

rotork[®]

Keeping the World Flowing



**BUILDING
A PLATFORM
FOR GROWTH**

ANNUAL REPORT 2018

Rotork is a market-leading solution provider for the actuation, flow control and industrial markets. We have over 3,800 talented employees who work across a global network of local offices and established manufacturing facilities to provide a world-class service to our customers.

Our flow control and instrumentation products are used extensively in the oil and gas, water, power and industrial markets, amongst others. Our customers rely on us for innovative, high quality engineered products and services, many of which are used in mission critical applications.

A YEAR OF FOCUS, DIRECTION AND GROWTH

[DISCOVER MORE ON PAGE 14](#)

Our performance

Revenue

£695.7m
+8.3%

18	£695.7m
17	£642.2m

Adjusted operating profit*

£146.0m
+12.2%

18	£146.0m
17	£130.2m

Profit before tax

£120.7m
+49.8%

18	£120.7m
17	£80.6m

Adjusted profit before tax*

£143.8m
+15.3%

18	£143.8m
17	£124.8m

Earnings per share

10.5p
+64.1%

18	10.5p
17	6.4p

Adjusted earnings per share*

12.6p
+18.9%

18	12.6p
17	10.6p

- Strong OCC revenue growth, up 11.3%
- Adjusted operating margin improves to 21.0%
- ROCE increased 430bps to 29.2%
- Cash conversion of 110.7%
- Net cash of £43.6m at year end
- Growth Acceleration Programme proceeding at pace in H2:
 - 160bps improvement in working capital to sales
 - Revenue per head up 7.5%; adjusted operating profits per head up 11.3%
 - Supply chain improvements yielding benefits
 - Centralised new product development structure



View the latest results online at
www.rotork.com

* References to adjusted performance measures throughout this document relate to statutory results adjusted to exclude amortisation of acquired intangibles and other adjustments (see note 2).

References to organic constant currency (OCC) or underlying results throughout this document are the 2018 figures restated at 2017 exchange rates, excluding the results of businesses acquired or disposed of during the period.

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AT A GLANCE

Our customers rely upon Rotork for innovative, reliable solutions to manage the flow of liquids and gases.



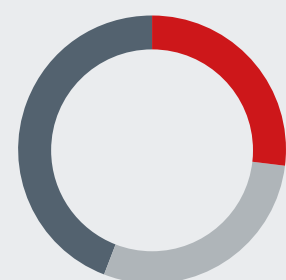
Our global presence

A global business with over 3,800 employees, we serve customers in more than 173 countries through our network of 65 offices, 24 manufacturing facilities and our relationships with local agents. Our 520 service engineers are based throughout our network providing maintenance, repair and upgrade services.

Our global footprint allows us to capitalise on our investment in technical and sales support at a local level, close to the customer, while leveraging Group wide resources and expertise in fostering our reputation for excellence in innovation and the quality of our products and services.

As part of the Growth Acceleration Programme we are reviewing our manufacturing footprint to ensure we make the most efficient use of our resources.

Revenue by end destination



● Americas	27%
● Europe	29%
● Rest of World	44%

	Manufacturing facilities	Offices	Employees
Americas	6	12	671
Europe, Middle East and Africa	12	24	2,161
Asia and Australia	6	29	1,034

Our end user markets

Our products and services are used extensively in the oil & gas, power, water and industrial markets around the world to improve efficiency, assure safety and protect the environment. The development of our product portfolio allows expansion into new and diverse markets.

Oil & Gas

Rotork products are used on applications for upstream, midstream and downstream activities including offshore and onshore production facilities, refining, processing, transportation, storage and distribution.

Water

Water treatment and distribution offers significant opportunities for Rotork through modern state-of-the-art processes which maximise existing resources, such as desalination plants and water re-use projects, together with conventional water and wastewater plants.

See our markets on pages 10-11

Power

Rotork products are found in conventional power stations, emission reduction plants, such as flue gas desulphurisation, and renewable energy plants, such as solar collecting power stations.

Industrial

Other industries served by Rotork include mining, HVAC and marine and any other industry where you are trying to control flow, for example, food and beverage.

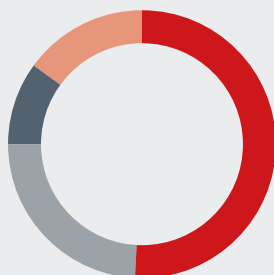
Revenue by end user market



Oil and gas	55%
Power	12%
Water	12%
Industrial	18%
Other	3%

Our divisions

We have four product divisions and a service group, Rotork Site Services, which works across all four divisions, providing planned and emergency services for all of our flow control products worldwide.



Revenue by division

Controls	51%
Fluid Systems	24%
Gears	10%
Instruments	15%

See the divisional reviews on pages 32-35

Rotork Controls

Revenue

£351.9m
+8.2%

Rotork Fluid Systems

Revenue

£166.3m
+10.8%

Rotork Gears

Revenue

£85.6m
+2.0%

Rotork Instruments

Revenue

£107.2m
+6.5%

CHAIRMAN'S STATEMENT

The Group delivered a strong financial performance and made significant progress in implementing an ambitious plan to deliver higher growth and margins on a long term and sustainable basis.

2018 was a busy and productive year for Rotork. The Group delivered a strong financial performance, despite an increasingly challenging political and macroeconomic environment, and made significant progress with a number of key strategic initiatives.

As previously reported, towards the end of 2017 we began a series of detailed business reviews examining our routes to market, innovation funnel, operations footprint, global supply chain, IT infrastructure and our talent base. Following the appointment in March of Kevin Hostetler as Chief Executive, and the subsequent completion of those

reviews, we formulated a detailed business plan, the objective of which is to return Rotork to the higher levels of organic growth and operating margins previously experienced by the business. It is an ambitious plan to be implemented at pace, and we have termed it our Growth Acceleration Programme.

While there has been a great deal of activity across the business, this is not about transforming Rotork, but rather refining how we do things, building on our strong foundations. Kevin has assembled a strong team, with a wealth of experience in managing such programmes. Early results in this first phase of the multi-year programme are encouraging, with strong support for all initiatives across the business. Kevin provides a review of the progress made in the Growth Acceleration Programme in his report.

Financial highlights

Order intake increased 2.3% on the prior year, or 5.4% on an OCC basis*. The strong order intake in the first quarter was partially offset by lower order intake in the second half reflecting the variation in the timing of project orders and deliveries compared with 2017. Revenue increased by 8.3% to £695.7m (OCC +11.3%) with the strongest revenue growth coming from the downstream oil and gas and industrial markets. Upstream and midstream oil and gas and water grew more modestly whilst sales to power declined. Geographically, the strongest growth was in the Far East, with all regions apart from the Middle East growing. The Middle East had seen a very active upstream oil and gas market in the prior year and these projects were not repeated in 2018.

Statutory operating profit increased by 43.0% to £122.9m, adjusted operating profit increased 12.2%, or £15.8m, to £146.0m (OCC +14.8%) with an adjusted operating margin 70 basis points higher at 21.0% (OCC up 60 basis points at 21.1%). An improved gross margin, increasing 60 basis points to 44.8%, and net overhead increases below the rate of revenue growth, both contributed to the improved adjusted operating margin. Furthermore, initiatives to reduce working capital saw a reduction from 29.3% of revenue in the prior year to 27.7% and the balance sheet returned to a net cash position, with net cash of £43.6m at the year end. These movements combined to produce an improved return on capital employed of 29.2% (2017: 24.9%).



Growth Acceleration Programme

We expect the cash costs of restructuring to be largely self-financed through working capital improvements over the course of the Growth Acceleration Programme. Investment will be focused on market and product segments offering the greatest scope for growth and margin improvement, with increased investment in our front-end commercial activities (in particular key account management), new product development, and site services/aftermarket. Much of the funding required for this we again expect to be self-generated through cost efficiencies and benefits arising from the Growth Acceleration Programme. The Board receives regular updates from management on progress with the Growth Acceleration Programme initiatives.

Employees and culture

Rotork's culture is widely recognised as having been a key contributor to our success. We continue to build on our culture and values, capitalising on our strengths, whilst identifying additional core beliefs required in support of the next phase of the Growth Acceleration Programme. Our existing culture is characterised by a supportive and co-operative approach, teamwork, a strong sense of brand loyalty, and a hard-working, can-do mentality. Building on these positive characteristics and defined by our employees, we will supplement them with an increased appetite for external perspective, a greater appreciation of process excellence and by acting in a way that capitalises on our scale as a business. In addition, we look to embrace further innovative working policies and practices to attract, retain and develop talent. As an example, we recently pledged our commitment to the 30% Club in support of greater gender balance at all levels of Rotork. Our culture and values guiding the next stage of our journey have been placed under an overarching banner called 'One Rotork'. There is more information about this on page 40.

We have a committed workforce who are proud to be Rotork employees and determined to deliver on our ambitious goals. It is to that committed workforce I offer my warmest thanks and appreciation for all their efforts throughout 2018.

Board changes

We were delighted to welcome Kevin Hostetler to the Board on 12 February 2018 and as Chief Executive from 12 March 2018. Following Kevin's appointment as Chief Executive, I resumed my role as Non-Executive Chairman.

Towards the end of the year as part of our Board succession planning, we also appointed two new non-executive directors. Ann Christin Andersen brings extensive knowledge of the oil and gas industry and the application of new technology, most recently in the digital space, a key focus area for Rotork.

Tim Cobbold is an experienced former CEO with a strong background in Rotork's end markets.

In line with best governance practice, Gary Bullard, non-executive director and Chair of the Remuneration Committee, who has been a director for almost nine years, will not stand for re-appointment at the AGM on 26 April 2019. On behalf of the Board, I would like to thank Gary for his invaluable contribution to Rotork over the last nine years, in particular as Chair of the Remuneration Committee during a period of significant change for the Group. Tim Cobbold will assume the Chair of the Remuneration Committee following Gary Bullard's retirement.

We have also recently welcomed Helen Barrett-Hague as our new Group General Counsel and Company Secretary following Stephen Jones' retirement in August 2018. Helen joins us from Pennon Group where she was Group General Counsel and Company Secretary. Prior to this she has held a number of senior legal and company secretary roles and brings a wealth of experience from a number of sectors.

Corporate governance

The Board continues to be committed to the highest standards of governance. During the year, the Board played a vital role in evaluating and helping to shape the Growth Acceleration Programme. In the second half of 2018, the Board focused on the governance changes under the new Corporate Governance Code following its publication in July 2018.

Further details of this work, our approach to governance and our compliance with the 2016 Corporate Governance Code are contained in the Corporate Governance Report on pages 54 to 59.

Dividend

Rotork is a strong cash generator, recognises the importance of a growing dividend to its shareholders, and is committed to a progressive dividend policy, subject to satisfying cash demands which can vary significantly from year to year. This year the Board recommends a final dividend of 3.7p per share, an increase of 10.4% from the 2017 final dividend. With the 2018 interim dividend of 2.2p, the total dividend for the year is 5.9p (2017: 5.4p), a 9.3% increase on 2017. This is equivalent to 2.1 times cover based on adjusted earnings per share (2017: 2.0 times). The final dividend will be payable on 22 May 2019 to shareholders on the register on 12 April 2019.

Outlook

This is a very exciting period for Rotork. We have mapped out and are now executing a comprehensive plan to return Rotork to the levels of growth and margin performance previously experienced by the Group, and to do this on a sustainable basis throughout the cycle.

We have assembled a capable management team, comprising new and existing talent. We have a strong balance sheet, with opportunities to improve on an already strong record of cash generation, providing scope to further accelerate progress including through M&A.

Following double-digit OCC revenue growth in 2018, and mindful of macroeconomic uncertainty, we are planning for slower growth in 2019. Based on our current assessment of project phasing, we expect to deliver modest sales growth on an OCC basis in 2019, with lower year on year sales in H1 reflecting the strong comparator period. Margins will benefit from the restructuring plans under our Growth Acceleration Programme and the implementation of additional cost saving initiatives. Overall, we expect full year margins to show progress on 2018.

Martin Lamb

Chairman
4 March 2019

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Investment case

Track record of growth

Three year revenue growth 8.4%

Investment in innovation

R&D spend £15.5m (2017: £14.0m)

High margins

Adjusted operating margin 21.0%
(2017: 20.3%)

Diverse end markets

Our products and services are used extensively in the oil and gas, power, water and industrial markets around the world

Global reach, local presence

A global business serving customers in over 173 countries

Strong balance sheet

Cash conversion 110.7%
(2017: 109.1%)

Strong culture where sustainability matters



United Nations
Global Compact

CHIEF EXECUTIVE'S STATEMENT

Our Growth Acceleration Programme is on track and already delivering results.

It gives me great pleasure to write my first annual review as Chief Executive of Rotork and to report on a strong set of full year results in a year of significant development for the Group.

Having spent time getting to know the business after joining in February, I was struck by Rotork's exceptional reputation for quality, reliability and service, the depth of expertise and dedication of our employees, and their willingness to drive improvements throughout the organisation. Feedback from customers was also very positive, but identified scope to refine how we do things to make us easier to do business with and to maximise the value we create for all of our stakeholders.

Following a thorough review of our routes to market, innovation funnel, operations footprint, supply chain, talent development and IT systems, we identified scope for improvement, validating our five-year ambition to deliver sustainable mid-to-high single digit revenue growth while also returning to operating margins in the mid-20s.

We began the implementation phase of the Growth Acceleration Programme in the second half of the year. This is the first phase of a multi-year process, but already the results have been very encouraging, and are testament to the calibre of our people and their ability to execute day-to-day operations while implementing the initiatives identified in our workstreams. Our progress and results are especially pleasing in the context of an increasingly challenging macroeconomic and political backdrop and with considerable volatility in oil prices.

Financial performance

Revenue grew 8.3%, 11.3% on an organic constant currency basis. Growth in Group order intake was 2.3% or 5.4% on an organic constant currency basis, reflecting the variation in the timing of project orders and deliveries compared with 2017.

Despite inflationary cost pressures, adjusted operating margins improved 70bps to 21.0%, with new products and a greater emphasis on cost management and productivity contributing to this.

The strength of our return on capital employed and cash flow provides further evidence that our Growth Acceleration Programme is beginning to yield results. Our balance sheet is strong, with a net cash position of £43.6m at the year end, which will provide firepower for our organic investment plans and flexibility to pursue targeted M&A.

Key external drivers

2018 began with a rising oil price, leading to greater stability and increased confidence in the oil and gas sector, which represents just over half of our revenues. As a result, we saw a return to more normal buying behaviour in the maintenance and upgrade markets, and some recovery in larger projects as breakeven costs – which continue to fall as the industry adopts newer and more efficient technologies – became more closely aligned to the oil price.



PMI (Purchasing Managers' Index) and GDP economic indicators were largely supportive of steady growth in our water and industrial markets, while our power markets continued to be challenging, particularly in high carbon sectors such as coal fired power applications.

Towards the end of the year the PMI/GDP data pointed to a weakening in business sentiment and confidence and the oil price declined. We continue to monitor developments closely.

Operating profit

£122.9m
+43.0%

Adjusted operating profit*

£146.0m
+12.2%

Growth Acceleration Programme

Our Growth Acceleration Programme, while wide-ranging, is not about the fundamental reinvention of Rotork but rather about refinements that build upon the Group's strong foundations, through people, processes and systems. More detail may be found on pages 18 to 21, but an overview of our progress is outlined below.

The themes of the programme include:

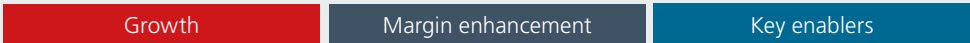
- Reinvesting in our customer focus and intimacy;
- Driving operational and supply chain efficiencies;
- Improving our processes and focus within our Innovation and New Product Development activities;
- Enhancing our talent acquisition and development programmes;
- Increasing the alignment between our long-term strategy, our near-term goals and our desired behaviours and our rewards systems;
- A renewed emphasis on headcount productivity; and
- A critical review of our strategy, portfolio and current product lines.

We identified 12 distinct initiatives and grouped these within four pillars, with an underlying drive to simplify our business and to improve the quality of our portfolio through an evaluation of our strategy, portfolio and product lines. The four pillars are defined as Commercial Excellence, Operational Excellence, Talent Acquisition & Development, and IT & Core Business Processes.

We have made very good progress, and are on track with all of the initiatives and plans announced at our half year results. Having previously recorded a seven year decline in revenue and profit per employee, our productivity has now begun to recover. We added a net 31 to our headcount in the last year (equating to a 0.8% growth) yet grew the revenue by 8.3%. Revenue per head has therefore improved 7.5% to £180k per head and adjusted operating profit per head 11.3% to £38k per head.



Strategy, Portfolio and Product Line Assessment
Simplifying our core business and preparing for acceleration



CHIEF EXECUTIVE'S STATEMENT CONTINUED

End market focus

Our strategy continues to focus on critical applications and higher value fluids and gases, where the Rotork brand is strongest and most differentiated. Although there is a long, ongoing trend towards decarbonisation, oil & gas will continue to be our largest and most profitable sector for the foreseeable future, due to the complexity, critical nature of our application set and high value of the fluids and gases. As operators seek to drive down their costs, our product and service solutions can play a key role in helping them to generate operating efficiencies.

We have renewed our focus on industrial applications by realigning our approach, putting in place dedicated salespeople and hiring distribution partners to focus on those markets. Part of our extensive review of the business was an analysis of how we go to market for our different types of products, and this exercise yielded a significant number of opportunities to pursue in the industrial market sector. Food, pharma, petrochemical and HVAC are the largest areas in which we're gaining traction within the industrial sector, largely to do with our more focused and accelerated new product development efforts targeted at these markets. These efforts have been reflected in a 14% revenue growth in industrial applications.

Capital deployment strategy

We remain a highly cash generative business and have returned to a net cash position. The priorities for use of our cash continue to be investing in organic growth (new markets, new product development or capital expenditure), then a progressive dividend policy, followed by M&A. Thereafter, if we decide at any point we have excess cash, we would look to return it to shareholders. We have a strong balance sheet which provides the Group with considerable optionality in uncertain market conditions.

With the hiring of our new Group Director of Strategy and M&A, we will further refine Rotork's strategy and will take our time to make sure we understand where Rotork has its most attractive opportunities for growth before pursuing acquisitions. We have enough medium to low hanging fruit to keep the team focused on delivering in the near term, such as supply chain and operational improvements, facility consolidations and pivoting our commercial organisation. There's a lot of work to be done, and we intend to stay focused on the Growth Acceleration Programme initiatives whilst we evaluate M&A targets.

Stakeholder engagement *People and culture*

We recognise that there are several factors critical to the success of our Growth Acceleration Programme and internal communication is one of these. In order to ensure that we manage our programme effectively, we have hired a Director of Internal Communications and focused on communication throughout the organisation to ensure that we bring our team along. We've created new messaging for the company consistent with our areas of focus: six key themes for the business, our vision, mission, and what we define as a good company. We have also produced several internal CEO videos to communicate where we're going and what we need. Our new One Rotork theme is about working collaboratively and behaving as a single collective company.

In addition to tackling structural inefficiencies, there was a need to build upon Rotork's strong culture by introducing more of an operational performance mindset. Our training and development work, changes to the performance management system, our business intelligence dashboards and the external operating talent we have brought in have all contributed to a renewed focus on operational metrics.

We did not undertake a formal employee engagement survey in 2018 as we wanted to allow time for the changes to bed in. Feedback from our town halls, dedicated email address for people to ask me questions, and my lunches with colleagues of differing seniority throughout Rotork demonstrate a real sense of excitement, optimism and renewed energy around the business. More information about our people may be found on page 40.

Customer satisfaction

We have acted upon the feedback from the c. 200 customer interviews and first net promoter score assessment we undertook last year, seeking to build on our strengths and address the areas where our performance fell short of expectations. Both our lead times and quote turn-around times have improved significantly over the last year.

Our communities

Corporate social responsibility remains core to our business model. Our CSR Committee considers the impact of our business on all our stakeholders and ways to improve our performance. This year we reviewed the charities we have been supporting and have now chosen areas that are more aligned to our business focus. We continue to work with Water Aid, but are pleased to have added Engineers Without Borders, Pump Aid and Renewable World to the causes we support with fundraising and volunteer resource. There is more information about this and all aspects of our CSR work on page 44.

Summary

We have made significant progress with our Growth Acceleration Programme, but this is only the beginning of a multi-year initiative.

Under the commercial excellence pillar, we are focused on creating a more customer-oriented structure, which is ongoing and will take a year to execute, since we are taking great care to implement this in a measured, considered way.

Under the operational excellence pillar of our Growth Acceleration Programme, our facility rationalisations are underway and on track. We have identified a specific set of initiatives to be driven by our nine largest facilities, and our largest subsidiary locations have teams focused on driving tangible operational improvements, including inventory optimisation to improve our cash generation.

We will begin rolling out elements of our new IT platform within the next six months.

Essentially, our current focus is on advancing the initiatives we have already started to implement.

Whilst the macroeconomic outlook is difficult to predict, we are proactively planning for different scenarios and have a very good understanding of what we would do under different circumstances. After a very good performance in 2018 which exceeded our expectations, aided by a reduction in lead times, we expect revenues for 2019 to deliver modest OCC growth on 2018. However our self-help initiatives should mean that we see progress on margins in 2019. Whatever unfolds, the initiatives we are pursuing will strengthen Rotork's cyclical resilience and position the Group to compete effectively in all economic contexts.

I am confident that we can continue to build upon what is a strong foundation. I see clear opportunities and potential for Rotork. It is an honour to be steering the Group through the next stage of its development as a leading global flow control and instrumentation company, capitalising on Rotork's proud history while positioning the organisation for sustainable growth. I would like to thank my colleagues throughout the Group for their drive and enthusiasm in embracing the Growth Acceleration Programme. There is a lot to do, and we have a great team in place to achieve our goals.

Kevin Hostetler
Chief Executive
4 March 2019

OUR MARKET

Our products and solutions play a critical role in ensuring the safe and efficient operation of global infrastructure in energy, power, water and industrial markets. Increased demand for our products arises from population growth and greater urbanisation supported by pressure for greater automation, improved information using digital technology and greater efficiency and effectiveness.

1

Population growth, ongoing urbanisation

Oil & gas

Demand for oil and gas remains strong, particularly in faster growing emerging markets. Growing gas reserves are generating high interest in LNG related projects. Shifts in energy mix will dampen growth for oil and gas in the longer term.

Water

In emerging markets, the population growth and trend towards urbanisation is driving investment in the water infrastructure.

In developed markets, capacity expansion and scarcity of conventional water sources requires investment in new technology.

2

Lower cost, greater efficiency

We have seen significant volatility in the price of oil with double-digit declines in the second half of 2018. Oil spot and futures appear to be in the \$50 – \$60 per barrel range but is still considered likely to remain 'lower for longer' as lower cost US onshore production places a ceiling on price.

Oil price reduction and continued pressure on refining margins has placed cash cost reduction at the top of the agenda across the value chain. Many operators are becoming more willing to adopt new technology as a result. We differentiate by engineering cost out of the system and providing innovative, efficient solutions and aftermarket packages.

Water markets are typically highly regulated with pressure to limit price increases to end customers providing good opportunities where we can provide more cost effective solutions.

Ageing water infrastructure is driving spend on maintenance and replacement. However we are observing some municipal water projects being postponed due to uncertainty in interest rates and the bond markets.

An ageing workforce and knowledge management has also been cited as a challenge in this industry, implying that there is opportunity to deploy more automation and monitoring.

3

Real time data and fast response

Many players across the value chain have developed ambitious digital agendas in order to reduce cost and improve productivity. The data gathering and analysis capabilities of our solutions and service offerings enable us to respond well to this growing requirement, particularly regarding predictive maintenance, assisting customers to minimise downtime and improve process optimisation. Virtual reality applications are further enhancing field service productivity.

Technology development is currently focused on monitoring leakages, however, water shortages are driving continued evolution in smart grids with automated valves, which will stimulate increased demand for our solutions, and investment in water reuse and desalination technology.

Wireless technologies are highly prevalent in the water distribution network and will be adopted in the rest of the network upstream as the roll-out of 5G networks gains traction.

4

Regulatory or environmental change and structural change

Operators are aiming to reduce energy consumption and methane emissions. We are developing a number of new solutions that will lower energy consumption. We have recently launched new fugitive emissions monitoring technology as part of our solutions portfolio.

Regulation is evolving on a number of fronts across different geographies regarding reuse, sludge treatment and water quality, requiring more processing and additional capital expenditure. We anticipate positive impact from the America's Water Infrastructure Act of 2018 signed into law in October 2018.

Power

Population growth and the trend towards urbanisation is driving global growth in power demand. The shift from coal and gas to renewable energy sources drives the requirement to supplement intermittent renewable sources with responsive gas generation. This requires higher quality, more responsive actuation.

There is continual cost pressure between competing generating technologies. This gives rise to a focus on lower operating expenses and continuous improvement in efficiency which provides further opportunities for new, more efficient technology.

To date the digitalisation in the power industry has been largely focused on the power block but it is likely this will extend to the remainder of the power plant to drive maintenance efficiency gains. Proliferating Distributed Energy Resources (DER) feeding power into the grids requires power plants to improve the ability to respond quickly to manage the stress on the power grids which requires more sophisticated actuation.

Environmental regulation encourages the shift to renewables and an increased requirement for desulphurisation plants which are actuator intensive.

Chemical, process & industrial

Organisations continue to seek greater automation to respond to the lack of availability of labour, reduce costs and improve efficiencies and safety. Greater automation drives demand for flow control and instrumentation.

Inflationary pressures on labour and other operating costs are driving manufacturers to invest in process improvements, maximising production efficiency and plant uptime. Our solutions can play an important part in this.

Digital automation is underway across the value chain and is at a more advanced stage of development and acceptance than in our other markets. Real-time monitoring allows problems to be fixed before they escalate, improving safety, productivity and performance and optimising asset life. Wireless control and predictive maintenance are growing trends to which we are responding.

Key regulatory changes are largely around the use of power and emissions. Our innovation funnel includes solutions to lower energy consumption and reduce leak rates.

Revenue

+8.3%



OUR BUSINESS MODEL

Our business model, combining the benefits of global expertise and local service, positions us well to generate sustainable value for our stakeholders.

How we create value

Resources, relationships and sources of competitive advantage

Reputation for technical expertise and innovation

Our well-recognised, global brand is built on our 60-year history and deep understanding of our customers' evolving needs and the markets we serve, which allows us to lead the evolution of best-in-class actuator and flow control products to better meet customer needs to reduce power consumption, improve efficiency and minimise their environmental impact.

Leading quality and reliability

Our products meet or exceed international standards and have a reputation for quality and reliability.

Skilled people and winning culture

Key to our success is our ability to attract, develop and retain talented people, who thrive in our open culture that is built on values of respect, integrity and customer focus.

Strong balance sheet

Our high cash conversion allows us to invest to deliver further growth and value creation, and our model of assembling to order improves our return on capital. Most of our factories receive finished components to our exacting standards from our supply chain for assemble to order. This enables asset-light operations and gives us the flexibility and speed to react to changing market conditions.

Broad portfolio and diverse applications

The unparalleled breadth of our actuator range and growing portfolio of complementary flow control instruments allow us to meet customer needs in diverse applications, and benefit from cross-selling opportunities.

Global reach, local presence

We are able to provide best-in-class solutions to customers and have deep insights into their evolving needs, through leveraging our global expertise and resources, while offering technical support and aftermarket services through our network of local offices.


in our chosen flow control and instrumentation applications

We provide

high quality, technically advanced and innovative industrial valve actuation and flow control equipment, and a superior level of service to support our customers' activities wherever they are in the world. We do this in a sustainable way with corporate social responsibility (CSR) values being entrenched in our business processes.

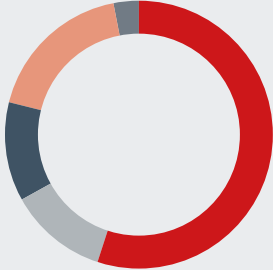
We compete

in targeted segments of the global flow control, automation and instrumentation markets across a variety of industries and geographies where we can command above average margins. Many of our products are used in critical applications in challenging environments and involve the supply of fundamental resources such as energy, water and power.




We sell
through a network of 65 regional offices around the world supplying the full range of our products. These offices are supported by our four divisions which are responsible for product management, innovation and manufacturing.

Revenue by end user market



● Oil and gas	55%
● Power	12%
● Water	12%
● Industrial	18%
● Other	3%

 See our divisional reviews on pages 32-35

to create value for stakeholders

Shareholders
We return money to our shareholders through dividends and, through the execution of our strategy, we grow the value of their investment over time.

Employees
We provide development opportunities and a rewarding place to work and create a safe working environment for our employees.

Suppliers
Our suppliers are supported by the procurement of goods and services that we require.

Customers
We provide innovative solutions in response to our customers' requirements and aftermarket service support.

Communities
We support local jobs and skills and contribute to, and engage positively with, the communities in which we operate.

Governments
Through paying taxes in the jurisdictions in which we operate, we support the development of public infrastructure and public services.

 For more details see page 40

 For more details see page 44

Reinvestment in organic growth and acquisitions

STRATEGIC FRAMEWORK

OUR VISION

To be the industry leader that is respected and admired by our customers and competitors for its people, performance and products.

rotork®

OUR STRATEGY

Our aim is to deliver a high return on capital with strong and sustainable margins and accelerated growth in revenues and profits which will deliver strong cash generation.

Page 16

GROWTH ACCELERATION PROGRAMME

Our Growth Acceleration Programme is being developed to form a new operating environment comprising four pillars: Commercial Excellence; Operational Excellence; Talent Acquisition & Development; and IT & Core Business Processes.

Page 18

Our vision will be achieved by

1

Direction

Strategic clarity; including strong portfolio management and acquisitions that add value to the Group

 For more details see page 16

2

Results

Exceeding shareholder and customer expectations; consistent and predictable top and bottom line results irrespective of the cycle

 For more details see page 16

3

People

A true high performance culture; selecting the best people; investing in and engaging them, recognising and rewarding their achievements

 For more details see page 40

4

Execution

Continuous improvement mindset leading to world class processes; lean thinking, efficient capital and plant deployment, service delivery excellence, outstanding procurement and inventory management, all measured through KPIs

 For more details see page 16

5

Global

Leveraging the organisation globally; sharing best practices; strong environmental and health and safety culture

 For more details see page 2

6

Innovation

Engineering excellence; investing in and focusing on new product and services development and the digitisation of our portfolio

 For more details see page 16

Turn over to see our strategic objectives and initiatives

OUR STRATEGY

We are currently in the execution phase of the detailed review conducted in 2018 of our routes to market, innovation funnel, operations footprint, supply chain, talent development and IT systems. The review included feedback from our business partners. The full impact will be seen in the longer term and our progress in the past few months is on plan.

Strategic objectives

Strategic initiatives

Progress in 2018



ACCELERATED GROWTH

Deliver accelerated year-on-year growth in revenues and profits through a combination of organic growth and acquisition.

Maximise our return on capital through optimising manufacturing and supply chain processes.

Sales growth – Penetrate underserved markets and geographies with focused commercial activities.

Innovation – Accelerate new product development and launches with increased rigour in processes and lean development philosophies.

Service growth – Continue to leverage our growing installed base in aftermarket parts and services as well as Integrated Asset Management solutions.

Acquisitions – Growth to expand into adjacent markets, new geographies, new platforms and segments, new offerings and technologies.

- We delivered revenue growth of 8.3%. While some project activity has slowed, our sales pipeline has seen an uplift from greater interest in US Shale.
- We have introduced a number of new, intelligent products such as a smart position indicator and fugitive emissions monitoring.
- We increased the number of service engineers by 9% and the number of actuators under a maintenance agreement increased by 10%.
- Our M&A pipeline is healthy and we have continued to have conversations and cultivation meetings with a number of potential targets.



STRONG MARGINS

Maintain strong and sustainable margins through our market-leading position and innovative products and services.

Manufacturing excellence – Consolidate operations and develop efficient, effective world-class manufacturing facilities.

Cost management – Continued cost management, reflecting current market condition and development of the global supply chain.

Global business systems – Develop and rollout our global business systems to enable more efficient operations.

- We consolidated two sites into one in the US. Our plans for a new manufacturing facility and global headquarters in Bath, UK continue to be developed.
- We delivered annualised cost savings of £1.7m in 2018 from sourcing initiatives.
- We initiated the roll out of our new ERP system.
- We have divested two non-core, low margin businesses and closed a small engineering office.



SUSTAINABILITY

Maintain our track record of strong cash generation to strengthen our balance sheet and ensure we have sufficient resources for investment in innovation and acquisitions.

Be the supplier of choice for our customers, sustaining our revenue streams.

Be the employer of choice, developing and retaining our talented employees.

Corporate Social Responsibility (CSR).

Positive customer experience – Enhance our customer facing processes to reflect current market requirements.

Employee development – Invest to support our growth strategy and promote diversity and inclusion throughout the Group.

CSR – Communicate best practice throughout the Group, training those responsible and, where appropriate, verifying adoption in each subsidiary.

- We maintained our focus on our customers having a positive experience, focusing on response times and providing the appropriate level of support. Our aftermarket service team assists customers in resolving any issues as they arise.
- We recruited a new Global HR Director and conducted a global training audit to help us understand further the key global capability builds to focus on.
- Our CSR sub-committees continued to promote improvements in health and safety, monitor initiatives to reduce CO₂ emissions, provide training on ethical behaviour and our employees gave their time and money to many charities around the world.

How we measure performance

Sales revenue growth

8.3%

Return on capital employed

29.2%

Adjusted operating margin

21.0%

Adjusted EPS growth

18.9%

Cash conversion

110.7%

Carbon emissions

17.0_{TnCO₂e}

Lost time injury rate

0.32

 See full key performance indicators and definitions on pages 30-31

Focus for 2019

- The Board has ambitions to return the business to higher growth and margin levels.
- We are currently reviewing our routes to market, including our sales channels and sales coverage.
- We have centralised our innovation team and will accelerate our new product development cycle.
- We'll leverage our installed base through lifetime management and intelligent asset management.
- Acquisitions will be considered where appropriate to supplement our capability and support the above plans for growth.

- We're simplifying business processes, exiting or rationalising underperforming business lines, and reviewing our channel partners.
- We are reviewing our operations, optimising our manufacturing footprint, reducing the complexity of our global supply chain, simplifying our organisational structure and accelerating the introduction of new systems.

- As noted above, we are engaged in a review of our routes to market which will include our approach to key account management and how we best service our customers' requirements.
- The key enablers of the programme are information technology and systems, leveraging economies of scale across Rotork and talent management and development.
- We will continue to drive safety improvement and deliver the CSR strategy.

Link to risks

- A decline in government and private sector confidence and spending will lead to cancellations of expected projects or delays to existing expenditure commitments.
- Increasing social and political instability, including Brexit, results in both disruption and increased protectionism in key geographic markets.
- The Growth Acceleration Programme and other change projects lead to business disruption or have a negative effect on day-to-day operations.
- Major in field failure of a new or existing Rotork product potentially leading to a product recall, major on-site warranty programme or the loss of an existing or potential customer.
- Failure of an acquisition to deliver the growth or synergies anticipated, either due to unforeseen changes in market conditions, or failure to integrate an acquisition effectively.

- Increased competition on price or product offering leading to a loss of sales globally or market share.
- Failure of a key supplier or tooling failure at a supplier causing disruption to manufacturing at a Rotork factory.
- Failure to provide, maintain and update the systems and infrastructure required by the Rotork business.
- Failure to protect Rotork operations, sensitive or commercial data, technical specifications and financial information from cyber-crime.

- The nature of Rotork's core business and geographical locations involves potential risks to the health and safety of our employees and other stakeholders.
- Failure of our staff or third parties who we do business with to comply with law or regulation or to uphold our high ethical standards and values.

 See full risks and uncertainties on pages 26-28

OUR GROWTH ACCELERATION PROGRAMME

We are committed to returning Rotork over five years to the higher level of growth and margins previously delivered by the Group. We have confirmed our initial hypothesis set out in 2017 that we can accelerate growth through investing in innovation and service and re-orientating our routes to market and that this can be funded by savings generated from restructuring our operational footprint and supply chain. Commercial excellence and Operational excellence are the first two pillars of our Growth Acceleration Programme and capture these aspects of our work.

The other two pillars of the Growth Acceleration Programme address the key enablers of the strategy, namely people and systems. The talent acquisition & development pillar covers all aspects of our human capital from the assessment, development and training of our current people to the recruitment of new talent. Aligning behaviours with strategy and with our culture forms part of the work here. We are also developing our IT systems and core business processes to provide an improved common platform and way of working across the Group. This will in turn increase efficiency throughout our businesses.

Commercial Excellence

Operational Excellence

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Talent Acquisition & Development

Page 20

IT & Core Business Processes

Page 21

01 | Commercial excellence

Focus on providing our customers with the products and services they want whilst at the same time making it simple for them to buy from Rotork wherever they are in the world. While happy with many aspects of Rotork's performance, customers singled out in their feedback to us three areas for improvement, which we have worked hard to address: quote turnaround times, on-time delivery and client communications.

Route to market

One of the most significant conclusions from the programme has been a recognition of the need to migrate from Rotork's product-based structure to an organisation that is more closely aligned to market segments and customer needs.

Several of our fastest growing geographical markets already work partially in this way, and in 2019 we will begin a phased, region by region roll out, which we expect to have completed in 2020. The approach, whereby team members are tasked with providing solutions to customers, irrespective of the historical division responsible for that product, will be supported by a greater emphasis on key account management and end user engagement, and a renewed drive to be easier for customers to do business with.

Our key account managers currently focus on 15 of our largest oil and gas end users and the most active international engineering contractors. The key account team has been able to adapt to the end users' business requirements and improve relationships with key influencers and decisions makers in customers' procurement, operations and projects departments.

Development of service offering

A core element of our commercial excellence pillar relates to site services, identified in our customer research as a key differentiator for the Group.

This is an area we intend to expand as we continue our migration from a reactive service model to proactive preventative maintenance, and ultimately to the utilisation of real-time data analytics to predict failures and prevent them from occurring in the first place. We have recruited a new Global Director of Site Services, who has a depth of experience in running major service networks, and bolstered the team through the addition of 45 customer-facing service technicians.

Innovation and new product development

Work under the commercial excellence pillar also included a detailed review of our structure and processes for innovation and new product development.

Previously, each division was responsible for its new product development and had its own budget. We now have a central structure, led by our Group Director of Innovation and Engineering, with areas of expertise including electrical engineering, software engineering and data analytics. The introduction of a revised framework for assessing new product development efforts led to the elimination of 35% of in-flight product development programmes that were not deemed to be sufficiently value-enhancing to Rotork.

We now have a consolidated database of all ongoing programmes, and are able to concentrate our resources on the most promising and profitable areas. We have also changed our approach to accelerate our new product development cycle.

In addition, we evaluated our engineering capabilities against those required for our future success and put in place a plan to strengthen those required competencies through building, partnering or acquiring them where we identified gaps. Our intention in the short term is to keep investment in innovation and R&D to around 2018 levels, but to use our expenditure more efficiently, by:

- improving our process for project selection;
- accelerating our process cycle times; and
- increasing our hit rate through improved customer and supplier input early in the process.

All of these activities are supported by a robust set of management KPIs to monitor and drive improvements in our ongoing new product development effectiveness. Once improved processes and tighter focus have been embedded, we will re-evaluate the quality of projects in our innovation funnel and assess our levels of investment accordingly.

02 | Operational excellence

Improve our operational efficiency through the use of mixed-model lean techniques, improved inventory management and footprint optimisation with supply chain globalisation delivering cost savings and whilst maintaining our reputation for high-quality products and services.

Operational improvements

Performance improvement reviews have now been carried out at the largest nine sites covering over 70% of our factory output and improvement plans developed for each. These plans have already delivered improvements in productivity, quality and lead times.

Initially facilitated by external support, the review process has now been internalised and in 2019 will be extended to drive further improvement initiatives and sharing of best practices. The Rotork lean model is another improvement initiative which has now been launched and the training materials deployed. Work to embed this commenced at the end of 2018. In parallel the Rotork inventory management module was launched in the last quarter of the year. Plans have been created for every site and targets set. A set of operational KPIs has been developed to track all these initiatives.

Supply chain improvements

The review of our supply chain carried out last year indicated that through centralisation of what was a fragmented and locally managed supply base there was significant potential for savings.

We have now created the central team that will lead this work and have been very pleased with the progress so far. Wave 1 focused on travel, insurance and certain product components and was completed last year. Wave 2 is focused on more significant component categories and commenced in the final quarter of 2018. The new agreements will gradually be phased in during 2019 and are expected to yield a benefit of around £5m in 2019.

03 | Talent acquisition & development

Having the right team in place is crucial to achieving our aspirations. Through a combination of targeted development of existing employees, recruitment of world-class external talent and a re-alignment between our strategy, behaviours, results and rewards systems, we have already delivered promising results in driving towards our ambitions and have a clear roadmap to make further progress.

Global talent development

Following assessment of our senior leaders we were prompted to fill skill gaps, through internal training or externally through hiring, improving our capabilities particularly in operations and procurement.

Leaders have now been hired for our General Counsel, Procurement, Communications, Talent, Strategy & M&A and Site Service functions. The talent review and succession planning processes initially provided by consultants have now been internalised to enable us to deliver them ourselves as we move forward.

Performance management

A performance management and objective setting approach has been launched which will be applied globally, providing total alignment to our vision and setting the standard for what high performance looks like.

With our new performance approach as a foundation we have been able to adjust our variable and fixed compensation programmes to include differentiation between high and lower performers and have announced a new annual cycle for compensation.

04 | IT & core business processes

IT systems development

At the end of 2018 we appointed our partner to work with us on the design and development of our new core IT systems.

These will go beyond the ERP system and will incorporate CRM, project tracking and global HR systems. This integrated development has now started and will be deployed in phases with some aspects going live in 2019, although ultimately this is a multi-year programme before all sites are operating on a common platform.

IT team development

The system development programme of work is significant and it is vital we have the right people with the appropriate skills to lead the programme.

In recognition of this, the IT team has been strengthened with additional enterprise architecture and project management resources particularly. The training and development of the wider team has also been increased, focused on the skills that will be most relevant to the system development programme.

Dashboards

In order to support the business through a period of change, we need to be able to track and measure the improvements.

To deliver a consistent and visible set of KPIs we have developed dashboards for some of our key focus areas. Dashboards for Rotork Site Services, Global Operations and Customer Quote Responsiveness were launched in 2018. These dashboards operate independently from our underlying systems and will provide us with a consistent set of data as we roll out our new core ERP system.

Strategy, portfolio and product line assessment

The four pillars outlined above are supported by our strategy, portfolio and product line assessment activities. The initial assessment of our portfolio identified three business areas that were candidates for immediate exit, given that they were dilutive to Group margins, yet accounted for only 1% of Group revenue. These were exited in 2018.

An extensive product review identified more than 28 product lines with low sales volumes, dilutive margins or both. These added a great deal of complexity to the business, and will be withdrawn from production over the course of 2019. Sales from these are being transferred to alternative products, in most cases to newer generations, within the core portfolio.

HOW WE MANAGE RISK

Managing the risks of our business is essential to our long-term success and sustainability of the Group. Our approach to risk is intended to protect the interests of our shareholders and other stakeholders. Consideration of execution risk will be a key part of our Growth Acceleration Programme.

Essential to long-term success

Managing business risks

As with all businesses, there are certain risks and uncertainties that may impact Rotork's ability to achieve its objectives.

The assessment and management of risk is the responsibility of the Board, and the continuous improvement and execution of a comprehensive and robust system of risk management is a high priority for Rotork. Managing the risks of our business is essential to the long-term success and sustainability of the Group and our approach to risk is intended to protect the interests of shareholders and all stakeholders. The risk management process is an established way of identifying and managing risk and is part of our governance framework as set out in our Corporate Governance Statement, see page 54.

The Board's role in risk management involves promoting a risk-aware culture that emphasises integrity at all levels of business operations. This includes:

- setting the Group's risk appetite in accordance with the Risk Appetite Framework (RAF), as set out below;
- determining the principal risks;
- setting, maintaining and communicating the overall policies for risk management; and
- ensuring that risk management is embedded within the core processes of the Group.

Effective communication of policies and standards across our global locations is crucial to ensuring a consistent risk management approach across the Group.

2018 has seen the continued development of the risk management framework, including further embedding of the risk appetite framework and technology to support the process.

Risk management process

The risk management process is summarised as follows:

Ongoing – divisions and businesses manage and monitor risks

- 1 Risk identification, bottom up risk assessment
- 2 Quantify the gross risk
- 3 Identify risk mitigations and controls
- 4 Quantify the net risk
- 5 Top down risk assessment
- 6 Monitor, assure and report on robustness of risks and risk assessment processes



Major risks are first identified (Stage 1) and considered by the divisional and Group executives during their regular meetings. Each division values the gross likelihood and impact of each risk (Stage 2) on their divisional business, assuming no specific mitigations or controls. Divisions then consider the strength of mitigations and controls in place for each risk (Stage 3) before giving a net likelihood and impact score (Stage 4). There are a range of potential impacts including financial, reputational and health and safety. For financial impacts, valuation limits are tailored so that each division has an appropriate benchmark.

Consolidated Group risks are formally updated and presented to the Board at half year. An annual Risk Assessment Workshop is then facilitated by the risk function for each division and the plc, to promote consistency and challenge to the bottom up process. Once the Risk Assessment Workshops are completed by each division, the risks are then consolidated at a Group level. This consolidation process is subject to top down input and challenge from the Rotork Management Board, Audit Committee and Board (Stage 5).

The consolidated risk scores are used to determine which risks are most important at a Group level and these are defined as our principal risks. Each principal risk is ultimately owned by a member of the Rotork Management Board. Risks which are not considered to be principal risks, are owned and managed by members of the Divisional or plc Boards. The principal risks are set out on pages 26 to 28.

Risks are monitored, assured and reported in a number of ways (Stage 6). An example of each is below:

- Monitoring – Divisional management and the Board monitor, manage and reassess risk, maintaining risk registers as live documents.
- Assurance – The work of internal audit and others tests the effectiveness of mitigations and controls in relation to Rotork's risks.
- Reporting – The quarterly Executive Risk Summary reports KRIs giving an indication of how Rotork is being affected by risks.

Identified risks are discussed and the progress reviewed at both Rotork Management Board and Divisional Board meetings during the year. Senior management, in association with the Board, meets twice a year to consider the Group risk register and progress with mitigating actions. A further session is planned for 2019, to consider emerging risks and their impact on Group strategy.

RISK APPETITE FRAMEWORK

The Board is responsible for determining the nature and extent of the risks it is willing to take in achieving its strategic objectives. Our Group Risk Appetite Statement is designed to set the right tone from the top and support decision making.

Risk appetite statement

Rotork is a growth company and will continue to pursue both organic and acquisition-led initiatives to drive future growth. We are embarking on a Growth Acceleration Programme, investing in technology, new products and new service infrastructure that are relevant in a rapidly changing market, but only where there is evidence of market opportunity. We will not dilute the core values associated with the Rotork brand. We will maintain the current level of operational risk and will not risk the financial stability of the company through the pursuit of development opportunities.

The RAF provides qualitative and quantitative insight on key risks and supports proactive mitigation planning. The RAF consists of:

- 1 Risk Appetite Dimensions
- 2 Risk Appetite Statements
- 3 Risk Appetite Preferences
- 4 Key Risk Indicators (KRIs)

During 2018, we revised the RAF to reflect changes to the nature of Rotork's business and its operating environment. We updated the Board's risk appetite dimensions, statements and preferences, which inform the KRIs monitored by the Board, and enhanced the analysis and reporting of those risks which exceed appetite.

The risk appetite statements provide guiding principles to support decision-making at both a Board level and throughout the wider Group. The Board sets the Group's risk appetite preference for each dimension, stating whether we are tolerant, neutral or averse to a particular risk dimension. These preferences guide the Group's approach to managing risk.

Risk appetite framework approach

We have applied the RAF throughout 2018, incorporating this into Board decision making. The approach taken by the Board is summarised below:

Identify key decisions and underlying parameters

For a given Board decision, underlying parameters are identified and considered alongside the likely impacts of the decision:

Potential decision points and outcomes.

Impact types (e.g. financial, reputational).

Who: Group Finance Director and Head of Risk & Internal Audit

Evaluate potential decisions against Group risk appetite

Potential decisions are evaluated against the over-arching principles articulated through the Group Risk Appetite Statement.

Potential decisions are assessed against the detailed Group risk appetite metrics, for example:

Do the forecast returns justify the additional risk taken on?

Who: Board

Evaluate specific risk appetite dimensions

Potential decisions are evaluated against the specific risk appetite dimensions, statements and KRIs, considering:

The key risk appetite dimensions related to the decision.

How the KRIs are expected to be impacted by the decision.

Whether the impact supports our desired appetite for the given risk(s).

Who: Board

Assess and refine Risk Appetite Framework

The RAF is continuously refined in light of the decisions made. We then use the RAF to determine:

Where we are willing to take on additional risk.

Where further action is needed to manage risk within our appetite.

Whether decisions expose us to additional risk dimensions not currently identified.

How the RAF could better support the Board's decision-making process in the future.

Who: Group Finance Director and Head of Risk & Internal Audit, with Board sign-off

 See principal risks and uncertainties on pages 26-28

Risk appetite dimension	Statement	KRIs
Acquisitions	We will pursue acquisition opportunities that are in line with our growth agenda and review each on its individual merits and expected benefits.	None.
Control environment	We will set a minimum standard of control globally, and invest in order to further strengthen the control environment of the business, including in second and third lines of defence.	Number of control breaches identified by internal audit in the highest two categories.
Control environment – cyber	We will continue to review current external and internal cyber threats so that the business is protected from these threats and ensure that we have appropriate processes in place to respond to a successful cyber-attack.	PC system security compliance. Server system security compliance. % of staff who are up to date with security requirements.
Culture and behaviours	We will have a regard to our culture in considering strategic decisions and recognise some change in culture may be required to deliver our objectives. We will seek opportunities to maximise on the benefits of our culture and ensure that our culture supports the needs of our strategy.	None.
Earnings volatility	We have limited appetite for volatility in underlying earnings, but would consider growth acceleration opportunities that would increase the risk of earnings volatility, if the upside opportunity could be proven.	Level of hedging cover for currency exposures. Current year adjusted operating profit. Order book coverage of in year revenue forecasts.
Geopolitical	We will continue to operate a geographically diverse business and actively pursue opportunities to maximise upon greater critical mass and increased efficiency of global supply chains.	% of Group revenue from risky countries by: Subsidiary location – forecast; End destination location – actual. Risky countries are defined in the AON Political Risk Map 2018.
Health and safety	We are fully committed to ensuring the safety of all our employees.	LTIR incidents leading to absence. Health and safety audit scores. Number of near misses reported.
Legal and regulatory compliance	We have zero tolerance for non-compliance with relevant laws and regulations in the markets in which we operate.	Number of confirmed significant regulatory breaches/external investigations/notification or approach from a regulator.
Market and industry	We will, in the long term, move to increase the size of the addressable markets which we serve.	% of Group revenue by industry.
Operational – supply chain	We will use our purchasing power to optimise our vendor base, ensure value for money and reduce lead times whilst maintaining quality.	Number of critical components which are single sourced.
Operational – sales projects	We will take on sales projects, including complex, extended scope and long-term maintenance contracts, but will only do so on acceptable terms and conditions.	Major contracts approved.
Operational footprint	We want to optimise our operational infrastructure to ensure we make the most of our resources and facilities, processes and core competencies, and ensure it meets the future needs of the business.	None.
People – talent management	We will invest in ensuring that we have the right people, with the right skills to deliver our strategy. This will include ensuring that we maintain appropriate succession plans, develop and attract the right talent.	None.
People – management capacity	We will ensure that management capacity is sufficient to implement our strategy and that business decisions do not negatively influence our day to day business.	None.
Product	We will invest in R&D in order to retain a differentiated product portfolio and will support this by providing a leading service element to our offering. We will invest in new products and technologies where there is evidence of market opportunity.	Actual R&D investment. Market opportunities and competitor actions.
Quality	We will maintain robust quality control procedures over components purchased and over our finished product in all of our manufacturing locations.	% of service labour used on warranty activity. Number of significant warranty incidents. Number of significant safety incidents.
Tax	We do not pursue aggressive tax planning schemes, and consider the tax impact in making business decisions.	Monitoring of Group effective tax rates. Number of tax audits carried out against the Group.

This framework enables Rotork to have better visibility of which risks potentially need additional mitigation, which risks are potentially over managed, and where we have appetite to accept additional risk.

PRINCIPAL RISKS AND UNCERTAINTIES

Our risk management processes are dynamic and will continue to assess and prioritise the risks related to accelerated growth and their impact on the principal Group risks which are detailed below. These risks are the result of the robust, top down and bottom up risk assessment process previously described. These risks include those that would threaten the Group's business model, future performance, solvency or liquidity.

Link to strategy



Accelerated growth



Strong margins



Sustainability

Risk trend



Increasing



No change



Decreasing






PRINCIPAL GROUP RISKS

Risk description and importance to Rotork	Strategic priority	Summary of mitigation and controls	Risk trend
Economic and market conditions			
<p>A decline in government and private sector confidence and spending will lead to cancellations of expected projects or delays to existing expenditure commitments.</p> <p>This lower investment in Rotork's traditional market sectors would result in a smaller addressable market, which in turn could lead to a reduction in revenue from that sector.</p>	 	<ul style="list-style-type: none"> Product development and innovation to address new markets and new applications in existing markets. Geographic and end market diversification provides resilience to a reduction in any one area or market but may not fully mitigate a change in the larger end markets. Increased focus on service offerings, to capitalise on increased demand for product maintenance. 	
<p>Increased competition on price or product offering leading to a loss of sales globally or market share.</p>	 	<ul style="list-style-type: none"> Rotork already has production or sales and service operations in many low cost countries. Global strategic sourcing team secure lower prices for components. R&D investment and organic product development, or acquisition of companies with new products, to maintain differentiation from the competition both in terms of the quality of our products and the services we provide. 	
<p>Increasing social and political instability, including Brexit, results in both disruption and increased protectionism in key geographic markets.</p> <p>Business disruption would impact our sales and might ultimately lead to loss of assets located in the affected region.</p>	 	<ul style="list-style-type: none"> Regular review of global markets considering social and political risks and contingency plans and market exit strategies developed and implemented as appropriate. Key Risk Indicator monitoring % of revenue from high risk markets reported quarterly to the Board. The geographic spread of Rotork's operations and customers limits the impact of any one market on the results of the Group as a whole. Group Treasury policy sets cash limits for overseas businesses, restricting our exposure to any one market. The Treasury Committee assesses compliance with these limits. A Brexit Committee has been set up and external support has been sought to consider the necessary response to Brexit risks and actions are underway. 	
<p>Failure of an acquisition to deliver the growth or synergies anticipated, either due to unforeseen changes in market conditions, or failure to integrate an acquisition effectively. Significant financial underperformance could lead to an impairment write down of the associated intangible assets.</p>		<ul style="list-style-type: none"> Forecast market conditions are considered during the due diligence process. Due diligence processes will provide information to assist management and minimise likelihood of unknown surprises. During the due diligence process a 100 day plan is prepared to manage the important initial stages of integration. Effective integration and communication of Rotork's policies and procedures. Careful consideration and negotiation of acquisitions by senior management to ensure the purchase price represents value for money. 	

Risk description and importance to Rotork	Strategic priority	Summary of mitigation and controls	Risk trend
Corporate social responsibility			
<p>The nature of Rotork's core business and geographical locations involves potential risks to the health and safety of our employees and other stakeholders.</p>	 	<ul style="list-style-type: none"> Compliance with relevant legislation and codes of best practice. Robust health and safety policy and training included in all staff inductions, in addition to regular refresher training. Regular health and safety audits, site checks and reporting. Regular communications about accidents at work and visible KPIs. Appropriate training is provided for known safety risks. Third party provider of international support and travel advice in all markets and regions. <p>See Health and Safety Report on pages 46-47.</p>	
<p>Failure of our staff or third parties who we do business with to comply with law or regulation or to uphold our high ethical standards and values.</p>		<ul style="list-style-type: none"> Tone from the top, a 'no tolerance' culture to reinforce our high ethical standards and values. Commitment to compliance embodied in Rotork culture. Anti-bribery and corruption training is provided to all relevant staff. We continue our programme of communication to, and education of, agents. We have undertaken a Group wide review of our arrangements with all agents and distributors. Use of WorldCheck for agents and acquisition targets before engaging in business relationships. Availability and promotion of the Whistleblowing Policy and Hotline. We are fully committed to reduce our environmental impact and comply with all legal and regulatory requirements. We are aware of human rights and act in accordance with them. 	
Product quality and reliability			
<p>Major in field failure of a new or existing Rotork product potentially leading to a product recall, major on-site warranty programme or the loss of an existing or potential customer.</p>	 	<ul style="list-style-type: none"> Extensive product design review process pre-launch reduces the risk of product failures occurring in the field. Rotork has experience of launching many products and enhanced the process based on this experience. Comprehensive set of quality control procedures over suppliers. These include supplier visits, audits and a scorecard system to measure their performance. Our global service coverage ensures that any product failure issues should be dealt with quickly and efficiently to minimise any reputational impact. Fitting and commissioning products wherever possible by Rotork engineers to ensure current operations. 	
<p>Failure of a key supplier or tooling failure at a supplier causing disruption to manufacturing at a Rotork factory.</p>		<ul style="list-style-type: none"> Dual sourcing for key components wherever possible provides mitigation for key suppliers. A Key Risk Indicator measures single sourced critical components and is reported quarterly to the Board. Maintaining safety stock levels sufficient to protect against short term disruption. Regular monitoring and replacement of our tooling at all suppliers reduces the risk of a tooling failure. 	

PRINCIPAL RISKS AND UNCERTAINTIES

CONTINUED

Risk description and importance to Rotork	Strategic priority	Summary of mitigation and controls	Risk trend
IT security, continuity and system implementation			
<p>Failure to provide, maintain and update the systems and infrastructure required by the Rotork business.</p> <p>Failure to protect Rotork operations, sensitive or commercial data, technical specifications and financial information from cyber-crime.</p>	 	<ul style="list-style-type: none"> • Thorough business process reviews and use of flexible testing environments to address functional issues. • Post system implementation, each business is monitored. • Dedicated implementation resource provided by experienced Rotork team. • Robust security systems are in place to monitor and protect the Rotork network. • We continually review the effectiveness of our key IT security controls, including Key Risk Indicators to monitor security compliance of PCs and servers. • Regular cyber-security and cyber-fraud awareness training and guidance. • A disaster recovery solution (supported by third party service level agreements where applicable) is in place for all critical systems. 	
Change management			
<p>The Growth Acceleration Programme and other change projects lead to business disruption or have a negative effect on day-to-day operations.</p>		<ul style="list-style-type: none"> • Growth Acceleration Programme workstreams are being managed by a dedicated PMO, with a mix of Rotork and project management experience. • There is a defined benefits tracking process to monitor outcomes against the initial objectives of projects, including monitoring any impact on day-to-day operations. 	

VIABILITY STATEMENT

The directors have assessed the viability of the Group over a three year period taking account of the Group's current position and the potential impact of the principal risks as documented above. A robust assessment of the principal risks facing the business was conducted through the year with the review of the risk appetite framework and executive risk summaries contributing to a fuller consideration of those risks which might impact the business model or future performance. Whilst the Board has no reason to believe the Group will not be viable over a longer period, three years is considered an appropriate period over which a reasonable expectation of the Group's longer-term viability can be evaluated and is aligned with our planning horizon at both Group and divisional level. The Board has considered whether it is aware of any specific relevant factors beyond the three year horizon and confirmed that there are none. The Growth Acceleration Programme, which has progressed well during the year, is expected to reduce the Group's cost base and improve the Group's longer-term operational and financial performance and financial position.

In coming to this view, the Board has considered the inherent volatility in exchange rates and oil prices, the nature of the industry and the business cycles involved. The Group works closely with its customers on projects ranging from several weeks to several years, discussing operational plans and longer-term capital expenditure programmes.

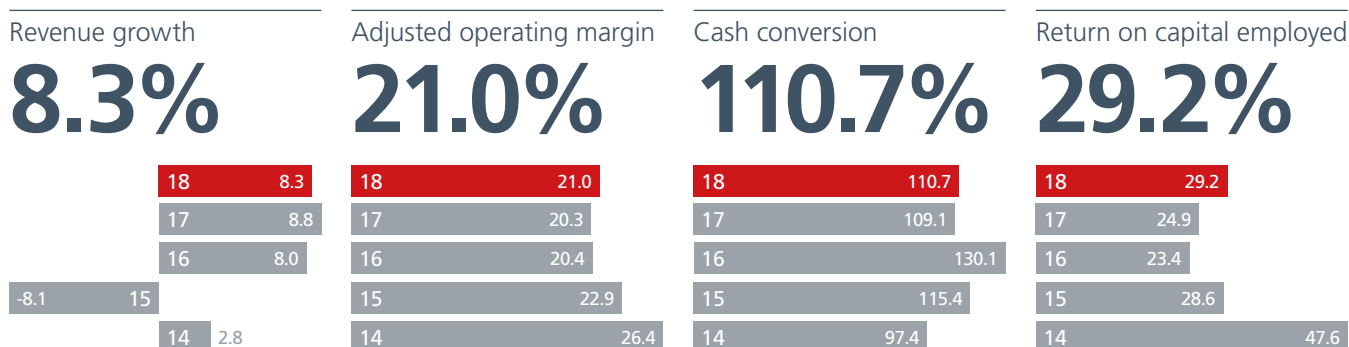
In making this statement, the directors have considered each of the principal risks, individually and some in combination, and the potential impact they could have in severe but plausible scenarios. The scenarios contained significant one off financial shocks and significant profit erosion impacting the Group's revenue. In particular, the scenarios cover different potential impacts associated with Brexit, the increasing political protectionism in respect of trade tariffs, failure of the Growth Acceleration Programme and lower investment in the oil and gas markets. The potential impact to Rotork from a no deal Brexit could be a loss of revenue due to logistic issues, supply chain disruption or permanent cost increases as a result of increased tariffs. These events occurring individually or at once have been considered in the modelling of the different scenarios.

Financial sensitivity modelling was carried out to assess the impact of these risks on the Group's three year plan. Assumptions were made concerning market activity levels, the impact of the scenarios on working capital cycles and the mitigating actions that could be taken to reduce the cash and financial impact of the stress-test scenarios. Given the current position of the Group and the likely effectiveness of mitigating actions, the Board has assessed the impact these would have on the business model, future performance, solvency and liquidity over the period and have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over a three year period.

KEY PERFORMANCE INDICATORS

Financial KPIs

Growth of the business, quality of earnings and efficient use of resources are crucial target areas for Rotork and we employ a number of performance measures throughout Rotork to monitor them. The KPIs used to monitor the financial performance of the business are set out below.



Reasons for choice

This is reported in detail for operating segments and is a key driver for the business. This measure enables us to track our overall success in specific project activity and our progress in increasing our market share by product and by region.

This measure brings together the combined effects of procurement, sales and pricing as well as the leveraging of our operating assets. It is also a check on the quality of revenue growth.

This is used as a measure of performance where a target of 85% is regarded as a base level of achievement. Cash generation is also one of the constituent parts of the senior management reward system.

We aim to use our capital efficiently and reporting this ratio internally helps management at Group level monitor our adherence to this philosophy.

How we calculate

Increase in sales revenue year-on-year divided by prior year sales revenue.

Adjusted operating profit shown as a percentage of sales revenue. We use adjusted operating profit as this gives a more consistent year on year comparison.

Cash flow from operating activities before tax outflows, payments of restructuring charges and the pension charge to cash adjustment as a percentage of adjusted operating profit.

Adjusted operating profit as a percentage of average capital employed. Capital employed is defined as shareholders' funds less net cash held, with the pension fund deficit net of related deferred tax asset added back. The calculation is shown on page 102.

Comments on results

The strongest revenue growth was seen in the downstream oil and gas and industrial markets, whilst upstream and midstream oil and gas and water markets grew more modestly.

Operational gearing benefit from revenue growth, a continued focus on cost management and a greater emphasis on productivity contributed to an improvement in this KPI.

Our continued focus on working capital management has contributed to strong operating cash flows which resulted in a movement from net debt of £12.6m at the start of 2018 to net cash of £43.6m at the end of the year.

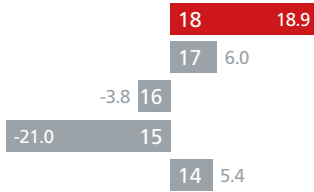
With no acquisitions in 2018, an increased dividend payment and growth in adjusted operating profit this has resulted in an improved return on capital employed.

Non-financial KPIs

We monitor non-financial areas in our businesses, particularly in the environmental, health and safety and quality control areas, and we place strong emphasis within our organisation on improving our performance here.

Adjusted EPS growth

18.9%



The measurement of earnings per share (EPS) reflects all aspects of the income statement including management of the Group's tax rate.

Increase in adjusted basic EPS (based on adjusted profit after tax) year-on-year divided by the prior year adjusted basic EPS.

A small decrease in the adjusted effective tax rate and a decrease in finance expenses saw earnings per share grow ahead of the increase in adjusted operating profit of 12.2%.

Lost time injury rates (LTIR)

0.32



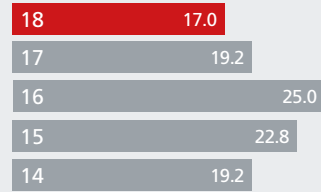
LTIR is used as one measure of the effectiveness of our health and safety procedures.

LTIR is the number of reportable injuries resulting in lost time divided by the number of hours worked multiplied by 100,000.

Our proactive approach is aimed at continuously identifying weaknesses in our safety processes and removing or mitigating risks when they are identified.

Carbon emissions

17.0 TnCO₂e



This KPI compares this year's carbon emissions stated as a function of revenue with last year's and is a broad measure of our impact on the environment.

Energy usage data (scope 1 and 2) is collected and converted to equivalent tonnes of CO₂ and then reported as a function of revenue. Further details are contained in the Corporate Social Responsibility Report on page 48.

Further consolidation of sites and upgrades in some of our facilities have resulted in the overall reduction of our Scope 1 and Scope 2 emissions.

OPERATING REVIEW

Revenue

£351.9m
+8.2%

Rotork Controls



Order intake grew 4.9% to £349.2m (up 8.0% on an OCC basis) and revenue was 8.2% higher at £351.9m (OCC +11.6%).

This resulted in a 1.5% reduction in the order book to £93.6m over the course of the year. Adjusted operating profit was £101.3m which was an 9.1% increase, giving an adjusted operating margin of 28.8%, 20 basis points higher than the prior year. On an OCC basis adjusted operating margin is the same as the prior year. Gross margin improved 30 basis points to 52.2% largely due to operational gearing.

Oil and gas revenues grew strongly in the year driven by the large downstream projects in the Far East which we highlighted at the half year results. In total, oil and gas increased from 44% of divisional revenues to 50%, with downstream increasing from 29% of divisional sales to 36%. Industrial process was the only other end market to grow and did so both in value terms (+17%) and as a percentage of the division's sales (up 1% to 17%). Power and water sales both declined overall but increased in some

regions, with North American power and Latin American water providing the two best performances within these end markets. Service activities continued to perform well.

We saw the most positive growth from the Far East which, even without the benefit of the large downstream projects, would have been the fastest growing region. North America, Western Europe and Latin America also made progress. The UK and Eastern Europe were broadly flat whilst the Middle East and Africa saw a decline against their 2017 comparator, which benefited from a number of upstream oil and gas and power projects.

During 2018 we led initiatives focused on lean manufacturing, product line rationalisation and supply chain consolidation. We implemented a new lean assembly methodology in part of our Bath plant which has already delivered quality and efficiency improvements in the year – and which, once fully established, will be rolled out across our other plants. We have reviewed our product ranges and notified customers of 12 product lines which have now been discontinued, with a further three to follow in 2019. In most cases these customers have been successfully migrated to newer product ranges. The new procurement team has been working on both our direct and indirect cost base. Whilst the impact on our 2018 costs is not significant, they have been laying the groundwork for delivery of savings in 2019.

Grant Wood
Managing Director Rotork Controls

Market drivers

The investment in downstream oil and gas in the Far East is being driven by the rising demand in that region for refined product which has outstripped capacity. The investment is across all aspects of downstream: refining, storage and petrochemical.

Growth Acceleration Programme

The revised IQ3 flowline in Bath now incorporates all the lessons learnt from introducing mixed-model lean techniques during the year. This yielded quality and efficiency improvements and once we implement these changes through the other IQ lines in Bath, in Rochester and China further benefits will be delivered.

Revenue

£166.3m

+10.8%

Rotork Fluid Systems



Fluid Systems saw strong project activity early in the year and as a result was able to convert a large part of this to revenue.

Order intake of £154.7m was 0.9% higher on an OCC basis than the prior year but a currency headwind and the sale of the Hiller nuclear actuator business meant reported order intake was 3.3% lower. Revenue was 10.8% higher (+14.2% OCC) and as a result adjusted operating profit increased 78.9% (OCC +85.6%) to £16.1m. Adjusted operating margin increased 370 basis points to 9.7% (OCC +380bps). Gross margin improved 280 basis points to 31.7% as the higher revenue was delivered from a lower direct cost base, as well as benefiting from a small improvement in material costs.

Oil and gas was the fastest growing end market and is now 68% of Fluid System's sales compared with 67% last year. Within this, midstream was broadly flat and upstream, the largest element, grew 7% with progress in North America and the Far

East offset by a decline in the Middle East. Downstream grew 34% led by activity in the Middle East. Water and industrial process both showed modest progress but power declined, partly due the sale of Hiller.

The Far East grew in nearly all end markets and was the best performing region although is still smaller than North America and the Middle East and Africa overall. North America, Western Europe and Eastern Europe all made progress in the year with Western Europe's performance strongest in industrial process. The Middle East and Africa and UK markets, both declined in the year, largely as a result of lower upstream business.

Operational improvement initiatives focused on Lucca, Italy during the year. Introduction of lean techniques, consistent with the overall methodology being deployed across the Group, were supplemented by a drive to reduce inventory. From a product perspective there has been a balance between new and expanded product lines, notably the electro-hydraulic SI range, and a rationalisation of the existing product ranges with eight low volume ranges being phased out.

Peter Matton
Managing Director Rotork Fluid Systems

Market drivers

Given the project nature of Fluid Systems, spend tends to move from market to market within a region. In the Far East spend increased in all areas of oil and gas; in North America midstream declined but other areas were up; and in the Middle East upstream projects completed last year, with downstream projects the focus in 2018.

Growth Acceleration Programme

The largest Fluid Systems factory is based in Lucca, Italy, and this was the prime focus for operational improvement activities. Initiatives to improve on-time delivery, recognising the very different types of product going through one factory, to reduce inventory and to introduce more visual management tools as part of the lean programme all yielded benefits. These will be developed in 2019 and carried to the other Fluid Systems factories.

OPERATING REVIEW CONTINUED

Revenue

£85.6m
+2.0%

Rotork Gears



Order intake increased 0.9% (OCC +3.8%) to £86.8m whilst revenue of £85.6m was 2.0% ahead of last year (OCC +4.7%).

Adjusted operating profit was £15.3m, 2.7% lower than the prior year but was +1.3% on an OCC basis. Adjusted operating margins were 17.9%, 80 basis points lower than 2017. Gross margin reduced 160 basis points to 32.2% driven by higher material costs which were the result of higher warranty costs and material write offs. These adverse impacts were partially offset by reductions in overheads through the year.

Oil and gas sales grew the fastest and increased from 52% of divisional sales last year to 54%. The growth was in midstream in the Middle East and downstream in North America and the Far East whilst Western Europe was lower in both the end

markets. Upstream activity was lower in most regions. Industrial process was the other growth market, led by North America, with water and power broadly flat. The Middle East and Africa and Far East were the two regions which grew sales whilst Western Europe reported the largest decline. All other regions reported similar activity levels to the prior year.

Early in the year we undertook a review of the division's products and took the decision to rationalise the product range in a number of areas. The closure of our Valvekits business mid-year was the most visible result of this but a number of low volume product lines with obvious replacements were also phased out. This exercise continues and we expect to consolidate more ranges in 2019 which will deliver further inventory reductions and simplify our product portfolio. At the same time the reorganisation of R&D and coordination at a Group level is allowing us to focus on development of gearboxes that primarily sell to Controls and Fluid Systems to improve the efficiency of the product pairing and competitiveness of the solution.

David Littlejohns
Managing Director Rotork Gears

Market drivers

Increasingly our customers are looking for shorter delivery lead times and this is reflected in many of the activities being undertaken on lean and inventory as part of our Growth Acceleration Programme. Our review of the sales organisation will also reflect the different nature of these customers' requirements and how best to serve them globally.

Growth Acceleration Programme

As part of the Group lean programme, a Gears assembly blueprint has been designed and once fine-tuned in Leeds will be implemented across the other Gears factories.

Revenue

£107.2m

+6.5%

Rotork Instruments



Order intake was £105.5m, 0.9% higher than last year (OCC +1.9%) and revenue of £107.2m was 6.5% higher (OCC +7.5%).

The additional revenue combined with tight control of costs ensured adjusted operating profit grew 17.7% (OCC +17.5%) to £24.1m with adjusted operating margins increasing 220 basis points (OCC +190 bps) to 22.5%. Gross margin improved 110 basis points to 44.3% with the positive impact of operational gearing combined with holding direct costs at the prior year level more than offsetting a small rise in material costs.

Oil and gas remains the largest end market and increased from 46% to 48% of revenue this year. This growth comes from upstream and midstream oil and gas sales as downstream reduced in the year, falling

from 12% to 10% of revenue. Water and power delivered modest growth and whilst Industrial sales grew, they declined as a percentage of sales from 19% to 18%. Geographically most regions maintained their share of divisional revenue, growing in line with the overall division. The only exception was the UK which grew faster, benefiting from upstream oil and gas sales.

Our focus on driving efficiency improvements included product rationalisation, where we have withdrawn over 2,500 SKUs covering more than 20 product ranges. At the same time new product development plays a major role as we look to match our customers' changing needs. Our new chemical pump range for the oil and gas market offers major efficiency savings, with reduced power requirements which is ideal for growing solar applications. With the reshaped Group engineering structure, we were able to close a small remote engineering centre, driving cost savings without impacting our ability to innovate.

Kiet Huynh
Managing Director Rotork Instruments

Market drivers

In oil and gas we have seen a moderate recovery within the subsea business as activity for exploration and drilling has increased. Downstream, we have also seen the recommencement of projects that were on hold through 2017. The industrial process market remained strong in 2018 especially in the Far East where we were able to capitalise on our strong product portfolio.

Growth Acceleration Programme

A number of lean initiatives were implemented in our key factories throughout 2018, allowing us to deliver higher revenues whilst keeping direct costs flat. Lead times and on-time delivery were also improved as a result of the efficiency gains.

FINANCIAL REVIEW

In 2018 we saw strong growth in revenue and adjusted operating profit and further strengthened our balance sheet through strong cash generation. Cash conversion of 110.7% resulted in a movement from net debt of £12.6m to net cash of £43.6m.

The year started strongly with order intake in the first half continuing the trend from the second half of 2017, with order intake up 9.7% from the previous six month period. As the year progressed the impact of a variation in the timing of project orders and deliveries compared to 2017 resulted in full year order intake growth reducing to 2.3% (5.4% OCC), with full year order intake of £681.7m (2017: £666.5m). Revenue was £695.6m, 8.3% higher than the prior year (+10.9% OCC) which resulted in a book to bill ratio of 0.98 and a closing order book of £179.2m (2017: £192.5m).

Gross margin increased 60 basis points to 44.8% (OCC gross margin +30 basis points to 44.6%) aided by the strong revenue growth. A 50 basis point increase in material costs was offset by improved labour productivity, helped by the introduction of new lean processes in some locations. The operational gearing benefit of the partly fixed factory costs had an additional positive impact.

Adjusted operating profit was £146.0m, an increase of 12.2% over the prior year, with the adjusted operating margin increasing to 21.0% (2017: 20.3%). On an OCC basis, adjusted operating profit increased 21.0% to £149.7m, a margin of 21.1%. The increase in reported gross profit was partially offset by an increase in overheads of 9.1% (+4.3% OCC), with a general increase in salary costs and an increase in employee bonuses and benefits reflecting the improvement in results. Average salary per head increased 3% at constant exchange rates.

Net finance costs reduced by £3.2m to £2.2m as a result of more favourable exchange rates (£1.8m), a lower pension interest charge and lower bank interest on loans due to lower external borrowing during the year (£0.6m). The reduction in net finance costs resulted in an increase in adjusted profit before tax of 15% to £143.5m.

The continued worldwide trend towards lower corporate tax rates resulted in the adjusted effective tax rate reducing to 23.7% giving adjusted earnings per share of 12.6p, an increase of 18.9%. Statutory earnings per share were 10.5p, an increase of 64.1%. The statutory increase is larger than the adjusted percentage increase due to the lower level of adjusted items in 2018, which are set out below.

Growth Acceleration Programme

During the year there have been three areas of work within the Growth Acceleration Programme which were identified as likely to have an immediate impact and which have already benefited the reported results. These were the closure or sale of three businesses, the establishment of a central procurement team and the development of site specific improvement plans at our largest factories as part of the introduction of a mixed-model lean methodology and continuous improvement programme.

The sale of the Hiller nuclear actuator business, closure of the Valvekits business and the engineering office resulted in a £0.7m loss. This has been reported as a restructuring cost within other adjustments (see note 4) and is excluded from adjusted operating profit. During 2018 these businesses contributed £3.1m of revenue and operating profit of £0.1m and their disposal generated proceeds of £4.3m.

The central procurement team was established in the middle of last year and added to through the second half of 2018. Work started on wave 1 (insurance, travel and certain components) early in the year but then towards the end of the year focus moved to wave 2 (larger component categories) that would bring benefits in 2019. In total this team has achieved £1.7m of in-year savings which benefited the 2018 results. The impact of these savings in 2019 plus the impact of wave 2 will generate an incremental £5m of savings in 2019.

The implementation of a mixed-model lean programme and focus on continuous improvement was led initially by consultants. Gradually through the year we have built the in-house expertise in these areas and are now able to run the site assessment process and drive further improvements led by our own people. Of the £4.1m consultancy costs incurred in 2018, which are reported within 'Other adjustments' and excluded from adjusted operating profit, the majority were incurred in the first half of the year and relate to the information gathering and analysis phase of the Growth Acceleration Programme. However £0.7m related to site improvement activities and the benefits arising from these activities in 2018 have been in two main areas. Firstly the identification and use of slow moving inventory, which has generated £0.7m of additional profit, and secondly the efficiency gains from process changes the most significant part of which are reflected in improved labour utilisation. The efficiency gains, which totalled circa £0.4m in 2018, are recurring benefits and will continue to build as these programmes gain momentum.

The other costs incurred in 2018 as part of the Growth Acceleration Programme are redundancy and executive change costs (£2.9m) and restructuring costs (£2.9m). These include the write off of capitalised R&D following the decision to end development of certain product lines and assets written off as part of the global footprint review. There is no direct payback in respect of these costs.

Our intention when establishing the Growth Acceleration Programme was to fund the programme through working capital improvements. During the year we have begun to see some of those improvements with net working capital reducing from 29.3% to 27.7% of revenue. Inventory is the component of working capital which has received the most focus and an improvement in stock turns has

generated £16.3m this year. Looking at the other elements of working capital on a constant currency basis, trade receivables have improved and generated £5.4m whilst trade payables have deteriorated slightly resulting in an outflow of £8.9m. As the central procurement team start to work through the wave 2 categories we expect to see this metric start to improve. The total cash generated from improved working capital in the year is £12.9m.

Brexit and geopolitical risk

Following the referendum in June 2016 and the subsequent triggering of Article 50 in March 2017, the UK is scheduled to leave the European Union (EU) on 29th March 2019 ('Brexit'). The decision has led to a higher level of uncertainty surrounding trading conditions, particularly between the UK and the EU. In the year ended 31 December 2018, 9% of Group revenue resulted from trading between the UK and EU.

Rotork has a Brexit steering group which assesses and monitors the potential impact on the Group and which manages the implementation of mitigation plans. To date, the following Brexit risks have been identified as having an actual and/or potential impact on our business:

- Economic conditions: Increased uncertainty including the specific impacts on growth, inflation, interest and currency rates.
- Laws and regulations: Potential changes to UK and EU-based law and regulation including product approvals, patents and import/export tariffs.
- Short term supply chain disruption: Potential changes in customer buying patterns, delays in customs for products shipped to and from the EU and the rest of the world and border clearances and uncertainty over UK and EU product approvals.

With a strong direct presence in the EU, the Board believes that Rotork is well placed to respond to changes to future trading arrangements between the EU and the UK. Inventory holdings of certain components and finished goods are being increased above standard levels in the UK to mitigate the risk of delays in customs and border clearances.

Adjusted earnings reconciliation

£m	Statutory results	Amortisation	Net pension gain	Restructuring costs	Adjusted results
Operating profit	122.9	20.3	(7.7)	10.5	146.0
Profit before tax	120.7	20.3	(7.7)	10.5	143.8
Tax	(29.0)	(4.5)	1.3	(1.8)	(34.0)
Profit after tax	91.7	15.8	(6.4)	8.7	109.8

The table above adjusts the statutory results for the significant non-cash and other adjustments to give adjusted results. Note 2 sets out the alternative performance measures used by the Group and how these reconcile to the statutory results. Further details of the net pension gain and the restructuring costs are provided in note 4.

Revenue

£695.7m
+8.3%

Operating profit

£123.2m
+43.2%

The Group has also considered the potential cost impact of World Trade Organisation tariffs coming into force for exports from the UK and imports into the UK. The resultant cost of these potential tariffs is not expected to be material to the Group's results.

We continue to monitor the trade position between China and the US and have considered the potential impact of additional trade tariffs between these countries. We currently believe that if tariff changes are implemented as suggested in 2018 they will not materially impact the Group's results.

We have included scenarios in the viability assessment which models the impact of both of these current geopolitical uncertainties. The viability statement can be found on page 29.

Adjusted items

Adjusted profit measures are presented alongside statutory results as the Directors believe they provide a useful comparison of business trends and performance from one period to the next.

The statutory profit measures are adjusted to exclude amortisation of acquired intangibles and other items, comprising the net pension gains in respect of the defined benefit pension schemes and the restructuring costs as a result of the Growth Acceleration Programme.

FINANCIAL REVIEW

CONTINUED

Organic business growth

We also present organic constant currency (OCC) figures to exclude the impacts of currency, acquisitions, business closures and disposals.

£m		2018 as reported	Constant currency adjustment		2018 at 2017 exchange rates	Remove closed/disposed businesses		Organic business at 2017 exchange rates		2017 ²
Revenue		695.7	16.4		712.1	(3.1)		709.0		636.9
Cost of sales		(384.2)	(10.3)		(394.5)	1.9		(392.6)		(354.8)
Gross profit	44.8%	311.5	6.1	44.6%	317.6	(1.2)	44.6%	316.4	44.3%	282.1
Overheads	23.8%	(165.5)	(2.4)	23.6%	(167.9)	1.1	23.5%	(166.8)	23.8%	(151.8)
Adjusted operating profit ¹	21.0%	146.0	3.7	21.0%	149.7	(0.1)	21.1%	149.6	20.5%	130.3

1 Adjusted is before the amortisation of acquired intangible assets and other items (see note 4).

2 As a result of business disposals and closures the 2017 comparatives have been restated to enable the OCC business growth to be calculated, this reconciliation is shown in note 2.

Acquisitions, disposals and impairment review

In the year as part of the Growth Acceleration Programme three businesses were closed or sold. Hiller which primarily produced products for the nuclear industry was disposed on 5 August 2018 for £3.0m and realised a loss on disposal of £0.5m. Valvekits, a valve adaption business, was closed resulting in the redundancy of 32 employees. The gain on disposal of the Valvekits property offset the cost of closure and redundancy costs to realise a profit on disposal of £0.1m. The disposal of the above two businesses, together with the loss on the closure of a small engineering office, resulted in a total loss on disposal of £0.7m. This is shown as part of the restructuring costs adjustment to profit. The contribution to revenue and adjusted operating profit in 2018 of these businesses was £3.1m and £0.1m, respectively. Restating the 2018 adjusted operating margin for the removal of these businesses improves the adjusted operating margin by 10 basis points.

With the Group's most recent acquisition being in 2016, the amortisation charge in 2018 related to acquired intangible assets reduced £6.9m to £20.7m.

In 2017 the impairment review of acquisition-related goodwill resulted in a £21.6m write-down, of which £19.8m related to Bifold. In 2018 Bifold performed ahead of the expectations included in the 2017 impairment review and in the 2018 impairment review the Bifold cash generating unit has positive headroom on the base case forecast.

Currency

After several years of experiencing a currency tailwind we felt a headwind in 2018. The major currencies impacting the income statement are the US\$ and the euro. The US\$/£ average rate of \$1.34 (2017: \$1.29) was a 4 cent headwind whilst the euro/£ average rate was €1.13 (2017: €1.14), a 1 cent tailwind. With the average sterling rate across the basket

of currencies being stronger than 2017 this has resulted in a £16.4m or 2.4% headwind reported in revenue.

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 partially to 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.

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 £400,000 (2017: £300,000) adjustment to profit and for US dollar, and dollar related currencies, a 1 cent movement equates to approximately a £600,000 (2017: £400,000) adjustment.

We saw a reversal in currency movements towards the end of 2018 as sterling weakened. The rates used to translate the balance sheet are therefore different, with the US\$/£ closing rate of \$1.28 (December 2017: \$1.35), 7 cents (5.2%) stronger than the start of the year.

Return on capital employed (ROCE)

Our capital-efficient 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 cash 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. The average capital employed decreased 4.3% over the year to £500m as

there were no acquisitions during 2018 and we moved from a net debt to a net cash position. This, combined with the higher adjusted operating profit, resulted in an increase in ROCE to 29.2% (2017: 24.9%).

Taxation

The Group's effective tax rate was mainly impacted this year by the reduction in US corporate tax rates. The headline rate decreased from 31.0% to 24.0% in 2018 as a result of non-taxable charges in 2017 not repeated in 2018. Removing the impact of the non-recurring adjustments provides a more reliable measure and on this basis the adjusted effective tax rate is 23.7% (2017: 26.3%). The Group expects its adjusted effective tax rate to continue to fall in line with the current trend in corporate tax rates where Rotork operates. This will still be higher than the standard UK rate due to higher rates of tax in China, the US, Canada, France, Germany, Italy, Japan and India.

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 local legislation.

Cash generation

Our strong cash generation resulted in a movement from net debt of £12.6m to net cash of £43.6m at the end of the year. Our cash conversion KPI shows a conversion of 110.7% of adjusted operating profit into cash. The Group invested £10.4m in capital expenditure in 2018 although this was lower than anticipated due to our decision to defer plans for the redevelopment of the Bath factory site whilst options were considered. We continue to look at options for further expansion of this facility as part of the Growth Acceleration Programme.

We have continued to invest in our engineering capability with our Research and Development (R&D) cash spend increasing 10.8% to £15.5m. This represents 2.2% of revenue (2017: £14.0m and 2.2%). The most significant spend was

associated with the development of Pakscan 4 which contributed a third of the £3.8m of capitalised R&D in the year. Cash of £4.3m has been realised from the disposal of the Hiller business and the Valvekits assets. Dividends of £48.3m and tax payments of £30.1m were the two other major outflows.

Control of working capital as defined in the cash flow statement, using average exchange rates and excluding acquisitions, is key to achieving our cash generation KPI. The increased levels of revenue in the last quarter saw trade receivables grow £2.3m and when measured as days' sales outstanding¹ improved from 63 to 62 days.

Net working capital in the balance sheet decreased to 27.7% of revenue compared with 29.3% in December 2017 but was a £9.0m outflow in the cash flow statement.

Credit management

The Group's credit risk is primarily attributable to trade receivables, with the risk spread over a large number of countries and customers, and no significant concentration of risk. Creditworthiness checks are undertaken before entering into contracts or commencing trade with new customers and in companies where insurance cover operates, the authorisation process works in conjunction with the insurer, taking advantage of their market intelligence. We actively expanded the coverage of the credit insurance policy during the year and have cover in place for virtually all of our companies at an aggregate of 88% of receivables. Where appropriate, we use trade finance instruments such as letters of credit to mitigate any identified risk.

Treasury

The Group operates a centralised treasury function managed by a Treasury Committee chaired by the Finance Director and also comprising the Group Financial Controller and Group Treasurer. The Committee meets regularly to consider foreign currency exposure, control over deposits, funding requirements and cash management. The Group Treasurer monitors compliance with the treasury policies and is responsible for overseeing all the Group's banking relationships. A Subsidiary Treasury Policy restricts the actions subsidiaries can take and the Group Treasury Policy and Terms of Reference define the responsibilities of the Group Treasurer and Treasury Committee.

The Group uses financial instruments where appropriate to hedge significant currency transactions, principally forward exchange contracts and swaps. These financial instruments are used to reduce volatility which might affect the Group's cash or income statement. In assessing the level of cash flows to hedge with forward exchange contracts, the maximum cover taken is 75% of forecast flows. The Board receives treasury reports which summarise the Group's foreign currency hedging position, distribution of cash balances and any significant changes to banking relationships.

The Group now has two committed facilities with two different lenders, comprising a £60m three year facility which has been extended to August 2020 and a five year, £60m facility expiring in August 2020. At year end £60m of the committed facilities were drawn, resulting in £60m being available.

Retirement benefits

The Group accounts for post-retirement benefits in accordance with IAS 19, Employee Benefits. The balance sheet reflects the net deficit of these schemes at 31 December 2018 based on the market value of the assets at that date, and the valuation of liabilities using year end AA corporate bond yields. We closed both the main defined benefit pension schemes to new entrants; the UK scheme in 2003 and the US scheme in 2009 in order to reduce the risk of volatility of the Group's liabilities. During 2018 we further reduced the risk of volatility when we completed the closure to future accrual of both the UK and US schemes. Members of the defined benefit schemes have been transferred onto the relevant defined contribution plan operating in their country. The closure of both of these schemes has resulted in a curtailment gain in other income of £8.6m and is an adjusting item in the adjusted profit measure.

The High Court judgement in the case of Lloyds Banking Group in October 2018 clarified that pension benefits under the UK Scheme need to be equalised for the effects of unequal guaranteed minimum pensions (GMP). The impact of GMP equalisation is a £0.9m cost and is shown as a past service cost in the income statement and is an adjusting item in the adjusted profit measure.

The most recent triennial valuation of the UK scheme took place as at 31 March 2016 and showed an actuarial deficit of £32.5m and a funding level of 82%. The update to this actuarial valuation at 31 March 2018 showed the deficit had grown to £41.5m and funding level decreased slightly to 81%. A continued reduction in gilt yields, which is the key driver behind the value of the scheme's liabilities, and higher inflation expectations were the main changes since the 2016 valuation. A recovery plan was agreed with the Trustees following the 2016 valuation, resulting in required annual contributions from the Company of £5.5m during 2016, 2017 and 2018. The next triennial valuation will be prepared as at 31 March 2019.

On an accounting basis the deficit on the schemes decreased from £48.2m to £27.3m during the year and the funding level increased from 80% to 87%. In addition to the curtailment gains, GMP cost and contributions of £7.2m, the increase in the discount rate from 2.5% to 3.0% also contributed to the £20.9m reduction in the pension deficit.

The accounting deficit is different to the actuarial deficit as on an accounting basis we are required to use AA corporate bond rates to value the liabilities. The actuarial valuation uses gilt yields since this most closely matches the investment strategy which is designed in part to hedge the interest rate and inflation risks borne by the scheme. Cash contributions are driven by the actuarial valuation.

Dividends

The Board is proposing a 10.4% increase in the final dividend to 3.7p per share (2017: 3.35p). When taken together with the 2.2p interim dividend paid in September, the 5.9p represents a 9.3% increase in dividends over the prior year. This gives dividend cover of 1.8 times (2017: 1.2 times) using statutory earnings per share or when using adjusted earnings per share 2.1 times (2017: 2.0 times).

Jonathan Davis

Finance Director
4 March 2019

1. Days' sales outstanding is calculated on a count back method. The sales value including local sales taxes is deducted from the year end trade receivables to calculate the number of days sales outstanding.

OUR PEOPLE

Rotork aims to be a 'great place to work' with strong core values globally. Our people are key to our success and to delivering our initiatives and Growth Acceleration Programme.

Our people & culture



We have recently introduced a One Rotork set of values, building on our strengths to date and defining what it means to behave as One Rotork to achieve our Vision. This includes how we work together and act as one globally.

one rotork®

We aim to link our workforce planning with our strategy, values and behaviours and our people activities such as our reward systems. We believe that one of the outcomes of achieving our Vision is that Rotork will be the best place for our staff to build their career.

Talent attraction and development

We want to be the first choice for the talent who match the needs of our business.

We conducted an external assessment of our senior leaders and this provided the data to prompt action to fill some skill gaps. In particular we have improved our capabilities in Operations, Procurement and Site Services.

We have also now internalised our Talent process following our hire of a Talent Acquisition and Development Director.

A global training audit helped us understand further the key global capability builds to focus on and our senior leaders have already undertaken Change Management training with the Center for Creative Leadership. Training and development in our key capability build areas supports the future needs of our business and invests in our people. We are committed to the development of our people through training and development but also through social, sports, wellbeing and charitable activities.

We are committed to our early careers programme with apprenticeship schemes for young people into different aspects of our business. We also continue our membership of the Manufacturers Standardization Society (MSS), who offer undergraduate and graduate scholarships in relevant disciplines.

Rewarding and retaining our people

In 2018 we have focused on introducing a more performance-orientated approach at Rotork. A revised Performance Management Approach enables consistency globally and ensures total organisation alignment to our Vision and sets the standard on what high performance looks like at Rotork.

Board of directors by gender (Non-executive and executive directors)

as at 31 December 2018



● Male	6
● Female	3

Total global employees by gender

as at 30 April 2018



● Male	78.6%
● Female	21.4%

Using this as a foundation we have adjusted our compensation arrangements to include differentiation between higher and lower performance and announced a new annual cycle for compensation. We actively review decisions around performance, talent and compensation to ensure fairness between genders.

Our reward and benefits arrangements are benchmarked in each country we operate, taking into account cost considerations. All employed staff participate in the Rotork bonus scheme globally and many staff participate in profit linked share ownership schemes which give staff a financial interest in the Group. We also provide various pension arrangements, designed to provide retirement benefits, based on local laws and practices.

Employee engagement

We believe that motivated and engaged people are good for our business and this is also key for their own health and wellbeing.

We did not undertake an annual survey this year; this has been a more manual process previously and we are moving to a 'pulse' online approach in order to more frequently and easily gain feedback from our people.

We have appointed a Communications Director so we can ensure that our people are regularly kept up to date on various employee matters, including our financial and bonus scheme performance and our Growth Acceleration Programme progress. We use team briefings, our intranet: Connect, all hands town halls as well as WebEx and video films which we have successfully used across the world by translating into local languages. We believe that communication is key during periods of change in particular and are overinvesting during this time.

Diversity and inclusion

We are committed to creating a diverse workforce and inclusive culture, where everyone is respected, can be themselves at work and thrive in our Company.

Our Respect at Work and Equal Opportunities Policies ensure fair and objective treatment is promoted across recruitment and employment relating to age, race nationality, ethnic origin, disability, sex, sexual orientation, religious belief or marital status. All employees have a responsibility to ensure the policy is successfully implemented. We work wherever possible and with occupational health experts to overcome any obstacles for employees including those with disabilities by making appropriate adjustments.

Rotork has not yet published its 2018 Gender Pay Report for our two reportable UK entities with more than 250 employees. We also report on our total UK workforce as we believe that every employee should count, male or female and will benefit from the actions we take.

Globally, women currently represent 21.4% of our people, an increase from 20% in 2017. Moving towards a more even distribution of men and women at all levels is a key goal.

We published our figures to the Hampton Alexander Review.

	2017	2018 (as at 30 June 2018)
Women on Board	33.3%	28.6%
Executive Committee and Direct Reports	14%	17.4%

Whilst our percentage of women on the Board was viewed as on target in both years, our Board structure changed during 2018 a number of times and by 31 December 2018 was again 33.3% with three women on the Rotork Board out of nine.

Whilst we have made progress in our Executive Committee and their direct reports in relation to gender in 2018 we still have work to do and have brought a number of women into our business in the latter part of the year. We embrace the challenge to create a better gender balanced workforce. This is reviewed as part of our talent process and is a standing item on our Board agenda.

We have prioritised a number of new activities:

- Demonstrating our commitment to gender diversity by pledging our support to the 30% Club.
- Participating in 2018 in the Hampton Alexander Review pilot buddy programme between FTSE 100 and FTSE 250 organisations.
- Continuing to update our family friendly and flexible working arrangements.
- Reviewing further our policies and processes to ensure they are inclusive for all.
- Communicating more frequently internally on the subject of gender balance, our approach and progress.
- Aiming for 30% of our apprentice intake to be female.
- Interviewing at least one female for all senior roles that go to search.
- Updating our Code of Conduct.
- Tracking diversity through our talent reviews and Board meetings.

Ethics and values



High ethical standards are fundamental to the way in which we do business. Respecting internationally proclaimed human rights, promoting an open and honest culture, having a zero tolerance to bribery and corruption worldwide, and selecting suppliers with sound reputations in the marketplace are important principles for the Group to adhere to.

Ethics policies

Our Ethics and Values Statement sets out the standards of behaviour that Rotork expects from anyone acting on Rotork's behalf. It can be viewed on our website at <http://www.rotork.com/en/documents/publication/4433> and is available in eight different languages.

We are a signatory to the UN Global Compact and the UN Global Compact principles are set out in our Ethics and Values Statement demonstrating our commitment to supporting and respecting human rights.

In 2019, we will be launching a new Code of Conduct which will replace our Ethics and Values Statement. This will provide a clear framework for decision making by our people in line with our core values, and set out details of how we expect our people to conduct themselves on a day to day basis.

Benchmarking

Rotork plc is a constituent of the FTSE4Good equity index series which is designed to facilitate investment in companies that meet globally recognised corporate social responsibility standards. We continue to meet the standards set by FTSE4Good.

Whistleblowing

Rotork encourages the reporting of any suspected wrongdoing through its Whistleblowing Policy which can be found on the Rotork website <http://www.rotork.com/en/documents/publication/6675>. The Whistleblowing Policy gives whistleblowers various ways to alert senior management to any suspected wrongdoing, including an independent external whistleblowing hotline to assist in facilitating the reporting of any concerns confidentially.

All whistleblowing concerns, however received, are investigated thoroughly and the Board receives summary reports on a regular basis. During 2018, the whistleblowing hotline received nine calls and 18 concerns were raised through other channels. The whistleblowing reports received covered a broad range of potential issues related to breach of Rotork policies, human resources issues and dishonest behaviour.

Anti-bribery and corruption

Rotork has a zero tolerance policy to bribery and corruption worldwide, irrespective of country or business culture. Our Ethics and Values Statement makes it clear that our employees will never offer, pay or solicit bribes in any form. In 2019, we will be publishing a new Anti-Bribery and Corruption Policy. Our Group Gifts and Hospitality Policy, which was updated in July 2018, clarifies where gifts and hospitality are acceptable and the actions that our staff are required to take when they intend to give or receive them.

In 2018, we completed a comprehensive review of our third party selling arrangements. The final report contained recommendations to further mitigate the risks that our agent networks present. These recommendations are now being put into effect and include a reduction in the number of agents that we engage, a more thorough process for their appointment and stringent ongoing monitoring requirements.

Also during the year, our internal audit team completed the first phase of their review of our anti-bribery and corruption policies and procedures and reported their findings to the Audit Committee, giving further assurance as to the proportionality of our policies and procedures. The second phase will be completed in 2019.

Rotork has developed and delivered anti-bribery and corruption training to all employees working in sales and purchasing roles, as well as to senior accountants, all managers and directors (including the Board). The training is delivered as an e-learning module. All employees who completed the course over 12 months ago are also required to do a refresher course. Both courses have been made available in numerous languages.

At the end of 2018, the Audit Committee received a full report on all 2018 activity for anti-bribery and corruption, both developments and improvements.

Modern Slavery Act

Rotork has published its Modern Slavery Act Statement for the 2019 financial year, which can be found on the Rotork website at www.rotork.com/en/investors/index/modernslaverystatement. Rotork's 2018 Modern Slavery Statement sets out steps Rotork has taken during the 2018 financial year to ensure slavery and human trafficking are not taking place in its business or supply chains and proposed steps for 2019.

Suppliers

We have a global supply chain for goods and services that supports our businesses around the world and recognise that we have suppliers in countries that are identified in the Global Slavery Index as high risk.

As reported in our Modern Slavery Statement, we have a new supply chain strategy as part of our Growth Acceleration Programme. This includes a comprehensive review of our supply chains, with a focus on significant supply base consolidation. Our new central strategic sourcing team, led by a new Procurement Director, will be responsible for ensuring that our suppliers act in accordance with our ethical principles.

We expect our suppliers to meet our high ethical standards and comply with our Supplier Code of Conduct which sets out our expectations. This can be found on the Rotork website at: <http://www.rotork.com/en/about-us/index/codeofconduct>. Our suppliers must adhere to the core values contained in the code and require their own supply chain to adhere to them too.

Rotork Controls Limited and Rotork UK Limited, the Group's main UK trading companies, and Rotork plc, are signatories to the Prompt Payment Code. This ensures suppliers are paid according to the terms agreed and encourages good practice to be passed down our supply chains. In addition, Rotork Controls Limited and Rotork UK Limited report on their supplier payment practices in accordance with the Prompt Payment Regulations.

Progress

- Membership of FTSE4Good and UN Global Compact was maintained.
- A review of our third party selling arrangements was completed.
- A review of our anti-bribery and corruption policies and procedures was completed.
- Modern Slavery training course was launched.
- 2018 Modern Slavery Act Statement was published.

2019 targets

- Roll out a new staff code of conduct across the Group.
- Complete implementation of the recommendations from the third party selling arrangements review.
- Complete a further comprehensive bribery risk assessment.
- Update and relaunch the anti-bribery and corruption training for all employees to include an introduction from the CEO and launch a short training course on gifts and hospitality.
- Take further opportunities to establish tone from the top and embed ethics policies.

Rotork considers it important to contribute to and engage positively in the communities in which we operate, and to be a good community neighbour around the world.

Community involvement

Overview

We regard this as part of our ongoing responsibilities as a good corporate citizen. This links to our values which include producing a positive and beneficial impact in the communities in which we operate. Rotork contributes 0.1% of profits to nominated international charities and a further 0.1% of profits to local charitable causes around the world.

Local charity committees at each of our sites support charitable causes that are important to them locally with volunteer work, fundraising and making donations. This empowers local employees to decide how to distribute funds and support their local communities. Rotork encourages these efforts. Local community involvement highlights from the year include:

- Our India team provided support following the Gaja Cyclone which affected most parts of South India in 2018. Our employees donated relief items such as water bottles, milk powder, biscuits, candles & matches, sanitary napkins, mosquito coils, blankets and medicines. Members of the corporate social responsibility team visited the affected areas in person and donated the relief items themselves.
- Our China team donated the cost of an operation to Heart 2 Heart, a charity that provides lifesaving heart operations to children of families unable to afford them, and who would otherwise not survive. The team also donated to Shanghai Sunrise, a charity that provides high school education to underprivileged children by sponsoring one student through three years of high school.
- In Houston, USA, employees raised money and participated in the MS150, a two-day 150 mile bike ride to raise awareness for Multiple Sclerosis.

- In Winston-Salem, USA, employees donated food to victims of Hurricane Florence, which hit the North Carolina coast, and to the local food bank, as well as donating Christmas gifts for children through the Salvation Army Angel Tree programme.
- In Tulsa, USA, employees donated more than 420 pounds of food to the Eastern Oklahoma Food Bank.
- In Bath, UK, our apprentices raised £650 through various different fundraising activities for the Royal Brompton and Harefield Hospital and Cry – Cardiac Risk in the Young, preventing young sudden cardiac deaths through awareness, screening and research, and supporting affected families.

- Our team in Wolverhampton, UK, collected and donated Easter eggs and cash for the Acorns Children's Hospice.
- Our Leeds, UK, team collected 85 Toys for the Mission Christmas Appeal.

In addition to these local charitable and community activities, Rotork has reviewed its support to major charities this year to ensure these are closely aligned to our own business activities. We have supported three major charities in 2018; Engineers Without Borders, Pump Aid and Renewable World.





Pump Aid's mission is to achieve lasting positive change in poor and rural communities by improving the quality, availability and use of water through training local entrepreneurs. They use simple but effective pumps to provide access to safe water, child-friendly toilets and handwashing stations. They ensure sustainability by supporting and training communities so that they can maintain their new facilities ongoing.

Rotork's contributions will help to install more pumps and enable a number of mechanics to benefit from training in how to maintain a wider range of pump

technologies, meaning that communities no longer go without convenient access to water when their pump breaks down.

Pump Aid also support subsistence farming through irrigation; low cost access to effective irrigation is key to building resilience. They also help in improvement of waste management in urban poor settlements.

Contributed to Pump Aid

£21,000



Engineers Without Borders inspires and supports people to respond to global challenges using science, technology and engineering and showcases the important role engineering plays around the world with the aim to ignite passion for engineering and increase enrolment in engineering education. Rotork is supporting ambassadors to deliver workshops in primary and secondary schools to encourage young people to explore the most pressing human development issues and inspire them to reflect, discuss and realise how they can be part of the solution by becoming engineers. With Rotork's support, in 2019 they will focus specifically on workshops that focus on access to water and power.

We are also exploring not just inspiring the next generation of engineers through Rotork staff becoming ambassadors themselves and delivering workshops but also volunteering through collaborative engineering projects in alignment with our own objectives.

Contributed to Engineers Without Borders

£42,000

Progress

- A new set of core principles guiding the charities supported at Group level.
- £42,000 contributed to Engineers Without Borders.
- £21,000 contributed to Pump Aid.
- £21,000 contributed to Renewable World.
- £12,000 contributed to The Forever Friends Appeal (RUH) Bath, UK.
- Variety of donations made to charitable causes relevant to the local communities of Rotork's operating sites.



Renewable World alleviates poverty in the developing world through the installation of community-owned renewable energy systems. Projects provide clean energy to improve crop yields, enable communication and trade and support the growth of new businesses. Education is improved as children can study in the evenings, and schools can open later for adult education. Affordable energy improves health through the use of clean lighting and cooking sources, and because clean water can be pumped direct to households.

A sustainable supply of energy means that healthcare is more accessible because clinics can keep vaccines, HIV tests and snakebite anti-venom in fridges.

Contributed to Renewable World

£21,000

2019 targets

To continue donations to charitable causes. Rotork will:

- Donate 0.1% of Group profits to Rotork's nominated international charities.
- Donate 0.1% of Group profits to charitable causes local to Rotork's operating sites.
- Continue to align donations and objectives closely with our organisational culture and aims.
- Review our involvement to identify ways of working, including volunteering more closely with the communities we operate within to become better corporate social partners.

Additionally, we continue to support the Royal United Hospitals, Bath, UK in their building of a new Cancer Unit via their Forever Friends Appeal. To date we have donated £36,000 as part of our commitment to donate £50,000.

Rotork is fully committed to the health, safety and wellbeing of its employees and contractors. We ensure compliance with all relevant legal and regulatory requirements and strive to continuously improve our health and safety performance.

Health and safety



Overview

Policies, procedures and systems of safe working are in place, supported by training to ensure the health, safety and wellbeing of our employees during their working day. Health and safety training for all employees who join Rotork is included in their induction programme. Additional training is conducted that focuses on hazard identification and mitigation, risk assessment and action planning and is refreshed when applicable.

The fundamental principle of “if we cannot do a job safely, we will not do the job” is maintained and communicated to all those who work for or on behalf of Rotork.

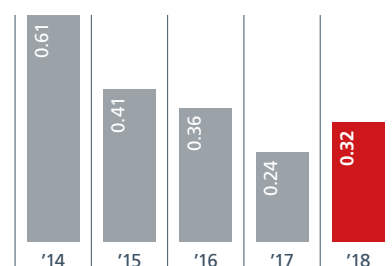
Across the Group, health safety & environment teams are engaging in continuous improvement activities to improve our safety performance, this includes obtaining a greater understanding of the root cause of incidents. Following a lost time injury or a near miss that had a potential high consequence, a safety alert is issued to all subsidiaries so they can learn from the events and avoid a repeat of the event occurring.

Progress

The target for 2018 was to have a Lost Time Injury Rate (LTIR) below 0.34. The LTIR for 2018 was 0.32 which, although a slight increase on the previous year, was below target.

The LTIR is a calculation of accidents resulting in one day lost time, divided by the average hours worked, multiplied by 100,000.

Lost Time Incident Rate



Our proactive approach is aimed at continuously identifying weaknesses in our safety processes and removing or mitigating risks when they are identified. This drive for continuous improvement and the openness of the culture, has driven a further 18% increase in near miss reporting across the organisation. We continue to link health and safety with our continuous improvement activities where improvement events have to identify and resolve health and safety issues.

Occupational health

There have been no occupational diseases reported during 2018. Rotork continues to promote the wellbeing of its employees. This includes both physical health and mental wellbeing.

Awards and recognition

To ensure high standards of health and safety performance, a number of businesses within the Group have gained or have maintained certification to OHSAS18001. These include facilities in Bergamo (Italy), Leeds (UK), Wolverhampton (UK), and Singapore.

Assurance activities

Our businesses continue to embrace the challenge for continuous improvement of our health and safety standards. The assurance process continues to develop and to highlight and mitigate significant risks in the business. The assessment looks at significant risk areas and identifies gaps in our processes or improvements that can be made. Whilst there has been a slight drop from 87% to 85%, manufacturing sites have returned back to 86% and overall the service division has dropped from 88% to 83%. This change has occurred due to more detailed audits in the Asia Pacific Region.

Conclusion

Whilst there was a small increase in lost time injuries compared with the previous year, the overall long term trend is downwards. Increased reporting of near misses and prompt actioning of issues raised across our sites is an area where we can make significant improvement in the coming year.

Progress

- The 2018 LTIR rate was below the target set for the year.
- A number of sites have gained or maintained certification to OHSAS18001.

2019 targets

- The method adopted to set the LTIR target is the calculated average of the previous three years' LTIR results. This sets the LTIR target for 2019 at below 0.30.



The fundamental principle of “if we cannot do a job safely, we will not do the job” is maintained and communicated

Rotork is fully committed to the prevention of pollution, to comply with all legal and regulatory requirements and to reduce our environmental impact by targeting key areas such as energy consumption, water consumption and waste.

Helping the environment



Introduction

We have a number of policies in place to help us to reduce our environmental impact with a particular focus on energy reduction and managing environmental emissions.

We continue to operate an assembly only philosophy in the majority of our business units where we utilise specialist suppliers for most of our manufactured components and assemblies. This philosophy has resulted in the majority of our energy use being on lighting, heating, cooling and IT systems.

Strategy

- We will improve our operational efficiency and enhance our environmental performance in order to secure the continued sustainability of the Group.
- We will work as a business, and in the local communities where we operate, to ensure that the environment on which we depend is maintained for future generations.
- We will encourage all employees to behave in an environmentally responsible manner by supporting our factories and offices in reducing waste, saving energy and water and using technology to reduce travel.
- We will continue to work in partnership with regulatory bodies and respect the regulatory framework in which we work.
- As an environmentally responsible business, we will be open and transparent and report regularly to all relevant stakeholders on our environmental performance.

Organisational boundaries

The environmental report covers all operations and processes within the physical boundaries of the facilities and business transportation by company cars or vans or any private cars and hire cars used for business purposes only. Transportation of products by third parties are not covered by the report.



Emissions per £m of revenue have decreased from 19.2 TnCO₂e to 17.0 TnCO₂e

Where energy consumption cannot be verified, normally due to the size of the facility, then an estimation of the energy use per square metre of floor space occupied has been made. This estimation is based on The Chartered Institution of Building Services Engineers (CIBSE) Guide F – Energy Efficiency in Buildings. This estimation equates to 0.9% of total emissions declared.

The baseline year remains at 2012.

Progress

A number of improvement activities through the year have helped reduce the energy consumed at our sites. The site consolidation and upgrades to equipment and infrastructure have contributed to a 4% reduction in our overall emissions during the year. When normalising emissions for the increased turnover, there is an 11% reduction in emissions on the previous year and a 5% reduction on the baseline of 2012.

Lighting upgrades have been completed across a number of our facilities, most noticeably the completion of LED lighting installation in Lucca (Italy) with an estimated energy saving of 35,000 kWh of electricity per year. Some of the smaller subsidiaries have also installed LED lighting during the year such as Mississauga (Canada) and Mexico. Further investment is planned during 2019 to install LED lighting at some of our smaller locations to help in the reduction of emissions.

Work continues to reduce emissions from paint plants in both Leeds (UK) and Lucca (Italy). Leeds have changed the treatment chemicals which is estimated to save 75% of emissions. Lucca have an on-going project to move completely away from solvent based paints.

Energy consumption

Overall electricity consumption has decreased by 1.5% on the previous year although it has increased 45% compared with the baseline of 2012. The current programme of consolidating sites has started to show an impact on electricity consumption but this has been offset by some operational changes such as installing a new paint plant in Bangalore (India) and increased production at our Lucca site which increased operational hours during 2018.

Absolute gas consumption increased by 2.6% compared with the previous year and increased by 96% compared with the baseline year of 2012. The increase is mainly due to colder weather in North America during early 2018 and increased gas consumption by the paint plant in Lucca due to the site working increased hours. When considering only gas consumption used for heating buildings, normalised on degree days, the overall consumption of gas has reduced by 19%. This change has been driven by the consolidations that have been occurring in the last quarter of the year.

In 2018, Liquid Petroleum Gas (LPG) consumption decreased by 9.8% on the previous year and decreased 7.2% compared with the baseline of 2012. The decrease in consumption has been driven by efficiency in the paint plant in Shanghai (China) and sites moving away from LPG forklift trucks to electric forklift trucks.

Progress

- Site consolidations and upgrades to equipment and infrastructure have contributed to a 4% reduction in our overall emissions.
- Lighting upgrades have also contributed to a reduction in electricity usage.

2019 targets

To support the increase in the number of energy related projects that are occurring across our business, the following targets have been set for all of our large energy consuming sites:

- Promote energy efficiency throughout the business with focus on high impact projects to deliver a 2% saving on electricity; and
- Further reduce gas consumption on heating normalised on degree days by 2%.

Helping the environment continued

Overall oil consumption has increased compared with the previous year by 20% but decreased 34% compared with the baseline year of 2012. The main reason for this increase is heating oil that has been purchased for the Taunton (UK) facility. Our sites in India which were previously high oil users continue to reduce consumption with improved consistency of the electrical supply and solar power which minimises the use of back-up generators.

To support the continued focus on energy management, our UK businesses were recommended for recertification to ISO50001. The internal audit process ensures that those sites that are not certified to ISO50001 are managing their energy and are looking at ways to increase their energy efficiency.

Water conservation

We continue to look for measures which will reduce our water usage and during 2018, we managed to reduce our water consumption from 45,315m³ to 44,380m³, a reduction of 2%. When normalised for increased turnover, this equates to a 9.6% reduction on the previous year.

Waste and recycling

We have continued to examine our value chain this year to understand how our waste is treated after it leaves our sites. This investigation found that some of our waste that was previously described as recycling by our waste management companies was actually used in energy recovery. Whilst the proportion of waste that is going to landfill has remained static, the amount recycled dropped to 69% as 8% of waste generated by the business goes to energy recovery facilities.

The amount of hazardous waste produced has increased from 374 tons to 496 tons mainly due to the increased production in Lucca (Italy). The amount of hazardous waste going to landfill decreased from 374 tons to 361 tons as the remainder of the hazardous waste was used in waste to energy plants.

Overall waste has increased by 21% on the previous year and by 24% when normalised for the higher turnover. This increase has been driven by increased production in Lucca (Italy) and the consolidation of sites which has generated increased waste as sites are closed. No hazardous waste is generated from our continued support of the nuclear industry; before any actuators are returned to site for repair or overhaul the customer must provide a decontamination certificate prior to shipping the unit.

Awards and recognition

To ensure high standards of environmental performance, a number of businesses within the Group have gained or have maintained certification to ISO14001. These include facilities in Bergamo (Italy), Wolverhampton (UK), Bilbao (Spain) and Falun (Sweden). Additionally we are looking to certify more of our manufacturing sites during 2019, including Bath (UK), Lucca (Italy) and Shanghai (China).

Internal audit

The management system that sites have to comply with has been designed to allow certification to ISO14001. This ensures that key environmental risks such as emissions to air, water and ground, waste control and minimisation activities and energy reduction are managed both at a corporate level and also locally. Whilst there are always areas in which we can improve our environmental performance, no major issues were identified from the internal

audit programme during 2018. The internal audit ensures that all manufacturing sites are either internally or externally audited annually and that lower risk sites are audited at least twice every three years.

Environmental incidents

There have been no reportable environmental incidents during 2018. Systems are in place to address any environmental incident that occurs at our subsidiaries and the robustness of these emergency systems are reviewed as part of our internal audit process. The suitability of emergency response systems are also included in the internal audit.



Greenhouse Gas Emissions (GHG) Reporting

In January 2019, EEF (the UK manufacturers’ organisation) undertook an assurance audit of the Greenhouse Gas Emissions report. The business reports on GHG emissions are in line with the GHG Emissions Protocol developed jointly by the World Business Council for Sustainable Development and the World Resource Institute. No significant issues were identified during the assurance audit.

Greenhouse gas is measured across three different scopes:

Scope 1

Emissions that are direct GHG emissions from sources that are owned or controlled by Rotork. These include emissions from fossil fuels burned on site, emissions from owned or leased vehicles, and other direct sources.

Scope 2

Emissions that are indirect GHG emissions resulting from the generation of electricity, heating and cooling, or steam generated off-site but purchased for heating.

Scope 3

Emissions that are indirect GHG emissions from sources not owned or directly controlled by the entity but related to the entity’s activities. Scope 3 GHG emission sources currently required for GHG reporting include transmission and distribution, losses associated with purchased electricity and steam, and well-to-tank emissions for all energy, business travel and transport.

Absolute scope 1 and scope 2 emissions have decreased by 3.9% compared with 2018 and increased compared with the baseline year of 2012 by 20.2%. Emissions per £million of turnover have decreased 11.3% compared with the previous year from 19.2 TnCO₂e to 17.0 TnCO₂e and decreased 4.8% compared with the baseline of 2012.

Conclusions

We continue to focus on reduction in electricity consumption across the business and upgrading equipment to provide greater energy efficiency. The consolidation of sites and upgrades in some of our facilities has resulted in the overall reduction of our Scope 1 and Scope 2 emissions by almost 4%. Whilst there has been an increase in waste, there was an expectation that this would occur when the consolidation of sites occurred.

The strategic report was approved by the Board and signed on its behalf by

Helen Barrett-Hague

Group General Counsel and Company Secretary
4 March 2019

BOARD OF DIRECTORS



1. Martin Lamb Non-Executive Chairman	2. Kevin Hostetler Chief Executive	3. Jonathan Davis Finance Director	4. Lucinda Bell Non-Executive Director	5. Gary Bullard Non-Executive Director
<p>Experience Martin has extensive experience in the global engineering sector. He worked for IMI plc for over 33 years in a number of senior management roles, joining the IMI board in 1996, and serving as Chief Executive from 2001 to 2013. He has served on the boards of a number of engineering businesses in a non-executive capacity, both in the public and private equity arena.</p>	<p>Prior to joining Rotork in February of 2018, Kevin served as the CEO of FDH Velocitel, a private equity backed real-estate, engineering and construction business serving the telecommunications and infrastructure industries in North America. Prior to this, Kevin was an executive advisor to several private equity firms. His roles included CEO of a speciality valve manufacturer and executive chairman of an engineered high-pressure vessel company serving the cryogenics and LNG industries. From 2005 to 2012, Kevin was in various senior executive roles at the publicly traded IDEX Corporation, including serving as an officer of the company where he led the Fluid and Metering Technologies Segment. Kevin also had responsibility for leading their Asia and Emerging Markets businesses. From 1997 to 2004, he held a number of business leadership positions and senior strategic and business development roles at Ingersoll Rand.</p>	<p>Jonathan joined Rotork in 2002 after holding a number of finance positions in listed companies. He gained experience of the Rotork business initially as Group Financial Controller, and then as Finance Director of the Rotork Controls division, and in 2010 was appointed Group Finance Director.</p>	<p>Lucinda was Chief Financial Officer of the British Land Company plc until January 2018. She served on the board of British Land from 2011 and now holds a number of non-executive directorships.</p>	<p>Gary previously held senior management positions, including sales and marketing roles, at IBM and BT Group plc and was a non-executive director of Chloride Group plc. Gary held the position of President Logica UK until October 2012 and was a member of the Executive Committee of Logica plc.</p>
<p>Appointment 2014</p>	<p>2018</p>	<p>2010</p>	<p>2014</p>	<p>2010</p>
<p>External appointments Chairman of Evoqua Water Technologies Corp Member of the European Advisory Board of AEA Investors (UK) Ltd</p>	<p>N/A</p>	<p>N/A</p>	<p>Non-executive director of Derwent London plc Non-executive director of Crest Nicholson Holdings plc Treasurer and National Trustee at Citizens Advice</p>	<p>Founder and CEO of Catquin Ltd Chairman of New Model Identity Ltd Non-executive director and Remuneration Committee Chair of Spirent Communications plc Non-executive chairman of Gooch & Housego plc</p>
<p>N</p>	<p>N</p>		<p>N A R</p>	<p>N A R</p>



6. Peter Dilnot
Non-Executive Director

7. Sally James
Senior Independent Director

8. Tim Cobbold
Non-Executive Director

9. Ann Christin Andersen
Non-Executive Director

Committee membership

From April 2019, Peter will be Chief Operating Officer of Melrose plc, the FTSE 100 industrial business that recently acquired GKN. Prior to this, Peter spent seven years as Chief Executive Officer of international recycling companies Renewi plc and Shanks Group plc. Peter has an engineering background and before joining Shanks Group, he was a senior executive at Danaher Corporation, a leading global industrial business listed on the NYSE. Before Danaher, Peter was at the Boston Consulting Group (BCG) based in both London and Chicago.

Sally James was appointed as Senior Independent Director of Rotork plc on 27 February 2017. She was Managing Director and General Counsel of UBS Investment Bank EMEA from 2001 to 2008, and previously held a number of senior legal roles in investment banks in London and Chicago. She has been non-executive director of Moneysupermarket.com Group PLC since April 2013, non-executive director of Rotork plc since May 2012, and non-executive director of Bank of America Merrill Lynch International Limited DAC since December 2018.

Tim Cobbold has extensive experience in leading large, complex international listed businesses having previously been the Chief Executive Officer of Chloride Group plc, De La Rue plc and most recently, UBM plc. Prior to this he held senior management positions at Smiths Group/TI Group where he worked for 18 years. He has been a non-executive director at Drax plc for the past eight years. Tim qualified as a chartered accountant at Price Waterhouse.

Ann Christin is currently Chief Digital Officer of TechnipFMC plc, a global company that provides projects and services for the energy industry. She brings 30 years of experience from the oil and gas industry, where she has served in a variety of senior management positions. In addition, Ann Christin has served as a non-executive director of Veidekke ASA and currently holds a director position with Glitre Energi, a renewable energy company.

- N** Nomination Committee
- R** Remuneration Committee
- A** Audit Committee
- Denotes Chair

2017	2012	2018	2018
CEO of Renewi plc	Non-executive director of Moneysupermarket.com Group plc Non-executive director of Abdi Limited Non-executive director of Hermes Investment Management Trustee of Legal Education Foundation	Non-executive director, Drax plc	Chief Digital Officer of TechnipFMC plc Director, Glitre Energi
N A R	N R A	N R A	N R A

CORPORATE GOVERNANCE REPORT



Introduction from the Chairman

On behalf of the Board, I am pleased to introduce Rotork's Corporate Governance Report for 2018. The aim of this report is to provide a clear and comprehensive explanation of Rotork's governance framework and how it was applied day-to-day during the year under review, with particular emphasis on explaining how the principles of the UK Corporate Governance Code (the 'Code') have been applied across our Group.









As a Board, we have continued to focus strongly on broader strategic issues this year. In this respect we have reviewed and supported the completion of the Group-wide business reviews and the subsequent implementation of the Growth Acceleration Programme, including the approval of major capital investment and restructuring programmes. We have received regular in-depth progress reports and presentations from the Chief Executive and from those executives responsible for leading the various elements of the Growth Acceleration Programme during 2018 and this will continue throughout 2019. During this period of change, strong corporate governance is vital to ensure our business is protected in the long term and the interests of all stakeholders are properly taken into account.

The Board also continued to work on ensuring that the Group's risk management processes remain robust and continue to develop in response to Rotork's strategy and the wider market and regulatory environment. The Board held a risk appetite workshop in April 2018 and have taken an active approach to ensuring that the Board's risk appetite is fully reflected in the Group's policies and procedures and in its practices.

The Board has regard to the interests of other stakeholders of the Company in its decision making, in addition to its shareholders. Details of how we interact with the wider communities in which we operate, and our environmental impact, are set out in our Corporate Social Responsibility Report (see pages 44 to 45 and 48 to 51). In addition, details of our relationships with our suppliers are set out on page 43. The Board has approved the appointment of Tim Cobbold as a designated Non-Executive Director to support increased engagement with employees under the recommendations of the updated Corporate Governance Code. This will complement the widespread employee engagement forums that have been established over the last year to support the roll out of our Growth Acceleration Programme and to solicit feedback and input from employee groups. An Internal Communications Director has also been appointed to support this.

In respect of Rotork's employees, we have supported a full review in 2018 of Rotork's culture, talent development, succession planning, performance approach and diversity and have had a number of presentations on this topic from the Chief Executive and the Group HR Director. Further details of actions arising out of this review and of how we have considered the interests of our employees during the year are set out on page 40. Greater workplace diversity, has been a particular area of focus for the Board. As a result, diversity has been made a standing item on the Board agenda and in December the Board approved a new Diversity Plan for the Group, with clear actions and supporting key performance indicators.

Dates of Board meetings

JAN	FEB	MAR 
APR  	MAY	JUN 
JUL	AUG 	SEP
OCT 	NOV 	DEC 

As previously reported, Kevin Hostetler joined the Board on 12 February 2018, becoming Chief Executive on 12 March 2018, and I reverted to my previous role as Non-Executive Chairman. On 1 December 2018, we welcomed Tim Cobbold and Ann Christin Andersen to the Board as non-executive directors and also to each of the three principal Committees. Gary Bullard will not be seeking re-election at the Annual General Meeting to be held on 26 April 2019 and Tim Cobbold will succeed Gary as the Chair of the Remuneration Committee from that date.

As a Board we regularly review and discuss our ways of working and our effectiveness. In 2018, we performed a review of our effectiveness via a Board questionnaire facilitated by the Company Secretary. Further details are set out at page 58.

In 2018, Rotork was subject to the 2016 UK Corporate Governance Code and I am happy to report that Rotork complied with the Code in all respects, save that, following Peter France's resignation as Chief Executive in July 2017, I acted as Executive Chairman until Kevin Hostetler became Chief Executive on 12 March 2018, following which I resumed my previous role as Non-Executive Chairman.

We note that from 1 January 2019 an updated version of UK Corporate Governance Code applies to Rotork. Whilst we have reported against the 2016 version of the Code in this report, during the year the Board and Committees have taken into consideration the updates made to the Code and have taken appropriate action to ensure Rotork's readiness to comply with the updated Code during 2019.

Martin Lamb
Chairman
4 March 2019



Business review and strategy

- Received regular performance and business updates from the Chief Executive.
- Set the Group's strategy and vision.
- Received regular updates on the Growth Acceleration Programme.
- Received presentations from divisional and Group business functions to consolidate understanding and awareness of activities and performance within the relevant divisions and business functions.

Financial

- Received regular financial performance updates from the Finance Director.
- Approved 2019 budget.
- Approved 2017 Annual Report & Accounts and Annual General Meeting (AGM) business.
- Approved 2018 interim report and trading updates.
- Approved 2017 final dividend recommendation and 2018 interim dividend declaration.
- Received a presentation from the Group Treasurer.

Other

- Recruited and embedded Kevin Hostetler as Chief Executive.
- Approved appointment of Ann Christin Andersen and Tim Cobbold on recommendation of the Nomination Committee.
- Reviewed plans to redevelop the Group's Bath headquarters, engineering centre of excellence and factory.
- Reviewed and received presentations from the Group HR Director on the Group's diversity plan and established diversity as a standing Board agenda item.
- Received regular briefings on the Group's readiness for Brexit.

Internal controls and risk management

- Received regular reports on risk including quarterly executive risk summary.
- Received regular reports on litigation and regulatory matters.
- Held a risk appetite workshop and reviewed the Group's risk register.
- Received updates on the Group's third party selling arrangements review.
- Received updates on Whistleblowing reports.

Governance and stakeholders

- Reviewed feedback from institutional shareholders.
- Approved updated schedule of matters reserved for Board and terms of reference for Board Committees for new Corporate Governance Code.
- Approved the 2018 Modern Slavery Statement.
- Received regular updates on health and safety matters across the Group.
- Received papers and updates on the Group's readiness to comply with the EU General Data Protection Regulation (GDPR).

CORPORATE GOVERNANCE REPORT

CONTINUED

UK Corporate Governance Code compliance statement

The UK Corporate Governance Code 2016 (the 'Code') is the standard against which we measured ourselves in 2018. The Code is available to download at www.frc.org.uk. In 2018 an updated version of the Code was published and applied to Rotork plc from 1 January 2019. We will report on our compliance with the updated 2018 version of the Code in our 2019 Annual Report.

Throughout the year ended 31 December 2018, Rotork plc fully complied with the Code, save that up to 12 March 2018 it was not in compliance with Code Provision A.2.1, which provides that the roles of the Chairman and Chief Executive should not be performed by the same person. Martin Lamb assumed the full time role of Executive Chairman on an interim basis following the announcement of the resignation of Peter France on 28 July 2017. On 12 March 2018 Kevin Hostetler took up the post of Chief Executive and Martin Lamb reverted to his previous role as Non-Executive Chairman.

The following section on pages 56 to 59 contains a summary of the system of corporate governance adopted by Rotork.

The Board

The Board has a duty to promote the long-term success of Rotork generating value for its shareholders and contributing to wider society. This is accomplished by entrepreneurial leadership, within a framework of prudent and effective controls and with proper consideration of wider stakeholder interests. Its role therefore includes approval of strategy, risk reviews, finance matters, employee matters and internal control and risk management.

The terms of appointment of the directors are available for inspection during business hours at the registered office of Rotork plc and will also be available at the AGM.

Board composition

Rotork is led by an effective Board which currently consists of nine members: the Chairman, the Chief Executive, the Finance Director and six independent non-executive directors. The non-executive directors are appointed for an initial term of three years. Upon the completion of this term, the appointment is reviewed and, if appropriate, extended.

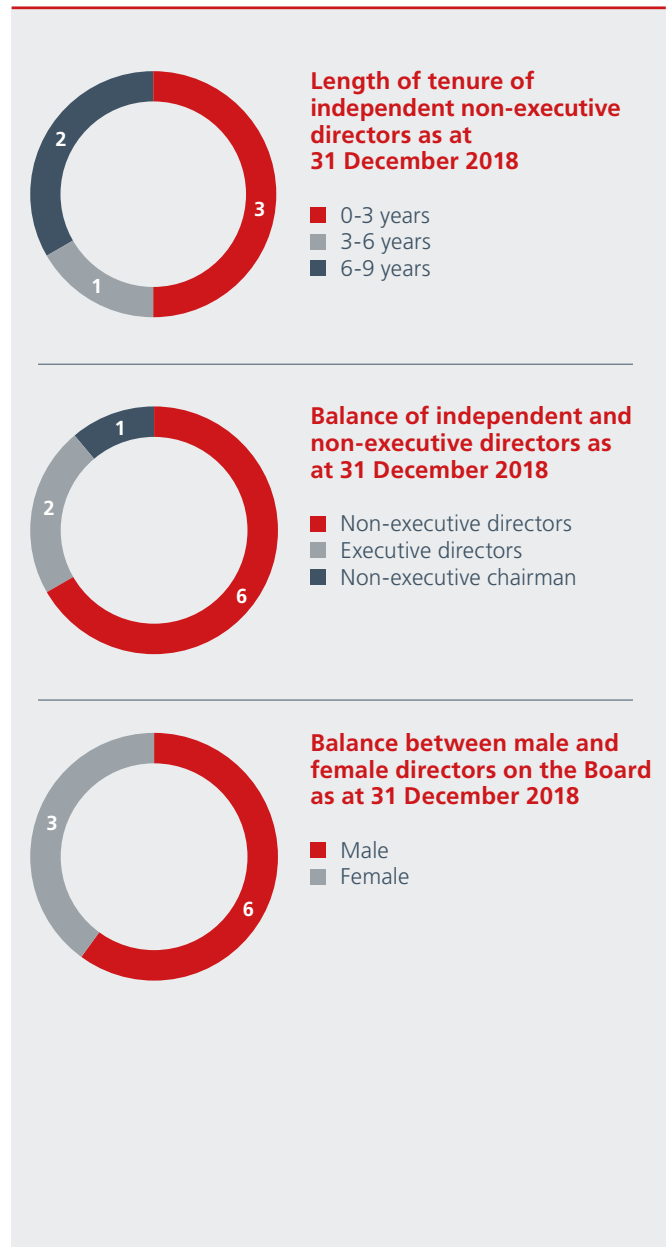
Rotork Board members come from a variety of professional backgrounds including engineering, information technology, legal, finance and international sales and collectively possess significant managerial experience, as well as experience of being company directors of other public limited companies. The appointment of Ann Christin Andersen and Tim Cobbold as non-executive directors in December 2018 has further strengthened the mix of skills on the Board.

Following a rigorous review, the Board considers all non-executive directors to be independent in character and judgement from Rotork. Details of the length of tenure of the independent non-executive directors is set out opposite. Gary Bullard is the longest serving non-executive director and, as he will have been in office for nine years in June 2019, he will not seek re-election at the Annual General Meeting to be held on 26 April 2019.

Rotork's female representation on the Board was 33% as at 31 December 2018. Once Gary Bullard steps down after the Annual General Meeting, female representation will rise to 38%. This exceeds the updated Hampton-Alexander Review target of 33% female representation on the Board by 2020.

The biographies of the directors and details of the membership of the Board committee are set out on pages 52 to 53.

All directors are subject to annual re-election at the AGM in line with the Code.



Directors' attendance at Board and Committee meetings during 2018

	No. of meetings			
	Board	Audit Committee	Remuneration Committee	Nomination Committee
Lucinda Bell	8	6	4	2
Gary Bullard	8	6	4	2
Jonathan Davis	8	6 ⁽ⁱ⁾	2 ⁽ⁱⁱ⁾	2 ⁽ⁱⁱ⁾
Peter Dilnot	8	6	4	2
Kevin Hostetler	8	6 ⁽ⁱⁱ⁾	4 ⁽ⁱⁱ⁾	2
Sally James	8	6	4	2
Martin Lamb	8	6 ⁽ⁱⁱ⁾	4 ⁽ⁱⁱ⁾	2
Ann Cristin Andersen ⁽ⁱ⁾	1	1	1	0
Tim Cobbold ⁽ⁱ⁾	1	1	1	0
Maximum number of meetings	8	6	4	2

(i) Appointed to the Board with effect from 1 December 2018.

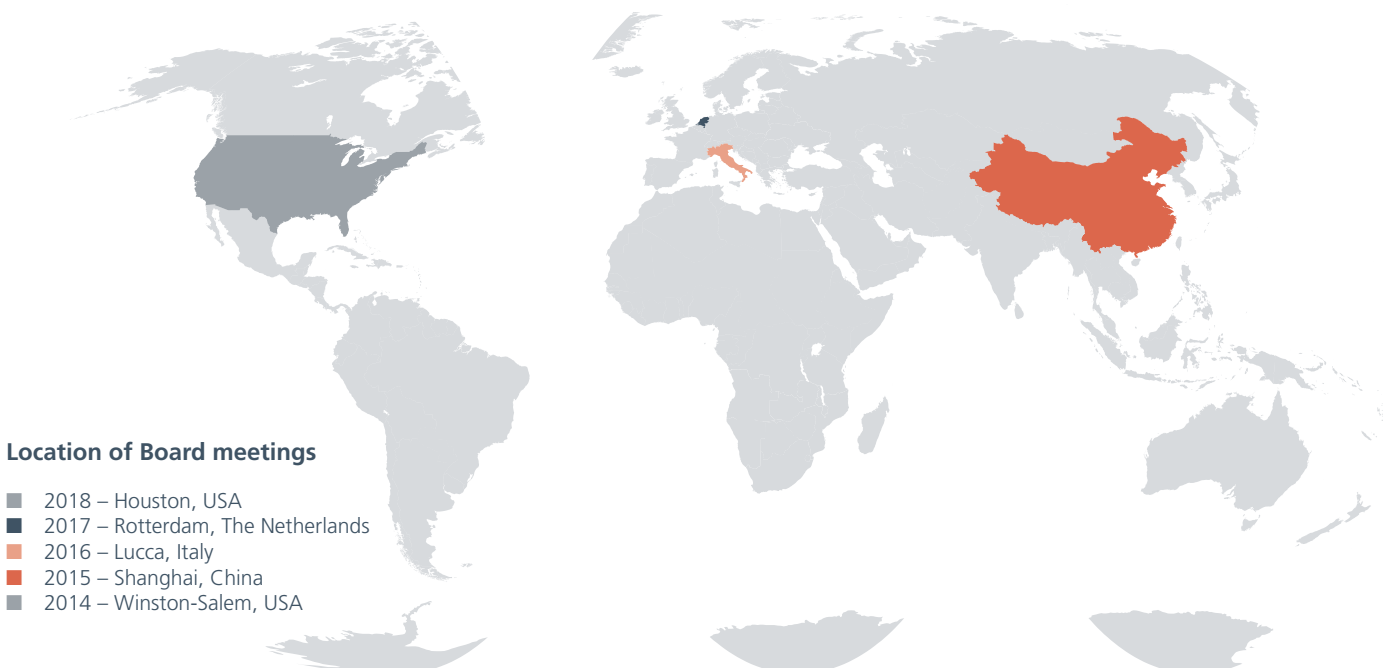
(ii) Attending by invitation.

Roles and responsibilities

There is a documented clear division of responsibilities between the Chairman and the Chief Executive to ensure that there is a balance of power and authority between leadership of the Board and executive leadership. As set out on page 55, Martin Lamb carried out the Chief Executive role on a temporary basis following the resignation of Peter France in July 2017. He resumed his role as Non-Executive Chairman on 12 March 2018 when Kevin Hostetler became Chief Executive.

All directors are entitled to seek independent, professional advice at the Company's expense, and arranged by the Company Secretary, in order to discharge their responsibilities as directors. Rotork maintains appropriate directors' and officers' insurance cover.

Board meetings held outside the UK in past five years



How the Board operates effectively Board activities

As part of Rotork's Board effectiveness, day-to-day responsibility for the running of the Company is delegated to executive management. However, there are a number of matters where, because of their importance to the Group, it is not considered appropriate to do this. The Board therefore has a formal and documented schedule of matters reserved for its decision. This schedule can be found on the Company's website at www.rotork.com/en/investors/index/theboard. This was updated for the updated Code in December 2018.

In 2018, the number of formal Board meetings were reduced from nine to six. These meetings are supplemented with five Board update calls. There were also two short Board meetings during the year to approve the Group's April and November trading statements. The Chairman, through the Company Secretary, ensures that the Board agenda and all relevant information is circulated to the Board members sufficiently in advance of the meeting. The format and content of management reporting packs are kept under review to ensure that the non-executive directors receive focused, concise and timely information from executive management. The Chairman and the Company Secretary discuss the agenda in detail ahead of every meeting and hold a review meeting ahead of each Board meeting.

At least once annually, the Board travels to and meets at one of Rotork's locations other than its head office in Bath. This allows the Board, and, in particular, the non-executive directors, the opportunity to gain a deeper understanding of other Rotork businesses and their markets and to interact with local management and staff, as well as to view new capital investments and acquisitions. In June 2018, the Board visited Rotork's operations in Houston, USA.

All non-executive directors constructively challenge executive management at Board meetings and are entitled to unfettered access to information and management across the Group. Rotork's executive directors understand the distinction between their roles as executive managers and as Board directors.

CORPORATE GOVERNANCE REPORT

CONTINUED

At Board meetings, the Board receives presentations from senior management. The principal purpose of the presentations is to consolidate the Board's understanding of the Group's plans and operations, and in particular current strategic and operational issues facing divisional and business functional management. The presentations are structured so that the Board has the opportunity to ask questions and constructively challenge senior management at their presentations. Management presentations normally take place at the start of the meeting so that any issues raised can be considered in wider Board discussions, particularly around strategy and risk. In June 2018, the Board dedicated an extra day before the June Board meeting to receive presentations from senior management on each of the Growth Acceleration Programme workstreams.

The executive directors present to the Board the content of preliminary and half year results announcements and the Board also considers trading updates.

Induction and development

New Board members receive a suitable tailored induction, facilitated by the Company Secretary. This includes a combination of reading materials, external and internal training, meetings with senior management and site visits.

Directors are encouraged to continually update their professional skills and knowledge. During 2018, development activities for the directors included the participation in external training seminars. All the non-executive directors are members of the Deloitte Academy which provides a wide range of training opportunities for FTSE 350 board directors.

The level and nature of training given to the Board is considered at least annually by the Chairman.

Performance evaluations

The Board is self-critical, and is continuously looking to improve its performance. Having carried out externally facilitated Board evaluations in 2016 and 2017, the formal evaluation of the Board's and Committees' performance was carried out in late 2018 by means of a detailed questionnaire created internally by the Company Secretary in consultation with the Chairman and Chairs of the Committees. This was completed by all directors.

The results of this questionnaire showed broad and material improvements made in those areas for development identified in the Board's 2017 effectiveness review, including in particular in the quality of executive reporting to the Board and the enhancement of the Group's risk management framework. Areas identified for additional focus include talent and succession planning and further development of the Group's long-term strategy. Actions will be taken to address these areas throughout 2019.

The Chairman's performance was also assessed using a questionnaire, with a follow up meeting with the Non-Executive Directors led by the Senior Independent Director. This feedback was used by the Senior Independent Director to discuss with the Chairman his performance in December 2018.

Risk management and internal controls

The Board is responsible for Rotork's system of risk management and internal control and the Board's review of the system's effectiveness is completed with the assistance of the Audit Committee.

During 2018, the Board regularly reviewed the effectiveness of the Group's risk management and internal control systems. Further details of reports undertaken and reviewed are set out in the Audit Committee report on pages 62 and 63.

The systems which were in place for the year under review, and up to the date of approval of the report, are in accordance with the Code and the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

Main features of the Group's risk management process

An established risk review process at a divisional level results in a 'bottom up' assessment of the risks facing the Group. These are consolidated before the 'top down' review is performed by management and then by the Board to ensure the risk population is complete and adequately assessed.

An Executive Risk Summary is presented to the Board on a quarterly basis. This includes a set of Key Risk Indicators which provide a means of monitoring the Group's risk exposures and focuses the Board on risks where the Group exceeds, or will potentially exceed, risk appetite. Quarterly reporting is supplemented as necessary by more detailed monthly reporting to the Board by the executive management team on new or evolving risks, the effectiveness of existing mitigations and plans to further strengthen mitigations.

Further details of the Group's internal control and risk management systems and the process for identifying, evaluating and managing the principal risks faced by the Group during 2017, including the Board's risk appetite, are contained on pages 22 to 28.

Main features of the Group's internal control systems

All members of the Board receive Audit Committee papers and prior meeting minutes, which contain the Audit Committee's assessment of the effectiveness of the Group's risk management and internal control systems. All non-executive directors are members of the Audit Committee and the executive directors attend Audit Committee meetings.

Key elements of the framework which enables Rotork to respond appropriately to financial, operational, compliance and any other risks, include:

- Group wide policies and procedures, including authority levels and division of responsibilities.
- Training of staff on policies and procedures relevant to their roles.
- Ongoing monitoring of business performance, Key Risk Indicators and levels of compliance with procedures.
- A formal schedule of reserved matters for the Board, including responsibility for reviewing Group strategy.
- A formal whistleblowing policy with an external whistleblowing hotline.
- Robust assurance processes and controls over financial reporting and health and safety procedures.
- Regular controls confirmations from the business.

Throughout 2018, the arrangement with PwC to provide internal audit services has continued, with the function being led by an experienced Head of Risk and Internal Audit from PwC.

As set out in Strategic Report, the continuous improvement and execution of a comprehensive and robust system of risk management is a high priority for Rotork. Many of the principal risks are aligned with areas of accelerated growth and in a number of areas the risk trend is increasing. In that context, the Audit Committee has sought information and insight over the quality of the control environment and three lines of defence, together with recommendations for improvements to controls from both internal and external audit. In response, a series of measures and actions have been agreed by management to further enhance the control environment including improvements to accountability, consistency and the development of a stronger second line of defence. This work will be a mix of immediate actions mitigating identified risks as well as longer term improvements aligned to the investment in

the new Enterprise Resource Planning (ERP) system. In addition, the process for the follow up of recommendations for improvement to controls which management are charged with implementing has been strengthened.

In November 2018, a new in-house Risk and Internal Audit Manager was recruited who has brought some excellent experience to the team, working alongside the PwC team to support ongoing delivery and planned developments in risk management and internal audit. Staffing of the central risk and internal audit team will be kept under review during 2019.

As part of the Finance team's response to support the Growth Acceleration Programme, and in light of the above, the organisational structure and reporting lines are being revised to bring greater accountability and clarity.

Whistleblowing

All whistleblowing concerns reported through Rotork's whistleblowing policy and procedures (which are described on page 42) are investigated thoroughly following the initial assessment process and reported to the Board. The Board reviews the volume and nature of the cases reported, the manner in which these have been investigated and the actions arising from any investigation.

Relations with shareholders

Communication with shareholders is a priority for Rotork and the Company openly engages in a regular dialogue with its major shareholders. In 2018, the Board, and in particular the Chief Executive and Finance Director, have engaged with shareholders in a number of ways including:

- Hosting and participating in roadshows, both in the UK and internationally.
- Hosting webcasts and conference calls.
- Attending shareholder events.
- Hosting investor site visits.
- Attending conferences.
- Arranging ad hoc one to one and group meetings and calls with shareholders.

A new Investor Relations Director joined Rotork in February 2019 to increase the resources available to support existing and potential shareholders and enhance our reporting to shareholders.

During the year we maintained an expanded investor communications programme. Shortly after Rotork's 2017 results announcement, Kevin Hostetler embarked on a shareholder roadshow, meeting all Rotork's top investors to explain his background and plans for the Group. Subsequently and throughout the year, Kevin Hostetler and Jonathan Davis have carried out a number of further roadshows, meetings and calls, updating both current and potential investors on the progress of our Growth Acceleration Programme. Finally, the Board engaged an external consultant to conduct research with Rotork top shareholders, to better understand perceptions of Rotork and any potential room for improvement. The results of this review were presented to the Board in October and key recommendations will be followed up on throughout 2019.

The Chairman ensures that all directors are made aware of major shareholder issues and concerns by ensuring the Board receives reports on meetings with analysts and shareholders. In addition, the Board receives reports from its brokers which give anonymised feedback from investors.

Rotork makes constructive use of its AGM as an opportunity for the Board to communicate with, and answer questions from, shareholders who attend in person. The entire Board is normally available during the meeting, and for lunch following the meeting, to allow direct interaction between the directors and the shareholders. This year, Rotork will again adopt automatic poll voting at its AGM in order to better reflect the views of shareholders; previously voting on resolutions was generally undertaken on a show of hands at the AGM itself. Automatic poll voting ensures that all votes cast in person or by proxy are taken into account on a particular resolution.

Rotork also maintains a comprehensive investor relations section on its website which provides a variety of resources for investors including current webcasts, presentations and press releases as well as annual interim reports. The website can be accessed at www.rotork.com/en/investors.

Electronic communications are also used by Rotork to communicate with its shareholders. All shareholders can request to receive the Annual Report & Accounts in electronic form rather than in hard copy form. Any shareholders wishing to receive corporate documents electronically can do this by registering for the service at www.shareview.co.uk and clicking on 'Register' under the 'Shareview Portfolio' section. Rotork also makes available electronic proxy appointment for shareholders who wish to appoint a proxy online to vote at the Company's AGM.

Board Committees

The Board has Audit, Nomination and Remuneration Committees. Each Committee has formal, written terms of reference which are available to download from the Rotork website at www.rotork.com/en/investors/index/committees. All Committees have at least three independent non-executive directors within their composition. The Company Secretary advises and acts as secretary to the Committees.

In addition to the principal Committees outlined above, the Board also maintains a Disclosure Committee to ensure that Rotork complies with its obligations in relation to the control and disclosure of inside information under the EU Market Abuse Regulation. Membership of the Disclosure Committee currently comprises the Chief Executive, the Finance Director and the Company Secretary and it operates under formal, written terms of reference.

The Committees have authority to take external, independent professional advice at Rotork's expense for matters relating to the discharge of their duties.

Chairman of the Board and Chairs of the Committees as at 31 December 2018



AUDIT COMMITTEE REPORT









Committee members¹

Lucinda Bell
Sally James
Gary Bullard
Peter Dilnot
Ann Christin Andersen
Tim Cobbold

¹ As at 31 December 2018

Dates of Audit Committee meetings

JAN	FEB	MAR 
APR 	MAY	JUN
JUL	AUG 	SEP
OCT 	NOV 	DEC 

I am pleased to present the report of the Audit Committee for the year ended 31 December 2018. This year the key areas of focus for the Audit Committee, in addition to its usual schedule of work, have been:

- Receiving reports from Internal Audit on Rotork's control framework and recommendations for upgrading it.
- Identifying a successor audit partner to Nigel Thomas at Deloitte and supporting the transition to the new audit partner.
- Strengthening the connection between internal audit work and the controls relied on to mitigate principal risks.

Committee composition and governance

All Audit Committee members are independent non-executive directors. On 1 December 2018, Ann Christin Andersen and Tim Cobbold joined the Audit Committee, further strengthening it. As mentioned on pages 55, Gary Bullard will not seek re-election at the Annual General Meeting to be held on 26 April 2019 and will therefore step down as a member of this Committee from that date.

I hold professional accounting qualifications and am deemed to have recent and relevant financial experience. Tim Cobbold also holds professional accounting qualifications. Biographies of each member of the Audit Committee can be found on pages 52 to 53.

The Audit Committee operates under formal terms of reference which are reviewed annually and were last updated in December 2018. A copy of the terms of reference is available on the Rotork website at www.rotork.com/en/investors/index/committees.

The principal responsibilities of the Audit Committee are to review and report to the Board on the:

- Integrity of financial reporting.
- Application of significant accounting policies and judgements.
- Internal audit programme, its remit, resourcing and effectiveness.
- Adequacy and effectiveness of the Company's internal controls and risk management systems.
- Appointment, independence and remuneration of the external auditor.
- Effectiveness of the external audit process.

The Audit Committee maintains an annual schedule of work which is kept under review and forms the basis of its principal meetings throughout the year. The annual schedule is supplemented by consideration of specific issues as and when they arise.

The Audit Committee met six times during the year. There were four main Audit Committee meetings and two other meetings to approve the trading statements in April and November. Details of attendance are set out on page 57. Meetings of the Audit Committee are arranged to co-ordinate with the Group's financial reporting timetable to ensure appropriate scrutiny by the Audit Committee of such announcements, including review of year end and interim financial reports, in addition to other trading updates made during the year.

The Chief Executive, Chairman, Finance Director, Group Financial Controller, Head of Risk and Internal Audit and representatives of the external auditor (including the principal audit partner) also regularly attend meetings by invitation.

As Chair of the Committee, I additionally hold regular meetings with the Finance Director and other members of the management team. These meetings provide me with a better understanding of key issues, and identify those matters which require meaningful discussion at Audit Committee meetings. I also meet with the Head of Risk and Internal Audit and the external audit partner to discuss any matters of concern that they may have.

During the year, the Audit Committee received reports from management, the Head of Risk and Internal Audit and the external auditors. These reports have allowed the Audit Committee to scrutinise and ask questions where further clarification or discussion was required. Further details of the work undertaken by the Audit Committee during 2018 is set out opposite.

Financial reporting

A key role of the Audit Committee in relation to financial reporting is to review the quality and appropriateness of the half year and year end financial statements with a particular focus on:

- Accounting policies and practices.
- The clarity of disclosures and compliance with International Financial Reporting Standards, UK company law and the UK Corporate Governance Code.
- Material areas in which significant judgements have been applied or where there has been discussion with the external auditor.

- Upon request of the Board, advising the Board on whether the Annual Report & Accounts are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance as a whole.

To assist the Audit Committee, the Finance Director and the Group Financial Controller present a detailed report outlining significant matters on the half year and year end financial statements and the external auditor presents a report on the work they have undertaken. They also present on the scope for the next full year audit for consideration by the Audit Committee.



Internal controls and risk management

- Reviewed internal controls and risk management, including consideration of processes and procedures for risk management and the effectiveness of the internal controls framework.
- Reviewed significant internal control reports, findings and management responses.
- Reviewed internal audit programme, its remit, resourcing and effectiveness.
- Received reports on the implementation of process improvements recommended for action following internal audit reviews.
- Reviewed anti-bribery and corruption procedures and the recommendations for further work in 2019.

External audit

- Considered and reported to the Board on the external auditor's independence, objectivity and effectiveness including the annual audit.
- Reviewed the external auditor's representation letter, views on the control environment and fraud risk management.
- Meetings with the external auditor without management present.
- Reviewed non-audit services undertaken by the external auditor and the policy on non-audit work.
- Considered audit fees, engagement terms and risk of external auditor leaving the market.
- Considered appointment of the external auditor.

Financial reporting

- Reviewed the Annual Report & Accounts (including whether they are fair, balanced and understandable), the Corporate Governance Report and draft results announcements.
- Reviewed the material judgements and estimates, going concern assumption and viability statement in the Annual Report & Accounts.
- Reviewed the half year accounts including material judgements, estimates and draft half year results announcement.
- Reviewed the external auditor's report on the year end accounts and the proposed full year external audit scope, key risks, materiality and year end issues.
- Reviewed April and November trading updates.
- Reviewed and approved response to FRC letter on certain aspects of Annual Report & Accounts 2017.

Internal audit

- Considered resourcing required for Risk and Internal Audit team, including the appointment of a new in-house Risk and Internal Audit Manager to work alongside the PwC team.
- Reviewed internal audit programme, its remit, resourcing and effectiveness.
- Meetings with the Head of Risk and Internal Audit without management present.

Other work

- Considered accounting and corporate governance developments including the changes under the 2018 Corporate Governance Code.
- Reviewed Audit Committee effectiveness and terms of reference.
- Reviewed updated whistleblowing policy and gifts and hospitality policy.
- Approved the Audit Committee's schedule of work for 2019.

AUDIT COMMITTEE REPORT

CONTINUED

The principal matters of judgement and estimation considered by the Audit Committee in relation to the 2018 accounts and how they were addressed were:

- Goodwill impairment testing. The year end balance sheet includes goodwill of £230.2m, this represents 30.4% of the Group's assets. The Audit Committee reviewed the carrying value of goodwill by examining a report from the Group Financial Controller which sets out the values attributable to each cash generating unit, the expected value in use, based on projected cash flows and the key economic assumptions related to growth and discount rates. The Audit Committee discussed the appropriateness of the assumptions used, compared expected growth rates to historical averages and relevant market data and compared the discount rates to the Group weighted average cost of capital and appropriate risk premiums. Following the discussion, the Audit Committee were satisfied with the approach taken by management which resulted in no impairment being made in 2018. The Audit Committee also considered whether any reasonable change would result in an impairment in any cash generating unit. The Audit Committee reviewed the sensitivities and impairment disclosures in note 10 and were satisfied these are balanced and fair.
- Retirement benefit schemes. At 31 December 2018, the Group operates two defined benefit retirement plans, both of which are now closed to future accrual. The valuations are prepared by an independent qualified actuary. The Audit Committee considered the report from the Group Financial Controller and were satisfied the assumptions used were appropriate. The detailed disclosure for these schemes under IAS19 are shown in note 24 and the Audit Committee is satisfied they are complete and accurate.

The last review by the FRC Corporate Reporting Review team of the Rotork plc Annual Report & Accounts was for the year ended 31 December 2017. Following their review and responses from Rotork, the FRC advised in November 2018 they had closed their enquiries.

External auditor

The year under review marks the fifth year during which Deloitte LLP has been the Group's external auditor following a formal tender process in 2014. The 2018 year end audit will be the last year, under the Financial Reporting Council's APB Ethical Standards, that Nigel Thomas will be able to hold the role of senior statutory auditor. As a result, in 2019 Nigel Thomas will hand over to Dave Griffin as Deloitte LLP's lead audit partner for Rotork.

The Audit Committee assesses the effectiveness of the external audit process, the scope of the Group audit and the quality of the audit work throughout the year.

The assessment considers:

- Any issues arising from the prior year external audit.
- The proposed external audit plan, including identification of risks specific to Rotork.
- External audit scope and materiality thresholds.
- Staffing continuity and experience.
- The delivery of the external audit in line with the plan.
- Matters arising during the external audit and the communication of these to the Audit Committee.
- Feedback from executive management.
- Private meetings with the external auditor and the Head of Risk and Internal Audit without management being present.
- The independence, objectivity and scepticism of the external auditor.
- The FRC audit quality review report on selected audits undertaken by Deloitte.

Having completed this review, the Audit Committee agreed that the audit process, independence and quality of the external audit were satisfactory.

Consideration was given to the possibility of re-tendering the external work during the course of the year but as the Committee are satisfied with the work of Deloitte during the year, the decision was made not to re-tender. The Audit Committee has recommended that Deloitte LLP be re-appointed auditors for the 2019 financial year and Deloitte's continuing appointment will be subject to shareholder approval at the 2019 AGM.

Statement of compliance

The Company confirms that it has complied with terms of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 (the 'Order') throughout the year.

Non-audit services

In order to safeguard the independence and objectivity of the external auditor, the Board has adopted a policy on non-audit services which restricts the work and fees available to the external audit firm, and the policy is reviewed by the Audit Committee annually to ensure it remains appropriate and in line with applicable requirements. The policy is compliant with EU legislation on permitted non-audit fee services.

The policy specifies certain activities which the external auditor may not undertake such as work related to the internal audit function and work related to certain tax activities. It also contains restrictions on the scope of permissible non-audit work; and a cap on fees for permissible non-audit work (which may not exceed 70% of the average audit fees paid in the last three consecutive years).

For work that is permitted under the policy, authority has been delegated to the Finance Director to approve. This is for fees of up to £10,000 per project or £40,000 in aggregate for general work, and £10,000 for acquisition related work that is permitted under the policy. Non-audit work above these levels requires the prior approval of the Chair of the Audit Committee or the Audit Committee as a whole.

An analysis of fees paid to Deloitte, including the split between audit and non-audit is included in note 8 of the Report & Accounts.

Internal controls, internal audit and risk management

The Audit Committee has responsibility for reviewing and monitoring the effectiveness of the Group's control environment, risk management and internal audit process.

During 2018, the arrangement with PwC to provide internal audit services has continued, with the function being led by an experienced Head of Risk and Internal Audit from PwC. In November 2018, a new in-house Risk and Internal Audit Manager has been recruited and will bring some excellent experience to the team, working alongside the PwC team which bring an independent perspective to our audits and methodology. The Group continues to use Rotork staff to undertake internal audits, and this arrangement encourages the sharing of best practice and provides career development for the staff involved. Quality assurance procedures ensure consistency both in terms of audit approach and remedial actions. Staffing of the central risk and internal audit team will be kept under review during 2019.

The Audit Committee has continued to monitor the effectiveness of internal controls, supported by internal audit. The internal audit team report and follow up on controls weaknesses, providing support to management in making operational improvements where needed.

PwC has now been internal auditor for over a year and as they have gained an understanding of the Group their insights have provided the Audit Committee with more information to further improve the quality of the control environment and the three lines of defence.

Internal audit has delivered financial audit reports for 32 of our global locations during 2018. Guidance is provided to auditors about the nature and extent of testing to be undertaken and to ensure auditors focus their efforts in key areas of risk, tailored by site. Investment has also been made to improve the quality and consistency of reporting of issues.

Furthermore, they have undertaken seven risk-based internal audit reviews during 2018, covering the following areas:

- IT disaster recovery.
- Treasury management.
- Anti-bribery and corruptions measures.
- Product non-conformity reporting.
- Major contract approvals.
- Staff training and induction (safety related).
- Single-sourced components.

The internal audit team continue to administer the process for sites to confirm the operation of key financial controls on at least a quarterly basis. This process provides good insight into key areas of risk.

The Audit Committee continues to receive reports at the main meetings on internal audit activity, any significant matters arising and the management response. During the year, the internal audit team made recommendations for improvement to controls, which management are charged with implementing. The status and effectiveness of actions are monitored by internal audit and regularly reported to the Audit Committee. During 2018, the process for internal audit 'follow up' of agreed management actions arising from internal audit reviews has been revised to bring additional rigour and consistency to the process. This has led to a greater focus on where control gaps remain and the actions outstanding.

Other means of assessing the internal control systems include the risk assessment process and annual letters of assurance from the divisional leadership team. These controls sit alongside our system of governance, including key committees that monitor our processes and controls, such as the Audit Committee and CSR Committee.

During the year, the Audit Committee also considered reports on anti-bribery and corruption procedures.

As set out in Strategic Report, the continuous improvement and execution of a comprehensive and robust system of risk management is a high priority for Rotork. Many of the principal risks are aligned with areas of accelerated growth and in a number of areas the risk trend is increasing. In that context, the Audit Committee has sought information and insight over the quality of the control environment and three lines of defence, together with recommendations for improvements to controls from both internal and external audit. In response, a series of measures and actions have been agreed by management to further enhance the control environment including improvements to accountability, consistency and the development of a stronger second line of defence. This

work will be a mix of immediate actions mitigating identified risks as well as longer term improvements aligned to the investment in the new Enterprise Resource Planning (ERP) system.

As part of the Finance team's response to support the Growth Acceleration Programme, and in light of the above, the organisational structure and reporting lines are being revised to bring greater accountability and clarity.

During 2018, PwC have undertaken a risk maturity assessment, looking at all aspects of the Group's risk management processes and the connections between those various processes and the day-to-day operations of the Group. A number of enhancements have been made in the year to improve the connections between the key aspects of the risk management framework in line with this assessment and further work is planned for the coming year. The Key Risk Indicators have been updated and enhanced, technology has been embedded to support the facilitation of the risk management process and there has been increased focus on reporting of risks which exceed the Board's risk appetite.

PwC completed a review of the effectiveness of the internal audit function in early 2018 comparing against industry best practice and standards. The Audit Committee reviewed the progress made against the resultant action plan in December 2018. Improvements introduced include an Internal Audit Charter, enhancements to Internal Audit methodology and guidance, and delivery of a programme of risk-based internal audits, alongside financial audits.

The 2019 audit programme has been scoped to include a number of risk-based audits related to the Group's Principal Risks as well as financial audits across a wide range of locations. Sites to be audited are selected based on a thorough assessment using a number of relevant risk factors. The Audit Committee reviewed and approved the 2019 programme at its December 2018 meeting.

Whistleblowing

At the December meeting, the Committee reviewed Rotork's whistleblowing policy and procedures. It was not considered necessary to make any changes to these following the last update at the end of 2017. From 2019, review of the whistleblowing policy and procedures will be the responsibility of the Board in accordance with the 2018 Corporate Governance Code.

Other matters

In accordance with its terms of reference, the Audit Committee carried out a review of its effectiveness by way of a questionnaire and discussion facilitated by the Company Secretary, including how it discharged its responsibilities.

Throughout the year, the Audit Committee also considered relevant accounting and corporate governance developments, in addition to those in relation to risk and internal controls discussed above.

Areas of focus for 2019

Key areas of focus for the coming year are:

- To review progress and the impact of the programme to enhance the internal control framework, through improved accountability, segregation of duties, consistency and a stronger second line of defence. This work will focus on certain immediate action areas as well as continuing as a component of the development of the new ERP system.
- Continue to support the transition of the new external audit partner and Risk and Internal Audit Manager.

Lucinda Bell

Chair of the Audit Committee
4 March 2019

NOMINATION COMMITTEE REPORT





Committee members¹

Martin Lamb
 Lucinda Bell
 Gary Bullard
 Sally James
 Peter Dilnot
 Ann Christin Andersen
 Tim Cobbold
 Kevin Hostetler

¹ As at 31 December 2018

Dates of Nomination Committee meetings

JAN	FEB	MAR
APR	MAY	JUN
JUL	AUG 	SEP
OCT 	NOV	DEC

During the year, the Nomination Committee was responsible for:

- Leading the process for Board appointments and making recommendations to the Board.
- Ensuring succession planning is in place for appointments to the Board and senior management.
- Reviewing the structure, size and composition of the Board, including its balance of skills, diversity, knowledge and experience and making recommendations as appropriate.
- Making recommendations concerning the membership of the Audit and Remuneration Committees (in consultation with the Chairs of those Committees).

The terms of reference of the Nomination Committee were reviewed in October 2018 following the publication of the updated Code. A copy of the updated Nomination Committee terms of reference is available on the Rotork website at www.rotork.com/en/investors/index/committees.

Kevin Hostetler joined the Nomination Committee on 1 March 2018 and Ann Christin Andersen and Tim Cobbold joined on 1 December 2018. A majority of the Nomination Committee members are independent non-executive directors. Biographies of each member of the Nomination Committee are set out on pages 52 to 53.

Activities of the Nomination Committee during the year

There were two formal Nomination Committee meetings during the year. A summary of activities is set out opposite.

The principal activity of the Nomination Committee during the year concerned the successful search for two new non-executive Directors to join the Board.

Board appointments

As Gary Bullard will have been in office for nine years in June 2019, the Nomination Committee began a search process for a non-executive director who would have the requisite experience on a remuneration committee in order to perform the role of Chair of the Remuneration Committee. They also considered that there would be benefit in appointing an additional non-executive director to further enhance the capacity of the Board and provide a broader skills and experience base.

The Nomination Committee therefore appointed Egon Zehnder as external search consultants (with which the Company has no other connection) to assist with this process of recruiting two new non-executive directors. In formulating the candidate profiles for the appointments, in addition to the requirement for a candidate with a least a year's experience on a remuneration committee, the Nomination Committee also had particular regard to the need for candidates with a growth mindset, a background in international industry and previous Board experience. They also looked for a diverse gender and ethnic list of potential candidates and a candidate with strong background in information technology.

The Nomination Committee received a long list of potential candidates from Egon Zehnder. Following review and discussion, prioritised candidates were identified for interview. The shortlisted candidates were interviewed by Martin Lamb and Sally James. The Nomination Committee were unanimous in their recommendation of the appointment of Ann Christin Andersen and Tim Cobbold to the Board for approval.

Succession planning

Succession planning for the Board is continuous and the Nomination Committee considered during the year the need to maintain an appropriate balance of skills and experience within the Company and on the Board and to ensure progressive refreshing of the Board.

Board evaluation

In 2018, the Board performed an internal review of its effectiveness via a board effectiveness questionnaire facilitated by the Company Secretary. Further details on the results of this review and any resulting actions can be found at page 58. The review included an assessment of the effectiveness of the Committee including how it discharged its responsibilities.

Diversity plan

The Board seeks to attain a diverse mix of skills, experience, knowledge and background. In considering diversity, gender will play an important role but the Board will take account of ethnicity, nationality, background, profession and personality.

As reported on page 54, the Board has formally adopted a new diversity plan for the Group with clear actions and supporting key performance indicators. Kevin Hostetler and I have also joined the 30% Club as a public and personal commitment of our support for increasing the number of women at senior levels in the corporate world.

Last year we committed to only using external search consultants (where such consultants are engaged to make an appointment) which have signed up to the Voluntary Code of Conduct for Executive Search Firms on gender diversity and best practice. Egon Zehnder, who were engaged in the search for two new non-executive directors, fulfilled this criteria.

Details of the percentage of women on the Board, in senior leadership positions and within the Group can be found on page 41.

Martin Lamb

Chair of the Nomination Committee
4 March 2019



Appointment process

- Recommended Tim Cobbold and Ann Christin Andersen for appointment as non-executive directors and members of the Audit and Remuneration Committees.

Succession planning

- Discussed Board composition and succession planning, including consideration of balance of skills and experience and diversity.

Other work

- Considered the requirements of the new Corporate Governance Code 2018 and its impact on the work of the Committee.
- Reviewed the Nomination Committee's effectiveness and terms of reference.
- Approved the Nomination Committee's schedule of work for 2019.

DIRECTORS' REMUNERATION REPORT



Statement from the Chair of the Remuneration Committee

In March 2018, we welcomed Kevin Hostetler as our new Chief Executive and as a Board we are very pleased with the progress that Rotork has made under his leadership. 2018 has delivered robust financial performance, with growth in both order intake and revenues and our Growth Acceleration Programme is performing well. As our strategy has evolved, so too has our remuneration policy, enabling us to drive a stronger focus on performance and to better align with the market. In addition to the appointment of Kevin, this has also enabled us to attract and retain talented individuals throughout the organisation.

We consulted widely on the changes that we made to executive remuneration in 2017 and 2018. Whilst the majority of shareholders remain supportive, we are aware that not all of the Company's shareholders were in favour of all of our proposals. After the 2018 AGM result, we embarked upon a further engagement exercise and Sally James, the Senior Independent Director, and I had meetings with a number of shareholders to fully explain the rationale of the decisions taken in 2017 and our intended approach for 2018 and 2019 (including the review of the Chairman's fee and the proposed changes to the LTIP rules). These meetings also afforded our shareholders the opportunity to raise any other concerns they had, and following these useful discussions we have further committed to:

- Improve the level of disclosure provided in the remuneration report.
- Show restraint in relation to executive salary increases.
- Continue to set robust and stretching targets for our incentive plans and provide full and transparent disclosure on the out-turn under such plans.
- Adopt other areas of good governance, a number of aspects of which are reflected in the new long-term incentive plan rules that will be put to shareholders for approval at the AGM.

We will continue to maintain an open and transparent dialogue with shareholders and welcome any feedback they may wish to provide.

Remuneration in 2018

Bonuses for 2018 were based on annual profit, cash generation, lost time incident rate and individual strategic targets. In line with our pay for performance philosophy, we set ambitious targets for the annual bonus, particularly in relation to profitability. The Group has made good progress in 2018 and as a result, the bonus for Kevin Hostetler and Jonathan Davis for 2018 paid out at 113.6% and 90.4% of salary respectively, of which part will be paid in deferred shares. Full details of the bonus targets and performance against them are set out on pages 76 to 77.

The 2016 LTIP awards (which were based on earnings per share (EPS) and total shareholder return (TSR) performance over the three years to 31 December 2018) exceeded the threshold performance targets resulting in 79.2% of shares vesting to Jonathan Davis and other members of the senior management team. Kevin Hostetler, having joined Rotork in 2018, was not a participant in this award cycle.





The Committee values executive share ownership and believes that it ensures a high level of alignment with shareholders' interests. The Company operates a share ownership guideline whereby executive directors are required to maintain a shareholding at least equal to 250% of their base salary. Details of executive directors' shareholdings are set out on page 80.

Committee members

Gary Bullard
Lucinda Bell
Ann Christin Andersen¹
Tim Cobbold¹
Sally James
Peter Dilnot

¹ Ann Christin Andersen and Tim Cobbold were appointed to the Board in December 2018 and attended the December Committee meeting only.

Dates of Remuneration Committee meetings

JAN	FEB	MAR 
APR 	MAY	JUN
JUL	AUG	SEP
OCT 	NOV	DEC 

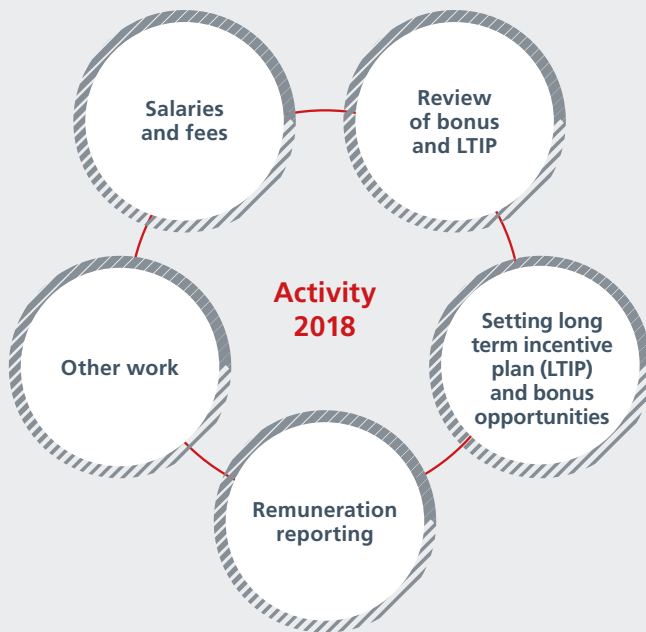
In order that executive directors remain interested in the Company post-cessation, outstanding deferred bonus awards continue to vest on their original vesting date and the post-vesting holding period continues to apply to any vested LTIP awards. The Committee is aware that post-cessation share ownership is a developing issue and intends to review the Company's approach further in the coming year as part of the 2020 policy review.

During 2018, the Committee reviewed the fee payable to the Chairman following the resumption of his Non-Executive Chairman role. The fee level had not been reviewed since it was set on appointment in April 2015. The business and its strategy have seen significant development in recent years, and the fee level did not appropriately reflect the time commitment involved given the size and international nature of the Company. Taking this into account, as well as Martin's strong performance in the role and his importance to the continued success of the business, the Committee approved an increase to the Chairman's fee to £234,000. In making this decision we consulted with our major shareholders, and bearing their views in mind, elected to set the fee level closer to, but still below, the median fee level for comparable companies.

The fees payable to the other non-executive directors were reviewed at the same time and a Board committee approved an increase to the base Board fee to £56,000 (effective from 1 January 2019). No increases were made to the supplementary fees payable for additional responsibilities. Future increases for the Chairman and non-executive directors will generally be aligned with salary increases offered to the wider workforce.

Remuneration for 2019

The operation of our variable pay arrangements for 2019 is unchanged from 2018. Bonuses will continue to be based on profit, cash generation, safety and strategic targets. The 2019 LTIP grants will be based on TSR, EPS and a return on capital measure. Challenging performance targets have been set for the variable pay elements in line with the business strategy and growth expectations and no changes have been made to the award levels for executive directors. The Committee has elected not to increase the salaries of the executive directors at the current time.



Salaries and fees

- Set basic salary for Kevin Hostetler and Jonathan Davis for 2019.
- Considered a report from New Bridge Street on non-executive remuneration.
- Reviewed the fee payable to the Chairman and approved fee increase.

Review of bonus and LTIP

- Reviewed LTIP performance against targets.
- Reviewed bonus performance against targets and approved 2017 bonus payments.
- Reviewed the terms of both bonus and LTIP plans to ensure they remain fit-for-purpose and in line with developing best practice.

Setting Long Term Incentive Plan (LTIP) and bonus opportunities

- Set LTIP performance targets and award levels for executive directors and other members of senior management for the 2018 LTIP.
- Set executive directors' personal performance bonus targets for 2018.
- Set bonus targets for executive directors and other members of senior management's bonus scheme for 2018.

Remuneration reporting

- Approved the Directors Remuneration Report 2017.

Other work

- Approved the Directors Remuneration Report 2017.
- Consulted with shareholders on multiple occasions on a range of remuneration issues.
- Considered corporate governance developments, guidance from institutional investors and general remuneration trends both within the Company and externally.
- Approved the Remuneration Committee's schedule of work for 2019.
- Reviewed Remuneration Committee's effectiveness and terms of reference.

DIRECTORS' REMUNERATION REPORT CONTINUED

2019 Long Term Incentive Plan

The rules of our LTIP were first approved by shareholders in April 2010 and as such are due to expire in April 2020. Given that we are required to make certain changes to the LTIP with effect from 2019 in light of the updated Code, we are seeking shareholder approval for a revised set of LTIP rules at this year's AGM. We are not proposing any material changes to the terms of the LTIP, but have made some minor amendments, including:

- Reflecting the requirements in the updated Code, we have introduced discretion for the Committee (in exceptional circumstances) to scale-back the extent to which an LTIP award would otherwise vest on a formulaic basis if appropriate to do so (for example, to reflect underlying individual or corporate performance).
- We have reviewed the malus and clawback provisions such that the Committee is now able to recover or withhold payments or awards in a broader set of circumstances, including cases of corporate failure or significant reputational damage.
- The leaver provisions described within the plan have been brought closer in line with typical market practice.
- We have introduced flexibility to pay dividend equivalents on share awards (although as this is not currently allowed for under the remuneration policy, there are no plans to use this flexibility at present).

Shareholders will be asked to approve the new LTIP rules at this year's AGM. A summary of the principal terms of the new LTIP will be included in the Notice of AGM circulated to shareholders in advance of the meeting.

The role of the Committee and the Company's remuneration philosophy

The policy for the executive directors, which is described later in this report, is aligned with Rotork's overall philosophy on remuneration and operates as an extension of the broader reward framework. The Remuneration Committee is kept informed of pay conditions across the Company, as well as any material changes to pay policies and practices that have been made or are proposed, and takes this into account when setting executive directors' pay.

In line with the guidance set out in the updated Code, the Committee has reviewed its terms of reference during the year to ensure that they are compliant with governance standards going forward. The Committee's remit, therefore, has been expanded such that, from 2019, it is responsible for setting pay for all members of the Rotork management board as well as the Chairman and executive directors. In addition, the Committee will oversee remuneration policies and practices across the workforce, which will be facilitated through regular updates from the Group HR Director.

The Remuneration Committee maintains a rolling programme of activities which forms the basis of its scheduled meetings throughout the year. This rolling programme is supplemented by consideration of specific issues as and when they arise. The Remuneration Committee met four times during the year. Details of attendance at meetings are set out on page 57. A summary of its principal activities is set out opposite.

2019 AGM

The Annual Report on Remuneration, together with this introductory statement, will be subject to an advisory shareholder vote at the 2019 AGM. The Policy Report, which sets out the Company's current policy on director's remuneration, will not be subject to a shareholder vote this year.

This will be my final report as Chair of the Remuneration Committee as, having held the role for almost nine years, I will be stepping down from my role as non-executive director of the Company at the 2019 AGM. Tim Cobbold will assume the role of Chair at this date. I hope that you will support the resolutions to approve the Annual Report on Remuneration and revised LTIP rules at the forthcoming AGM and Tim and I welcome any feedback that you may wish to provide.

Gary Bullard

Chair of the Remuneration Committee
4 March 2019

REMUNERATION AT A GLANCE

Implementation of our remuneration policy in 2019

Our remuneration policy allows us to provide a competitive level of remuneration in order to attract and retain the right directors for the business, with a large portion of pay linked directly to the performance of the business and the individual to ensure alignment with the interests of our shareholders and other stakeholders.

Element	Purpose	Kevin Hostetler (Chief Executive)	Jonathan Davis (Finance Director)
Salary		£600,000	£346,000
Benefits	Attract and retain high-calibre executive directors	Standard benefits plus relocation arrangements agreed in connection with his appointment	Standard benefits
Pension		25% of salary	20% of salary
1 Annual bonus	Drive and reward short-term performance	125% of salary maximum (75% salary on-target) Based on profit, cash generation, safety, strategic and personal targets. Any bonus above target is deferred in shares for three years.	100% of salary maximum (60% salary on-target)
2 Long term incentive plan	Incentivise long term value creation and provide alignment with shareholders	150% salary performance share award Based on earnings per share (EPS), relative total shareholder return (TSR) and a return on capital measure assessed over a three-year performance period (a two year post-vesting holding period also applies)	125% of salary performance share award
Shareholding guidelines	Provide alignment with shareholders	250% of salary	250% of salary
Total remuneration opportunity at on-target performance (£'000)		£1,338	£698
Actual remuneration for 2018 (£'000)		£1,307	£1,243

How our remuneration policy supports Rotork's strategy

Our aim is to deliver strong and sustainable margins, consistent year-on-year growth in revenues and profit and a high return on capital which, combined with our asset-light model, delivers strong cash generation. Our reward structure supports and reflects this strategy, providing a direct link between pay and our financial and strategic objectives.

Strategic priorities

Innovation

Operational excellence

Growth

Sustainability

Link to remuneration philosophy

1 Bonus

- Strategic targets

- Cash generation measure
Personal performance targets

- Profit measure

- Safety measures
Deferral into shares
Clawback and malus provisions

2 Long term incentive plan

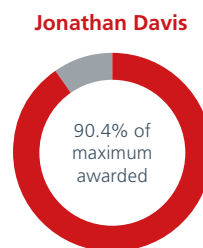
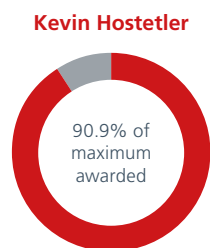
- Return on capital measure

- Total Shareholder Return measure
Earnings per share measure

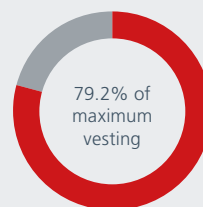
- Five-year time horizon (three-year performance period and two-year holding period)
Clawback and malus provisions

Performance outcomes for the 2018 financial year

2018 annual bonus	Weighting	Performance
Profit	60%	52.4% achieved
Cash generation	15%	15.0% achieved
LTIR	5%	5.0% achieved
Personal and strategic	20%	KH: 18.5% achieved
		JD: 18.0% achieved



2016 LTIP award	Weighting	Performance
EPS growth	50%	58.4% of maximum
TSR	50%	100% of maximum



DIRECTORS' REMUNERATION REPORT

CONTINUED

POLICY REPORT

This report sets out the policy of the Company on the remuneration of the directors. The policy was approved by shareholders at our AGM on 28 April 2017 and is intended to remain in place for three years. Shown below is the policy in full, as approved by shareholders, updated where appropriate to reference how the policy will be applied in 2019.

Role of the Remuneration Committee

The principal role of the Remuneration Committee is to determine the framework and policy for remuneration of the executive directors and the Chairman, ensuring that remuneration levels are sufficient but not excessive in order to attract, retain and motivate directors of the quality required to successfully run the Company. The full terms of reference of the Remuneration Committee can be found on the Company's website at www.rotork.com/en/investors/index/committees.

Key responsibilities include:

- Within the approved policy, determining individual remuneration packages for the Chairman and executive directors, including the terms of any discretionary share schemes in which executive directors may be invited to participate, taking account of the level of remuneration for other Rotork management board members and being aware of remuneration conditions throughout the Group.
- Agreeing the terms and conditions to be included in service agreements for executive directors, including termination payments.
- Selecting, appointing and setting terms of reference with any remuneration consultants who may advise the Remuneration Committee.

Consideration of conditions elsewhere in the Company

The Remuneration Committee is sensitive to employee remuneration conditions in the Group and in determining remuneration takes account of Group remuneration conditions. The Remuneration Committee invites the Group HR Director to its meetings to provide, amongst other things, details of employee remuneration conditions and metrics, such as pay rises awarded to employees to inform the Remuneration Committee's decision making. The Remuneration Committee also monitors internal relativities and pay ratios to ensure that they remain appropriate.

Consideration of shareholder views

In formulating the Policy Report, the Remuneration Committee takes into account guidance issued by shareholders, their representative bodies and proxy agencies (including the Investment Association and Institutional Shareholder Services). The Remuneration Committee also takes into consideration any views expressed by shareholders during the year (including at the AGM) and encourages an open dialogue with its largest shareholders. Major shareholders are consulted in advance about changes to the Policy Report or any significant proposed changes to the way in which it is implemented.

Overview of the Policy Report **Directors' policy table**

Element of remuneration	Purpose and how it supports the strategy	How the element operates	Maximum amounts payable	Framework used to assess performance
Base salary	To attract and retain executive directors of the right calibre and provide a core level of reward for the role.	Salary levels (and subsequent salary increases) are set after taking into account the responsibilities of the role, the value of the individual in terms of skills, experience and personal contribution, Company performance, internal relativities and pay conditions, and external market data (benchmarked against companies of a similar size and complexity and other companies in the same industry sector). The Remuneration Committee also considers the impact of any increase to salaries on the total remuneration package. Salaries are paid monthly ¹ and reviewed annually (salaries are normally reviewed in December, with any changes effective from 1 January).	Details of the current salaries of the executive directors are set out in the Annual Report on Remuneration. For Jonathan Davis, future salary increases will be no higher than the average increase (as a percentage of salary) applied to the UK workforce. For other executive directors, the Remuneration Committee retains the discretion to award higher increases if appropriate. For example, to reflect progression in the role or to the increased experience of the individual.	N/A

Element of remuneration	Purpose and how it supports the strategy	How the element operates	Maximum amounts payable	Framework used to assess performance
Benefits	To attract and retain executive directors of the right calibre by providing a market competitive level of benefit provision.	<p>The range of benefits that may be provided is set by the Remuneration Committee after taking into account local market practice in the country where the executive director is based.</p> <p>The executive directors' benefits currently comprise a car and fuel (or car and fuel allowance), personal accident insurance, private medical insurance and life assurance. Additional benefits may be provided, as appropriate.</p> <p>Executive directors are also entitled to membership of the all-employee Rotork Share Incentive Plan (SIP), or Overseas Profit Linked Share Scheme (OPLSS), within the maximum limits as set by HMRC.</p> <p>Any reasonable business related expenses may be reimbursed (including any tax if determined to be a taxable benefit).</p>	There is no prescribed maximum level, but the Remuneration Committee monitors the overall cost of the benefit provision to ensure that it remains appropriately proportionate.	N/A
Pension	To provide a market competitive remuneration package to enable the recruitment and retention of executive directors.	The Company may fund contributions to a director's pension as appropriate. This may include contributions to a money purchase scheme and/or payment of a cash allowance where appropriate.	Up to 25% of salary.	N/A
Annual bonus	Drives and rewards performance against annual financial and operational goals which are consistent with the medium to long term strategic needs of the business.	<p>Bonus up to 60% of the maximum are paid in cash. Any bonus awarded in excess of 60% of the maximum is deferred into shares for three years.</p> <p>Dividend equivalents may be paid on the deferred shares on vesting. The Remuneration Committee retains discretion to adjust the number of deferred shares in the event of a variation in the capital of the Company and/or to settle the award in cash.</p>	<p>The maximum annual bonus potential is 125% of salary.</p> <p>Details of the current annual opportunity are set out in the Annual Report on Remuneration.</p> <p>For each measure, normally a sliding scale of stretching targets is set by the Remuneration Committee. The threshold level of bonus under each financial measure varies but accounts for no more than one third of the maximum bonus opportunity under any single measure.</p>	<p>The annual bonus is focused on the delivery of strategically important performance measures. These include demanding financial and non-financial measures. Financial measures will account for the majority.</p> <p>Under the terms of the bonus plan, the Remuneration Committee has the discretion, in exceptional circumstances, to amend previously set targets or to adjust the proposed pay-out to ensure a fair and appropriate outcome.</p>

DIRECTORS' REMUNERATION REPORT

CONTINUED

Element of remuneration	Purpose and how it supports the strategy	How the element operates	Maximum amounts payable	Framework used to assess performance
LTIP	To incentivise long term value creation and alignment with shareholder interests.	<p>The LTIP permits an award of shares to be granted which vest subject to performance and continued employment. The LTIP awards will be granted in accordance with the rules of the plan, which were approved by shareholders in 2010, and the discretions contained therein. A copy of the rules is available on request from the Company Secretary.</p> <p>Awards under the LTIP may be granted in the form of conditional shares, forfeitable shares, nil-cost options or cash (where the award cannot be settled in shares). Awards are currently structured as nil-cost options.</p> <p>For awards granted from 2017 onwards, the directors must retain any shares vesting (net of tax) until the fifth anniversary of grant.</p>	<p>The grant level is 150% of salary per annum.</p> <p>Details of the current award levels are set out in the Annual Report on Remuneration.</p>	<p>Awards under the LTIP are currently subject to performance conditions, measured over three financial years.</p> <p>The awards from 2017 onwards are based on a mix of EPS, return on capital (economic profit) and TSR. Different measures may be used for future award cycles.</p> <p>A sliding scale of targets is set for each measure with no more than 25% of the award (under each measure) vesting for achieving the threshold performance hurdle.</p> <p>The performance targets are set prior to the grant of each award. Different measures, targets and/or weightings between measures may be set for future award cycles.</p> <p>Under the LTIP rules approved by shareholders, the Remuneration Committee has the discretion to amend the targets applying to existing awards in exceptional circumstances providing the new targets are no less challenging than originally envisaged. The Remuneration Committee also has the power to adjust the number of shares subject to an award in the event of a variation in the capital of the Company.</p>
Shareholding guideline	To provide alignment with shareholders by requiring executives to build and maintain a meaningful shareholding in Rotork.	The executive directors are also subject to a shareholding requirement to build and maintain a shareholding in Rotork equivalent to 250% of salary.	N/A	N/A

Element of remuneration	Purpose and how it supports the strategy	How the element operates	Maximum amounts payable	Framework used to assess performance
Chairman and non-executive directors' fees	To attract and retain non-executive directors of the right calibre.	<p>Fees for the Chairman and non-executive directors are reviewed periodically.</p> <p>Non-executive director fees are determined by the Chairman and Chief Executive. The fees for the Chairman are determined by the Remuneration Committee taking into account views of the Chief Executive. The Chairman excludes himself from such discussions.</p> <p>The fees for the non-executive directors normally comprise a basic Board fee, with additional fees paid to the Senior Independent Director and for chairing a Committee.</p> <p>Any reasonable business related expenses may be reimbursed (including tax thereon if determined to be a taxable benefit).</p>	<p>The maximum aggregate fee level is £700,000.</p> <p>The fee levels are set by reference to rates in companies of comparable size and complexity. The fee levels are reviewed periodically taking into account the responsibilities of the role and the time commitment of the individual.</p>	N/A

1 Jonathan Davis has elected to invest a proportion of his salary (net of tax) in Rotork shares and to retain them for two years.

Performance measures

Performance measures are used to determine the extent of any awards made under the variable elements of the executive directors' remuneration mix, being the annual bonus and the LTIP. The performance measures used are set out in the Annual Report on Remuneration. The performance measures are selected because of their use as key performance indicators (KPIs) to assess Company performance and to align the interests of the directors to those of the shareholders. Non-financial KPIs constitute part of the annual bonus award and these are selected to ensure that performance measured by financial KPIs is not delivered at the expense of important non-financial considerations.

Clawback and malus

The payment of any bonus is at the ultimate discretion of the Remuneration Committee and the Remuneration Committee also retains an absolute discretion to reclaim or withhold some, or all, of any annual bonus paid in exceptional circumstances, such as misstatement of results, an error in the calculation of the performance targets and/or award size and gross misconduct.

In terms of the LTIP, the Remuneration Committee has the discretion to reclaim some, or all, of a vested LTIP award in exceptional circumstances (the categories for clawback being the same as for the annual bonus plan). In addition, the Remuneration Committee may lapse or reduce an award prior to vesting where the participant is found to be guilty of serious misconduct.

Differences between the Policy Report and the policy on employee remuneration

The Board recognises that it is appropriate for a significant proportion of executive directors' remuneration to be contingent on the performance of the Group, and that such remuneration is at risk subject to the satisfaction of stretching performance conditions. Consequently, executive directors and other senior managers are invited to participate in the LTIP where shares awarded will vest contingent upon performance conditions over a three-year period. Executive directors and other senior managers are also invited to participate in the annual bonus scheme which will result in a bonus payment being made if targets are achieved, part of which for executive directors may be deferred in shares.

For employee remuneration, employees share in the success of the Group through a profit based bonus plan which is linked to the performance of their business unit, Group performance and their own individual performance. This is coupled with the opportunity, for eligible employees, to receive free shares from the Company, paid from the Company's profits.

DIRECTORS' REMUNERATION REPORT

CONTINUED

Approach to recruitment remuneration

Base salary levels will be set in accordance with the Policy Report, taking into account the experience and calibre of the individual and their existing remuneration package. Where it is appropriate to offer a lower salary initially, a series of increases to salary may be given over subsequent years subject to individual performance. Benefits will generally be provided in accordance with the Policy Report, with relocation expenses/an expatriate allowance paid for if necessary.

The structure of the variable pay element will be in accordance with the Policy Report. The maximum aggregate variable pay opportunity under the policy is up to 275% of salary. Different performance measures may be set initially for the annual bonus, taking into account the responsibilities of the individual, and the point in the financial year that the executive joined.

In the case of an external hire, it may be necessary to buy-out incentive pay or benefit arrangements (which would be forfeited on leaving the previous employer). This would be provided for taking into account the form (cash or shares) and timing and expected value (i.e. likelihood of meeting any existing performance criteria) of the remuneration being forfeited. Replacement share awards, if used, may be granted using Rotork's existing share plans to the extent possible, although awards may also be granted outside of these schemes if necessary and as permitted under the Listing Rules.

In the case of an internal hire, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to its terms of grant.

Fees for a new Chairman or non-executive director will be set in line with the Policy Report.

Service contracts and policy on payments for loss of office

Under the executive directors' service contracts, up to 12 months' notice of termination of employment is required by either party. Should notice be served, the executive directors can continue to receive basic salary, benefits and pension for the duration of their notice period during which time the Company may require the individual to continue to fulfil their current duties or may assign a period of garden leave. The Company applies a general principle of mitigation in relation to termination payments and the service contracts expressly include the use of monthly phased payments following termination in lieu of notice which can be reduced to the extent that alternative remunerated employment is found.

The service contracts also enable the Company to elect to make a payment in lieu of notice equivalent in value to 12 months' base salary only.

In the event of cessation of employment, the executive directors may still be eligible for a bonus at the discretion of the Committee, on a pro-rata basis for the period of time served from the start of the financial year to the date of termination and not for any period in lieu of notice. Different performance measures (to the other executive directors) may be set for the bonus for the period up until departure, as appropriate, to reflect changes in responsibility.

Any unvested shares held under the deferred annual bonus plan will ordinarily vest on the normal vesting date, save where the departure is as a result of summary dismissal, in which case the awards will lapse on cessation of employment. The Remuneration Committee may also determine that the shares shall vest on an earlier date (including the date of cessation) if the Remuneration Committee, in its discretion, considers that the circumstances of the cessation merit early vesting of the awards.

The rules of the LTIP set out what happens to awards if a participant leaves employment before the end of the vesting period. Generally, any unvested LTIP awards will lapse when an executive director leaves employment except in certain circumstances. If the executive director ceases to be employed as a result of death, injury, retirement, transfer of employment or any other analogous reason, they may be treated as a 'good leaver' under the plan rules. The shares for a good leaver will vest subject to an assessment of performance, with a pro-rata reduction to reflect the proportion of the vesting period served. Awards for a good leaver may then vest on the normal vesting date, unless the Remuneration Committee determines that they should vest early (for example, following the death of the participant). In determining whether an executive director should be treated as a good leaver and the extent to which their award may vest (up to the pro-rated amount), the Remuneration Committee will take into account the circumstances of an individual's departure.

Outplacement services and reimbursement of legal costs may be provided where appropriate. Any statutory entitlements or sums to settle or compromise claims in connection with a termination would be paid as necessary.

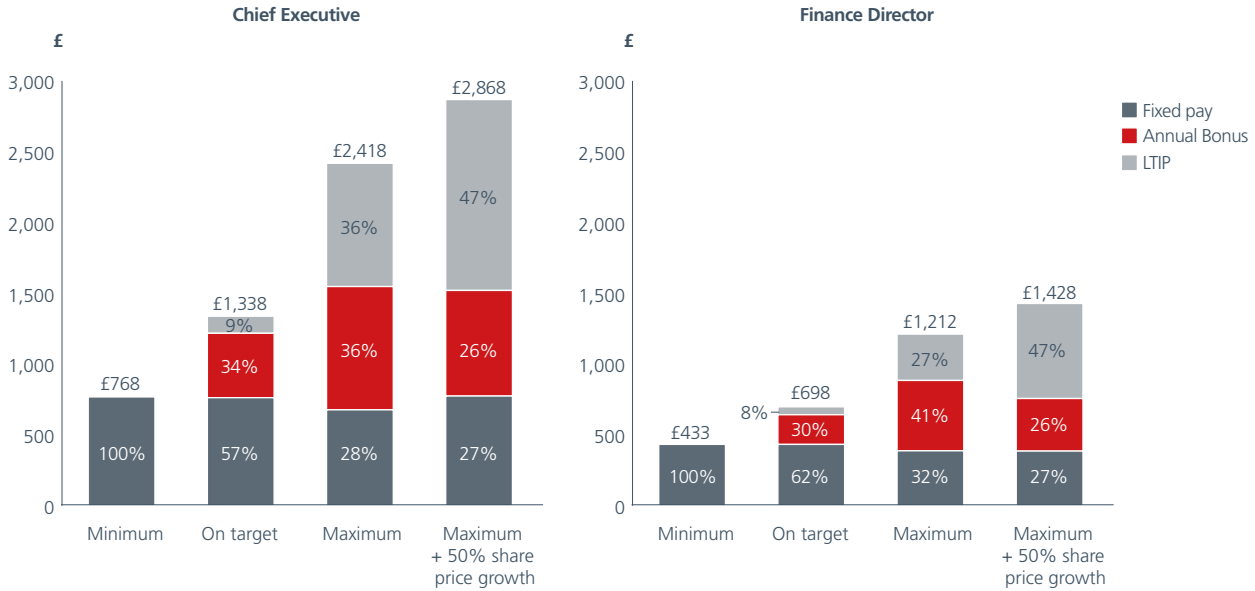
Any legacy benefits under the Company's defined benefit pension schemes will be allowed to be paid under the terms of those schemes and as set out in the Policy Report.

Outstanding share awards would ordinarily vest early on a change of control of the Company. In the case of unvested awards under the LTIP, performance would be measured to the date of control with a pro-rata reduction to reflect the proportion of the vesting period served.

The Chairman and non-executive directors do not have service contracts, they serve under letters of appointment and are subject to annual re-election by shareholders at the AGM. The term of appointment for non-executive directors and the Chairman is three years and their appointments are subject to termination on three months' notice (12 months for the Chairman). In the event of the termination of their position, they are entitled to reimbursement of any outstanding fees and expenses due.

Illustration of the application of the Policy Report

The charts below illustrate how the remuneration policy would function for minimum, on-target and maximum performance for 2019 for each executive director. In addition, the fourth bar illustrates the value of total remuneration should both the annual bonus and LTIP pay out in full, and if LTIP awards are subject to 50% share price appreciation over the relevant period.



Salary levels (and consequently the other elements of the remuneration package which are calculated as a percentage of salary) are based on those applying in 2019. Taxable benefits are shown as the cost to the Company of supplying those benefits for the year ending 31 December 2018. On-target performance, for illustrative purposes, assumes achievement of 60% of the maximum available bonus and threshold LTIP vesting (13.3% of the maximum). Maximum performance assumes achievement of the maximum bonus and full vesting of the LTIP shares. The LTIP grant level is 150% for Kevin Hostetler and 125% for Jonathan Davis. No share price growth has been assumed (other than for the fourth scenario, as described above), and for simplicity, the benefit derived from participating in the Company's SIP has been excluded.

DIRECTORS' REMUNERATION REPORT

CONTINUED

ANNUAL REPORT ON REMUNERATION

Single figure of remuneration (£000s) (audited)

Executive directors

Name	Salary		Benefits ⁽ⁱ⁾		Annual bonus ⁽ⁱⁱ⁾		LTIP ⁽ⁱⁱⁱ⁾		Pension and related benefits ^(iv)		Total remuneration	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Kevin Hostetler ^(v)	530	–	41	–	603	–	–	–	133	–	1,307	–
Jonathan Davis ^(vi)	346	335	15	18	313	240	500	–	69	83	1,243	676

(i) The benefit value consists of a car and fuel (or a car and fuel allowance), private medical insurance and the cash value on allocation of SIP and OPLSS share awards as appropriate. Kevin Hostetler also received reimbursement of certain costs relating to his relocation, to the value of £99,000.

(ii) Paid up to 60% of the maximum bonus opportunity in cash with the remainder deferred into shares for three years.

(iii) The 2018 figures relate to the vesting of the 2016 LTIP award based on performance to 31 December 2018. These awards are not eligible to vest until March 2019 and as such an indicative share price of 279p (being the average closing share price over the three-month period to 31 December 2018) has been used for the purpose of valuing these awards. This value will be restated in next year's report. Of the £500,000, 42% relates to an increase in the value of the underlying shares over the period.

(iv) See page 80 for further details.

(v) Kevin Hostetler was appointed to the Board on 12 February 2018 and became Chief Executive on 12 March 2018.

(vi) Jonathan Davis has agreed to invest a proportion of his salary (net of tax) in Rotork shares and to retain them for two years.

Other directors (£000s)

Name	Base fees		Additional fees/remuneration		Total remuneration	
	2018	2017	2018	2017	2018	2017
Lucinda Bell	47	47	10	8	57	55
Gary Bullard	47	47	10	8	57	55
Ann Christin Andersen ⁽ⁱ⁾	4	–	–	–	4	–
Tim Cobbold ⁽ⁱ⁾	4	–	–	–	4	–
Peter Dilnot	47	16	–	–	47	16
Sally James	47	47	14	18	61	65
Martin Lamb	224 ⁽ⁱⁱ⁾	180	129	282	353	462

(i) Joined the Board on 1 December 2018.

(ii) The base fee for Martin Lamb was increased to £234,000 with effect from 12 March 2018.

The additional remuneration for Martin Lamb relates to the remuneration received whilst fulfilling the role of Executive Chairman from 28 July 2017 to 12 March 2018. This comprised a fixed allowance only and he did not participate in any variable pay arrangements. Additional remuneration for Sally James includes an additional fee of £20,000 p.a. payable over the period from 28 July 2017 to 12 March 2018 for her increased responsibilities whilst Martin Lamb fulfilled the role of Executive Chairman. Both Martin Lamb and Sally James elected to invest the additional net fees in Rotork shares and to hold them for a minimum of two years.

Other additional fees are the supplementary fees paid to the Chairs of the Audit and Remuneration Committees and the normal supplementary fee paid to the Senior Independent Director. All directors have confirmed that, save as disclosed in the single figures of remuneration table above, they have not received any other items in the nature of remuneration.

Annual bonus for 2018

Bonuses in 2018 were based 60% on annual profit, 15% on cash generation, 5% on lost time incident rate and 20% on personal strategic objectives. Details of performance achieved and the targets set are shown below:

	Performance required to trigger bonus payment	Performance required at maximum	% payable* at maximum performance	Performance outcome	% bonus awarded*
Annual profit target	£117m	£151m	60%	£146m	52.4%
Cash generation	85%	100%	15%	110.7%	15%
Lost time incident rate	N/A	<0.34	5%	0.32	5%
Total			80%		72.4%

* % of maximum bonus.

Personal strategic objectives, which accounted for 20% of the bonus opportunity, were set at the start of the year (or on appointment in the case of Kevin Hostetler). The Committee set specific and measurable targets covering a range of the Company's strategic priorities and assigned each an individual weighting. Performance against each of the defined targets was assessed by the Committee with input from the Chairman and other non-executive directors. The objectives for both executive directors and performance against them are summarised in the table below:

Kevin Hostetler	% payable* at maximum	Performance summary	% bonus awarded*
Business simplification – drive product line rationalisation plan for 2018	2%	All objectives were met in relation to this measure, including the discontinuation of a number of product lines.	2%
Investor relations – maintain strong relations with existing shareholders and drive interest in the Company	2%	All objectives were met in relation to this measure.	2%
Growth Acceleration Programme: <ul style="list-style-type: none"> Talent management. Go-forward organisation design/structure. Innovation, R&D and sustaining engineering. Operational improvement plan. Route-to-market. 	16%	Strong performance was achieved in relation to this measure. Good progress has been made with the Growth Acceleration Programme and the Group is on track with initiatives and plans.	14.5%
Total	20%		18.5%

Jonathan Davis	% payable* at maximum	Performance summary	% bonus awarded*
Business simplification – define and roll out a revised budget process which is fit for Rotork's developing business model	4%	All objectives were met in relation to this measure, with a revised budget process rolled out across the Group.	4%
Development of GAP reporting structure and process	3%	Strong performance was achieved in relation to this measure, with a reporting structure defined. Some reporting processes are still being developed.	2%
Growth Acceleration Programme: <ul style="list-style-type: none"> Talent management. Supply chain. PMO office support. IT infrastructure and systems. 	13%	Strong performance was achieved in relation to this measure. Good progress has been made with the Growth Acceleration Programme and the Group is on track with initiatives and plans.	12%
Total	20%		18.0%

* % of maximum bonus.

Overall this resulted in a bonus award to Kevin Hostetler of £603,000 (113.6% of salary), after pro-rating for the portion of the year served, and to Jonathan Davis of £313,000 (90.4% salary). In accordance with the remuneration policy approved by shareholders in 2017, part of the bonus will be deferred in shares for three years. This deferred element equates to £205,000 for Kevin Hostetler and £105,000 for Jonathan Davis with the balance paid in cash.

Martin Lamb was not eligible for a bonus in relation to his service as Executive Chairman.

LTIP awards vesting based on performance to 31 December 2018 (audited)

The Company's LTIP rewards the creation of shareholder value which is a strategic priority. Performance is measured over a three-year period using a combination of EPS, TSR compared to a comparator group, and a capital return measure for the 2017 LTIP awards onwards. The LTIP awards granted on 6 March 2016 were based on performance to 31 December 2018 and were subject to the following performance targets:

Measure	Weighting	Performance period	Threshold target ¹	Stretch target ²	Performance outcome
Earnings per share	50%	01/01/2016 – 31/12/18	9% (15% vesting)	35% (100% vesting)	EPS performance of 22.3% was above the threshold target resulting in 58.4% vesting for this part of the award.
TSR relative to the constituents of the FTSE 250 Index ²	50%	01/01/2016 – 31/12/18	Median ranking	Upper quartile ranking or above	TSR growth of 85% was above the stretch target resulting in 100% vesting for this part of the award.

¹ For performance between threshold and stretch, awards vest on a pro-rata basis.

² Excluding all financial services companies, insurance companies and investment trusts.

As shown above, performance was above the minimum performance thresholds resulting in 79.2% of the total number of shares vesting. as follows:

	Grant date	Number of shares under award	Number of shares vesting	Number of shares lapsing	Vesting date
Jonathan Davis	6 March 2016	226,122	179,088	47,034	6 March 2019

DIRECTORS' REMUNERATION REPORT

CONTINUED

Share awards granted in 2018 (audited) LTIP awards (audited)

The following LTIP awards were made to the executive directors on 7 March 2018:

	Share awards made during 2018	Basis on which awards made	Face value of award (£) ⁽ⁱ⁾	Percentage vesting for minimum performance ⁽ⁱⁱ⁾	End of performance period	Vesting date
Kevin Hostetler	340,393	150% of salary	899,659	13.3%	31 December 2020	7 March 2021
Jonathan Davis	163,461	125% of salary	432,107	13.3%	31 December 2020	7 March 2021

- (i) The share price used to determine the number of shares under the award was £264.3p being the share price immediately prior to the date of the award.
- (ii) Vesting if the minimum performance EPS, TSR and capital return (economic profit) conditions are achieved. The three equally-weighted performance measures are:
- Earnings per share – EPS growth must be at least 9% for 15% vesting, increasing on a straight line basis to full vesting for EPS growth of 35% and above;
 - Total shareholder return – measured relative to the constituents of the FTSE 350 Industrial Goods and Services Sector, 25% vesting for median performance, increasing on a straight line basis to full vesting for upper quartile performance and above; and
 - Capital return (economic profit) – measures the extent to which a post-tax return in excess of the weighted average cost of capital (WACC) is created, rewarding management for increasing levels of economic profit, on a cumulative basis, over the three-year performance period. No payout will be received for a negative economic profit. The threshold target requires average economic profit over the three-year period to exceed that generated in 2017 and the maximum target has been set such that it will require double digit growth in post-tax profits alongside improved balance sheet efficiencies. Details of the exact targets are considered by the Remuneration Committee to be commercially sensitive. However, full details of the targets and how economic profit has been calculated will be disclosed on vesting.

Deferred Share Bonus Plan (DSBP) awards (audited)

Any bonus earned above a threshold of 60% of the maximum is deferred into share awards under the Deferred Share Bonus Plan, vesting on the third anniversary of grant. No further performance conditions apply; DSBP awards are subject to continued employment only and dividend equivalents may be paid on the deferred shares on vesting.

The following DSBP awards were made on 7 March 2018 (based on performance in relation to the 2017 financial year):

	Share awards granted	Basis on which awards made	Face value of awards (£) ⁽ⁱ⁾	Vesting date
Jonathan Davis	14,697	11.6% of salary	38,844	7 March 2021

- (i) The share price used to determine the number of shares under the award was £264.3p being the share price immediately prior to the date of the award.

Free SIP share awards (audited)

In common with all eligible employees, UK based executive directors receive an entitlement to ordinary shares under the SIP. Under the SIP, an aggregate total of up to 5% of profits are distributed to employees each year in the form of ordinary shares. The distribution is calculated by reference to years of service and basic salary. Details of free share awards under the SIP made to executive directors in 2018 are set out below.

	Date of grant	Free share awards made during the year	Basis on which award made	Face value of award
Kevin Hostetler	6 April 2018	–	Non-performance based	–
Jonathan Davis	6 April 2018	1,274	Non-performance based	3,600

The executive directors are also eligible to purchase monthly partnership shares under the SIP to a maximum of £150 per month.

Summary of outstanding share awards held by executive directors (audited)

	Awards held at 31 December 2017	Granted in the year	Lapsed in the year	Option awards exercised in the year	Awards held at 31 December 2018	Performance period	Exercise price	Date of grant	Vesting date/end of holding period
Kevin Hostetler									
LTIP	–	340,393	–	–	340,393	1 Jan 2018 – 31 Dec 2020 ⁽ⁱⁱⁱ⁾	–	7 March 2018	7 March 2021
Total	–	340,393	–	–	340,393				
Jonathan Davis									
LTIP	117,120	–	117,120	–	–	1 Jan 2015 – 31 Dec 2017 ⁽ⁱ⁾	–	6 March 2015	6 March 2018
LTIP	226,122	–	–	–	226,122	1 Jan 2016 – 31 Dec 2018 ⁽ⁱⁱ⁾	–	6 March 2016	6 March 2019
LTIP	175,135	–	–	–	175,135	1 Jan 2017 – 31 Dec 2019 ⁽ⁱⁱⁱ⁾	–	6 March 2017	6 March 2020
LTIP	–	163,461	–	–	163,461	1 Jan 2018 – 31 Dec 2020 ⁽ⁱⁱⁱ⁾	–	7 March 2018	7 March 2021
DSBP	–	14,697	–	–	14,697	N/A	–	7 March 2018	7 March 2021
Sharesave	12,162	–	–	12,162 ^(iv)	–	N/A	148p	13 October 2015	1 December 2018
SIP	1,420	–	–	1,420	–	N/A	–	8 April 2015	8 April 2018
SIP	2,014	–	–	–	2,014	N/A	–	6 April 2016	6 April 2019
SIP	1,440	–	–	–	1,440	N/A	–	6 April 2017	6 April 2020
SIP	–	1,274	–	–	1,274	N/A	–	6 April 2018	6 April 2021
Total	535,413	179,432	117,120	13,582	583,143				

(i) Subject equally to EPS performance (RPI + 10% to RPI + 25% growth) and TSR performance relative to the FTSE 250 (excluding financial services, insurance and investment trusts) (median to upper quartile) over the three-year performance period. As described in last year's report, these targets were not met and this award lapsed in full.

(ii) Subject equally to EPS performance (RPI + 9% to RPI + 35% growth) and TSR performance relative to the FTSE 250 (excluding financial services, insurance and investment trusts) (median to upper quartile) over the three-year performance period. As described above, the TSR target was achieved, while the EPS target was partially met. Accordingly, 179,088 shares will become eligible to vest in March 2019.

(iii) Subject equally to EPS performance (9% to 35% growth), TSR performance relative to the FTSE 350 Industrial Goods and Services Sector (median to upper quartile) and capital return (economic profit) performance over the three-year performance period. Any vesting awards will also be subject to a two-year post-vesting holding period during which time they may not be sold.

(iv) Sharesave options were exercised on 3 December 2018 on which date the closing market price was 263.8p.

DIRECTORS' REMUNERATION REPORT

CONTINUED

Statement of directors' shareholding and share interests (audited)

The table below shows total shareholdings of the current directors and former directors as at 31 December 2018.

	Interests in shares ⁽ⁱ⁾	Unvested LTIP awards	Unvested DSBP awards	Unvested options	SIP awards in holding period	% of salary shareholding achieved ⁽ⁱⁱ⁾
Executive directors						
Kevin Hostetler	161	340,393 ⁽ⁱⁱⁱ⁾	–	–	–	0%
Jonathan Davis	262,871	564,718 ^(iv)	14,697	–	4,728	202%
Non-executive directors						
Lucinda Bell	7,150	–	–	–	–	N/A
Gary Bullard	51,593	–	–	–	–	N/A
Ann Christin Andersen ^(v)	–	–	–	–	–	N/A
Tim Cobbold ^(v)	–	–	–	–	–	N/A
Peter Dilnot	–	–	–	–	–	N/A
Sally James	13,031	–	–	–	–	N/A
Martin Lamb	152,414	–	–	–	–	N/A

(i) Includes shares held by connected persons.

(ii) The share price used to determine the percentage of the shareholding of salary achieved is 247.6p, being the share price as at 31 December 2018. The guideline shareholding for the executive directors is 250% of salary.

(iii) An LTIP award over 340,393 shares was granted to Kevin Hostetler on 7 March 2018.

(iv) An LTIP award over 163,461 shares was granted to Jonathan Davis on 7 March 2018.

(v) Joined the Board on 1 December 2018.

There has been no change in the directors' interests in the ordinary share capital of the Company between 31 December 2018 and 4 March 2019, except in the case of Jonathan Davis's and Kevin Hostetler's monthly purchases of partnership shares under the SIP and, for Jonathan Davis, under the monthly rolling share purchase arrangement.

Total pension entitlements (audited)

Director	Normal retirement age	Total accrued pension in the defined benefit scheme as at 31 December 2018 (£ per annum)	Value of pension related benefits (£) during Company financial year to:						
			31 December 2017			31 December 2018			
			Defined benefit scheme	Cash in lieu of pension	Total	Defined benefit scheme	Cash in lieu of pension	Total	
Kevin Hostetler	65	–	–	–	–	–	–	132,500	132,500
Jonathan Davis	65	37,717	29,600	53,800	83,400	–	–	69,200	69,200

Notes:

- The amounts above have been calculated in accordance with Statutory Instrument 2013 No 1981 – The Large and Medium-sized Companies and Groups (Account and Reports) (Amendment) Regulations 2013.
- The total accrued pension in the defined benefit scheme as at 31 December 2018 is that which would be paid annually on retirement from normal pension age. Jonathan Davis opted out of the defined benefit scheme with effect from 30 April 2017, so the amount shown is his accrued pension at that date, less a 'scheme pays' deduction for an annual allowance tax charge and revalued up to 31 December 2018. This amount will revalue up to normal pension age in line with the scheme's rules.
- Jonathan Davis receives a cash allowance in lieu of pension contributions of 20% of base salary.
- Kevin Hostetler receives a cash allowance in lieu of pension contributions of 25% of base salary.

Payments to former directors and for loss of office

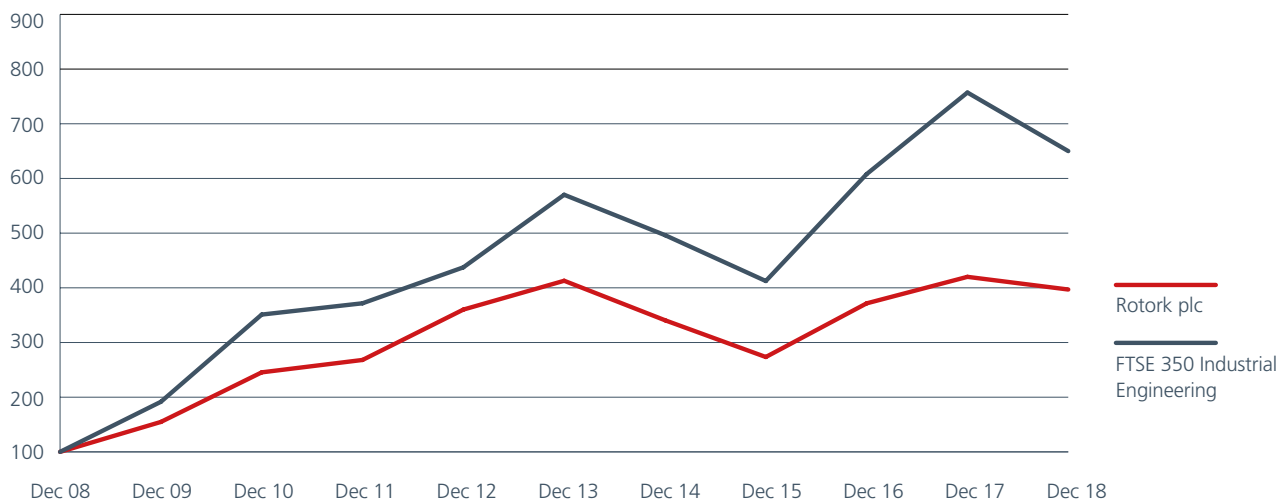
Peter France stood down from the Board and as Chief Executive on 27 July 2017. As described in last year's report, he was treated as a good leaver in relation to LTIP awards granted in 2015 and 2016. Performance conditions for the 2015 award were not met and this award lapsed in full in 2018. Performance conditions for the 2016 award were partially met, as described above, and accordingly 165,534 shares will vest in March 2019 (after pro-rating for time served).

Bob Arnold, who retired from the Company in August 2016, was treated as a good leaver under the terms of the LTIP and so retained a pro-rated number of share awards granted in 2016. As above, performance targets were partially met and accordingly 29,810 shares will vest in March 2019.

Save as previously disclosed, no further payments were made to former directors or for loss of office during the year.

TSR performance graph

This graph shows the value, by 31 December 2018, of £100 invested in Rotork plc on 31 December 2008, compared with the value of £100 invested in the FTSE 350 Industrial Engineering Sector on the same date. This index has been chosen as a comparator as it represents companies with similar business operations to the Company, and is an index of which Rotork is a constituent.



Historic Chief Executive remuneration table

Year	Chief Executive	Chief Executive single figure remuneration (£000s)	Annual cash bonus as a percentage of maximum opportunity	LTIP vesting rate as a percentage of maximum opportunity
2018	Kevin Hostetler ⁽ⁱ⁾	1,193	90.9%	N/A
2018	Martin Lamb ⁽ⁱⁱ⁾	353	N/A	N/A
2017	Martin Lamb ⁽ⁱⁱ⁾	282	N/A	N/A
2017	Peter France ⁽ⁱⁱⁱ⁾	681	72%	0%
2016	Peter France	835	45.5%	0%
2015	Peter France	696	23.4%	0%
2014	Peter France	1,092	66.0%	37.0%
2013	Peter France	1,452	94.4%	67.0%
2012	Peter France	1,539	91.3%	75.5%
2011	Peter France	1,182	88.9%	30.0%
2010	Peter France	1,288	91.9%	94.4%
2009	Peter France	1,062	99.5%	100.0%

(i) Kevin Hostetler was appointed to the role of Chief Executive on 12 March 2018.

(ii) Martin Lamb held the role of Executive Chairman from 28 July 2017 to 12 March 2018 and received an additional fixed remuneration of £55,000 per month on top of his annual Chairman's fee during this period.

(iii) Peter France resigned as Chief Executive and stood down from the Board on 27 July 2017.

Percentage change in remuneration of director undertaking the role of Chief Executive

The table below shows the percentage change in remuneration (based on salary, benefits and bonus) between 2017 and 2018.

	Chief Executive 2018 % Change from 2017	Average per UK employee 2018 % Change from 2017
Base salary	N/A	3.0%
Benefits	N/A	2.9%
Bonus	N/A	-1.9%

Peter France stepped down from the Board on 27 July 2017 and Martin Lamb assumed the role of Executive Chairman until Kevin Hostetler was appointed as Chief Executive from 12 March 2018. Consequently, full-year comparable data is not available.

DIRECTORS' REMUNERATION REPORT

CONTINUED

Relative importance of spend on pay

The following table shows actual expenditure of the Company and change in spend between current and prior financial periods on remuneration paid to all employees against distributions to shareholders.

	2018	2017	Percentage change
Employee remuneration (£000s)	159,914	147,637	8.3%
Dividends (£000s) ⁽ⁱ⁾	48,288	45,218	6.8%

(i) Dividends paid were the only distributions to shareholders during the year.

CEO pay ratio disclosure

Although it is not compulsory to include a CEO pay ratio in the annual report on directors' remuneration, now that the statutory calculation method has been set out in legislation, we include this below.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2018	Option B	49:1	45:1	33:1

Option B has been used for the calculation of the pay ratio. Under this method, the latest gender pay gap data has been used to identify on an indicative basis three UK employees at 25th, median and 75th percentile. This methodology has been chosen as the data is readily available and avoids the challenge in collecting and verifying accurately the variable pay elements for all UK employees across many subsidiaries in the short period of time available.

To provide further context, the table below shows the CEO and the employee percentile pay used to determine the 2018 pay ratios.

Year	CEO £000	25th percentile £000	Median £000	75th percentile £000
Total salary ¹	600	24	27	37
Total remuneration (single figure) ¹	1,473	30	32	45

¹ Full time equivalent

Statement of implementation of the Policy Report in 2019

Salary

No changes have been made to the executive directors' salaries at the current time and they remain:

- Kevin Hostetler – £600,000
- Jonathan Davis – £346,000. Jonathan Davis continues to invest a proportion of his monthly salary in Rotork shares.

The average budgeted increase for the UK workforce in 2019 is 1.4%. Should the executive directors subsequently receive an increase in 2019, any such increase will be capped at this amount.

Benefits

No change from 2018 – benefits will comprise car and fuel (or car and fuel allowance), personal accident and private medical insurance and life assurance. In addition, Kevin Hostetler remains entitled to the reimbursement of certain outstanding relocation expenses incurred in connection with his appointment and move to Bath (including tax).

Pension

Cash allowance in lieu of pension set at 25% of salary for Kevin Hostetler and 20% of salary for Jonathan Davis.

LTIP

The LTIP award levels for 2019 will be 150% of salary for Kevin Hostetler and 125% of salary for Jonathan Davis. The awards will be subject to the following performance conditions:

- 33% will be based on relative TSR performance with 25% vesting at median increasing to full vesting for upper quartile performance or above.
- 33% will be based on EPS. EPS growth must be at least 9% for 15% vesting, increasing on a straight line basis to full vesting for EPS growth of 35% and above. The targets will be based on adjusted/underlying EPS (i.e. excluding the impact of any material restructuring costs). However, the Remuneration Committee will use its discretion to increase the targets as appropriate, to take into account the Board's expected return on any restructuring investment during the period.
- 33% will be based on a capital return measure (economic profit). No payout will be received for a negative economic profit. The threshold target will require the average economic profit over the three-year period to exceed that generated in 2018 and the maximum target has been set such that it will require double digit growth in post-tax profits alongside improved balance sheet efficiencies. Similar to EPS targets, these targets may be adjusted upwards to take into account the Board's expected return on any restructuring investment during the period. Details of the exact targets are considered by the Committee to be commercially sensitive at the current time. However, full details of the targets and how economic profit has been calculated will be disclosed on vesting.

The executive directors will be required to retain any shares vesting under the awards (net of tax) until the fifth anniversary of grant.

Annual bonus	<p>Maximum award levels of 125% of salary for Kevin Hostetler and 100% of salary for Jonathan Davis, any bonus above target performance (60% of maximum) will be deferred in shares for three years.</p> <p>Bonuses will be based on annual profit (60%), cash generation (15%), lost time incident rate (5%) and personal strategic objectives (20%). The specific targets relating to the bonus have not been disclosed as they are considered by the Remuneration Committee to be commercially sensitive but full details will be given on a retrospective basis in next year's report.</p>
Shareholding guidelines	The executive directors will be required to build and maintain a shareholding equivalent to 250% of salary.
Non-executive director fees	<p>As described in the Chair's statement, an increase to the Chairman's and base Board fee levels has been approved as follows:</p> <ul style="list-style-type: none"> Chairman: £234,000, effective 12 March 2018; Base Board fee: £56,000, effective 1 January 2019. <p>Supplementary fees are also payable to those directors with additional responsibilities:</p> <ul style="list-style-type: none"> Additional fee for chairing the Audit Committee £10,000; Additional fee for chairing the Remuneration Committee £10,000; and Additional fee for the role of Senior Independent Director £10,000. <p>It is currently intended that any future increases will be made in line with any increases offered to the wider workforce.</p>

Consideration by the directors of matters relating to directors' remuneration

The members of the Remuneration Committee as at 31 December 2018 were Gary Bullard (Chair), Lucinda Bell, Ann Christin Andersen, Tim Cobbold, Sally James and Peter Dilnot. The Remuneration Committee invites the Group HR Director to inform the Remuneration Committee of pay awards throughout the Group when setting executive director remuneration. The Chairman, Chief Executive and Finance Director are also invited to attend meetings except when their own remuneration is considered. The Company Secretary acts as secretary to the Remuneration Committee.

The Executive Compensation practice of Aon plc acts as advisor to the Remuneration Committee having been appointed by the Committee in September 2013 following a competitive tender process. Aon is a member of the Remuneration Consultants' Group and a signatory to its Code of Conduct. A subsidiary of Aon plc is also the scheme actuary for the Group's USA pension plan. The Remuneration Committee is satisfied that Aon is sufficiently independent to act as remuneration advisor to the Remuneration Committee.

In 2018, the Company paid £91,540 (2017: £59,000) to Aon for services to the Remuneration Committee. Figures exclude VAT and disbursements.

Statement of voting at general meeting

The percentages of votes cast 'for', 'against' and 'withheld' in respect of the Remuneration Policy and last Annual Report on Remuneration are as follows:

Resolution (AGM date)	Votes cast 'for'	Votes cast 'against'	Votes 'withheld'
To approve the Remuneration Policy (April 2017)	99.1%	0.9%	0%
To approve the Annual Report on Remuneration (April 2018)	71.7%	28.3%	0%

The Annual Report on Remuneration received a sizeable against vote at our 2018 AGM, similar to the voting result received in 2017, primarily in relation to the new CEO's remuneration arrangements. As described in more detail in the Chair's letter earlier in this report, the Committee has consulted with the Company's major shareholders and investor bodies on multiple occasions during the year and remains confident that our remuneration policy and its implementation remain appropriate and fit-for-purpose.

REPORT OF THE DIRECTORS

Report of the Directors

The directors submit their report which incorporates the management report required under the Disclosure Guidance and Transparency Rules for listed companies and the audited accounts for the year ended 31 December 2018 as set out on pages 92 to 135. In compiling this report, the directors have consulted with the management of the Group.

Directors

The directors in office at the date of this report (all of who served during the year) and their biographies and other details, are set out on pages 52 to 53.

Directors' indemnification and insurance

The Company's articles of association provide for the directors and officers of the Company to be appropriately indemnified, subject to the provisions of the Companies Act 2006. The Company purchases and maintains insurance for the directors and officers of the Company in performing their duties, as permitted by section 233 Companies Act 2006.

Powers of the directors

As set out in the Company's articles of association, the business of the Company is managed by the Board who may exercise all the powers of the Company.

Appointment and removal of directors

The Board may appoint a director, either to fill a vacancy or as an additional director. Any director appointed by the Board must retire at the next AGM of the Company and put themselves forward for re-appointment by the shareholders. In accordance with the recommendations of the Code, each member of the Board submits themselves for re-election on an annual basis.

In addition to any power of removal conferred by the Companies Act 2006, the Company may by ordinary resolution remove any director before the expiration of their period of office and may, subject to the articles of association, by ordinary resolution appoint another person who is willing to act as a director in their place.

Political donations

No political donations were made during the year. The Group has a policy of not making political donations in any part of the world.

Dividend

The directors recommend a final dividend of 3.70p per ordinary share (2017: 3.35p) for the year, payable on 22 May 2019 to shareholders on the register on 12 April 2019. An interim dividend for 2018 of 2.20p per ordinary share (2017: 2.05p) was paid on 21 September 2018.

Information required in the Report of the Directors set out in the Strategic Report

Information relating to the likely future developments of the Company and its subsidiaries, and information relating to the research and development activities of the Company and its subsidiaries, is set out in the Strategic Report on pages 2 to 51.

Use of financial instruments

An explanation of the Group policies on the use of financial instruments and financial risk management objectives are contained in note 26 to the accounts.

Post-balance sheet events

There have been no important post-balance sheet events.

Existence of branches outside the UK

The Company has no branches outside of the UK.

Share capital

Details of the Company's share capital including the rights and obligations attached to each class of shares and the ordinary shares issued during 2018 are summarised in note 17 of the financial statements. 0.5p ordinary shares represent over 99.9% of the Company's total share capital and £1 9.5% cumulative preference shares represent less than 0.1% of the Company's total share capital.

There are no securities of the Company carrying special rights with regard to the control of the Company.

At the Company's last AGM held on 27 April 2018, the shareholders authorised the Company to make market purchases of ordinary shares limited to just under approximately 10% of its issued ordinary share capital at that time and of certain issued preference shares, and to allot shares within certain limits approved by shareholders. These authorities expire at the 2019 AGM and appropriate renewals will be sought.

The Company did not acquire any of its own shares in 2018.

The Company's articles of association contain customary restrictions on the transfer of shares as applicable only in certain limited circumstances (e.g. in relation to transfers to a minor). Save for those provisions, there are no restrictions on the transfer of ordinary shares in the capital of the Company other than certain restrictions which may be required from time to time by law, for example, insider trading law. In accordance with the Company's share dealing code, directors and certain employees are required to seek the prior approval of the Company to deal in its shares.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights. The Company's articles of association contain limited restrictions on the exercise of voting rights (e.g. in relation to disenfranchised shares following the issue of a notice to shareholders under section 793 Companies Act 2006).

The Company's share schemes each contain provisions providing voting rights to the scheme trustee.

Amendments to the Company's articles of association

The Company's articles of association may only be amended by special resolution at a general meeting of the shareholders.

Significant agreements – change of control

The Company is not aware of any significant agreements to which it is party that take effect, alter or terminate upon a change of control of the Company following a takeover. There are no agreements between the Company and its directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

Greenhouse gas emissions

The disclosures concerning greenhouse gas emissions required by law are set out in the Corporate Social Responsibility report on page 51.

Disabled persons and employee involvement

The disclosures concerning the Group's policies on the employment of disabled persons and employee involvement are set out on page 41.

Substantial shareholders

As at 31 December 2018, the following notifiable interests in issued share capital had been received by the Company under the Disclosure Guidance and Transparency Rules (DTR 5) of the UK Listing Authority. It should be noted that these holdings are likely to have changed since notified to the Company. However, notification of any change is not required until an applicable threshold is crossed.

Identity	Number of voting rights (direct and indirect)	% of voting rights
Liontrust Investment Partners LLP	870,576,249	5.02
Standard Life Aberdeen plc	870,535,628	4.93
Blackrock Inc	870,471,954	6.30
Fiera Capital Corporation	34,102,377	3.92
T. Rowe Price Associates, Inc	43,259,363	4.97
Aberdeen Asset Managers Limited	43,432,258	4.99
AXA Investment Managers	43,395,000	4.99
Mondrian Investment Partners Ltd	42,677,169	4.91
APG Asset Management N.V.	4,350,000	5.01

Corporate governance

The Company's Corporate Governance Report can be found on pages 54 to 59.

Disclosure of information to auditors

The directors who held office at the date of approval of this Report of the Directors confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

'Going concern' basis of preparation

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.

Statement of directors' responsibility for preparing the Annual Report and financial statements

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare such financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the European Union. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

We confirm that to the best of our knowledge:

1. The financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
2. The Strategic Report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
3. The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Directors' statement pursuant to the Disclosure Guidance and Transparency Rules

Each of the directors, whose names and functions are listed on pages 52 to 53 confirm that, to the best of each person's knowledge and belief:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company;
- The Report of the Directors includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face; and
- Having taken advice from the Audit Committee, the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategies.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

External auditor

Upon the recommendation of the Audit Committee and approval of the Board, a resolution to appoint Deloitte LLP as auditor, and to authorise the directors to determine their remuneration, are to be proposed at the forthcoming AGM.

On behalf of the Board

Helen Barrett-Hague

Group General Counsel and Company Secretary
4 March 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROTORK PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Rotork plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flows;
- the related notes 1 to 30 to the group financial statements; and
- the related notes a) to i) to the company financial statements.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

- inflation and discount rate assumptions used in the UK defined benefit pension scheme valuation; and
- revenue recognition in respect of significant new contracts or orders with non-standard or unusual terms.

Within this report, any new key audit matters are identified with  and any key audit matters which are the same as the prior year identified with .

Materiality

The materiality that we used for the group financial statements was £6.0 million which was determined on the basis of a percentage of profit before tax after certain adjusted items. The percentage based on final reported results was 4.9% of the base profit number.

Scoping

Based on our assessment we identified 16 components which, in our view, required a full scope audit of their financial information in order to ensure that sufficient appropriate audit evidence was obtained. We identified a further two components on which we perform specified audit procedures. Based on the work performed at these 18 components, our scope covered 73% of group revenue and 85% of group profit before tax.

Significant changes in our approach

Our approach to materiality and scoping is consistent with last year.

We have included a key audit matter in the year in respect of revenue recognition on significant new contracts with non-standard or unusual terms reflecting the additional focus on this risk area of the first time application of IFRS 15 Revenue from Contracts with Customers.

Last year our report included a key audit matter in respect of the impairment of goodwill and intangibles in the Bifold cash generating unit ('CGU'), which is not included in our report this year. We concluded that this area did not represent a key audit matter in the current year following the impairment recognised in the prior year, the consistent approach to assessing goodwill for impairment, and the financial performance of the Bifold CGU in the current year.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 26-29 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 29 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 29 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Inflation and discount rate assumptions used in defined benefit pension liability valuation

Key audit matter description



The Group had a net defined benefit pension liability of £27.3m and gross defined benefit pension liabilities of £207.0m at 31 December 2018 (2017: £48.2m net; £237.1m gross). The UK defined benefit scheme accounts for a significant majority of these balances and so this scheme is the focus of our key audit matter.

There is a risk of material misstatement relating to judgements made by management and their actuaries in valuing the defined benefit pension scheme liabilities. Small changes in the key input assumptions can have a significant impact on the valuation of the liability and resultant gains or losses recognised in the year.

Sensitivities to key inputs are explained by management in note 24 Pension Schemes. Given these sensitivities we consider the key audit matter to be focused on the discount and inflation rate assumptions.

Refer to further detail provided in the Audit Committee report on page 62 and the disclosures regarding key sources of estimation uncertainty in note 1 to the financial statements.

How the scope of our audit responded to the key audit matter



In order to address this risk we have performed the following procedures:

- assessed the design and implementation of key controls performed by management in considering the key inputs to the pension liability valuation model;
- utilised our benchmarking tools with the support of our internal specialists to establish a reasonable range for the key assumptions in order to challenge the appropriateness of the inflation and discount rate assumptions used in respect of the UK scheme;
- assessed the work of management's experts by considering their scope of work, objectivity, and capability as well as assessing the output of their work;
- considered the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to changes in these key assumptions.

We have engaged internal actuarial specialists to assist in evaluating the key assumptions used in the valuation of liabilities. Our audit response to this key audit matter does not rely on controls and therefore we have not tested the operating effectiveness of relevant controls.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROTORK PLC

CONTINUED

Inflation and discount rate assumptions used in defined benefit pension liability valuation continued

Key observations We are satisfied that the inflation and discount rate assumptions applied in respect of the valuation of the defined benefit pension scheme liability are within a reasonable range.



Revenue recognition in respect of significant new contracts or orders with non-standard or unusual terms

Key audit matter description Revenue is a key metric for the group and there can be judgement in the determination of how to apply accounting policies in respect of contracts or orders with non-standard or unusual terms. The group has applied IFRS 15 Revenue from Contracts with Customers for the first time in the year having initially concluded in 2017 that it would not have a material impact. Refer to note 1 to the financial statements for an explanation of the transition exercise as well as the revised revenue accounting policy.



Our key audit matter focuses on the risk that incorrect judgements, arising through fraud or error, are made in applying IFRS 15 to significant contracts or orders with non-standard or unusual terms such as non-standard warranties or multiple and varied performance obligations.

How the scope of our audit responded to the key audit matter



In order to address this risk we have performed the following procedures:

- assessed the design and implementation of key group-wide controls in place to address the judgements made in applying the group's revenue recognition policy to significant new contracts;
- reviewed the amendments to the revenue recognition policy of the group resulting from the transition to IFRS 15;
- on a sample basis inspected the underlying contracts or orders and other source documentation for new significant arrangements entered into in the year; and
- where multiple performance obligations are identified within a contract we recalculated a reasonable allocation of the total transaction price in order to assess whether revenue has been recognised accurately in the year.

Our audit response to this key audit matter does not rely on controls and therefore we have not tested the operating effectiveness of relevant controls.

Key observations We are satisfied that the revenue is accurately recorded on the significant contracts of the group, in line with IFRS 15.



Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£6.0m (2017: £5.0m)	£3.6m (2017: £2.8m)
Basis for determining materiality	Materiality was determined as 4.9% of profit before tax excluding the impact of certain adjusting items (2017: 5.3% profit before tax excluding certain adjusting items). These items are disclosed as adjusting in note 4 to the financial statements but we don't adjust for the items that occur every year (being amortisation of acquired intangible assets). In the year ended 31 December 2018 the adjustments we make to profit before tax represent a charge of £2.8m (2017: charge of £17.0m).	Parent company materiality equates to 1.5% of net assets (2017: 2.0% of net assets), which is capped at 60% of group materiality.
Rationale for the benchmark applied	Adjusted profit before tax reflects the manner in which business performance is reported and assessed by external users of the financial statements. Consistent with last year we have adopted this measure, as defined above, as it provides a consistent year on year basis for determining materiality.	Net assets are considered to be an appropriate benchmark for the parent company given that it is mainly a holding company. A set percentage of Group materiality was applied to the Company based upon the scoping of components, assessing the risk within the company compared to others within the Group.

PBT adjusted for certain items **£123.6m**

■ PBT adjusted for certain items
■ Group materiality



Group materiality **£6.0m**

Component materiality range **£2.4m to £3.6m**

Audit committee reporting threshold **£0.3m**

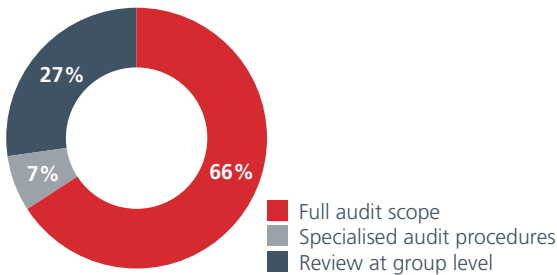
We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £300,000 (2017: £250,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

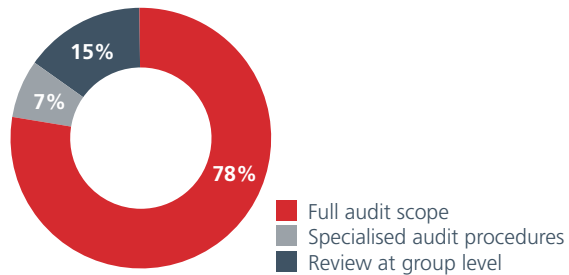
Our group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at a group level. Our approach was consistent with that adopted in the prior year. Based on that assessment, we focused our group audit scope primarily on the audit work at 16 components which were subject to a full scope audit and on a further two components which were subject to specified audit procedures.

The 18 locations (2017: 19 locations) represent the principal business units within the Group’s four reportable segments across 11 countries and account for 73% of the Group’s revenues (2017: 72%) and 85% of profit before tax (2017: 86%). They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at these locations was executed at levels of materiality applicable to each individual entity which were lower than Group materiality ranging from £2.4m to £3.6m (2017: £2.0m to £2.8m).

Revenue



Profit before tax



Due to the significance to the group audit of the 16 components’ operations subject to full scope audits, a programme has been designed and implemented for senior members of the group audit team to periodically visit the most significant components. As part of the 2018 audit, senior members of the group audit team visited key components in the United Kingdom, United States of America and Italy.

For each of the businesses included within the programme of planned visits, the group audit team also discusses audit findings with the relevant component audit team throughout the audit engagement and reviews relevant audit working papers. For the remaining locations where full scope audits were completed, we discuss audit findings with the relevant component audit team, review certain audit working papers in relation to key issues and discuss key matters with component management where considered necessary in forming our group audit opinion.

At the parent entity level, we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to full scope audit. None of these components represented more than 3% of revenue or profit before taxation individually.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROTORK PLC

CONTINUED

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit, in-house legal counsel and the audit committee, including obtaining and reviewing supporting documentation, concerning the group's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team including significant component audit teams and involving relevant internal specialists, including tax, valuations, pensions and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in revenue recognition on non-standard contracts as a result of the potential for significant judgements to be made in the determination of revenue; and
- obtaining an understanding of the legal and regulatory framework that the group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions and tax legislation.

Audit response to risks identified

As a result of performing the above, we identified revenue recognition in respect of significant new contracts or orders with non-standard or unusual terms as a fraud risk and a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing internal audit reports; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Audit Committee on 2 June 2014 to audit the financial statements for the year ending 31 December 2014 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is five years, covering the years ending 31 December 2014 to 31 December 2018.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Nigel Thomas (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London
4 March 2019

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Revenue	3	695,713	642,229
Cost of sales		(384,253)	(358,090)
Gross profit		311,460	284,139
Other income	5	8,990	10,651
Distribution costs		(7,260)	(6,271)
Administrative expenses		(189,474)	(202,233)
Other expenses	5	(798)	(314)
Adjusted operating profit	2,3	146,015	130,162
Adjustments			
– Amortisation of acquired intangible assets	3	(20,284)	(27,183)
– Other adjustments	4	(2,813)	(17,007)
Operating profit	2,3	122,918	85,972
Finance income	7	2,278	1,381
Finance expense	7	(4,448)	(6,767)
Profit before tax	8	120,748	80,586
Income tax expense	9	(29,004)	(24,973)
Profit for the year		91,744	55,613
Basic earnings per share	18	10.5p	6.4p
Adjusted basic earnings per share	18	12.6p	10.6p
Diluted earnings per share	18	10.5p	6.4p
Adjusted diluted earnings per share	18	12.6p	10.5p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018 £000	2017 £000
Profit for the year	91,744	55,613
Other comprehensive income		
<i>Items that may be subsequently reclassified to the income statement:</i>		
Foreign exchange translation differences	3,164	(376)
Effective portion of changes in fair value of cash flow hedges net of tax	(6)	6,188
	3,158	5,812
<i>Items that are not subsequently reclassified to the income statement:</i>		
Actuarial gain in pension scheme net of tax	8,055	3,709
Income and expenses recognised directly in equity	11,213	9,521
Total comprehensive income for the year	102,957	65,134

CONSOLIDATED BALANCE SHEET

At 31 December 2018

	Notes	2018 £000	2017 £000
Non-current assets			
Goodwill	10	230,157	228,028
Intangible assets	11	61,517	81,456
Property, plant and equipment	12	79,338	81,725
Deferred tax assets	13	17,337	21,218
Other receivables	15	352	142
Total non-current assets		388,701	412,569
Current assets			
Inventories	14	94,739	91,908
Trade receivables	15	145,509	145,529
Current tax	15	1,429	2,726
Derivative financial instruments	23	308	3,468
Other receivables	15	23,161	19,202
Cash and cash equivalents	16	104,489	63,192
Total current assets		369,635	326,025
Total assets		758,336	738,594
Equity			
Issued equity capital	17	4,358	4,352
Share premium		13,024	11,193
Reserves		35,421	32,263
Retained earnings		460,825	409,392
Total equity		513,628	457,200
Non-current liabilities			
Interest bearing loans and borrowings	19	30,871	45,879
Employee benefits	20	31,274	52,293
Deferred tax liabilities	13	15,722	19,379
Derivative financial instruments	23	–	245
Provisions	21	2,149	1,929
Total non-current liabilities		80,016	119,725
Current liabilities			
Interest bearing loans and borrowings	19	30,010	29,928
Trade payables	22	47,332	49,183
Employee benefits	20	26,489	21,464
Current tax	22	11,792	13,093
Derivative financial instruments	23	2,682	1,521
Other payables	22	40,150	42,165
Provisions	21	6,237	4,315
Total current liabilities		164,692	161,669
Total liabilities		244,708	281,394
Total equity and liabilities		758,336	738,594

These financial statements were approved by the Board of Directors on 4 March 2019 and were signed on its behalf by:

KG Hostetler and **JM Davis**, Directors.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued equity capital £000	Share premium £000	Translation reserve £000	Capital redemption reserve £000	Hedging reserve £000	Retained earnings £000	Total £000
Balance at 31 December 2016	4,350	10,482	32,142	1,644	(7,335)	392,803	434,086
Profit for the year	–	–	–	–	–	55,613	55,613
Other comprehensive income							
Foreign exchange translation differences	–	–	(376)	–	–	–	(376)
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	7,546	–	7,546
Actuarial gain on defined benefit pension plans	–	–	–	–	–	5,849	5,849
Tax on other comprehensive income	–	–	–	–	(1,358)	(2,140)	(3,498)
Total other comprehensive income	–	–	(376)	–	6,188	3,709	9,521
Total comprehensive income	–	–	(376)	–	6,188	59,322	65,134
Transactions with owners, recorded directly in equity							
Equity settled share-based payment transactions	–	–	–	–	–	1,089	1,089
Tax on equity settled share-based payment transactions	–	–	–	–	–	252	252
Share options exercised by employees	2	711	–	–	–	–	713
Own ordinary shares acquired	–	–	–	–	–	(1,157)	(1,157)
Own ordinary shares awarded under share schemes	–	–	–	–	–	2,301	2,301
Dividends	–	–	–	–	–	(45,218)	(45,218)
Balance at 31 December 2017	4,352	11,193	31,766	1,644	(1,147)	409,392	457,200
Profit for the year	–	–	–	–	–	91,744	91,744
Other comprehensive income							
Foreign exchange translation differences	–	–	3,164	–	–	–	3,164
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	(24)	–	(24)
Actuarial gain on defined benefit pension plans	–	–	–	–	–	9,501	9,501
Tax on other comprehensive income	–	–	–	–	18	(1,446)	(1,428)
Total other comprehensive income	–	–	3,164	–	(6)	8,055	11,213
Total comprehensive income	–	–	3,164	–	(6)	99,799	102,957
Transactions with owners, recorded directly in equity							
Equity settled share-based payment transactions	–	–	–	–	–	2,457	2,457
Tax on equity settled share-based payment transactions	–	–	–	–	–	98	98
Share options exercised by employees	6	1,831	–	–	–	–	1,837
Own ordinary shares acquired	–	–	–	–	–	(4,850)	(4,850)
Own ordinary shares awarded under share schemes	–	–	–	–	–	2,217	2,217
Dividends	–	–	–	–	–	(48,288)	(48,288)
Balance at 31 December 2018	4,358	13,024	34,930	1,644	(1,153)	460,825	513,628

Detailed explanations for equity capital, the translation reserve, capital redemption reserve and hedging reserve can be seen in note 17.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 £000	2018 £000	2017 £000	2017 £000
Cash flows from operating activities					
Profit for the year		91,744		55,613	
<i>Adjustments for:</i>					
Amortisation of intangibles		20,284		27,183	
Other adjustments	4	2,813		17,007	
Amortisation of development costs		2,575		2,699	
Depreciation		11,642		12,232	
Equity settled share-based payment expense		4,674		3,390	
Profit on sale of property, plant and equipment		(134)		(147)	
Finance income		(2,278)		(1,381)	
Finance expense		4,448		6,767	
Income tax expense		29,004		24,973	
		164,772		148,336	
Increase in inventories		(2,140)		(7,390)	
Increase in trade and other receivables		(2,322)		(13,172)	
(Decrease)/increase in trade and other payables		(5,761)		6,926	
Restructuring costs paid		(7,795)		(2,775)	
Difference between pension charge and cash contribution		(5,809)		(4,782)	
Increase in provisions		2,333		147	
Increase in employee benefits		4,690		7,158	
		147,968		134,448	
Income taxes paid		(30,084)		(28,243)	
Cash flows from operating activities			117,884		106,205
Investing activities					
Purchase of property, plant and equipment		(10,430)		(12,457)	
Development costs capitalised		(3,831)		(3,356)	
Sale of property, plant and equipment		201		2,450	
Disposal of businesses		4,340		–	
Contingent consideration paid		(10)		(1,347)	
Settlement of hedging derivatives		(815)		662	
Interest received		1,309		1,191	
Cash flows from investing activities			(9,236)		(12,857)
Financing activities					
Issue of ordinary share capital		1,837		713	
Own ordinary shares acquired		(4,850)		(1,157)	
Interest paid		(2,837)		(2,975)	
Decrease in bank loans		(14,934)		(40,579)	
Repayment of finance lease liabilities		(3)		(68)	
Dividends paid on ordinary shares		(48,288)		(45,218)	
Cash flows from financing activities			(69,075)		(89,284)
Increase in cash and cash equivalents			39,573		4,064
Cash and cash equivalents at 1 January			63,192		61,423
Effect of exchange rate fluctuations on cash held			1,724		(2,295)
Cash and cash equivalents at 31 December	16		104,489		63,192

NOTES TO THE GROUP FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 2018 comprise the Company and its subsidiaries (together referred to as the Group). The accounting policies contained below in note 1 and the disclosures in notes 2 to 30 all relate to the Group financial statements. The Company balance sheet, accounting policies and applicable notes can be found following note 30.

1. Accounting policies

The accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

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

i. IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Group has adopted IFRS 15 from 1 January 2018, using the modified retrospective method (retrospectively with the cumulative effect at the date of initial application).

During 2017, the Group performed a detailed analysis of significant revenue streams, communicated to key stakeholders within the business the key aspects of the accounting change and had specific targeted training for key finance employees. In early 2018, further work targeted service revenue to assess the impact of the change over the transition date. The adoption of IFRS 15 had no material impact on the recognition and measurement of the Group's revenue and no adjustments to equity have been made.

ii. IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 introduced a new model for classification and measurement of financial assets and financial liabilities, a single, forward-looking 'expected loss' model for measuring impairment of financial assets (including trade receivables) and a new approach to hedge accounting that is more closely aligned with an entity's risk management activities.

The Group has adopted IFRS 9 from 1 January 2018 and there has been no material impact on the Group's results or financial position.

iii. Other amendments

A number of amended standards became applicable for the current reporting period. The application of these amendments has not had any material impact on the disclosures, net assets or results of the Group.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. An assessment of the impact of these new standards and interpretations is set out below.

i. IFRS 16 Leases

IFRS 16 was issued in January 2016 and introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective for annual periods beginning on or after 1 January 2019.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and are replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively. Extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group had non-cancellable operating lease commitments of £17,789,000. Of these commitments, approximately £4,800,000 relate to short-term leases and low value leases which will both be recognised on a straight-line basis as an expense in the income statement, consistent with current accounting. For the remaining lease commitments the Group expects to recognise right-of-use assets of approximately £12,000,000 and lease liabilities of approximately £12,100,000 on 1 January 2019.

The Group expects that the impact on profit after tax will not be material as a result of adopting the new rules.

Operating cash flows will increase and financing cash flows decrease by approximately £4,000,000 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Board has decided to apply the modified retrospective method when the standard is first adopted in its financial statements for the year ended 31 December 2019. Therefore, there will be no impact on any comparative accounting period, with any leases recognised on balance sheet on the adoption date of 1 January 2019.

ii. Other

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Adjustments to profit

Adjustments to profit are items of income and expense which, because of the nature, size and/or infrequency of the events giving rise to them, merit separate presentation. These specific items are presented on the face of the income statement to provide greater clarity and a better understanding of the impact of these items on the Group's financial performance. In doing so, it also facilitates greater comparison of the Group's underlying results with prior periods and assessment of trends in financial performance. This split is consistent with how underlying business performance is measured internally.

Adjustments to profit items may include but are not restricted to: costs of significant business restructuring, significant impairments of intangible or tangible assets, adjustments to the fair value of acquisition related items such as contingent consideration, acquired intangible asset amortisation and other items due to their significance, size or nature, and the related taxation.

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 2018. 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.

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purposes of the consolidated financial statements, the results and financial position of each Group company is expressed in sterling, which is the functional currency of the company, and the presentational currency for the consolidated financial statements.

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to sterling at foreign exchange rates at the dates the values were determined.

Assets and liabilities of foreign subsidiaries, including goodwill and fair value adjustments arising on consolidation, are translated into sterling at rates of exchange ruling at the balance sheet date. The revenues and expenses of foreign subsidiaries are translated to sterling at rates approximating those ruling at the date of the transactions. Differences on exchange arising from the retranslation of the opening net investment in subsidiaries, and from the translation of the results of those subsidiaries at average rate, are reported as an item of other comprehensive income and accumulated in the translation reserve.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

1. Accounting policies continued

Any differences that have arisen since 1 January 2004, the date of transition to IFRS, are presented as a separate component of equity. Translation differences that arose before the date of transition to IFRS in respect of all foreign entities are not presented as a separate component.

Revenue

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control of a product or service to a customer and is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue from the sale of actuators, gearboxes and flow control products is recognised in the income statement when control of the goods has transferred, being when the goods have been shipped to the customer in accordance with the contracted shipping terms.

The Group provides service and support through preventative maintenance contracts, on-site and workshop service, retrofit solutions and the client support programme. Revenue in respect of workshop service and retrofit solutions is recognised on completion of the work and after all performance obligations have been completed. Revenue in respect of preventative maintenance contracts and the client support programme is recognised as the services are performed in line with the contractual terms. The directors have assessed that these contracts are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Group.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated completion costs, the possible return of goods or continuing management involvement with the goods.

The Group has applied the practical expedient in IFRS 15.121 and therefore not disclosed the information in IFRS 15.120 regarding unsatisfied (or partially unsatisfied) performance obligations on contracts with a duration of one year or less

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the income statement. The fair value of the assets and liabilities assumed are provisional for a 12 month period. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Goodwill is stated at cost or deemed cost less any impairment losses. Goodwill is not amortised but is reviewed for impairment annually. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash generating units (CGUs) expected to benefit from the synergies of the combination. An impairment loss is recognised whenever the carrying value of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Intangible assets

i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement in the period in which it is incurred. Development costs incurred after the point at which the commercial and technical feasibility of the product have been proven, and the decision to complete the development has been taken and resources made available, are capitalised. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. Development expenditure has an estimated useful life of up to five years and is written off on a straight-line basis.

ii) Other intangible assets

Other intangible assets that are acquired by the Group as part of a business combination are stated at cost less accumulated amortisation and impairment losses. The useful life of each of these assets is assessed based on discussions with the management of the acquired business and takes account of the differing natures of each of the intangibles acquired. The assessed useful lives of intangibles acquired are as follows:

Brands	4 to 10 years
Customer relationships	2 to 8 years
Other – product design patents	4 to 8 years
Other – order backlog	3 months to 1 year

Amortisation is charged on a straight-line basis over the estimated useful life of the assets.

Property, plant and equipment

Freehold land is not depreciated. Long leasehold buildings are amortised over 50 years or the expected useful life of the building where less than 50 years. Other assets are depreciated in equal annual instalments by reference to their estimated useful lives and residual values at the following annual rates:

Freehold buildings	2% to 4%
Short leasehold buildings	period of lease
Plant and equipment	10% to 33%

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation.

Leases

Where fixed assets are financed by leasing agreements, which give rights approximating to ownership, the assets are treated as if they had been purchased and the capital element of the leasing commitments are shown as obligations under finance leases. Assets acquired under finance leases are initially recognised at the present value of the minimum lease payments. The rentals payable are apportioned between interest, which is charged to the income statement, and liability, which reduces the outstanding obligation so as to give a constant rate of charge on the outstanding lease obligations. Costs in respect of operating leases are charged on a straight-line basis over the term of the lease in arriving at the operating profit.

Interest-bearing loans and borrowings

Obligations for loans and borrowings are recognised when the Group becomes party to the related contracts and are measured initially at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profits. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Inventory and work in progress

Inventory and work in progress is valued at the lower of cost and net realisable value. Cost is calculated either on a 'first in, first out' or an average cost basis. In respect of work in progress and finished goods, cost includes all production overheads and the attributable proportion of indirect overhead expenses which are required to bring inventories to their present location and condition. The net realisable value in respect of old and slow moving inventory is assessed by reference to historic usage patterns and forecast future usage.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short term (with an original maturity less than three months) deposits. Bank overdrafts that are repayable on demand form part of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

Equity

Equity comprises issued equity capital, share premium, reserves and retained earnings.

When issued equity capital is repurchased, the amount paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are debited directly to equity and shown as a deduction from retained earnings.

Provisions

i) Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty cost data, known issues and management expectations of future costs.

ii) Contingent consideration

The terms of an acquisition may provide that the value of the purchase consideration, which may be payable in cash at a future date, depends on uncertain future events. The amounts recognised in the financial statements represent a fair value estimate at the balance sheet date of the amounts expected to be paid.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

1. Accounting policies continued

Employee benefits

i) Pension plans

Where the Group operates a defined benefit pension scheme, contributions are made in accordance with the schedule of contributions agreed with the Trustees. In respect of all actuarial gains and losses that arise in calculating the Group's obligation in respect of the plans, these are recognised in equity. The retirement benefit obligation recognised in the consolidated balance sheet represents the deficit in the Group's defined benefit pension schemes. Interest on pension scheme liabilities has been recognised within financing expenses.

The Group also operates defined contribution pension schemes. The costs for these schemes are recognised in the income statement as incurred.

ii) Share-based payment transactions

The Rotork Sharesave Plan offers certain employees the opportunity to purchase shares in Rotork plc at a discounted price compared with the market price at the time of grant. Details of the scheme are given in note 25. The fair value of the right / option is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period between grant and maturity. The right / option reaches maturity when the employee becomes unconditionally entitled. The fair value of the grant is measured using a Black-Scholes model, taking into account the terms and conditions upon which the rights were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

The Rotork Long Term Incentive Plan grants shares to executive directors and senior managers. These awards may vest after a period of three years dependent upon both market and non-market performance conditions being met. Details of the grants are given in note 25. The fair value of the award is measured at grant date, using a Monte Carlo simulation model which takes into account the market based performance criteria, and spread over the vesting period. The fair value of the award is recognised as an employee expense with a corresponding increase in equity for the share settled award. The amount recognised as an expense is adjusted to exclude options that do not vest as a result of non-market performance conditions not being met.

The Overseas profit linked share plan (OPLSS) and the share incentive plan (SIP) are discretionary profit linked share schemes based on the prior year profit of the participating Rotork companies. The value of the award to each employee is based on salary and the length of service, the value of the awards can be up to £3,600. Shares awarded under these schemes are issued by the trustee at the cost of purchase. The costs of providing these plans are recognised in the income statement over the period to which the employee has earned the award.

iii) Long term service leave

The Group's net obligation in respect of long term service leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

iv) Other employee benefits

The Group offers a number of discretionary bonus schemes to employees around the world. The costs of these schemes are recognised in the income statement as incurred.

Derivative financial instruments

The Group uses forward exchange contracts and swaps to hedge its exposure to foreign exchange risk arising from operational and financing activities. These are the only derivative financial instruments used by the Group. In accordance with its Treasury Policy, the Group does not hold or issue contracts for trading purposes. Forward exchange contracts that do not qualify for hedge accounting are accounted for as trading instruments.

At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

Forward exchange contracts are recognised initially at fair value. Where a forward exchange contract is designated as a hedge of the variability in cash flows of a recognised liability, a firm commitment or a highly probable forecasted transaction, the effective part of any gain or loss on the forward contract is recognised directly in equity. Any effective cumulative gain or loss is removed from equity and recognised in the income statement at the same time as the hedged transaction. The ineffective part of any gain or loss is recognised in the income statement immediately.

When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss held in equity is recognised in the income statement immediately.

Dividends

Interim dividends are recorded in the financial statements when they are paid. Final dividends are recorded in the financial statements in the period in which they are approved by the Company's shareholders.

Critical accounting estimates and judgements

Estimates and judgements are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a risk of causing a material adjustment to the carrying amount of assets and liabilities in the next financial year are listed below.

i) Critical accounting judgements

There are no critical accounting judgements requiring evaluation.

ii) Key sources of estimation uncertainty

Retirement benefits

The Group's financial statements include costs in relation to, and provisions for, retirement benefit obligations. Management is required to estimate the future rates of inflation, salary increases, discount rates and longevity of members, each of which may have a material impact on the defined benefit obligations that are recorded. Sensitivities to changes in key estimates affecting the pension schemes' liabilities are shown in note 24.

2. Alternative performance measures

The Group uses adjusted figures as key performance measures in addition to those reported under adopted IFRS, as management believe these measures facilitate greater comparison of the Group's underlying results with prior periods and assessment of trends in financial performance.

The key alternative performance measures that the Group use include adjusted profit measures and organic constant currency (OCC). Explanations of how they are calculated and how they are reconciled to IFRS statutory results are set out below.

a. Adjusted operating profit

Adjusted operating profit is the Group's operating profit excluding the amortisation of acquired intangible assets and other adjustments that are considered to be significant and where treatment as an adjusted item provides stakeholders with additional useful information to assess the trading performance of the Group on a consistent basis. Further details on these adjustments are given in note 4.

b. Adjusted profit before tax

The adjustments in calculating adjusted profit before tax are consistent with those in calculating adjusted operating profit above.

	2018	2017
Profit before tax	120,748	80,586
<i>Adjustments:</i>		
Amortisation of acquired intangible assets	20,284	27,183
Curtailment gain from the closure of defined benefit pension schemes to future accrual	(8,575)	–
Guaranteed Minimum Pension equalisation expense	920	–
Release of contingent consideration	–	(10,000)
Impairment of goodwill	–	21,594
Consultancy costs associated with the Growth Acceleration Programme	4,052	1,630
Loss on disposal of businesses	658	–
Redundancy and executive change costs	2,896	1,980
Other restructuring costs	2,862	1,803
Adjusted profit before tax	143,845	124,776

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

2. Alternative performance measures continued

c. Adjusted basic and diluted earnings per share

Adjusted basic earnings per share is calculated using the adjusted net profit attributable to the ordinary shareholders and dividing it by the weighted average ordinary shares in issue (see note 18). Adjusted net profit attributable to ordinary shareholders is calculated as follows:

	2018	2017
Net profit attributable to ordinary shareholders	91,744	55,613
<i>Adjustments:</i>		
Amortisation of acquired intangible assets	20,284	27,183
Curtailment gain from the closure of defined benefit pension schemes to future accrual	(8,575)	–
Guaranteed Minimum Pension equalisation expense	920	–
Release of contingent consideration	–	(10,000)
Impairment of goodwill	–	21,594
Consultancy costs associated with the Growth Acceleration Programme	4,052	1,630
Loss on disposal of businesses	658	–
Redundancy and executive change costs	2,896	1,980
Other restructuring costs	2,862	1,803
Tax effect on adjusted items	(5,025)	(7,879)
Adjusted net profit attributable to ordinary shareholders	109,816	91,924

Diluted earnings per share is calculated by using the adjusted net profit attributable to ordinary shareholders and dividing it by the weighted average ordinary shares in issue adjusted to assume conversion of all potentially dilutive ordinary shares (see note 18).

d. Adjusted dividend cover

Dividend cover is calculated as earnings per share divided by dividends per share. Adjusted dividend cover is calculated as adjusted earnings per share as defined in note 2c above divided by dividends per share.

e. Return on capital employed

The return on capital employed ratio is used by management to help ensure that capital is used efficiently.

	2018	2017
Adjusted operating profit	146,015	130,162
Total equity	513,628	457,200
Cash and cash equivalents	(104,489)	(63,192)
Interest bearing loans and borrowings	60,881	75,807
Pension deficit net of deferred tax	22,001	38,924
Capital employed	492,021	508,739
Average capital employed	500,380	522,141
Return on capital employed	29.2%	24.9%

Average capital employed is defined as the average of the capital employed at the start and end of the relevant year.

f. Working capital as a percentage of revenue

Working capital as a percentage of revenue is monitored as control of working capital is key to achieving our cash generation targets. It is calculated as inventory plus trade receivables, less trade payables, divided by revenue.

g. Organic constant currency (OCC)

OCC results remove the results of businesses acquired or disposed of during the period that are not consistently presented in both periods' results. The 2018 results are restated at 2017 exchange rates.

For businesses acquired, the full results are removed from the year of acquisition. In the following year, the results for the number of months equivalent to the pre-acquisition period in the prior year are removed. For disposals and closure of businesses, the results are removed from the current and prior periods.

Key headings in the income statement are reconciled to OCC as follows:

	31 December 2018	Currency adjustment	Impact of disposals	OCC 31 December 2018
Revenue	695,713	16,436	(3,145)	709,004
Cost of sales	(384,203)	(10,361)	1,943	(392,621)
Gross margin	311,510	6,075	(1,202)	316,383
Overheads	(165,495)	(2,404)	1,141	(166,758)
Adjusted operating profit	146,015	3,671	(61)	149,625
Interest	(2,170)	(136)	(4)	(2,310)
Adjusted profit before tax	143,845	3,535	(65)	147,315
Adjusted taxation	(34,029)	(838)	40	(34,827)
Adjusted profit after tax	109,816	2,697	(25)	112,488

	31 December 2017	Currency adjustment	Impact of disposals	31 December 2017
Revenue	642,229	–	(5,319)	636,910
Cost of sales	(358,090)	–	3,290	(354,800)
Gross margin	284,139	–	(2,029)	282,110
Overheads	(153,977)	–	2,213	(151,764)
Adjusted operating profit	130,162	–	184	130,346
Interest	(5,386)	–	(8)	(5,394)
Adjusted profit before tax	124,776	–	176	124,952
Taxation	(32,852)	–	11	(32,841)
Adjusted profit after tax	91,924	–	187	92,111

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

3. Operating segments

The Group has chosen to organise the management and financial structure by the grouping of related products. The four identifiable operating segments for which 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 actuators

Fluid Systems – the design, manufacture and sale of pneumatic and hydraulic 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.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties.

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 2018	Fluid Systems 2018	Gears 2018	Instruments 2018	Elimination 2018	Unallocated 2018	Group 2018
Revenue from external customers	351,858	166,328	76,260	101,267	–	–	695,713
Inter segment revenue	–	–	9,352	5,887	(15,239)	–	–
Total revenue	351,858	166,328	85,612	107,154	(15,239)	–	695,713
Adjusted operating profit*	101,344	16,135	15,307	24,085	–	(10,856)	146,015
Amortisation of acquired intangible assets	(2,851)	(779)	(2,082)	(14,572)	–	–	(20,284)
Segment result before adjustments	98,493	15,356	13,225	9,513	–	(10,856)	125,731
Other adjustments							(2,813)
Operating profit							122,918
Net finance expense							(2,170)
Income tax expense							(29,004)
Profit for the year							91,744

	Controls 2017	Fluid Systems 2017	Gears 2017	Instruments 2017	Elimination 2017	Unallocated 2017	Group 2017
Revenue from external customers	325,174	150,117	72,814	94,124	–	–	642,229
Inter segment revenue	–	–	11,086	6,498	(17,584)	–	–
Total revenue	325,174	150,117	83,900	100,622	(17,584)	–	642,229
Adjusted operating profit*	92,903	9,019	15,724	20,457	–	(7,941)	130,162
Amortisation of acquired intangible assets	(2,888)	(1,409)	(2,021)	(20,865)	–	–	(27,183)
Segment result before adjustments	90,015	7,610	13,703	(408)	–	(7,941)	102,979
Other adjustments							(17,007)
Operating profit							85,972
Net finance expense							(5,386)
Income tax expense							(24,973)
Profit for the year							55,613

* Adjusted operating profit is operating profit before the amortisation of acquired intangible assets and other adjustments (see note 4)

	Controls 2018	Fluid Systems 2018	Gears 2018	Instruments 2018	Unallocated 2018	Group 2018
Depreciation	5,113	2,507	2,374	1,616	32	11,642
Amortisation:						
– Acquired intangible assets	2,851	779	2,082	14,572	–	20,284
– Development costs	1,463	216	242	654	–	2,575
Impairment of goodwill	–	–	–	–	–	–
Release of contingent consideration	–	–	–	–	–	–
Impairment of development cost assets	143	162	216	178	–	699
Impairment of property, plant and equipment	1,350	–	–	–	–	1,350
Non-cash items: equity settled share-based payments	2,107	925	532	522	588	4,674
Net financing expense	–	–	–	–	(2,170)	(2,170)
Capital expenditure	5,201	1,598	2,023	1,606	–	10,428

	Controls 2017	Fluid Systems 2017	Gears 2017	Instruments 2017	Unallocated 2017	Group 2017
Depreciation	5,622	2,801	1,813	1,951	45	12,232
Amortisation:						
– Acquired intangible assets	2,888	1,409	2,021	20,865	–	27,183
– Development costs	1,670	469	259	301	–	2,699
Impairment of goodwill	–	–	1,840	19,754	–	21,594
Release of contingent consideration	–	–	–	(10,000)	–	(10,000)
Non-cash items: equity settled share-based payments	1,515	652	418	545	260	3,390
Net financing expense	–	–	–	–	(5,386)	(5,386)
Capital expenditure	7,355	1,495	1,622	1,933	–	12,405

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

Geographical analysis:

Revenue by location of subsidiary	2018	2017
UK	71,458	76,281
Italy	80,772	82,165
Rest of Europe	127,960	113,822
USA	149,180	149,526
Other Americas	42,235	31,549
Rest of World	224,108	188,886
	695,713	642,229

	UK 2018	Europe 2018	USA 2018	Other Americas 2018	Rest of World 2018	Group 2018
Non-current assets:						
– Goodwill	61,342	67,424	57,040	742	43,609	230,157
– Intangible assets	36,154	7,380	8,761	–	9,222	61,517
– Property, plant and equipment	23,651	28,762	8,596	969	17,360	79,338

	UK 2017	Europe 2017	USA 2017	Other Americas 2017	Rest of World 2017	Group 2017
Non-current assets:						
– Goodwill	61,342	67,119	55,996	733	42,838	228,028
– Intangible assets	43,226	12,215	12,886	–	13,129	81,456
– Property, plant and equipment	26,441	29,054	8,612	767	16,851	81,725

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

4. Other adjustments

The other adjustments are adjustments that management consider to be significant and where separate disclosure enables stakeholders to assess the underlying trading performance of the Group on a consistent basis.

The other adjustments to profit included in statutory profit are as follows:

	2018	2017
Curtailment gain from the closure of defined benefit pension schemes to future accrual	8,575	–
Guaranteed Minimum Pension (GMP) equalisation expense	(920)	–
Release of contingent consideration	–	10,000
Goodwill impairment	–	(21,594)
	7,655	(11,594)
Consultancy costs associated with the Growth Acceleration Programme	(4,052)	(1,630)
Loss on disposal of businesses	(658)	–
Redundancy and executive change costs	(2,896)	(1,980)
Other restructuring costs	(2,862)	(1,803)
	(10,468)	(5,413)
	(2,813)	(17,007)

After the completion of consultation processes with members of the UK and US defined benefit pension schemes both schemes were closed to future accrual on 31 March 2018 and 31 December 2018, respectively. The closure to future accrual of the two schemes resulted in a one off, non-cash curtailment gain which reduced the defined benefit obligation by £8,575,000 (2017: £nil).

In October 2018 the High Court judgement in the case of Lloyds Banking Group clarified that pension benefits under the UK scheme need to be equalised for the effects of unequal GMPs. An allowance of £920,000 (2017: £nil) has been included as a past service cost within the UK scheme's 2018 defined benefit pension expense for all such arrears.

Consultancy costs of £4,052,000 (2017: £1,630,000) were incurred on developing the Growth Acceleration Programme. The consultancy costs in the second half of the year reduced to £752,000.

The loss on disposal of £658,000 (2017: £nil) relates to the sale of the Hiller business, closure of an engineering office and the closure of the Valvekits business. The assets of £3,831,000 disposed of included goodwill (£2,239,000), inventory (£1,541,000) and a building (£474,000). Redundancy costs (£704,000) and asset write-downs specific to the disposals (£464,000) contributed to the other costs of exiting the businesses. Proceeds of £3,010,000 were received in respect of the Hiller business and £1,330,000 in respect of the assets of the Valvekits business. The impact of these disposals on revenue and profit in 2018 and the prior year is shown in note 2.

The £2,896,000 (2017: £1,980,000) redundancy and executive change costs have been incurred as a result of the progress made with the Growth Acceleration Programme.

Other restructuring costs include £700,000 (2017: £nil) related to ending development and sales of products for the containment area of nuclear power plants and a £1,350,000 (2017: £nil) impairment charge resulting from the ongoing review of the global footprint.

The £8,575,000 credit relating to the closure of the UK and US defined benefit pension schemes is included in other income. All other adjustments are included in administrative expenses, with the exception of the loss on the disposal of businesses which is included in other expenses. The asset write-downs relating to property, and certain of the costs relating to the closure and disposal of businesses are not tax-deductible. The remaining adjustments are taxable or tax-deductible in the country in which the expense is incurred.

5. Other income and expense

	2018	2017
Release of contingent consideration	–	10,000
Curtailment gain from the closure of defined benefit pension schemes to future accrual (note 4)	8,575	–
Gain on disposal of property, plant and equipment	120	420
Other	205	231
Other income	8,990	10,651

	2018	2017
Loss on disposal of business	658	–
Loss on disposal of property, plant and equipment	58	273
Other	82	41
Other expense	798	314

6. Personnel expenses

	2018	2017
Wages and salaries (including bonus and incentive plans)	159,914	147,637
Social security costs	21,747	20,486
Pension costs (note 24)	7,882	8,951
Share-based payments (note 25)	4,674	3,390
Increase in liability for long term service leave	95	539
Total	194,312	181,003

	2018 Number	2017 Number
During the year, the average monthly number of employees, analysed by business segment was:		
Controls	1,953	1,814
Fluid Systems	766	807
Gears	470	466
Instruments	664	651
Total	3,853	3,738
UK	1,033	1,012
Overseas	2,820	2,726
Total	3,853	3,738

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

7. Finance income and expense

Recognised in the income statement

	2018	2017
Interest income	1,618	1,206
Foreign exchange gains	660	175
Finance income	2,278	1,381

	2018	2017
Interest expense	(3,072)	(3,184)
Interest charge on pension scheme liabilities (note 24)	(1,055)	(1,607)
Foreign exchange losses	(321)	(1,976)
Finance expense	(4,448)	(6,767)

Recognised in equity

	2018	2017
Effective portion of changes in fair value of cash flow hedges	(1,423)	(1,399)
Fair value of cash flow hedges transferred to income statement	1,399	8,945
Foreign currency translation differences for foreign operations	3,164	(376)
	3,140	7,170
Recognised in:		
Hedging reserve	(24)	7,546
Translation reserve	3,164	(376)
	3,140	7,170

8. Profit before tax

Profit before tax is stated after charging the following:

	Notes	2018	2017
Depreciation of property, plant and equipment:			
– Owned assets	i	11,148	11,922
– Assets held under finance lease contracts	i	494	310
Amortisation:			
– Other intangibles	iii	20,284	27,183
– Development costs	iii	2,575	2,699
Impairment of development cost assets	iii	699	–
Impairment of property, plant and equipment	iii	1,350	–
Inventory write downs recognised in the year	ii	3,483	4,144
Hire of plant and machinery	i	2,634	2,560
Rental of land and buildings under operating leases	i	3,734	3,874
Research and development expenditure	iii	11,715	10,678
Exchange differences realised	iv	(339)	1,801
Audit fees and expenses paid to Deloitte:			
– Audit of the Group financial statements		869	821
– Audit of financial statements of subsidiaries of the Company		231	237
		1,100	1,058
Other auditors of financial statements of subsidiaries of the Company		22	11
Total audit fees and expenses		1,122	1,069
Amounts paid to Deloitte and its associates in respect of:			
– Half year review		46	44
– Other assurance services		3	3
		49	47

These costs can be found under the following headings in the income statement:

- i) Both within cost of sales and administrative expenses;
- ii) Within cost of sales;
- iii) Within administrative expenses;
- iv) Within finance income and expenses.

9. Income tax expense

	2018	2018	2017	2017
Current tax:				
UK corporation tax on profits for the year	3,476		3,407	
Adjustment in respect of prior years	(851)		(974)	
		2,625		2,433
Overseas tax on profits for the year	27,646		27,386	
Adjustment in respect of prior years	(223)		343	
		27,423		27,729
Total current tax		30,048		30,162
Deferred tax:				
Origination and reversal of other temporary differences	(1,307)		(6,711)	
Impact of rate change	30		1,162	
Adjustment in respect of prior years	233		360	
Total deferred tax		(1,044)		(5,189)
Total tax charge for year		29,004		24,973
Profit before tax		120,748		80,586
Profit before tax multiplied by the blended standard rate of corporation tax in the UK of 19.0% (2017: 19.25%)		22,942		15,513
<i>Effects of:</i>				
Different tax rates on overseas earnings		7,107		6,571
Permanent differences		1,015		138
Losses not recognised		(90)		768
Tax incentives		(1,159)		(1,140)
Impact of rate change		30		1,162
Non-taxable contingent consideration		–		(1,925)
Non-deductible goodwill written off		–		4,157
Adjustments to tax charge in respect of prior years		(841)		(271)
Total tax charge for year		29,004		24,973
Effective tax rate		24.0%		31.0%
Adjusted profit before tax (note 2b)		143,845		124,776
Total tax charge for the year		29,004		24,973
Amortisation of acquired intangible assets		4,499		6,664
Defined benefit pension schemes (note 4)		(1,301)		–
Restructuring costs (note 4)		1,827		1,215
Adjusted total tax charge for the year		34,029		32,852
Adjusted effective tax rate		23.7%		26.3%

A tax credit of £98,000 (2017: £252,000) in respect of share-based payments has been recognised directly in equity in the year.

The effective tax rate for the year is 24.0% (2017: 31.0%). The adjusted effective tax rate is 23.7% (2017: 26.3%) and is lower than the effective tax rate for the year principally because of the geographic mix of those countries where certain of the adjusting items were incurred.

The adjusted effective tax rate has fallen from 26.3% in 2017 to 23.7% in 2018, principally because of the reduction in the US corporate tax rate from 35% to 21%, which came into effect on 1 January 2018. In 2017 this resulted in a one-off charge to tax of £1,162,000 on the revaluation of the US net deferred tax asset, and in 2018 this has resulted in a reduction in the US tax charge because of the lower rate of tax. The Group expects its adjusted effective tax rate to continue to fall in line with the current trend in corporate tax rates where Rotork operates. However the adjusted effective tax rate will still be higher than the standard UK rate due to higher rates of tax in China, the US, 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 £321,281,000 (2017: £305,277,000).

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

10. Goodwill

	2018	2017
Cost		
At 1 January	249,622	251,407
Derecognised on disposal of business	(2,239)	–
Other movements	–	255
Exchange adjustments	4,465	(2,040)
At 31 December	251,848	249,622
Provision for impairment		
At 1 January	21,594	–
Impairment charge	–	21,594
Exchange adjustments	97	–
At 31 December	21,691	21,594
Net book value	230,157	228,028

Cash generating units

Goodwill acquired through business combinations has been allocated to the lowest level of cash generating unit (CGU). 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 businesses within a division, the lowest level of CGU is considered to be at a divisional sub-group level. During the year, following the merger of businesses, the Mastergear Italy CGU was consolidated with the Gears Italy CGU and the Dallas CGU was consolidated with the Rotork Controls Inc CGU. In each case this is the lowest level at which the goodwill is monitored for internal management purposes. The disposal relates to the goodwill attributable to the Hiller nuclear business which was sold during the year.

Cash generating unit	Discount rate	2018	2017
Schischek	13.3% (2017: 12.6%)	20,506	20,275
Rotork Fluid Systems	12.9% (2017: 12.3%)	15,782	15,604
Rotork Controls Inc	10.7% (2017: 10.2%)	14,527	11,464
Bifold	11.6% (2017: 11.0%)	47,467	47,467
Instruments sub-group	11.2% (2017: 10.5%)	103,454	100,485
Other cash generating units		28,421	32,733
Total Group		230,157	228,028

Impairment testing

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. In 2017 an impairment of £21,594,000 was charged, including £19,754,000 relating to the Bifold CGU.

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

i) Discount rates

The discount rates for the significant CGUs presented above are pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU for which the future cash flows have not been adjusted. Discount rates are based on estimations that market participants operating in similar sectors to Rotork would make, using the Group's economic profile as a starting point. For each CGU we adjusted the risk premium on a weighted average basis to reflect the region in which the CGU carries out the majority of its business, applied a premium based on the size of the CGU and applied a market participant tax rate in the region the CGU operates. In calculating the discount rates, consideration was given to exclude risks that were not relevant or which had already been reflected in the cash flows.

ii) Growth rates

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 two and three 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 Group annual budget and the three year plan are reviewed and approved by the Board each year. The compound annual revenue growth forecast for the Group during years one to three, used within the impairment models, is 7.5%.

In the period after the three year plan growth rates are forecast at 5.0% (2017: 5.0%) per annum for the next two years and at 2.0% (2017: 2.0%) for the long-term growth rate. The 5.0% rate reflects a realistic market forecast for the flow control market up until 2023. 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 2.0% used in the impairment calculations.

Sensitivity analysis

The Group has conducted an analysis of the sensitivity of the impairment test to changes in the key assumptions used to determine the recoverable amount for each of the CGUs to which goodwill is allocated.

For all CGUs the sensitivity analysis shows that if pre-tax discount rates are raised by 1%; short term growth rates are lowered by 10% in years one to three; or long term growth rates are lowered by 1% then no impairment would arise. Each of these sensitivities are considered to be a reasonably possible change.

Bifold is the CGU which has a recoverable amount closest to its carrying value after applying the sensitivities above. The sensitivity results for Bifold are summarised below.

	Base case	Discount rate +1%	Short term growth rate -10%	Long term growth rate -1%
Recoverable amount less carrying value (headroom)	24,073	12,461	1,801	15,082

11. Intangible assets

	Research and development costs	Acquired intangible assets			Total
		Brands	Customer relationships	Other	
Cost					
31 December 2016	20,395	53,106	122,117	25,415	221,033
Internally developed	3,357	–	–	–	3,357
Exchange adjustments	(47)	(1,036)	(1,637)	(481)	(3,201)
31 December 2017	23,705	52,070	120,480	24,934	221,189
Internally developed	3,831	–	–	–	3,831
Disposal of business	(1,434)	(775)	(2,471)	(2,733)	(7,413)
Disposals	(4,447)	–	–	–	(4,447)
Exchange adjustments	52	1,304	2,182	312	3,850
31 December 2018	21,707	52,599	120,191	22,513	217,010
Amortisation					
31 December 2016	11,639	25,938	58,586	15,851	112,014
Charge for the year	2,699	6,436	17,459	3,287	29,881
Exchange adjustments	(14)	(822)	(1,324)	(2)	(2,162)
31 December 2017	14,324	31,552	74,721	19,136	139,733
Charge for the year	2,575	5,753	12,636	1,895	22,859
Impairment charge	699	–	–	–	699
Disposal of business	(568)	(775)	(2,471)	(2,733)	(6,547)
Disposals	(4,455)	–	–	–	(4,455)
Exchange adjustments	23	1,061	1,826	294	3,204
31 December 2018	12,598	37,591	86,712	18,592	155,493
Net book value					
31 December 2017	9,381	20,518	45,759	5,798	81,456
31 December 2018	9,109	15,008	33,479	3,921	61,517

Other acquired intangible assets represent order books and intellectual property.

The amortisation charge is recognised within administrative expenses in the income statement. The impairment charge relates to the cost of ending development and sales of products for the containment area of nuclear power plants.

The disposal of business relates to the sale of the Hiller business, the closure of an engineering business and the closure of the Valvekits business (note 4).

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

12. Property, plant and equipment

	Land and buildings	Plant and equipment	Total
Cost			
31 December 2016	61,652	100,673	162,325
Additions	3,008	9,397	12,405
Disposals	(1,874)	(911)	(2,785)
Exchange adjustments	868	(1,475)	(607)
31 December 2017	63,654	107,684	171,338
Additions	772	9,656	10,428
Disposals	(464)	(5,035)	(5,499)
Exchange adjustments	962	1,535	2,497
31 December 2018	64,924	113,840	178,764
Depreciation			
31 December 2016	13,484	65,075	78,559
Charge for the year	2,007	10,225	12,232
Disposals	(195)	(356)	(551)
Exchange adjustments	8	(635)	(627)
31 December 2017	15,304	74,309	89,613
Charge for the year	2,030	9,612	11,642
Disposals	(8)	(4,768)	(4,776)
Impairment charge	1,312	38	1,350
Exchange adjustments	461	1,136	1,597
31 December 2018	19,099	80,327	99,426
Net book value			
31 December 2017	48,350	33,375	81,725
31 December 2018	45,825	33,513	79,338

The net book value of the Group's plant and equipment includes £2,000 (2017: £4,000) in respect of assets held under finance leases.

Net book value of land and buildings can be analysed between:

	2018	2017
Land	7,385	7,360
Buildings	38,440	40,990
Net book value at 31 December	45,825	48,350

It is the Group's policy to test assets for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The impairment charge of £1,350,000 arose as a result of the ongoing review of the global footprint (note 4).

13. Deferred tax assets and liabilities

	Assets 2018	Liabilities 2018	Net 2018	Assets 2017	Liabilities 2017	Net 2017
Property, plant and equipment	450	(1,346)	(896)	495	(1,263)	(768)
Intangible assets	4	(12,530)	(12,526)	21	(16,502)	(16,481)
Employee benefits	7,481	–	7,481	11,428	–	11,428
Inventory	5,896	–	5,896	6,276	–	6,276
Other items	5,231	(3,571)	1,660	4,398	(3,014)	1,384
Net tax assets/(liabilities)	19,062	(17,447)	1,615	22,618	(20,779)	1,839
Set off of tax	(1,725)	1,725	–	(1,400)	1,400	–
	17,337	(15,722)	1,615	21,218	(19,379)	1,839

Movements in the net deferred tax balance during the year are as follows:

	2018	2017
Balance at 1 January	1,839	411
Credited to the income statement	1,044	5,189
Credited directly to equity in respect of share-based payments	98	213
Charged directly to equity in respect of pension schemes	(1,446)	(2,140)
Credited/(charged) directly to hedging reserves in respect of cash flow hedges	18	(1,358)
Exchange differences	62	(476)
Balance at 31 December	1,615	1,839

A deferred tax asset of £17,337,000 (2017: £21,218,000) has been recognised at 31 December 2018. The directors are of the opinion, based on recent and forecast trading, that the level of profits in the current and future years make it more likely than not that these assets will be recovered.

A deferred tax asset of £1,179,000 (2017: £1,306,000) has not been recognised in relation to capital losses. This asset may be recovered if sufficient capital profits are made in future in the companies concerned. There is no expiry date in relation to this asset.

14. Inventories

	2018	2017
Raw materials and consumables	70,866	67,758
Work in progress	6,897	8,135
Finished goods	16,976	16,015
	94,739	91,908

Included in cost of sales was £235,708,000 (2017: £216,711,000) in respect of inventories consumed in the year.

15. Trade and other receivables

	2018	2017
Non-current assets:		
Other non-trade receivables	352	142
Other receivables	352	142
Current assets:		
Trade receivables	152,089	152,163
Less provision for impairment of receivables	(6,580)	(6,634)
Trade receivables – net	145,509	145,529
Corporation tax	1,429	2,726
Current tax	1,429	2,726
Other non-trade receivables	3,299	2,896
Other taxes and social security	11,747	9,039
Prepayments	8,115	7,267
Other receivables	23,161	19,202

Included within non-trade receivables is £89,000 (2017: £nil) which relates to collateral held by a third party in respect of the Group's outstanding forward exchange contracts.

16. Cash and cash equivalents

	2018	2017
Bank balances	73,136	56,912
Cash in hand	56	60
Short term deposits	31,297	6,220
Cash and cash equivalents	104,489	63,192
Bank overdraft	–	–
Cash and cash equivalents in the consolidated statement of cash flows	104,489	63,192

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

17. Capital and reserves

	0.5p Ordinary shares issued and fully paid up 2018	£1 Non- redeemable preference shares 2018	0.5p Ordinary shares issued and fully paid up 2017	£1 Non- redeemable preference shares 2017
At 1 January	4,352	40	4,350	40
Issued under employee share schemes	6	–	2	–
At 31 December	4,358	40	4,352	40
Number of shares (000)	871,625		870,429	

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 £1,837,000 (2017: £713,000) in respect of the 1,197,838 (2017: 378,540) ordinary shares issued during the year: £6,000 (2017: £2,000) was credited to share capital and £1,831,000 (2017: £711,000) to share premium. Further details of the share awards are shown in note 25.

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 £4,227,000 (2017: £1,594,000) and represents 1,387,000 (2017: 566,000) 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:

	2018 Payment date	2018	2017
3.35p final dividend (2017: 3.15p)	23 May	29,154	27,391
2.20p interim dividend (2017: 2.05p)	21 September	19,134	17,827
		48,288	45,218

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.

	2018	2017
Final proposed dividend per qualifying ordinary share		
3.70p	32,250	
3.35p		29,159

18. 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 869.9m shares (2017: 869.4m shares) being the weighted average number of ordinary shares in issue (net of own ordinary shares held) for the year.

	2018	2017
Net profit attributable to ordinary shareholders	91,744	55,613
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	869,863	869,087
Effect of own shares held	(115)	252
Effect of shares issued under Sharesave plans	123	95
Weighted average number of ordinary shares during the year	869,871	869,434
Basic earnings per share	10.5p	6.4p

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 impact of the adjustments. The reconciliation showing how adjusted net profit attributable to ordinary shareholders is derived is shown in note 2.

	2018	2017
Adjusted net profit attributable to ordinary shareholders	109,816	91,924
Weighted average number of ordinary shares during the year	869,871	869,434
Adjusted basic earnings per share	12.6p	10.6p

Diluted earnings per share

Diluted earnings per share is based on the profit for the year attributable to the ordinary shareholders and 874.0m shares (2017: 872.0m 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 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).

	2018	2017
Net profit attributable to ordinary shareholders	91,744	55,613
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares for the year	869,871	869,434
Effect of Sharesave options	1,583	1,583
Effect of LTIP share awards	2,514	993
Weighted average number of ordinary shares (diluted) during the year	873,968	872,010
Diluted earnings per share	10.5p	6.4p

Adjusted diluted earnings per share

	2018	2017
Adjusted net profit attributable to ordinary shareholders	109,816	91,924
Weighted average number of ordinary shares (diluted) during the year	873,969	872,010
Adjusted diluted earnings per share	12.6p	10.5p

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

19. 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, see note 26.

	2018	2017
Non-current liabilities		
Preference shares classified as debt	40	40
Bank loans	30,831	45,837
Finance lease liabilities	–	2
	30,871	45,879
Current liabilities		
Bank loans	30,008	29,925
Finance lease liabilities	2	3
	30,010	29,928

Terms and debt repayment schedule The terms and conditions of outstanding loans were as follows:

	Currency	Interest rates	Year of maturity	2018	2017
Non-redeemable preference shares	Sterling	9.5%	–	40	40
Bank loans and overdrafts	Sterling	1.50% – 1.55%	2019-20	59,899	74,746
Bank loans and overdrafts	Euro	2.35%	2032	940	1,016
Finance lease liabilities	Sterling	8.77%	2019	2	5
				60,881	75,807

Repayment profile

Finance leases and bank loans are payable as follows:

	Principal 2018	Interest 2018	Minimum payments 2018	Principal 2017	Interest 2017	Minimum payments 2017
Bank loans less than one year	30,008	275	30,283	29,925	225	30,150
Bank loans more than one and less than five years	30,831	131	30,962	45,837	77	45,914
Bank loans more than five years	–	–	–	–	–	–
Finance leases less than one year	2	–	2	3	–	3
Finance leases more than one and less than five years	–	–	–	2	–	2
	60,841	406	61,247	75,767	302	76,069

20. Employee benefits

	2018	2017
Recognised liability for defined benefit obligations:		
– Present value of funded obligations	207,021	237,054
– Fair value of plan assets	(179,728)	(188,844)
	27,293	48,210
Other pension scheme liabilities	409	344
Employee bonuses	21,703	17,512
Long term incentive plan	641	331
Employee indemnity provision	2,677	2,823
Other employee benefits	5,040	4,537
	57,763	73,757
Non-current	31,274	52,293
Current	26,489	21,464
	57,763	73,757

Defined benefit pension scheme disclosures are detailed in note 24.

21. Provisions

	Contingent consideration	Warranty provision	Restructuring provision	Total
Balance at 1 January 2018	397	5,847	–	6,244
Exchange differences	3	148	27	178
(Credit)/charge to the income statement	(91)	3,641	2,674	6,224
Provisions utilised during the year	(10)	(2,766)	(1,125)	(3,901)
Disposal of business	–	(359)	–	(359)
Balance at 31 December 2018	299	6,511	1,576	8,386
Maturity at 31 December 2018				
Non-current	–	2,149	–	2,149
Current	299	4,362	1,576	6,237
	299	6,511	1,576	8,386
Maturity at 31 December 2017				
Non-current	–	1,929	–	1,929
Current	397	3,918	–	4,315
	397	5,847	–	6,244

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.

The restructuring provision relates to amounts outstanding in respect of redundancy and other restructuring costs associated with the Growth Acceleration Programme.

22. Trade and other payables

	2018	2017
Trade payables	47,332	49,183
Corporation tax	11,792	13,093
Current tax	11,792	13,093
Other taxes and social security	10,600	11,281
Payments on account	6,586	6,667
Other payables and accrued expenses	22,964	24,217
Other payables	40,150	42,165

23. Derivative financial instruments

	2018 Assets	2018 Liabilities	2017 Assets	2017 Liabilities
Forward foreign exchange contracts – cash flow hedges	–	1,407	367	1,766
Foreign exchange swaps – cash flow hedges	308	1,275	3,101	–
Total	308	2,682	3,468	1,766
<i>Less non-current portion:</i>				
Forward foreign exchange contracts – cash flow hedges	–	–	–	245
Current portion	308	2,682	3,468	1,521

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

There was no ineffectiveness to be recorded from the use of foreign exchange contracts.

The hedged forecast transactions denominated in foreign currency are expected to occur at various dates. Gains and losses in respect of these derivatives recognised in the hedging reserve in equity at 31 December 2018 are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

24. Pension schemes

i) Defined benefit pension schemes

The Group operates two defined benefit pension arrangements – the Rotork Pension and Life Assurance Scheme (UK Scheme) and the Rotork Controls Inc. Pension Plan (US Pension Plan). On retirement, leaving service or death, the Schemes provide benefits based on final salary and length of service.

The UK Scheme is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the Scheme is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process the Company must agree with the trustees of the Scheme the contributions to be paid to address any shortfall against the Statutory Funding Objective and contributions to pay for future accrual of benefits.

The UK Scheme is managed by a Trustee, with directors appointed in part by the Group and part from elections by members of the Scheme. The Trustee has responsibility for obtaining valuations of the fund, administering benefit payments and investing the Scheme's assets. The Trustee delegates some of these functions to its professional advisers where appropriate. The UK Scheme which was closed to new entrants in 2003 was closed to future accrual from 1 April 2018.

The US Pension Plan is subject to the ERISA funding requirements. A valuation of the Plan is carried out annually to ensure the Funding Objective is met under ERISA by contributing at least the Minimum Required Contribution. As part of this process the Company must contribute to the Plan enough contributions to ensure at least the Minimum Contribution is deposited in the Trust to pay for the accrual of benefits. The US Pension Plan which was closed to new entrants in 2009 was closed to future accrual on 31 December 2018.

The two defined benefit pension arrangements expose the Group to a number of risks:

- Investment risk – the Schemes hold investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term the short term volatility can cause additional funding to be required if a deficit emerges. The Schemes have a relatively balanced investment in equities, debt instruments and property. Due to the long-term nature of the plan liabilities, the Trustees of the pension funds consider it appropriate that a reasonable portion of the plan assets should be invested in equities and in property to leverage the return generated by the funds.
- Interest rate risk – the Schemes' liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Schemes hold assets such as equities the value of the assets and liabilities may not move in the same way. A decrease in the bond interest rate will increase the Schemes' liabilities but this will be partially offset by an increase in the return of the Schemes' debt investments.
- Inflation risk – a significant proportion of the benefits under the Schemes are linked to inflation. Although the Schemes' assets are expected to provide a good hedge against inflation over the long term, movements over the short term could lead to deficits emerging.
- Mortality risk – in the event that members live longer than assumed a deficit will emerge in the Schemes.

Upon the closure to future accrual of the UK and US defined benefit pension scheme the members were invited to join the defined contribution scheme. The total gain of £8,575,000 from the two curtailments is disclosed in other income in the income statement. The High Court judgement in the case of Lloyds Banking Group on 26 October 2018 clarified that pension benefits under the UK Scheme need to be equalised for the effects of unequal GMPs. The impact of GMP equalisation is £920,000 and is shown as a past service cost in the income statement.

Movements in the present value of defined benefit obligations

	2018	2017
Liabilities at 1 January	237,054	236,543
Current service costs	1,427	3,846
Administration costs	208	178
Member contributions	152	621
Interest cost	5,864	6,531
Benefits paid	(10,818)	(7,441)
Actuarial gain	(20,795)	(842)
Curtailment gain from scheme closures to future accrual	(8,575)	–
Past service cost – Guaranteed minimum pension equalisation	920	–
Currency loss/(gain)	1,584	(2,382)
Liabilities at 31 December	207,021	237,054

Movements in fair value of plan assets

	2018	2017
Assets at 1 January	188,844	178,045
Interest income on plan assets	4,809	4,924
Employer contributions	7,187	8,971
Member contributions	152	621
Benefits paid	(10,818)	(7,441)
Return on plan assets, excluding interest income on plan assets	(11,294)	5,007
Currency gain/(loss)	848	(1,283)
Assets at 31 December	179,728	188,844

Expense recognised in the income statement

	2018	2017
Current service costs	1,427	3,846
Administration costs	208	178
Curtailment gain from scheme closures to future accrual	(8,575)	–
Past service cost – Guaranteed minimum pension adjustment	920	–
Net interest cost	1,055	1,607
	(4,965)	5,631

The expense is recognised in the following line items in the income statement

	2018	2017
Cost of sales	571	1,443
Administrative expenses	1,984	2,581
Other income	(8,575)	–
Net finance expense	1,055	1,607
	(4,965)	5,631

Remeasurements over the year

	2018	2017
Experience adjustments on plan assets	(11,294)	5,007
Experience adjustments on plan liabilities	(451)	2,601
Actuarial gain/(loss) from changes to financial assumptions	19,781	(7,392)
Actuarial gain from changes to demographic assumptions	1,465	5,633
Curtailment gain from scheme closures to future accrual	8,575	–
Past service cost – Guaranteed minimum pension adjustment	(920)	–
Experience adjustments on currency	(736)	1,099
	16,420	6,948

Reconciliation of net defined benefit obligation

	2018	2017
Net defined benefit obligation at the beginning of the year	48,210	58,498
Current service costs	1,427	3,846
Administration costs	208	178
Net financing expense	1,055	1,607
Remeasurements over the year	(16,420)	(6,948)
Employer contributions	(7,187)	(8,971)
	27,293	48,210

Liability for defined benefit obligations

The principal actuarial assumptions at 31 December 2018 (expressed as weighted averages):

	UK scheme (% per annum)		US scheme (% per annum)		Weighted average (% per annum)	
	2018	2017	2018	2017	2018	2017
Discount rate	2.8	2.4	4.4	3.8	3.0	2.5
Rate of increase in salaries	n/a	3.7	n/a	3.0	n/a	3.6
Rate of increase in pensions (post May 2000)	3.1	3.1	0.0	0.0	2.8	2.8
Rate of increase in pensions (pre May 2000)	4.6	4.6	0.0	0.0	4.1	4.1
Rate of inflation	3.2	3.2	n/a	n/a	3.2	3.2

In the UK the Retail Price Index is used as the rate of inflation as it is a requirement of the UK Scheme's rules.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

24. Pension schemes continued

The split of the Schemes' quoted assets were as follows:

	2018 Fair value	2017 Fair value
Equities	30,581	34,537
Targeted return	45,243	48,463
Property	17,326	16,527
Corporate bonds	41,740	42,977
LDI/absolute return bonds	29,892	32,169
Cash	–	635
US deposit administration contract	14,946	13,537
Total	179,728	188,844
Actual return on the Schemes' assets	(6,485)	9,931

The UK Scheme has a strategic asset allocation which was agreed after considering its liability profile, funding position, expected return of the various asset classes and the need for diversification. The level of interest rate and inflation hedging is being gradually increased by the use of LDI funds. Currently the Scheme has hedged around 24% of its liabilities, as measured on a low risk gilts basis, and this will automatically increase by 3% each year. A series of triggers have also been agreed so that, if/when gilt yields rise, the pace of hedging will be accelerated.

The demographic assumptions are the same as used for the 2017 year end, except for mortality. The mortality assumptions used for the UK Scheme are the S2NXA year of birth tables (2017: S2NXA) with future changes in mortality based on the CMI_2017 projections (2017: CMI_2016 projections) with a long-term rate of improvement of 1.25% per annum (2017: 1.25%).

By way of example the respective mortality tables indicate the following life expectancy:

Current age	2018		2017	
	Life expectancy at age 65		Life expectancy at age 65	
	Male	Female	Male	Female
65	22.1	24.1	22.2	24.2
45	23.5	25.6	23.6	25.7

Sensitivity analysis on the Schemes' liabilities

Adjustments to assumptions	Approximate effect on liabilities
Discount rate	
Plus 0.5% p.a.	(20,800)
Minus 0.5% p.a.	23,300
Inflation	
Plus 0.5% p.a.	14,800
Minus 0.5% p.a.	(13,700)
Life expectancy	
Decrease mortality rates by a factor of 10%	7,200
Increase mortality rates by a factor of 10%	(6,400)

The above sensitivities are approximate and only show the likely effect of an assumption being adjusted whilst all other assumptions remain the same.

For the life expectancy sensitivity we have increased/decreased the mortality rates by a factor of 10%. Broadly speaking this decreases/increases the assumed life expectancy by slightly less than one year.

The sensitivity analysis shown above was determined using the same method as per the calculation of liabilities for the balance sheet disclosures, but using assumptions adjusted as detailed above.

Effect of the Schemes on the Group's future cash flows

The Group is required to agree a Schedule of Contributions with the Trustees of the UK Scheme following a valuation which must be carried out at least once every three years. Following the valuation of the UK Scheme as at 31 March 2016, the Group is continuing to pay deficit contributions of £5,500,000 a year. The next valuation will be carried out on 31 March 2019.

The Group estimates that cash contributions to the Group's defined benefit pension schemes during 2019 will be nil for regular payments (2018: £1,687,000) and £5,500,000 of additional payments in relation to past service (2018: £5,500,000).

The weighted average duration of the defined benefit obligation is 22 years.

ii) Other pension plans

The Group makes a contribution to a number of defined contribution plans around the world to provide benefits for employees upon retirement. Total expense relating to these plans in the year was £6,455,000 (2017: £5,105,000).

25. Share-based payments

The Group awards shares under the Long Term Incentive Plan (LTIP), the Save As You Earn scheme (Sharesave plan), the Overseas profit linked share plan (OPLSS) and the share incentive plan (SIP). The equity settled share-based payment expense included in the income statement for each of the plans can be analysed as follows:

	2018	2017
Sharesave plan (a)	637	566
Long Term Incentive Plan (b)	1,385	789
OPLSS/SIP profit linked share scheme (c)	2,652	2,035
Total expense recognised as employee costs (note 6)	4,674	3,390

Volatility assumptions for equity-based payments

The expected volatility of all equity compensation benefits is based on the historic volatility (calculated based on the weighted average remaining life of each benefit), adjusted for any expected changes to future volatility due to publicly available information.

a) Sharesave plan

UK employees are invited to join the Sharesave plan when an offer is made each year. All the offers to date were made at a 20% discount to market price at the time. There are no performance criteria for the Sharesave plan. Employees are given the option of joining either the 3 year or the 5 year scheme.

	3 year scheme		5 year scheme	
	2018	2017	2018	2017
Grant date	1 October	2 October	1 October	2 October
Share price at grant date	333p	262p	333p	262p
Exercise price	272p	189p	272p	189p
Shares granted under scheme	711,745	555,917	178,422	264,906
Vesting period	3 years	3 years	5 years	5 years
Expected volatility	30.2%	30.7%	27.8%	27.3%
Risk free rate	0.95%	0.53%	1.17%	0.78%
Expected dividends expressed as a dividend yield	1.67%	1.98%	1.67%	1.98%
Probability of ceasing employment before vesting	2%	2%	2%	2%
Fair value	91p	82p	97p	83p

Movements in the number of share options outstanding and their weighted average prices are as follows:

	2018		2017	
	Average option price per share	Options	Average option price per share	Options
At 1 January	163p	4,547,201	160p	4,541,915
Granted	272p	890,167	189p	820,823
Exercised	154p	(1,197,838)	188p	(378,520)
Forfeited	172p	(156,568)	160p	(437,017)
At 31 December	189p	4,082,962	163p	4,547,201

Of the 4,082,962 outstanding options (2017: 4,547,201), 380,000 are exercisable (2017: 46,000).

The Group received proceeds of £1,837,000 in respect of the 1,197,838 options exercised during the year: £6,000 was credited to share capital and £1,831,000 to share premium. The weighted average share price at date of exercise was 269p (2017: 257p).

The weighted average remaining life of 2,036,424 (2017: 2,561,903) awards outstanding under the 3 year plan is 1.7 years. The weighted average remaining life of 2,046,538 (2017: 1,985,298) awards outstanding under the 5 year plan is 2.5 years.

b) Long Term Incentive Plan

The Long Term Incentive Plan (LTIP) is a performance share plan under which shares are conditionally allocated to selected members of senior management at the discretion of the Remuneration Committee on an annual basis. Following shareholder approval of the LTIP at the Company's AGM on 18 May 2000, awards over shares are made to executive directors and senior managers each year.

2010 LTIP plan

Following shareholder approval of the 2010 LTIP plan at the Company's AGM on 23 April 2010, awards of shares have been made annually to executive and senior managers. For 2016 awards, half of these awards vest under a TSR performance condition and half under an EPS performance condition. A Return on Invested Capital (ROIC) performance condition was introduced in the 2017 and 2018 LTIP awards, details of which are shown in the 2016 Annual Report & Accounts. A third of the awards vest under each performance condition.

TSR measures the change in value of a share and reinvested dividends over the period of measurement. The actual number of shares transferred will be determined by the number of shares initially allocated multiplied by a vesting percentage. The actual number of shares transferred will be 25% at the 50th percentile rising to 100% at the 75th percentile.

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For the year ended 31 December 2018

25. Share-based payments continued

The EPS performance condition is satisfied with 15% of the awards vesting if the EPS growth is 9% over the vesting period up to a maximum of 100% vesting if EPS growth exceeds 35%.

Vesting of awards under the ROIC condition will be determined by calculating the growth in ROIC, on a cumulative basis, over the performance period. For the 2017 and 2018 awards, the awards will vest by comparing the average ROIC over the performance period against a set of pre-defined targets.

The performance period for the 2015 awards ended on 31 December 2017. The TSR element of the award did not vest as the Company was in the 17th percentile relative to the comparator group. The EPS element also did not vest as the growth in EPS did not exceed RPI +10% over the vesting period.

The performance period for the 2016 awards ended on 31 December 2018. Messrs. PricewaterhouseCoopers LLP as independent actuaries certified to the Remuneration Committee that there was a 79.2% vesting of this award as the Company was in the 85th percentile relative to the comparator group and the Group's EPS growth was 22.3% over the performance period. These awards will vest during 2019.

	2018	2017
Grant date	7 Mar 2018	8 May 2017
Share price at grant date	264p	239p
Shares granted under scheme	1,301,159	1,416,628
Vesting period	3 years	3 years
Expected volatility	30.9%	32.0%
Risk free rate	0.8%	0.2%
Expected dividends expressed as a dividend yield	2.0%	2.1%
Probability of ceasing employment before vesting	5% p.a.	5% p.a.
Fair value of awards under TSR performance conditions	149p	114p
Fair value of awards under EPS and ROIC performance conditions	250p	226p

	Outstanding at start of year	Granted during year	Vested during year	Lapsed	Outstanding at end of year
2015 Award	960,850	–	–	(960,850)	–
2016 Award	1,528,387	–	–	(176,919)	1,351,468
2017 Award	988,435	–	–	(246,951)	741,484
2018 Award	–	1,301,159	–	(249,403)	1,051,756
	3,477,672	1,301,159	–	(1,634,123)	3,144,708

The weighted average remaining life of awards outstanding is one year.

c) Overseas profit linked share plan (OPLSS) and the share incentive plan (SIP)

These discretionary profit linked shares schemes are annual schemes based on the prior year profit of participating Rotork companies. The value of the award to each employee is based on salary and length of service and can be up to £3,600.

26. Financial instruments

Financial risk and treasury policies

The Treasury department maintains liquidity, identifies and manages foreign exchange risk, manages relations with the Group's bankers and provides a treasury service to the Group's businesses. Treasury dealings such as investments, borrowings and foreign exchange are conducted only to support underlying business transactions.

The Group has clearly defined policies for the management of credit, foreign exchange and interest rate risk. The Group Treasury department is not a profit centre and, therefore, does not undertake speculative foreign exchange dealings for which there is no underlying exposure. Exposures resulting from sales and purchases in foreign currency are matched where possible and the net exposure may be hedged.

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash on deposit with financial institutions.

Management has a credit policy in place and exposure to credit risk is both monitored on an ongoing basis and reduced through the use of credit insurance covering over 80% of trade receivables at any time. Credit evaluations are carried out on all customers requiring credit above a certain threshold, with varying approval levels set around this depending on the value of the sale. At the balance sheet date there were no significant concentrations of credit risk.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim.

The Group maintains an allowance for impairment in respect of non-insured receivables where recoverability is considered doubtful.

The Group Treasury Committee meets regularly and reviews the credit risk associated with institutions that hold a material cash balance. As well as credit ratings, counterparties and instruments are assessed for credit default swap pricing and liquidity of funds.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2018	2017
Trade receivables	145,509	145,529
Other receivables	23,513	19,344
Cash and cash equivalents	104,489	63,192
	273,511	228,065

Other receivables consist principally of tax receivables and prepayments. These items do not give rise to significant credit risk.

The maximum exposure to credit risk for trade receivables at the reporting date by currency was:

	Carrying amount	
	2018	2017
Sterling	18,964	19,646
US dollar	36,617	39,841
Euro	54,236	54,476
Other	35,692	31,566
	145,509	145,529

Provisions against trade receivables

The aging of trade receivables and the associated provision for impairment at the reporting date was:

	Gross 2018	Provision 2018	Gross 2017	Provision 2017
Not past due	96,719	(26)	100,640	(10)
Past due 0–30 days	27,425	–	25,951	(6)
Past due 31–60 days	10,629	(38)	10,012	(81)
Past due 61–90 days	5,050	(93)	4,263	(87)
Past due more than 91 days	12,266	(6,423)	11,297	(6,450)
	152,089	(6,580)	152,163	(6,634)

b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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For the year ended 31 December 2018

26. Financial instruments continued

The Group is highly cash generative, and uses monthly cash flow forecasts to monitor cash requirements and to optimise its return on investments. Typically the Group ensures that it has sufficient cash on hand to meet foreseeable operational expenses; it also maintains a £7m overdraft facility (2017: £7m) on which interest would be payable at base rate plus 1.5% and a €5m overdraft facility (2017: €5m) on which interest would be payable at base rate plus 1.1%.

During 2018 the Group repaid a further £15,000,000 of its £90,000,000 term facility and renegotiated to extend the remaining facility to August 2020. The Group has a £60,000,000 Revolving Credit Facility which matures in August 2020. At year end £60,000,000 of the committed facilities were drawn, resulting in £60,000,000 being available.

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

31 December 2018	Carrying amount	Contractual cash flows	Analysis of contractual cash flow maturities			
			Less than 12 months	1–2 years	2–5 years	More than 5 years
Bank loans and overdrafts	60,840	61,245	30,284	30,049	912	–
Finance lease liabilities	2	2	2	–	–	–
Trade and other payables	87,482	87,482	87,482	–	–	–
Contingent consideration	299	299	299	–	–	–
Foreign exchange contracts	1,407	1,407	1,407	–	–	–
Non-redeemable preference shares	40	40	–	–	–	40
	150,070	150,475	119,474	30,049	912	40

31 December 2017	Carrying amount	Contractual cash flows	Analysis of contractual cash flow maturities			
			Less than 12 months	1–2 years	2–5 years	More than 5 years
Bank loans and overdrafts	75,762	76,064	30,151	44,948	965	–
Finance lease liabilities	5	5	3	2	–	–
Trade and other payables	91,348	91,348	91,348	–	–	–
Contingent consideration	397	397	397	–	–	–
Forward exchange contracts	1,766	1,766	1,521	245	–	–
Non-redeemable preference shares	40	40	–	–	–	40
	169,318	169,620	123,420	45,195	965	40

Where a counterparty experiences credit stress then the foreign exchange contracts may be settled on a net basis but standard practice is to settle on a gross basis and the undiscounted gross outflow in respect of these contracts is £182,855,000 (2017: £190,786,000) and the gross inflow is £180,480,000 (2017: £189,127,000).

c) Market risk

Market risk arises from changes in market prices, such as currency rates and interest rates, and may affect the Group's results. The objective of market risk management is to manage and control market risk within suitable parameters.

i) Currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the business unit's functional currency. The currencies primarily giving rise to this risk are the US dollar and related currencies and the euro. The Group hedges up to 75% of forecast US dollar or euro foreign currency exposures using forward exchange contracts. In respect of other non-sterling monetary assets and liabilities the exposures may also be hedged up to 75% where this is deemed appropriate.

As part of the Group's cash management some of the overseas subsidiaries have loan and deposit balances where their intra-group counterparty is in the UK. The balances are typically in local currency for the subsidiary so the UK holds a foreign currency current asset or liability which is usually hedged through the use of foreign exchange swaps. At the balance sheet date only the 'forward' part of the swap remains and this is designated as a cash flow hedge to match the currency exposure of the intercompany loan asset.

The Group classifies its forward exchange contracts (that hedge both the forecast sale and purchase transactions and the intercompany loan and deposit balances) as cash flow hedges and states them at fair value. The net fair value of foreign exchange contracts used as hedges at 31 December 2018 was a £2,375,000 liability (2017: £1,702,000 asset) comprising an asset of £nil (2017: £3,468,000) and a liability of £2,374,000 (2017: £1,766,000). Forward exchange contracts in place at 31 December 2018 mature in 2019.

Changes in the fair value of foreign exchange contracts that economically hedge monetary assets and liabilities in foreign currencies, and for which no hedge accounting is applied, are recognised in the income statement.

Sensitivity analysis

It is estimated that, with all other variables held equal (in particular other exchange rates), a general change of one cent in the value of euro against sterling would have had an impact on the Group's operating profit for the year ended 31 December 2018 of £400,000 (2017: £300,000) and a change of one cent in the value of US dollar against sterling would have had an impact on the Group's operating profit for the year ended 31 December 2018 of £600,000 (2017: £400,000). The method of estimation, which has been applied consistently, involves assessing the transaction impact of US dollar and euro cash flows and the translation impact of US dollar and euro profits.

The following significant exchange rates applied during the year:

	Average rate		Closing rate	
	2018	2017	2018	2017
US dollar	1.34	1.29	1.28	1.35
Euro	1.13	1.14	1.11	1.13

ii) Interest rate risk

The Group does not undertake any hedging activity in this area.

All cash deposits are made at prevailing interest rates and the majority is available with same day notice, though deposits are sometimes made with a maturity of no more than three months. The main element of interest rate risk concerns sterling, US dollar, euro and renminbi deposits, all of which are on a floating rate basis.

The interest rate profile of the Group's financial liabilities at 31 December was as follows:

	2018	2017
Fixed rate financial liabilities	42	1,061
Floating rate financial liabilities	60,839	74,746
	60,881	75,807

The fixed and floating rate financial liabilities comprise finance leases, preference shares and bank loans. The floating rate obligations bear interest at rates determined by reference to the relevant LIBOR or equivalent rate.

The weighted average interest rate of the fixed rate financial liabilities is 9.47% (2017: 2.38%). The weighted average period for which interest rates on the fixed rate financial liabilities are fixed is 0.5 years.

The maturity profile of the Group's financial liabilities at 31 December was as follows:

	2018	2017
In one year or less	30,010	29,928
In more than one year but not more than two years	30,030	44,928
In more than two years but not more than five years	209	911
In more than five years	632	40
Total	60,881	75,807

d) Capital risk management

The primary objective of the Group's capital management is to ensure it maintains sufficient capital in order to support its business and maximise shareholder value. The Group has an asset-light business model and uses cash generated from operations to either invest organically or by acquisition. The Group manages its capital structure and makes adjustments to it in light of changes in economic and market conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares.

The Group defines capital as net debt plus equity attributable to shareholders. There are no externally imposed restrictions on the Group's capital structure. The reconciliation of the Group's definition of capital employed is shown in note 2. The Group's reconciliation of net debt to net cash is shown below.

	Notes	2018	2017
Total borrowings	19	(60,881)	(75,807)
Total cash and cash equivalents	16	104,489	63,192
Group net cash/(debt)		43,608	(12,615)
Reconciliation of changes in cash and cash equivalents to movements in net debt			
Net increase in cash and cash equivalents		39,573	4,064
Repayment of borrowings		15,087	40,579
Repayment of finance lease liabilities		66	68
Effect of exchange rate fluctuations		1,497	(2,338)
Movement in net debt		56,223	42,373
Net debt at start of year		(12,615)	(54,988)
Net cash/(debt) at end of year		43,608	(12,615)

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

26. Financial instruments continued

e) Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, were as follows:

	Carrying amount 2018	Fair value 2018	Carrying amount 2017	Fair value 2017
Loans and receivables				
Trade receivables	145,509	145,509	145,529	145,529
Other receivables	23,513	23,513	19,344	19,344
Financial assets				
Cash and cash equivalents	104,489	104,489	63,192	63,192
Designated cash flow hedges				
Foreign exchange contracts:				
Financial assets	12	12	3,468	3,468
Financial liabilities	(2,387)	(2,387)	(1,766)	(1,766)
Financial liabilities at amortised cost				
Bank loans	(60,840)	(60,840)	(75,762)	(75,762)
Trade and other payables	(87,482)	(87,482)	(91,348)	(91,348)
Contingent consideration	(299)	(299)	(397)	(397)
Preference shares	(40)	(40)	(40)	(40)
Finance lease liabilities	(2)	(2)	(5)	(5)
	122,473	122,473	62,215	62,215

Fair value hierarchy

The fair value of the Group's outstanding derivative financial assets and liabilities consisted of foreign exchange contracts and swaps and were estimated using year end spot rates adjusted for the forward points to the appropriate value dates, and gains and losses are taken to equity estimated using market foreign exchange rates at the balance sheet date. All derivative financial instruments are categorised at Level 2 of the fair value hierarchy.

The other financial instruments are classified as Level 3 in the fair value hierarchy and are valued as follows:

i) Trade and other receivables/payables

As the majority of receivables/payables have a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

ii) Contingent consideration

As all the contingent consideration is contractually due for payment within 12 months (2017: 12 months), the carrying amount is equal to the fair value. Further information on the contingent consideration is shown in note 21.

27. Operating leases

Total future minimum lease payments under non-cancellable operating leases are as follows:

	2018	2017
Less than one year	5,964	5,359
Between one and five years	10,938	12,730
More than five years	887	1,179
	17,789	19,268

Of the £17,789,000 (2017: £19,268,000), £12,864,000 (2017: £13,996,000) relates to property and the balance to plant and equipment.

28. Capital commitments

Capital commitments at 31 December for which no provision has been made in these accounts were:

	2018	2017
Contracted	2,313	1,238

29. Contingencies

	2018	2017
Performance guarantees and indemnities	9,138	8,375

The performance guarantees and indemnities have been entered into in the normal course of business. A liability would only arise in the event of the Group failing to fulfil its contractual obligations.

30. Related parties

The Group has a related party relationship with its subsidiaries and with its directors and key management. A list of subsidiaries is shown on page 132 of these financial statements. Transactions between two subsidiaries for the sale and purchase of products or the subsidiary and parent company for management charges are priced on an arm's length basis.

Evoqua Water Technologies LLC is a related party of Rotork plc by virtue of M Lamb's non-executive chairmanship. Sales to subsidiaries and associates of Evoqua Water Technologies LLC totalled £80,000 during the year and £18,000 was outstanding at 31 December 2018.

Drax Group plc is a related party of Rotork plc by virtue of T Cobbold's non-executive directorship. Sales to subsidiaries and associates of Drax Group plc totalled £475,000 during the year and £143,000 was outstanding at 31 December 2018.

TechnipFMC plc is a related party of Rotork plc by virtue of A Andersen's employment with the company. Sales to subsidiaries and associates of TechnipFMC plc totalled £690,000 during the year and £289,000 was outstanding at 31 December 2018.

All the transactions above are on an arm's length basis and on standard business terms

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:

	2018	2017
Emoluments including social security costs	4,199	3,401
Post employment benefits	73	45
Pension supplement	294	285
Share-based payments	788	418
	5,354	4,149

ROTORK PLC COMPANY BALANCE SHEET

At 31 December 2018

	Notes	2018 £000	2017 £000
Non-current assets			
Property, plant and equipment	c	–	30
Investments	d	43,205	43,205
Deferred tax assets	e	293	150
		43,498	43,385
Current assets			
Trade receivables		54	–
Amounts owed by Group undertakings		199,990	178,116
Other receivables	f	718	158
Cash and cash equivalents		4,366	1,977
		205,128	180,251
Total assets		248,626	223,636
Equity			
Share capital	i	4,358	4,352
Share premium		13,024	11,193
Capital redemption reserve		1,644	1,644
Retained earnings		222,737	199,949
		241,763	217,138
Non-current liabilities			
Preference share capital		40	40
		40	40
Current liabilities			
Trade payables		267	178
Amounts owed to Group undertakings		1,052	1,063
Other payables	g	5,504	5,217
		6,823	6,458
Total equity and liabilities		248,626	223,636

The Company reported a total comprehensive income for the financial year of £71,252,000 (2017: £67,439,000).

These Company financial statements, company number 00578327, were approved by the Board of Directors on 4 March 2019 and were signed on its behalf by:

KG Hostetler and **JM Davis**, Directors.

ROTORK PLC COMPANY STATEMENT OF CHANGES IN EQUITY

At 31 December 2018

	Share capital £000	Share premium £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
Balance at 31 December 2016	4,350	10,482	1,644	175,495	191,971
Total comprehensive income for the year	–	–	–	67,439	67,439
Equity settled share-based payment transactions	–	–	–	1,089	1,089
Share options exercised by employees	2	711	–	–	713
Own ordinary shares acquired	–	–	–	(1,157)	(1,157)
Own ordinary shares awarded under share schemes	–	–	–	2,301	2,301
Dividends	–	–	–	(45,218)	(45,218)
Balance at 31 December 2017	4,352	11,193	1,644	199,949	217,138
Total comprehensive income for the year	–	–	–	71,252	71,252
Equity settled share-based payment transactions	–	–	–	2,457	2,457
Share options exercised by employees	6	1,831	–	–	1,837
Own ordinary shares acquired	–	–	–	(4,850)	(4,850)
Own ordinary shares awarded under share schemes	–	–	–	2,217	2,217
Dividends	–	–	–	(48,288)	(48,288)
Balance at 31 December 2018	4,358	13,024	1,644	222,737	241,763

NOTES TO THE COMPANY FINANCIAL STATEMENTS

a) Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements. Notes a to i relate to the Company rather than the Group. Except where indicated, values in these notes are in £000.

Basis of preparation

The financial statements have been prepared under the historical cost convention.

The Company has applied Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) issued by the Financial Reporting Council (FRC) incorporating the Amendments to FRS 101 issued by the FRC in July 2015, and the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015. In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital and tangible fixed assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

The Company produces consolidated financial statements which are prepared in accordance with International Financial Reporting Standards. As the consolidated financial statements of the Company include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of Group settled share based payments; and
- The disclosures required by IFRS 7 and IFRS 13 regarding financial instrument disclosures have not been provided.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee. The Company accounts for intra-Group cross guarantees under IAS 37.

As permitted by s408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account or statement of comprehensive income for the year. The profit attributable to the Company is disclosed in the footnote to the Company's balance sheet.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Investments in subsidiaries

Investments are measured at cost less any provision for impairment and comprise investments in subsidiary companies.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Plant and machinery is depreciated by equal annual instalments by reference to their estimated useful lives and residual values at annual rates of between 10% and 33%. Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Post-retirement benefits

The Company participates in a UK Group pension scheme providing benefits based on final pensionable salary. The assets of the scheme are held separately from those of the Company. The sponsoring employer for the Group pension scheme is Rotork Controls Ltd. No contractual agreement or policy is in place for charging to individual Group entities the net defined benefit cost for the plan as a whole. As a result, in accordance with IAS 19, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Classification of preference shares

In line with the requirements of IAS 32, Financial Instruments, the cumulative redeemable preference shares issued by the Company are classified as long term debt. The preference dividends are charged within interest payable.

Share-based payments

The Company has adopted IFRS 2 and its policy in respect of share-based payment transactions is consistent with the Group policy shown in note 1 to the Group financial statements. Costs in relation to share-based awards made to other Group company employees are recharged to each subsidiary company.

Deferred taxation

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Dividends

Interim dividends are recorded in the financial statements when they are paid. Final dividends are recorded in the financial statements in the period in which they are approved by the Company's shareholders.

Critical accounting estimates and judgements

Estimates and judgements are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a risk of causing a material adjustment to the carrying amount of assets and liabilities in the next financial year are listed below.

There are no critical accounting estimates or judgements requiring evaluation.

b) Personnel expenses in the Company profit and loss account

	2018	2017
Wages and salaries (including bonus and incentive plans)	4,449	3,739
Social security costs	708	506
Pension costs	100	185
Share-based payment charge	656	255
	5,913	4,685

During the year there were 19 (2017: 21) employees of Rotork plc plus the two (2017: two) executive directors.

Disclosures required by paragraph 1 of schedule 5 of SI2008/410 are set out in the director's remuneration report on pages 66 to 83.

Share-based payments

The share-based payment charge relates to employees of the Company participating in the Long Term Incentive Plan (LTIP). The disclosures required under IFRS 2 can be found in note 25 to the Group Financial Statements. The table below sets out the movement of share options under the LTIP for employees of the Company.

	Outstanding at start of year	Granted during year	Vested during year	Lapsed	Outstanding at end of year
2015 Award	370,040	–	–	(370,040)	–
2016 Award	614,491	–	–	(72,750)	541,741
2017 Award	270,802	–	–	(38,398)	232,404
2018 Award	–	604,342	–	(63,921)	540,421
	1,255,333	604,342	–	(545,109)	1,314,566

The weighted average remaining life of awards outstanding at the year end is one year.

c) Property, plant and equipment in the Company balance sheet

	Plant and equipment	Total
Cost		
At 1 January 2018	221	221
At 31 December 2018	221	221
Depreciation		
At 1 January 2018	191	191
Charge for year	30	30
At 31 December 2018	221	221
Net book value		
At 31 December 2018	–	–
At 31 December 2017	30	30

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

d) Investments in the Company balance sheet Shares in Group companies

	2018	2017
At 1 January and 31 December	43,205	43,205

The Company has the following investments in wholly owned subsidiaries:

Subsidiary	Incorporated in	Registered address
100% owned by Rotork plc		
GH Chaplain & Co (Engineers) Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Rotork Analysis Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Rotork Cleaners Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Rotork Control and Safety Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Rotork Instruments Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Rotork Nominees Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Widcombe (Developments) Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Rotork Controls Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Rotork Overseas Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
100% owned by Rotork Controls Limited		
Rotork Actuation (Shanghai) Co Limited	China	Building G, No.260 Liancao Road, Minhang District, Shanghai, PRC 201108
Rotork Trading (Shanghai) Co Limited	China	Room 1177, No.400, Middle Zhejiang Road, HuangPu District, Shanghai, China
Rotork Controls (India) Private Limited	India	28B, Ambattur Industrial Estate (North Phase), Ambattur, Chennai 600 098, India
Rotork UK Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Valvekits Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
100% owned by Rotork Overseas Limited		
Rotork Australia Pty Limited	Australia	Level 26, 181 William Street, Melbourne, VIC, 3000, Australia
Rotork Controls Comercio De Atuadores LTDA	Brazil	Rodovia SP 73, 4509 – Armazem Modulo 14 – NR Cond., Indaiatuba – SP, Brazil
Rotork Controls (Canada) Limited	Canada	#4-2850 Argentia Road, Mississauga, Ontario, L5N-8G4, Canada
Rotork Chile SpA	Chile	Rotork es Presidente Kennedy 4700, Oficina 1001, Vitacura, Chile
Bifold Group Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Rotork Midland Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Rotork Motorisation SAS	France	75, rue Rateau 93126 La Courneuve Cedex, France
Rotork Controls (Deutschland) GmbH	Germany	Siemensstr. 33, 40721 Hilden, Germany
Rotork Germany Holdings GmbH	Germany	Mühlsteig 45, 90579 Langenzenn, Germany
Rotork Limited	Hong Kong	Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
Eltav Wireless Monitoring Limited	Israel	15 Hata'asia St. Ra'anana, Israel 4365408
Rotork Italy Holdings Srl	Italy	Corso di Porta Vittoria 9 (Milano) Italy
Rotork Japan Co Limited	Japan	2-2-24 Sengoku, Koto-ku, Tokyo, 135-0015 Japan
Rotork Middle East FZE	Jebel Ali Free Zone	PUB-LC 07, near R/A 08, PO Box 262903, Jebel Ali Free Zone, Dubai, United Arab Emirates
Rotork (Malaysia) Sdn Bhd	Malaysia	1-17-1, Menara Bangkok Bank, Berjaya Central Park, No 105, Jalan Ampang, 50450 Kuala Lumpur, Malaysia
Rotork Actuation Sdn Bhd	Malaysia	No 32, Jln anggerik Mokara 31/47, Kota Kemuning, 40460 Shah Alam, Malaysia
Rotork BV	Netherlands	Mandenmakerstraat 45, 3194 DA Hoogvliet, The Netherlands
Rotork Gears Holding BV	Netherlands	Nijverheidstraat 25, 7581 PV Losser, The Netherlands
Robusta Miry Brook BV	Netherlands	Strawinskylaan 3127, 8th floor, 1077 ZX Amsterdam, The Netherlands
Rotork Norge AS	Norway	Ormahaugvegen 3, 5347 Ågotnes, Norway
Rotork Polska zoo	Poland	Tarnogórska 241, 44-100 Gliwice, Poland
Rotork Rus Limited	Russia	Offices 203-205, ul. Otradnaya 2B, bld. 3, 127273 Moscow, Russia
Rotork Controls (Singapore) Pte Limited	Singapore	426 Tagore Industrial Ave, Singapore 787808
Rotork Africa (Pty) Limited	South Africa	136 Kuschke Street, Meadowdale Ext3, Germiston, 1601 South Africa
Rotork Controls (Korea) Co Limited	South Korea	509, 5th Floor Leader's Bldg 342-1, Yatap-Dong, Bundang-gu, Seong-nam si, Gyeonggi-do, South Korea 463-828
Young Tech Co Limited	South Korea	81, Hwanggeum-ro, 89beon-gil, Yangchon-eup, Gimpo-si, Gyeonggi-do, Korea 10048

Subsidiary	Incorporated in	Registered address
Rotork Controls (Iberia) SL	Spain	Larrondo Beheko Etorbidea, Edificio 2 – 48180 Loiu (Bizkaia) Spain
Rotork Sweden AB	Sweden	Box 80, 791 22 Falun, Sweden
Rotork AG	Switzerland	Fuchsacker 678, 9426 Lutzenberg, Switzerland
Rotork Inc	USA	The Corporation Trust Company, Corporation Trust Center, 1209 Orange St., Wilmington, DE 19801 USA
Rotork Controls de Venezuela SA	Venezuela	Av. Casanova Torre banco plaza, piso 3 Ofic. 3D. Sabana Grande. Caracas – Venezuela
Rotork Turkey Akis, Kontrol Sistemleri Ticaret Limited Şirketi	Turkey	Aydinli Mahallesi Melodi Sok. Bilmo Küçük Sanayi Sitesi No:35/2 Tuzla, Turkey
100% owned by Valvekits Limited Circa Engineering Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
100% owned by Rotork Trading (Shanghai) Co Limited Centork Trading (Shanghai) Co. Ltd	China	Room C-02, 1/F, West Area No. 2 Building, No. 29 Jiatai Road, Free Trade Zone, Shanghai, China
Rotork Instruments Chengdu Co. Ltd	China	Room 1201, 12/F, Unit no.1, Building No. 1, Building I, 88 Shenghe No.1 Road, High Tech Zone, Chengdu, Sichuan, China 610041
100% owned by Rotork UK Limited Prokits Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Flowco Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
100% owned by Rotork Italy Holdings Srl Rotork Controls Italia Srl	Italy	Viale Europa n.17 – 20090 Cusago (Milano) Italy
Rotork Instruments Italy Srl	Italy	Viale Europa n.17 – 20090 Cusago (Milano) Italy
Rotork Fluid Systems Srl	Italy	Via Padre Jacques Hamel, 138/B – 55016 Porcari (Lucca) Italy
Rotork Gears Srl	Italy	Viale Europa n.17 – 20090 Cusago (Milano) Italy
100% owned by Rotork Gears Holding BV Rotork Gears BV	Netherlands	Nijverheidstraat 25, 7581 PV, Overijssel, The Netherlands
100% owned by Rotork Inc Rotork (Thailand) Limited	Thailand	35/8 Soi Ladprao124(Sawasdikarn) Ladprao Road, Plubpla, Wangtonglang, Bangkok 10310 Thailand
Rotork Controls Inc	USA	675 Mile Crossing Blvd., Rochester, NY 14624, USA
Remote Control Inc	USA	77 Circuit Dr. North Kingstown, RI 02852, USA
Ranger Acquisition Corporation	USA	The Corporation Trust Company, Corporation Trust Center, 1209 Orange St., Wilmington, DE 19801 USA
100% owned by Rotork Controls Inc Rotork Pittsburgh LLC	USA	6005 Enterpirise Drive, Export, PA 15632, USA
6005 Enterprise Drive LLC	USA	6005 Enterprise Drive, Export, PA 15632, USA
100% owned by Ranger Acquisition Corp Fairchild Industrial Products Company	USA	3920 West Point Blvd, Winston-Salem, NC 27103, USA
Rotork Tulsa Inc	USA	4433 W 49th Suite D, Tulsa, OK 74017, USA
100% owned by Fairchild Industrial Products Company Fairchild Industrial Products (Sichuan) Company Limited	China	Room 1201, Complex Square, No.88 West Shenghe No.1 Road, High Tech Zone, Chengdu, Sichuan, China. 610041
Fairchild India Private Limited	India	56-C / Bb , Janakpuri, New Delhi-110058
100% owned by Bifold Group Limited Bifold Fluidpower (Holdings) Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
100% owned by Bifold Fluidpower (Holdings) Limited Bifold Fluidpower Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
MTS Precision Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Marshalsea Hydraulics Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Bifold Company (Manufacturing) Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

d) Investments in the Company balance sheet continued

Subsidiary	Incorporated in	Registered address
100% owned by Bifold Fluidpower Limited		
Fluidpower (Stainless Steel) Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
100% owned by Rotork Germany Holdings GmbH		
Max Process GmbH	Germany	Rastenweg 10, 53489 Sinzig
Schischek GmbH	Germany	Mühlsteig 45, 90579 Langenzenn
Rotork GmbH	Germany	Mühlsteig 45, 90579 Langenzenn
100% owned by Rotork AG		
Schischek Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Schischek EURL	France	49 avenue du Président Salvador Allende, 77100 Meaux, France
Schischek Srl	Italy	Ranica (BG) – Via Adelasio 22, Italy
100% owned by Schischek GmbH (Germany)		
Schischek Sales Europe Ltd	England and Wales	Mühlsteig 45, 90579 Langenzenn
100% owned by Robusta Miry Brook BV		
Rotork Servo Controles de Mexico S.A de C.V	Mexico	Centeotl 223, Col. Industrial San Antonio, C.P. 02760, Azcapotzalco, Ciudad de Mexico, Mexico
100% owned by Rotork Controls (Iberia) SL		
Actuation Iberia S.L	Spain	C/ Ercilla, 21. , 48009 , Bilbao (Vizcaya), Spain
Centork Valve Control S.L	Spain	Pol. Ind. Ipintza 110, Txatxamendi 24-26 – 20100 Lezo (Gipuzkoa) – Spain

e) Deferred tax assets and liabilities in the Company balance sheet

Deferred tax assets and liabilities are attributable to the following:

	Assets 2018	Liabilities 2018	Net 2018	Assets 2017	Liabilities 2017	Net 2017
Tangible fixed assets	11	–	11	8	–	8
Provisions	282	–	282	142	–	142
	293	–	293	150	–	150

Movements in the net deferred tax balance during the year are as follows:

	2018	2017
Balance at 1 January	150	145
Credited to the income statement	143	5
	293	150

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. The value of temporary differences associated with unremitted earnings of subsidiaries for which deferred tax has not been recognised is £321,281,000 (2017: £305,277,000).

f) Other receivables in the Company balance sheet

	2018	2017
Prepayments	210	153
Other receivables	508	5
	718	158

g) Other payables in the Company balance sheet

	2018	2017
Other taxes and social security	44	47
Corporation tax	835	1,319
Other payables	3,218	1,673
Accruals	1,407	2,178
	5,504	5,217

The Company has a £17,000,000 gross overdraft facility (2017: £17,000,000) and is part of a UK banking arrangement, see note h.

h) Contingencies in the Company

The UK banking arrangements are subject to cross-guarantees between the Company and its UK subsidiaries. These accounts are subject to a right of set-off. The performance guarantees and indemnities have been entered into in the normal course of business. A liability would only arise in the event of the Group failing to fulfil its contractual obligations.

The Company negotiated to extend the term facility of £60,000,000 (2017: £75,000,000) to August 2020. The Company has a £60,000,000 Revolving Credit Facility (2017: £60,000,000) which matures in August 2020. The facilities are available to the Company, Rotork Controls Limited and Rotork Overseas Limited. At year end £60,000,000 of the committed facilities were drawn, resulting in £60,000,000 being available.

i) Capital and reserves in the Company balance sheet

Details of the number of ordinary shares in issue and dividends paid in the year are given in note 17 to the Group financial statements.

TEN YEAR TRADING HISTORY

	2018 £000	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000	2009 £000
Revenue	695,713	642,229	590,078	546,459	594,739	578,440	511,747	447,833	380,560	353,521
Cost of sales	(384,253)	(358,090)	(328,410)	(296,944)	(309,280)	(304,066)	(272,199)	(236,359)	(199,742)	(187,600)
Gross profit	311,460	284,139	261,668	249,515	285,459	274,374	239,548	211,474	180,818	165,921
Overheads	(188,542)	(198,167)	(167,891)	(145,129)	(143,232)	(135,109)	(115,081)	(99,474)	(83,094)	(74,384)
Operating profit	122,918	85,972	93,777	104,386	142,227	139,265	124,467	112,000	97,724	91,537
Adjusted* operating profit	146,015	130,162	120,588	125,272	157,167	151,412	131,866	115,921	99,442	92,103
Amortisation of acquired intangible assets	(20,284)	(27,183)	(26,811)	(20,886)	(14,940)	(12,147)	(7,399)	(3,921)	(1,718)	(1,153)
Disposal of property	–	–	–	–	–	–	–	–	–	587
Other adjustments	(2,813)	(17,007)	–	–	–	–	–	–	–	–
Operating profit	122,918	85,972	93,777	104,386	142,227	139,265	124,467	112,000	97,724	91,537
Net interest	(2,170)	(5,386)	(2,707)	(2,517)	(1,062)	(1,268)	(273)	550	131	(621)
Profit before taxation	120,748	80,586	91,070	101,869	141,165	137,997	124,194	112,550	97,855	90,916
Tax expense	(29,004)	(24,973)	(23,897)	(27,012)	(37,963)	(38,488)	(34,879)	(32,149)	(28,334)	(26,884)
Profit for the year	91,744	55,613	67,173	74,857	103,202	99,509	89,315	80,401	69,521	64,032
Dividends	48,288	45,218	43,876	43,765	42,702	38,735	33,924	49,534	35,912	24,102
Basic EPS	10.5p	6.4p	7.7p	8.6p	11.9p	11.5p	10.3p	9.3p	8.1p	7.4p
Adjusted* EPS	12.6p	10.6p	10.0p	10.4p	13.2p	12.5p	10.9p	9.6p	8.2p	7.5p
Diluted EPS	10.5p	6.4p	7.7p	8.6p	11.9p	11.4p	10.3p	9.3p	8.0p	7.4p

* Adjusted is before the amortisation of acquired intangible assets, the disposal of property and other adjustments.

SHARE REGISTER INFORMATION

The tables below show the split of shareholder and size of shareholding in Rotork plc

Ordinary shareholder by type	Number of holdings	%	Number of shares	%
Individuals	2,627	75.9	23,304,830	2.7
Bank or nominees	781	22.6	844,915,223	96.9
Other company	35	1.0	632,705	0.1
Other corporate body	18	0.5	2,784,730	0.3
	3,461	100.0	871,637,488	100.0

Range	Number of holdings	%	Number of shares	%
1 – 1,000	858	24.8	378,339	0.1
1,001 – 2,000	451	13.0	672,682	0.1
2,001 – 5,000	653	18.9	2,204,368	0.2
5,001 – 10,000	439	12.7	3,209,069	0.4
10,001 – 50,000	606	17.5	13,398,659	1.5
50,001 – 100,000	123	3.5	8,777,359	1.0
100,001 +	331	9.6	842,997,012	96.7
	3,461	100.0	871,637,488	100.0

Source: Equiniti

Dividend information

The table below details the amounts of interim, final and additional dividends declared in respect of each of the last five years.

	Interim dividend (p)	Final dividend (p)	Total dividends (p)
2018	2.20	3.70	5.90
2017	2.05	3.35	5.40
2016	1.95	3.15	5.10
2015	1.95	3.10	5.05
2014*	1.92	3.09	5.01

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

Financial calendar

4 March 2019	Preliminary announcement of annual results for 2018
11 April 2019	Ex-dividend date for final proposed 2018 dividend
12 April 2019	Record date for final proposed 2018 dividend
26 April 2019	Announcement of trading update
26 April 2019	Annual General Meeting held at Bailbrook House Hotel, Eveleigh Avenue, London Road, Bath, BA1 7JD
6 August 2019	Announcement of interim financial results for 2019

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Company Secretary

Helen Barrett-Hague

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