Keeping the world flowing for future generations

Annual Report 2019

rotork

rotork®

Rotork is a market-leading global provider of mission-critical flow control and instrumentation solutions for oil and gas, water and wastewater, power, chemical process and industrial applications.

We help customers around the world to improve efficiency, reduce emissions, minimise their environmental impact and assure safety.

Cover story
Rotork's energy-efficient actuators can be powered by solar panels and batteries enabling the reliable management of water, including in remote locations

Highlights

Financial

£669m

KPI **Revenue**

2019	£669.3m
2018	£695.7m
2017	£642.2m

£151m

Adjusted* operating profit

2019	£151.0m
2018	£146.0m
2017	£130.2m

22.6%

KPI **Adjusted* operating profit margin**

2019	22.6%
2018	21.0%
2017	20.3%

£124m

KPI **Profit before tax**

2019	£124.1m
2018	£120.7m
2017	£80.6m

* Adjusted figures exclude the amortisation of acquired intangible assets and net restructuring costs

See our full KPIs on page 48

Non-financial

50%+
Employees owning shares

23%
Women in senior roles

7.3
Engagement survey score

6.2
Pace of change survey score

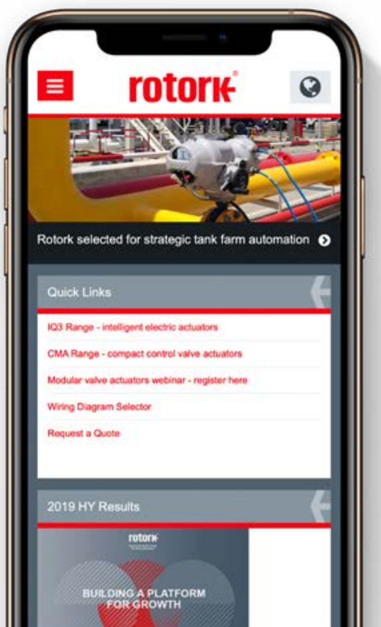
-9%
KPI Carbon emissions (YoY)

-22%
KPI Lost time injury rate (YoY)

- Rotork is proud to have well above average employee share ownership. We offer employees the opportunity to own Rotork shares in all geographic locations where it is practicable to do so
- Our Hampton-Alexander 'Women on Executive Committee and Direct Reports' figure increased in 2019 to 23.1%, from 17.4% in 2018
- The 'engagement' survey question asks employees how they rate Rotork as a place to work. Respondents can answer 0-10, where 0 is bad, 10 is good
- We consider the 'pace of change' question in our employee survey as important given the initiatives underway at Rotork. Respondents can answer 0-10, where 0 represents too slow, 10 too fast
- We are pleased to report a third successive year's reduction in our carbon emissions, down to 15.3 $TnCO_2e$ in 2019
- The lost time injury rate (LTIR) is a measure of the effectiveness of our health and safety procedures. We are pleased to report our LTIR fell 22% in 2019

See our full KPIs on page 48

To view our latest results or for more information about what we do visit **www.rotork.com**



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Embedding our Purpose and Values

Rotork's company Purpose is the reason we exist, and helps guide both our culture and our three Values: Stronger Together, Always Innovating and Trusted Partner.

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Delivering our Growth Acceleration Programme

We are encouraged by the early results of our Growth Acceleration Programme which began in 2018. The programme aims to deliver higher revenue growth and margins over time.

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Operating responsibly for our stakeholders

We are committed to maintaining positive relationships with our shareholders, employees, suppliers, customers, communities and society.

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Corporate Governance

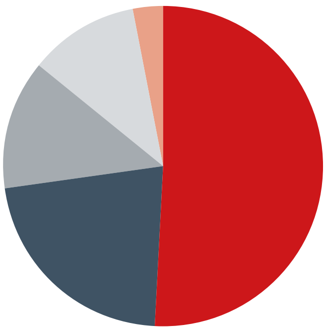
Financial Statements

Rotork at a glance

Rotork is a market-leading global provider of mission-critical flow control and instrumentation solutions.

Our products and services are used extensively in oil and gas, water and waste water, power, chemical, process and industrial markets around the world to increase operational efficiency, reduce environmental impacts, improve product quality and provide safer working environments. Our new product development allows us to expand into exciting high-potential new markets.

Revenue by end market



Oil & Gas	51%
Industrial Processes	22%
Water & Wastewater	13%
Power	11%
Other	3%

Our new market focused divisions

On 1 January 2020 Rotork moved to a new divisional structure. Our three new divisions are Oil & Gas, Water & Power and Chemical, Process & Industrial (CPI). Our new end market aligned structure will enable us to more closely meet our customers' needs whilst bringing us closer through key account management.

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Oil & Gas

Rotork's products and services are used by oil and gas customers across their upstream, midstream and downstream segments including in offshore and onshore production facilities, refining, processing, transportation and storage and distribution.

Industrial Processes

The general industrial market is an increasingly important one for Rotork. Our products are used to control processes in many markets, including mining, basic materials, chemicals, marine, rail, HVAC, food and beverage and pharmaceuticals.

Water & Wastewater

Water production, distribution, collection and wastewater treatment markets represent significant opportunities for Rotork. Applications for actuation technologies include water treatment plants, pumping stations, water pipelines, dams, sluice gates and sewage works.

Power

Conventional power stations are major users of our products. Whilst new plant construction growth is forecast to slow, upgrade, renovation and maintenance continues. Our products are also used in clean power, including flue gas desulphurisation, concentrating solar and fuel cells.

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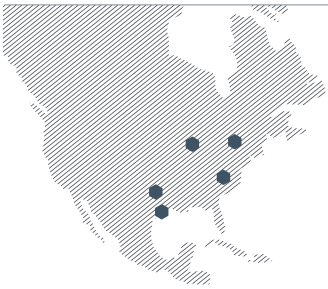
A global business with nearly 3,700 employees, we serve customers in more than 173 countries through our network of 65 offices, 22 manufacturing facilities and our relationships with local agents. Our 490 service engineers are based throughout our network providing maintenance, repair and upgrade services.

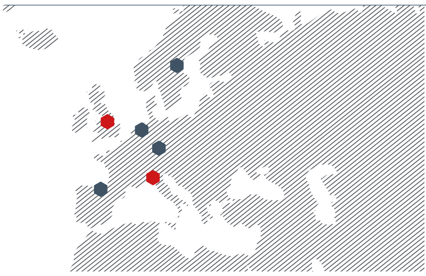
173
Countries served

3,686
Employees



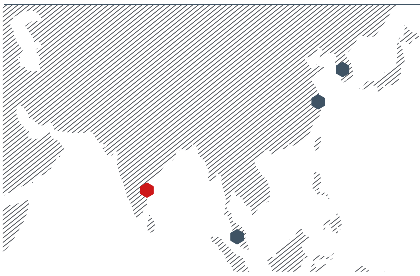
Americas

Manufacturing facilities	5
Offices	12
Employees	616



Europe, Middle East and Africa

Manufacturing facilities	11
Offices	24
Employees	2,034



Asia Pacific

Manufacturing facilities	6
Offices	29
Employees	1,036

Manufacturing facilities
Locations with multiple manufacturing facilities

Our divisions

We have four product divisions and Rotork Site Services which works across all four divisions and provides aftermarket services. These are (with their sales):

£353m
Rotork Controls
World-leading electric valve actuators and network control systems

£138m
Rotork Fluid Systems
Pneumatic, hydraulic and electro-hydraulic actuators and control systems

£83m
Rotork Gears
Specialist manufacturer and supplier of gearboxes to the valve industry

£109m
Rotork Instruments
Specialist manufacturer of measurement, flow and pressure control products

Strategic Report

Our Values represent what is important to us. Below are two of the winning entries from our Rotork Values photography competition – congratulations to the Rotork teams in India and China!

Rotork delivered strong operating margin improvement in 2019 as the benefits of the Growth Acceleration Programme more than offset a challenging trading backdrop, particularly in respect of large projects.

Chairman's statement

The Group delivered an encouraging set of financial results, despite large project activity slowing further as geopolitical uncertainty remained high and customers exercised more caution on capital investment decisions. Our ambitious Growth Acceleration Programme made excellent progress, with cost and efficiency savings more than offsetting increased investments in our people and process infrastructure; and substantial working capital improvements driving strong cash conversion.

Adjusted operating margins in 2019 increased by 160 basis points over the previous year, rising to 22.6% from 21.0% in 2018; and cash conversion exceeded 131%, resulting in £106m of net cash. This was achieved despite lower than expected sales, demonstrating a welcome increase in the financial resilience of the business. Pleasingly, year-on-year order growth resumed in the second half of 2019.

During the course of the year we undertook a root and branch review of our Purpose, Values, and behaviours, with excellent input and buy-in from our employees. We unveiled the output of this work in the summer, along with a new Code of Conduct, and began a global roll-out shortly thereafter. Our Purpose is 'keeping the world flowing for future generations', retaining much of the previous Rotork strapline but adding a new element, 'for future generations', reflecting Rotork's commitment to continuous innovation, financial resilience, and environmental sustainability, both in respect of our own business and that of our customers.

Our Values definitions were the subject of significant employee input, reflecting Rotork's historical strengths and culture, but building in the objectives of a significant programme of internal cultural change in our pursuit of higher growth and margins. Our Values are 'Stronger Together', 'Always Innovating', and 'Trusted Partner', more of which later. In assembling the photography for this report we have tried to convey a sense of the enthusiasm and energy with which our employees have embraced these Values.

The Rotork Board is closely monitoring all aspects of climate change for its possible impact on our stakeholders. The energy transition is a complex subject and we are taking specialist external advice to help us understand and assess the opportunities and risks for Rotork's businesses under different scenarios. Overall we consider those opportunities to be significant and we are positioning Rotork to capture them.

Recognising the importance of Environment, Social & Governance (ESG) and sustainability matters, we are forming an ESG Board Committee to be chaired by our non-executive director Ann Christin Andersen. ESG performance will also be an important part of the executive directors' personal strategic objectives in 2020.

We continue to review ways to reduce our net carbon footprint, being mindful of the goals of the Paris Agreement.

22.6%
Adjusted operating profit margin, up 160 basis points

31.8%
Return on capital employed, up 260 basis points

6.2p
Dividend for 2019, up 5.1% year-on-year

Financial highlights
Order intake increased by 1.5% on the prior year, or 0.7% on an OCC* basis, with growth resuming in the second half following a weaker first half against a strong prior-year comparison. Revenue declined by 3.8% to £669m, or 4.4% on an OCC basis. The revenue reduction reflected several factors including the benefit in the prior year from delivery of several significant oil & gas projects, and selected portfolio and product rationalisation. Adjusted operating profit increased by £5.0m to £151.0m (OCC up £3.2m) with adjusted operating margin 160bps higher year-on-year at 22.6%. The increase in margin reflected procurement savings, productivity and mix. Return on capital employed increased by 260bps to 31.8%.

Sales from end markets other than oil & gas grew in the year, driven by the industrial process sector. In total, revenues from non-oil & gas markets increased from 46% to 49%, with water & waste-water increasing to 13% and industrial processes up to 22%. Oil & gas revenues declined, principally due to the high basis of comparison (2018 included several large downstream projects which were not repeated). Within oil & gas, midstream sales did grow, however.

Growth Acceleration Programme
Our Growth Acceleration Programme remains on track. We have made good progress optimising our manufacturing footprint, the rationalisation of our supply chain is underway, the lean operating initiatives are bearing fruit both from a margin and cashflow perspective, and we are now entering the implementation stage of our IT infrastructure upgrade after having completed a detailed design and review process. Our initiatives to accelerate long-term growth have gained good traction, with the roll-out of a sales organisation focused on end markets (as opposed to product groups) now largely complete, and a Group-wide reorganisation of the new product development process now implemented.

Talent and Culture
Rotork has a strong and distinct culture, which is widely recognised as a key contributor to the Group's historical success. We have worked hard during the year to further define, enhance and develop those cultural strengths in support of our more ambitious growth and margin agenda. Much of that work, as referenced earlier, is reflected in a Group-wide and collective effort to define our Values more formally.

'Stronger Together' echoes our longstanding belief in 'One Rotork', recognising that we and our customers benefit from us working as one team, locally and globally. 'Always Innovating' is a reminder of our history, the importance of having truly differentiated products and solutions, and a passion for continuous improvement. And 'Trusted Partner' emphasises that Rotork takes its responsibilities to all its stakeholders and the environment extremely seriously.

We made progress during the year in respect of promoting greater employee diversity, particularly in respect of gender balance. Globally, women now represent 21.8% of our people, up from 21.4% in 2018. I would like to thank all our employees for their continued high level of commitment and professionalism throughout 2019.

Board update
The Board comprises two executive directors, five independent non-executive directors and myself as non-executive Chairman, in full compliance with the Governance Code 2018. More than one third of the Board are female.

As previously announced Tim Cobbold assumed the Chair of the Remuneration Committee in April. In line with best practice all members of this Committee are Non-Executive and are not serving Executives elsewhere. Tim also assumed a Board role for employee engagement in line with the latest Corporate Governance code.

The annual performance review of the Board took place during October and December 2019; see page 68 of the Corporate Governance Report for more.

Corporate governance
The Board continues to be committed to the highest standards of governance and stakeholder engagement remains at the forefront of the Board's decision-making. During the year, the Board closely monitored the progress being made against the Growth Acceleration Programme targets. The publication of the new code of conduct and its supporting policies was an important milestone this year. Further details of this work, our approach to governance and our compliance with the Code are contained in the Corporate Governance Report on pages 62 to 74.

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 requirements which can vary significantly from year to year. This year the Board recommends a final dividend of 3.9p per share, an increase of 5.4% from the 2018 final dividend. With the 2019 interim dividend of 2.3p, the total dividend for the year is 6.2p (2018: 5.9p), a 5.1% increase on 2018. This is equivalent to 2.1 times cover based on adjusted earnings per share (2018: 2.1 times). The final dividend will be payable on 22 May 2020 to shareholders on the register on 14 April 2020.

Outlook
Looking ahead, it is too early to assess fully the potential impacts of COVID-19. Absent these, we were planning for modest sales growth on an OCC basis and margin progress in 2020, driven by further benefits of our Growth Acceleration Programme albeit with margin progress more gradual, reflecting our investment plans.

—

Martin Lamb
Chairman
2 March 2020

* OCC is organic constant currency results excluding acquisitions and disposals and restated at 2018 exchange rates.

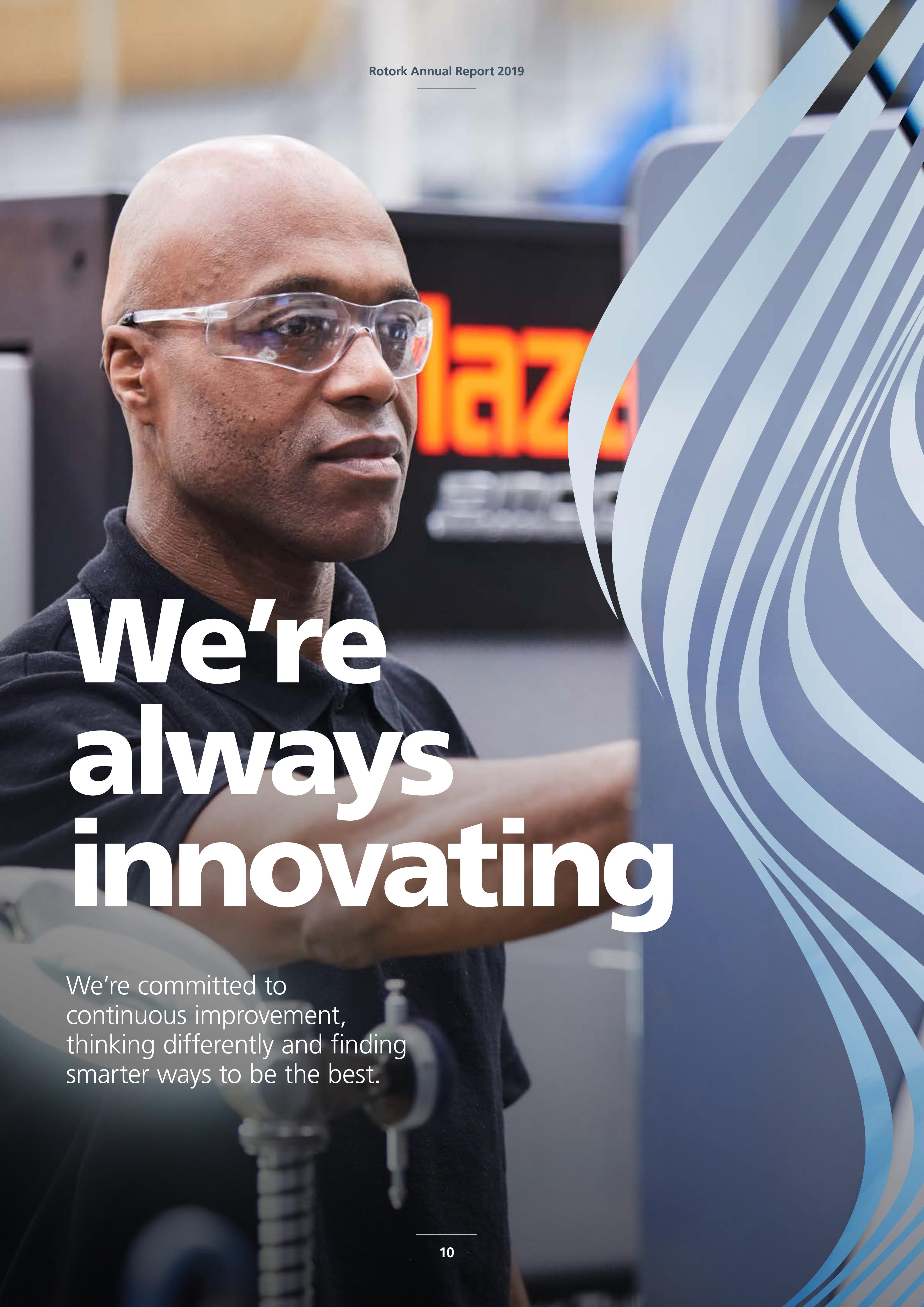
We're stronger together

We put people first, we collaborate, inspire and support each other to win as one team.

3,686
Employees globally

Keeping people safe

Rotork's tunnel ventilation products make underground mass transit comfortable and safe, controlling airflow and in an emergency extracting smoke and preventing the spread of fire.



We're always innovating

We're committed to continuous improvement, thinking differently and finding smarter ways to be the best.

17

New products launched during 2019

Helping reduce emissions

Rotork's explosion-proof products control the flow of hydrogen gas in fuel cell power plants which provide low-cost, renewable electricity.

We're a trusted partner

We're a responsible business, proud of our customer focus. We put quality and service at our heart.

490

Site Services personnel providing advanced maintenance, repair and upgrade services

Controlling renewables

Rotork's Pakscan Master Station with its long-range signalling capabilities is the digital control system of choice for large-scale parabolic trough solar energy plants.

Rotork investment proposition

We believe that the combination of our Purpose, our strategy, our culture and our Values, our business model and our Growth Acceleration Programme differentiates us and will drive superior value for our shareholders.

Global leader in highly attractive markets

Rotork is the world leader in electric valve actuators and related network control systems. The market in which we operate has high barriers to entry and is relatively concentrated. Our products are highly specified and are used in demanding applications in tough environments. Actuators are generally considered inexpensive when compared to the high cost of a facility shutdown.

More on page 20

Our Purpose

Our Purpose is 'keeping the world flowing for future generations'. Our Purpose is a powerful motivator, encouraging us to make a positive difference to people's lives not just today, but also into the future. It reflects Rotork's longevity and our intentions as a responsible company. The quality of the products and services we provide helps reduce environmental risks while providing vital resources to those who need them.

High returns with room for upside

Our adjusted operating profit margin was 22.6% in 2019, up from 21.0% in 2018, amongst the highest in the industrial goods sector. We target a further increase in margin to the mid-20s over time. Our Return on Capital Employed (ROCE), at 31.8% in 2019, is also well above the average amongst our peers.

22.6%

Adjusted operating profit margin

More on page 48

The Rotork Values
Our Values are important to us and our success. They ensure our culture is consistent wherever we operate.

High performance culture
We use our experience to solve problems, effectively and efficiently, are easy to do business with, and do what we say we'll do.

More on page 22

Exciting growth prospects

Rotork has a long history of growth. External drivers include global GDP growth, automation, electrification, digitalisation, energy efficiency and emissions reduction. Our ambitious Growth Acceleration Programme targets additional growth through being easier to work with, realigning our salesforce, accelerated new product development and investment in Asia Pacific and in Site Services. Additionally, we see significant opportunity for value-enhancing bolt-on acquisitions.

8.7%
20-year basic EPS growth (CAGR)

Strong cash generation and balance sheet

Rotork's businesses are extremely cash generative. Cash conversion* averaged 119% over the last five years. This cashflow enables us to fund organic investments and pay a progressive annual dividend. Our policy is to maintain a strong balance sheet, giving us the flexibility to invest and to make acquisitions. At the end of 2019 we had a net cash balance of £106m.

£106m
Net cash balance

Over 50-year dividend track record

We have a strong dividend track record, increasing our annual ordinary dividend payment to shareholders every year for nearly 20 years, and paying extra or special dividends on six occasions. The Board proposes a 5.4% increase in the final dividend in 2019, which would make a 5.1% increase for the full year.

8.5%
20-year dividend growth (CAGR)

More on page 7

Strong Values, performance culture

We are respected and admired for our products, people and performance. Rotork has long had a widely-admired culture with particular strength in sales, operations, Site Services and safety. Our new Purpose, Values and behaviours are driving a shift towards an even higher performance culture that will enable all employees to achieve their maximum potential. Our success flows from our commitment to engineering excellence, and that's what we will always pursue, safely and sustainably. We are committed to improving our environmental performance and developing products that benefit the environment.

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* We define cash conversion as cash flow from operating activities before tax outflows, restructuring costs and the pension charge to cash adjustment as a percentage of adjusted operating profits

Our Growth Acceleration Programme is on track and already delivering great results for our stakeholders.

More on page 24

Chief Executive's review

This time last year, I wrote in my first annual review as Chief Executive of Rotork that the implementation phase of our Growth Acceleration Programme had started very encouragingly. I am extremely pleased to report, one year on, that this momentum has continued and the Programme has real traction, as evidenced by a 160 basis point adjusted operating margin improvement (to 22.6%) and another year of impressive cash generation.

I am particularly pleased with the progress we are making redefining our Rotork culture. Rotork has always had a strong culture, one characterised by a supportive and cooperative approach, teamwork, a strong sense of brand loyalty, and a hard-working can-do mentality. We are looking to build on these positive characteristics, supplementing them with an increased appetite for external perspective and a greater appreciation of process excellence.

The launches in the summer of our new Purpose and Values were important steps on our culture change journey. Our Purpose is 'keeping the world flowing for future generations.' The first half of this statement, 'keeping the world flowing', has been used by Rotork for many years and remains a great description of why we exist. The additional element, 'for future generations', reflects Rotork's longevity and intentions as a responsible company, whilst reminding that our products and services help secure vital resources and reduce environmental risks.

Significant employee consultation went into the selection of our Values, which are Stronger Together, Always Innovating and Trusted Partner. 'Values day' was celebrated at 50 Rotork sites around the world and we were extremely pleased with the large numbers of entries received in our Values photography competition – several of the winners feature in this 2019 annual report. A sincere thank you to all those who submitted photographs.

Health, safety and environment

The health, safety and wellbeing of our people and our visitors is our number one priority. We want our colleagues to go home in the same condition that they arrived for work every day – if not in better shape as they carry home a feeling of real accomplishment! I am pleased therefore to report a reduction in recorded 'lost time' incidents in 2019.

We are fully committed to reducing our environmental impact by reducing our energy and water consumption, waste production and preventing pollution. We operate an assembly-only philosophy at most of our business units, meaning that the majority of our energy use is on lighting, heating, cooling and IT systems. Our site consolidation efforts and other initiatives contributed to excellent progress reducing our environmental impact in the year.

Rotork's overall emissions were 12.8% lower year-on-year, and 9.3% lower on a revenue-adjusted basis at 15.3 $TnCO_2e$. We reduced our electricity consumption by 11.3%, ahead of our target of a 2% reduction. Our water usage at 38,890m^3 fell by

22.6%
Adjusted operating profit margin, up 160 basis points

£106m
Net cash balance

50
Sites celebrated 'Value Day' on September 12th

12.4%, and 8.9% on a revenue-adjusted basis. Gas consumption (heating, normalised on degree days) fell by 1.5%. This was slightly below our 2% target, largely reflecting the 19% improvement made in 2018. Absolute scope 1 and scope 2 emissions have decreased by 12.8% compared with 2018. The increase from the 2012 baseline year is 4.3%.

Financial performance

Order intake increased 1.5%, or 0.7% on an OCC basis, in part reflecting the difficult prior comparison we faced in the first half. Group orders grew 3.9% year-on-year in the second half. Divisionally, order intake was strongest at our highest margin division, Rotork Controls. Revenue declined 3.8% year-on-year, 4.4% on an OCC basis. This reflected a number of factors including reduced large project activity (particularly impacting Rotork Fluid Systems), order phasing, portfolio and product rationalisation and the loss of sales to countries subsequently placed under sanction.

Adjusted operating margins improved 160bps to 22.6% benefiting from Growth Acceleration Programme savings and mix. It was once again a strong year for cashflow with cash conversion of 131%. Return on capital employed rose to 31.8% (2018: 29.2%), reflecting both increased profitability and the disposal of several underutilised assets. Our balance sheet remains strong, with a net cash position of £106m at the year end. This provides firepower for our organic investment plans and flexibility to pursue targeted M&A.

The realignment of our sales force to focus on end markets will be completed shortly. Following this important change, and as previously announced, we will report under a new divisional structure going forward. Our three new divisions are Oil & Gas, Water & Power and Chemical, Process & Industrial. Rotork Site Services will continue to be managed as a separate unit within the divisions. Rotork Site Services sales grew strongly in the year and now represent 20% of the Group total. See page 30 for more information.

External environment

The external environment proved to be more challenging than expected in 2019. Global economic growth lost momentum through the year, and 2019 is now expected to have seen GDP growth of around 2.5%, versus earlier forecasts of above 3.0%. The year saw the slowest global growth rate since 2008/09 following the global financial crisis.

There were a number of uncertainties impacting customer confidence in 2019: the US-China trade war and its possible impact on China's growth; geopolitical tensions in the Middle East; and uncertainty associated with the UK exiting the European Union. This weak confidence weighed on customer capital investment decisions, particularly as regards larger projects.

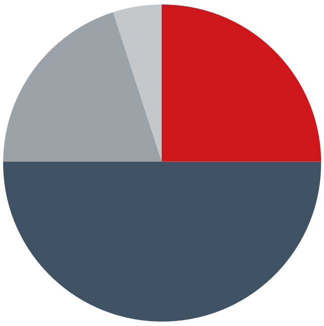
Living our Values
Our Values represent what is important to us. Above are two of the winning entries from our Values photography competition – congratulations to the Rotork teams in Korea and Singapore!

More on page 6

Turn over to continue reading

Chief Executive's review continued

Customers' operational expenditure drives 75% of our orders



Small orders <£10k	25%
Small to mid-sized orders £10k to 100k	50%
Mid to large-sized orders £100k to £1m	20%
Large orders >£1m	5%

Majority of activity driven by customers' operational (rather than capital) expenditure

We estimate that maintenance, repair and small to mid-sized automation/improvement projects (individual orders each less than £100k) generate 75% of Group orders by value in a typical year, and that orders above £1m represent only 5% of group order intake. A large greenfield project, or a major brownfield capacity expansion project would typically (but not always) result in a >£1m order.

Why this matters

Customer capital expenditure budgets are more likely than operational budgets to come under pressure during uncertain economic times, such as periods of slowing growth. Such periods often see an acceleration in automation activity as this typically represents an attractive return on what can be a relatively modest investment.

Growth Acceleration Programme

Our Growth Acceleration Programme, which we began to implement in the second half of 2018, is designed to deliver sustainable mid to high single-digit revenue growth and mid-20s adjusted operating margins over time. The programme is not about a fundamental reinvention of Rotork, but rather refining how we do things, building on our strong foundations, through people, processes and systems.

Progress in 2019 was very encouraging. The year was about margin improvement, cash generation and preparing the Group for sales acceleration. We were particularly pleased to report a 160 basis point improvement in adjusted operating margin year-on-year despite revenues declining, and that we finished the year with a net cash balance of £106m. Both were ahead of our plan.

We made excellent progress on all four pillars of the Programme. Our sales force re-alignment (to an end-market focus) was rolled out region by region and will soon be completed. Over 275 of our sales people attended our 'value selling' course, and a similar number will take it in the first half of 2020. Our new product development initiatives are on track with the launch of seventeen new products during 2019. I was particularly pleased with our progress at Rotork Site Services and in Asia Pacific.

Our operational improvement initiatives accelerated in 2019. The implementation of mixed-model lean, and investment in key locations, facilitated manufacturing optimisation including two factory closures. Our supply chain improvement work delivered the targeted £5m of purchasing savings despite our inventory optimisation initiatives yielding a better than expected £21m reduction.

Following the success of 2018's talent acquisition and development initiatives, the focus in 2019 was more on our culture, with the launches of Rotork's Purpose, Values, behaviours and Code of Conduct major highlights. As discussed above, our Values were chosen by our people and I was extremely pleased by the energy with which our people have embraced them.

Having completed the majority of our IT solution design workshops, we are now entering the implementation stage with our partners Hitachi and Microsoft. I am pleased to report that we have launched the Global Field Service and Human Resources systems to plan.

Year 2
Of our 5-year Growth Acceleration Programme

17
New product launches in 2019

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Did you know?

The most common application of Rotork's products and services across all our end markets is the control and management of water. Our customers are very large users of water, and use our products extensively to control their water usage whilst minimising their environmental impact. Many of our products sold to oil & gas, chemical, industrial and power generation customers are used to control the flow of their process water. They're making significant efforts to manage their environmental impact, including recovery, recycling and treating water.

We're keeping the world flowing for future generations.

During the year we completed a review of the broader flow control and instrumentation space. This confirmed the strength of Rotork's current position in highly attractive markets and reinforced our confidence in implementing the opportunities identified by the Growth Acceleration Programme, including refining our view of the key focus areas for organic growth and acquisitions.

We are now two years into the five-year Growth Acceleration Programme and, whilst there is further hard work ahead, we are very much on target. A measure that is important to me, and I know is to our shareholders, is our productivity. This continues to recover. After having receded year-on-year for seven years to 2017, adjusted operating profit per employee improved from £34k in 2017 to £40k in 2019.

Capital deployment strategy

Rotork remains a highly cash generative business and our net cash balance increased to £106m at period end. Our cash position provides us with considerable optionality in uncertain times. The priorities for our cash remain unchanged: organic development (new markets, new product development); our progressive dividend policy; followed by targeted acquisitions. If we decide at any point that we have surplus cash, we would look to return it to shareholders.

Kevin G. Hostetler
Chief Executive
2 March 2020

Rotork at the Bath Half
Over 30 members of the Rotork Running Club completed the Bath Half Marathon in March 2019. The team's efforts helped raise £6,000 for a local charity, Children's Hospice South West.

Our market dynamics

Global mega trends driving our growth

	Population and middle class growth, urbanisation	Automation, energy-efficiency, electrification	Digitalisation, industrial internet, technology
General impact	Global GDP growth continues – with developing markets growing faster than developed markets, and urban areas growing faster than rural areas.	Upgrade from manual to automated valves and process control. Move from less energy-efficient fluid to electric powered controls over time.	Intelligent monitoring of plant. Smart diagnostics enabling preventative/predictive maintenance. Increasingly sophisticated flow characterisation.
Oil & Gas	Demand for oil continues to grow and is forecast to do so for years to come. Whilst transportation demand may slow, other sectors are expected to grow rapidly (fibres, plastics, fertilisers etc.). Gasification continues, boosted by unconventional production.	Lower prices have led to increased technology adoption in the conservative upstream and placed cost reduction through automation at the top of the agenda. Downstream, pressure on refining margins is driving investment in more efficient plant.	The industry is starting to embrace new technologies such as data analytics, wireless, cloud computing, digital twins (of oilfields and process plants) and predictive maintenance. Demand for smart sensors/devices continues to grow.
Chemical, Process & Industrial (CPI)	Middle class growth is driving demand for 'quality of life' products such as appliances, insulation and construction materials, chemicals, consumer goods, textiles/clothing, premium food stuffs, pharmaceuticals, transportation equipment etc.	CPI's customers need to produce higher quality products at a competitive price with less environmental impact. Automation projects, in which Rotork products can be key components, can be an attractive risk/return way to meet the challenge.	Digitalisation is more advanced than in our other markets. Rotork products enable real-time monitoring and allow problems to be fixed before they escalate, improving safety, productivity and performance.
Water & Wastewater	Demand for water infrastructure is strong across developing and developed markets. Water scarcity is an issue globally. Rotork solutions are used in purification, distribution, waste collection, treatment and management (flood/tidal defence).	Water markets are generally highly regulated and the scope to increase prices is limited. Capital investment is typically rewarded however, meaning Rotork's offerings that enable automation projects with an attractive return are in demand.	Leak detection and monitoring remain a major focus. Water shortages are driving the development of smart grids. The water industry was an early adopter of secure wireless technologies such as the Rotork Pakscan P3 system.
Power	Electricity demand continues to rise each year, driven by GDP growth and electrification. Renewable generation (solar and wind) has become competitive with traditional power plants in recent years.	Low wholesale electricity prices and fluctuating renewable supply have made investment in smaller more flexible combined-cycle gas plants and peakers more attractive than investment in larger plants.	To remain economic, existing large traditional power plants need to be able to predict and/or rapidly respond to changing demand and supply, requiring Rotork's more sophisticated actuation solutions.

	Globalisation, trade, regulatory developments	Infrastructure investment and modernisation	Climate change, decarbonisation, water scarcity
General impact	Economic growth is forecast to be fastest in developing markets and particularly in Asia Pacific. Trade tensions appear to have resulted in some investment decision delays.	Infrastructure investment is forecast to grow significantly faster than GDP for decades. Whilst Asia dominates, there is scope for catch-up in other regions (e.g. Americas, Africa).	Climate change is recognised as a serious global environmental issue, contributed to by greenhouse gas emissions by the transportation, power and industrial sectors.
Oil & Gas	Refining migration West to East, with shutting refineries often converted to hydrocarbon storage facilities. Newly-built refineries often have high Rotork content. Regulations such as IMO 2020 will increase demand for cleaner fuels, including renewable diesel.	The outlook for LNG-related infrastructure investment is positive. Pipelines, liquefaction and re-gasification plants are required to connect new supply (e.g. North and South America) with new demand (e.g. China, other Asian nations).	The oil & gas industry is committed to reducing its emissions and developing new products such as net zero carbon and hydrogen fuels. Capture and storage technologies can play an important part in emission reduction.
Chemical, Process & Industrial (CPI)	Trade tensions appear to have reversed earlier globalisation in some cases. Regulatory developments relating to food, chemical and pharmaceutical standards will lead to additional investment in process plants, including in automation and quality control.	Rotork's products and systems are used to safely control critical processes in numerous sectors benefiting from infrastructure spend including mining, metals, pulp & paper, chemicals, glass, marine and rail.	Decarbonisation is an opportunity for CPI. The insulation industry is expected to benefit from energy efficiency efforts. Methane capture systems, incorporating numbers of valves, are under development to reduce emissions from cattle manure.
Water & Wastewater	Increasing regulations relating to water quality, water re-use and sludge treatment are driving water-related capital expenditure across industry. Rotork is well placed to benefit, for example through the new CK range of waterproof electric actuators.	Infrastructure is required to move water from over-to under-supplied areas and in many countries requires modernisation. Desalination investment continues, including in North Africa and the Middle East.	Rising water levels are necessitating flood defence investment. High water usage industries including oil & gas, power and recycling are investing in more efficient water treatment and recycling systems.
Power	The introduction of tradable carbon emission permits in certain countries has put further pressure on traditional power generation.	Whilst fewer large coal, oil and nuclear plants are being constructed globally, there is still an enormous installed base which requires the maintenance, modernisation and efficiency services provided by Rotork Site Services.	Traditional power stations are installing flue-gas desulphurisation, switching to biofuels, and developing carbon sequestration systems. All represent opportunities for our actuation/process control systems.

Our business model

Our resources

Brand and reputation
Our well recognised brand is built on our over 60-year history. Rotork has a reputation for high quality, reliable products and excellent aftermarket service.

People and culture
Key to our success is our ability to attract, develop and retain talented people. Rotork has a strong culture, reinforced by our new Values: Stronger Together, Always Innovating and Trusted Partner.

Engineering and technology
Rotork engineers design some of the world's most technologically-advanced and innovative industrial valve actuation and flow control equipment.

Asset-light operations
Our factories receive components finished to our exacting standards from our supply chain for assembly. This enables us to have asset-light operations which produce strong cashflows and gives us flexibility to respond to any change in market conditions.

Global presence
We serve customers in more than 173 countries through our network of 65 offices, 22 manufacturing facilities and through our local agents.

Unrivalled installed base
We have the largest installed base of heavy-duty electric valve actuators in the world, totalling over two million units by our estimates. This installed base offers a clear opportunity for aftermarket growth.

Service offering
Rotork Site Services offers unrivalled technical support and aftermarket services as well as our Integrated Asset Management solutions.

Our strategic partners
Our partners collaborate with us in technology, product concept and design, manufacturing, distribution and customer services.

Balance sheet strength
Our strong financial position allows us to invest in new product development, faster-growing markets and in our Site Service business to deliver further growth, higher margins and value creation.

Our new market-focused divisions
We plan to present historical financial information on our new market-focused divisions, Oil & Gas, Water & Power and Chemical, Process & Industrial, before we report our 2020 interim results.

Rotork is one of the world's leading automation equipment and services companies

Our flow control and instrumentation products are used extensively in the oil and gas, chemical and process, water and wastewater and power markets. Our customers rely on us for innovative, high quality engineered solutions and services, many of which are used in mission and/or safety critical heavy-duty applications.

Rotork's competitive advantage comes from:

Product quality & brand reputation
For over 60 years Rotork branded products have been widely recognised for their reliability, durability, innovation and superior performance.

Significant barriers to entry
Barriers to new competitors entering into our markets include industry and customer certifications, patents and copyrights and switching costs.

Unrivalled service offering
Rotork Site Services, leveraging our unequalled installed base, has the largest footprint in the industry. Rotork Site Services provides superior support to customers globally 365 days per year.

Customer requirements

Rotork actively listens to its customers to deeply understand their product and service needs.

Rotork solutions & services

We strive to assist innovatively our customers, comply with industry standards and improve the productivity, environmental performance and safety of their operations.

Our people, operations & products

We invest in our people, our facilities and in the development of new products and services.

Long-term sustainable value creation

We aim to create sustainable value for all our stakeholders, including governments and communities.

Creating value in 2019

Customers
We develop solutions that improve our customers' productivity.

£692m
Order intake

17
New product launches

Employees
We create an environment where each and every employee is able to be their best.

£188m
Amount paid in wages, salaries, social security etc.

275
Sales people trained in value selling

Suppliers
We have a reputation for integrity, fair dealing and ethical behaviour.

£240m
Spend with external materials suppliers

300+
Supplier audits completed

Governments & communities
We engage positively with the community and offer support through donations and volunteering.

£33m
Corporation tax (cash paid)

3
Global charity partners

Shareholders
We have a strong track record of creating shareholder value and have increased our dividend each year for nearly 20 years.

£52m
Dividends paid to shareholders

38%
Total shareholder return

More on page 52

Our Growth Acceleration Programme

We are extremely encouraged by the early results of our Growth Acceleration Programme which began in 2018. The programme aims to deliver higher revenue growth and margins over time.

Our Growth Acceleration Programme is designed to deliver sustainable mid to high single-digit revenue growth and mid-20s adjusted operating margins over time. The programme is not about transforming Rotork, but rather refining how we do things, building on our strong foundations. We have grouped the programme's initiatives into four pillars, which we call Commercial Excellence, Operational Excellence, Talent & Culture and IT & Core Business Processes.

We made excellent progress on all pillars of the programme in 2019. The year was about margin improvement, cash generation and laying the foundations for sales acceleration. We were particularly pleased to report a 160 basis point improvement in adjusted operating margin year-on-year. We continue to expect the funding of a significant part of the programme to be self-financed through working capital improvements and cost efficiencies, including productivity and procurement.

Commercial excellence

- Sales force optimisation – shifting to an end-market orientation
- Value selling training
- Innovation and new product development
- Site services expansion

Operational excellence

- Targeted manufacturing improvements
- Supply chain globalisation
- Footprint optimisation
- Inventory reduction

Talent & culture

- Internalising our performance appraisal and review processes
- Aligning our strategy, goals, behaviours, and rewards systems
- Redefining our Rotork culture

IT & core business processes

- Improving and standardising core business processes, enabling back office leverage
- IT/systems enhancements
- Emphasising operating efficiencies

Strategy, portfolio and product line assessment
Simplifying our core business and preparing for acceleration

Growth | **Margin enhancement** | **Key enablers**

Our Growth Acceleration Programme continued

Commercial excellence

Performance

- Our objective is to supply the products and services our customers require whilst being straightforward to work with.
- We are re-aligning our client facing teams so that they sell to specific end markets. During 2019 we successfully completed the transition of our Asia Pacific and EMEA salesforces. This work will complete in 2020 with the Americas.
- We are strengthening our engineering capability and the processes supporting the team. Engineering resources are now concentrated on the most promising products under development and on accelerating their commercialisation. We launched seventeen new products in 2019.
- We consider Rotork Site Services to be a key differentiator in the industry and are increasing our investment in this area.

Key metrics

17
New product launches (10 in 2018)

20%
Rotork Site Services' contribution to group revenues

Priorities

- To complete our end market re-alignment and to start deriving the benefits of our improved market focus.
- To seek feedback from our customers and our sales people and hence ensure that the re-alignment is successful.
- To launch at least 20 new products in 2020.
- To further grow our team of Site Service technicians, and increase the number of actuators under service agreements.

Case study

Launch of the IQT3 -61 degrees centigrade actuator
The Controls Division launched the extreme cold temperature variant of the popular Rotork IQT3 quarter-turn electric valve actuator during 2019. The new product has a patent pending and is designed to operate in the toughest conditions without additional power supply or gearbox or external heaters.

Operational excellence

Performance

- Our objective is to improve our operational efficiency (margins and capital employed) and our cyclical resilience.
- We rolled out Rotork mixed-model lean to eleven factories and to our major subsidiaries. The result was an increase in direct labour productivity and first pass yield as well as a free-up of factory space (facilitating site rationalisation).
- Our Global Strategic Sourcing initiative was further developed. We are moving from a traditional localised purchasing model to a strategic one with larger suppliers that offer quality, value and flexibility. We secured £5m of purchasing savings despite inventory reduction initiatives.
- Inventories were reduced by £21m following the roll-out of the Rotork Inventory Optimiser (RIO).

Key metrics

160bps
Adjusted operating margin improvement

£5m
Purchasing savings in 2019

£21m
Inventory reduction in 2019

Priorities

- Further factory improvements, including selective investments (including at the Rochester, US, facility). Footprint optimisation continues.
- Deliver further lean 'Rapid Improvement Events' and launch mixed-model lean in the remaining factories.
- Continue to consolidate our supply chain and build on the procurement savings and inventory reduction already achieved.

Case study

Inventory optimisation targets beaten
Our Growth Acceleration Programme work identified our goods-in inventory as a significant working capital reduction opportunity. Increased focus, and RIO, resulted in a £21m inventory reduction in 2019. This was significantly ahead of our internal targets set at the start of the year.

Talent & culture

Performance

- Our objective is to have the team, culture and performance management approach to achieve our goals and aspirations.
- Following the success of 2018's talent acquisition and development initiatives, 2019's focus was more on our culture, with the launches of Rotork's Purpose, Values, behaviours and Code of Conduct being major highlights.
- We completed a number of employee pulse surveys in 2019. We consider the 'pace of change' question an important indicator given the initiatives underway at Rotork. The most recent score of 6.2 suggests our pace of change is right.
- We continue to work to ensure that we have appropriate succession plans and that we develop and retain talent.

Key metrics

6.2
Pace of change score

3
New Rotork Values

Priorities

- Ensure our performance approach and reward systems link to our Purpose, Values, behaviours and Code of Conduct.
- Embed a culture of continuous improvement across Rotork.
- Continue our work on succession, development, retention, and gender balance.

Case study

Launch of our One Rotork Values
Over 2,000 Rotork colleagues helped choose our three new Values. Fifty Rotork sites around the world ran launch events. We launched a Values photography competition for staff to submit photos that represented these new Values. The 12 best images featured in our 2020 calendar. A post-launch pulse survey demonstrated that the Values resonated with our people. We are proud that our staff have embraced the Values.

IT & core business processes

- Our objective is group-wide IT systems and business processes that improve our way of working and increase our commercial and operational efficiency.
- We are developing new IT solutions covering Enterprise Resource Planning (ERP), Customer Relationship Management (CRM), Field Service, Business Intelligence and Human Resources (HR).
- An encouraging number of solution design workshops were completed during 2019, enabling us together with our implementation partners (Microsoft and Hitachi) to move on to construction, implementation and transition phases.
- We launched our Global Field Service and HR Systems.

53
New business intelligence dashboards

- Our priorities in 2020 include enhancements to our Global Human Resources System as well as the roll-out of our Global CRM System.
- We will continue to develop and test our Global ERP System and prepare for our first major factory deployment (expected to be in late 2020/early 2021).

Global HR System boosts our efficiency
We launched our Global HR System at the end of the year. The new system significantly reduces the administrative burden on our HR, payroll and benefits teams and provides us with significantly improved business information. It is being used by 45 Rotork legal entities and replaces 32 legacy systems.

Our strategy

Strategic objectives	Strategic initiatives	Progress in 2019
Accelerated growth Deliver accelerated year-on-year growth in revenues and profits through a combination of organic growth and acquisitions. Maximise our return on capital through optimised 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. Concentrate our resources on the most promising and profitable areas. • **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.	• Sales declined by 4%, reflecting subdued large project activity, order phasing, portfolio and product rationalisation, the halting of sales to countries since placed under sanction, and the strong comparison period. • We launched 17 new products and hired a professional programme manager to accelerate our strategic new product development activities. • New products included: CK range of electric actuators (reduced weight); PAX pressure regulator (zero emission, low power); and low power pumps, controllers and solenoid valves (enabling actuators to be solar powered). • Rotork Site Services invested in service personnel and in its lifetime management offerings. • Our M&A pipeline is building and we have continued to have conversations and cultivation meetings with a number of potential targets.
Increased margins Deliver sustainably higher margins through simplifying our core business, targeted manufacturing improvements and development of our global supply chain.	• **Manufacturing excellence** – Consolidate operations and develop efficient, effective world-class manufacturing facilities. • **Cost management** – Continued cost management, reflecting current market conditions and development of the global supply chain. • **Global business systems** – Develop and roll out our global business systems to enable more efficient operations.	• Adjusted operating profit margins increased by 160 basis points, rising to 22.6% from 21.0% in 2018. • Our footprint rationalisation plans remain on track and we closed two manufacturing sites during the year. We broke ground on our Rochester (NY) expansion. • We rolled out lean to our major and ten smaller facilities. • We achieved our purchasing savings target and delivered cost savings of £5m from sourcing initiatives. • Our inventory reduction programme is on track, with very encouraging results to date. Average stock turn increased. • We divested a small non-core distribution business.
Sustainability Rotork's approach to sustainability is encapsulated in our Purpose: 'keeping the world flowing for future generations'.	• **Balance sheet strength** – Build on our track record of strong cash generation to bolster our balance sheet and ensure we have sufficient resources for investment in our businesses and in acquisitions. • **Supplier of choice** – Be the supplier of choice for our customers, sustaining our revenue streams. • **Employer of choice** – Be the employer of choice, attracting, developing and retaining our talented employees. • **Protect the environment** – Improve our environmental performance to secure our continued sustainability. Develop and promote products that benefit the environment.	• Another strong cash performance resulted in an increase in net cash to £106m. Our cash conversion KPI shows a conversion of 131% of adjusted operating profit to cash. • We maintained our focus on customer experience, targeting response times and support levels. • We completed three employee pulse surveys and produced a series of internal videos featuring senior leaders discussing our Values and our objectives. • We are committed to creating a diverse workforce. The percentage of females within our apprentice intake has increased from 5% in 2018 to 20% in 2019. • We reduced our electricity, gas and water consumption. Our CSR sub-committee promoted improvements in health and safety and training on ethical behaviour. • Our employees gave their time and money to charities.

Performance	Focus for 2020	Links to risks	Links to remuneration
£669m Revenue **31.8%** KPI Return on capital employed	• The Board has ambitions to return the business to higher growth and margin levels. • Capturing the benefits of our move to an end market segment orientation, embedding value selling into Rotork's DNA. • Gaining share in high-growth regions – China, India and South East Asia. Developing our channel penetration in North America. • Increasing revenues from new products. Accelerate new product launches – targeting more than 20 in 2020. • Increasing the number of actuators under service agreements and broadening our aftermarket revenue streams. • Acquisitions will be considered where appropriate to supplement our capability, reach and support our plans for growth.	1 Decline in market sector confidence 2 Increased competition 3 Geopolitical instability 4 Failure of an acquisition to deliver value 7 Major in-field product failure 10 Growth Acceleration Programme	• Bonus – strategic targets • Deferred share bonus plan award • LTIP – return on capital measure
22.6% KPI Adjusted operating margin **£21m** Inventory reduction	• Continued focus on operational footprint optimisation, simplifying our organisational structure, reducing the complexity of our global supply chain, reviewing our channel partners and introducing new systems. • Further embed lean/continuous improvement into Rotork's DNA and drive additional employee productivity. • Deliver incremental purchasing savings and inventory reduction. • Deliver the Rochester (NY) expansion.	1 Decline in market sector confidence 2 Increased competition 3 Geopolitical instability 5 Health, Safety & Environment 7 Major in-field product failure 8 Failure of a key supplier 9 Critical IT system failure and cyber security	• Bonus – profit and cash generation measures • Bonus – personal performance targets • LTIP – total shareholder return and earnings per share measures
131% KPI Cash conversion **15.3** $TnCO_2e$ KPI Carbon emissions **38,890m³** Water consumption	• Further reduce inventories across the group, thereby freeing up net working capital which can be put to use more effectively elsewhere. • Strengthen the partnership with our customers through Rotork Site Services, our end market realignment and incorporating more customer and market-driven innovation into our product development. Revisit our digital strategy (including e-commerce). • Build on the early successes of our internal communications strategy. Continue to track employee engagement.	5 Health, Safety & Environment 6 Compliance with laws and regulations 9 Critical IT system failure and cyber security	• Bonus – safety measures • Bonus – strategic targets • Deferred share bonus plan award • LTIP – total shareholder return measure

See our full KPIs on page 48

See our full principal risks on page 34

Our new market-aligned structure

One of the most important Growth Acceleration Programme initiatives underway is our move from a product focused to an end market segment focused structure that more closely meets customer needs. This realignment will soon be completed, and our interim results will be reported under our new divisional structure.

Product divisions
Percentage of 2019 Group revenue

Controls
52%

More on page 40

Fluid Systems
20%

More on page 41

Gears
12%

More on page 42

Instruments
16%

More on page 43

New end market focused divisions
Percentage of 2019 Group revenue

Oil & Gas
50%

No 1
Worldwide in Oil & Gas

The Oil & Gas division supplies Rotork's actuation and instrumentation products and services to upstream, midstream (incl. LNG and pipelines) and downstream oil & gas customers across the world.

Chemical, Process & Industrial (CPI)
27%

No 1-5
Worldwide in certain niche applications

The CPI division supplies Rotork's actuation and instrumentation products and services to a broad spread of industries including chemicals, mining, basic materials, marine, transport, HVAC, food and beverage, and pharmaceuticals.

Water & Power
23%

No 2
Worldwide in Water & Power

The Water & Power division supplies Rotork's actuation and instrumentation products and services to water and waste-water, conventional power and renewables end markets globally.

Risk management

How Rotork manages risk

Managing the risks of our business is essential to our Purpose of 'keeping the world flowing for future generations'. Our approach to risk is intended to protect the interests of all our stakeholders.

Managing business risks

As with all businesses, there are certain risks and uncertainties that may impact Rotork's ability to achieve our objectives. 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 62. The continuous improvement and execution of a comprehensive and robust risk management system is of paramount importance.

We have made a number of enhancements during 2019: broadening the bottom-up risk assessment process to include a review with all central functions, greater focus on risk mitigations and development of action plans to bring risks within appetite for those where it is exceeded. Key Risk Indicators (KRIs) have also been kept under review during 2019 with plans to enhance the KRIs further in 2020.

Risk appetite framework

The Board is responsible for determining the nature and extent of the risks it is willing to take in achieving our strategic objectives. Our Group risk appetite statement sets the right tone from the top and supports decision making.

Risk appetite

Rotork is committed to innovation and sustainable growth. Our Purpose, 'keeping the world flowing for future generations', is reflected in how we review risks. We have embarked on our Growth Acceleration Programme, investing in technology, people, new products, new service infrastructure and an optimised operating footprint. Upholding Rotork's core Values will be a key driver of our future success. We are committed to generating stakeholder value and will only take considered risks that fulfil our strategic objectives and do not risk our financial stability.

The risk appetite framework provides qualitative and quantitative insight on risks and supports proactive mitigation planning. The risk appetite framework consists of the following steps:

- **Identify key decisions**
- **Evaluate decisions against risk appetite**
- **Review key risk indicators**
- **Review and update the risk appetite preferences**

Risk management process

Top down risk assessment

Ongoing risk mitigation reviews and controls testing

Bottom up risk assessment

Divisions and businesses identify, manage and monitor risks

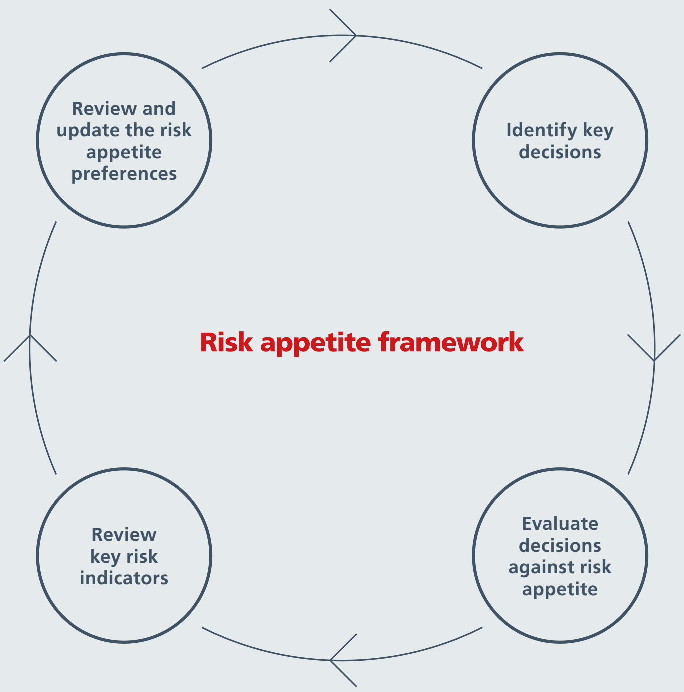
Rotork PLC Board
- Responsible for risk management and internal controls
- Responsible for defining risk appetite, statements and preferences
- Responsible for promoting a risk-aware culture that emphasises integrity at all levels of business operations
- Responsible for determining our principal risks and considering emerging risks, ensuring that risk management is embedded within the core processes of the Group

Audit Committee
- Responsible for reviewing the risk management policy
- Responsible for reviewing the effectiveness of internal controls
- Responsible for approving the internal audit assurance plans

Rotork Management Board (RMB)
- Responsible for the identification, consolidation, reporting and management of Principal and Key risks
- Responsible for reporting to the Board on the management of our Principal and Key risks

Functional Management
- Responsible for identifying current and emerging risks specific to the relevant function/business unit
- Responsible for implementing risk management within the designated area of accountability

Group Risk & Internal Audit
- Responsible for supporting the delivery of effective risk management across the group
- Responsible for monitoring risks and providing reporting to management
- Responsible for providing independent assurance to the Audit Committee over internal control effectiveness



During 2019, we updated the risk appetite framework to reflect changes to the nature of Rotork's business and our operating environment. This included the Board's risk appetite statements and preferences, which inform the KRIs monitored by the Board. The risk appetite statements provide guiding principles to support decision-making at both a Board level and throughout the Group.

The Board sets the Group's risk appetite preference, stating whether we are tolerant, neutral or averse to a particular risk. These preferences guide our approach to managing risk. The connection between risk appetite and how each risk owner manages their risks has supported the creation of detailed 'get to green' action plans, where some risks sit outside of appetite. We have applied the risk appetite framework throughout 2019.

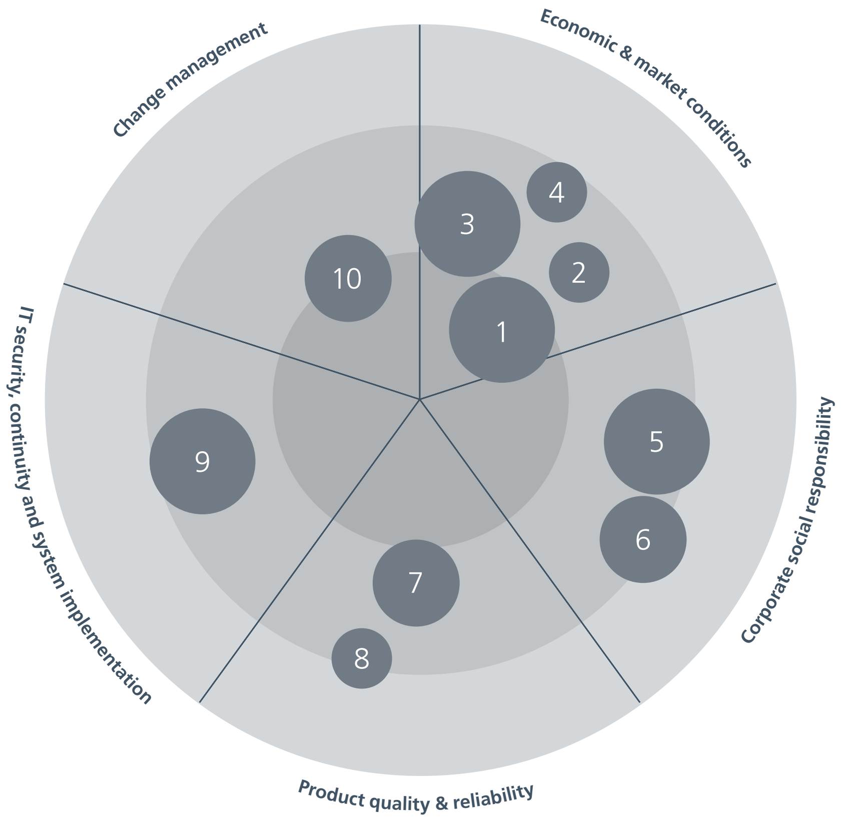
See principal risks and uncertainties on pages 34-39

Principal risks and uncertainties

Our risk management processes are dynamic. We will continue to assess and prioritise the risks related to the Growth Acceleration Programme and their impact on the principal risks 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.

Emerging risks and opportunities:
Our risk management process includes consideration of risks and opportunities that may impact Rotork in the future. In 2019, our emerging risk analysis focused on the impact of climate related events on our business operations, and the risks and opportunities associated with technological breakthroughs and disruptors in areas such as manufacturing and product innovation. We continue to reflect on the complex global challenges in relation to climate change, whilst recognising that there are various opportunities for Rotork to support our customers to reduce emissions and waste and increase efficiencies. Emerging risks are identified throughout the year, investigated in detail at our divisional and functional risk workshops, and with the Rotork Management Board and Plc Board twice a year. We believe our ability to identify those risks and opportunities that may pose a future impact to Rotork and our stakeholders as being fundamental to our successful risk management process.

Focus for 2020:
In 2020 we intend to review our Key Risk Indicators to leverage the improvements made in our technology as part of the Growth Acceleration Programme and underlying data. We will perform a review of our emerging risks and opportunities in 2020, including analysis into the risks and opportunities in relation to climate change with a view to understanding how those risks may impact Rotork, our people, our customers and our suppliers in the future. The risks associated with the COVID-19 virus will be monitored throughout 2020, focused on our people, customers and supply chain. As our business aligns to our customer base, the Rotork Management Board will review the risks associated with the Growth Acceleration Programme.



Principal risks

1. **Decline in market sector confidence**
2. **Increased competition**
3. **Geopolitical instability**
4. **Failure of an acquisition to deliver value**
5. **Health, Safety & Environment**
6. **Compliance with laws and regulations**
7. **Major in-field product failure**
8. **Failure of a key supplier**
9. **Critical IT system failure and cyber security**
10. **Growth Acceleration Programme**

Likelihood

High

Medium

Low

Potential impact

High

Medium

Low

	1	2
Principal risk	Economic and market conditions **Decline in market confidence**	Economic and market conditions **Increased competition**
Description	A decline in government and private sector confidence and spending will lead to cancellations of expected projects or delays to existing expenditure commitments. 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.	Increased competition on price or product offering leading to a loss of sales globally or market share.
Key mitigating actions	• 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 but may not fully mitigate a change in the larger end markets. • Small to mid-sized orders are generally less likely to come under pressure during uncertain economic times. We estimate that 75% of Rotork orders by value are small to mid-sized, i.e. less than £100k. • Increased focus on service offerings, to capitalise on increased demand for product maintenance.	• 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 features and quality of our products and the services we provide. • Global Strategic Sourcing team secure lower prices for components. • Rotork has production or sales and service operations in many low cost countries.
Risk appetite statement	We will in the long term move to increase the addressable markets which we serve.	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.
Link to strategy	1 2 3	1 2 3

Risk trend

- Increasing
- No change
- Decreasing

Link to strategy

1. Accelerated growth
2. Strong margins
3. Sustainability

Turn over to continue reading about our principal risks

Values Day!
Rotork colleagues in Rochester, US, celebrating the launch of Rotork's new Values.

Principal risks and uncertainties continued

Risk trend
- Increasing
- No change
- Decreasing

Link to strategy
1. Accelerated growth
2. Strong margins
3. Sustainability

	3 No change	4 No change
Principal risk	Economic and market conditions **Geopolitical instability**	Economic and market conditions **Failure of an acquisition to deliver value**
Description	Increasing social and political instability, including Brexit, results in disruption and increased protectionism in key geographic markets. Business disruption would impact our sales and might ultimately lead to loss of assets located in the affected region.	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.
Key mitigating actions	• Regular review of global markets considering social and political risks and contingency plans. Market exit strategies developed and implemented as required. • Key Risk Indicator monitoring the percentage 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 on a monthly basis. • A Brexit Committee was set up and external support was sought to consider and put in place the necessary response to the risks associated with Brexit.	• Forecast market conditions are considered during the due diligence process. • Due diligence processes 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. • Careful consideration and negotiation of acquisitions by senior management to ensure the purchase price represents value for money. • Effective integration and communication of Rotork's policies and procedures.
Risk appetite statement	We will continue to operate a geographically diverse business and actively pursue opportunities and efficiency of our global supply chain.	We will pursue acquisition opportunities that are in line with our growth agenda and review each on its individual merits and expected benefits.
Link to strategy	1 2 3	1 2 3

More on page 46

Turn over to continue reading about our principal risks

Principal risk

5 — No change

Corporate social responsibility

Health, Safety and the Environment

Description

The nature of Rotork's core business and geographical locations involves potential risks to the health and safety of our employees or other stakeholders.

A failure of our products or internal processes could have an impact on the environment.

Key mitigating actions

- 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.
- Appropriate training is provided for known safety risks.
- Regular communications about accidents at work and visible key risk indicators.
- Engagement of a third party to provide international support and travel advice in all markets and geographies.
- Proactive culture of 'safety spots' introduced to help reduce safety issues.
- Monitoring of our energy usage and emissions of our sites and implementation of more energy efficient solutions.

Risk appetite statement

We are fully committed to ensuring the health and safety of all our employees and other stakeholders and we are committed to reducing any negative impact of our environmental footprint.

Link to strategy

2 3

6 — No change

Corporate social responsibility

Compliance with laws and regulations

Description

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.

Key mitigating actions

- New code of conduct launched to all staff supporting the Rotork Values.
- A 'no tolerance' culture, supported by a tone from the top, reinforcing our high ethical standards and Values.
- Anti-bribery and corruption training is provided to all relevant staff.
- Completion of our Group wide review of arrangements with agents/distributors.
- Due diligence procedures in place for agents and acquisition targets before engaging in business relationships.
- Availability and promotion of the 'Speak Up' policy and hotline.
- We are committed to reduce our environmental impact and comply with all legal and regulatory requirements.
- Monitoring of changes in legislation, including sanctions, with appropriate safeguards put in place.
- We continue to specifically assess the modern slavery risks arising in our business and identify appropriate steps to address any risks identified.

Risk appetite statement

We have zero tolerance for non-compliance with relevant laws and regulations in the markets in which we operate.

Link to strategy

3

Risk trend

- Increasing
- No change
- Decreasing

Link to strategy

1. Accelerated growth
2. Strong margins
3. Sustainability

Turn over to continue reading about our principal risks

Principal risks and uncertainties continued

Principal risk	7 — Product Quality and reliability **Major in-field product failure**	8 — Product Quality and reliability **Failure of a key supplier**
Description	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 a key supplier or tooling failure at a supplier causing disruption to manufacturing at a Rotork factory.
Key mitigating actions	• Extensive product design review process pre-launch, using Rotork's extensive product launch experience. • Fitting and commissioning products wherever possible by Rotork engineers to ensure correct operation when first used. • Comprehensive set of quality control procedures over suppliers. These include supplier visits, audits and a scorecard system to measure their performance. • Global service coverage ensures that any product failure issues should be dealt with quickly and efficiently to minimise any reputational impact.	• Dual sourcing for key components wherever possible provides mitigation for key suppliers or a tooling failure. • 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. • Identification of our critical suppliers and components, and improvements in supply chain due diligence and monitoring of supplier quality. • Strengthening of our risk monitoring processes, including the ways we identify and respond to early warning signs of potential supplier failure.
Risk appetite statement	We will maintain robust quality control procedures over components purchased and over our finished products in all of our manufacturing locations.	We will use our purchasing power to optimise our vendor base, ensure value for money and reduce lead times whilst maintaining quality. We will maintain robust quality control procedures over components purchased and over our finished products in all our manufacturing locations.
Link to strategy	1 2 3	1 2 3

Risk trend

- Increasing
- No change
- Decreasing

Link to strategy

1. Accelerated growth
2. Strong margins
3. Sustainability

Turn over to continue reading about our principal risks

	9	10
Principal risk	IT Security, continuity and system implementation **Critical IT system failure and cyber security**	Change Management **Growth Acceleration Programme**
Description	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 Growth Acceleration Programme and other change projects lead to business disruption or have a negative effect on day-to-day operations.
Key mitigating actions	• Established security controls, policies and procedures. Dedicated security team using monitoring and defence tools. • Third party cyber maturity assessments performed regularly. • Continuously raising cyber security awareness through regular training and simulated phishing attacks. • All new GAP IT services are designed with a 'cloud first' approach to improve security, resilience and availability. • All IT services are patched in accordance with vendor support contracts and external advice. • A disaster recovery solution (supported by third party service level agreements) is in place for all critical systems. • Increased security and authentication controls implemented for all IT users. • Key risk indicators and a cyber security report submitted on a quarterly basis to the Board.	• Growth Acceleration Programme workstreams are being managed by a dedicated project management office, with a mix of Rotork and specific 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. • Metrics are in place to predict and monitor capacity concerns across all workstreams. • Regular governance forums are in place to deal with risks and issues in a timely manner.
Risk appetite statement	We will continue to review current external and internal cyber threats and respond to them to ensure that we have appropriate processes and controls in place.	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.
Link to strategy	1 2 3	1 2 3

Risk trend

- Increasing
- No change
- Decreasing

Link to strategy

1. Accelerated growth
2. Strong margins
3. Sustainability

Divisional reviews

Rotork Controls

World leading electric valve actuators and network control systems since 1957.

£353m
Revenue

32.0%
Adjusted operating profit margin, up 320 basis points

1.05
Book-to-bill ratio

Rotork Controls delivered a 320 basis point adjusted operating margin improvement and returned to growth in the second half.

Order intake grew 6.0% to £370m (up 4.7% on an OCC basis). Revenue was 0.4% higher at £353m (down 0.9% OCC), including an encouraging resumption of growth in the second half. Adjusted operating profit was £113m, an 11.6% increase, giving an adjusted operating profit margin of 32.0%, 320 basis points higher. The margin improvement was the result of early benefits from the Growth Acceleration Programme (including procurement and productivity savings) and mix (a lower proportion of sales from large projects).

Revenues from end markets other than oil & gas grew in the year, driven by water & wastewater and industrial processes. Revenues from non oil & gas markets increased from 50% of the divisional total to 51%, with industrial processes increasing to 17%. Water & waste-water sales grew 8%, whilst industrial processes grew 4%. Oil & gas revenues declined modestly, principally due to the high basis of comparison. The previous year included several large Asia Pacific downstream projects which were not repeated. Power sales also fell. Site Services performed well.

Geographically, Controls saw good growth in the Americas, driven by the oil & gas and water & wastewater sectors, and the UK. Asia Pacific revenues were flat, with growth in industrial processes and water & wastewater offsetting declines in oil & gas and power. In Western Europe, industrial process sales grew, offsetting declines in power, to leave overall sales broadly unchanged. Middle East/Africa sales were down reflecting softer water and wastewater markets.

Overall Controls made very encouraging progress in 2019. Year-on-year order and revenue growth resumed in the second half. Success in our non oil & gas end markets meant that overall divisional revenue was modestly ahead, despite the strong prior year period in oil & gas and the loss of sales to countries subsequently placed under sanction. Operating margins rose from 28.8% to 32.0%, boosted by our supply chain optimisation, our lean / continuous improvement initiatives and mix. We saw early benefits from our new product development programmes, with several well received product launches which broadened our markets served. We have further significant product launches planned for 2020.

New actuator range launched
New product launches in 2019 included the CK Atronik modular electric actuator and the Rotork Master Station control system.

Rotork Fluid Systems

Pneumatic, hydraulic and electro-hydraulic actuators and control systems.

£138m
Revenue

6.0%
Adjusted operating profit margin, down 370 basis points

1.02
Book-to-bill ratio

Rotork Fluid Systems made good progress implementing the initiatives identified for it in the Growth Acceleration Programme.

Order intake declined 8.8% to £141m (down 9.7% on an OCC basis). Revenue was 17.1% lower at £138m (down 16.8% OCC), Adjusted operating profit was £8m, giving an adjusted operating profit margin of 6.0%. Initiatives to control costs successfully helped to limit the impact of lower sales on operating profits.

Industrial process sales increased to 24% from 20% of the divisional total, growing modestly in the year. Midstream oil & gas revenues also grew, benefiting from an increase in activity in Eastern Europe. Overall however, oil & gas revenues fell 19% year-on-year, the result of a reduction in project activity in both the upstream and downstream segments and a weaker opening order book. The oil & gas end market represented 67% of divisional total in 2019 (slightly below 2018's 68%).

All the major geographic areas reported a revenue decline. Asia Pacific sales were only modestly lower, benefiting from increased industrial process activity. The Americas and Middle East saw more pronounced revenue falls, largely the result of reduced large project activity in the oil & gas end market.

The division made good progress implementing its Growth Acceleration Programme initiatives in 2019. These included the introduction of more flexible working practices, design for manufacture initiatives, localisation of manufacturing and important footprint rationalisation. It was a more difficult year revenue-wise, due to the loss of sales to countries subsequently placed under sanction, the disposal of the Hiller business and reduced large project activity year-on-year.

Local manufacturing roll out
Fluid Systems commenced the manufacturing of products destined for local markets in India and China during the year.

Divisional reviews continued

Rotork Gears

Specialist designer, manufacturer and supplier of gearboxes and accessories to the international valve industry.

£83m
Revenue

18.0%
Adjusted operating margin, up 10 basis points

Rotork Gears made progress on its Growth Acceleration Programme initiatives in 2019 and commenced an important new product launch.

Order intake was 3.3% lower at £84m (down 3.0% on an OCC basis). Revenue fell 3.0% to £83m (down 2.6% OCC), in part due to initiatives to rationalise our product offering. Adjusted operating profit was £15m, a 2.3% decrease, giving an adjusted operating profit margin of 18.0%, 10 basis points higher. Margin improvement came despite the adverse impact of tariffs and lower volumes.

Revenues from end markets other than oil & gas grew in the year, driven by industrial processes and to a lesser extent water & wastewater. In total revenues from non oil & gas markets increased from 46% of divisional total to 48%, with water & waste-water increasing to 21%. Industrial processes sales grew 3% in value terms. Oil & gas revenues declined, as 2018's large downstream projects were not repeated.

Geographically, Gears saw good growth in Europe, driven by industrial processes. Whilst Gears' Americas sales were overall modestly lower, sales to the important downstream market were ahead year-on-year. Encouraging progress in Asia Pacific's non oil & gas end markets was insufficient to offset significantly lower sales to the oil & gas sector leaving the region's sales overall slightly down.

It was another busy year for Rotork Gears. The highlight of the period was the launch of the IW Mk 2 range of gearboxes. This important product family complements Controls' IQ3 electric actuator, improving its mechanical performance, and replaces various low volume gears products which have been discontinued. Our mixed-model lean roll-out continues and benefits from this have already facilitated the consolidation of sites in the US. The impact of higher tariffs on our exports from China to the US masked notable improvements elsewhere, such as in our revenue per employee and our inventory reduction.

GAP initiatives continue
Rotork Gears continued implementing its Growth Acceleration Programme initiatives, including mixed-model lean roll-out and product offering rationalisation.

Rotork Instruments

Specialist manufacturer of products for flow and pressure control and measurement.

£109m
Revenue

24.2%
Adjusted operating margin, up 170 basis points

Rotork Instruments delivered a 170 basis point operating margin improvement driven by productivity gains across all major factories.

Order intake rose 5.6% to £112m (up 5.2% on an OCC basis). Revenue was 1.3% higher at £109m (up 0.9% OCC). Adjusted operating profit was £26m, a 9% increase, giving an adjusted operating profit margin of 24.2%.

Instruments' non oil & gas markets grew strongly in 2019, driven by the industrial process segment, which reported good progress particularly in the Americas and Europe. Non oil & gas markets represented 61% of sales, up from 55% in 2018. Oil & gas sales were down modestly, however the important upstream segment saw activity pick up later in the year.

All the major geographies achieved a revenue increase in 2019, despite all seeing the oil & gas segment decline. Asia Pacific saw the fastest growth. Europe grew faster than the Americas, where good growth in non oil & gas end markets was offset by lower oil & gas sales. UK sales declined.

The Instruments division reported a good performance in 2019. Order intake grew year-on-year, driven by a pickup in subsea activity, progress in our targeted end markets and geographies, and the wider Rotork sales team promoting the division's products more effectively. The strong margin improvement was the result of Growth Acceleration Programme initiatives such as lean / continuous improvement which facilitated footprint optimisation in the UK and productivity gains across all major factories. The division made good progress with its inventory reduction initiatives.

Factory productivity gains
The 170 basis point adjusted profit margin improvement in 2019 reflected the success of our Growth Acceleration Programme initiatives.

In 2019 we achieved a 160 basis point improvement in adjusted operating margin and cash conversion of 131% driven by delivery of the Growth Acceleration Programme.

£669m
Revenue

£124m
Profit before tax

Financial review

Total order intake for the year was £691.9m (2018: £681.7m), up 1.5% from the prior year or 0.7% on an Organic Constant Currency (OCC) basis. Order intake in the second half was ahead of the prior period and stronger than the first half which was against a particularly strong prior year comparator. Revenue was £669.3m, 3.8% lower than the prior year (-4.4% OCC) as a result of reduced large project activity order phasing, portfolio and product rationalization, however a book to bill ratio of 1.03 resulted in a closing order book of £194.7m (2018: £179.2m).

Gross margin increased 180 basis points to 46.6% driven by procurement savings, productivity improvements and a positive divisional mix. The procurement and divisional mix benefit was largely reflected in the 210 basis point decrease in material costs as a percentage of revenue. The roll-out of lean initiatives across the Group resulted in a 20 basis point reduction in labour costs. However factory costs increased by 50 basis points due to lower revenue.

Adjusted operating profit was £151.0m, an increase of 3.4% over the prior year, with the adjusted operating margin increasing 160 basis points to 22.6% (2018: 21.0%). On an OCC basis, adjusted operating profit increased 140 basis points to 22.5%, the difference to the reported numbers reflecting the disposal of lower margin businesses in 2018. In addition to the improvements in gross margin, overheads were tightly controlled and reduced by £4.8m (-2.9%) on an OCC basis despite the general inflationary pressure on people costs.

Net finance costs increased by £0.8m to £3.0m as a result of an increased lease expense following the adoption of IFRS 16 (£0.4m) and a less favourable impact of exchange gains / losses (£0.5m), offset by a lower pension interest charge and lower bank interest on loans.

The effect of lower corporate tax rates in regions we operate resulted in the adjusted effective tax rate reducing to 23.5% resulting in adjusted earnings per share of 13.0p, an increase of 3.2%. Statutory earnings per share were 10.8p, an increase of 2.9%. The statutory increase was lower than the adjusted percentage increase due to the higher net impact of adjusted items in 2019, which are set out below.

Growth Acceleration Programme

Activities across the various pillars of the Growth Acceleration Programme continued in 2019 and delivered benefits in a number of areas. The Global Strategic Sourcing team built on the work started in 2018 and delivered £5.8m of incremental gross savings in addition to the £1.7m delivered in 2018. The largest savings came from component suppliers but savings were also derived from indirect cost categories.

The continuous improvement and lean initiatives that have taken place across key sites delivered productivity improvements totalling £1.5m during the year. The initiatives are now an ongoing activity and the training is being rolled out to additional sites. Cost savings were generated from reviews of the structure of certain locations and with headcount reduction resulting in £1.0m of savings in 2019. There was a restructuring cost associated with this saving of £1.4m (2018: £2.1m) which has been included in our adjustments in calculating adjusted operating profits (see note 4).

Work on optimising the operational footprint moved to more complex activities which included the relocation of some businesses. Mid-year we consolidated two businesses from their small stand-alone locations into other Rotork facilities. The associated cost of £4.4m included redundancy costs and asset write-downs but the benefit of these actions, together with the incremental benefit from the 2018 footprint actions, delivered a £1.9m saving.

In total the Group generated savings of £10.2m with associated exceptional costs of £5.2m. This together with the savings achieved in 2018 mean total impact on the income statement of the Growth Acceleration Programme to date has been £13.0m, which exceeds the cumulative £11.0m restructuring costs. The cumulative cash benefits, once we include the impact of working capital savings, are now £39.3m compared with the investment to date in IT and facilities of £8.0m.

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 restructuring costs resulting from the Growth Acceleration Programme.

Adjusted earnings reconciliation

£m	Statutory results	Amortisation	Restructuring costs	Adjusted results
Operating profit	127.0	18.8	5.2	151.0
Profit before tax	124.1	18.8	5.2	148.1
Tax	(30.0)	(4.1)	(0.8)	(34.9)
Profit after tax	**94.1**	**14.7**	**4.4**	**113.2**

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 restructuring costs are provided in note 4.

Organic business growth

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

£m		2019 as reported	Constant currency adjustment		2019 at 2018 exchange rates		Organic business at 2018 exchange rates		2018[2]
Revenue		669.3	(6.9)		662.4		662.4		692.6
Cost of sales		(357.7)	(4.0)		(353.7)		(353.7)		(382.3)
Gross profit	**46.6%**	311.6	(2.9)	**46.6%**	308.7	**46.6%**	308.7	**44.8%**	310.3
Overheads	**24.0%**	(160.6)	1.1	**24.1%**	(159.5)	**24.1%**	(159.5)	**23.7%**	(164.3)
Adjusted operating profit[1]	**22.6%**	151.0	(1.8)	**22.5%**	149.2	**22.5%**	149.2	**21.1%**	146.0

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 2018 comparatives have been restated to enable the OCC business growth to be calculated. This reconciliation is shown in note 2.

Financial review continued

Acquisitions and disposals
On 31 December 2019, Rotork sold its industrial distribution business in Pittsburgh for net proceeds of £4.2m. This business had been part of the same business as the nuclear actuator business before it was sold in 2018. The business contributed £8.2m of revenue in 2019 and profit of £0.9m, generating a profit on disposal of £2.5m and marking Rotork's fourth disposal as part of the Growth Acceleration Programme.

With the Group's most recent acquisition being in 2016, the amortisation charge in 2019 related to acquired intangible assets reduced £1.4m to £18.8m.

Currency
In 2019 we experienced an overall currency tailwind. The major currencies impacting the income statement are the US$ and the euro. The US$/£ average rate of $1.28 (2018: $1.34) was a 6 cent tailwind whilst the euro/£ average rate was €1.14 (2018: €1.13), a 1 cent headwind. With the average sterling rate across the basket of currencies being weaker than 2018 this has resulted in a £7m or 1.0% tailwind 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 £300,000 (2018: £400,000) adjustment to profit and for US dollar, and dollar related currencies, a 1 cent movement equates to approximately a £700,000 (2018: £600,000) adjustment.

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. The average capital employed decreased 5.1% over the year to £474.7m as there were no acquisitions during 2019 and we increased our net cash position. This, combined with the higher adjusted operating profit, resulted in an increase in ROCE to 31.8% (2018: 29.2%).

Taxation
The Group's headline effective tax rate increased slightly from 24.0% to 24.1%. Removing the impact of the non-recurring adjustments provides a more reliable measure and on this basis, the adjusted effective tax rate is 23.5% (2018: 23.7%), reflecting the lower corporate tax rates in regions we operate. 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, South Korea, Germany, India, Canada and Australia.

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 net cash position of £106.1m at the end of the year (2018: £43.6m excluding lease liabilities). Our cash conversion KPI shows a conversion of 131.4% of adjusted operating profit into cash which exceeds the 110.7% reported in 2018. This allowed us to repay a £60m term loan during the year. The Group invested £17.3m in capital expenditure in 2019, an increase of £6.9m, as we continue to invest in our IT infrastructure as part of the Growth Acceleration Programme. Our Research and Development (R&D) cash spend has decreased 14.8% to £13.2m which represents 2.0% of revenue (2018: £15.5m and 2.2%). The most significant spend was associated with the development of Pakscan 4 but the focus in 2019 was largely on reorganising the R&D team before accelerating spend on new developments. Dividends of £52.3m and tax payments of £32.8m were the two other major outflows.

Control of working capital as defined in the cash flow statement, using average exchange rates and excluding disposals, is key to achieving our cash generation KPI. The drive to reduce inventory generated £18.2m whilst a reduction in trade receivables generated a further £7.2m. Trade receivables measured as days' sales outstanding reduced from 62 to 57 days. Net working capital in the balance sheet decreased to 24.2% of revenue compared with 27.7% in December 2018 and generated a £23.2m inflow in the cash flow statement.

IFRS 16 Leases
The new accounting standard was applicable from 1 January 2019 and the Group elected to apply the new standard without restating the prior period. Had the 31 December 2018 net debt reflected leases previously treated as operating leases the net cash position would have been £12.3m lower at £32.3m. At 31 December 2019 the reported net cash, £106.1m is stated after deducting lease liabilities of £10.7m.

Brexit, geopolitical risk and COVID-19
The UK's decision to leave the EU has led to a higher level of uncertainty surrounding trading conditions, particularly between the UK and the EU. Rotork established a Brexit steering group following the referendum which assesses and monitors the potential impact on the Group and 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.

The committee continues to monitor these potential risks and has developed a number of Brexit-related contingency plans, including building long lead-time inventories to mitigate potential supply chain interruptions in the event of increased border controls, or delays in obtaining clearance to and from the UK. Whilst these may not be required, the committee will remain vigilant until we have concluded the key trade negotiations.

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 were increased above standard levels in the UK to mitigate the risk of delays in Customs and border clearances and this could be reactivated towards the end of the year if required.

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 given the global and diversified nature of the Group.

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. Entering 2020 we have taken steps to mitigate the current levels of tariffs but continue to believe they will not materially impact the Group's results.

The risks associated with the COVID-19 virus are being monitored, focused on our people, customers and supply chain.

We have included scenarios in the viability assessment which models the impact of all of these current uncertainties. The viability statement can be found on page 51.

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 maintained coverage of the credit insurance policy during the year and have cover in place for virtually all of our companies at an aggregate of 90% 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.

Following repayment of a £60m facility in 2019, the Group now has one committed facility, comprising a five-year, £60m facility expiring in August 2020. At year end none 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 2019 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. In 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 were transferred onto the relevant defined contribution plan operating in their country.

The most recent triennial valuation of the UK scheme took place 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, was the main change since the 2016 valuation and this influence remains the same since March 2018. 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 valuation of the UK scheme is being carried out with an effective date of 31 March 2019, although the Company and Trustees have yet to agree a recovery plan.

On an accounting basis the deficit on the schemes increased from £27.3m to £29.6m during 2019 and the funding level was maintained at 87%. The Company paid total contributions of £6.6m in the year and the schemes' assets increased slightly in value. This was offset, however, by the largest driver of the increased deficit which was the lower discount rate due to the fall in AA corporate bond rates.

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 5.4% increase in the final dividend to 3.90p per share (2018: 3.70p). When taken together with the 2.3p interim dividend paid in September, the 6.2p represents a 5.1% increase in dividends over the prior year. This gives dividend cover of 1.7 times (2018: 1.8 times) using statutory earnings per share or when using adjusted earnings per share 2.1 times (2018: 2.1 times).

—
Jonathan Davis
Group Finance Director
2 March 2020

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.

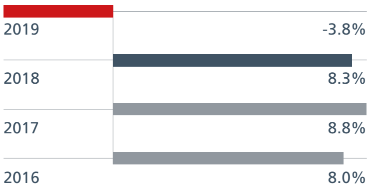
Key performance indicators

Financial KPIs

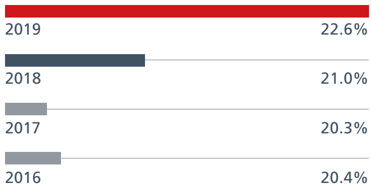
Growth of the business, quality of earnings and efficient use of resources are crucial target areas for Rotork and we employ a number of performance measures to monitor them.

Performance

-3.8%
Revenue growth



22.6%
Adjusted operating margin

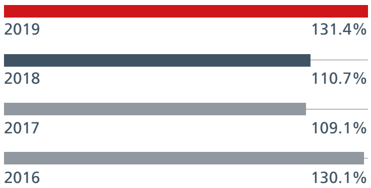


	Revenue growth	Adjusted operating margin
Reasons for choice	Revenue is a key driver for the business and is reported in detail for each division, end market and geography. The measure enables us to track our overall success and our progress in increasing our market share by product and by region.	This measure brings together the combined effects of pricing, volume and procurement as well as the leveraging of our operating assets. It is also an important check on the quality of revenue growth.
How we calculate	Increase in revenue year-on-year divided by prior year sales revenue.	Adjusted operating profit shown as a percentage of revenue. We use adjusted operating profit as this aids comparison year to year.
Comments on results	Group revenue declined by 3.8%, largely reflecting subdued large project activity which impacted Rotork Fluid Systems. Portfolio and product rationalisation and the halting of sales to countries subsequently placed under sanction also contributed to the decline.	Margins increased by 160bps, despite revenues being down year-on-year and increased investment in IT and factories. Margins benefited from Growth Acceleration Programme savings (including procurement and productivity) and mix.
Link to strategy	1 2 3	1 2 3

1 Accelerated growth
2 Increased margins
3 Sustainability

Performance

131%
Cash conversion



Reasons for choice

Our cash conversion demonstrates our operational efficiency and enables us to fund future growth. We consider 85% conversion as a base level of achievement. This measure is one of the constituent parts of the senior management reward system.

How we calculate

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

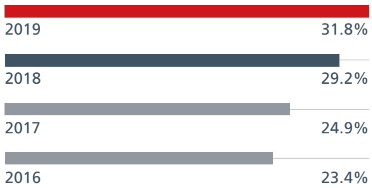
Comments on results

GAP initiatives such as the Rotork Inventory Optimiser contributed to a strong cash performance in 2019. The Group's inventory turns increased from 2.8 to 2.9 over the period.

Link to strategy

1 2 3

31.8%
Return on capital employed



Reasons for choice

We use this KPI to monitor the efficiency of our capital allocation. We also use this ratio internally, to help Group management monitor efficiency within Rotork's divisions.

How we calculate

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. See calculation on page 126.

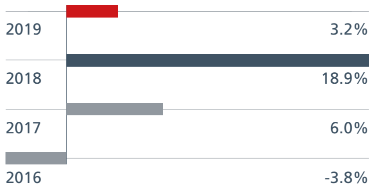
Comments on results

Return on capital employed increased by 260 basis points. The increase reflects a 3% increase in adjusted operating profit and a 5% reduction in average capital employed.

Link to strategy

1 2 3

3.2%
Adjusted EPS growth



Reasons for choice

Growth in EPS is a measure of our profit performance, taking into account all aspects of the income statement including the management of our capital structure, treasury and the Group's tax rate.

How we calculate

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

Comments on results

Adjusted earnings per share grew in-line with operating profits.

Link to strategy

1 2 3

Key performance indicators continued

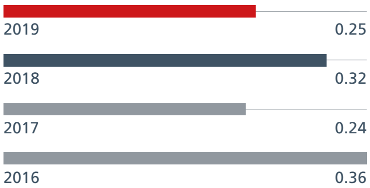
Non-financial KPIs

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.

Performance

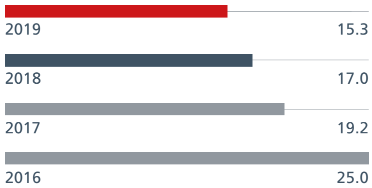
0.25

Lost times injury rates (LTIR)



15.3TnCO$_2$e

Carbon emissions



Reasons for choice

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

Carbon emissions: 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.

How we calculate

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

Carbon emissions: Energy usage data (scope 1 and 2) is collected and converted to equivalent tonnes of CO_2 and then reported as a function of revenue. Further details are contained in the Chief Executive's Report on page 16.

Comments on results

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

Carbon emissions: 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.

Link to strategy

LTIR: 1 2 3

Carbon emissions: 1 2 3

1. Accelerated growth
2. Increased margins
3. Sustainability

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 risk dashboards 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 the COVID-19 virus, 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.

How we operate responsibly for our stakeholders

Introducing our stakeholders

Our stakeholders include our shareholders, our people, our suppliers, our customers, our local communities and wider society. Our directors are committed to maintaining positive relationships with all of them.

Customers

We deliver innovative products and value-added services to meet our customers' specific requirements.

Shareholders

Our shareholders benefit from the value we create. We are proud that well over half of our employees are Rotork shareholders.

Employees

We work to attract, retain, engage, develop and reward the best people in a safe working environment.

Governments & Communities

We contribute positively to the communities we operate in. Tax we pay supports public infrastructure and services.

Suppliers

Strong supplier relationships are key to our success and ability to develop new solutions for customers.

Section 172 Statement

In July 2018, the new Code reinforced the importance of section 172 of the Companies Act 2006 (the Act), which requires the Board to act in a way that promotes the success of the Company for the benefit of shareholders as a whole, whilst having regard (among other matters) to:

- The likely consequences of any decision in the long term;
- The interests of the Company's employees;
- The need to foster the Group's business relationships with suppliers, customers and others;
- The impact of the Group's operations on the community and the environment;
- The desirability of the Group maintaining a reputation for high standards of business conduct; and
- The need to act fairly as between members of the Company.

The Board is aware of its responsibilities to promote the success of the Company in accordance with section 172 of the Act. The interests of our stakeholders have informed the Board's decision making throughout 2019. Key decisions relating to the strategy and the implementation of the strategy in relation to all Group companies are taken by the Board and the Matters Reserved for the Board can be found on our website at https://www.rotork.com/en/investors/corporate-governance. Those decisions which are delegated to the CEO and his management board are taken by the Rotork Management Board, which meets monthly and is responsible for implementing the strategy. Decisions made by our subsidiaries are aligned with the strategy set by the Board and the operational decisions made by the Rotork Management Board.

The Board regularly discusses how the business has engaged with stakeholders, the feedback received and the impact such engagement has resulted in changes to the Group's existing policies, processes and procedures. In addition to the summary of stakeholder engagement below, pages 54 to 55 and page 72 of the Corporate Governance report sets out in more detail how the Company and its directors have engaged with and taken into consideration in their decision-making the interests of its employees in 2019 and pages 72 to 74 of the Corporate Governance report sets out our engagement with our wider stakeholders on the same basis. All of these stakeholders are material to the long term success of the business and relationships with our stakeholders support the generation and preservation of value in the Group, as well as our culture and Values of 'Stronger Together; Always Innovating and Trusted Partner'. The Company assesses the impact of its operations on the environment through its Corporate Social Responsibility Committee. Further detail of how the Board has discharged its duties and its business practises in 2019 are included in the Corporate Governance section on page 60.

Non-financial information statement

Reporting requirement	Some of our relevant policies and standards	Where to find out more information	Page reference
Anti bribery and corruption	• Code of Conduct • Anti bribery and corruption policy • Gifts and hospitality policy	• Culture, Values and commitment to our Values • Speak Up hotline • Principal risk – Compliance with laws and regulations	103
Business model		• Our business model	22-23
Environmental matters	• Environmental policy • ISO 14001	• Environmental management • Energy performance • Greenhouse gas emissions • KPI – energy efficiency	16
Employees	• Code of Conduct • Health and Safety policy • OHSAS 18001 • SA 8000	• Fair employment and diversity • Board diversity • Employee engagement • Health safety and wellbeing at work • KPI – accident incidence rate • Principal risks – Compliance with laws and regulations – People	54-55
Non financial KPIs		• Energy efficiency	50
Human rights	• Code of Conduct • Modern Slavery statement	• Legal and regulatory compliance • Risk – Compliance with laws and regulations	37
Social matters		• Community involvement	56-57

Operating responsibly
Our people and culture

Our people and culture

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

We have built on our One Rotork programme, with staff globally getting involved to choose the Values that they felt best reflected Rotork. These are: Stronger Together, Always Innovating and Trusted Partner.

Each Value is underpinned by a set of behaviours which also link to objectives, performance and reward. We use these to guide how we work together and act as One Rotork globally. These are also aligned with our new Code of Conduct, introduced this year, which provides clear guidelines on how we do business.

We aim to link our workforce planning and our people policies and processes with our strategy, Values and behaviours and by doing so believe we can achieve our vision and make Rotork the best place for our staff to build their careers.

We achieved 17th in the top 20 of Britain's Most Admired Companies and ranked 3rd in our sector, an improvement on 2018.

Talent attraction and development

Our objective is to align our culture, approach to performance, and reward mechanisms so they contribute towards delivering our strategy.

Following the success of last year's talent initiatives, 2019's focus was on culture. Highlights included the launch of Rotork's Purpose, new Values and behaviours and the publication of our Code of Conduct.

We are committed to the development of our people through training and development but also through social, sports, wellbeing and charitable activities. Rotork employees across the globe celebrated World Wellbeing Week in June, helping our staff to explore ways to keep their minds and bodies healthy.

We are passionate about our early careers programme, with apprenticeship schemes offered for young people into different aspects of our business. This year we extended this into HR and Marketing. We are members of the Manufacturers Standardization Society (MSS), which offers undergraduate and graduate scholarships in relevant disciplines.

In 2019 we launched Rotork's first HR system, initially to our HR community. This subsequently launches to all staff in 2020. This enables us to better manage our people data, providing us with management information to aid workforce planning and supporting our aim for more people activities to move from paper and manual to digital and automated, accessible also via mobiles.

This year we have closed skills gaps in our strategic sourcing, legal, engineering and sales teams.

Rewarding and retaining our people

In 2019 we built on the introduction of our Global Performance Management Approach by linking this to reward, ensuring we are recognising those who make the greatest contribution to delivering our vision and living our Values and behaviours. We actively review decisions around performance, talent and compensation to ensure inter-gender fairness.

Our reward and benefits arrangements are benchmarked in each country we operate, taking into account cost considerations. All employees participate in the Rotork bonus scheme and over 50% own shares in the Company. We also provide pension arrangements, designed to provide retirement benefits, based on local laws and practices.

Employee engagement

We firmly believe that motivated and engaged people are vital to our business.

In 2019 we replaced our previous annual engagement survey with quarterly pulse surveys to gather more frequent feedback from our people. Each quarterly pulse survey has a specific theme. In each survey, employees rate Rotork on pace of change and as a place to work.

To engage our people, we use team briefings, our intranet (Konnect), town halls as well as webinars and multi-language employee films on a range of topics.

During 2019 we made changes to our operating model. Communication is key during periods of transition and we are committed to investing in this area. We provide change management training locally before embarking on strategic change programmes and use diagnostic tools to understand how the change is embedding.

Diversity and inclusion

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

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, gender, sexual orientation, religious belief or marital status. All employees have a responsibility to ensure the policy is successfully implemented. We work wherever possible with occupational health experts to overcome any obstacles for employees including those with disabilities by making appropriate adjustments. Our Board of Directors published a new Board Diversity & Inclusion Policy in 2019.

Rotork has not yet published its 2019 Gender Pay Report for our two reportable UK entities with more than 250 employees. In our 2018 Report we continued our progress towards our gender diversity aims. 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 21.8% of our people, a 2% increase on 2018 and a 9% increase from 2017.

We published our figures to the Hampton-Alexander Review.

	2018	2019
Women on Boards	28.6%	**37.5%**
Executive Committee and Direct Reports	17.4%	**23.1%**

In the Industrial Engineering sector of the Review, Rotork placed 2nd out of 7.

Whilst we have made progress in our Women on Boards, Executive Committee and Direct Reports in relation to gender again in 2019 we still have work to do. We embrace the challenge to create a more diverse workforce and track this through our talent and succession reviews and within Board meetings. We continue our membership of the 30% Club and support their aims.

The percentage of females within our apprentice intake has increased from 5% in 2018 to 20% in 2019.

We have also applied focus to ethnic diversity at a senior level. For our Executive Committee, ethnic diversity is 22% and at their direct reports level this is 15%. We will continue to review our policies and processes to ensure they are inclusive for all.

Operating responsibly continued
Engaging with our communities

Engaging with our communities

Rotork considers it important to contribute to and engage positively in the communities in which we operate around the world. We regard this as part of our ongoing responsibilities as a good corporate citizen. Our Values and behaviours link to this and include how we make a positive and beneficial impact in the communities in which we operate.

Overview

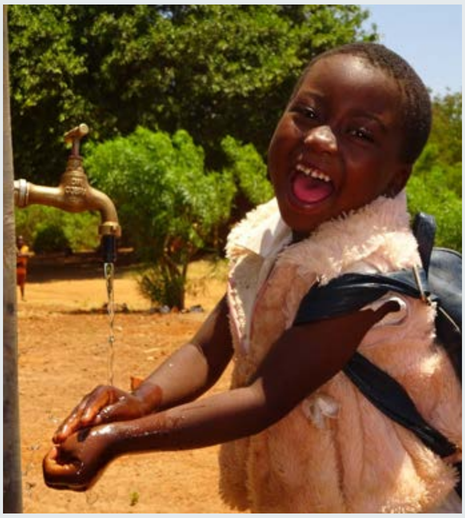
Our target is to contribute 0.1% of profits to nominated international charities and a further 0.1% of profits to local charitable causes around the world. Local charity committees at each of our sites support charitable causes that are important to them locally with volunteer work, fundraising and donations. Local teams are empowered and encouraged to decide how to distribute funds and support their local communities.

Local community highlights

- Singapore colleagues ran 10km in the Race Against Cancer
- Rotork India – tree planting and lake cleaning projects and providing educational equipment and support for nearly 200 disadvantaged children
- Rotork China sponsored a school library and two sports equipment packages through 'Heart to Heart'
- Rotork Tulsa, US, colleagues donated to the Salvation Army Angel Tree
- Rotork Rochester, US, participated in a 5k race to support outpatient chemotherapy treatment
- Rotork Dallas, US, participated in National Teddy Bear day to collect toy bears for police officers to give to children in crisis situations
- Rotork Mississauga, Ontario Canada, organised a food donation collection for Thanksgiving
- Rotork Hilden in Germany organised a clothes collection for the homeless
- Colleagues in Langenzenn, Germany, took part in a sponsored run to raise money for good local causes
- A team of 25 in Leeds, UK, completed the Yorkshire 3 peaks challenge, a 12-hour 25km hike to raise money for the Sick Children's Trust
- 41 colleagues in Bath, UK, ran the Bath Half marathon to raise funds for the Children's Hospice South West

In addition to these local charitable and community activities, Rotork has reviewed its support to major charities this year to ensure they are aligned to our own business activities. We supported three major charities in 2019 – Pump Aid, Marine Conservation Society and Renewable World.

We continue to support the Royal United Hospital, Bath, UK in building a new Cancer Unit via their Forever Friends Appeal. This year we donated £14,000 to bring our donation to £50,000 in total.



Pump Aid

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 these new facilities. Rotork's contribution will help to install more pumps and will support pre-school nursery and community programmes.

£24,000

Contributed to Pump Aid

Pump Aid Beyond Water

Marine Conservation Society

The Marine Conservation Society fights for the future of our oceans. Linking directly to Rotork's Purpose, 'keeping the world flowing for future generations' and reflecting our environmental and sustainability ambitions. Our donation will focus on clean seas, specifically the Beachwatch programme. Running since 1994, this is the UK's most important beach clean-up and survey programme and tackles the growing issue of marine plastic pollution, including water quality and microplastics.

£30,000

Contributed to the Marine Conservation Society

marine conservation society

Renewable World

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.

£30,000

Contributed to Renewable World

Renewable World
TACKLING POVERTY THROUGH RENEWABLE ENERGY

Progress

- Core principles guiding the charities supported at the Group level.
- £24,000 donated to Pump Aid.
- £30,000 to Renewable World.
- £30,000 contributed to the Marine Conservation Society.
- £14,000 to The Forever Friends Appeal (RUH) Bath, UK.
- Variety of local donations made to charitable causes relevant to communities around Rotork's operating sites.

2020 targets

- Donate 0.1% of Group profits to Rotork's nominated international charities.
- Build stronger partnerships with our nominated international charities.
- Donate 0.1% of Group profits to charitable causes local to Rotork's operating sites.
- Continue to align donations and objectives with our organisational culture and aims.
- Review our community involvement to include volunteering by providing resource as well as funding

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

—

Helen Barrett-Hague
General Counsel and
Company Secretary
2 March 2020

Corporate Governance

The Rotork Board continues to be committed to the highest standards of governance and stakeholder engagement remains at the forefront of decision making

On behalf of the Board, I am pleased to introduce Rotork's Corporate Governance Report for 2019. The aim of this report is to provide a clear explanation of Rotork's governance framework and the practical application of the principles of good corporate governance. As a Board, we consider that strong governance underpins successful management of the Group and enables us to focus on the key strategic issues.

Chairman's governance overview

In this section

Audit committee report

The committee provides oversight of the financial reporting process, the audit process, the Company's system of internal controls and compliance with laws and regulations

Read more on page

75

Nomination committee report

The committee evaluates and examines the skills and characteristics needed to ensure the Board has the right balance, knowledge and attributes to operate effectively to deliver the long-term success of the Company

Read more on page

80

Directors' remuneration report

The committee's objective is to act as a preparatory and advisory body in relation to the remuneration of executive directors

Read more on page

82

Governance remains an important focus and we've continued to invest in how we do things as well as what we do, looking for improvement and development where we can.

Following their appointment to the Board in December 2018 as Non-Executive Directors, Tim Cobbold and Ann Christin Andersen participated in a comprehensive induction programme in the early part of 2019. Gary Bullard, Chairman of the Remuneration Committee retired at the 2019 AGM, as this was the AGM following his ninth year as a Director and Tim Cobbold was appointed as Chair of the Remuneration Committee from the close of the AGM.

Role of the Board and its effectiveness

As Chairman, my primary role is to provide leadership to the Board and create the right environment to enable each Director and the Board as a whole to perform effectively for the benefit of the business and its stakeholders. I consider that the Board is highly effective and am confident that we have in place a strong team of Non-Executive Directors with a breadth of skills, experience and perspectives. This view is supported by the findings of our annual Board effectiveness review, which, this year was externally facilitated by Independent Audit. Full details of our Board effectiveness review are provided on page 68.

Stakeholder engagement

Engagement with and feedback from our employees across the Group is important to us, particularly at this time of transformation across our business as we focus on the Growth Acceleration Programme and the refocusing of the business to support our end markets. We engage with our employees through a wide array of strategic communication channels, including pulse surveys and employee forums, to ensure open and honest dialogue between employees and senior management.

Following the appointment of Tim Cobbold, as the designated Non-Executive Director to support increased engagement with employees, Tim attended a variety of meetings including our Bath employee forum and the launch of our new Values: Stronger Together; Always Innovating and Trusted Partner. Other Board colleagues have spent time meeting our employees throughout the business including Ann Christin Andersen, who visited our business in both India and China.

I reported in 2018 that, in respect of Rotork's employees, we had undertaken a full review of Rotork's culture, talent development, succession planning, performance approach and diversity. Following this review, we have embedded a number of changes within the business. Diversity remains a particular area of focus for the Board, who review the actions at each Board meeting, as part of a People Update. Further details of actions arising from this review and how we have considered the interests of our employees during the year are set out on page 81. Our Key Remuneration Principles set the tone and culture for pay within the Group.

This year we held our inaugural Global Suppliers Conference, which was attended by suppliers from around the world. This enabled us to demonstrate our passion for driving improvement around commercial and operational excellence underpinned by enhanced IT systems, improved core business processes and increased focus on talent and culture. The feedback received was positive, with suppliers appreciating the open and collaborative approach and our process of engaging throughout the sourcing and procurement process, noting that together we can leverage each other's knowledge and experience for a better all-round customer experience. Principal suppliers are subject to regular engagement.

Tim Cobbold, as the new Chair of the Remuneration Committee, engaged with our shareholders on executive directors' remuneration. As well as taking the opportunity to understand their views on this important topic, shareholders have been able to share views on wider governance issues and on the corporate strategic initiatives. These views have been shared with the Board.

Details of ways in which we engage with, and have considered our stakeholders are available on pages 72-74.

Compliance with the UK Governance Code and other requirements

This year, we are reporting under the UK Corporate Governance Code 2018 ("the Code"). The Code consists of an updated set of principles that emphasise the value of good corporate governance to long-term sustainable success. It puts increased emphasis on corporate culture, and the relationships between companies, their shareholders and other stakeholders.

Throughout the year, we have applied the principles of the Code to our decision making and have ensured that there is good co-operation within the Group to enable us to discharge our governance responsibilities effectively. We have communicated our Purpose, Values and strategy across the Group with the CEO engaging with employees in town halls across the globe on our modified Purpose, to "keeping the world flowing for future generations" which reflects our commitment to being a sustainable long term business. We launched our new Values simultaneously in 50 countries on 12 September 2019 and a recent pulse survey has indicated that the Values have been received well by employees, who support and recognise them.

Following the guidance published around the revised Code, the Board has taken the opportunity to review and refresh its existing processes to reflect provisions introduced by the Code, develop new practices and formalise existing practices where appropriate.

—

Martin Lamb
Chairman
2 March 2020

Corporate governance report

UK Corporate Governance code

The Code applies to premium listed companies with accounting periods beginning on or after 1 January 2019, and accordingly Rotork complied with all relevant provisions of the new Code throughout 2019. Below, we set out how we have applied the principles set out in the Code, the actions we have taken and the resulting outcomes. We have included cross-references to other relevant sections of this report where applicable.

Board leadership and Company Purpose

The Board is responsible for the approval of strategy, risk, finance matters, employee matters and internal control and risk management.

This year the Board has reviewed and modified Rotork's corporate Purpose, taking into account the part which Rotork plays in ensuring that the earth's resources keep flowing for future generations.

To support our corporate Purpose, we published our revised Values at a series of global events designed to include and engage our workforce. Employee feedback provided through surveys and engagement events was considered when defining our Values.

This year's strategy meeting examined Rotork's strategy for 2019 through to 2024 and consisted of validation of Rotork's current market positions within each region; analysis of our current commercial, operational and share price performance; a review of our current strategic assets and their level of sustainability; and differentiation and analysis of the current and future market and competitive dynamics.

Throughout the year, the Board has received regular in-depth progress reports and presentations from the Chief Executive Officer, Group Finance Director and from the wider executive management team, particularly relating to progress on the Growth Acceleration Programme and our people.

This year both the Chairman and the Chair of the Remuneration Committee, as part of the remuneration policy review, engaged with major shareholders to understand their views on governance and performance against our strategy.

The Board have also sought to understand the views of other key stakeholders. Pages 72 and 74 describe how their interests have been considered in Board discussions and decision making. Tim Cobbold is the designated non-executive director dedicated to improving employee engagement and details of the work he has undertaken as part of this role can be found at page 71.

Division of responsibilities

All the non-executive directors have the appropriate skills, experience in their respective disciplines and characteristics to bring independence and objective judgement to Board discussions. As well as chairing the Board meetings, Martin Lamb chairs the Nomination Committee. Sally James is appointed as Senior Independent Director. Lucinda Bell is Chair of the Audit Committee and Tim Cobbold chairs the Remuneration Committee.

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.

To provide constructive challenge, strategic guidance and oversight, Board members engage directly with management, and this year Sally James attended a Rotork Management Board meeting and both Tim Cobbold and Ann Christin Andersen made separate site visits, including to sites in the UK, India and China, during which they engaged directly with the local workforce. In 2019, members of the Board travelled to Rotork's factory in Lucca, Italy, where they met both formally and informally with management from across Europe as well as members of the Rotork Management Board from further afield.

Each year the Chairman together with the non-executive directors meet outside of the formal meeting structure, and without the executive directors present, to scrutinise and hold to account the performance of management and individual executive directors.

All directors have access to the advice of the Company Secretary and to third party legal advice if required.

Composition, succession and evaluation

The Board consists of eight Board members, six of which are non-executive directors. 38% of our Board are female. The Chairman and the non-executive directors were considered independent on appointment when assessed against the circumstances set out in Provision 10 of the Code.

The Board members come from a variety of professional backgrounds including engineering, management, legal and finance, and collectively possess significant managerial experience, as well as experience of being executive directors of other public limited companies. More detailed analysis of Board composition can be found on pages 64-66.

Sally James is the Senior Independent Director and provides a sounding board for the Chairman in addition to acting as an intermediary for other directors and shareholders. In December 2019, she met with other non-executive directors, without the Chairman present, to appraise the Chairman's performance.

The Board has Nomination, Audit and Remuneration Committees. Each Committee has formal, written terms of reference which are available to download from the Rotork website at https://www.rotork.com/en/documents/publication/4145, https://www.rotork.com/en/documents/publication/5553 and https://www.rotork.com/en/documents/publication/5923. All Committees have at least three independent non-executive directors within their composition. The Company Secretary advises and acts as secretary to the Committees. The number of Board meetings can be found on page 67. The number of meetings of the Nomination, Audit and Remuneration Committees can be found on pages 80, 75 and 82 respectively.

In line with Provision 18 of the Code, each director is subject to annual re-election at the AGM.

In addition to considering Board succession the Board deliberates on succession within the business. As well as regularly receiving presentations from the Rotork Management Board in formal meetings, it meets with them at least twice a year for dinner. This year a number of individuals from further down in the organisation met with the Board at an informal meeting and during the Board visit to Lucca. The Board was able to spend time with the local management team as well as the wider workforce.

To meet our aim of continuous improvement, our annual Board evaluation was undertaken by an external assessor, Independent Audit, who are consultants specialising in the assessment of board performance. Feedback was provided to the Board at its meeting in December 2019. More detailed analysis of the process undertaken and the resulting recommendations is set out on pages 68 and 69.

Audit Risk and Internal Control

Whilst maintaining overall responsibility, the Board delegates the establishment of formal and transparent policies and procedures relating to independence and effectiveness of internal and external audit functions to the Audit Committee. The Audit Committee scrutinises the integrity of financial and narrative statements and considers whether the assessment of Rotork's position and prospects are fair, balanced and understandable. It then makes a recommendation to the Board.

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.

A risk dashboard 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.

Throughout 2019, 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.

The Audit Committee is chaired by Lucinda Bell who has recent and relevant financial experience. The Board is satisfied that the main roles and responsibilities of the Audit Committee, as set out in Provisions 25 and 26 of the Code are included in its Terms of Reference, following relevant updates in October 2019. Further details of how the roles and responsibilities of the Audit Committee have been discharged are on pages 75-76.

The Board is obliged to carry out a robust assessment of the Company's emerging and principal risks. A summary of the assessment undertaken by the Board and a description of the principal risks and procedures in place to identify and manage the emerging risks can be found on pages 77-78.

Remuneration

During 2019 Tim Cobbold took over from Gary Bullard as Chair of the Remuneration Committee. Tim has previously served as a member of another remuneration committee for more than 12 months prior to his appointment as Chair and brings valuable experience to our own Remuneration Committee. At least four meetings of the Remuneration Committee took place in 2019, and its Terms of Reference can be found at https://www.rotork.com/en/documents/publication/5923. Further Peter Dilnot stood down from his position on the Remuneration Committee.

Rotork's remuneration policies and practices are designed to support its strategy and promote the long-term sustainable success of the Company. A description of the work undertaken by the Remuneration Committee in 2019 can be found at pages 82.

How the Board operates effectively

Risk management and internal controls

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

During 2019 the Board and Audit Committee regularly considered matters relating to 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 76, 77 and 78.

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

The Board is responsible for determining the nature and extent of risks the Group is willing to take in achieving its strategic objectives. This is expressed through a number of risk dimensions against which risk appetite is defined and risks are monitored and reported. A Risk Dashboard is presented to the Board on a quarterly basis. It constitutes 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. As part of the monthly reporting process the Board receives reports on any specific new or emerging risks and any actions planned in mitigation.

An established divisional and functional risk review process results in a bottom-up assessment of Group risks. These are consolidated before the top-down evaluation is performed by management and then reviewed by the Board. During 2019 the bottom up assessment process was broadened to include a review with all central functions, greater focus on risk mitigation reporting, and development of plans to bring risks within appetite for any risks where appetite is currently exceeded.

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 2019, emerging risks, and the Board's risk appetite, are covered on pages 32-33.

Main features of the Group's internal control systems

All Board members receive Audit Committee papers and meeting minutes, which contain the Audit Committee's annual review of the 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 Chairman and executive directors attend Audit Committee meetings.

Key elements of the control environment, which enables Rotork to respond appropriately to all types of business risks, include:

- The Rotork Values and behaviours launched this year as part of defining One Rotork.
- A Code of Conduct launched this year, supported by 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.
- A formal schedule of reserved matters for the Board, including responsibility for reviewing Group strategy.
- A formal whistleblowing policy with an external whistleblowing hotline.
- Defined controls and assurance processes over financial reporting and health and safety procedures.

The process of enhancing controls and the three lines of defence, instigated by the Audit Committee, continued in 2019. A series of measures and actions including improvements to accountability, consistency, and the development of a stronger second line of defence have been agreed by management. The implementation work has been underway throughout 2019 and will continue in future years. It is a mix of actions mitigating identified risks as well as longer term improvements aligned to the investment in the new Enterprise Resource Planning (ERP) system that is being developed.

A full review of the financial business control framework has been carried out in order to maximise the opportunity to standardise and automate controls within the ERP system, thus ensuring greater consistency across our various locations. In addition to building the output from this review into the design of the ERP system, a programme to identify short-term enhancements has been initiated. The Finance function is being strengthened by new appointments in line management and first line of defence, and a finance direct report structure is being phased in. PwC continued to provide risk and internal audit services throughout 2019 supported by an in-house team. Staffing of the central risk and internal audit team will be kept under review during 2020.

Progress on these improvements has been reviewed at each Audit Committee. In addition, progress on overdue internal audit actions has been reported to the Board monthly.

Rotork's Board of directors

Martin Lamb (60 years old)

N

Chairman

Experience
Martin has extensive experience in the global engineering sector having served as Chief Executive of IMI plc for 13 years and has held many senior management roles over 33 years. He was a non-executive director of Severn Trent plc and Spectris plc and served on the boards of a variety of engineering businesses in a non-executive capacity, both in the public and private equity arena.

Appointed to the Board
June 2014

External appointments
- Chairman of Evoqua Water Technologies Corporation
- Member of the European Advisory Board of AEA Investors (UK) Ltd

Kevin Hostetler (51 years old)

N

Chief Executive

Experience
Kevin served as the Chief Executive Officer of FDH Velocitel, an 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 Chief Executive Officer 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 held various senior executive roles at the publicly traded IDEX Corporation, where he led the fluid and metering technologies segment and their Asia and emerging markets businesses. Before that, Kevin held several business leadership positions and senior strategic and business development roles at Ingersoll Rand.

Appointed to the Board
February 2018

External appointments
- None

Jonathan Davis (53 years old)

–

Finance Director

Experience
Jonathan joined Rotork in 2002 after holding several 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. Jonathan was appointed as Chief Finance Officer in 2010.

Appointed to the Board
April 2010

External appointments
- None

Sally James (71 years old)
N A R

Senior independent non-executive director

Experience
Sally has substantial experience in the financial services sector having served as a non-executive director of UBS Limited, and has held a number of senior legal roles in investments banks in London and Chicago including Managing Director and EMEA General Counsel at UBS Investment Bank. She is a non-executive director of Moneysupermarket; Hermes Fund Managers and Bank of America Merrill Lynch International.

Appointed to the Board
May 2012 (appointed as senior independent non-executive director in February 2017)

External appointments
- Non-executive director of Moneysupermarket.com Group plc
- Non-executive director of Bank of America Merrill Lynch International Designated Activity Company
- Non-executive director of Hermes Fund Managers Limited

Lucinda Bell (55 years old)
N A R

Non-executive director

Experience
Lucinda was Chief Financial Officer of The British Land Company PLC ('British Land') from May 2011 to January 2018 and prior to that, held a range of roles in finance and tax at British Land.

Appointed to the Board
July 2014

External appointments
- Non-executive director of Derwent London plc
- Non-executive director of Crest Nicholson Holdings plc
- Treasurer and National Trustee at Citizens Advice

Tim Cobbold (57 years old)
N A R

Non-executive director

Experience
Tim has extensive experience in leading large, complex international listed businesses having previously served as the Chief Executive Officer of Chloride Group plc, De La Rue plc and most recently, UBM plc. Prior to this, Tim held senior management positions at Smiths Group/TI Group for 18 years. He was a non-executive director at Drax Group plc until September 2019.

Appointed to the Board
December 2018

External appointments
- Non-executive director TI Fluid Systems plc

Peter Dilnot (50 years old)
N A

Non-executive director

Experience
Since April 2019, Peter has held the position of Chief Operating Officer of Melrose plc. Prior to that, Peter spent seven years as Chief Executive Officer of Renewi plc (previously Shanks Group plc), an international recycling company. Peter has an engineering background and was a senior executive at Danaher Corporation, a leading global industrial business listed on the NYSE. His earlier career included six years at the Boston Consulting Group (BCG) based in both London and Chicago.

Appointed to the Board
September 2017

External appointments
- Chief Operating Officer of Melrose plc

Ann Christin Andersen (53 years old)
N A R

Non-executive director

Experience
Ann Christin has had more than 30 years of executive experience in the oil and gas industry. She has been Chief Digital Officer for TechnipFMC, Managing Director, and held SVP/Vice President roles for Projects and Products. She served as chair and non-executive director on several boards in the last decade. Ann Christin now works as a strategic advisor on behalf of new start-up 4ADA AS.

Ann Christin is an engineer (Heriot Watt) and has an Executive MBA (IMD).

Appointed to the Board
December 2018

External appointments
- None

Committee membership
- N Nomination Committee
- A Audit Committee
- R Remuneration Committee
- – None
- Denotes Chair

* Director's ages as at 30 March 2020

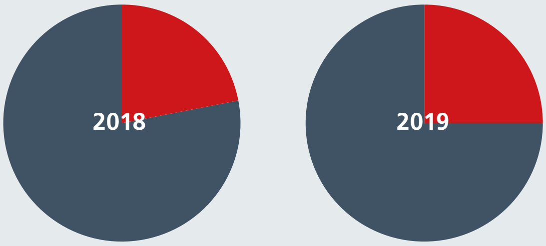
Corporate governance report continued

Board composition and meeting attendance in 2019

Rotork is led by an effective Board which currently consists of eight members: the Chairman, the Chief Executive, the Group Finance Director, and five independent non-executive directors. The Board held six scheduled meetings and five calls during the year. Individual attendance is set out below.

The Chairman meets privately with the senior independent director and with the non-executive directors from time to time.

Composition as at 31 December



2018	
Executives	22%
Non-Executives	78%

2019	
Executives	25%
Non-Executives	75%

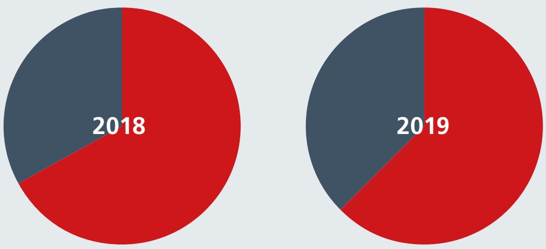
At the end of the year the Board of Directors comprised the Chairman, two executive directors and five non-executive directors.

Tenure as at 31 December (non-executives including Chairman)

2018	
0-3 years	
4-6 years	
7-10 years	

2019	
0-3 years	
4-6 years	
7-9 years	

Diversity as at 31 December

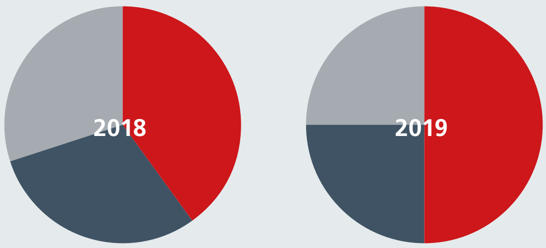


2018	
Male	67%
Female	33%

2019	
Male	62.5%
Female	37.5%

This exceeds the Hampton-Alexander review target of 33% female representation on boards by 2020.

Sector Experience as at 31 December



2018	
Industry	44%
Finance	33%
Governance	33%

2019	
Industry	50%
Finance	37.5%
Governance	37.5%

Board meeting attendance and director responsibilities in 2019

Member	Number of meetings attended (max: 11)	Independent	Responsibility
Martin Lamb Non-Executive Chairman	**11/11**	—	Leading the Board and setting its agenda; setting high standards of integrity and ensuring effective governance is maintained; supporting and guiding the CEO; overseeing Company performance; representing the Group and liaising with shareholders when required.
Kevin Hostetler Chief Executive Officer	**11/11**	—	Managing the Group and providing leadership; developing and proposing the Group strategy, leading the Group structure and operations, business development, growth opportunities; influencing and developing succession planning; managing Investor Relations.
Jonathan Davis Group Finance Director	**11/11**	—	Reports to the Board on the Group financial performance; supports the CEO in developing the Group strategy and in managing investor relations; implements Board decisions; responsible for compliance with financial policy and controls.
Non-executive directors			
Sally James Senior Independent Director	**11/11**	✓	Assisting the Chairman with shareholder communications; being available to other non-executive directors if necessary and leading the annual performance evaluation of the Chairman alongside other non-executive directors.
Lucinda Bell	**11/11**	✓	Non-executive directors provide independent oversight, judgement and challenge to the executive directors on delivery of the Company strategy within the agreed control framework and governance structure.
Tim Cobbold*	**10/11**	✓	
Peter Dilnot	**11/11**	✓	
Ann Christin Andersen**	**10/11**	✓	
Gary Bullard***	**2/2**	✓	
Attended by invitation			
Kathy Callaghan	**6**	—	The Rotork Management Board comprises of the Company's senior leadership team below Board level and facilitates the execution of the strategy through running the day-to-day operations and functional support. Members of the Rotork Management Board attend Board meetings by invitation to update the Board on operational matters of importance.
Kiet Huynh	**1**	—	
Grant Wood	**1**	—	
Paul Burke	**1**	—	
Vijay Rao	**1**	—	
Neil Manning	**1**	—	
Mark Nevin	**3**	—	Risk and internal audit manager.
Andrew Carter	**4**	—	Investor relations director.

* Tim Cobbold was unable to attend the meeting in October 2019 due to a personal commitment made before he joined the Group, but received an update from the Company Secretary after the meeting.

** Ann Christin Andersen was unable to attend the meeting in January 2019 due to a prior business commitment but received an update from the then interim Company Secretary after the meeting.

*** Gary Bullard resigned in April 2019 having attended all meetings up until that date.

Corporate governance report continued

Time Commitment
All directors are expected to attend all meetings of the Board and any committees they serve on. They are also expected to attend the AGM and Board away days, which this year was in Lucca, Italy. Directors are also expected to devote sufficient time to prepare for each Board and/or Committee meeting. This year, in addition to their other commitments, two of the directors, Tim Cobbold and Ann Christin Andersen have also undertaken a number of site visits both in the UK and abroad. Further details of their visits are included on page 57. By accepting their appointment each non-executive director has confirmed that they are able to allocate sufficient time to the Company to discharge their responsibilities effectively. In accordance with the Code, directors are also required to seek prior approval of the Board before accepting additional external appointments.

Monitoring Non-Executive Director Independence
The Chairman is committed to ensuring that the Board comprises a majority of independent non-executive directors who objectively challenge management on the execution of its strategy.

The Company maintains clear records of the terms of service of the Chairman and non-executive directors to ensure they meet the requirements of the Code. Neither the Chairman nor any non-executive director have exceeded their nine-year recommended term of service set out in the Code. Sally James is in her eighth full year of service and will complete nine years' service on 11 May 2021.

Following a rigorous review, the Board considers all non-executive directors to be independent in character and judgement from Rotork.

For information on what the Board did during the year please see the Board's Activities on page 65, 66 and 67.

The role of the Board and its committees
The Board is responsible for determining the Company's strategy, Purpose, culture and Values. It oversees the execution of its strategy by management whilst having oversight of the governance and control framework underpinning the Company.

The Board has a duty to promote the long-term success of Rotork, and recognises its responsibilities extend not only to the creation of value for its shareholders but also to wider stakeholders, including employees, customers, suppliers and the communities in which it operates. Pages 72 to 74 set out how the Board and the business have engaged with and taken into account the interests of Rotork's stakeholders.

As well as being responsible for the Company strategy which is summarised on pages 28 to 29 of the Strategic Report, the Board has responsibility for reviewing, monitoring and developing Rotork's culture and ensures that this aligns with the strategy. In 2019 the Board approved a number of workplace policies and processes which strengthen the Company's purpose, culture and values and support the delivery of the strategy.

The Board reviews and oversees the effective management of risk, whilst delegating oversight of the controls framework to the Audit Committee.

The Board is confident that the necessary resources are in place for the business to meet its strategic objectives.

Annual Board Evaluation
In accordance with the Code, the Board undertakes a formal and rigorous annual evaluation of its own performance and that of its Committees and directors. The purpose of the evaluation was to ensure key areas such as the Board's composition, expertise, interaction, management, key decision-making processes and meeting focus and prioritisation continue to be assessed and developed. This year the process was facilitated externally by Independent Audit, who are board performance consultants with no other connection with either the Company or individual directors. Their appointment followed a tender process.

The process was undertaken in Autumn 2019 by way of a series of interviews with all Directors, various members of Rotork's management team, the co-sourced internal auditors and external advisors. In addition, Independent Audit undertook a review of the Board and Committee papers and observed the Board and Committee meetings in October 2019.

The interviews covered a broad range of topics relating to the Board and its Committees including:
- Strategic oversight and implementation;
- Board composition and succession planning;
- Board culture and relationships with management;
- Shareholder and stakeholder engagement;
- Committee effectiveness; and
- Board meetings, agenda planning, quality of information and presentations.

Independent Audit collated and analysed the results, discussing them with the Chairman and making a series of recommendations at the December 2019 Board meeting, based on best practice and in line with the Code and other applicable guidance. Subsequently, the Chairman has given individual directors' feedback on their performance.

A review of the Chairman's performance was done separately by the non-executive directors, led by the Senior Independent Director. This was then shared with the Chairman. Independent Audit also gave input into this review.

The review concluded that the Board is a high-impact board, fulfilling its responsibilities during a period of major transformation to processes, structures and technology. Meeting dynamics which were observed were positive, and the reviewers noted that the conversations the Board is having are notable for their openness and depth. The non-executive directors are highly committed, with functional expertise and a high proportion of relevant and current industry experience, resulting in a comprehensive understanding of growth opportunities and also threats facing the business. The level of involvement and engagement of the non-executive directors is considered strong and the non-executive directors balance both supporting and challenging management well. The Board is well informed about the transformational change underway through the Growth Acceleration Programme and holds management to account on its delivery.

The Board intends to focus more in the coming year on the longer-term strategy and emerging risks, ensuring that acquisition opportunities, the 'digital' future and the energy transition are given sufficient time within the boardroom in 2020. There is a view that additional work could be done to improve the quality and succinctness of the papers, set a clearer forward agenda and organise the schedule of meetings.

The Board has agreed to adopt actions relating to the development of the Group strategic plan and implementation of key strategic initiatives; increasing the access of Rotork's management to the Board and increased employee engagement with non-executive directors, details of which are set out on page 27; and addressing talent and succession.

Board committees are all working effectively and are well chaired and managed, with members having a clear understanding of the issues and subject knowledge. The Audit Committee is planning to continue to focus on the strengthening of the internal control framework.

Subsequently, the Board agreed an action plan for implementation in the year ahead, focusing on increasing its long-term strategic focus whilst continuing to drive the transformation forward and focusing on its Purpose, culture and Values.

Board activities

The Chairman, Chief Executive and Company Secretary agree a structured agenda ahead of each Board meeting, which will include reports on current trading and financial performance by the Chief Executive and Group Finance Director; legal and governance updates and a review of investor relations; and a people update and the Growth Acceleration Programme. The Board meets six times a year, with calls held in other months for a brief update on key matters relating to trading and financial performance.

An insight into the breadth of matters discussed by the Board during the year and key stakeholder groups that were central to those discussions is set out below:

Turn over to continue reading about our Board activities

Corporate governance report continued

Strategy and company performance	**Trading and business**	Considered trading performance, business updates and discussed operational issues arising from across the Group's businesses.	1 2 **3** **4** 5 **6**
	Strategy	Set the Group's strategy and new vision of 'keeping the world flowing for future generations' and monitored the progress in achieving them.	**1** **2** **3** **4** 5 **6**
	Culture and Values	Set the Group's culture and Values. As part of our assessment and monitoring of our culture the Board has reviewed the results of the pulse employee feedback surveys and considered suggested improvements and set out an implementation plan. Received updates from the employee representatives which facilitated a discussion around the Company's Purpose, Values and strategy from the perspective of employees and how these align with the Company's culture.	1 **2** 3 4 **5** **6**
	Growth Acceleration Programme (GAP)	Regularly monitored progress made against set targets in the Growth Acceleration Programme.	**1** **2** **3** **4** **5** **6**
Financial	**Financial performance**	Received regular financial performance updates across the Group and discussed any issues.	**1** 2 **3** 4 5 6
	Budget	Reviewed and considered actual and forecast trading performance against the agreed budget and implications on long-term performance. Considered and approved the budget for 2020.	**1** **2** **3** **4** **5** 6
	Trading updates	Considered year-end results, half-year and trading updates and with the recommendation of the Audit Committee, approved such reports and updates.	**1** 2 **3** **4** 5 6
	Cash flow and dividend	Reviewed and considered finance performance, cash flow, liquidity and other factors and agreed interim and final dividends.	**1** 2 3 4 5 6
	Financial policies	Considered and approved the Group Treasury policies.	1 **2** 3 4 5 6

1 Shareholders
2 Employees
3 Suppliers
4 Customers
5 Community
6 Environment

Financial continued

Topic	Activity	Stakeholders
Tax strategy	Considered and approved the Group's tax strategy for publication in accordance with the 2018 UK Corporate Governance Code.	1, 2, 5
Risk	Conducted a full year risk review and discussed the principal and emerging risks and the Group's risk appetite.	1, 2, 3, 4, 5, 6
Brexit	Considered potential impact on our international operations and discussed impact assessments, scenario planning and preparations.	5

Governance and legal

Topic	Activity	Stakeholders
Health and safety	Received regular updates and agreed initiatives to increase health and safety awareness.	2, 6
Board action planning	Monitored progress of Board action against the action plan in the form of a Rolling agenda and set the action plan for 2020.	1
Board evaluation	Carried out an external evaluation of the Board's effectiveness, composition and methods of acting on feedback to ensure suggested improvements were implemented. Further detail is set out on page 68.	1
Board succession and diversity	Reviewed the Board's composition and diversity. Considering the succession plan and facilitated the on-boarding of two new Non-Executive directors.	1, 2
Annual General Meeting	Reviewed feedback and issues raised by private and institutional shareholders throughout the year to be addressed in the meeting.	1, 5
Board Committees' terms of reference	In light of the UK Corporate Governance Code 2018, the Committee considered and reviewed the requirements and its impact on the work of its Committees and updated its terms of reference.	1, 5
Dealing with directors' conflicts of interest	In December 2019, in line with the directors' interest provision in the Companies Act 2006 and the Company's Articles of Association, the Board followed its procedure for the consideration and authorisation of Directors' conflicts or possible conflicts with the Company's interests. It was concluded that these were managed effectively in the year.	1, 5
Group policies	In October 2019, the Board approved for publication a suite of policies underpinning the new Code of Conduct. Following approval these were rolled out to all employees across the Group	2

1 **Shareholders**
2 **Employees**
3 **Suppliers**
4 **Customers**
5 **Community**
6 **Environment**

Corporate governance report continued

How we listen and respond to our stakeholders

Our stakeholder relationships are fundamental to our business. We have in excess of 3,560 shareholders, over 3,600 employees, customers in 173 countries and we have a global supply base of over 4,000 suppliers. These pages provide an insight into how we interact with our stakeholders and how we consider our stakeholders when making key decisions. We have a duty to promote the success of Rotork for the benefit of our members as a whole and in doing so we must consider the interests of all of our stakeholders.

Shareholders

Board decisions

All Board decisions are made with the long-term success of Rotork in mind, which ultimately benefits our members. We have focused in particular on the Growth Acceleration Programme, ensuring that Rotork is well placed for the future.

Annual Report and Accounts

We endeavour to exceed our statutory obligations by providing a complete view of our business in the Annual Report and Accounts. Our Annual Report and Accounts is available in electronic form to shareholders and is available on our corporate website. Our corporate website also contains a variety of resources for investors including current webcasts, presentations and press releases, as well as annual interim reports.

Annual General Meeting (AGM)

At our 2019 AGM all proposed resolutions were passed. Votes in favour ranged from 88.02% to 100%. We have been using automatic poll voting for the last few years in order to better reflect the views of shareholders. Rotork also makes available electronic proxy appointments for shareholders who wish to appoint a proxy online to vote at the AGM.

Investor communication

We enjoy an active dialogue with our investors, advisers and the investment community. Our Chief Executive, Group Finance Director and our Investor Relations Director regularly communicate with our major shareholders, and over the course of the year have engaged with investors representing over half of our issued share capital. In 2019, they attended over 200 meetings, with over 125 separate institutions and have also participated in roadshows, hosted webcasts and attended shareholder events. The views expressed by investors are shared with the full Board at each Board meeting, via an investor relations update and the Board takes these views into account in its wider decision making. In addition this year Tim Cobbold has personally engaged with shareholders covering over 35% of the register as part of our Remuneration Policy review. Tim shared the responses with the full Remuneration Committee whose subsequently incorporated shareholder feedback into their deliberations. Further details on the draft Remuneration Policy can be found on pages 84-85.

Employees

Board decisions

At each Board meeting both the Chief Executive's report and the People Update, given by the HR Director, touch on the views of our employees and wider workforce. These views are expressed via our employee forums, pulse surveys, town halls and 'Ask Kevin' direct communications as well as being fed up the management line. The Board considers the impact of its decisions on employees.

In the summer of 2019, we launched our new Purpose supported by three new global Values and underlying behaviours, by way of 50 global launch events held on the same day. Further details of the launch can be found in the Strategic Report on pages 50-51. The Values show what is important to Rotork to help us achieve our Growth Acceleration Programme and our Vision by working together as one global team.

Employees
continued

Employee updates

Employees are kept informed of Rotork's strategy and performance via regular emails, a number of short films presented by the Chief Executive and the management team and regular intranet updates. Employees are encouraged to provide feedback to Rotork via employee forums, question and answer sessions, 'Ask Kevin' and pulse surveys. Employee feedback particularly informed the Board's thinking on our Purpose, Values and behaviours as well as what we included in our Code of Conduct. As was referenced in our 2018 Annual Report and Accounts, the non-executive director, Tim Cobbold, has been appointed as designated non-executive director for employee engagement. He attended the Rotork Values launch at the Bath site and has attended employee forums. Rotork's non-executive director, Ann Christin Andersen, has visited the Rotork sites in India and China and met with employees in those locations.

Pulse surveys

One of the ways that we obtain feedback from our employees is through pulse surveys conducted online. In 2019 we have conducted three surveys: a Values survey where over two-thousand employees helped select our new global Values; a communications survey where nine-hundred employees fed back on all aspects of communication and; life at Rotork, and a Values follow-up survey following the release of our corporate Values. 1134 employees participated in the Values follow-up survey, which represents over half of our IT enabled colleagues.

Diversity

We have published our 2018 Gender Pay Gap Report and note that globally across our workforce, females make up 21% of the workforce. We have pledged our support to the 30% Club and are a partner to the Women in Engineering Society. We participated in the 2019 Hampton-Alexander Review pilot buddy programme, matching FTSE 100 and FTSE 250 organisations to share knowledge and support and continue to track diversity through our talent reviews and Board meetings. We have three women on the Board out of eight and we continue to be highly supportive of STEM initiatives and have set an aim that 30% of our apprentice intake will be female

Employee development and training

A range of development opportunities are available to our employees. These include the delivery of strategic global training and development programmes, mentoring and external coaching. Our Global Training and Development Team are working to put in place further management and leadership development programmes in 2020.

Charitable and community projects

The local charity committees at each of the Rotork sites support charitable causes that are important to the employees locally. Highlights from 2019 include sponsoring the Bath Royal United Hospital's Cancer Centre, a STEM week, a local netball club, and science fair in a local primary school.

Customers

Board decisions

How we interact with our customers and customer satisfaction has been a key topic in Board discussions. As part of our Growth Acceleration Programme we have focused on further aligning our business with our customers' needs.

Feedback

In response to customer feedback, we have commenced the process of transforming from a product-based structure to a more customer focused structure which is aligned to market segments, with an emphasis on making it simple for customers to do business with Rotork. We have carried out customer surveys in Asia asking over 100 customers for feedback on our organisational changes. Their view on overall customer experience and how easy it is to now do business with Rotork. We received feedback from over 90% of the customers we asked. Overall responses were positive stating that it is now easier to place orders with Rotork, communications about the organisational changes were timely and that Rotork are now viewed as offering a total business solution. We will be rolling out further customer surveys across the globe in 2020.

Delivery lead times

Our customers have indicated that they are looking for shorter lead times. Many of our activities being undertaken on lean manufacturing and inventory as part of our Growth Acceleration Programme are working to reduce lead times.

Corporate governance report continued

Customers continued

Service support

In December 2018 we appointed our new Director of Site Services. During 2019, we mapped our aftermarket strategy and have worked to provide a simpler and broader range of support to customers from reactive through to preventative maintenance. The key development area to support this is our expanding capability to provide intelligent predictive maintenance to help customers maximise performance, and our use of these innovative digital approaches will continue to grow in 2020.

Events

Rotork holds regular customer events to provide training and information on our product range and service offerings, and we have product trainers located around the globe.

Community

Board considerations

Board decisions are made with consideration of our operational impact on the communities in which we work. There is a continued focus on environmental issues including energy management, measures to reduce our water usage and understanding as well as managing our waste. These were particularly considered by the Board as part of its deliberations relating to its operational footprint and factory expansion projects.

Charitable contributions

Our target is to contribute 0.1% of profits to nominated international charities and a further 0.1% of profits to local charitable causes.

Early years development

We are committed to supporting early years employment, offering apprenticeship schemes throughout the business and we are also members of the Manufacturers Standardisation Society, which offers undergraduate and graduate scholarships in relevant disciplines.

Community involvement

With the help of our employees, we have been involved in a range of community activities. We have donated money to many local causes, details of which are included on pages 52 and 53 of the Strategic Report.

Suppliers

Board decisions

This year we have invested in our supplier relationships as these relationships are vital to our success.

Modern slavery

We have continued the review of our global supply chain and operations to ensure that we are working to prevent modern slavery in these areas. Details of the efforts we have made to combat modern slavery are detailed in our 2019 Modern Slavery Statement which can be found on the Rotork corporate website at https://www.rotork.com/en/investors/modern-slavery-statement.

Supplier Code of Conduct

We have a Supplier Code of Conduct which sets out our core Values and we require that all of our suppliers of goods and services comply with it.

Supplier conference

Rotork held its inaugural Global Supplier Conference in 2019 with many of our strategic suppliers attending the event from all over the world. Rotork held individual meetings with suppliers and also gave presentations on a variety of topics including supplier audits, product innovation, cyber security and corporate social responsibility. The feedback was that this type of event was beneficial and consequently we are considering making it a regular event.

Global sourcing agreements

In the final quarter of 2018, our Global Strategic Sourcing team turned their focus to significant component categories and continued this focus into 2019. We currently have circa 4,000 suppliers and a key focus is to reduce this number, enabling us to strengthen our partnerships with remaining suppliers, adding increased value to our customers. New agreements with suppliers continue to be put in place and this will continue into 2020.

Audit committee report

Committee membership & meeting attendance

Number of meetings attended (max: 4)

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

* Tim Cobbold was unable to attend the meeting in October 2019 due to a personal commitment.

** Gary Bullard resigned in April 2019 and accordingly only attended the February 2019 meeting.

The Audit Committee is responsible for:

Financial reporting

- Reviewed the Annual Report & Accounts (including whether they are fair, balanced and understandable), the Corporate Governance Report and draft results announcement.
- 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.

Internal controls and risk management

- Reviewed processes and procedures for risk management and the effectiveness of the internal controls framework.
- Reviewed the development of the business and financial control framework and integration of this work with the design of the new ERP system.
- Reviewed the development of an electronic major contract approval tool.
- Reviewed significant internal control reports, findings and management responses.
- Discussed compliance with Group policies.
- Reviewed anti-bribery and corruption procedures.

External audit

- Considered and reported to the Board on the external auditor's independence, objectivity and effectiveness.
- 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 the risk of one of the external auditor firms leaving the market.
- Considered re-appointment of the external auditor.

Internal audit

- Reviewed the internal audit programme, its remit, resourcing and effectiveness.
- Reviewed the maturity and effectiveness of internal audit.
- Discussed reports on the implementation of process improvements recommended for action following internal audit reviews and progress on implementing recommended actions, including overdue actions.
- Meetings with the Head of Risk and Internal Audit without management present.

Other work

- Reviewed the Finance Strategy, Vision, maturity assessment, and associated development plan.
- Considered accounting and corporate governance developments including the 2018 Corporate Governance Code changes.
- Reviewed Audit Committee effectiveness and terms of reference.
- Reviewed the whistleblowing, gifts and hospitality and risk management policies.
- Approved the Audit Committee's schedule of work for 2020.

Audit committee report continued

I am pleased to present the report of the Audit Committee for the year ended 31 December 2019. This year the key areas of focus for the Audit Committee, in addition to its usual schedule of work, have been:

- Reviewing 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. The work is a mix of actions mitigating identified risks as well as longer term improvements aligned to the investment in the new Enterprise Resource Planning (ERP) system.
- Overseeing the transition of the new external audit partner and Risk and Internal Audit Manager.
- Reviewing progress on implementation of a new major contract approval tool.
- Reviewing ongoing progress to strengthen the Finance function.

Committee composition and governance

All Audit Committee members are independent non-executive directors. On 26 April 2019 Gary Bullard, who had served as a member of the Committee since his appointment to the Board in 2010, did not seek re-election and stepped down from the Committee from that date. There have been no other changes to the membership of the Committee during the year.

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 64 to 65.

The Audit Committee operates under formal terms of reference which are reviewed annually and were last updated in October 2019. 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 four times during the year. Details of attendance are set out on page 75. The Chairman, Chief Executive, Finance Director, Group Financial Controller, Head of Risk and Internal Audit, Risk and Internal Audit Manager and representatives of the external auditor (including the principal audit partner) also attend meetings by invitation.

As Chair of the Committee, I additionally hold regular meetings with the Finance Director, the external audit partner, the Head of Risk and Internal Audit 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.

During the year, the Audit Committee received reports from management, the Head of Risk and Internal Audit and the external auditors. Through face to face discussions and detailed written reports the Committee is able to challenge, scrutinise and ask questions where further clarification or discussion is required. Further details of the work undertaken by the Audit Committee during 2019 is set out on page 75.

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.

In order to assess the financial statement, the Committee receives reports from members of the financial team and external auditors, who are invited to attend meetings. Through face to face discussions and detailed written reports the Committee is able to understand the key judgments and estimates and how they are being recorded and disclosed in the financial statements.

The principal matters of judgement and estimation considered by the Audit Committee in relation to the 2019 accounts and how they were addressed were:

- Goodwill impairment testing. The year end balance sheet includes goodwill of £222m (31% of the Group's assets). The Audit Committee discussed the appropriateness of the assumptions used in assessing the value in use of each cash generating unit and were satisfied with the approach taken by management which resulted in no impairment being made in 2019. 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 2019, 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 is shown in note 24 and the Audit Committee is satisfied they are complete and accurate.

- Revenue recognition. The report from the Group Financial Controller noted that the controls in place to evidence the timing of revenue recognition in respect of certain bill-and-hold arrangements at two locations were not followed in accordance with the Group's policy. In management's judgement, the requirements of IFRS 15 have been satisfied to recognise the revenue and this has been confirmed by the customers. The Audit Committee discussed the judgements involved and noted that the value of revenue under judgement was not material. Following the discussion, the Audit Committee were satisfied with the approach taken by management.

External auditor

The year under review marks the sixth year during which Deloitte LLP has been the Group's external auditor following a formal tender process in 2014. The 2019 year end audit will be the first year that David Griffin has acted as Deloitte LLP's lead audit partner for Rotork. In order to assist David in familiarising himself with Rotork, he has visited a number of Rotork locations both in the UK and overseas as part of the audit process.

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.
- Matters arising during the external audit and the communication of these to the Audit Committee.
- Private meetings with the external auditor 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 audit during the year but as the Committee are satisfied with the work of Deloitte, the decision was made not to re-tender. The Audit Committee has recommended that Deloitte LLP be re-appointed auditors for the 2020 financial year and Deloitte's continuing appointment will be subject to shareholder approval at the 2020 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. This is the sixth year end since Deloitte took over as external auditors and we will re-tender our external audit service provider after ten years have been completed at the latest.

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. The Audit Committee reviews the policy annually to ensure it remains appropriate. 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 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).

The Finance Director has delegated authority to approve work that is permitted under the policy. 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. 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.

As set out in the 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 risks increased with the launch of the Growth Acceleration Programme. In that context, in late 2018 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 from both internal and external audit. In response, management agreed a series of measures including improvements to accountability, consistency, and the development of a stronger second line of defence.

The implementation work has been underway throughout 2019 and will continue in future years. It is a mix of actions mitigating identified risks as well as longer term improvements aligned to the investment in the new Enterprise Resource Planning (ERP) system that is being developed.

Audit committee report continued

The Audit committee received reports at each meeting on progress on the work, including reports from the external auditor.

Strengthening the Finance and compliance functions is central to improving the control environment. New appointments have been made in line management and the first line of defence and a finance direct report structure is being phased in. During the year a Head of Legal Compliance and Employment has been appointed to supplement the in-house legal team and support the development of a new Code of Conduct which acts as an over-arching document for many of the internal Group policies.

PwC continued to provide internal audit services throughout 2019. The function is led by an experienced Head of Risk and Internal Audit from PwC supported by an in-house Risk and Internal Audit Manager. The Group continues to use Rotork staff supported by the dedicated in-house team and staff from PwC to undertake internal audits. Quality assurance procedures ensure consistency both in terms of audit approach and proposed recommendations. Staffing of the central risk and internal audit team will be kept under review during 2020.

Internal audit has delivered financial audit reports for 27 of our global locations during 2019. 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.

A further seven risk-based internal audit reviews have been performed during 2019, covering the following areas:

- Growth Acceleration Programme project management office.
- Cyber security.
- GDPR.
- Brexit readiness.

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 2019, the new more rigorous process for internal audit ‘follow up’ of agreed management actions has been in operation and has resulted in more actions being completed within the agreed timeframes. Overdue internal audit action points were reported to the Board monthly.

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 insight into key areas of risk and is verified during the internal audit visits.

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.

The Risk Management Policy has been updated during 2019. It documents 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 Risk Appetite and the designated risk owners amongst the executive team. This has helped in formulating more detailed plans to ‘get to green’ where risks currently sit outside of appetite. Work on these plans will continue in 2020.

The 2020 internal audit programme has been scoped to include a number of risk-based audits related to controls relied upon to mitigate 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 2020 programme at its December 2019 meeting.

Whistleblowing

From 2019, review of the Speak Up policy and procedures are a Board responsibility in accordance with the 2018 Corporate Governance Code. The Committee continued to review the financial consequences of any events during the year.

Other matters

During the year a finance maturity assessment was completed by members of the finance leadership team. The output from this assessment was presented to the Committee together with a development plan, focused on improving areas of greatest opportunity first. With the restructuring of the finance team, as part of the wider organisation design change, the new finance leadership team will now drive these changes, reporting progress to the Committee during 2020.

In accordance with its terms of reference, the Audit Committee carried out a review of its effectiveness including how it discharged its responsibilities. Independent Audit interviewed the Committee members, Board members, members of Rotork's management team, the co-sourced internal auditors and external advisors as part of this process and presented their observations and recommendations in December.

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 2020

Key areas of focus for the coming year are:

- To review ongoing progress on strengthening the control environment.
- To review development of the global finance team.
- To review development of the ERP system and the integration of controls within its design to enhance the control environment and drive consistency between locations.
- To review the implications for Rotork of developments in the external audit process and regulation.

—
Lucinda Bell
Chair of the Audit Committee
2 March 2020

Nomination committee report

Committee membership & meeting attendance

The Committee is chaired by Martin Lamb and comprised mostly of independent non-executive directors. Details of the Committee members and their attendance at the meetings held during the year are set out below.

Number of meetings attended (max: 2)

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

* Tim Cobbold was unable to attend the meeting in October 2019 due to a personal commitment.
** Gary Bullard resigned in April 2019 and accordingly only attended the February 2019 meeting.

The Nomination Committee is responsible for:

Leading the process for Board appointments and making recommendations for appointments to the Board.

Ensuring succession planning is in place for appointments to the Board and senior management.

Reviewing the structure, size and composition and balance of the Board, including its balance of skills, diversity, knowledge and experience, and making recommendations as appropriate.

Making recommendations to the Board on the composition of the Board's Committees.

Making recommendations to the Board concerning the annual reappointment by shareholders of any directors and separately assessing each year whether non-executive directors continue to be independent.

The terms of reference of the Nomination Committee were reviewed in October 2019. A copy of the revised terms of reference are available on Rotork's website at https://www.rotork.com/en/documents/publication/5553.

The role of the Committee

The Committee evaluates and examines the skills and characteristics needed to ensure the Board has the right balance, knowledge and attributes to operate effectively to deliver the long-term success of the Company, in a culture that is aligned with the company Purpose and business strategy, and promotes integrity. It also reviews the succession needs of the organisation and puts in place the appropriate processes for nominating, training and evaluating directors, bearing in mind the need for diversity.

Activities of the Nomination Committee during the year

During the year, the Committee undertook the following main activities:

Board Appointments

Following the appointment of Ann Christin Andersen and Tim Cobbold in 2018, there were no new Board appointments 2019. Biographies of each member of the Nomination Committee are set out opposite.

Gary Bullard, who would have been in office for nine years in June 2019, did not stand for re-election at the 2019 AGM and Tim Cobbold was appointed as Chair of the Remuneration Committee, having satisfied the Nomination Committee that he had the requisite experience to perform the role.

As advised on page 64 Sally James is in her eighth full year of service and will complete nine years' service on 11 May 2021. The Nomination Committee intends to appoint an external search consultant (with which the Company has no other connection) to assist with the process of recruiting a successor. In formulating the candidate profile for the appointment the Board will look at candidates with a growth mindset, international experience, previous governance experience as well as Board experience, preferably from a diverse background.

Succession planning

Succession planning for the Board and senior management is continuous and during the year the Nomination Committee considered 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 and senior management.

Diversity planning

The Board seek to attain a diverse mix of skills, experience, knowledge and background. In considering diversity, gender plays an important role but the Board also takes into account social and ethnic background, and other cognitive and personal strengths. As reported on page 73 the Board updated its Board Diversity and Inclusion plan and are a partner to the Women in Engineering Society. Details of the percentage of women on the Board, in senior leadership positions and within the Group can be found on page 66.

Board evaluation

The Board performed an external review of its effectiveness in 2019. The review included an assessment of the effectiveness of the Committee including how it discharged its responsibilities. Further details on the results of this review and any resulting actions can be found at page 68.

—

Martin Lamb
Chair of the Nomination Committee
2 March 2020

Board diversity policy

During 2019 we revised and updated our Board Diversity and Inclusion Policy. The new policy can be found on our website https://www.rotork.com/en/documents/publication/24261.

The commitments we make in our revised policy are not new, but record the Board's ongoing commitment to important means of reaping the benefits of alternative perspectives and insights, knowing that these, in turn, lead to constructive challenge and sound decision making.

Our progress on all aspects of diversity in its broadest sense can be seen from the following;

- We have achieved the benchmark set by the Hampton-Alexander Review well in advance of the stated deadline. The Hampton-Alexander Review encourages Boards to achieve a female membership of 33% by 2021 and our Board has already reached 37.5% female.
- We have reviewed and updated our Board Diversity and Inclusion Policy, noting areas where work is still needed.
- We continue to engage with Executive Search firms who have signed up to the Voluntary Code of Conduct. This is especially important as the Board addresses succession planning.
- We remain a member of the 30% Club and are a partner to the Women in Engineering Society.
- Our Gender Pay Gap report shows that throughout the organisation, women make up 21% of our workforce and we intend to reinforce that number by working toward a diverse apprenticeship intake.

Directors' Remuneration Report

Committee members

Number of meetings attended (max: 4)

Tim Cobbold	4
Ann Christin Andersen	4
Lucinda Bell	4
Sally James	4
Peter Dilnot*	3

* (to 1 October 2019).

Priorities and activities of the Remuneration Committee during 2019

Reviewing our remuneration to ensure it delivers a package that is proportionate to the opportunity for shareholders and aligned with their interests

- Considered the revised Remuneration Policy for 2020.
- Set pay principles.
- Reviewed all elements of the directors' Remuneration Policy to ensure that it is globally relevant, remains fit for purpose and aligns with and supports Rotork's Values and culture, and fits with our pay principles.
- Considered corporate governance developments, guidance from institutional investors and external remuneration trends to ensure our remuneration structures reflect evolving good practice. The Board received formal training on these developments from Baker McKenzie.

Setting pay at a competitive level against the external market and ensuring it is affordable and fair in the context of pay for all Rotork employees

- Reviewed the pay arrangements for employees across the Group and considered how these related to those for our senior leaders.
- Set basic salary for executive directors and members of the RMB for 2020.
- Reviewed the fee payable to the Chairman.

Determining pay outcomes that are performance-driven…

- Determined bonus performance against targets and approved 2018 bonus payments.
- Determined LTIP performance against targets and approved 2016 vesting.
- Reviewed both incentive plan outcomes and evaluated whether discretion should be applied.

…and ensuring future pay is motivating, transparent and aligned to shareholders' interests

- Reviewed the terms of both bonus and LTIP plans to ensure they remain fit-for-purpose and in line with developing best practice.
- Selected the measures and set the performance ranges for executive directors and other members of senior management's bonus scheme for 2019.
- Approved executive directors' personal objectives for 2019.
- Set LTIP performance targets and award levels for executive directors and other members of senior management for the 2019 LTIP.

Maintaining transparency and clarity in everything we do

- Consulted with shareholders on the changes to our Directors' Remuneration Policy.
- Approved the Directors' Remuneration Report 2018.

Statement from the Chair of the Remuneration Committee

Dear Shareholder,

In April of last year, I became Chairman of Rotork's Remuneration Committee. Shortly afterwards the Committee began a review of Rotork's Remuneration Policy, in line with the requirement to present a Remuneration Policy to shareholders for approval at the 2020 AGM. In the light of the significant changes in both Rotork's business and in the expectations of shareholders with regard to remuneration since the last policy was approved, this was the most significant activity for the Committee in the year.

Remuneration Policy review context

At the time of the last policy review my predecessor had, at a time of less robust business performance, developed new pay structures, introduced several elements of good remuneration practice including bonus deferral and holding periods on vested LTIPs and more generally aligned the remuneration policy with the strategic needs of the business at that time. During 2017 we were pleased to have been able to recruit an excellent and well-qualified CEO in Kevin Hostetler, however in securing Kevin's appointment shareholders should be aware that the Board felt keenly the constraints of our current policy when conducting the search in the global marketplace.

In order to set the review in context and mindful that the remit of the Committee covers remuneration more generally across the business, the Committee established and approved four Key Remuneration Principles to underpin all remuneration decisions in Rotork. This is the first time Rotork has had a set of Key Remuneration Principles and it is through these principles that the Committee exerts an appropriate degree of influence over remuneration throughout Rotork, at all levels. These are that remuneration should be:

1. performance driven, competitive and fair;
2. motivating, affordable and proportionate;
3. aligned to shareholders' interests; and
4. globally relevant and transparent.

Rationale for the proposed Remuneration Policy

The broad structure of our current policy has proved to be effective and appropriate for the business so the proposed new policy is an evolution of the existing one adjusted for the significant developments in the business and changed remuneration practice.

In shaping the new policy, the Committee was concerned to ensure that it was highly aligned with the business' new strategy which was established following Kevin Hostetler's appointment. Under Kevin's leadership the Group's management team has been significantly strengthened and an ambitious and comprehensive five year strategic plan, the 'Growth Acceleration Programme' has been developed and is being successfully implemented. The business performance and share price has improved correspondingly.

In the Board's opinion this new plan has significantly improved the long-term opportunities and prospects for the business as compared to when the current policy was developed. The proposed policy therefore reflects these greater opportunities for the business in terms of an increased opportunity for the management team but anticipates commensurately more demanding targets. Conscious of the third Rotork Remuneration Principle and reflecting the feedback from investors, the Committee believes that the majority of the increased opportunity should be long term, share based and accompanied by a much higher executive shareholding requirement.

The Committee was also mindful that investors' expectations of what constitutes good remuneration practice has also evolved in the past three years. The Committee, with the support of both Executive Directors, has proposed significant changes to pension allowances and shareholding guidelines and has introduced post cessation of employment shareholding requirements all of which mean that the proposed policy will reflect current, good remuneration practice.

Finally, the Committee was aware following the recruitment process for Kevin Hostetler that the current level of opportunity was markedly below the benchmarks for a business of Rotork's size and complexity. The Committee understands that a benchmark is not in itself a reason to make a policy change but did recognise it as a factor in developing the new policy and a matter to consider in the light of any subsequent recruitment.

Consultation with shareholders

As part of developing the policy, we sought feedback from shareholders representing more than 70% of the Company's register, as well as from the various investor advisory agencies. The consultation process started in May 2019 and was concluded in January 2020.

Of course, the inherent challenge in this process is that our shareholders do not speak with one voice and this is especially so at a time that executive remuneration in general has never been under greater scrutiny. It is simply the case that it would not be possible for us to meet the conflicting demands and expectations of all shareholders. Together with the Committee I have therefore sought, in our final proposal, to navigate a path that delivers a policy that we are sure is right for the business in the long term and is acceptable to a significant majority of our shareholders.

The large majority of our investors were supportive of the business case to increase the overall variable pay opportunity, mindful of our commitment to also introduce correspondingly tougher targets.

However, there was a clear preference that the increase should be weighted more to the long-term opportunity. Whilst our initial proposal would have brought us to a more normal incentive structure in terms of overall balance, we have accepted the views of shareholders. Accordingly, we have revised our proposal to weight the increase more towards the long term opportunity – increasing long and short term opportunities by 50%pts and 25%pts respectively (our initial proposal being the reverse).

Directors' Remuneration Report continued

There was also strong support for our proposal to align new directors' pension allowances with the wider workforce.

However, a number of shareholders asked that we go further and commit to reduce the pension of the incumbent directors in line with the Investment Association's guidelines (which were released after our consultation process had begun). We were initially cautious on this point, mindful that pensions allowances are a contractual term in executive service contracts and so can be only be varied by mutual consent or by a unilateral contract termination by the Company (with the consequential legal and business risks). However, both executive directors, recognising their responsibility to set an example and conscious that pension allowances are only one element of their overall compensation, have agreed to an immediate freezing of their pension allowance and a phased reduction of their pensions which will see them aligned with the workforce by the end of 2022.

The proposed increased share ownership requirements, including their extension beyond cessation of employment, received strong support from shareholders and so this feature was retained in our final proposal.

I am grateful to shareholders for contributing to the consultation and trust they recognise our willingness to both listen to and act on the views they expressed.

Key elements of the proposed Remuneration Policy

Remembering that the proposed policy is an evolution of the existing policy, the proposed key changes to the current policy that are as follows:

Pension allowances

- Pension allowances for newly appointed executive directors will be capped at the level available to the majority of the workforce.
- For incumbent executive directors pension allowances will be frozen at the 2019 value and will then fall in a phased programme of reductions which will result in alignment with the majority of the workforce by the end of 2022. Both Executive Directors have agreed to and supported these changes, which will be reflected in their service contracts once the new Policy has been approved and implemented.

Variable opportunity

- The maximum annual bonus opportunity will increase to 150% (from 125%); in 2020 this higher level will be offered to the CEO, and the Group Finance Director will have an opportunity of 125%. Otherwise, the operation of the annual bonus, including share deferral and payment at target remains unchanged.
- The maximum long term opportunity (LTIP) will increase to 200% (from 150%); this higher level will be offered to the CEO, and the Group Finance Director will have an opportunity of 175%. Otherwise, the structure of the LTIP and the accompanying rules will remain unchanged.

Interests in Rotork shares

- The Executive share ownership requirement (currently 250% of salary) will be increased to be equal to the total variable pay opportunity available to each executive (i.e. 350% and 300% for the CEO and Group Finance Director respectively).
- Following cessation of employment, Executives will be required to retain for a further two years any shares held that have vested to them under the Group's share plans in respect of awards made following the approval and implementation of the proposed policy, subject to a maximum holding requirement of 200% of final salary. Our decision to apply this requirement only to shares vesting from share plans is intended not to discourage personal investment. Measures will be in place to ensure compliance with this new requirement.

The proposed policy makes the commitment that, inter alia, directors' salaries will normally only rise in line with the wider workforce and that all remuneration outcomes are subject to the Remuneration Committee's active consideration of the need, or otherwise, to apply discretion.

Following these changes, the proposed policy will result in an overall level of compensation that is no higher than average for a company of Rotork's size and complexity.

The proposed Policy will be put to shareholders for approval at the 2020 AGM. Where approved, and subsequently implemented, it will become effective on that date and will remain in place for three years, unless a new policy is proposed before that date.

Remuneration in 2019

2019 started with a cautious outlook for the business, which became steadily more positive as the year progressed, so our remuneration decisions reflected this reality.

At the start of the year, despite the strong performance of the new management team and bearing in mind the limited results from the Growth Acceleration Programme at that time, the Board judged that the external landscape remained challenging. The Committee therefore decided to defer any change in salaries for the directors and the senior management team at the normal salary review date. As the year progressed, it became evident that the business was navigating the external challenges well and that the benefits from the Growth Acceleration Programme were being realised earlier and more strongly than expected. By the middle of the year, based on confidence in the business' performance, the Committee judged that a salary increase across the executive population was appropriate; therefore both executive directors (and the senior management team) received a salary increase in July 2019 of 1.4%, in line with the increase that had been given to the wider workforce at the start of the year. The Committee decided it was not appropriate to backdate the increase.

The Annual Bonus targets for 2019 (payable in 2020) were based on annual profit, cash generation, lost time incident rate and individual strategic targets. Despite a difficult market environment we set ambitious targets for the annual bonus, particularly in relation to profit and this is reflected in the outcome for the year. In a market environment that remained challenging, the Group's operating performance was good, benefitting from pre-emptive management action and the Growth Acceleration Programme. The strategic development of the business during the year has also been strong and this is reflected in the Strategic Personal Objectives assessments for both directors. As a result, the bonus for Kevin Hostetler and Jonathan Davis for 2019 paid out at 102.5% and 81.5% of salary respectively, of which 27.5% and 21.5% respectively will be deferred in shares under the Deferred Share Plan.

The 2019 payout is below the 2018 pay out level despite stronger business performance reflecting the challenging targets that are set at Rotork.

The outturn for the 2017 LTIP award, which vests in 2020, is based on basic earnings per share (EPS), total relative shareholder return (TSR) and the rate of growth in economic profit (a capital returns measure) over the three years to December 2019. EPS has grown at 11.8% CAGR since 2016 (the base year for measurement) reflecting the recovery in performance following the change in leadership and implementation of the new business strategy (Growth Acceleration Programme), though the depressed level of the base year start point helped. Economic profit growth (growth in profit ahead of the return demanded by the weighted average cost of capital) was good at 4.6% CAGR. As a result, 84.5% of the award to Jonathan Davis (and other members of the senior management team) vested. Kevin Hostetler, having joined Rotork in 2018, was not a participant in this award cycle.

The Committee actively considered the extent to which the outturn for both the 2019 Annual Bonus and the 2017 LTIP reflected the substantive performance of the business and alignment with the 'shareholder experience' in the relevant period. The Committee was satisfied that both outcomes were fair, appropriate and proportionate and were well aligned to the shareholder experience and feedback. As such no discretionary adjustments to the formulaic results were considered necessary.

Full details of the targets and performance against them for both the Annual Bonus and 2019 LTIP are set out on page 85. This includes an expanded section on the nature of and assessment of the Strategic Personal Objectives in response to feedback from shareholders.

Remuneration for 2020

If the proposed Remuneration Policy is approved, and subsequently implemented, then the changes envisaged therein will be implemented in 2020.

Salary reviews

- In Rotork salaries are now normally reviewed, effective 1 April. Accordingly, the executive directors will receive a base salary increase of 2.5%, in line with the level awarded to the wider workforce. This is in line with the proposed Remuneration Policy that Executive Directors' salaries will normally only increase in line with the wider workforce.
- The Chairman's fees were also increased by 2.5%, effective on the same date.

Pension allowances

Subject to the new remuneration policy being agreed and implemented pension allowances of executive directors will be frozen at their 2019 levels.

Annual bonus

Whilst the overall structure of the annual bonus will remain unchanged from 2019 there are some important revisions that will apply, including the introduction of tougher targets reflecting the increased opportunity in the business, as follows:

- EBITA Performance (60% of opportunity) – the maximum target for this will be increased such that the growth in EBITA (on a constant currency basis) to achieve maximum outturn will be 3% points higher than in 2019.
- Cash Conversion (15% of opportunity) – the target to achieve maximum outturn will increase from 100% conversion to 110%.
- Health & Safety (5% of opportunity) – a performance range will be introduced (replacing the 'cliff edge' single number target of prior years) with the target set on a basis consistent with the previous year and a maximum that requires a stronger than historical performance improvement in LTIR.
- Strategic Personal Objectives (20% of opportunity) – for the first time specific objectives will be included to cover environmental performance. It is anticipated that these objectives will be further developed during the year such that an increased proportion of the annual bonus opportunity will become dependent on environmental performance in the future.

2020 LTIP

Whilst the structure of the LTIP performance conditions will be consistent with 2019, the challenging targets have been set having had close regard for the increased opportunities in the business.

- TSR (33% of opportunity) – in line with market standards for this measure the maximum outturn will be achieved if TSR is in the upper quartile.
- EPS (33% of opportunity) – as in previous awards the threshold and maximum is set at 9% and 35% growth respectively.
- Economic profit (33% of opportunity) – performance will be measured against the latest long-term plan for the business. Maximum award will require a growth in the economic profit over the period of 9% CAGR, equivalent to growth of more than 10% CAGR in profit after tax.

Awards under the existing Remuneration Policy will be made in the normal course following the publication of the results, with a further award made following satisfactory approval of the proposed Remuneration Policy. Awards made under the proposed policy will be made subject to directors formally agreeing to the post cessation of employment shareholding arrangements that apply to those awards.

Details of the Remuneration arrangements for 2020 are included on pages 83 to 85.

Directors' Remuneration Report continued

Remuneration at a glance

Development in the role of the Committee

In the light of some significant changes in the expectations of many stakeholders, the Remuneration Committee's role has expanded during the year.

Most significantly the Committee now has oversight over all aspects of remuneration in Rotork. To this end, in 2019 the Committee approved the Rotork Key Remuneration Principles, set out above. It is through these principles that the Committee exerts an appropriate degree of influence over remuneration throughout Rotork, at all levels. They also set the pay 'culture and tone' for remuneration in the business.

The Committee conducted a review of the company's Workforce Remuneration and Related Policies as part of satisfying itself of the adequacy of the development of the remuneration practices and culture across the business. This included:

- A review of the pension arrangements, including assessing the level of pension contribution made to the majority of the workforce in a country, including the UK and global basis.
- An explanation of the approach taken to benchmarking across the business on a by country and by role basis.
- Reviewing the management's changed approach to performance conversations and the linkage of individual performance to pay review as part of ensuring an approach aligned to the Key Remuneration Principles, particularly nos. 1 & 2.
- Reviewing the effectiveness of the new company wide bonus scheme that was introduced in 2019 including the mechanisms by which individual performance is recognised.
- Considering plans to widen the scope of the LTIP in a way that reflects talent more than hierarchy and requires, as a condition of participation, a minimum 'performance plus contribution' rather than a quasi-entitlement/expectation.

This review provided the Committee with confidence that remuneration practices were being aligned to the Key Remuneration Principles and that the pay culture and tone in the Group was appropriate.

In addition to my role as Chair of the Remuneration Committee I accepted the role as the designated non-executive director for workforce engagement which provides a useful linkage to the now wider remit of the Remuneration Committee itself.

Composition of the Committee

As explained in the report of the Nomination Committee Chairman, in accordance with good practice, Peter Dilnot stepped down from the Committee on 1 October 2019 as he is a serving executive director in another business. All members of the Committee are non-executive directors who do not serve as an executive director on another listed business in the UK.

—

Tim Cobbold
Chair of the Remuneration Committee
2 March 2020

1 It is envisaged that an initial award in line with the existing Remuneration Policy will be issued to the executive directors in March 2020. In the event that the new Remuneration Policy is approved at the Annual General Meeting and subsequently implemented, a second grant, awarded outside of the 42 day allotment period as defined in the scheme rules, will be made to the executive directors.

Policy report

Our Remuneration Policy in 2020 (assuming AGM approval and subsequent implementation of the new policy)

Purpose	Element	Kevin Hostetler (Chief Executive)	Jonathan Davis (Group Finance Director)
Attract and retain high-calibre executive directors	**Salary**	£624,000	£359,000
	Benefits	Standard benefits plus relocation arrangements agreed in connection with his appointment	Standard benefits
	Pension	Pension allowances fixed from 1 January 2020 at their 2019 absolute values, i.e. £152,100 and £70,119 for the Chief Executive and Group Finance Director respectively. These allowances will fall progressively and, by the end of 2022, will align with the percentage contribution available to the majority of the workforce.	
Drive and reward short-term performance	**Annual bonus**	150% of salary maximum (90% salary on-target)	125% of salary maximum (75% salary on-target)
		Based on profit, cash generation, safety and personal targets (including strategic and environmental). Any bonus above 60% of maximum is deferred in shares for three years.	
Incentivise long-term value creation and provide alignment with shareholders[1]	**Long term incentive plan (LTIP)**[1]	200% salary performance share award	175% of salary performance share award
		Based on adjusted earnings per share (EPS), relative total shareholder return (TSR) and economic profit assessed over a three-year performance period (a two-year post-vesting holding period also applies)	
Provide alignment with shareholders	**Shareholding requirements**	350% of salary	300% of salary
		Executive directors are required to build a shareholding equal to their variable pay opportunity within five years of appointment. A requirement to hold 200% of salary in shares will continue to apply for two years after cessation of employment (but does not apply to shares held which were purchased with the executive's own funds).	
Total remuneration opportunity at on-target performance (£'000)		£2,063	£1,060
Actual remuneration for 2019 (£'000)		£1,422	£1,191

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. The financial measures in our incentive plans reflect these priorities and our long-term financial objectives.

Strategic priorities	Bonus	LTIP
Innovation	Strategic targets	Economic profit measure
Operational excellence	Cash generation measure Personal performance targets	
Growth	Profit measure	Total Shareholder Return measure Earnings per share measure
Sustainability	Environmental stewardship measure Safety measures Deferral into shares Clawback and malus provisions	Five-year time horizon (three-year performance period and two-year holding period) Clawback and malus provisions

Performance outcomes for the 2019 financial year

			Kevin Hostetler	Jonathan Davis
2019 annual bonus	Profit (60%) Cash generation (15%) LTIR (5%) Personal and strategic (20%)	44.0% achieved 15.0% achieved 5.0% achieved KH: 18.0% achieved JD: 17.5% achieved	82.0% of maximum awarded	81.5% of maximum awarded
2017 LTIP award	EPS growth (33%) TSR (33%) Economic profit (33%)	100.0% of maximum 96.0% of maximum 57.5% of maximum		84.5% of maximum vesting

Our directors' Remuneration Policy has been developed to enable Rotork to recruit and reward appropriately an executive team of the calibre required to manage our global business to deliver the optimum outcomes for all our stakeholders. We aim to pay competitively against the talent pools from which we recruit, which envisages a large portion of pay to be linked directly to the performance of the business and delivered in Rotork's shares to ensure strong long-term alignment.

Directors' Remuneration Report continued

We have defined some key principles for remuneration at Rotork. We seek to ensure that the way we pay every Rotork employee, including our senior leaders, is:

- Performance driven, competitive and fair;
- Motivating, affordable and proportionate;
- Aligned to shareholders' interests; and
- Globally relevant and transparent.

Our previous policy was approved by shareholders at our AGM in 2017 and will expire in April 2020. This report sets out our proposed Policy for the coming three years, for which we are seeking approval at the AGM in April 2020. If approved by shareholders and subsequently implemented, this revised policy will remain in place for three years, unless approval for a new policy is sought sooner.

The principal changes proposed for the current period are set out below, along with the rationale for these changes. Whilst developing this new policy, we consulted with investors on an initial set of proposals and provide a summary below of the views expressed and how this shaped our final proposals.

	Current policy	Proposed change	Rationale and investor views
Pension	Up to 25% salary (actual payments are 25% for Chief Executive and 20% for Group Finance Director).	Newly appointed executive directors will receive a pension contribution (or allowance in lieu) capped at the level available to the majority of the workforce. From January 2020, the contribution level for the current executive directors will be held at the 2019 cash level for two years, after which it will be reduced to 20% for the Chief Executive and 15% for the Group Finance Director; and then, for both, to the level of the workforce by 31 December 2022.	We are conscious that arrangements for current executive directors are a matter of contract which can be varied only by mutual consent. We consulted with shareholders on this matter and a number expressed a strong view that they would wish to see alignment with the workforce by the end of 2022. Subject to the agreement of a new policy, the two executive directors have agreed to vary their contracts to allow a phased reduction to their pensions.
Annual bonus	Maximum opportunity up to 125% of salary (actual opportunities are 125% for Chief Executive and 100% for Group Finance Director). Any bonus over 60% of maximum opportunity is subject to deferral.	Maximum opportunity of 150% of salary. Intended opportunity for 2020: 150% for Chief Executive and 125% for Group Finance Director. Deferral requirement remains.	After a period of less robust business performance, the introduction of a new management team and the development of the Growth Acceleration Programme has significantly increased the long-term opportunities for the business and our shareholders. The revised opportunity for the executive team reflects the Board's wish to incentivise the team to deliver these greater opportunities over the longer term.
LTIP	Maximum opportunity up to 150% of salary (actual opportunities are 150% for Chief Executive and 125% for Group Finance Director). Two-year holding period applies to all vested shares.	Maximum opportunity of 200% of salary. Intended opportunity for 2020: 200% for Chief Executive and 175% for Group Finance Director. Holding period remains.	Although ultimately successful, our recent recruitment experience identified clearly the constraints of the current policy. The current overall level of variable pay is well below market levels compared to other businesses of similar size to Rotork. Our initial proposals were for a 50% increase to annual bonus opportunity and a 25% increase to LTIP opportunity. This change would have given us a more market typical variable pay structure (and level), and whilst most shareholders understood the need to make the change, many preferred that the increase be weighted more to the longer term. We accepted this readily as it increased the focus on the long term and amended our proposal accordingly, such that two thirds of the increased opportunity is within the LTIP.

	Current policy	Proposed change	Rationale and investor views
Share ownership requirements	In-employment requirement of 250% of salary. No post-cessation requirement.	In-employment holding requirement increase to the level of total variable pay opportunity (i.e. 350% for Chief Executive and 300% for Group Finance Director). Shares to the value of 200% of salary to be held for two years post-cessation.	Our approach to remuneration encourages and supports delivery of the long-term growth opportunity the Growth Acceleration Programme has created. In combination with the increased, long-term weighted, variable opportunity, we proposed both an increase in our shareholding requirements and a post cessation of employment holding requirement, the aim being to improve the executive directors' long-term alignment with shareholders. All shareholders welcomed this proposal.

Role of the Remuneration Committee

The principal role of the Remuneration Committee is to set the framework and policy for remuneration of the executive directors, the RMB and the Chairman. It also oversees the principles and structure of remuneration arrangements for all employees across the Group, and seeks to ensure there is consistency across regions, business lines and organisational levels. Insofar as possible, similar structures are used across the Group, since this is the most reliable way of ensuring transparency. At all levels, in line with our remuneration principles, we ensure that remuneration is competitive and fair; at the executive level, this means offering remuneration that is sufficiently attractive to attract and appropriately reward the leadership team required to successfully run a complex global business.

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 executive directors, Chairman and, on the advice of the Chief Executive, the RMB.
- Selecting the measures and setting the performance criteria for the annual bonus and LTIP; and, at the end of their performance periods, evaluating performance against these criteria and considering whether any discretion should be applied in determining the level of payment.
- 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.
- Monitoring the principles and structures of remuneration across the Group and ensuring there is consistency and procedures to monitor fairness of application. In this regard, the Remuneration Committee reviews internal relativities, pay ratios and gender pay gaps, and invites the Group HR Director to its meetings to provide a full picture of pay across the Group.
- Taking 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 and reviewed annually (salaries are normally reviewed in February, with any changes effective from 1 April).	Details of the current salaries of the executive directors are set out in the Annual Report on Remuneration. Normally, future salary increases will be no higher than the average increase (as a percentage of salary) applied to the UK workforce. However, the Remuneration Committee retains the discretion to award higher increases if appropriate (for example, to reflect progression in the role or increased experience of the individual).	N/A

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
Benefits	To attract and retain executive directors of the right calibre by providing a market competitive level of benefit provision.	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. Standard benefits for executive directors' benefits 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, including travel benefits for executives working away from their home country. 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. Any reasonable business related expenses may be reimbursed (including any tax if determined to be a taxable benefit).	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.	For executive directors appointed after the 2020 AGM: no higher than the percentage of salary available to the majority of the workforce. For directors appointed prior to the 2020 AGM an amendment to service contracts will provide that: in 2020 and 2021, contribution capped at the level paid to them in 2019; in 2022, no higher than 20% of salary for the Chief Executive and 15% of salary for the Group Finance Director; and by the end of 2022, pension contributions will be aligned with that available to the majority of the workforce in which the executive is located.	N/A

Element of remuneration	Purpose and how it supports the strategy	How the element operates	Maximum amounts payable	Framework used to assess performance
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.	Bonus up to 60% of the maximum opportunity is paid in cash. Any bonus awarded in excess of 60% of the maximum is deferred into shares for three years. 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.	The maximum annual bonus opportunity is 150% of salary. Details of the current annual opportunity are set out in the Annual Report on Remuneration. 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.	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. 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.
LTIP	To incentivise long term value creation and alignment with shareholder interests.	The LTIP permits an award of shares to be granted which vests 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 2019, and the discretions contained therein. 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). For awards granted from 2017 onwards, the directors must retain any shares vesting (net of tax) until the fifth anniversary of grant.	The maximum LTIP opportunity is 200% of salary. Details of the current award levels are set out in the Annual Report on Remuneration.	Awards under the LTIP are subject to performance conditions, measured over three financial years, currently being adjusted EPS, economic profit and TSR. Different measures may be used for future award cycles. 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. 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. 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.

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
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 requirement during their period of employment to build and maintain a shareholding in Rotork equivalent to the combined annual award opportunity under their bonus and LTIP. It is expected that this requirement will be achieved within five years of appointment. Following the cessation of their employment, executive directors are required to retain for a further two years any shares held that have vested to them under the Group's share plans after the adoption of this Policy (subject to a maximum holding requirement of 200% of final salary).	N/A	N/A
Chairman and non-executive directors' fees	To attract and retain non-executive directors of the right calibre.	Fees for the Chairman and non-executive directors are reviewed periodically. 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 fees for the non-executive directors comprise a basic Board fee, with additional fees paid to the Senior Independent Director Committee chairs and other similar Board responsibilities. Additional fees may be paid for additional temporary responsibilities. Any reasonable business-related expenses may be reimbursed (including tax thereon if determined to be a taxable benefit).	The maximum aggregate fee level is as specified in the Group's Articles of Association (currently £700,000). 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.	N/A

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.

The measures currently used each fulfil a distinct purpose as set out below:

Measure	Used in	Purpose
Adjusted operating profit	Annual bonus	Maintain focus on annual profits.
Cash generation	Annual bonus	Maintain discipline on managing inventory and receivables.
Lost-time incident rate	Annual bonus	Focus on safety and the impact of safety incidents.
Strategic objectives	Annual bonus	Provide a balance to financial delivery which reflect activities which contribute to the longer term success of the Group. These include environmental targets.
Earnings per share	LTIP	Adjusted EPS is a key measure for analysts who cover Rotork and reflects long-term growth in profits.
Economic profit	LTIP	Captures the cost of the capital required to operate the business and instils discipline around capital usage into financial decision-making.
Relative TSR	LTIP	Reflects the long-term growth in the value of shareholders' investment in Rotork.

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.

The Remuneration Committee has similar power in respect of the LTIP and may exercise discretion to reclaim some, or all, of a vested LTIP award in exceptional circumstances (the specified situations being the same as for the annual bonus plan). The Remuneration Committee may also 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

We use the same principles (as set out at the start of this report) to determine pay for our executives and everyone else who works at Rotork. We recognise 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. Executive directors and other senior managers are invited to participate in the LTIP under which shares are awarded subject to performance conditions over a three-year period. We are also widening participation in our share-based long-term incentive schemes within the organisation. 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.

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.

Approach to recruitment remuneration

We recruit our most senior leaders from a global talent pool and our Policy provides the flexibility for such recruitment. Base salary levels for new executives are set after taking into account the experience and calibre of the individual and their existing remuneration package. It may be appropriate in certain circumstances to offer a salary which is initially lower than the market level but having a planned series of increases to such salary may be given over subsequent years subject to individual performance. We will be clear as to our intentions with a candidate if we intend to adopt such approach for a particular rewards package. Benefits will generally be provided in accordance with the Policy. Where an executive is required to relocate in order to take up his/her role, we may offer relocation expenses and assistance and/or ongoing expatriate benefits (including tax equalisation), the nature of which would be determined by the individual circumstances.

The structure and level of the ongoing variable pay element will be in accordance with the Policy. 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 certain elements of remuneration from an executive's previous employer which would be forfeited on leaving that employer. Where we do this, it will always be subject to the principal consideration that making such a buy-out is in the best interests of the Group. Any such payment would be structured to take into account the form (cash or shares), 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.

Directors' Remuneration Report continued
Annual report on remuneration

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.

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 Remuneration 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 (up to 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 2020 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 intended to apply in 2020 subject to approval of this Policy. Taxable benefits are shown as the cost to the Company of supplying those benefits for the year ending 31 December 2019. 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 shown as 200% for Kevin Hostetler and 175% 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.

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

Executive directors

Name	Salary 2019	Salary 2018	Benefits(i) 2019	Benefits(i) 2018	Annual bonus(ii) 2019	Annual bonus(ii) 2018	LTIP(iii) 2019	LTIP(iii) 2018	Pension and related benefits(iv) 2019	Pension and related benefits(iv) 2018	Total remuneration 2019	Total remuneration 2018
Kevin Hostetler(v)	**604**	530	**48**	41	**619**	603	–	–	**151**	133	**1,422**	1,307
Jonathan Davis	**348**	346	**14**	15	**284**	313	**475**	523	**70**	69	**1,191**	1,266

(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 share awards as appropriate. Kevin Hostetler also received reimbursement of certain costs relating to his relocation, to the value of £99,000 in 2018.

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

(iii) The 2019 figure relates to the vesting of the 2017 LTIP award based on performance to 31 December 2019. These awards are not eligible to vest until March 2020 and as such an indicative share price of 321p (being the average closing share price over the three-month period to 31 December 2019) has been used for the purpose of valuing these awards. This value will be restated in next year's report. Of the £475,000, 26% relates to an increase in the value of the underlying shares over the period.
The 2018 figure relates to the vesting of the 2016 LTIP award based on performance to 31 December 2018. This value has been restated from last year's report to reflect the value of the award on the date of vesting, based on the closing share price of 292p. Of the £523,295, 55% relates to an increase in the value of the underlying shares over the period.

(iv) See page 96 for further details.

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

Other directors (£000s)

Name	Base fees 2019	Base fees 2018	Additional fees/remuneration 2019	Additional fees/remuneration 2018	Total remuneration 2019	Total remuneration 2018
Lucinda Bell	**56**	47	**10**	10	**66**	57
Ann Christin Andersen(i)	**56**	4	**—**	—	**56**	4
Tim Cobbold(i)	**56**	4	**6**	—	**62**	4
Peter Dilnot	**56**	47	**—**	—	**56**	47
Sally James	**56**	47	**10**	14	**66**	61
Martin Lamb	**234**	224	**—**	129	**234**	353

(i) Joined the Board on 1 December 2018.

Other additional fees are the supplementary fees paid to the Chairs of the Audit and Remuneration Committees and 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 2019

Bonuses in 2019 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	£127m	£162m	60%	£151m	44%
Cash generation	85%	100%	15%	131.4%	15%
Lost time incident rate	N/A	<0.30	5%	0.25	5%
Total			**80%**		**64%**

* % of maximum bonus.

Directors' Remuneration Report continued

Personal strategic objectives, which accounted for 20% of the bonus opportunity, were set at the start of the year. The Remuneration 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 Remuneration 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 strategy – ongoing development of long-term strategic plan, including environmental assessment and strategic initiatives	2.0%	Building on the five year Growth Acceleration Programme, longer term strategic alternatives for the business were developed and synthesised. A plan was developed and initiatives identified and actioned. A horizon scanning exercise was undertaken and the groundwork laid for Rotork's decarbonisation strategy.	2.0%
Investor relations – maintain strong relations with existing shareholders and improve shareholder interest and loyalty, particularly in North America	2.0%	Identified and secured new North American shareholders onto the register. The investor relations team was rated a top 5 investor relations team in 2019. Feedback from investors was positive.	2.0%
Growth Acceleration Programme: • Talent management • Innovation, R&D and sustaining engineering • Operational improvement plan • Route-to-market	16.0%	A completely new talent management process launched, revolutionising the assessment, performance appraisal and succession planning processes. This is now implemented and operational. Aggressive operational improvement plan delivered including capability development across the business. Route to market organisational structure redesigned in line with new sector focus and being launched. Radical overhaul of R&D and innovation processes.	14.0%
Total	**20.0%**		**18.0%**

Jonathan Davis	% payable* at maximum	Performance summary	% bonus awarded*
Development and implementation of financial systems, including: • Divisional reporting • Control frameworks • Enterprise resource management	12.0%	Established the financial infrastructure and capability to support the new sector focus for both management and reporting. Built changes into the design for the new finance model in preparation for the corresponding new IT infrastructure that will support finance in the future. Developed the corresponding control framework that delivers enhanced controls. Delivered the new contract approval process into BAU.	12.0%
Development of finance function: • Expand finance team and develop capabilities • Develop plans for blueprint for back-office finance consolidation	6.0%	Upskilled and upgraded the global finance team. Measures to improve finance efficiency were behind target and assessed accordingly.	3.5%
Generation of working capital	2.0%	Delivered strong reduction in first phase working capital reductions, especially inventory.	2.0%
Total	**20.0%**		**17.5%**

* % of maximum bonus.

Overall this resulted in a bonus award to Kevin Hostetler of £619,000 (102.5% of salary), and to Jonathan Davis of £284,000 (81.5% salary). The Remuneration Committee considered whether any discretion should be applied in respect to the determination of the financial or strategic elements of the bonus and concluded it should not. Bonus earned above a threshold of 60% of the maximum opportunity is deferred in shares, held for three years and subject to no further performance conditions. Of the above amounts, for Kevin Hostetler will defer £166,000 and Jonathan Davis will defer £75,000; the balance is paid in cash.

LTIP awards vesting based on performance to 31 December 2019 (audited)

The LTIP rewards performance against the principal measures of Rotork's long-term financial success. Performance is measured over a three-year period using a combination of basic EPS, TSR compared to a comparator group and economic profit growth. The economic profit measures the post-tax profitability of the Group after a charge has been taken for the combined capital used (both debt and equity) within the business. The charge is calculated using the weighted average cost of capital based on average capital employed in the period. In determining capital employed, cumulative amortised goodwill and long-term pensions liabilities are adjusted for. In determining the economic profit, adjustments are made for restructuring costs and benefits and also, when material, for M&A activity and exchange. The target is set by using the latest long-term financial plan approved by the Board. It targets a rate of growth of the average economic profit over the three years of the plan over the three years preceding the plan period. For the 2017 Award, due to the depressed performance in the three years to 2016, the base was calculated at three times the 2016 economic profit, otherwise the target would have been insufficiently demanding. The maximum requires growth ahead of the three year plan. In assessing the 2017 Award, no adjustments were made for M&A or exchange.

The measure captures the extent to which the business has earned a return above the cost of capital. It has been shown in many other capital-intense businesses to drive improved decision making, particularly when evaluating large-scale investment decisions, and was introduced at Rotork in 2017. The 2017 LTIP cycle was the first cycle to include this measure.

The LTIP awards granted on 7 March 2017 were based on performance to 31 December 2019 and were subject to the following performance targets:

Measure	Weighting	Performance period	Threshold target	Stretch target	Performance outcome
Earnings per share[1]	33%	01/01/2017 – 31/12/19	9% (15% vesting)	35% (100% vesting)	EPS performance of 39.6% was above the stretch target resulting in 100% vesting for this part of the award.
TSR relative to the constituents of the FTSE 350 Industrial Goods and Services Sector[1]	33%	01/01/2017 – 31/12/19	Median ranking	Upper quartile ranking or above	TSR growth of 74% was above the threshold target resulting in 96% vesting for this part of the award.
Economic profit growth	33%	01/01/2017 – 31/12/19	0% growth on three times the 2016 economic profit	56% growth on three times the 2016 economic profit	Economic profit performance of 14.3% growth was above the threshold target resulting in 57.5% vesting for this part of the award.

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

Performance on all three measures was above the minimum performance thresholds and, having reviewed the underlying financial performance, the Remuneration Committee concluded there were no factors that would cause them to consider apply any discretion in respect of the outcome on any of these measures during this period. The Remuneration Committee, therefore, approved the vesting of 84.5% of the shares awarded under the 2017 LTIP cycle, for which Jonathan Davis was the only executive director holding an award.

	Grant date	Number of Shares[(i)] under award	Number of shares vesting	Number of shares lapsing	Vesting date
Jonathan Davis	March 2017	175,135	147,989	27,146	6 March 2020

(i) Awarded as nil-cost options

Share awards granted in 2019 (audited)

LTIP awards (audited)

The following LTIP awards were made to the executive directors on 16 May 2019:

	Share awards made during 2019[(i)]	Basis on which awards made	Face value of award (£)[(ii)]	Percentage vesting for minimum performance[(iii)]	End of performance period	Vesting date
Kevin Hostetler	315,015	150% of salary	904,093	13.3%	31 December 2021	16 May 2022
Jonathan Davis	151,274	125% of salary	434,156	13.3%	31 December 2021	16 May 2022

(i) Awards to Kevin Hostetler were made as Conditional Share Awards; awards to Jonathan Davis were made as nil-cost options.
(ii) The share price used to determine the number of shares under the award was 287p being the share price immediately prior to the date of the award.
(iii) Vesting if the minimum performance EPS, TSR and capital return (economic profit) conditions are achieved. The three equally-weighted performance measures are:
  a 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;
  b 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
  c Economic profit – measures the profitability of the group after a charge for the overall level of capital (based on the total capital used and calculated using the weighted average cost of capital) is subtracted. It is measured 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 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. 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 5 March 2019 (based on performance in relation to the 2018 financial year):

	Share awards granted	Basis on which awards made	Face value of awards (£)[(i)]	Vesting date
Kevin Hostetler	71,783	38.6% of salary	£205,000	5 March 2022
Jonathan Davis	36,790	30.4% of salary	£105,000	5 March 2022

(i) The share price used to determine the number of shares under the award was 285.7p being the share price immediately prior to the date of the award.

Directors' Remuneration Report continued

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 2019 are set out below.

	Date of grant	Free share awards made during the year	Basis on which award made	Face value of award
Jonathan Davis	8 April 2018	1,204	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 2018	Granted in the year	Lapsed in the year	Option awards exercised in the year	Awards held at 31 December 2019	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
LTIP	–	315,015	–	–	315,015	1 Jan 2019-31 Dec 2021(iii)	–	16 May 2019	16 May 2022
DSBP	–	71,783	–	–	71,783	N/A	–	5 March 2019	5 March 2022
Total	**340,393**	**386,798**	**–**	**–**	**727,191**				
Jonathan Davis									
LTIP	226,122	–	47,034	179,088	–	1 Jan 2016-31 Dec 2018(i)	–	6 March 2016	6 March 2019
LTIP	175,135	–	–	–	175,135	1 Jan 2017-31 Dec 2019(ii)	–	6 March 2017	6 March 2020
LTIP	163,461	–	–	–	163,461	1 Jan 2018-31 Dec 2020(iii)	–	7 March 2018	7 March 2021
LTIP	–	151,274	–	–	151,274	1 Jan 2019-31 Dec 2021(iii)	–	16 May 2019	16 May 2022
DSBP	14,697	–	–	–	14,697	N/A	–	7 March 2018	7 March 2021
DSBP	–	36,790	–	–	36,790	N/A	–	5 March 2019	5 March 2022
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
SIP	–	1,204	–	–	1,204	N/A	–	8 April 2019	8 April 2022
Total	**584,143**	**189,268**	**47,034**	**181,102**	**545,275**				

(i) 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 in last year's report, the TSR target was achieved, while the EPS target was partially met. Accordingly, 179,088 shares vested in March 2019.

(ii) 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. As described above, the TSR target was achieved, while the EPS and capital return (economic profit) targets were partially met. Accordingly, 147,989 shares will become eligible to vest in March 2020.

(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.

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 2019.

	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	130,762	655,408(iii)	71,783	–	–	112%
Jonathan Davis	286,783	489,470(iv)	51,487	–	3,918	329%
Non-executive directors						
Lucinda Bell	7,150	–	–	–	–	N/A
Ann Christin Andersen	–	–	–	–	–	N/A
Tim Cobbold	–	–	–	–	–	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 335p, being the share price as at 31 December 2019. The guideline shareholding for the executive directors is 250% of salary.
(iii) An LTIP award over 315,015 shares was granted to Kevin Hostetler on 16 May 2019.
(iv) An LTIP award over 151,274 shares was granted to Jonathan Davis on 16 May 2019.

There has been no change in the directors' interests in the ordinary share capital of the Company between 31 December 2019 and 2 March 2020, except in the case of Jonathan Davis's and Kevin Hostetler's monthly purchases of partnership shares under the SIP.

Total pension entitlements (audited)

			Value of pension related benefits (£) during Company financial year to:					
			31 December 2018			**31 December 2019**		
Director	Normal retirement age	Total accrued pension in the defined benefit scheme as at 31 December 2019 (£ per annum)	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	**–**	**151,000**	**151,000**
Jonathan Davis	65	–	–	69,200	69,200	**–**	**69,600**	**69,600**

Notes:
1 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.
2 The total accrued pension in the defined benefit scheme as at 31 December 2019 is that which would be paid annually on retirement from normal pension age. Jonathan Davis was a member of the defined benefit scheme until he opted out with effect from 30 April 2017. During 2019, Mr Davis elected to remove his accrued benefits from the defined benefit scheme and place them in a private pension scheme. This transaction, which is an option open to any scheme member in a similar situation, was conducted based on independent actuarial advice and overseen by the Chair of the Trustees of the pension scheme. The amount of the transfer was an accrued pension of £37,717 per annum and as a result Mr Davis has no remaining financial interest in the defined benefit scheme.
3 Kevin Hostetler receives an annual cash allowance in lieu of pension contributions which has been capped at a maximum annual value of £152,100.
4 Jonathan Davis receives an annual cash allowance in lieu of pension contributions which has been capped at a maximum annual value of £72,169.

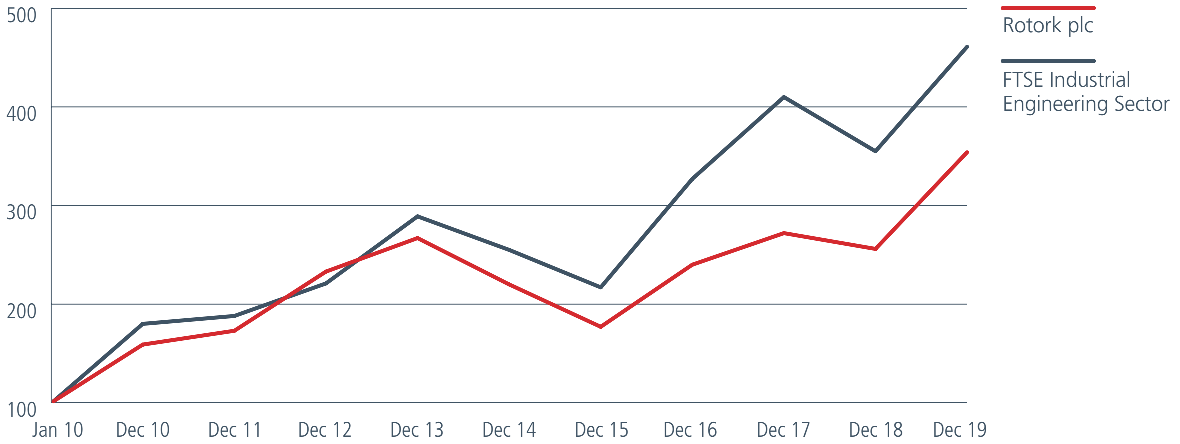
Payments to former directors and for loss of office

As disclosed in prior years, two former directors, Peter France and Bob Arnold, retained certain LTIP awards on cessation which vested in part in March 2019. No further payments were made to former directors or for loss of office during the year.

Directors' Remuneration Report continued

TSR performance graph

This graph shows the value, by 31 December 2019, of £100 invested in Rotork plc on 31 December 2009, 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
2019	Kevin Hostetler	1,422	82.0%	N/A
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%

(i) Kevin Hostetler was appointed to the role of Chief Executive on 12 March 2018.
(i) 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 2018 and 2019.

	Chief Executive 2019 % Change from 2018	Average per UK employee 2019 % Change from 2018
Base salary	N/A%	2.9%
Benefits	N/A%	19.1%
Bonus	N/A%	2.3%

Kevin Hostetler was appointed as Chief Executive from 12 March 2018. Consequently, full-year comparable data is not available.

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.

	2019	2018	Percentage change
Employee remuneration (£000s)	**153,879**	159,914	-3.8%
Dividends (£000s)(i)	**52,287**	48,288	8.3%

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

CEO pay ratio disclosure

The table below sets out Rotork's CEO pay ratio for the 2018 and 2019 financial years.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019	Option B	48:1	43:1	27:1
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.

To provide further context, the table below shows the CEO and the employee percentile pay used to determine the 2019 pay ratios.

Year	CEO £000	25th percentile £000	Median £000	75th percentile £000
Total salary[1]	604	25	29	43
Total remuneration (single figure)[1]	1,422	29	33	53

1 Full time equivalent.

Statement of implementation of the Policy Report in 2020

Subject to the new Remuneration Policy being approved and subsequently implemented, the following statement will apply.

Salary

Executive directors' salaries will increase effective 1 April 2020 by 2.5%, as follows:
- Kevin Hostetler – £624,000
- Jonathan Davis – £359,000. The average budgeted increase for the UK workforce in 2020 is 2.5%.

Benefits

No change from 2019 – benefits will comprise car and fuel (or car and fuel allowance), personal accident and private medical insurance and life assurance. In addition, Kevin Hostetler receives travel benefits to his home country of the United States.

Pension

Executive directors receive a cash allowance in lieu of pension contributions, the value of which for 2020 will remain fixed at the level paid in 2019, as follows:
- Kevin Hostetler – £152,100
- Jonathan Davis – £70,119

LTIP

The LTIP award levels for 2020 will be intended to be 200% of salary for Kevin Hostetler and 175% 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 adjusted EPS. Adjusted EPS growth must be at least 9% for 15% vesting, increasing on a straight line basis to full vesting for adjusted EPS growth of 35% and above. The targets will be based on adjusted 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 economic profit. No payout will be received for a negative economic profit. The threshold target will require the cumulative economic profit over the three-year period to exceed that generated in the three year period to 2019 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 Remuneration 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.

Directors' Remuneration Report continued

Annual bonus	Maximum award levels are intended to be 150% of salary for Kevin Hostetler and 125% of salary for Jonathan Davis. Any bonus earned above 60% the of maximum opportunity will be deferred in shares for three years. 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.
Shareholding guidelines	The executive directors are required to build and maintain a shareholding equivalent to their total variable pay opportunity (being 350% and 300% for the Chief Executive and Group Finance Director respectively). As of 2020, a requirement to hold shares for a period of two years post-cessation will apply, as described in the Policy.
Non-executive director fees	In line with the salary increase for the wider workforce, an increase to the Chairman's and base Board fee levels of 2.5% has been approved as follows: • Chairman: £240,000, effective 1 April 2020; • Base Board fee: £57,000, effective 1 April 2020. Supplementary fees are also payable to those directors with additional responsibilities: • Additional fee for chairing the Audit Committee £10,000; • Additional fee for chairing the Remuneration Committee £10,000; • Additional fee for undertaking the role of workforce engagement director £7,000; • Additional fee for the role of Senior Independent Director £10,000; and • Additional fee for chairing the ESG Committee £7,000. It is currently intended that any future increases will be made in line with any increases offered to the wider workforce.

Consideration by the directors of matters relating to directors' remuneration

The members of the Remuneration Committee as at 31 December 2019 were Tim Cobbold (Chair), Lucinda Bell, Ann Christin Andersen, and Sally James. The Company Secretary acts as secretary to the Remuneration Committee.

The Remuneration Committee is keen to ensure that its deliberations and decisions are undertaken in the fullest context of the business and taking into account how employees across the Group are rewarded, as well as ensuring that its decisions are made in the most transparent manner possible. To that end, the Remuneration Committee invites the Group HR Director to its meetings to provide this wider context and to ensure that all its decision remained aligned with the Values and culture, which we seek to nurture with the business. The Chairman also invited to attend meetings, and the Chief Executive and Group Finance Director are invited to attend parts of certain meetings but are not present when their own remuneration is considered.

The executive remuneration practice of Aon plc acts as advisor to the Remuneration Committee having been appointed by the Remuneration 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. Another subsidiary of Aon plc is the scheme actuary for the Group's USA pension plan but Aon has procedures in place to ensure that no conflict of interest arises. The Remuneration Committee keeps the independence of the advice provided under review and remains satisfied that Aon is sufficiently independent to act as remuneration advisor to the Remuneration Committee.

In 2019, the Company paid £189,730 (2018: £91,540) 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 (, 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 2019)	98.4%	1.6%	0%

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 2019 as set out on pages 115 to 160. 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 64-65.

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 themself 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.

Committed to the highest standards of ethical behaviour

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 approach to bribery and corruption worldwide, and selecting suppliers with sound reputations in the marketplace are important principles for the Group to adhere to.

Code of Conduct

Our Code of Conduct was introduced in 2019 and replaces our Ethics and Value statement. The Code of Conduct sets out the standards of behaviour that Rotork expects from anyone acting on Rotork's behalf. It can be viewed on our website at https://www.rotork.com/en/about-us/terms-and-conditions/suppliers/code-of-conduct and is available in our six core languages.

We are a signatory to the UN Global Compact demonstrating our commitment to supporting and respecting human rights.

We revised the policies which sit beneath the Code of Conduct in 2019, covering Confidentiality, Conflicts of Interest, Speak-Up, Fair Competition, Gifts and Hospitality, Anti Bribery and Corruption, Data Protection and Trade Sanctions.

Whistleblowing

Rotork encourages the reporting of any suspected wrongdoing through its Speak-Up line which can be found on the Rotork website https://www.rotork.com/en/documents/publication/6675. The Speak-Up policy gives the workforce various ways to alert management and directors to any concerns including suspected wrong doing, including an independent external Speak-Up line to assist in facilitating the reporting of any concerns confidentially.

All Speak-Ups are investigated thoroughly, however communicated. At each meeting of the Board, directors review any Speak-Up concerns the Company has received and, in December 2019, it reviewed the arrangement in place for the investigation of such matters, noting any follow up action resulting from the Speak-Ups received. During 2019, we investigated nine concerns, which related to fraud, conflict of interest, impropriety, health & safety and general human resources issues. The reports came from five different countries spread across the world.

Anti-Bribery and Corruption

Rotork has a zero tolerance policy to bribery and corruption worldwide, irrespective of country or business culture. Our Code of Conduct makes it clear that our employees will never offer, pay or solicit bribes in any form. As noted above, in 2019, we updated our Anti-Bribery and Corruption Policy. Our Group Gifts and Hospitality Policy, which was updated, 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 2019, we've continued to implement a reduction in the number of agents that we engage, a more thorough process for their appointment and stringent ongoing monitoring requirements.

Modern Slavery Act

In December 2019 the Board updated and then published its Modern Slavery Act Statement, which can be found on the Rotork website at https://www.rotork.com/en/investors/modern-slavery-statement.

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. More detail regarding our Corporate Social Responsibility is given on pages 50 and 53 of the Strategic Report.

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 3.90p per ordinary share (2018: 3.70p) for the year, payable on 22 May 2020 to shareholders on the register on 14 April 2020. An interim dividend for 2019 of 2.30p per ordinary share (2018: 2.20p) payable to Shareholders in the register on 30 August 2019 was paid on 27 September 2019.

Report of the Directors continued

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 38-41.

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 2019 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 26 April 2019, 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 2020 AGM and appropriate renewals will be sought.

The Company did not acquire any of its own shares in 2019.

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 key performance indicators on page 50.

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 55.

Substantial shareholders
As at 31 December 2019, 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 FCA. 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
The Bank of New York (Nominees) Limited	151,061,163	17.31
State Street Nominees Limited	125,565,304	14.39
Nortrust Nominees Limited	36,119,105	4.14

Corporate governance
The Company's Corporate Governance Report can be found on page 55; employee engagement is set out on page 68 and Shareholder engagement is set out on pages 68-69.

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 pursuant to the Disclosure Guidance and Transparency Rules

Each of the directors, whose names and functions are listed on pages 60-61 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.

—

Helen Barrett-Hague
General Counsel and Company Secretary
2 March 2020

Financial Statements

We continue to review the format of our consolidated financial statements with a focus on clear, effective and concise reporting

Independent auditor's report to the members of Rotork Plc

Report on the audit of the financial statements
1. 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 2019 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; and
- the related consolidated notes 1 to 30, and company notes (a) to (i).

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).

2. 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. The non-audit services provided to the group and parent company for the year are disclosed in note 8 to the financial statements. 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.

3. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was the timing of revenue recognition.
Materiality	The materiality that we used for the group financial statements was £6.4m which was determined on the basis of profit before tax adjusted for 'other adjustments' defined in note 2.
Scoping	Based on our assessment we identified 16 components which, in our view, required a full scope audit of their financial information. 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 81% of group revenue and 87% of group profit before tax.
Significant changes in our approach	We included a key audit matter in the prior year in respect of revenue recognition on significant new contracts with non-standard or unusual terms reflecting the additional focus on this risk area for the first-time application of IFRS 15 Revenue from Contracts with Customers. Having considered the impact of application of the new revenue standard in the prior year we no longer consider this to be a key audit matter, and our audit effort has been focussed in the current year on the timing of revenue recognition around year end. We no longer consider the inflation and discount rate assumptions used in the defined benefit pension liability valuation as a key audit matter. This change in the year is driven by our experience of the previous audits in which no deviations from reasonable ranges have been noted, and changes to the schemes in 2018 (refer to note 24 for further details).

4. Conclusions relating to going concern, principal risks and viability statement

4.1 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 twelve 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.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

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

4.2. 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 34-39 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on page 51 that they have carried out a robust assessment of the principal and emerging risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 51 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.

Viability means the ability of the group to continue over the time horizon considered appropriate by the directors.

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

5. 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.

5.1 Timing of revenue recognition

Key audit matter description	The group earned revenues of £669m during the year (2018: £696m) relating to the manufacture and delivery of products and services. Revenue growth is a key performance indicator for the business. In applying IFRS 15 there is judgement required in determining the timing of the transfer of control of products to customers, which impacts the amount of revenue recognised in the group's financial statements. This judgement could be the subject of management bias and so we considered that the timing of the cut-off of revenue recognition represents a key audit matter which has a potential risk of fraud. The determination of whether control of products has passed to a customer requires the consideration of a number of factors, which include the delivery terms of the arrangement and whether specific criteria have been met to evidence the passing of control. The circumstances where most judgement is required are when the products are yet to be despatched to the customer (known as bill-and-hold sales). Further details are included within the audit committee report on page 77 and note 1 to the financial statements.

Independent auditor's report to the members of Rotork Plc
continued

How the scope of our audit responded to the key audit matter	In response to the identified key audit matter we have performed the following procedures: • Obtained an understanding of the relevant controls in place at each component to address the risk of inappropriate revenue cut off and assessed whether they had been effectively designed and implemented; • tested a sample of transactions exhibiting particular risk characteristics around the year end identified from populations relevant to the terms and shipping destinations of each business; • inspected purchase orders, invoices, despatch notes, shipping terms and delivery notes as required to assess whether the timing of revenue recognition is appropriate based on the status of products at year end. This included a challenge of whether control has passed in line with the requirements of IFRS 15; and • for bill-and-hold sales we have considered, amongst other things, the extent to which there is evidence the customer has accepted ownership before year end and if there is a substantive reason for continuing to hold the products.
Key observations	We have identified no material errors in revenue recognition as a result of our procedures.

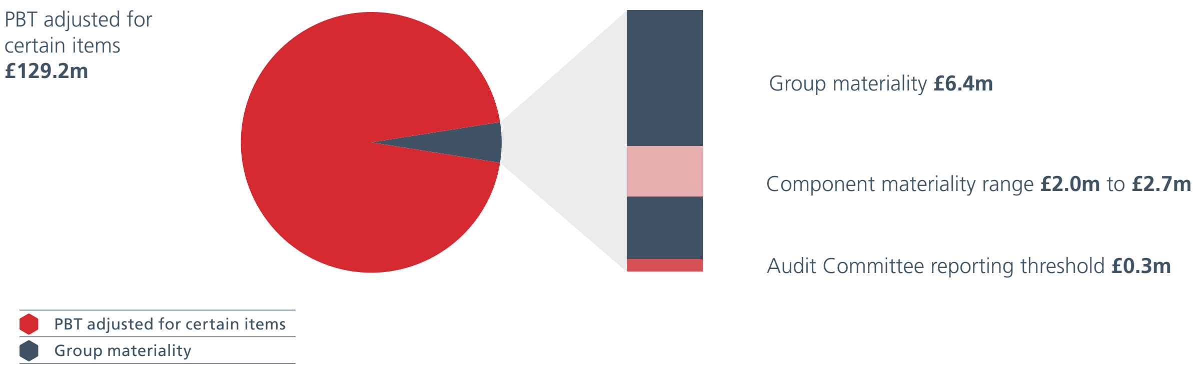
6. Our application of materiality

6.1 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	£6.4 million (2018: £6.0 million)	£2.2 million (2018: £3.6 million)
Basis for determining materiality	5% of adjusted pre-tax profit. In the year ended 31 December 2019 the adjustments we make to statutory pre-tax profit are consistent with those presented in Note 4, except for amortisation of acquired intangible assets. This basis is consistent with the year ended 31 December 2018.	Parent company materiality equates to 1% of net assets (2018: 1% of net assets), which is capped at 50% of group performance 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. This basis is consistent with that applied at the year ended 31 December 2018.



6.2 Performance materiality
We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of group materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the following factors:
a. the general quality of the control environment,
b. the stability of business performance in previous years, and
c. the level of corrected or uncorrected misstatements identified in previous years.

6.3 Error reporting threshold
We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.3m (2018: £0.3m), as well as differences below that threshold that, in our view, that 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.

7. An overview of the scope of our audit
7.1 Identification and scoping of components
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.

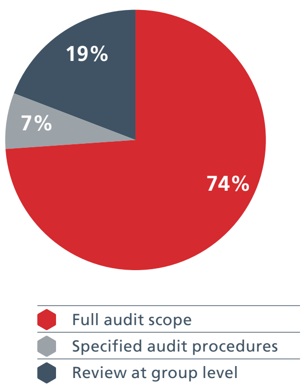
The 18 components (2018: 18 components) represent the principal business units within the Group's four reportable segments across 11 countries and account for 81% of the Group's revenues (2018: 73%) and 87% of profit before tax (2018: 85%). They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at these components was executed at levels of materiality applicable to each individual entity, which were lower than Group materiality ranging from £2.0 million to £2.7 million (2018: £2.4 million to £3.6 million).

7.2. Working with other auditors
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 visit the most significant components. As part of the 2019 audit, senior members of the group audit team visited key components in the United Kingdom, United States of America, China, and Italy; being 10 of the 18 components in the scope of our audit.

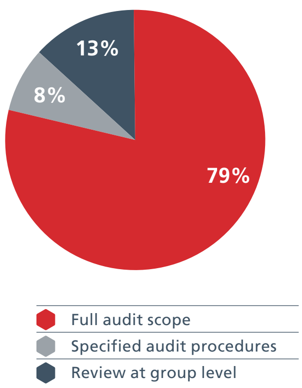
For each of the businesses included within the programme of planned visits, the group audit team also discusses audit findings with the relevant component audit team throughout the audit engagement and reviews relevant audit working papers. For the remaining locations where full scope audits were completed, we discuss audit findings with the relevant component audit team and, where considered necessary in forming our group audit opinion, review certain audit working papers in relation to key issues and discuss key matters with component management.

At the group 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.

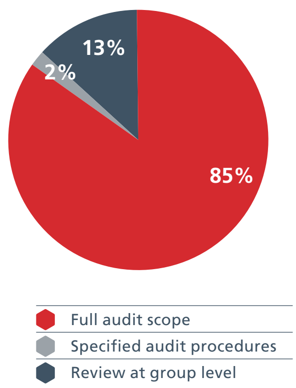
Revenue



Profit before tax



Net assets



Independent auditor's report to the members of Rotork Plc continued

8. 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.

9. 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.

10. 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 and non-compliance with laws and regulations 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.

11. 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.

11.1.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, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their 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 of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including significant component audit teams and involving relevant internal specialists, including tax, financial instruments, pensions, and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the timing of revenue recognition. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and local tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the group's compliance with environmental, health and safety, and anti-bribery and corruption legislation; as well as considering the group's monitoring of changes in legislation, including sanctions.

11.2. Audit response to risks identified

As a result of performing the above, we identified the timing of revenue recognition as a key audit matter related to the potential risk of fraud. 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 provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- 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, reviewing internal audit reports and reviewing correspondence with HMRC; 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.

Independent auditor's report to the members of Rotork Plc
continued

Report on other legal and regulatory requirements

12. 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 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.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

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.

13.2. 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.

14. Other matters

14.1. 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 6 years, covering the years ending 31 December 2014 to 31 December 2019.

14.2. 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).

15. 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.

—

David Griffin FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
2 March 2020

Consolidated income statement
For the year ended 31 December 2019

	Notes	2019 £000	2018 £000
Revenue	3	**669,344**	695,713
Cost of sales		**(357,718)**	(384,253)
Gross profit		**311,626**	311,460
Other income	5	**2,875**	8,990
Distribution costs		**(6,408)**	(7,260)
Administrative expenses		**(180,434)**	(189,474)
Other expenses	5	**(649)**	(798)
Adjusted operating profit	2,3	**151,005**	146,015
Adjustments			
– Amortisation of acquired intangible assets	3	**(18,841)**	(20,284)
– Other adjustments	4	**(5,154)**	(2,813)
Operating profit	2,3	**127,010**	122,918
Finance income	7	**2,087**	2,278
Finance expense	7	**(5,040)**	(4,448)
Profit before tax	8	**124,057**	120,748
Income tax expense	9	**(29,957)**	(29,004)
Profit for the year		**94,100**	91,744
Basic earnings per share	18	**10.8p**	10.5p
Adjusted basic earnings per share	18	**13.0p**	12.6p
Diluted earnings per share	18	**10.8p**	10.5p
Adjusted diluted earnings per share	18	**13.0p**	12.6p

Consolidated statement of comprehensive income
For the year ended 31 December 2019

	2019 £000	2018 £000
Profit for the year	**94,100**	91,744
Other comprehensive income		
Items that may be subsequently reclassified to the income statement:		
Foreign exchange translation differences	**(12,643)**	3,164
Effective portion of changes in fair value of cash flow hedges net of tax	**2,081**	(6)
	(10,562)	3,158
Items that are not subsequently reclassified to the income statement:		
Actuarial (loss)/gain in pension scheme net of tax	**(6,705)**	8,055
Income and expenses recognised in other comprehensive income	**(17,267)**	11,213
Total comprehensive income for the year	**76,833**	102,957

Consolidated balance sheet
At 31 December 2019

	Notes	2019 £000	2018 £000
Non-current assets			
Goodwill	10	**222,052**	230,157
Intangible assets	11	**40,848**	61,517
Property, plant and equipment	12	**89,062**	79,338
Deferred tax assets	13	**14,582**	17,337
Other receivables	15	**–**	352
Total non-current assets		**366,544**	388,701
Current assets			
Inventories	14	**73,905**	94,739
Trade receivables	15	**129,390**	145,509
Current tax	15	**4,830**	1,429
Derivative financial instruments	23	**2,196**	308
Other receivables	15	**27,558**	23,161
Cash and cash equivalents	16	**117,612**	104,489
Total current assets		**355,491**	369,635
Total assets		**722,035**	758,336
Equity			
Issued equity capital	17	**4,363**	4,358
Share premium		**14,521**	13,024
Other reserves		**24,859**	35,421
Retained earnings		**495,657**	460,825
Total equity		**539,400**	513,628
Non-current liabilities			
Interest bearing loans and borrowings	19	**6,791**	30,871
Employee benefits	20	**33,576**	31,274
Deferred tax liabilities	13	**10,745**	15,722
Derivative financial instruments	23	**124**	–
Provisions	21	**1,964**	2,149
Total non-current liabilities		**53,200**	80,016
Current liabilities			
Interest bearing loans and borrowings	19	**4,752**	30,010
Trade payables	22	**41,195**	47,332
Employee benefits	20	**24,734**	26,489
Current tax	22	**13,270**	11,792
Derivative financial instruments	23	**52**	2,682
Other payables	22	**40,581**	40,150
Provisions	21	**4,851**	6,237
Total current liabilities		**129,435**	164,692
Total liabilities		**182,635**	244,708
Total equity and liabilities		**722,035**	758,336

These financial statements were approved by the Board of Directors and authorised for issue on 2 March 2020 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 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 loss 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**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**94,100**	**94,100**
Other comprehensive income							
Foreign exchange translation differences	**–**	**–**	**(12,643)**	**–**	**–**	**–**	**(12,643)**
Effective portion of changes in fair value of cash flow hedges	**–**	**–**	**–**	**–**	**2,548**	**–**	**2,548**
Actuarial gain on defined benefit pension plans	**–**	**–**	**–**	**–**	**–**	**(8,058)**	**(8,058)**
Tax on other comprehensive income	**–**	**–**	**–**	**–**	**(467)**	**1,353**	**886**
Total other comprehensive income	**–**	**–**	**(12,643)**	**–**	**2,081**	**(6,705)**	**(17,267)**
Total comprehensive income	**–**	**–**	**(12,643)**	**–**	**2,081**	**87,395**	**76,833**
Transactions with owners, recorded directly in equity							
Equity settled share-based payment transactions	**–**	**–**	**–**	**–**	**–**	**(1,011)**	**(1,011)**
Tax on equity settled share-based payment transactions	**–**	**–**	**–**	**–**	**–**	**(8)**	**(8)**
Share options exercised by employees	**5**	**1,497**	**–**	**–**	**–**	**–**	**1,502**
Own ordinary shares acquired	**–**	**–**	**–**	**–**	**–**	**(5,287)**	**(5,287)**
Own ordinary shares awarded under share schemes	**–**	**–**	**–**	**–**	**–**	**6,030**	**6,030**
Dividends	**–**	**–**	**–**	**–**	**–**	**(52,287)**	**(52,287)**
Balance at 31 December 2019	**4,363**	**14,521**	**22,287**	**1,644**	**928**	**495,657**	**539,400**

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 2019

	Notes	2019 £000	2019 £000	2018 £000	2018 £000
Cash flows from operating activities					
Profit for the year		**94,100**		91,744	
Adjustments for:					
Amortisation of intangibles		**18,841**		20,284	
Other adjustments	4	**5,154**		2,813	
Amortisation of development costs		**2,874**		2,575	
Depreciation		**16,359**		11,642	
Equity settled share-based payment expense		**4,702**		4,674	
Loss/(profit) on sale of property, plant and equipment		**5**		(134)	
Finance income		**(2,087)**		(2,278)	
Finance expense		**5,040**		4,448	
Income tax expense		**29,957**		29,004	
		174,945		164,772	
Decrease/(increase) in inventories		**18,176**		(2,140)	
Decrease/(increase) in trade and other receivables		**7,198**		(2,322)	
Decrease in trade and other payables		**(391)**		(5,761)	
Restructuring costs paid		**(5,151)**		(7,795)	
Difference between pension charge and cash contribution		**(6,070)**		(5,809)	
(Decrease)/increase in provisions		**(347)**		2,333	
(Decrease)/increase in employee benefits		**(1,160)**		4,690	
		187,200		147,968	
Income taxes paid		**(32,769)**		(30,084)	
Net cash flows from operating activities			**154,431**		117,884
Investing activities					
Purchase of property, plant and equipment		**(17,306)**		(10,430)	
Development costs capitalised		**(1,937)**		(3,831)	
Sale of property, plant and equipment		**663**		201	
Disposal of businesses		**–**		4,340	
Contingent consideration paid		**–**		(10)	
Settlement of hedging derivatives		**(3,070)**		(815)	
Interest received		**1,628**		1,309	
Net cash flows from investing activities			**(20,022)**		(9,236)
Financing activities					
Issue of ordinary share capital		**1,501**		1,837	
Own ordinary shares acquired		**(5,287)**		(4,850)	
Interest paid		**(2,828)**		(2,837)	
Decrease in bank loans		**(59,967)**		(14,934)	
Repayment of lease liabilities		**(4,717)**		(3)	
Dividends paid on ordinary shares		**(52,287)**		(48,288)	
Net cash flows from financing activities			**(123,585)**		(69,075)
Net increase in cash and cash equivalents			**10,824**		39,573
Cash and cash equivalents at 1 January			**104,489**		63,192
Effect of exchange rate fluctuations on cash held			**2,299**		1,724
Cash and cash equivalents at 31 December	16		**117,612**		104,489

Notes to the Group financial statements
For the year ended 31 December 2019

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

Rotork plc is a public company limited by shares, registered and domiciled in England. The consolidated financial statements of the Company for the year ended 31 December 2019 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 16 Leases

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'). The new standard has been applied using the modified retrospective approach, with no net effect of adopting IFRS 16 recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of transition, being 1 January 2019, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as leases under IAS 17 and IFRIC 4.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of transition. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of transition, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight line basis over the remaining lease term.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 4.5%.

The following is a reconciliation of total operating lease commitments at 31 December 2018 to the lease liabilities recognised at 1 January 2019:

	£,000
Total operating lease commitments disclosed at 31 December 2018	17,789
Recognition exemptions:	
Leases of low value assets	(324)
Leases with remaining lease term of less than 12 months	(4,178)
Operating lease liabilities before discounting	13,287
Discounted using incremental borrowing rate	(993)
Total lease liabilities recognised under IFRS 16 at 1 January 2019	12,294

Further information on the impact of the transition to IFRS 16 is disclosed in note 27.

ii. 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.

Notes to the Group financial statements continued
For the year ended 31 December 2019

1. Accounting policies continued
New standards and interpretations not yet adopted
i. Other amendments
Further narrow scope amendments have been issued which are mandatory for periods commencing on or after 1 January 2020. The application of these amendments will not have any material impact on the disclosures, net assets or results of the Group.

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 2019. 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.

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.

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 has 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 and impairment losses.

Notes to the Group financial statements continued

For the year ended 31 December 2019

1. Accounting policies continued

Leases – Accounting policy applicable from 1 January 2019

i) The Group as a lessee

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

ii) Measurement and recognition of leases as a lessee

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments, variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the balance sheet, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in loans and borrowings.

Leases – accounting policy applicable before 1 January 2019

i) The Group as a lessee

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 or in other comprehensive income, in which case it is recognised in equity or in other comprehensive respectively. 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: the effect of taxable temporary differences for goodwill not deductible for tax purposes and the initial recognition of assets or liabilities in a transaction which is not a business combination 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.

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 other comprehensive income. 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.

Notes to the Group financial statements continued

For the year ended 31 December 2019

1. Accounting policies continued

Employee benefits continued

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 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 or a highly probable forecasted transaction, the effective part of any gain or loss on the forward contract is recognised directly in other comprehensive income. 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.

	2019	2018
Profit before tax	**124,057**	120,748
Adjustments:		
Amortisation of acquired intangible assets	**18,841**	20,284
Curtailment gain from the closure of defined benefit pension schemes to future accrual	**–**	(8,575)
Guaranteed Minimum Pension equalisation expense	**–**	920
Consultancy costs associated with the Growth Acceleration Programme	**–**	4,052
(Gain)/loss on disposal of businesses	**(2,539)**	658
Redundancy and executive change costs	**2,791**	2,896
Other restructuring costs	**4,902**	2,862
Adjusted profit before tax	**148,052**	143,845

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:

	2019	2018
Net profit attributable to ordinary shareholders	**94,100**	91,744
Adjustments:		
Amortisation of acquired intangible assets	**18,841**	20,284
Curtailment gain from the closure of defined benefit pension schemes to future accrual	**–**	(8,575)
Guaranteed Minimum Pension equalisation expense	**–**	920
Consultancy costs associated with the Growth Acceleration Programme	**–**	4,052
(Gain)/loss on disposal of businesses	**(2,539)**	658
Redundancy and executive change costs	**2,791**	2,896
Other restructuring costs	**4,902**	2,862
Tax effect on adjusted items	**(4,908)**	(5,025)
Adjusted net profit attributable to ordinary shareholders	**113,187**	109,816

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. Total shareholder return

Total shareholder return is the movement in the price of an ordinary share plus dividends during the year, divided by the opening share price.

Notes to the Group financial statements continued
For the year ended 31 December 2019

2. Alternative performance measures continued
f. Return on capital employed
The return on capital employed ratio is used by management to help ensure that capital is used efficiently.

	2019	2018
Adjusted operating profit	**151,005**	146,015
Capital employed		
Shareholders' funds	**539,400**	513,628
Cash and cash equivalents	**(117,612)**	(104,489)
Interest bearing loans and borrowings	**11,543**	60,881
Pension deficit net of deferred tax	**23,942**	22,001
Capital employed	**457,273**	492,021
Average capital employed	**474,647**	500,380
Return on capital employed	**31.8%**	29.2%

Average capital employed is defined as the average of the capital employed at the start and end of the relevant year.

g. 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.

h. 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 2019 results are restated at 2018 exchange rates. There are no disposals or acquisitions in 2019 that are not consistently presented in both periods.

Key headings in the income statement are reconciled to OCC as follows:

	31 December 2019	Currency adjustment	OCC 31 December 2019
Revenue	**669,344**	(6,950)	**662,394**
Cost of sales	**(357,718)**	4,010	**(353,708)**
Gross margin	**311,626**	(2,940)	**308,686**
Overheads	**(160,621)**	1,124	**(159,497)**
Adjusted operating profit	**151,005**	(1,816)	**149,189**
Interest	**(2,953)**	172	**(2,781)**
Adjusted profit before tax	**148,052**	(1,644)	**146,408**
Adjusted taxation	**(34,865)**	386	**(34,479)**
Adjusted profit after tax	**113,187**	(1,258)	**111,929**

	31 December 2018	Impact of 2018 disposals	31 December 2018
Revenue	695,713	(3,145)	692,568
Cost of sales	(384,203)	1,943	(382,260)
Gross margin	311,510	(1,202)	310,308
Overheads	(165,495)	1,141	(164,354)
Adjusted operating profit	146,015	(61)	145,954
Interest	(2,170)	(4)	(2,174)
Adjusted profit before tax	143,845	(65)	143,780
Taxation	(34,029)	40	(33,989)
Adjusted profit after tax	109,816	(25)	109,791

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 2019	Fluid Systems 2019	Gears 2019	Instruments 2019	Elimination 2019	Unallocated 2019	Group 2019
Revenue from external customers	**353,167**	**137,929**	**73,970**	**104,278**	**–**	**–**	**669,344**
Inter segment revenue	**–**	**–**	**9,038**	**4,303**	**(13,341)**	**–**	**–**
Total revenue	**353,167**	**137,929**	**83,008**	**108,581**	**(13,341)**	**–**	**669,344**
Adjusted operating profit*	**113,082**	**8,334**	**14,954**	**26,245**	**–**	**(11,610)**	**151,005**
Amortisation of acquired intangible assets	**(1,442)**	**(301)**	**(3,294)**	**(13,804)**	**–**	**–**	**(18,841)**
Segment result before adjustments	**111,640**	**8,033**	**11,660**	**12,441**	**–**	**(11,610)**	**132,164**
Other adjustments							**(5,154)**
Operating profit							**127,010**
Net finance expense							**(2,953)**
Income tax expense							**(29,957)**
Profit for the year							**94,100**

	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

* Adjusted operating profit is operating profit before the amortisation of acquired intangible assets and other adjustments (see note 4).

Notes to the Group financial statements continued

For the year ended 31 December 2019

3. Operating segments continued

	Controls 2019	Fluid Systems 2019	Gears 2019	Instruments 2019	Unallocated 2019	Group 2019
Depreciation	**8,136**	**3,133**	**2,943**	**2,103**	**44**	**16,359**
Amortisation:						
– Acquired intangible assets	**1,442**	**301**	**3,294**	**13,804**	**–**	**18,841**
– Development costs	**1,400**	**169**	**277**	**1,028**	**–**	**2,874**
Impairment of development cost assets	**–**	**–**	**–**	**–**	**–**	**–**
Impairment of property, plant and equipment	**–**	**–**	**–**	**–**	**1,935**	**1,935**
Non-cash items: equity settled share-based payments	**2,417**	**508**	**479**	**578**	**720**	**4,702**
Net financing expense	**–**	**–**	**–**	**–**	**(2,953)**	**(2,953)**
Capital expenditure (excluding leases)	**11,550**	**1,396**	**1,902**	**1,703**	**–**	**16,551**

	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 development cost assets	–	–	–	–	699	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

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	2019	2018
UK	**70,779**	71,458
Italy	**68,448**	80,772
Rest of Europe	**121,118**	127,960
US	**140,965**	149,180
Other Americas	**40,732**	42,235
China	**69,682**	57,506
Rest of World	**157,620**	166,602
	669,344	695,713

	UK 2019	Europe 2019	US 2019	Other Americas 2019	Rest of World 2019	Group 2019
Non-current assets:						
– Goodwill	**61,342**	**63,955**	**55,061**	**745**	**40,949**	**222,052**
– Intangible assets	**27,585**	**4,336**	**4,138**	**–**	**4,789**	**40,848**
– Property, plant and equipment	**30,402**	**30,271**	**8,230**	**1,938**	**18,221**	**89,062**

	UK 2018	Europe 2018	US 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

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:

	2019	2018
Curtailment gain from the closure of defined benefit pension schemes to future accrual	–	8,575
Guaranteed Minimum Pension (GMP) equalisation expense	–	(920)
	–	7,655
Consultancy costs associated with the Growth Acceleration Programme	–	(4,052)
Gain/(loss) on disposal of businesses	**2,539**	(658)
Redundancy and executive change costs	**(2,791)**	(2,896)
Other restructuring costs	**(4,902)**	(2,862)
	(5,154)	(10,468)
	(5,154)	(2,813)

Gain/(loss) on disposal of business

The gain on disposal of £2,539,000 (2018: £658,000 loss on disposal) relates to the sale of the Pittsburgh business. The assets of £1,639,000 disposed of included goodwill (£452,000) and working capital (£1,187,000). Other costs incurred totalled £93,000. Proceeds of £4,271,000 were contractually agreed and included in other receivables at the balance sheet date.

Redundancy and executive change costs

On 28 February 2019 it was announced that the Group's operations in Taunton, UK would cease during the second half of 2019 and the production would transfer to the Group's manufacturing plant in Manchester, UK. The closure of the Taunton facility resulted in redundancy costs of £798,000.

The operations in Tulsa, US ceased on 30 June 2019 and the production transferred to other manufacturing plants in the US. The closure of the Tulsa facility has resulted in redundancy costs of £415,000.

A further £1,578,000 (2018: 2,896,000) redundancy and executive change costs have been incurred as a result of the progress made with the Growth Acceleration Programme.

Other restructuring costs

Other restructuring costs include £1,046,000 related to the closure of the Taunton facility and £2,096,000 related to the closure of the Tulsa facility, including asset write-downs of £1,657,000. £200,000 (2018: £700,000) relates to ending development and sales of products for the containment area of nuclear power plants and £1,560,000 (2018: £1,350,000) relates to the ongoing review of the global footprint, including a £413,000 loss on disposal of a property.

Income statement disclosure

The gain on disposal of business is included in other income and the loss on disposal of property is included in other expenses. All other 2019 adjustments are included in administrative expenses. In 2018 all adjustments were included in administrative expenses, with the exception of the credit related to the closure of the defined benefit pension scheme to future which was included in other income. The adjustments are taxable or tax deductible in the country in which the expense is incurred.

Notes to the Group financial statements continued
For the year ended 31 December 2019

5. Other income and expense

	2019	2018
Curtailment gain from the closure of defined benefit pension schemes to future accrual (note 4)	–	8,575
Gain on disposal of business (note 4)	**2,539**	–
Gain on disposal of property, plant and equipment	**178**	120
Other	**158**	295
Other income	**2,875**	8,990

	2019	2018
Loss on disposal of business	–	658
Loss on disposal of property, plant and equipment	**599**	58
Other	**50**	82
Other expense	**649**	798

6. Personnel expenses

	2019	2018
Wages and salaries (including bonus and incentive plans)	**153,879**	159,914
Social security costs	**20,947**	21,747
Pension costs (note 24)	**7,363**	7,882
Share-based payments (note 25)	**4,702**	4,674
Increase in liability for long term service leave	**632**	95
	187,523	194,312

	2019 Number	2018 Number
During the year, the average monthly number of employees, analysed by business segment was:		
Controls	**1,854**	1,953
Fluid Systems	**718**	766
Gears	**421**	470
Instruments	**619**	664
	3,612	3,853
UK	**971**	1,033
Overseas	**2,641**	2,820
	3,612	3,853

7. Finance Income and Expense

Recognised in the income statement

	2019	2018
Interest income	**1,803**	1,618
Foreign exchange gains	**284**	660
Finance income	**2,087**	2,278

	2019	2018
Interest expense	**(3,117)**	(3,072)
Interest charge on pension scheme liabilities (note 24)	**(750)**	(1,055)
Foreign exchange losses	**(1,173)**	(321)
Finance expense	**(5,040)**	(4,448)

Included within interest expense in 2019 is £431,000 of interest payable resulting from the adoption of IFRS 16 on 1 January 2019 (see note 1).

Recognised in other comprehensive income

	2019	2018
Effective portion of changes in fair value of cash flow hedges	**1,125**	(1,423)
Fair value of cash flow hedges transferred to income statement	**1,423**	1,399
Foreign currency translation differences for foreign operations	**(12,643)**	3,164
	(10,095)	3,140
Recognised in:		
Hedging reserve	**2,548**	(24)
Translation reserve	**(12,643)**	3,164
	(10,095)	3,140

8. Profit before tax

Profit before tax is stated after charging the following:

	Notes	2019	2018
Depreciation of property, plant and equipment:			
– Owned assets	i	**11,924**	11,148
– Assets held under lease contracts	i	**4,435**	494
Amortisation:			
– Other intangibles	iii	**18,841**	20,284
– Development costs	iii	**2,874**	2,575
Impairment of development cost assets	iii	**–**	699
Impairment of property, plant and equipment	iii	**1,935**	1,350
Inventory write downs recognised in the year	ii	**3,102**	3,483
Research and development expenditure	iii	**11,272**	11,715
Exchange differences realised	iv	**889**	(339)
Audit fees and expenses paid to Deloitte:			
– Audit of the Group financial statements		**886**	869
– Audit of financial statements of subsidiaries of the Company		**268**	231
		1,154	1,100
Other auditors of financial statements of subsidiaries of the Company		**10**	22
Total audit fees and expenses		**1,164**	1,122
Amounts paid to Deloitte and its associates in respect of:			
– Other assurance services		**56**	49
		56	49

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.

Notes to the Group financial statements continued

For the year ended 31 December 2019

9. Income tax expense

	2019	2019	2018	2018
Current tax:				
UK corporation tax on profits for the year	**3,777**		3,476	
Adjustment in respect of prior years	**(570)**		(851)	
		3,207		2,625
Overseas tax on profits for the year	**28,082**		27,646	
Adjustment in respect of prior years	**(235)**		(223)	
		27,847		27,423
Total current tax		**31,054**		30,048
Deferred tax:				
Origination and reversal of other temporary differences	**(1,135)**		(1,307)	
Impact of rate change	**173**		30	
Adjustment in respect of prior years	**(135)**		233	
Total deferred tax		**(1,097)**		(1,044)
Total tax charge for year		**29,957**		29,004
Profit before tax		**124,057**		120,748
Profit before tax multiplied by the blended standard rate of corporation tax in the UK of 19.0% (2018: 19.0%)		**23,571**		22,942
Effects of:				
Different tax rates on overseas earnings		**6,856**		7,107
Permanent differences		**1,537**		1,015
Losses not recognised		**(66)**		(90)
Tax incentives		**(1,174)**		(1,159)
Impact of rate change		**173**		30
Adjustments to tax charge in respect of prior years		**(940)**		(841)
Total tax charge for year		**29,957**		29,004
Effective tax rate		**24.1%**		24.0%
Adjusted profit before tax (note 2b)		**148,052**		143,845
Total tax charge for the year		**29,957**		29,004
Amortisation of acquired intangible assets		**4,070**		4,499
Defined benefit pension schemes (note 4)		**–**		(1,301)
Restructuring costs (note 4)		**838**		1,827
Adjusted total tax charge for the year		**34,865**		34,029
Adjusted effective tax rate		**23.5%**		23.7%

A tax charge of £8,000 (2018: £98,000 credit) in respect of share-based payments has been recognised directly in equity in the year.

The effective tax rate for the year is 24.1% (2018: 24.0%). The adjusted effective tax rate is 23.5% (2018: 23.7%) and is lower than the effective tax rate for the year principally because of the tax treatment of expenses included in exceptional items.

The adjusted effective tax rate has fallen from 23.7% in 2018 to 23.5% in 2019, principally because of the reduction in the Indian corporate tax rate from 35% to 25%, which came into effect on 1 April 2019. This has resulted in a reduction in the Indian 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, South Korea, Germany, India, Canada and Australia.

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 £312,364,000 (2018: £321,281,000).

10. Goodwill

	2019	2018
Cost		
At 1 January	**251,848**	249,622
Derecognised on disposal of business	**(452)**	(2,239)
Exchange adjustments	**(7,700)**	4,465
At 31 December	**243,696**	251,848
Provision for impairment		
At 1 January	**21,691**	21,594
Exchange adjustments	**(47)**	97
At 31 December	**21,644**	21,691
Net book value	**222,052**	230,157

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	2019	2018
Schischek	13.7% (2018: 13.3%)	**19,514**	20,506
Rotork Fluid Systems	13.4% (2018: 12.9%)	**15,019**	15,782
Rotork Controls Inc	11.0% (2018: 10.7%)	**16,057**	14,527
Bifold	12.1% (2018: 11.6%)	**47,467**	47,467
Instruments sub-group	11.6% (2018: 11.2%)	**104,327**	103,454
Other cash generating units		**19,668**	28,421
Total Group		**222,052**	230,157

Impairment testing

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment.

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 Group's three year strategic 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 5.5% (2018: 7.5%).

In the period after the three year plan growth rates are forecast at 5% (2018: 5%) per annum for the next two years and at 2% (2018: 2%) for the long-term growth rate. The 5% rate reflects a realistic market forecast for the flow control market up until 2024.

Notes to the Group financial statements continued
For the year ended 31 December 2019

10. Goodwill continued
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.

11. Intangible assets

		Acquired intangible assets			
	Research and development costs	Brands	Customer relationships	Other	Total
Cost					
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**
Internally developed	1,937	–	–	–	1,937
Disposal of business	–	–	–	–	–
Disposals	(3,114)	–	–	–	(3,114)
Exchange adjustments	(128)	(1,727)	(3,498)	(643)	(5,996)
31 December 2019	**20,402**	**50,872**	**116,693**	**21,870**	**209,837**
Amortisation					
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**
Charge for the year	2,874	6,035	10,767	2,039	21,715
Impairment charge	–	–	–	–	–
Disposal of business	–	–	–	–	–
Disposals	(3,114)	–	–	–	(3,114)
Exchange adjustments	(61)	(1,479)	(2,960)	(605)	(5,105)
31 December 2019	**12,297**	**42,147**	**94,519**	**20,026**	**168,989**
Net book value					
31 December 2018	9,109	15,008	33,479	3,921	61,517
31 December 2019	**8,105**	**8,725**	**22,174**	**1,844**	**40,848**

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 in 2018 relates to the cost of ending development and sales of products for the containment area of nuclear power plants.

12. Property, plant and equipment

	Land and buildings	Plant and equipment	Total
Cost			
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
Recognition of right-of-use asset on initial application of IFRS 16	8,978	3,316	12,294
Adjusted balance at 1 January 2019	73,902	117,156	191,058
Additions	2,557	17,066	19,623
Disposals	(163)	(7,385)	(7,548)
Exchange adjustments	(1,862)	(4,043)	(5,905)
31 December 2019	**74,434**	**122,794**	**197,228**
Depreciation			
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
Charge for the year	4,882	11,477	16,359
Disposals	(128)	(6,101)	(6,229)
Impairment charge	1,883	52	1,935
Exchange adjustments	(868)	(2,457)	(3,325)
31 December 2019	**24,868**	**83,298**	**108,166**
Net book value			
31 December 2018	45,825	33,513	79,338
31 December 2019	**49,566**	**39,496**	**89,062**

Net book value of land and buildings can be analysed between:

	2019	2018
Land	**7,060**	7,385
Buildings	**42,506**	38,440
Net book value at 31 December	**49,566**	45,825

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 £1,935,000 (2018: £1,350,000) arose as a result of the ongoing review of the global footprint (note 4).

Notes to the Group financial statements continued

For the year ended 31 December 2019

13. Deferred tax assets and liabilities

	Assets 2019	Liabilities 2019	Net 2019	Assets 2018	Liabilities 2018	Net 2018
Property, plant and equipment	**618**	**(1,072)**	**(454)**	450	(1,346)	(896)
Intangible assets	**3**	**(7,970)**	**(7,967)**	4	(12,530)	(12,526)
Employee benefits	**7,723**	**–**	**7,723**	7,481	–	7,481
Inventory	**4,648**	**–**	**4,648**	5,896	–	5,896
Other items	**4,344**	**(4,457)**	**(113)**	5,231	(3,571)	1,660
Net tax assets/(liabilities)	**17,336**	**(13,499)**	**3,837**	19,062	(17,447)	1,615
Set off of tax	**(2,754)**	**2,754**	**–**	(1,725)	1,725	–
	14,582	**(10,745)**	**3,837**	17,337	(15,722)	1,615

Movements in the net deferred tax balance during the year are as follows:

	2019	2018
Balance at 1 January	**1,615**	1,839
Credited to the income statement	**1,086**	1,044
(Charged)/credited directly to equity in respect of share-based payments	**(8)**	98
Credited/(charged) directly to equity in respect of pension schemes	**1,353**	(1,446)
(Charged)/credited directly to hedging reserves in respect of cash flow hedges	**(467)**	18
Exchange differences	**258**	62
Balance at 31 December	**3,837**	1,615

A deferred tax asset of £14,582,000 (2018: £17,337,000) has been recognised at 31 December 2019. 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 has not been recognised in relation to capital losses of £7,632,000 (2018: £6,936,000). 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

	2019	2018
Raw materials and consumables	**58,153**	70,866
Work in progress	**3,751**	6,897
Finished goods	**12,001**	16,976
	73,905	94,739

Included in cost of sales was £196,265,000 (2018: £235,708,000) in respect of inventories consumed in the year.

15. Trade and other receivables

	2019	2018
Non-current assets:		
Other non-trade receivables	–	352
Other receivables	–	352
Current assets:		
Trade receivables	**135,333**	152,089
Less provision for impairment of receivables	**(5,943)**	(6,580)
Trade receivables – net	**129,390**	145,509
Corporation tax	**4,830**	1,429
Current tax	**4,830**	1,429
Other non-trade receivables	**7,674**	3,299
Other taxes and social security	**13,373**	11,747
Prepayments	**6,511**	8,115
Other receivables	**27,558**	23,161

Included within non-trade receivables is £Nil (2018: £89,000) which relates to collateral held by a third party in respect of the Group's outstanding forward exchange contracts.

16. Cash and cash equivalents

	2019	2018
Bank balances	**78,560**	73,136
Cash in hand	**108**	56
Short term deposits	**38,944**	31,297
Cash and cash equivalents	**117,612**	104,489
Bank overdraft	**–**	–
Cash and cash equivalents in the consolidated statement of cash flows	**117,612**	104,489

Notes to the Group financial statements continued
For the year ended 31 December 2019

17. Capital and reserves

	0.5p Ordinary shares issued and fully paid up 2019	£1 Non-redeemable preference shares 2019	0.5p Ordinary shares issued and fully paid up 2018	£1 Non-redeemable preference shares 2018
At 1 January	**4,358**	**40**	4,352	40
Issued under employee share schemes	**5**	**–**	6	–
At 31 December	**4,363**	**40**	4,358	40
Number of shares (000)	**872,538**		871,625	

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 £1,501,000 (2018: £1,837,000) in respect of the 912,549 (2018: 1,197,838) ordinary shares issued during the year: £4,563 (2018: £5,980) was credited to share capital and £1,496,647 (2018: £1,831,000) 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 £3,485,000 (2018: £4,227,000) and represents 1,136,000 (2018: 1,387,000) 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:

	2019 Payment date	2019	2018
3.70p final dividend for 2018 (final dividend for 2017: 3.35p)	**22 May**	**32,248**	29,154
2.30p interim dividend for 2019 (interim dividend for 2018: 2.20p)	**27 September**	**20,039**	19,134
		52,287	48,288

After the balance sheet date the following dividends per qualifying ordinary share were proposed by the directors. The dividends have not been provided.

	2019	2018
Final proposed dividend per qualifying ordinary share		
3.90p	**34,029**	
3.70p		32,250

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 871.0m shares (2018: 869.9m shares) being the weighted average number of ordinary shares in issue (net of own ordinary shares held) for the year.

	2019	2018
Net profit attributable to ordinary shareholders	**94,100**	91,744
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	**870,238**	869,863
Effect of own shares held	**387**	(115)
Effect of shares issued under Sharesave plans	**401**	123
Weighted average number of ordinary shares during the year	**871,026**	869,871
Basic earnings per share	**10.8p**	10.5p

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.

	2019	2018
Adjusted net profit attributable to ordinary shareholders	**113,187**	109,816
Weighted average number of ordinary shares during the year	**871,026**	869,871
Adjusted basic earnings per share	**13.0p**	12.6p

Diluted earnings per share

Diluted earnings per share is based on the profit for the year attributable to the ordinary shareholders and 873.6m shares (2018: 874.0m 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).

	2019	2018
Net profit attributable to ordinary shareholders	**94,100**	91,744
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares for the year	**871,026**	869,871
Effect of Sharesave options	**1,214**	1,583
Effect of LTIP share awards	**1,347**	2,514
Weighted average number of ordinary shares (diluted) during the year	**873,587**	873,968
Diluted earnings per share	**10.8p**	10.5p

Adjusted diluted earnings per share

	2019	2018
Adjusted net profit attributable to ordinary shareholders	**113,187**	109,816
Weighted average number of ordinary shares (diluted) during the year	**873,587**	873,969
Adjusted diluted earnings per share	**13.0p**	12.6p

Notes to the Group financial statements continued
For the year ended 31 December 2019

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.

	2019	2018
Non-current liabilities		
Preference shares classified as debt	**40**	40
Bank loans	**762**	30,831
Lease liabilities	**5,989**	–
	6,791	30,871
Current liabilities		
Bank loans	**66**	30,008
Lease liabilities	**4,686**	2
	4,752	30,010

Terms and debt repayment schedule
The terms and conditions of outstanding bank loans and preference shares were as follows:

	Currency	Interest rates	Year of maturity	2019	2018
Non-redeemable preference shares	Sterling	9.5%	–	**40**	40
Bank loans and overdrafts	Sterling	–	–	**–**	59,899
Bank loans and overdrafts	Euro	2.35%	2032	**828**	940
				868	60,879

Repayment profile
Bank loans are payable as follows:

	Principal 2019	Interest 2019	Minimum payments 2019	Principal 2018	Interest 2018	Minimum payments 2018
Bank loans less than one year	**66**	**19**	**85**	30,008	275	30,283
Bank loans more than one and less than five years	**762**	**105**	**867**	30,831	131	30,962
Bank loans more than five years	**–**	**–**	**–**	–	–	–
	828	**124**	**952**	60,839	406	61,245

During the year the Group repaid £60,000,000 of its committed facilities.

The debt repayment profile for leases is disclosed in note 27.

20. Employee benefits

	2019	2018
Recognised liability for defined benefit obligations:		
– Present value of funded obligations	**223,222**	207,021
– Fair value of plan assets	**(193,646)**	(179,728)
	29,576	27,293
Other pension scheme liabilities	**241**	409
Employee bonuses	**20,399**	21,703
Long term incentive plan	**542**	641
Employee indemnity provision	**2,227**	2,677
Other employee benefits	**5,325**	5,040
	58,310	57,763
Non-current	**33,576**	31,274
Current	**24,734**	26,489
	58,310	57,763

Defined benefit pension scheme disclosures are detailed in note 24.

21. Provisions

	Contingent consideration	Warranty provision	Restructuring provision	Total
Balance at 1 January 2019	**299**	**6,511**	**1,576**	**8,386**
Exchange differences	**(14)**	**(164)**	**(3)**	**(181)**
Charge to the income statement	**–**	**1,763**	**3,360**	**5,123**
Provisions utilised during the year	**–**	**(2,255)**	**(4,354)**	**(6,609)**
Disposal of business	**–**	**96**	**–**	**96**
Balance at 31 December 2019	**285**	**5,951**	**579**	**6,815**
Maturity at 31 December 2019				
Non-current	**–**	**1,964**	**–**	**1,964**
Current	**285**	**3,987**	**579**	**4,851**
	285	**5,951**	**579**	**6,815**
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

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

	2019	2018
Trade payables	**41,195**	47,332
Corporation tax	**13,270**	11,792
Current tax	**13,270**	11,792
Other taxes and social security	**11,101**	10,600
Payments on account	**6,587**	6,586
Other payables and accrued expenses	**22,893**	22,964
Other payables	**40,581**	40,150

23. Derivative financial instruments

	2019 Assets	2019 Liabilities	2018 Assets	2018 Liabilities
Forward foreign exchange contracts – cash flow hedges	**1,275**	**176**	–	1,407
Foreign exchange swaps – cash flow hedges	**921**	**–**	308	1,275
Total	**2,196**	**176**	308	2,682
Less non-current portion:				
Forward foreign exchange contracts – cash flow hedges	**–**	**(124)**	–	–
Current portion	**2,196**	**52**	308	2,682

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 2019 are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement.

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For the year ended 31 December 2019

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.

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 UK Scheme is linked to inflation. Although the UK Scheme's 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 relevant defined contribution scheme. The total gain of £8,575,000 from the two curtailments is disclosed in other income in the income statement in 2018.

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 was estimated to be £920,000 In 2018 and is shown as a past service cost in the income statement for that year.

Movements in the present value of defined benefit obligations

	2019	2018
Liabilities at 1 January	**207,021**	237,054
Current service costs	**–**	1,427
Administration costs	**330**	208
Member contributions	**–**	152
Interest cost	**5,984**	5,864
Benefits paid	**(15,951)**	(10,818)
Actuarial loss/(gain)	**26,527**	(20,795)
Curtailment gain from scheme closures to future accrual	**–**	(8,575)
Past service cost – Guaranteed minimum pension equalisation	**–**	920
Currency (gain)/loss	**(689)**	1,584
Liabilities at 31 December	**223,222**	207,021

Movements in fair value of plan assets

	2019	2018
Assets at 1 January	**179,728**	188,844
Interest income on plan assets	**5,234**	4,809
Employer contributions	**6,622**	7,187
Member contributions	**–**	152
Benefits paid	**(15,951)**	(10,818)
Return on plan assets, excluding interest income on plan assets	**18,469**	(11,294)
Currency (loss)/gain	**(456)**	848
Assets at 31 December	**193,646**	179,728

Expense recognised in the income statement

	2019	2018
Current service costs	**–**	1,427
Administration costs	**330**	208
Curtailment gain from scheme closures to future accrual	**–**	(8,575)
Past service cost – Guaranteed minimum pension adjustment	**–**	920
Net interest cost	**750**	1,055
	1,080	(4,965)

The expense is recognised in the following line items in the income statement

	2019	2018
Cost of sales	**112**	571
Administrative expenses	**218**	1,984
Other income	**–**	(8,575)
Net finance expense	**750**	1,055
	1,080	(4,965)

Remeasurements over the year

	2019	2018
Experience adjustments on plan assets	**18,469**	(11,294)
Experience adjustments on plan liabilities	**(3,926)**	(451)
Actuarial (loss)/gain from changes to financial assumptions	**(23,586)**	19,781
Actuarial gain from changes to demographic assumptions	**985**	1,465
Curtailment gain from scheme closures to future accrual	**–**	8,575
Past service cost – Guaranteed minimum pension adjustment	**–**	(920)
Experience adjustments on currency	**233**	(736)
	(7,825)	16,420

i) Defined benefit pension schemes continued
Reconciliation of net defined benefit obligation

	2019	2018
Net defined benefit obligation at the beginning of the year	**27,293**	48,210
Current service costs	**–**	1,427
Administration costs	**330**	208
Net financing expense	**750**	1,055
Remeasurements over the year	**7,825**	(16,420)
Employer contributions	**(6,622)**	(7,187)
	29,576	27,293

Notes to the Group financial statements continued
For the year ended 31 December 2019

24. Pension schemes continued
Liability for defined benefit obligations
The principal actuarial assumptions at 31 December 2019 (expressed as weighted averages):

	UK scheme (% per annum)		US scheme (% per annum)		Weighted average (% per annum)	
	2019	2018	2019	2018	2019	2018
Discount rate	**2.1**	2.8	**3.4**	4.4	**2.2**	3.0
Rate of increase in salaries	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a
Rate of increase in pensions (post May 2000)	**2.8**	3.1	**0.0**	0.0	**2.5**	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	**2.9**	3.2	**n/a**	n/a	**2.9**	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.

The split of the Schemes' assets were as follows:

	2019 Fair value	2018 Fair value
Equities (quoted)	**35,588**	30,581
Targeted return (quoted)	**50,409**	45,243
Property	**11,683**	17,326
Corporate bonds (quoted)	**47,526**	41,740
LDI/absolute return bonds (quoted)	**31,940**	29,892
US deposit administration contract	**16,500**	14,946
Total	**193,646**	179,728
Actual return on the Schemes' assets	**23,703**	(6,485)

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 27% 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 for the UK Scheme have been changed in three areas. The allowance for cash commutation now assumes that members will commute 70% of the maximum possible amount at retirement (2018: 90%), whilst the proportion of members with a dependant at retirement or on earlier death is assumed to be 80% (2018: 90%).

As a result of longevity analysis carried out for the 2019 valuation of the UK Scheme, the mortality base table is now 90% of the S3PMA table for males and 115% of the S3PFA table for females (2018: 100% of S2NXA for males and females). Future changes in mortality are now based on the CMI_2018 projections with an initial addition parameter of +0.5% (2018: CMI_2017 projections) with a long-term rate of improvement of 1.25% per annum (2018: 1.25%).

By way of example the respective mortality tables indicate the following life expectancy:

	2019 Life expectancy at age 65		2018 Life expectancy at age 65	
Current age	Male	Female	Male	Female
65	**22.9**	**23.3**	22.1	24.1
45	**24.2**	**24.8**	23.5	25.6

Sensitivity analysis on the Schemes' liabilities

Adjustments to assumptions	Approximate effect on liabilities
Discount rate	
Plus 0.5% pa	(21,200)
Minus 0.5% pa	23,600
Inflation	
Plus 0.5% pa	12,900
Minus 0.5% pa	(12,200)
Life expectancy	
Decrease mortality rates by a factor of 10%	7,300
Increase mortality rates by a factor of 10%	(6,200)

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 is ongoing and is being carried out with an effective date of 31 March 2019.

The Group estimates that cash contributions to the Group's defined benefit pension schemes during 2020 will be £6,643,000 (2019: £6,622,000).

The weighted average duration of the defined benefit obligation is approximately 21 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 £7,363,000 (2018: £6,455,000).

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For the year ended 31 December 2019

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:

	2019	2018
Sharesave plan (a)	**577**	637
Long Term Incentive Plan (b)	**1,513**	1,385
OPLSS/SIP profit linked share scheme (c)	**2,612**	2,652
Total expense recognised as employee costs (note 6)	**4,702**	4,674

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.

Volatility assumptions for equity-based payments continued

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	
	2019	2018	2019	2018
Grant date	**10 October**	1 October	**10 October**	1 October
Share price at grant date	**300p**	333p	**300p**	333p
Exercise price	**255p**	272p	**255p**	272p
Shares granted under scheme	**656,347**	711,745	**184,145**	178,422
Vesting period	**3 years**	3 years	**5 years**	5 years
Expected volatility	**29.0%**	30.2%	**29.0%**	27.8%
Risk free rate	**0.34%**	0.95%	**0.32%**	1.17%
Expected dividends expressed as a dividend yield	**2.00%**	1.67%	**2.00%**	1.67%
Probability of ceasing employment before vesting	**2%**	2%	**2%**	2%
Fair value	**70p**	91p	**77p**	97p

Movements in the number of share options outstanding and their weighted average prices are as follows:

	2019		2018	
	Average option price per share	Options	Average option price per share	Options
At 1 January	**189p**	**4,082,962**	163p	4,547,201
Granted	**255p**	**840,492**	272p	890,167
Exercised	**166p**	**(912,549)**	154p	(1,197,838)
Forfeited	**199p**	**(319,796)**	172p	(156,568)
At 31 December	**149p**	**3,691,109**	189p	4,082,962

Of the 3,691,109 outstanding options (2018: 4,082,962), 121,000 are exercisable (2018: 380,000).

The Group received proceeds of £1,501,000 in respect of the 912,549 options exercised during the year: £5,000 was credited to share capital and £1,497,000 to share premium. The weighted average share price at date of exercise was 279p (2018: 269p).

The weighted average remaining life of 1,743,456 (2018: 2,036,424) awards outstanding under the 3 year plan is 1.9 years. The weighted average remaining life of 1,947,653 (2018: 2,046,538) awards outstanding under the 5 year plan is 1.9 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 vested 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, 2018 and 2019 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.

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 is determined by calculating the growth in ROIC, on a cumulative basis, over the performance period. For the 2017, 2018 and 2019 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 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 vested during 2019.

The performance period for the 2017 awards ended on 31 December 2019. Messrs. PricewaterhouseCoopers LLP as independent actuaries certified to the Remuneration Committee that there was a 84.4% vesting of this award as the Company was in the 73rd percentile relative to the comparator group, the Group's EPS growth was 39.6% over the performance period and the Group's growth in economic profit was 14.3%. These awards will vest during 2020.

	2019	2018
Grant date	**16 May 2019**	7 Mar 2018
Share price at grant date	**292p**	264p
Shares granted under scheme	**1,354,671**	1,301,159
Vesting period	**3 years**	3 years
Expected volatility	**27.3%**	30.9%
Risk free rate	**0.7%**	0.8%
Expected dividends expressed as a dividend yield	**0.0%**	2.0%
Probability of ceasing employment before vesting	**5% p.a.**	5% p.a.
Fair value of awards under TSR performance conditions	**147p**	149p
Fair value of awards under EPS and ROIC performance conditions	**292p**	250p

	Outstanding at start of year	Granted during year	Vested during year	Lapsed	Outstanding at end of year
2016 Award	1,351,468	–	(1,067,541)	(283,927)	**–**
2017 Award	741,484	–	–	(51,183)	**690,301**
2018 Award	1,051,756	–	–	(64,699)	**987,057**
2019 Award	–	1,354,671	–	(104,090)	**1,250,581**
	3,144,708	1,354,671	(1,067,541)	(503,899)	**2,927,939**

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.

Notes to the Group financial statements continued
For the year ended 31 December 2019

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	
	2019	2018
Trade receivables	**129,390**	145,509
Other receivables	**27,558**	23,513
Cash and cash equivalents	**117,612**	104,489
	274,560	273,511

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	
	2019	2018
Sterling	**17,910**	18,964
US dollar	**30,948**	36,617
Euro	**43,395**	54,236
Other	**37,137**	35,692
	129,390	145,509

Provisions against trade receivables
The following table shows the expected credit loss (ECL) that has been recognised for trade receivables:

	Gross 2019	Provision 2019	Gross 2018	Provision 2018
Not past due	**98,833**	**(20)**	96,719	(26)
Past due 0-30 days	**17,738**	**(7)**	27,425	–
Past due 31-60 days	**7,035**	**–**	10,629	(38)
Past due 61-90 days	**3,467**	**(59)**	5,050	(93)
Past due more than 91 days	**8,260**	**(5,857)**	12,266	(6,423)
	135,333	**(5,943)**	152,089	(6,580)

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.

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 (2018: £7m) on which interest would be payable at base rate plus 1.5% and a €5m overdraft facility (2018: €5m) on which interest would be payable at base rate plus 1.1%.

During 2019 the Group repaid the remaining £30,000,000 of its £90,000,000 term facility. The Group has a £60,000,000 Revolving Credit Facility which matures in August 2020. At year end none 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:

			Analysis of contractual cash flow maturities			
31 December 2019	Carrying amount	Contractual cash flows	Less than 12 months	1-2 years	2-5 years	More than 5 years
Bank loans and overdrafts	**828**	**953**	**85**	**84**	**784**	**–**
Lease liabilities	**10,675**	**11,641**	**5,185**	**3,103**	**3,069**	**284**
Trade and other payables	**81,776**	**81,776**	**81,776**	**–**	**–**	**–**
Contingent consideration	**285**	**285**	**285**	**–**	**–**	**–**
Foreign exchange contracts	**176**	**176**	**176**	**–**	**–**	**–**
Non-redeemable preference shares	**40**	**40**	**–**	**–**	**–**	**40**
	93,780	**94,871**	**87,507**	**3,187**	**3,853**	**324**

			Analysis of contractual cash flow maturities			
31 December 2018	Carrying amount	Contractual cash flows	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

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 £168,714,000 (2018: £182,855,000) and the gross inflow is £170,735,000 (2018: £180,480,000).

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 2019 was a £2,020,000 asset (2018: £2,374,000 liability) comprising an asset of £2,196,000 (2018: £308,000) and a liability of £176,000 (2018: £2,682,000). Forward exchange contracts in place at 31 December 2019 mature in 2020.

Notes to the Group financial statements continued
For the year ended 31 December 2019

26. Financial instruments continued
Financial risk and treasury policies
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 2019 of £300,000 (2018: £400,000) 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 2019 of £700,000 (2018: £600,000). 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	
	2019	2018	2019	2018
US dollar	**1.28**	1.34	**1.31**	1.28
Euro	**1.14**	1.13	**1.17**	1.11

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 (excluding leases) at 31 December was as follows:

	2019	2018
Fixed rate financial liabilities	**40**	40
Floating rate financial liabilities	**828**	60,839
	868	60,879

The fixed and floating rate financial liabilities comprise 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 9.5% (2018: 9.5%).

The maturity profile of the Group's financial liabilities (excluding leases) at 31 December was as follows:

	2019	2018
In one year or less	**66**	30,010
In more than one year but not more than two years	**66**	30,030
In more than two years but not more than five years	**696**	209
In more than five years	**40**	632
Total	**868**	60,881

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	2019	2018
Total borrowings	19	**(11,543)**	(60,881)
Total cash and cash equivalents	16	**117,612**	104,489
Group net cash/(debt)		**106,069**	43,608
Reconciliation of changes in cash and cash equivalents to movements in net debt			
Net increase in cash and cash equivalents		**10,874**	39,573
Repayment of borrowings		**60,013**	15,087
Net (increase)/decrease in lease liabilities		**(10,673)**	66
Effect of exchange rate fluctuations		**2,247**	1,497
Movement in net debt		**62,461**	56,223
Net cash/(debt) at start of year		**43,608**	(12,615)
Net cash at end of year		**106,069**	43,608

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 2019	Fair value 2019	Carrying amount 2018	Fair value 2018
Loans and receivables				
Trade receivables	**129,390**	**129,390**	145,509	145,509
Other receivables	**27,558**	**27,558**	23,513	23,513
Financial assets				
Cash and cash equivalents	**117,612**	**117,612**	104,489	104,489
Designated cash flow hedges				
Foreign exchange contracts:				
Financial assets	**2,196**	**2,196**	12	12
Financial liabilities	**(176)**	**(176)**	(2,387)	(2,387)
Financial liabilities at amortised cost				
Bank loans	**(828)**	**(828)**	(60,840)	(60,840)
Trade and other payables	**(81,776)**	**(81,776)**	(87,482)	(87,482)
Contingent consideration	**(285)**	**(285)**	(299)	(299)
Preference shares	**(40)**	**(40)**	(40)	(40)
Lease liabilities	**(10,675)**	**(10,675)**	(2)	(2)
	182,976	**182,976**	122,473	122,473

Notes to the Group financial statements continued
For the year ended 31 December 2019

26. Financial instruments continued
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 other comprehensive income 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 (2018: 12 months), the carrying amount is equal to the fair value. Further information on the contingent consideration is shown in note 21.

27. Leases
The Group leases many assets including land and buildings, vehicles, machinery and IT equipment. Information about leases for which the Group is a lessee is presented below.

Right-of-use assets
The right-of-use assets are disclosed as a non-current asset and are part of the property, plant and equipment balance of £89,062,000 at 31 December 2019.

2019	Land and buildings	Plant and equipment	Total
Balance at 1 January	8,978	3,316	**12,294**
Depreciation charge for the year	(2,871)	(1,564)	**(4,435)**
Impairment	(695)	–	**(695)**
Additions to right-of-use assets	1,638	1,434	**3,072**
Derecognition of right-of-use assets	(16)	(44)	**(60)**
Foreign exchange differences	(47)	(32)	**(79)**
Balance at 31 December	6,987	3,110	**10,097**

Lease liabilities

	2019
Maturity analysis – contractual undiscounted cash flows	
Less than one year	**5,185**
One to five years	**6,172**
More than 5 years	**284**
Total undiscounted lease liability at 31 December	**11,641**
Interest cost associated with future periods	**(966)**
Lease liabilities included in statement of financial position at 31 December	**10,675**
Current	**4,686**
Non-current	**5,989**

Amounts recognised In profit and loss
The Group has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred.

	2019
2019 – Leases under IFRS16	
Interest on lease liabilities	**431**
Expenses relating to short-term leases and leases of low-value assets	**1,910**
Impairment of right-of-use assets	**695**
Depreciation of right-of-use assets	**4,435**

	2019
2018 – Operating leases under IAS17	
Lease expense	**6,368**

Amounts recognised In statement of cash flows

	2019
Total cash outflow for leases	**7,058**

28. Capital commitments

Capital commitments at 31 December for which no provision has been made in these accounts were:

	2019	2018
Contracted	**8,225**	2,313

29. Contingencies

	2019	2018
Performance guarantees and indemnities	**9,695**	9,138

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 158 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 £2,000 during the year, none of which was outstanding at 31 December 2019.

Drax Group plc was a related party of Rotork plc by virtue of T Cobbold's non-executive directorship which ended in September 2019. Sales to subsidiaries and associates of Drax Group plc totalled £714,000 for the period to September 2019.

TechnipFMC plc is a related party of Rotork plc by virtue of A Andersen's employment with the company which ended in July 2019. Sales to subsidiaries and associates of TechnipFMC plc totalled £378,000 for the period to July 2019.

All the transactions above were 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:

	2019	2018
Emoluments including social security costs	**4,242**	4,199
Post-employment benefits	**71**	73
Pension supplement	**344**	294
Share-based payments	**941**	788
	5,598	5,354

Rotork plc Company balance sheet
At 31 December 2019

	Notes	2019 £000	2018 £000
Non-current assets			
Property, plant and equipment	c	**–**	–
Investments	d	**43,205**	43,205
Deferred tax assets	e	**283**	293
		43,488	43,498
Current assets			
Trade receivables		**–**	54
Amounts owed by Group undertakings		**264,212**	199,990
Other receivables	f	**816**	718
Cash and cash equivalents		**1,695**	4,366
		266,723	205,128
Total assets		**310,211**	248,626
Equity			
Share capital	i	**4,363**	4,358
Share premium		**14,521**	13,024
Capital redemption reserve		**1,644**	1,644
Retained earnings		**277,957**	222,737
		298,485	241,763
Non-current liabilities			
Preference share capital		**40**	40
		40	40
Current liabilities			
Trade payables		**601**	267
Current tax		**1,449**	835
Amounts owed to Group undertakings		**5,089**	1,052
Other payables	g	**4,547**	4,669
		11,686	6,823
Total equity and liabilities		**310,211**	248,626

The Company reported a total comprehensive income for the financial year of £107,775,000 (2018: £71,252,000).

These Company financial statements, company number 00578327, were approved by the Board of Directors on 2 March 2020 and were signed on its behalf by:

—
KG Hostetler and **JM Davis**
Directors

Rotork plc Company statement of changes in equity
At 31 December 2019

	Share capital £000	Share premium £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
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
Total comprehensive income for the year	–	–	–	107,775	107,775
Equity settled share-based payment transactions	–	–	–	(1,011)	(1,011)
Share options exercised by employees	5	1,497	–	–	1,502
Own ordinary shares acquired	–	–	–	(5,287)	(5,287)
Own ordinary shares awarded under share schemes	–	–	–	6,030	6,030
Dividends	–	–	–	(52,287)	(52,287)
Balance at 31 December 2019	**4,363**	**14,521**	**1,644**	**277,957**	**298,485**

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 IFRS 9, 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 tax
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

	2019	2018
Wages and salaries (including bonus and incentive plans)	**5,122**	4,449
Social security costs	**786**	708
Pension costs	**101**	100
Share-based payment charge	**717**	656
	6,726	5,913

During the year there were 23 (2018: 19) employees of Rotork plc plus the two (2018: 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 82 to 102.

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
2016 Award	541,741	–	(429,057)	(112,684)	**–**
2017 Award	232,404	–	–	–	**232,404**
2018 Award	540,421	–	–	–	**540,421**
2019 Award	–	504,714	–	–	**504,714**
	1,314,566	504,714	(429,057)	(112,684)	**1,277,539**

The weighted average remaining life of awards outstanding at the year end is one year.

Notes to the Company financial statements continued

c) Property, plant and equipment in the Company balance sheet

	Plant and equipment	Total
Cost		
At 1 January 2019	221	221
At 31 December 2019	**221**	**221**
Depreciation		
At 1 January 2018	221	221
Charge for year	–	–
At 31 December 2019	**221**	**221**
Net book value		
At 31 December 2019	**–**	**–**
At 31 December 2018	–	–

d) Investments in the Company balance sheet

Shares in Group companies

	2019	2018
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
Rotork Americas Holdings 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

Subsidiary	Incorporated in	Registered address
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
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 Akış 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	US	675 Mile Crossing Blvd., Rochester, NY 14624, US
Remote Control Inc	US	77 Circuit Dr. North Kingstown, RI 02852, US
Ranger Acquisition Corporation	US	The Corporation Trust Company, Corporation Trust Center, 1209 Orange St., Wilmington, DE 19801 US

Notes to the Company financial statements continued

d) Investments in the Company balance sheet continued

Shares in Group companies continued

Subsidiary	Incorporated in	Registered address
100% owned by Rotork Controls Inc		
Rotork Pittsburgh LLC	US	6005 Enterprise Drive, Export, PA 15632, US
6005 Enterprise Drive LLC	US	6005 Enterprise Drive, Export, PA 15632, US
100% owned by Ranger Acquisition Corp		
Fairchild Industrial Products Company	US	3920 West Point Blvd, Winston-Salem, NC 27103, US
Rotork Tulsa Inc	US	4433 W 49th Suite D, Tulsa, OK 74017, US
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
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 2019	Liabilities 2019	Net 2019	Assets 2018	Liabilities 2018	Net 2018
Tangible fixed assets	**10**	**–**	**10**	11	–	11
Provisions	**273**	**–**	**273**	282	–	282
	283	**–**	**283**	293	–	293

Movements in the net deferred tax balance during the year are as follows:

	2019	2018
Balance at 1 January	**293**	150
(Debited)/credited to the income statement	**(10)**	143
	283	293

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 £312,364,000 (2018: £321,281,000).

f) Other receivables in the Company balance sheet

	2019	2018
Prepayments	**256**	210
Other receivables	**560**	508
	816	718

g) Other payables in the Company balance sheet

	2019	2018
Other taxes and social security	**152**	44
Other payables	**3,043**	3,218
Accruals	**1,352**	1,407
	4,547	4,669

The Company has a £17,000,000 gross overdraft facility (2018: £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.

During 2019 the Company repaid the remaining £30,000,000 of its term facility. The Company has a £60,000,000 Revolving Credit Facility (2018: £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 none 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

	2019 £000	2018 £000	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
Revenue	**669,344**	695,713	642,229	590,078	546,459	594,739	578,440	511,747	447,833	380,560
Cost of sales	**(357,718)**	(384,253)	(358,090)	(328,410)	(296,944)	(309,280)	(304,066)	(272,199)	(236,359)	(199,742)
Gross profit	**311,626**	311,460	284,139	261,668	249,515	285,459	274,374	239,548	211,474	180,818
Overheads	**(184,616)**	(188,542)	(198,167)	(167,891)	(145,129)	(143,232)	(135,109)	(115,081)	(99,474)	(83,094)
Operating profit	**127,010**	122,918	85,972	93,777	104,386	142,227	139,265	124,467	112,000	97,724
Adjusted* operating profit	**151,005**	146,015	130,162	120,588	125,272	157,167	151,412	131,866	115,921	99,442
Amortisation of acquired intangible assets	**(18,841)**	(20,284)	(27,183)	(26,811)	(20,886)	(14,940)	(12,147)	(7,399)	(3,921)	(1,718)
Disposal of property	**–**	–	–	–	–	–	–	–	–	–
Other adjustments	**(5,154)**	(2,813)	(17,007)	–	–	–	–	–	–	–
Operating profit	**127,010**	122,918	85,972	93,777	104,386	142,227	139,265	124,467	112,000	97,724
Net interest	**(2,953)**	(2,170)	(5,386)	(2,707)	(2,517)	(1,062)	(1,268)	(273)	550	131
Profit before taxation	**124,057**	120,748	80,586	91,070	101,869	141,165	137,997	124,194	112,550	97,855
Tax expense	**(29,957)**	(29,004)	(24,973)	(23,897)	(27,012)	(37,963)	(38,488)	(34,879)	(32,149)	(28,334)
Profit for the year	**94,100**	91,744	55,613	67,173	74,857	103,202	99,509	89,315	80,401	69,521
Dividends	**52,287**	48,288	45,218	43,876	43,765	42,702	38,735	33,924	49,534	35,912
Dividends per share	**6.2p**	5.9p	5.4p	5.1p	5.1p	5.0p	4.8p	4.3p	3.7p	3.3p
Basic EPS	**10.8p**	10.5p	6.4p	7.7p	8.6p	11.9p	11.5p	10.3p	9.3p	8.1p
Adjusted* EPS	**13.0p**	12.6p	10.6p	10.0p	10.4p	13.2p	12.5p	10.9p	9.6p	8.2p
Diluted EPS	**10.8p**	10.5p	6.4p	7.7p	8.6p	11.9p	11.4p	10.3p	9.3p	8.0p

* 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	2,700	75.5	22,117,855	2.5
Bank or nominees	813	22.7	844,148,714	96.8
Other company	35	1.0	4,429,292	0.5
Other corporate body	28	0.8	1,856,050	0.2
	3,576	**100.0**	**872,551,911**	**100.0**

Range	Number of holdings	%	Number of shares	%
1-1,000	1,041	29.1	427,238	0.1
1,001-2,000	429	12.0	646,469	0.1
2,001-5,000	628	17.6	2,098,601	0.2
5,001-10,000	411	11.5	2,977,231	0.3
10,001-50,000	588	16.4	12,923,200	1.5
50,001-100,000	127	3.6	9,366,008	1.1
100,001 +	352	9.8	844,113,164	96.7
	3,576	**100.0**	**872,551,911**	**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)
2019	2.30	3.90	6.20
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

Financial calendar

3 March 2020	Preliminary announcement of annual results for 2019
9 April 2020	Ex-dividend date for final proposed 2019 dividend
14 April 2020	Record date for final proposed 2019 dividend
24 April 2020	Announcement of trading update
24 April 2020	Annual General Meeting held at Bailbrook House Hotel, Eveleigh Avenue, London Road, Bath, BA1 7JD
4 August 2020	Announcement of interim financial results for 2020

Corporate directory

Company Secretary
Helen Barrett-Hague

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