represent order books and intellectual property.

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

8. INVENTORIES

	2015	2014
Raw materials and consumables	60,604	58,590
Work in progress	8,890	10,088
Finished goods	17,716	12,412
	87,210	81,090

Included in cost of sales was £192,826,000 (2014: £206,104,000) in respect of inventories consumed in the year.

9. TRADE AND OTHER RECEIVABLES

	2015	2014
Non-current assets:		
Other non-trade receivables	2,234	1,976
Other receivables	2,234	1,976
Current assets:		
Trade receivables	124,285	130,819
Less provision for impairment of receivables	(5,484)	(2,347)
Trade receivables – net	118,801	128,472
Corporation tax	4,458	1,962
Current tax	4,458	1,962
Other non-trade receivables	2,025	2,161
Other taxes and social security	6,002	6,046
Prepayments	5,198	4,379
Other receivables	13,225	12,586

10. CASH AND CASH EQUIVALENTS

	2015	2014
Bank balances	35,013	23,777
Cash in hand	63	45
Short term deposits	13,892	22,994
Cash and cash equivalents	48,968	46,816
Bank overdraft	–	–
Cash and cash equivalents in the Consolidated Statement of Cash Flows	48,968	46,816

11. CAPITAL AND RESERVES

Share capital and share premium

	0.5p Ordinary shares Issued and fully paid up 2015	£1 Non- redeemable preference shares 2015	0.5p Ordinary shares Issued and fully paid up 2014	£1 Non- redeemable preference shares 2014
At 1 January	4,346	40	4,344	40
Issued under employee share schemes	3	–	2	–
At 31 December	4,349	40	4,346	40
Number of shares (000)	869,738		869,279 ¹	

¹ Restated to reflect subdivision of 5p ordinary shares into 0.5p ordinary shares.

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 £599,000 (2014: £584,000) in respect of the 458,990 (2014¹: 573,210) ordinary shares issued during the year: £3,000 (2014: £2,000) was credited to share capital and £596,000 (2014: £582,000) 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 held is £3,920,000 (2014: £5,393,000) and represents 1,406,000 (2014¹: 2,020,980) 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:

	2015 Payment date	2015	2014
3.09p final dividend ¹ (2014 ¹ : 3.0p)	19 May	26,835	26,046
1.95p interim dividend (2014 ¹ : 1.92p)	26 September	16,930	16,656
		43,765	42,702

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.

	2015	2014
Final proposed dividend per qualifying ordinary share		
3.10p	26,962	
3.09p ¹		26,861

¹ Restated to reflect subdivision of 5p ordinary shares into 0.5p ordinary shares.

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 867.8m shares (2014: 867.4m shares¹) being the weighted average number of ordinary shares in issue (net of own ordinary shares held) for the year.

	2015	2014 ¹
Net profit attributable to ordinary shareholders	74,857	103,202
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	867,258	867,080
Effect of own shares held	428	246
Effect of shares issued under Sharesave plans	131	68
Weighted average number of ordinary shares during the year	867,817	867,394
Basic earnings per share	8.6p	11.9p

¹ Restated to reflect subdivision of 5p ordinary shares into 0.5p ordinary shares.

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.

	2015	2014 ¹
Net profit attributable to ordinary shareholders	74,857	103,202
Amortisation	20,886	14,940
Tax effect on amortisation at effective rate	(5,538)	(4,018)
Adjusted net profit attributable to ordinary shareholders	90,205	114,124
Weighted average number of ordinary shares during the year	867,817	867,394
Adjusted basic earnings per share	10.4p	13.2p

¹ Restated to reflect subdivision of 5p ordinary shares into 0.5p ordinary shares.

Diluted earnings per share

Diluted earnings per share is based on the profit for the year attributable to the ordinary shareholders and 869.3m shares (2014: 870.9m shares¹). 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 two categories of potentially dilutive ordinary shares: those share options granted to employees under the 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).

	2015	2014 ¹
Net profit attributable to ordinary shareholders	74,857	103,202
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares for the year	867,817	867,394
Effect of Sharesave options	1,214	1,123
Effect of LTIP share awards	300	2,378
Weighted average number of ordinary shares (diluted) during the year	869,331	870,895
Diluted earnings per share	8.6p	11.9p

Adjusted diluted earnings per share

	2015	2014 ¹
Net profit attributable to ordinary shareholders	74,857	103,202
Amortisation	20,886	14,940
Tax effect on amortisation at effective rate	(5,538)	(4,018)
Adjusted net profit attributable to ordinary shareholders	90,205	114,124
Weighted average number of ordinary shares (diluted) during the year	869,331	870,895
Adjusted diluted earnings per share	10.4p	13.1p

¹ Restated to reflect subdivision of 5p ordinary shares into 0.5p ordinary shares.

13. INTEREST BEARING LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest bearing loans and borrowings. For more information about the Group's exposure to interest rate, liquidity and currency risks.

	2015	2014
Non-current liabilities		
Preference shares classified as debt	40	40
Bank loans	69,645	1,253
Finance lease liabilities	71	10
	69,756	1,303
Current liabilities		
Bank loans	50,098	20,259
Finance lease liabilities	254	15
	50,352	20,274

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

	Currency	Interest rates	Year of maturity	2015	2014
Non-redeemable preference shares	Sterling	9.5%	-	40	40
Bank loans and overdrafts	Sterling, Euro	0% - 4.5%	2016-32	119,743	21,512
Finance lease liabilities	Sterling, Euro	0% - 1.9%	2016-18	325	25
				120,108	21,577

Repayment profile

Finance leases and bank loans are payable as follows:

	Principal 2015	Interest 2015	Minimum payments 2015	Principal 2014	Interest 2014	Minimum payments 2014
Bank loans less than one year	50,098	386	50,484	20,259	45	20,304
Bank loans more than one and less than five years	68,987	73	69,060	494	87	581
Bank loans more than five years	658	99	757	759	113	872
Finance leases less than one year	254	7	261	15	1	16
Finance leases more than one and less than five years	71	2	73	10	1	11
	120,068	567	120,635	21,537	247	21,784

14. EMPLOYEE BENEFITS

	2015	2014
Recognised liability for defined benefit obligations:		
- Present value of funded obligations	180,406	187,918
- Fair value of plan assets	(157,131)	(151,786)
	23,275	36,132
Other pension scheme liabilities	239	435
Employee bonuses	8,601	13,105
Long term incentive plan	80	404
Employee indemnity provision	2,495	1,971
Other employee benefits	2,748	2,835
	37,438	54,882
Non-current	26,320	38,864
Current	11,118	16,018
	37,438	54,882

15. PROVISIONS

	Contingent consideration	Warranty provision	Total
Balance at 1 January 2015	5,493	5,740	11,233
Exchange differences	(68)	(46)	(114)
Increase as a result of business combinations	10,886	232	11,118
Provisions utilised during the year	(4,536)	(1,828)	(6,364)
Charged to the income statement	-	1,430	1,430
Balance at 31 December 2015	11,775	5,528	17,303
Maturity at 31 December 2015			
Non-current	10,147	1,843	11,990
Current	1,628	3,685	5,313
	11,775	5,528	17,303
Maturity at 31 December 2014			
Non-current	-	1,913	1,913
Current	5,493	3,827	9,320
	5,493	5,740	11,233

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 and the typical warranty period is 18 months.

Contingent consideration in respect of the Bifold acquisition is £10,500,000, £10,000,000 will become payable if an EBITDA target is achieved at the end of the 2016 or 2017 financial year. Other contingent consideration relates to amounts outstanding in respect of the GTA Group and SMS acquisitions. It is currently anticipated the non-current balance will be paid in 2017.

16. TRADE AND OTHER PAYABLES

	2015	2014
Trade payables	36,724	40,162
Corporation tax	14,276	15,200
Current tax	14,276	15,200
Other taxes and social security	8,592	8,123
Payments on account	6,674	7,617
Other payables and accrued expenses	19,346	19,451
Other payables	34,612	35,191

17. 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.

Severn Trent plc is a related party of Rotork plc by virtue of M Lamb's non-executive directorship. Sales to subsidiaries and associates of Severn Trent plc totalled £1,229,000 during the year (2014: £1,352,000) and £106,580 was outstanding at 31 December 2015 (2014: £226,000).

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:

	2015	2014
Emoluments including social security costs	2,972	4,594
Post employment benefits	269	298
Pension supplement	208	251
Share-based payments	(309)	1,134
	3,140	6,277

18. FINANCIAL CALENDAR

1 March 2016	Preliminary announcement of annual results for 2015
7 April 2016	Ex-dividend date for final proposed 2015 dividend
8 April 2016	Record date for final proposed 2015 dividend
29 April 2016	Announcement of Trading Update
29 April 2016	Annual General Meeting held at Rotork House, Brassmill Lane, Bath, BA1 3JQ
2 August 2016	Announcement of interim financial results for 2016
22 November 2016	Announcement of trading update