



Rotork plc 2019 Full Year Results

	2019	2018	% change	OCC ³ % change
Order intake ¹	£691.9m	£681.7m	+1.5%	+0.7%
Revenue	£669.3m	£695.7m	-3.8%	-4.4%
Adjusted ² operating profit	£151.0m	£146.0m	+3.4%	+2.2%
Adjusted ² operating margin	22.6%	21.0%	+160bps	+140bps
Profit before tax	£124.1m	£120.7m	+2.7%	+1.4%
Adjusted ² profit before tax	£148.1m	£143.8m	+2.9%	+1.8%
Basic earnings per share	10.8p	10.5p	+2.9%	+1.5%
Adjusted ² basic earnings per share	13.0p	12.6p	+3.2%	+2.4%
Full year dividend	6.2p	5.9p	+5.1%	

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

² Adjusted² figures exclude the amortisation of acquired intangible assets, restructuring costs and the exceptional pension curtailment credit in 2018 (see note 4).

³ OCC⁴ is organic constant currency results excluding discontinued businesses and restated at 2018 exchange rates.

⁴ Adjusted and OCC figures 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.

Summary

- Margin improvement ahead of expectations with adjusted operating margin up 160bps to 22.6%, benefiting from Growth Acceleration Programme savings and mix
- Order intake was ahead year-on-year on an OCC basis in the full year and in H2
- Strong 131% cash conversion driven by working capital management. Net cash £106m
- Revenues were lower year-on-year reflecting reduced large project activity, product and portfolio rationalisation and the loss of sales to sanctioned countries
- ROCE increased 260bps to 31.8%

Kevin Hostetler, Chief Executive, commenting on the results, said:

“Our Growth Acceleration Programme is on track and progress in 2019 was very encouraging. The year was about margin improvement, cash generation and laying the foundations for sales acceleration. We made excellent progress on all pillars of the Programme, including sales force re-alignment to end markets, lean initiatives, purpose and values launches and our IT solution design. We remain committed to delivering sustainable mid to high single digit revenue growth and mid 20s adjusted operating margins over time.

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.

Rotork plc

Kevin Hostetler, Chief Executive
Jonathan Davis, Finance Director
Andrew Carter, Investor Relations Director

Tel: +44 (0)1225 733 200

FTI Consulting

Nick Hasell / Susanne Yule

Tel: + 44 (0)20 3727 1340

There will be a meeting for analysts and institutional investors at 8.30 am GMT today at the offices of JPMorgan Cazenove, 60 Victoria Embankment, London EC4Y 0JP. The presentation will also be webcast (audio only). Please register for the webcast at www.rotork.com.

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'.

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 Director's 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.

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.

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.

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.

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 22nd May 2020 to shareholders on the register on 14th 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

Chief Executive's statement

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". '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 winning entries will feature in the 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 38,890m³ fell by 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.

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.

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 at 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.

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.

Rotork Controls

£m	2019	2018	Change	OCC ¹ Change
Revenue	353.2	351.9	0.4%	-0.9%
Adjusted ² operating profit	113.1	101.3	11.6%	10.3%
Adjusted ² operating margin	32.0%	28.8%	+320bps	+320bps

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 & wastewater 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.

Rotork Fluid Systems

£m	2019	2018	Change	OCC ¹ Change
Revenue	137.9	166.3	-17.1%	-16.8%
Adjusted ² operating profit	8.3	16.1	-48.3%	-48.3%
Adjusted ² operating margin	6.0%	9.7%	-370bps	-360bps

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.

Rotork Gears

£m	2019	2018	Change	OCC ¹ Change
Revenue	83.0	85.6	-3.0%	-2.6%
Adjusted ² operating profit	15.0	15.3	-2.3%	-3.3%
Adjusted ² operating margin	18.0%	17.9%	+10bps	-10bps

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.

Rotork Instruments

£m	2019	2018	Change	OCC ¹ Change
Revenue	108.6	107.2	1.3%	0.9%
Adjusted ² operating profit	26.2	24.1	9.0%	6.9%
Adjusted ² operating margin	24.2%	22.5%	+170bps	+140bps

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 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.

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. 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.

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 Hostetler
Chief Executive Officer
2 March 2020

Financial review

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 benefits to 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.

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.

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.

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.

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.

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		2,875	8,990
Distribution costs		(6,408)	(7,260)
Administrative expenses		(180,434)	(189,474)
Other expenses		(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	5	2,087	2,278
Finance expense	5	(5,040)	(4,448)
Profit before tax		124,057	120,748
Income tax expense	6	(29,957)	(29,004)
Profit for the year		94,100	91,744
Basic earnings per share	8	10.8p	10.5p
Adjusted basic earnings per share	8	13.0p	12.6p
Diluted earnings per share	8	10.8p	10.5p
Adjusted diluted earnings per share	8	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		
<i>Items that may be subsequently reclassified to the income statement:</i>		
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
<i>Items that are not subsequently reclassified to the income statement:</i>		
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		222,052	230,157
Intangible assets		40,848	61,517
Property, plant and equipment		89,062	79,338
Deferred tax assets		14,582	17,337
Other receivables		-	352
Total non-current assets		366,544	388,701
Current assets			
Inventories		73,905	94,739
Trade receivables		129,390	145,509
Current tax		4,830	1,429
Derivative financial instruments		2,196	308
Other receivables		27,558	23,161
Cash and cash equivalents		117,612	104,489
Total current assets		355,491	369,635
Total assets		722,035	758,336
Equity			
Issued equity capital	7	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		6,791	30,871
Employee benefits	9	33,576	31,274
Deferred tax liabilities		10,745	15,722
Derivative financial instruments		124	-
Provisions	10	1,964	2,149
Total non-current liabilities		53,200	80,016
Current liabilities			
Interest bearing loans and borrowings		4,752	30,010
Trade payables		41,195	47,332
Employee benefits	9	24,734	26,489
Current tax		13,270	11,792
Derivative financial instruments		52	2,682
Other payables		40,581	40,150
Provisions	10	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
<i>Other comprehensive income</i>							
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
<i>Transactions with owners, recorded directly in equity</i>							
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
<i>Other comprehensive income</i>							
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
<i>Transactions with owners, recorded directly in equity</i>							
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 7.

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	
<i>Adjustments for:</i>					
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).

1. ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements of Rotork plc have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

New accounting standards and interpretations

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

ii. Other amendments

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

New standards and interpretations not yet adopted

i. 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.

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 2019 or 2018. Statutory accounts for 2018, which were prepared under International Financial Reporting Standards as adopted by the EU, have been delivered to the registrar of companies, and those for 2019 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 2019 will shortly be available to shareholders, and after adoption at the Annual General Meeting on 24 April 2020 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 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
<i>Adjustments:</i>		
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 8). Adjusted net profit attributable to ordinary shareholders is calculated as follows:

	2019	2018
Net profit attributable to ordinary shareholders	94,100	91,744
<i>Adjustments:</i>		
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 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. 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.

f. Cash conversion

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

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)

	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

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.

5. 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	(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.

6. 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
<i>Effects of:</i>				
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		29,958		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		34,866		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).

7. 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.

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 for.

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

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 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

9. 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

10. 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.

11. 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.

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 was 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.

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