

Tuesday 28th February 2023



Rotork plc
2022 Preliminary Results

Strong growth, expecting a year of further progress

Adjusted highlights	2022	2021	% change	OCC ³ % change
Order intake ¹	£681.6m	£614.1m	+11.0%	+6.8%
Revenue	£641.8m	£569.2m	+12.8%	+8.4%
Adjusted ² operating profit	£143.2m	£128.1m	+11.8%	+6.2%
Adjusted ² operating margin	22.3%	22.5%	-20bps	-40bps
Adjusted ² basic earnings per share	12.7p	11.3p	+13.2%	+7.5%
Cash conversion ⁴	76%	108%	-	-

Reported highlights	2022	2021	% change
Revenue	£641.8m	£569.2m	+12.8%
Operating profit	£123.6m	£105.7m	+16.9%
Operating margin	19.3%	18.6%	+70bps
Profit before tax	£124.1m	£105.9m	+17.2%
Basic earnings per share	10.9p	9.2p	+17.6%
Full year dividend	6.70p	6.40p	+4.7%

Summary

- Group order intake increased 11.0% year-on-year with selling prices and volumes higher. Fourth quarter orders rose high single-digits year-on-year on an OCC basis
- Successful supply chain improvement measures reduced disruption through the year
- Revenue increased 12.8%, benefiting from the second half's strong recovery in deliveries
- Adjusted operating margins recovered strongly in the second half and full year margins were 20bps lower at 22.3%. The reported operating margin was 19.3%
- Price and volume successfully offset cost inflation and partially funded investments
- We launched our Growth+ strategy which is designed to deliver our ambition of mid to high single-digit revenue growth and mid 20s adjusted operating profit margins over time
- Closing net cash £105.9m (December 2021: £114.1m). ROCE⁴ 31.3% (up 120bps)

Kiet Huynh, Chief Executive, commenting on the results, said:

"I am pleased to report a resumption of organic sales growth and a strong second half performance as expected. This was particularly encouraging given 2022's highly challenging backdrop which included significant supply chain disruption and a resurgence in inflation.

The outlook for our end markets is positive and we entered the year with a record opening order book. Our new Growth+ strategy has momentum and we are already seeing early benefits from our focus on our strategy pillars of Target Segments, Customer Value and Innovative Products & Services. Whilst mindful of the uncertain economic outlook, we expect a year of further progress in 2023."

¹ Order intake represents the value of orders received during the period.

² Adjusted⁴ figures exclude the amortisation of acquired intangible assets and other adjustments (see note 4).

³ OCC⁴ is organic constant currency results restated at 2021 exchange rates.

⁴ Adjusted figures, organic constant currency ('OCC') figures, cash conversion and ROCE are alternative performance measures and are used consistently throughout these results. They are defined in full and reconciled to the statutory measures in note 2.

Rotork plc

Tel: +44 (0)1225 733 200

Kiet Huynh, Chief Executive

Jonathan Davis, Finance Director

Andrew Carter, Investor Relations Director

FTI Consulting

Tel: + 44 (0)20 3727 1340

Nick Hasell / Susanne Yule

There will be a meeting for analysts and institutional investors at 8.30am GMT today in the Library at the offices of JPMorgan Cazenove, 60 Victoria Embankment, London EC4Y 0JP. The presentation will also be webcast, with access via <https://www.investis-live.com/rotork/63cec7fd4aa86d1500117bdd/kwqe>. Please join the webcast a few minutes before 8.30am to complete registration.

Summary

Purpose

Our Purpose and sustainability vision are one and the same: keeping the world flowing for future generations. We want to help drive the transition to a clean future where environmental resources are used responsibly. We have a major role to play in new energies and technologies that will support the transition to a low carbon economy, as well as helping preserve natural resources such as fresh water and eliminating energy sector methane emissions.

Business performance

Group order intake increased 11.0% year-on-year (6.8% on an organic constant currency or OCC basis) to £681.6m. OCC order growth resumed in the fourth quarter with orders having fallen modestly in the third quarter reflecting the strength of the prior year period. All three divisions booked higher orders for the full year, with Chemical, Process & Industrial ('CPI') and Oil & Gas strongly ahead. Our customers continue to spend on automation and environmental projects as well as maintenance and upgrade activities.

In response to the component cost inflation experienced during the year we raised prices twice in 2022. We are all too aware of the challenge of out-of-cycle price rises to customers and the increases implemented were carefully designed to cover the higher costs we experienced.

Our operational teams performed well in what continued to be a difficult period, especially in the first half. As we reported on 29 April 2022, our important Shanghai facility was closed in mid-April in accordance with local COVID-19 lockdown rules. The facility resumed full production in June and made excellent progress delivering delayed shipments to customers. Towards the end of the first half we started to see the benefit of the supply chain improvement measures we had implemented over the prior twelve months. These initiatives included direct purchasing and forward buying of semiconductors, re-certification and re-engineering of products, securing of contracted logistics routes and tactical inventory build.

Group revenue was 12.8% higher year-on-year (8.4% higher OCC), benefiting from higher price realisation and as expected a strong recovery in deliveries in the second half. Oil & Gas sales rose 8.9% (4.9% OCC), driven by a strong recovery in the Americas and the upstream and increased methane emissions reduction activity. CPI sales were 23.6% ahead (19.6% OCC), with Asia Pacific strong but all major geographic regions growing. Water & Power sales were up 7.8% (2.4% OCC), with good growth in the water segment offset by a decline in power.

By geography, Asia Pacific revenues by destination grew mid-single digits year-on-year on an OCC basis driven by a strong CPI performance. Europe, Middle East & Africa ('EMEA') sales grew mid-single digits (OCC), despite our exit from Russia, a high single-digits headwind for the region. Americas revenues were high teens ahead (OCC) driven by Oil & Gas but with all divisions contributing to growth in the region.

Rotork Site Services, our global service network and a key differentiator in our industry, performed well with revenues growing faster than the group overall. Our Lifetime Management and Reliability Services programmes have good momentum, as does our Intelligent Asset Management predictive analytics system. Rotork Site Services is managed as a separate unit within our divisions and contributed 21% of Group sales (2021: 21%).

Adjusted operating profit was 11.8% higher year-on-year (6.2% higher OCC) at £143.2m, reflecting higher volumes, price increases and higher component costs, particularly in respect of chipsets. Adjusted operating margins recovered strongly in the second half although not sufficiently to fully offset the first half margin decline and initial Growth+ related investment. The latter included headcount, travel and marketing. Full year margins were 20bps lower at 22.3% and statutory profit before tax was £124.1m.

Our Eco-transition portfolio of products and services that have particular environmental or sustainability benefits, or which enable the energy transition and decarbonisation, consists of three sub-portfolios: 'water & waste water';

'methane emissions reduction' and 'new energies & technologies'. Water & waste water and methane emissions reduction sales grew faster than the group year-on-year in 2022, however new energies & technologies sales fell due to the non-repeat of waste-to-energy projects completed in 2021. Overall, Eco-transition sales grew 10.0% year-on-year in 2022.

Return on capital employed was 31.3% (2021: 30.1%), benefiting from a greater increase in adjusted operating profit than the increase in capital employed. Cash conversion was 76% (2021: 108%) with the reduction expected and in large part due to the delivery acceleration in the final months of the period. Our balance sheet remains strong, with a net cash position of £105.9m at the period end.

Market update

The events in Ukraine have necessitated a reconsideration of energy security risks globally. A major change in approach is underway, with countries looking to reduce their dependence on energy imported from unpredictable countries (such as, but not only, Russia). The events may have caused the shift to renewable energies to accelerate but they have also strengthened the activity in traditional energy as additional investment is required to facilitate a secure energy transition. One area expected to see significant investment is liquified natural gas (LNG) which was already seen as an essential transition fuel but now also as a means of helping provide energy security.

An important example of an initiative to drive investment into the energy sector is the United States' Inflation Reduction Act. This promotes amongst other things investments targeting the reduction of methane emissions in the energy sector as well as investment in hydrogen production and carbon capture, utilisation and storage ('CCUS'). Rotork is well placed to benefit from investment in these areas.

The outlook for the water and waste water sector remains positive with increasing investment in new and existing infrastructure. The sector is focused on delivering water availability, improving water quality and reducing leakage. Automation and digitalisation in this sector are important mega trends benefiting Rotork. The Inflation Reduction Act includes significant funding for water quality.

The lifting of China's COVID-19 restrictions and the reopening of the country's economy has the potential to boost activity in this important region and is expected to be positive for global economic growth.

Growth+ strategy launch

In November we presented our new Growth+ strategy at our Capital Markets Event held in London. The starting point of Growth+ is our Purpose, 'keeping the world flowing for future generations'. Our Purpose is unchanged. It remains a powerful motivator, and it drives everything we do. It recognises the important part that we play in making our world a great place in which to live, but also the role we can play helping improve the safety, environmental and social performances of not just ourselves, but also of our end users, customers, suppliers and communities.

Our vision is for Rotork to be the leader in intelligent flow control. This recognises the ever-increasing importance of connectivity to our end users. Today's intelligent flow control systems not only ensure safety, they are also reliable, efficient and easy to use and play a vital role in ensuring the uptime of our end users' operations (including through predictive and preventative maintenance).

Growth+ is designed to deliver our ambition of mid to high single-digit revenue growth and mid 20s adjusted operating profits over time. The levers are its three pillars of Target Segments, Customer Value and Innovative Products & Services, each underpinned by our 'Enabling a Sustainable Future' initiative. It builds on the great work completed under the Growth Acceleration Programme which has embedded strong foundations into the business and moves us on to the next leg of our journey.

To facilitate the delivery of Growth+ we have revisited certain aspects of our organisational structure. Our revised structure aims to foster increased collaboration, whilst eliminating complexity and driving efficiencies.

Operational responsibility for our manufacturing facilities is now managed by the divisional teams whilst a centralised operations excellence team manages quality, supply chain and health and safety. We have also created a new senior role, Business Transformation Director. This Director is responsible for executing the change programmes within the Growth+ strategy and further developing our end-to-end business processes. Additionally, we have recruited a Chief Technology Officer to deliver our new product development and manage and co-ordinate our approach to innovation.

We have already seen early benefits from our focus on target segments. In methane emissions reduction we have made encouraging early progress with our solutions positively received by the market. We are also making good progress in carbon capture, usage & storage with Rotork products selected for the world's first open-source CO2 transport and storage infrastructure in Norway. In wastewater treatment, another target segment, we have had success winning plant modernisation and improvement projects across the world.

We are also making good progress on our Customer Value initiative, which is about putting the customer at the forefront of everything we do. One example is our 'Achieving Customer Excellence' ('ACE') pilot. Through ACE we have reduced product lead times to two weeks (from 16 weeks previously) at two European plants. We plan to roll-out ACE to other plants over the next several years.

During 2022 significant engineering resource was allocated to re-engineering and re-certifying product ranges impacted by reduced semi-conductor activity. Alongside this essential work we continued to innovate and develop new products and solutions aligned with our chosen target segments and key drivers automation, electrification and digitalisation. During the period we launched five new products as well as important enhancements to Intelligent Asset Management ('iAM'), our condition monitoring and analytics software.

Environmental performance

Sustainability is a major focus for everyone at Rotork. Whilst the impact we have enabling our customers to improve their environmental performance likely far exceeds our own environmental footprint, the latter is no less important. We emitted 11.3 tCO2e per £1m of revenue based on location-based calculations which is a reduction compared to 2021 of 21%.

Following the announcement of our Net Zero targets a year ago, we were pleased to receive approval from the Science Based Targets initiative for our near-term greenhouse gas ('GHG') emission targets. Rotork was one of the first UK-based companies in our sector to receive approval for near-term 1.5°C aligned targets. Underlining the importance that we attach to achieving our Net Zero targets, we are proposing the inclusion of scopes 1 and 2 greenhouse gas reduction targets into our senior team's long-term remuneration opportunity starting 2023.

Our validated near-term targets are:

- to reduce our absolute scope 1 and 2 GHG emissions 42% by 2030 from a 2020 base year
- to reduce our absolute scope 3 GHG emissions from use of sold products 25% by 2030 from a 2020 base year
- that 25% of our suppliers by emissions covering purchased goods and services will have science-based targets by 2027

We are targeting Net Zero by 2035 for scopes 1 and 2 and by 2045 for scope 3.

We made further progress in implementing the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD'), including our work to quantify the potential impacts of climate risks and opportunities.

Whilst the Rotork team derives great motivation through its Purpose of 'keeping the world flowing for future generations', it is also pleasing to be recognised by external agencies. We were particularly proud to be ranked by S&P Global in the top 5% globally in the Machinery & Electrical Equipment industry in its highly-regarded Corporate Sustainability Assessment and included in the 2023 Sustainability Yearbook.

Health & safety

The safety of our people, partners and visitors is our number one priority and our vision for health and safety is zero harm. In 2022 we recorded a lost-time injury rate of 0.13, an encouraging improvement on 2021's 0.20, in part reflecting the roll-out of the 'Rotork Life Saving Rules'. Our Total Recordable Injury Rate was 0.53 (2021: 0.56).

Wellbeing and engagement

A knock-on effect of the invasion of Ukraine and of economies emerging from the pandemic has been significant consumer price inflation, particularly of essentials such as energy and food. We responded to the 'cost of living crisis' by announcing an employee benefits review, the result of which included additional support for colleagues in more junior roles and bringing forward salary increases.

We launched our first employee discount scheme (in the UK) and based upon its success we are looking to launch similar schemes in other countries. We also introduced electric-vehicle salary sacrifice schemes in several countries, helping colleagues to benefit from local financial incentives intending to accelerate the take-up of pure electric and hybrid vehicles.

Rotork also provided short-term financial help to employees and ex-employees facing hardship through Rotork Benevolent Support. The scheme made more grants in 2022 than it did in 2021.

We completed two employee engagement pulse surveys during the year, one in June and one in December. Participation was good in both, at 75%. The engagement survey asks employees to rate Rotork as a place to work between 1-10, where 10 is good. Engagement continues to improve, with the score increasing to 7.2 in December 2022, from 6.7 in June and 6.4 the year before. We believe that the effective communication of our Growth+ strategy and cost of living actions have helped to improve our scores.

We have a committed workforce who are proud to be Rotork employees and determined to deliver on our ambitious goals. We offer our warmest thanks and appreciation for all their efforts throughout 2022.

Capital allocation

We retain a strong balance sheet, with a net cash position of £105.9m at the period end (31 December 2021: £114.1m). This provides us with optionality in uncertain times and the financial flexibility to pursue our organic investment plans, pay a progressive dividend and execute our targeted M&A strategy. We regularly review our capital needs in line with our capital allocation strategy, and have demonstrated discipline and flexibility in our use of buybacks and dividends to deliver returns for shareholders. In the event that in the future we determine we have surplus cash, we will continue to look to return it to shareholders.

Board update

On behalf of everyone at Rotork I would like to offer our thanks to Martin Lamb who will be stepping down as Chairman and from the Board at the AGM in April 2023 after nine years of service. Martin has provided excellent stewardship and overseen significant development of the Group. We all very much look forward to working with his successor as Chair, Dorothy Thompson CBE.

Outlook

The outlook for our end markets is positive and we entered the year with a record opening order book. Our new Growth+ strategy has momentum and we are already seeing early benefits from our focus on our strategy pillars of Target Segments, Customer Value and Innovative Products & Services. Whilst mindful of the uncertain economic outlook, we expect a year of further progress in 2023.

Divisional review

Oil & Gas

£m	2022	2021	Change	OCC ³ Change
Revenue	283.3	260.2	8.9%	4.9%
Adjusted operating profit	64.0	56.3	13.5%	8.3%
Adjusted operating margin	22.6%	21.7%	+90bps	+70bps

The increase in oil & gas sector activity first experienced in the second half of 2021 continued through the year. Industry capital expenditure grew, with the strongest recovery in the upstream segment and in North America. Natural gas production rose, responding to the restrictions placed on Russian gas exports. Productivity and emissions reduction related spending grew. Looking forward, China's reopening is forecast to be positive for global oil & gas demand.

Following a challenging first half where deliveries were restricted by supply chain challenges the second half saw a strong recovery and full year divisional sales were ahead 4.9% year-on-year (OCC). All segments grew and downstream sales represented 50% of the total (51% in 2021); the upstream 25% (24%) and the midstream 25% (25%).

EMEA sales were broadly unchanged year-on-year, largely reflecting the exit from Russia. Downstream sales were higher, benefiting from refinery work in the Middle East and North Africa, whilst upstream and midstream revenues were lower. APAC revenues declined overall despite strong growth in the small upstream segment which benefited from offshore projects in China and gas field developments in Australia. Americas benefited from recovering markets as well as methane emissions reduction initiatives and was the division's fastest growing geographic region in 2022. All three Americas segments grew, with the midstream reporting the fastest growth benefiting from increased MRO activity.

The division's adjusted operating profit was £64.0m, 13.5% up year-on-year. Positive pricing plus volume growth contained the impact of higher material costs, with product mix in the division less weighted to those ranges where price increases were most significant (due to higher electronic component content). With improved labour productivity and other costs broadly flat, adjusted operating margins rose 90 basis points to 22.6%.

Oil & Gas' focus on target segments delivered notable order wins in emissions reduction, CCUS and LNG during the period. Demand from choke valve manufacturers for the Rotork IQTF electric actuator grew strongly year-on-year as North American upstream operators sought to eliminate methane emissions from new and existing wellheads. The division also supplied electric actuators, which will replace methane emitting traditional 'gas over oil' fluid power actuators, to pipeline operators in France, Italy and Spain. The division is supplying over a hundred intelligent actuators to China's first offshore carbon capture and storage project. Once commissioned this will store each year the carbon dioxide equivalent to the annual emissions of one million cars. In the LNG segment we won several important actuation package orders including a major Gulf of Mexico stage 3 expansion project.

Chemical, Process & Industrial (“CPI”)

£m	2022	2021	Change	OCC³ Change
Revenue	198.4	160.5	23.6%	19.6%
Adjusted operating profit	51.2	42.8	19.7%	15.2%
Adjusted operating margin	25.8%	26.7%	-90bps	-100bps

CPI is a supplier of specialist actuators and instruments for niche applications in the broad chemical, process industry and industrial sectors. The division serves a broader range of end markets than Rotork’s other divisions.

The division delivered a strong full year sales performance with revenues 19.6% higher year-on-year on an OCC basis after a slow start caused by supply chain disruption.

Asia Pacific was the CPI division’s fastest growing geography overall, despite COVID-19 related supply chain disruption, benefiting from our coverage expansion initiative and growth in target segments including HVAC, chemicals and mining. In EMEA, sales growth accelerated in the second half after a slow start to the year, resulting in full year revenue growth in the low teens despite the loss of Russian business. Americas sales grew mid-teens. Sales benefited from customer value improvements and business wins in the mining, HVAC and marine end markets.

The division’s adjusted operating profit was £51.2m, 19.7% higher than the prior year. The combination of very strong volume growth plus pricing meant CPI was the fastest growing division but this increases its share of common costs. As a result of this, and despite gross margins being held close to prior year levels, adjusted operating margin fell 90 basis points to 25.8%.

CPI is clearly benefiting from the pursuit of its chosen Growth+ target segments such as decarbonisation (hydrogen and carbon capture, usage and storage), chemicals, HVAC (semi-conductor, lithium-ion battery and data centre) and mining. Electric actuators were selected for the first-of-its-kind Northern Lights carbon capture and storage project in Norway. The customer chose Rotork’s robust, safe and reliable actuators due to their prior experience of them in the oil & gas offshore environment. Rotork’s pneumatic actuators were chosen by innovative European and Asian automotive battery manufacturers for use on their battery production lines and as part of water and heating systems. Rotork’s IQ electric actuators have also been selected by the largest manufacturer of high performance resin films in China. These resin films (POE and EVA) are used in photovoltaic solar panels and the customer has ambitious growth plans.

Water & Power

£m	2022	2021	Change	OCC ³ Change
Revenue	160.2	148.6	7.8%	2.4%
Adjusted operating profit	40.3	40.4	-0.3%	-6.2%
Adjusted operating margin	25.2%	27.2%	-200bps	-220bps

Water & Power is a supplier of premium actuators, predominantly electric, and gearboxes for applications in the water, wastewater and treatment and power generation sectors. The water segment contributed 67% of divisional sales in the year.

Following a challenging first half where deliveries were restricted by supply chain disruption the second half saw a strong recovery and full year divisional sales were ahead 7.8% year-on-year.

Despite a strong second half recovery, Asia Pacific sales were lower year-on-year as a result of supply chain issues and reduced power sector activity. Americas sales grew year-on-year driven by higher water sector activity. EMEA was Water & Power's fastest growing geographic region in 2022. The region benefited from a strong second half and higher power station refurbishment revenues year-on-year.

The division's adjusted operating profit was £40.3m, 0.3% lower year on year. The impact of cost increases on electronics and the availability of these components had a disproportionate impact on the division as a result of its higher proportion of electric actuator sales. Second half revenue grew sharply but with the slower first half, and despite other costs only growing modestly, adjusted operating margins fell 200 basis points to 25.2%.

The division made good progress in its target segments of water infrastructure, waste and wastewater treatment, desalination and alternative energy during the year. Rotork supplied electric and fluid power actuators to numbers of wastewater treatment modernisation and improvement projects around the world which will provide better quality water more efficiently, including ones in Singapore and Texas (US). In Malaysia, Rotork's IQ electric actuators were selected to replace existing ageing, and increasingly unreliable, actuators that provide flood defence across the country. The solution includes Rotork iAM (intelligent asset management) for diagnostics and predictive analytics. Rotork colleagues worked with the innovation team at a major UK water utility exploring ways to automate the 'flushing' of the utility's water sample-taking equipment. The solution is currently being trialled at multiple sites.

By order of the Board

Kiet Huynh

Chief Executive

27 February 2023

Financial review

Order intake for the year was £681.6m (2021: £614.1m), up 11.0% from the prior year or 6.8% on an organic constant currency (OCC) basis. Order intake was split evenly between the first and second half of the year.

Group revenue was £641.8m for the year, 12.8% higher (+8.4% OCC) than 2021. Revenue for the second half of the year was £361.8m, which was 29.2% higher than the first half of the year, as expected. The first half of 2022 was impacted by supply chain constraints, in particular the sourcing of components such as chipsets and electronics and disrupted freight services, which had started in the second half of 2021. Revenue grew in all three divisions with CPI once again reporting the strongest year-on-year growth. CPI finished the year 23.6% ahead (+19.6% OCC), Oil & Gas (O&G) grew 8.9% (+4.9% OCC) and Water & Power (W&P) grew 7.8% (+2.4% OCC) but having been most impacted by the supply chain challenges in the first half, reported the strongest sequential growth, up 46.8% in the second half of the year. Within O&G, upstream sales increased the most, up low-double digits OCC, sales to midstream were up mid-single digits OCC and downstream, still the largest segment, increased low-single digits OCC.

Rotork Site Services, our global service network and a key differentiator in our industry, again made good progress in the year growing 13.3% compared with 2021. Performance in the second half of the year was considerably stronger than the first as both COVID-19 restrictions eased and the improved supply chain situation allowed more retrofit projects to proceed. Revenue was 9.5% ahead of 2021 on an OCC basis and our lifetime management and reliability services programmes performed well. Rotork Site Services is managed as a separate unit within Rotork's divisions and contributed 21% (2021: 21%) of Group revenue.

Gross margin reduced 70 basis points to 45.5% (-60bps OCC). Cost increases relating to components, most acute for chipsets and electronics but experienced in many components, were successfully mitigated by price increases. Sales prices were increased twice in the year. Elevated logistics costs continued to be offset by the surcharge introduced in 2021.

Overheads increased by £10.4m (+7.8%) on an OCC basis compared with 2021, driven by wage inflation (which continues into 2023), an increase in global travel as restrictions ease, and investment in commercial activities. Overheads as a percentage of revenue decreased from 23.7% in 2021 to 23.1% in 2022.

Reported operating profit was £123.6m, 16.9% higher year on year. Adjusted operating profit was £143.2m, an 11.8% increase with adjusted operating margin decreasing 20 basis points to 22.3% (2021: 22.5%). On an OCC basis, adjusted operating margin decreased 40 basis points to 22.1%.

Net finance income was £0.5m (2021: income of £0.2m) benefiting from more favourable interest rates.

Statutory profit before tax was £124.1m, up from £105.9m in 2021.

Adjusted basic earnings per share was 12.7p (2021: 11.3p), an increase of 13.2%. Statutory basic earnings per share was 10.9p (2021: 9.2p), an increase of 17.6%.

Growth Acceleration Programme

2022 marked the final year of the Growth Acceleration Programme (GAP) which delivered a fundamentally leaner and stronger Group aligned with its end markets and well placed to deliver profitable growth.

Within the Operational Excellence pillar of GAP, the focus was on managing our factories through the continued impact of COVID-19 and the geo-political situation, and this meant efforts that might otherwise have been spent on driving GAP initiatives needed to be redirected. The procurement team had to prioritise managing our existing supply chain to ensure we maintained the supply of components required to meet customer deliveries. This impacted the time available to drive improvements and cost saving initiatives. Continuous improvement and lean initiatives continued, delivering around £2.2m of savings in the year. The footprint optimisation programme continued with the completion of the initiatives at the Houston, San Sebastian and Cusago sites. The in-year benefit

of these transfers, and those completed part-way through 2021, was £1.9m of incremental savings. New product development continued to contribute positively to the Group, with £2.4m of benefits recognised in 2022.

Reflecting on the five years of GAP there are areas of notable success and some where our initial objectives have not been fully achieved. Revenue growth has been hard to achieve in recent years, as a result of business exits (including in response to geopolitical events), COVID-19 and supply chain challenges, and revenue is now very similar to the level it was in 2017. Despite that, adjusted operating margin has improved 200 basis points through a combination of footprint optimisation, lean and productivity improvements and despite a supply chain which, rather than reflecting the improvements of the early years of GAP, ended up as a net headwind. Cumulatively GAP has driven £30m of profit improvement. Return on capital employed has increased 640 basis points to 31.3% over the course of GAP, reflecting both the profitability improvements and footprint optimisation impact on net assets.

Cash was the other focus area of GAP as we sought to make it a self-funding programme. In the first four years the programme generated a £40m working capital reduction but the much higher weighting of revenue in the last quarter of 2022 and the tactical inventory build has reduced this benefit to £4m (further explanation below). Combined with the cash resulting from higher profitability and disposal of surplus assets this has broadly funded the investment in the ERP system to date.

Finally, GAP led a fundamental change of our divisional structure and the focus on end market rather than product divisions. In November we launched the Group's new strategy, Growth+, which builds upon the progress made under GAP. Growth+ is specifically designed to deliver profitable growth by targeting the right end market segments, being close to our customers and delivering innovation.

Adjusted items

Adjusted profit measures are presented alongside statutory results as we believe they provide a useful comparison of underlying business trends and performance from one period to the next. The Group believes alternative performance measures, which are not considered to be a substitute for, or superior to, IFRS measures, provide stakeholders with additional helpful information on the performance of the business.

The statutory profit measures are adjusted to exclude amortisation of acquired intangibles, the net restructuring costs resulting from GAP, IT transformation costs associated with the new ERP development, Russia market exit costs 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.

Adjusted earnings reconciliation

£m	Statutory results	Amortisation	Gain on property disposal	IT transformation costs	Redundancy and other restructuring costs	Russia market exit	Adjusted results
Operating profit	123.6	7.0	(1.2)	8.9	1.4	3.5	143.2
Profit before tax	124.1	7.0	(1.2)	8.9	1.4	3.5	143.7
Tax	(30.9)	(1.1)	0.4	(2.2)	(0.5)	-	(34.3)
Profit after tax	93.2	5.9	(0.8)	6.7	0.9	3.5	109.4

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 constant currency results

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

£m		2022 as reported	Constant currency adjustment		2022 at 2021 exchange rates		2021
Revenue		641.8	(25.0)		616.8		569.2
Cost of sales		(350.1)	14.4		(335.7)		(306.4)
Gross profit	45.5%	291.7	(10.6)	45.6%	281.1	46.2%	262.8
Overheads	23.1%	(148.5)	3.4	23.5%	(145.1)	23.7%	(134.7)
Adjusted operating profit ¹	22.3%	143.2	(7.2)	22.1%	136.0	22.5%	128.1

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

Currency

In 2022 we experienced a more pronounced currency impact than for several years. The major currencies affecting the income statement are the US dollar and the euro. The US dollar/sterling average rate of \$1.24 (2021: \$1.38) was a 14-cent tailwind, whilst the euro/sterling average rate was €1.17 (2021: €1.16), a 1 cent headwind. With the average sterling rate across the basket of other currencies, particularly China and India, strengthening in 2022 it resulted in a £25.0m or 3.9% tailwind reported to revenue.

The impact of currency on the Group is both translational and transactional. Given the locations in which we operate and the international nature of our supply chain and sales currencies, the impact of transaction settlement 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 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 net 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 one cent movement versus sterling. A one euro cent movement now results in approximately a £150,000 (2021: £200,000) adjustment to profit and for the US dollar, and dollar-related currencies, a one cent movement equates to approximately a £550,000 (2021: £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 increased 7.8% over the year to £458.0m, driven largely by the profit for the year and foreign exchange translation gains. Due to the increase in adjusted operating profit, ROCE rose to 31.3% (2021: 30.1%).

Taxation

The Group's headline effective tax rate increased from 24.2% to 24.9%. Removing the impact of the adjusted items provides a more reliable measure and, on this basis, the adjusted effective tax rate is 23.9% (2021: 23.8%). The Group expects its adjusted effective tax rate to remain higher than the standard UK rate due to higher rates of tax in China, Germany, Australia and the US.

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

We finished the year with a net cash position of £105.9m (2021: £114.1m) which leads to a cash conversion KPI of 75.9% of adjusted operating profit into cash, down from 108.0% reported in 2021. The lower cash conversion is explained by the tactical decision to build inventory levels to protect against further supply chain disruption and the high relative weighting of revenue in the final months of the year where the cash will be collected in 2023. Capital expenditure was £8.3m (2021: £13.2m), plus £2.1m in capitalised software (2021: £5.2m) and £8.9m in IT software transformation costs which were expensed in the period (2021: £8.5m). Our Research and Development (R&D) cash spend increased 6.4% to £13.4m which represents 2.1% of revenue (2021: £12.6m and 2.2%). Dividends of £55.4m, tax payments of £30.2m and pension contributions (above the charge recognised in the income statement) of £7.0m were the other major outflows excluding working capital.

Control of working capital as defined in the cash-flow statement, using average exchange rates, is key to achieving our cash generation KPI. Inventory increased by £23.9m, as we sought to mitigate supply chain disruption. Trade receivables increased to £134.3m reflecting the relative high weighting of sales in the final months of the year, this led to an effective cash outflow of £32.6m. Trade receivables measured as days' sales outstanding¹, only increased slightly from 57 to 58 days. Net working capital in the balance sheet increased to 28.7% of revenue compared with 21.8% the year before and generated a £60.4m outflow in the cash flow statement.

COVID-19 disruption and geopolitical risk

We have previously reported COVID-19 and geopolitical uncertainty as two areas of risk that we were monitoring, and which could impact Rotork. These mirror some of the scenarios we include in our annual viability statement which will be published in our 2022 annual report. Our COVID-19 Committee continued to monitor the external influences of COVID-19 on the business through the year, and also coordinate the internal response.

Our teams in certain countries, especially China, were impacted by COVID-19 during the year. Whilst we made every effort to keep our production facilities open, we did not hesitate to shut them if we believed there was any undue risk to our colleagues, and our Shanghai facilities were closed or operating at limited capacity at times during the year. Similar issues were also faced by some of our component suppliers, causing supply chain delays and disruption. Supply chain delays and disruption were further compounded by the impact from the war in Ukraine. We have responded by utilising our global network to mitigate supply chain disruption and have continued to grow some tactical inventories where appropriate. During the second half of the year, we started to see evidence of the supply chain stabilising and upward pressure on component costs easing.

Deliveries to Russia ceased at the end of February 2022. Rotork had no manufacturing presence in Russia and has suspended the activities of its sales and service operations in the country in an orderly manner. A small number of employees are currently retained to manage the process of exiting the business. The Russia, Ukraine and Belarus region contributed around 3% to group sales in 2021. The costs associated with exiting the Russian market and impairing the assets have been recognised in other adjustments in the year.

As a global business we continue to monitor the trade position between all locations where we are based or have customers or suppliers, and have considered the potential impact of additional trade barriers between these countries. We will take steps where necessary to mitigate any such changes but continue to believe they will not materially impact the Group's results. We have included scenarios in the viability assessment which model the impact of all of these current uncertainties. The viability statement will be published in our 2022 annual report.

Non-controlling interest

The Group invested £4.1m for 75% of the share capital in a newly-established entity in Saudi Arabia during April 2022, with the remaining 25% owned by a third party. Owing to this third-party shareholding, a "Non-controlling interests" position is now reported in the financial statements.

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 me 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 of 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 net forecast flows. The Board receives treasury reports which summarise the Group's foreign currency hedging position, distribution of cash balances and any significant changes to banking relationships.

The £60m committed loan facility in place on 31 December 2021 expired on 25 June 2022 and the Group decided not to renew the facility past this date given the strong cash position. Of the £60m loan facility £nil was drawn down at 31 December 2021.

Retirement benefits

The Group accounts for post-retirement benefits in accordance with IAS 19, Employee Benefits. The balance sheet reflects the net assets of these schemes at 31 December 2022 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 2019 and showed an actuarial deficit of £28.7m and a funding level of 86%. A recovery plan was agreed with the Trustees as part of the 2019 valuation, resulting in required annual contributions from the Company of £6.8m with effect from 1 April 2020. The 31 March 2022 valuation is ongoing.

On an accounting basis the deficit in the schemes remained broadly flat at £8.0m compared to £7.6m in 2021 and the funding level decreased from 97% to 94%. The Company paid total contributions of £6.8m over the year. The schemes' assets decreased in value by £89.1m (2021: increase of £11.1m) and the schemes' liabilities reduced by £88.7m (2021: decrease of £13.9m), mainly due to the 285 bps increase in discount rate at the year-end to 4.8%, which reflected the increase in yields on AA corporate bonds during 2022.

The accounting deficit is different to the actuarial deficit as on an accounting basis we are required to use AA-rated corporate bond yields to value the liabilities. The UK scheme's 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 final dividend of 4.30p per share. When taken together with the 2.40p interim dividend paid in September 2022, the 6.70p (2021: 6.40p per share) represents a 4.7% increase in dividends over the prior year. This gives dividend cover of 1.9 times (2021: 1.8 times) based on adjusted earnings per share.

Jonathan Davis

Group Finance Director

27 February 2023

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

Consolidated income statement

For the year ended 31 December 2022

	Notes	2022 £000	2021 £000
Revenue	3	641,812	569,160
Cost of sales		(350,079)	(306,394)
Gross profit		291,733	262,766
Other income		1,620	587
Distribution costs		(6,197)	(5,397)
Administrative expenses		(163,177)	(152,064)
Other expenses		(372)	(182)
Operating profit	2,3	123,607	105,710
Finance income	5	3,049	2,442
Finance expense	5	(2,554)	(2,221)
Profit before tax		124,102	105,931
Income tax expense	6	(30,901)	(25,686)
Profit for the year		93,201	80,245
<i>Attributable to:</i>			
Owners of the parent		93,243	80,245
Non-controlling interest		(42)	-
		93,201	80,245
Basic earnings per share	8	10.9p	9.2p
Diluted earnings per share	8	10.8p	9.2p

Operating profit	2,3	123,607	105,710
Adjustments			
- Amortisation of acquired intangible assets	3	7,051	9,001
- Other adjustments	4	12,587	13,369
Adjusted Operating profit		143,245	128,080
Adjusted basic earnings per share	2,8	12.7p	11.3p
Adjusted diluted earnings per share	2,8	12.7p	11.2p

Consolidated statement of comprehensive income

For the year ended 31 December 2022

	2022 £000	2021 £000
Profit for the year	93,201	80,245
Other comprehensive income		
<i>Items that may be subsequently reclassified to the income statement:</i>		
Foreign exchange translation differences	21,928	(8,899)
Effective portion of changes in fair value of cash flow hedges net of tax	(1,627)	(88)
	20,301	(8,987)
<i>Items that are not subsequently reclassified to the income statement:</i>		
Remeasurement (loss)/gain in pension scheme net of tax	(4,932)	19,469
Income and expenses recognised in other comprehensive income	15,369	10,482
Total comprehensive income for the year	108,570	90,727
<i>Attributable to:</i>		
Owners of the parent	108,561	90,727
Non-controlling interest	9	-
	108,570	90,727

Consolidated balance sheet

At 31 December 2022

	Notes	2022 £000	2021 £000
Non-current assets			
Goodwill		228,005	216,778
Intangible assets		20,579	25,722
Property, plant and equipment		78,726	77,798
Derivative financial instruments		74	-
Deferred tax assets		15,965	10,183
Total non-current assets		343,349	330,481
Current assets			
Inventories		92,306	68,447
Trade receivables		134,279	94,189
Current tax		7,877	9,558
Derivative financial instruments		62	1,896
Other receivables		39,112	35,824
Assets classified as held for sale		211	2,884
Cash and cash equivalents		114,770	123,474
Total current assets		388,617	336,272
Total assets		731,966	666,753
Equity			
Issued equity capital	7	4,304	4,302
Share premium		19,959	18,828
Other reserves		32,269	12,019
Retained earnings		531,951	498,931
Equity attributable to owners of the parent		588,483	534,080
Non-controlling interests		1,424	-
Total equity		589,907	534,080
Non-current liabilities			
Interest bearing loans and borrowings		5,405	5,464
Employee benefits	9	11,955	11,336
Deferred tax liabilities		4,028	1,580
Derivative financial instruments		215	106
Provisions		1,439	1,559
Total non-current liabilities		23,042	20,045
Current liabilities			
Interest bearing loans and borrowings		3,431	3,872
Trade payables		42,314	38,800
Employee benefits	9	15,200	14,440
Current tax		11,893	12,226
Derivative financial instruments		2,729	-
Other payables		39,084	37,986
Provisions		4,366	5,304
Total current liabilities		119,017	112,628
Total liabilities		142,059	132,673
Total equity and liabilities		731,996	666,753

These financial statements were approved by the Board of Directors and authorised for issue on 27 February 2023 and were signed on its behalf by:

K Huynh 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	Attributable to Retained owners of the Earnings parent £000		Non- controlling interest £000	Total £000
Balance at 31 December 2020	4,370	16,826	18,374	1,644	916	528,624	570,754	–	570,754
Profit for the year	–	–	–	–	–	80,245	80,245	–	80,245
Other comprehensive income									
Foreign exchange translation differences	–	–	(8,899)	–	–	–	(8,899)	–	(8,899)
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	(109)	–	(109)	–	(109)
Actuarial gain on defined benefit pension plans	–	–	–	–	–	24,040	24,040	–	24,040
Tax on other comprehensive income	–	–	–	–	21	(4,571)	(4,550)	–	(4,550)
Total other comprehensive income	–	–	(8,899)	–	(88)	19,469	10,482	–	10,482
Total comprehensive income	–	–	(8,899)	–	(88)	99,714	90,727	–	90,727
Transactions with owners, recorded directly in equity									
Equity settled share-based payment transactions	–	–	–	–	–	(1,982)	(1,982)	–	(1,982)
Tax on equity settled share-based payment transactions	–	–	–	–	–	633	633	–	633
Share options exercised by employees	4	2,002	–	–	–	–	2,006	–	2,006
Own ordinary shares acquired	–	–	–	–	–	(7,809)	(7,809)	–	(7,809)
Own ordinary shares awarded under share schemes	–	–	–	–	–	5,455	5,455	–	5,455
Share buyback programme	(72)	–	–	72	–	(50,324)	(50,324)	–	(50,324)
Dividends	–	–	–	–	–	(75,380)	(75,380)	–	(75,380)
Balance at 31 December 2021	4,302	18,828	9,475	1,716	828	498,931	534,080	–	534,080
Profit for the year	–	–	–	–	–	93,243	93,243	(42)	93,201
Other comprehensive income									
Foreign exchange translation differences	–	–	21,877	–	–	–	21,877	51	21,928
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	(2,067)	–	(2,067)	–	(2,067)
Actuarial loss on defined benefit pension plans	–	–	–	–	–	(6,727)	(6,727)	–	(6,727)
Tax on other comprehensive income	–	–	–	–	440	1,795	2,235	–	2,235
Total other comprehensive income	–	–	21,877	–	(1,627)	(4,932)	15,318	51	15,369
Total comprehensive income	–	–	21,877	–	(1,627)	88,311	108,561	9	108,570
Non-controlling interest on newly established subsidiary	–	–	–	–	–	–	–	1,415	1,415
Transactions with owners, recorded directly in equity									
Equity settled share-based payment transactions	–	–	–	–	–	1,790	1,790	–	1,790
Tax on equity settled share-based payment transactions	–	–	–	–	–	(987)	(987)	–	(987)
Share options exercised by employees	2	1,131	–	–	–	–	1,133	–	1,133
Own ordinary shares acquired	–	–	–	–	–	(3,475)	(3,475)	–	(3,475)
Own ordinary shares awarded under share schemes	–	–	–	–	–	2,765	2,765	–	2,765
Dividends	–	–	–	–	–	(55,384)	(55,384)	–	(55,384)
Balance at 31 December 2022	4,304	19,959	31,352	1,716	(799)	531,951	588,483	1,424	589,907

Detailed explanations for equity capital, the translation reserve, capital redemption reserve and hedging reserve can be seen in note 7.

Consolidated statement of cash flows

For the year ended 31 December 2022

	Notes	2022 £000	2022 £000	2021 £000	2021 £000
Cash flows from operating activities					
Profit for the year		93,201		80,245	
<i>Adjustments for:</i>					
Amortisation of acquired intangibles		7,051		9,001	
Other adjustments	4	12,587		13,369	
Amortisation of development costs		1,436		1,657	
Depreciation		14,933		15,673	
Equity settled share-based payment expense		4,601		3,333	
Profit on sale of property, plant and equipment		(159)		–	
Finance income		(3,049)		(2,442)	
Finance expense		2,554		2,221	
Income tax expense		30,901		25,686	
		164,056		148,743	
Increase in inventories		(19,479)		(8,330)	
(Increase)/decrease in trade and other receivables		(32,591)		5,944	
(Decrease)/increase in trade and other payables		(2,902)		2,583	
Operating cash flow impact of other adjustments	4	(12,056)		(13,346)	
Difference between pension charge and cash contribution		(6,979)		(7,562)	
Decrease in provisions		(383)		(937)	
Increase/(decrease) in employee benefits		67		(9,632)	
		89,733		117,463	
Income taxes paid		(30,221)		(32,021)	
			59,512		85,442
Net cash flows from operating activities					
Investing activities					
Purchase of property, plant and equipment		(8,291)		(13,170)	
Purchase of intangible assets		(2,066)		(5,174)	
Development costs capitalised		(2,541)		(1,806)	
Sale of property, plant and equipment		4,629		3,808	
Settlement of hedging derivatives		9		4,102	
Interest received		751		857	
			(7,509)		(11,383)
Net cash flows from investing activities					
Financing activities					
Issue of ordinary share capital		1,133		2,006	
Own ordinary shares acquired		(3,475)		(7,809)	
Share buyback programme		–		(50,324)	
Interest paid		(817)		(881)	
Repayment of bank loans		(694)		(67)	
Repayment of lease liabilities		(3,966)		(4,904)	
Dividends paid on ordinary shares		(55,384)		(75,515)	
Receipt from non-controlling interest in newly established subsidiary		1,415		–	
			(61,788)		(137,494)
Net cash flows from financing activities					
Net decrease in cash and cash equivalents					
Cash and cash equivalents at 1 January			123,474		187,204
Effect of exchange rate fluctuations on cash held			1,081		(295)
			114,770		123,474
Cash and cash equivalents at 31 December					

Notes to the Group Financial Statements

For the year ended 31 December 2022

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 2022 comprise the Company and its subsidiaries (together referred to as the Group).

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 in accordance with UK-adopted international accounting standards and in conformity with the requirements of the Companies Act 2006.

New accounting standards and interpretations

A number of amended standards became applicable for the current reporting period. The application of these amendments has not had any material impact on the disclosures, net assets or results of the Group.

New standards and interpretations not yet adopted

Further narrow scope amendments have been issued which are mandatory for periods commencing on or after 1 January 2023. 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 as a footnote to the income statement to provide greater clarity and an enhanced 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 including any associated 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 considered to be significant due to their nature or the expected infrequency of the events giving rise to them.

Going concern

The directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, we continue to adopt the going concern basis in preparing the financial statements.

In forming this view, the on-going impact of COVID-19, supply chain disruption and geo-political instability on the Group has been considered. The directors have reviewed: the current financial position of the Group, which has net cash of £106m and unused uncommitted overdraft facilities of £32m as at the year end; the significant order book, which contains customers spread across different geographic areas and industries; and the trading and cash flow forecasts for the Group. The directors are satisfied that the Group has adequate resources to continue operating as a going concern for the foreseeable future, and that no material uncertainties exist with respect to this assessment. The Group also has a number of mitigating actions that it can take at short notice to preserve cash, for example reduction in capital programmes, dividend deferral and other reductions in discretionary spend.

Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year to 31 December 2022. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. Intra-Group balances and any unrealised gains or losses or income and expenses arising from intra-Group transactions are eliminated in preparing the consolidated financial statements.

Status of this preliminary announcement

The financial information contained in this preliminary announcement does not constitute the Company's statutory accounts for the years ended 31 December 2022 or 2021. Statutory accounts for 2021, which have been prepared in accordance with UK-adopted international accounting standards and in conformity with the requirements of the Companies Act 2006 have been delivered to the registrar of companies. Those for 2022, will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention

by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. Full financial statements for the year ended 31 December 2022 will shortly be available to shareholders, and after adoption at the Annual General Meeting on 28 April 2023 will be delivered to the registrar.

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 provide stakeholders with additional useful information to facilitate greater comparison of the Group's underlying results with prior periods and assessment of trends in financial performance.

The Group believes alternative performance measures, which are not considered to be a substitute for, or superior to, IFRS measures, provide stakeholders with additional helpful information on the performance of the business. These alternative performance measures are consistent with how the business performance is planned and reported within the internal management reporting to the Board. Some of these measures are also used for the purpose of setting remuneration targets.

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 as defined in note 1. 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.

	2022	2021
Profit before tax	124,102	105,931
<i>Adjustments:</i>		
Amortisation of acquired intangible assets	7,051	9,001
Gain on disposal of property	(1,208)	(1,569)
IT transformation costs	8,868	8,493
Redundancy and other restructuring costs	1,372	6,445
Russia market exit	3,555	–
Adjusted profit before tax	143,740	128,301

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 8). Adjusted net profit attributable to ordinary shareholders is calculated as follows:

	2022	2021
Net profit attributable to ordinary shareholders	93,201	80,245
<i>Adjustments:</i>		
Amortisation of acquired intangible assets	7,051	9,001
Gain on disposal of property	(1,208)	(1,569)
IT transformation costs	8,868	8,493
Redundancy and other restructuring costs	1,372	6,445
Russia market exit	3,555	–
Tax effect on adjusted items	(3,440)	(4,785)
Adjusted net profit attributable to ordinary shareholders	109,399	97,830

Adjusted 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 8).

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.

f. Return on capital employed

The return on capital employed ratio is used by management to help ensure that capital is used efficiently.

	2022	2021
Adjusted operating profit	143,245	128,080
Capital employed		
Shareholders' funds	589,907	534,080
Cash and cash equivalents	(114,770)	(123,474)
Interest bearing loans and borrowings	8,836	9,336
Pension deficit net of deferred tax	6,065	6,023
Capital employed	490,038	425,965
Average capital employed	458,002	424,815
Return on capital employed	31.3%	30.1%

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 2022 results are restated at 2021 exchange rates. There are no disposals or acquisitions in 2022.

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

	31 December 2022	Currency adjustment	OCC 31 December 2022
Revenue	641,812	(24,999)	616,813
Cost of sales	(350,079)	14,421	(335,658)
Gross margin	291,733	(10,578)	281,155
Overheads	(148,488)	3,356	(145,132)
Adjusted operating profit	143,245	(7,222)	136,023
Interest	495	(63)	432
Adjusted profit before tax	143,740	(7,285)	136,455
Adjusted taxation	(34,341)	1,740	(32,601)
Adjusted profit after tax	109,399	(5,545)	103,854

i. Cash conversion

Cash conversion is calculated as adjusted operating cash flow as a percentage of adjusted operating profit. It is monitored to illustrate how efficiently adjusted operating profits are converted into cash. Adjusted operating cash flow is calculated as follows:

	2022	2021
Adjusted operating cash flow		
Operating cash flow	89,733	117,463
Operating cash flow impact of other adjustments	12,056	13,346
Difference between pension charge and cash contribution	6,979	7,562
Adjusted operating cash flow	108,768	138,371
Adjusted operating profit	143,245	128,080
Cash conversion	76%	108%

3. OPERATING SEGMENTS

The three identifiable operating segments where the financial and operating performance is reviewed monthly by the chief operating decision maker are as follows:

Oil & Gas

Chemical, Process & Industrial

Water & Power

Each of our customers is allocated to a division. Sales to that customer, along with all directly associated costs of that sale, are reported under the division to which that customer is allocated. Where some of our customers sell into multiple end markets, a lead end market is identified. Sales to these customers will generally be allocated to the lead end market unless the sale is of significance and an alternative end market has been identified, in which case it will be reported under the alternative end market.

For all costs not directly attributed to a sale, these are allocated across the three divisions within each of our businesses. There are some costs that are directly attributable to a division, but most support costs and facility costs are not directly attributable to a division and are generally allocated based on split of revenue. Amortisation of acquired intangible assets is allocated based on the split of revenue of the entity to which the asset relates.

Unallocated expenses comprise corporate expenses.

Geographic analysis

Rotork has a worldwide presence in all three 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:

	Oil & Gas 2022	Chemical, Process & Industrial 2022	Water & Power 2022	Unallocated 2022	Group 2022
Revenue from external customers	283,266	198,355	160,191	–	641,812
Adjusted operating profit*	63,960	51,206	40,293	(12,214)	143,245
Amortisation of acquired intangible assets	(5,063)	(1,410)	(578)	–	(7,051)
Segment result	58,897	49,796	39,715	(12,214)	136,194
Other adjustments					(12,587)
Operating profit					123,607
Net finance income					495
Income tax expense					(30,901)
Profit for the year					93,201

	Oil & Gas 2021	Chemical, Process & Industrial 2021	Water & Power 2021	Unallocated 2021	Group 2021
Revenue from external customers	260,153	160,454	148,553	–	569,160
Adjusted operating profit*	56,342	42,775	40,430	(11,467)	128,080
Amortisation of acquired intangible assets	(6,381)	(1,782)	(838)	–	(9,001)
Segment result	49,961	40,993	39,592	(11,467)	119,079
Other adjustments					(13,369)
Operating profit					105,710
Net finance income					221
Income tax expense					(25,686)
Profit for the year					80,245

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

	Oil & Gas 2022	Chemical, Process & Industrial 2022	Water & Power 2022	Unallocated 2022	Group 2022
Depreciation	6,591	4,615	3,727	–	14,933
Amortisation:					
– Acquired intangible assets	5,063	1,410	578	–	7,051
– Development costs	1,239	701	868	–	2,808

	Oil & Gas 2021	Chemical, Process & Industrial 2021	Water & Power 2021	Unallocated 2021	Group 2021
Depreciation	7,161	4,420	4,092	–	15,673
Amortisation:					
– Acquired intangible assets	6,381	1,782	838	–	9,001
– Development costs	817	457	383	–	1,657

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	2022	2021
UK	55,146	55,971
Italy	52,997	49,150
Rest of Europe	96,627	102,501
USA	129,499	96,565
Other Americas	44,161	40,152
China	120,188	98,011
Rest of World	143,194	126,810
	641,812	569,160

4. OTHER ADJUSTMENTS

Refer to note 1 for details on the adjustments to profit, including an explanation of 'other adjustments'.

The other adjustments to profit included in statutory profit are as follows:

	2022	2021
Gain on disposal of property	1,208	1,569
Redundancy and other restructuring costs	(1,372)	(6,445)
IT transformation costs	(8,868)	(8,493)
Russia market exit	(3,555)	–
Other adjustments	(12,587)	(13,369)

Gain on disposal of property

The £1,208,000 (2021: £1,569,000) gain on disposal of property relates to the sale of the property in Melle, Germany.

Redundancy and Other restructuring costs

A further £1,372,000 (2021: £6,445,000) of redundancy and other restructuring costs have been incurred, largely as a result of the progress made under the Growth Acceleration Programme.

IT transformation costs

During the year £8,868,000 (2021: £8,493,000) of configuration costs were incurred on the development of cloud-based software as part of the multi-year IT transformation programme, this brings the total expensed as part of this programme to £31,823,000. These costs were expensed as they do not meet the capitalisation criteria under IAS 38. The new ERP system went live in January 2023 at our Bath, UK factory. The next phase of the programme is the roll out of the ERP system across the other Group entities.

Russia market exit

The Russia market exit costs are in relation to the ceasing of operations in Russia and the impairment of the gross assets of the Russian entity.

Income statement disclosure

All adjustments are included in administrative expenses. The adjustments are taxable or tax deductible in the country in which the expense is incurred.

Cash flow statement disclosure

Other adjustments have a net operating cash outflow of £12,056,000 (2021: £13,346,000) and a net investing cash inflow of £4,049,000 (2021: £2,783,000).

5. FINANCE INCOME AND EXPENSE

	2022	2021
Interest income	1,235	1,123
Foreign exchange gains	1,814	1,319
Finance income	3,049	2,442

	2022	2021
Interest expense	(744)	(818)
Interest expense on lease liabilities	(406)	(404)
Interest charge on pension scheme liabilities	(110)	(522)
Foreign exchange losses	(1,294)	(477)
Finance expense	(2,554)	(2,221)

6. INCOME TAX EXPENSE

	2022	2022	2021	2021
Current tax:				
UK corporation tax on profits for the year	3,173		2,029	
Adjustment in respect of prior years	(942)		(615)	
		2,231		1,414
Overseas tax on profits for the year	30,242		26,277	
Adjustment in respect of prior years	(287)		(295)	
		29,955		25,982
Total current tax		32,186		27,396
Deferred tax:				
Origination and reversal of other temporary differences	(1,935)		(1,170)	
Impact of rate change	252		(592)	
Adjustment in respect of prior years	398		52	
Total deferred tax		(1,285)		(1,710)
Total tax charge for year		30,901		25,686
Profit before tax		124,102		105,931
Profit before tax multiplied by the blended standard rate of corporation tax in the UK of 19.0% (2021: 19.0%)		23,579		20,127
<i>Effects of:</i>				
Different tax rates on overseas earnings		9,339		7,381
Permanent differences		404		1,591
Losses not recognised		93		(128)
Tax incentives		(1,935)		(1,835)
Impact of rate change		252		(592)
Adjustments to tax charge in respect of prior years		(831)		(858)
Total tax charge for year		30,901		25,686
Effective tax rate		24.9%		24.2%
Adjusted profit before tax (note 2b)		143,740		128,301
Total tax charge for the year		30,901		25,686
Amortisation of acquired intangible assets		1,109		1,784
IT transformation costs		2,217		2,400
Other adjustments (note 4)		114		601
Adjusted total tax charge for the year		34,341		30,471
Adjusted effective tax rate		23.9%		23.8%

A tax charge of £987,000 (2021: credit of £631,000) in respect of share-based payments has been recognised directly in equity.

The effective tax rate for the year is 24.9% (2021: 24.2%). The adjusted effective tax rate is 23.9% (2021: 23.8%) and is lower than the effective tax rate for the year principally because of the tax treatment of expenses included in other adjustments.

The adjusted effective tax rate has increased from 23.8% in 2021 to 23.9% in 2022, principally because of an increase in the proportion of the Group profits arising in higher tax jurisdictions internationally. The Group expects its adjusted effective tax rate to continue to move in line with the trends in corporate tax rates in the jurisdictions where Rotork operates. The UK corporation tax rate will increase to 25% from 1 April 2023. However, the adjusted effective tax rate will still be higher than the standard UK rate due to higher rates of tax in China, Germany, Australia and the US.

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 £272,249,000 (2021: £258,167,000).

7. CAPITAL AND RESERVES

	0.5p Ordinary shares issued and fully paid up 2022	£1 Non- redeemable preference shares 2022	0.5p Ordinary shares issued and fully paid up 2021	£1 Non- redeemable preference shares 2021
At 1 January	4,302	40	4,370	40
Issued under employee share schemes	2	–	4	–
Share buyback programme	–	–	(72)	–
At 31 December	4,304	40	4,302	40
Number of shares (000)	860,771		860,276	

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

Share issue

The Group received proceeds of £1,133,000 (2021: £1,528,000) in respect of the 494,972 (2021: 816,422) ordinary shares issued during the year: £2,000 (2021: £4,000) was credited to share capital and £1,131,000 (2021: £1,524,000) to share premium.

Share buyback programme

In the year ending 31 December 2021, the group bought back a total of 14,403,732 Ordinary shares of 0.5p each for a total value of £50,324,000 including costs of £324,000. The average price paid for these repurchased shares was 348.1p. These repurchased shares were then cancelled in the same period.

Share forfeiture

During 2021 the Group had a share forfeiture programme following the completion of a tracing and notification exercise to any shareholders who have not had contact with the Company over the past 12 years, in accordance with the provisions set out in the Company's Articles of Association. Under the share forfeiture programme, the shares and dividends associated with shares of untraced members are forfeited and resold in the market, with the resulting proceeds transferred to the Group. During 2021, the Group received £478,000 proceeds from sale of untraced shares and £135,000 write-back of unclaimed dividends on those shares, which are reflected in share premium and retained earnings respectively.

Own shares held

Within the retained earnings reserve are own shares held. The Group acquired 1,124,000 of its own shares during the year (2021: 2,154,000). The total amount paid to acquire the shares was £3,475,000 (2021: £7,809,000), and this has been deducted from shareholders' equity. During the year, 793,000 (2021: 1,582,000) ordinary shares were released to satisfy share plan awards. The investment in own shares held is £6,000,000 (2021: £5,291,000) and represents 1,831,000 (2021: 1,500,000) 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.

Preference shares

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.

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:

	2022 Payment date	2022	2021
4.05p final dividend for 2021 (final dividend for 2020: 6.30p)	20 May	34,787	54,996
2.40p interim dividend for 2022 (interim dividend for 2021: 2.35p)	23 September	20,597	20,519
		55,384	75,515

During 2021, the Company exercised its authority in accordance with the provisions set out in the Company's Articles of Association that the balance of unclaimed dividends over the past 12 years be forfeited. During 2021, £135,000 of unclaimed dividends have been adjusted for in retained earnings, resulting in a dividends movement in the statement of changes in equity of £75,380,000.

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

	2022	2021
Final proposed dividend per qualifying ordinary share		
4.30p	37,013	–
4.05p	–	34,780

8. 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 858.9m shares (2021: 869.5m shares) being the weighted average number of ordinary shares in issue (net of own ordinary shares held) for the year.

	2022	2021
Net profit attributable to ordinary shareholders	93,201	80,245
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	858,776	872,958
Effect of own shares held	6	(28)
Effect of Share Buyback Programme	–	(3,694)
Effect of shares issued under Sharesave plans	167	220
Weighted average number of ordinary shares during the year	858,949	869,456
Basic earnings per share	10.9p	9.2p

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.

	2022	2021
Adjusted net profit attributable to ordinary shareholders	109,399	97,830
Weighted average number of ordinary shares during the year	858,949	869,456
Adjusted basic earnings per share	12.7p	11.3p

Diluted earnings per share

Diluted earnings per share is based on the profit for the year attributable to the ordinary shareholders and 860.6m shares (2021: 870.5m 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).

	2022	2021
Net profit attributable to ordinary shareholders	93,201	80,245
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares for the year	858,949	869,456
Effect of Sharesave options	562	711
Effect of LTIP share awards	1,119	372
Weighted average number of ordinary shares (diluted) during the year	860,630	870,539
Diluted earnings per share	10.8p	9.2p

Adjusted diluted earnings per share

	2022	2021
Adjusted net profit attributable to ordinary shareholders	109,399	97,830
Weighted average number of ordinary shares (diluted) during the year	860,630	870,539
Adjusted diluted earnings per share	12.7p	11.2p

9. EMPLOYEE BENEFITS

	2022	2021
Recognised liability for defined benefit obligations:		
– Present value of funded obligations	144,381	233,135
– Fair value of plan assets	(136,375)	(225,510)
	8,006	7,625
Other pension scheme liabilities	158	261
Employee bonuses	11,524	10,717
Employee indemnity provision	1,925	2,033
Other employee benefits	5,542	5,140
	27,155	25,776
Non-current	11,955	11,336
Current	15,200	14,440
	27,155	25,776

10. RELATED PARTIES

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

FINANCIAL CALENDAR

28 February 2023	Preliminary announcement of annual results for 2022
13 April 2023	Ex-dividend date for final proposed 2022 dividend
14 April 2023	Record date for final proposed 2022 dividend
28 April 2023	Announcement of trading update
28 April 2023	Annual General Meeting held at Bailbrook House Hotel, Bath, Somerset, BA1 7JD
8 August 2023	Announcement of interim financial results for 2023