



Rotork plc
2020 Full Year Results

Delivering resilience, investing for growth

	2020	2019	% change	OCC ³ % change
Order intake ¹	£590.2m	£691.8m	-14.7%	-12.4%
Revenue	£604.5m	£669.3m	-9.7%	-7.4%
Adjusted ² operating profit	£142.5m	£151.0m	-5.6%	-3.8%
Adjusted ² operating margin	23.6%	22.6%	+100bps	+90bps
Profit before tax	£122.0m	£124.1m	-1.6%	+0.6%
Basic earnings per share	10.7p	10.8p	-0.9%	+0.6%
Adjusted ² basic earnings per share	12.5p	13.0p	-3.8%	-3.1%
Full year dividend	6.3p	6.2p	+1.6%	

Summary

- Order intake declined in the period reflecting the impact of COVID-19 on global economic activity. Orders in the final quarter, whilst still down year-on-year, showed signs of recovery
- Revenues were lower year-on-year due to subdued large project activity, customer site access issues at Rotork Site Services and disruption to production and logistics
- Adjusted operating margins were 100bps ahead at 23.6%, with all divisional margins higher, benefiting from savings generated by the Growth Acceleration Programme
- Flowthrough⁵ of sales declines to adjusted operating profit from 2019 was limited to just 12%, demonstrating the Group's improved cyclical resilience
- Year-end net cash, after the payment of the £33.9m dividend in September, was £72.0m higher year-on-year at £178.1m. ROCE increased 10bps to 31.9%

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

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

³ OCC⁴ is organic constant currency results excluding discontinued businesses and restated at 2019 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.

⁵ Flowthrough calculated as change in OCC adjusted operating profit as reported, divided into the change in OCC revenue.

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

"Rotork delivered a resilient performance in an unprecedented period. Adjusted operating margins were 100 basis points higher year-on-year, and ahead of consensus expectations, despite sales being down on the prior period. Our Growth Acceleration Programme continued to deliver planned benefits, despite the challenging external environment, and we took the opportunity to bring forward some actions scheduled for later years.

Whilst the outlook for our end markets is improving, COVID-19 related uncertainty remains. Our production facilities are currently operating largely as normal, we have a solid order book and the considerable flexibility provided by our strong balance sheet. Our investments in IT systems, targeted geographies, innovation and new product development, and aftermarket activities are progressing well and yielding benefits. We continue to strengthen our business and are well placed to benefit from recovering demand. We remain committed to delivering sustainable mid to high single digit revenue growth and mid 20s adjusted operating margins over time.”

Rotork plc

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Nick Hasell / Susanne Yule

There will be a virtual meeting for analysts and institutional investors at 9.00 am GMT today.

The webcast can be accessed at:

<https://www.investis-live.com/rotork/602a49f2dd22a11400dbc962/gepe>

Participants can alternatively dial-in on the following numbers:

UK dial-in number: 0800 640 6441 or 020 3936 2999

All other locations: +44 203 936 2999

Access code: 111415

Please join the meeting a few minutes before 9.00am to complete registration.

A recording of the meeting will be available until 9th March 2021. This can be accessed on the following numbers:

UK dial-in number: 020 3936 3001

All other locations: +44 203 936 3001

Access code: 517785

Business review

Group order intake in the period decreased 14.7% year-on-year, or 12.4% on an OCC basis, to £590.2m. The reduction largely reflected the impact of COVID-19 on global economic activity and the subsequent effect on oil & gas markets. Orders were down 8.9% OCC year-on-year in the second half. Orders in the final quarter, whilst still down year-on-year, showed signs of recovery.

During the period, our customers continued to spend on automation and environmental projects. Maintenance and upgrade activities started to recover in the third quarter, having been impacted by access issues in the summer. Larger capital projects we are tracking experienced delays, and in a very few cases cancellations. However, the majority of Rotork's activity is driven by customers' operational rather than capital expenditure. We estimate that maintenance, repair and small to mid-sized automation/upgrade projects (individual orders less than £100k) generate 75% of Group orders by value in a typical year, and that orders above £1m represent only 5% of Group order intake.

Group revenue was 9.7% lower (7.4% OCC). Water & Power sales grew year-on-year, with both end markets ahead. The division reported an encouraging performance with sales driven by water sector infrastructure investment as well as power sector refurbishment activity. We currently expect the latter to continue through 2021. Oil & Gas and Chemical, Process & Industrial ("CPI") sales declined, reflecting challenging trading conditions and, particularly in the first half, COVID-19 disruption. Both divisions saw a lower rate of revenue decline in the second half.

By geography, Europe, Middle East & Africa ("EMEA") revenues by destination were down slightly less year-on-year than for the Group. In Asia Pacific, sales growth in the second half was not quite sufficient to offset the decline in the first half and full year revenues were slightly down. Sales fell double-digits in the Americas reflecting the disposal of a distribution business at the end of 2019 and a significant reduction in activity for the Oil & Gas division. The rate of decline in Americas revenues was lower in the second half although was still double-digit.

Rotork Site Services, our global service network and a key differentiator in our industry, made good progress in the period despite COVID-19 making access to customer sites challenging. Our Lifetime Management and Reliability Services programmes have been well received by customers. The number of actuators under annual maintenance contract rose by 8%. We completed a number of important product launches, including our latest Intelligent Asset Management offering ("iAM"). Rotork Site Services is managed as a separate unit within Rotork's divisions and continues to contribute a significant proportion of Group sales (19% in 2020).

Adjusted operating profit was 5.6% down year-on-year (3.8% OCC) reflecting reduced volumes and higher logistics costs which were partly offset by Growth Acceleration Programme ("GAP") savings, cost mitigation actions, reduced discretionary spend and temporary cost reductions. Adjusted operating margins however increased 100 basis points to 23.6%, benefiting from the ongoing GAP initiatives. Flowthrough of lower revenue to adjusted operating profit from 2019 was limited to just 12%, demonstrating improved cyclical resilience. On an OCC basis, reported profit before tax was 0.6% higher year-on-year.

Cash generation was good, with cash conversion of 130% (131%). Return on capital employed remained at a high level at 31.9% (2019: 31.8%), with lower operating profit offset by capital employed reduction reflecting lower net working capital and asset disposals. Our balance sheet remains strong, with a net cash position of £178m at the year end (2019: £106m). This provides us with optionality in uncertain times and the financial flexibility to execute our organic investment plans and our targeted M&A strategy. It also enabled us to navigate the COVID-19 crisis without taking government funding or seeking material payroll support. In addition, we paid the delayed 2019 final dividend in full in September.

Chairman's statement

I suspect few, if any, will view 2020 coming to an end with much regret. The COVID-19 pandemic has caused untold grief and suffering for so many. It has had a tumultuous impact on families, societies, businesses, charities, nations and indeed the entire world. Its after-effects will be felt for many years to come.

The response of team Rotork to these challenges has been magnificent. Not only the efforts of our people, who have demonstrated enormous fortitude, but also of our customers, our suppliers, and the local communities in which we operate. I am particularly proud of how Rotork team members have stepped up to help those in their communities less fortunate than themselves, providing support through distributing personal protective equipment, food parcels and charitable donations. On behalf of the Board, I would like to pass on my appreciation to every team member for their continued commitment and support.

The safety and wellbeing of our employees is of utmost importance to the Board and is discussed at every meeting. Over the years, Rotork has had a good safety record, with recent improvements in injury rates as a result of safety initiatives and training. As disclosed in our People & Environment Report, in July 2020 we were devastated to hear of a fatality of one of our field service engineers. Our thoughts are with his family, friends and colleagues. We thoroughly investigated the accident to determine the root cause and identify any lessons to be learned. The report of this investigation was reviewed in great depth by the Board.

Our Purpose, keeping the world flowing for future generations, could not have been more apposite than in 2020. Our products and services are relied upon to keep critical processes operating – from the water we drink, to the energy sources that keep us warm and provide essential transportation, to industrial processes providing critical consumer products and services. These are all accomplished with a determined and passionate focus on safety, efficiency and environmental sustainability.

I was particularly proud of Rotork's decision making during the year. Difficult decisions involving fast changing priorities, resource constraints, logistics challenges and employee welfare. Decisions which hugely impacted our ability to keep customers serviced, keep our people safe, and meet our financial commitments. Some of these decisions required sacrifices, from employees and shareholders alike, from salary freezes to delayed dividend payments, and initiatives to support the broader cause by repaying any monies received from government support or furlough schemes wherever practicable to do so.

Throughout 2020 we have continued to pursue our Growth Acceleration Programme, maintaining our transformation investment programmes, and in some cases accelerating them, not yielding to the temptation to sacrifice long term priorities for short term gain. We have also maintained our commitment to long term sustainability, which sits at the heart of our decision making, and is a core part of our Purpose and Values.

Sustainability at Rotork

The concept of long-term sustainability sits at the heart of our Purpose and has many guises. Building a lean, efficient, flexible, and fastmoving business that can respond quickly to changes in the external market is vital. We call this cyclical resilience, and as a prerequisite for any aspirations for accelerated growth, it is one of the cornerstones of our Growth Acceleration Programme. Building a business that is closely attuned to the needs of customers as they seek to play their part in a more environmentally sustainable future, through the provision of innovative new products, smart digital systems, and knowledgeable service, is equally important.

Rotork is in a prime position to make a big difference here. We are able to improve our customers' outcomes in high carbon environments with smart products and services. Our environmental 'handprint', as we term it, is potentially very significant. Our 'footprint', how we impact through our own facilities and operations, is much smaller but no less important. The importance of these aspects of sustainability are firmly recognised

by the Board, and we established a formal Environmental, Social and Governance (“ESG”) Board Committee and appointed our first Head of ESG and Sustainability during the year.

We have since conducted a full materiality assessment, reflecting on our opportunity to truly impact ESG outcomes, and taking into account not just our own views but those of all our stakeholders. This assessment has featured strongly in the development of a new sustainability framework, which prioritises a select number of UN Sustainable Development Goals, in charting our future focus and direction. This is covered in more detail in the Chief Executive’s report.

Unsurprisingly, the energy transition to a low carbon world features highly in this materiality assessment. We see considerable opportunities to assist our oil and gas customers to deliver against their ambitious net zero commitments. For example, substituting efficient electric actuators and controls for more conventional pneumatic and hydraulic solutions to help customers reduce gaseous emissions, venting and flaring, and their own energy consumption. Additionally, our products enable the move to a low carbon world, with applications in transition fuels such as LNG, natural gas and biofuel. Similar opportunities present themselves in the power, water and industrial markets. In the medium term we also see opportunities to participate in fast developing new energy sectors such as carbon capture, usage and storage and hydrogen.

Board update

The Rotork 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. We welcome the Parker Review target for all FTSE 250 boards to have at least one director from an ethnic minority background by 2024.

Sally James will be retiring from the Board at the conclusion of the AGM on 30 April 2021, having completed nine years’ service. She leaves us with our best wishes and gratitude for her significant contribution to Rotork over this period. Peter Dilnot will take over the role of Senior Independent Director effective from 30 April 2021 and will also become a member of the Remuneration Committee from the same date.

Corporate Governance

The Board continues to be committed to the highest standards of governance and stakeholder considerations remain central to the Board’s decision making. During the year, the Board closely monitored the progress being made against the Growth Acceleration Programme targets.

Dividend

Rotork remains a highly cash generative business. We recognise the importance of a growing dividend to our shareholders. We are committed to a progressive dividend policy subject to satisfying cash requirements, which can vary significantly from year to year.

On 31 March 2020, due to the unprecedented level of uncertainty presented by COVID-19, we announced the withdrawal of the recommendation to pay the 2019 final dividend of 3.9 pence per share. On 4 August 2020 we announced that we would pay in September the deferred dividend and that, whilst we would not announce a dividend in respect of the first half, we would consider the dividend payable in respect of the whole of 2020 in March 2021.

The Board recommends a full year dividend of 6.3p per share for 2020, an increase of 1.6% from the 2019 full year dividend. This is equivalent to 2.0 times cover based on adjusted earnings per share (2019: 2.1 times). The full year dividend will be payable on 21 May 2021 to shareholders on the register on 9 April 2021.

Outlook

Whilst the outlook for our end markets is improving, COVID-19 related uncertainty remains. Our production facilities are currently operating largely as normal, we have a solid order book and the considerable flexibility provided by our strong balance sheet. Our investments in IT systems, targeted geographies, innovation and new product development, and aftermarket activities are progressing well and yielding benefits. We continue to strengthen our business and are well placed to benefit from recovering demand. We remain committed to delivering sustainable mid to high single digit revenue growth and mid 20s adjusted operating margins over time.

Martin Lamb
Chairman
1 March 2021

Chief Executive's Statement

This year has been simply unlike any other. The COVID-19 pandemic has turned the world on its head and challenged resilience everywhere, whether it be of families, businesses or governments. I would like to, on behalf of the Board, express our deepest sympathy to anyone who has been personally impacted by the crisis, and the family, friends and colleagues of the Rotork employees who have passed away. They will be sorely missed.

I would also like to thank my 3,400 Rotork colleagues for their extraordinary efforts over the past year. Whether they have been working in our factories, at our customers' sites, in our offices or at home, where a large number are, they have embraced the changing circumstances with the utmost professionalism. Whilst this success clearly reflects individual efforts, it also reflects Rotork's strong culture. We have a strong sense of teamwork, a hard-working can-do mentality and increasingly a broad perspective and an entrepreneurial approach. All of these were very apparent in 2020.

I'm sometimes asked how our Purpose, keeping the world flowing for future generations, links to our strategic objectives of accelerated growth and increased margins. In simple terms the challenge the world faces is sustainably providing many more people with a high quality of life. Rotork can help here, whilst driving higher sales and margins, through providing innovative products and services that enable further automation, electrification and digitalisation, which together lift productivity and efficiency, minimise environmental impact and assure safety.

Health, safety and wellbeing

The wellbeing of our people, partners and visitors is the number one priority of everyone at Rotork. However, 2020 must rank as one of the most challenging years the Group has ever faced. I am extremely proud of our response to COVID-19. It was with the greatest regret that I reported in October's People & Environment Report that one of our employees met with a fatal accident in July. Our thoughts remain with the family and friends he leaves behind. This distressing event has served to reinforce the focus of the PLC Board and the senior leadership team on health & safety.

Environmental, Social & Governance

We are fully committed to improving our Environmental, Social & Governance ("ESG") performance in all areas and we are pleased with our early progress. In October we held the inaugural meeting of our ESG sub-Committee and agreed our sustainability vision, including ratifying the use of the United Nation's Sustainable Development Goals (SDGs) to guide our strategy. We subsequently undertook a mapping exercise to identify the most relevant SDGs for Rotork to support and engaged with a broad range of external stakeholders to gather their views on priority sustainability issues.

We have targeted five main SDGs, aligned to topics where we have the greatest potential to support the transition to a better and more sustainable future for all. These are as follows:

- Clean water and sanitation (UN SDG number 6)
- Affordable and clean energy (7)
- Industry, innovation and infrastructure (9)
- Responsible consumption and production (12) and
- Climate action (13).

We have also targeted two additional SDGs, gender equality (number 5) and decent work and economic growth (number 8), to help drive progress on these issues.

We have developed a new sustainability framework around our chosen SDGs and priority sustainability risks and opportunities. We already make a significant contribution towards our chosen Goals. Our new framework, based on three pillars - Operating Responsibly, Enabling a Sustainable Future and Making a Positive Social Impact - will help guide our future activity and ensure that we continue to create superior, sustainable value.

In October we published our People & Environment Report. In this we provided additional information on our safety, diversity and environmental performance and highlighted the many ways Rotork's products and services are essential to our customers' efforts to reduce their environmental impacts. We plan to build on this progress and publish a fuller annual Sustainability Report starting in 2021. This will include details of our current view of climate-related risks and opportunities, in line with the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD).

We are fully committed to reducing our environmental impact by reducing our energy and water consumption, waste production and preventing pollution. Generally, we operate an assembly-only philosophy across the Group, meaning that our direct emissions are relatively modest compared to peers. Nevertheless, we target continuous improvement in our efficiency, as an integral part of our focus on lean operations. This year, we reduced our carbon emissions by 18%. On a normalised basis, emissions reduced by 9.5% per £1 million of reported revenue, compared with the prior year. Reduced office occupation (due to working-from-home initiatives) made a modest contribution to the fall.

We were voted the number two ranked ESG company in the European Small/Mid Cap Capital Goods sector by Institutional Investor. Our collaboration with the various external ESG surveyors was stepped-up in 2020 and our ranking improved in many of the ratings. We were particularly pleased to have been awarded a B score for Water Security by CDP, an improvement on the B- from last time. Our Bloomberg ESG disclosure score of 46 is amongst the highest of our peers.

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 5-year 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.

Despite the challenging environment in which we found ourselves in 2020, progress was once again encouraging. We delivered significant (100bps) adjusted operating margin improvement year-on-year and strong cash generation. Although Group revenues overall declined, Water & Power's organic sales performance demonstrated some of the opportunities available to us.

One of the most significant GAP initiatives is market re-alignment, focusing our sales teams more closely on end-market segments. We completed this transition early in the year, on time and to budget, and reported under our new divisional structure for the first time at the half-year stage. Rotork's new structure more closely addresses customer needs and facilitates closer customer relations through key account management. We are already seeing clear benefits of this change, with customer surveys showing that the organisation's ability to deliver better solutions has improved, and that customers appreciate having a single point of contact. We were proud to be publicly recognised by a major US engineering, procurement and construction contractor as being a key contributor to their project success in 2020.

Another important initiative is the reinvigoration – and re-focus – of our new product development pipeline. I'm pleased to note that social and environmental sustainability factors are now firmly incorporated into our NPD process. The benefits of improvements in this area do not come overnight, but we are now seeing the launch of a greater number of more meaningful products, and there will be more in 2021 and 2022, including in the important digital space.

In the second quarter, recognising that 2020 was going to be a very different year from the one we had expected, we took the opportunity to revisit the phasing of our GAP initiatives. Following this review, we decided to bring forward certain projects, including the simplification of certain of our regional back offices and two factory footprint rationalisation initiatives. These projects, which will further improve our cyclical resilience going forward, were completed to time and to budget.

Our supply chain optimisation work continues, and we are planning additional focus on this area in the quarters ahead. Purchasing savings during the year were £2.3m, in-line with our targets which were revisited as the severity of the pandemic became apparent.

We have now passed the Growth Acceleration Programme's half-way point. Whilst there is further hard work ahead, we are very much on track. In addition to the successful realignment of our business to market facing segments, since its 2018 inception GAP has delivered £23m of margin improvement, £48m of working capital reduction and a 690 basis point improvement in ROCE (to 31.9%). We believe the programme has positioned us extremely well for when the recovery comes. As well as further commercial and operational excellence initiatives, the final years of the programme will see an acceleration in our IT & Systems implementation and our ESG agenda.

Divisional review

Oil & Gas

£m	2020	2019	Change	OCC ¹ Change
Revenue	292.2	330.0	-11.5%	-10.1%
Adjusted operating profit	67.9	75.5	-10.1%	-8.7%
Adjusted operating margin	23.3%	22.9%	+40bps	+40bps

The Oil & Gas division experienced volatile trading conditions in 2020. COVID-19 disruption impacted Asia Pacific activity early in the year before subsequently spreading to other regions of the world.

The break-up of the OPEC+ consortium in March resulted in volatility in hydrocarbon prices and in response many customers announced they would revisit their capital investment plans. This was felt most acutely in the Americas, the division's smallest geographic region, and in the upstream sector. The downstream sector, which represents over half of divisional sales, was less effected.

Divisional revenues fell 11.5% year-on-year (10.1% OCC) with the greatest decline seen in the Americas. EMEA sales were modestly lower with upstream, midstream and downstream declining. Asia Pacific sales

were similarly down, but grew in the second half, benefiting from increased downstream activity. Americas revenues fell despite progress in Latin America. Adjusted operating profits were £67.9m, 10.1% lower year-on-year. Adjusted margins rose 40 basis points to 23.3%, benefiting from mix, lower headcount and reduced discretionary expenses.

Oil & Gas aims to outperform its markets through a number of strategic initiatives, including leveraging the installed base (through Rotork Site Services), helping our customers improve their operational and environmental performance, and increased onboard sensing and computational capabilities.

We consider the energy transition to be an opportunity for us. The substantial majority of our revenues are linked to brownfield spend which Wood Mackenzie forecast to remain stable for many years to come. We expect that new segments, such as biofuel and carbon capture and storage, will be actuator intensive and hence exciting opportunities for us.

Our customers have set themselves challenging environmental targets which they will strive to achieve regardless of economic circumstances. Rotork believes that electrification has an important role to play in the reduction of our customers' emissions across their upstream, midstream and downstream processes, and that we are well placed to assist them on this journey.

Water & Power

£m	2020	2019	Change	OCC¹ Change
Revenue	157.8	154.9	+1.9%	+4.0%
Adjusted operating profit	47.0	45.1	+4.3%	+5.7%
Adjusted operating margin	29.8%	29.1%	+70bps	+40bps

Water & Power made encouraging progress during the year. Whilst the division is not totally immune from COVID-19 related disruption, its products and services and those of its customers are generally considered essential, meaning activity largely continued without any significant delays. The outlook for the division is positive. We are now seeing the benefits of our transition to an end-market alignment and of our re-focused new product development. Additionally, the world's governments have identified water infrastructure investment as a priority, not only for population health and safety reasons but also for economic development. The division is well placed to support these efforts.

Revenues increased 1.9% year-on-year (4.0% OCC) with higher sales in all geographic regions on an OCC basis. In Asia Pacific the water segment saw strong growth, particularly in China. Activity in India, including that related to the National Rural Drinking Water Programme ("NRDWP"), was impacted by COVID-19 and sales were lower. In the Americas, power sales were higher due to refurbishment work, which was won in 2019, whilst water sales were largely unchanged. The growth in EMEA sales was driven by desalination projects in Iberia and a recovery in business with UK water utilities. For the division, both water and power sales were ahead year-on-year.

The division's adjusted operating profits were £47.0m, 4.3% higher year-on-year. Adjusted margins were 29.8%, up 70bps reflecting Growth Acceleration Programme initiatives and reduced discretionary spend which more than compensated for a slightly negative price/mix impact.

Water & Power aims to outperform its markets through an optimised go-to-market strategy and focus on high growth regions and digital solutions (including network management opportunities). The division is focused on solving its customers' challenges. For example, water customers rely on Rotork's technologies to achieve higher water quality standards, lower operational costs, reduce water leakage and increase the lifecycle of assets above- and under- ground. In the traditional power generation segment, Rotork teams are targeting emission reduction projects whilst seeking refurbishment opportunities within the installed base.

Chemical, Process & Industrial (“CPI”)

£m	2020	2019	Change	OCC ¹ Change
Revenue	154.6	184.4	-16.2%	-12.4%
Adjusted operating profit	38.6	42.0	-8.2%	-5.7%
Adjusted operating margin	24.9%	22.8%	+210bps	+170bps

CPI experienced challenging trading conditions in 2020, particularly in the first half, resulting in lower revenues. However, our Growth Acceleration Programme initiatives delivered significantly higher adjusted margins year-on-year and early successes in promising new markets.

Revenues fell 12.4% year-on-year on an OCC basis, with the greatest decline seen in the Americas. Asia Pacific sales returned to growth in the second half, driven by the process sector. EMEA sales were lower year-on-year, with COVID-19 impacting customer activity. The fall in Americas revenues reflects significantly lower project business, including the non-repeat of mining projects in South America, and a decline in book and ship activity, notably to the tyre and auto plastics industries.

The process segment represents a substantial proportion of CPI overall. Process revenues in EMEA were lower, largely the result of COVID-19 disruption. In Asia Pacific we saw increased demand from control valve OEMs in China. Continuing Americas process sales were down double-digits. Amongst the division’s other focus segments, chemical revenues grew, whilst industrial sales were lower.

The division’s adjusted operating profit was £38.6m, 8.2% down year-on-year. Adjusted margins increased 210bps to 24.9% despite the lower revenues, benefiting from positive price/mix, procurement savings and lower headcount.

CPI is already seeing the early benefits of salesforce re-alignment. Examples include increased customer wallet share (e.g. in mining) and early success in new energy applications (e.g. in hydrogen electrolyzers).

CPI aims to outgrow its markets through focusing on high growth regions and sectors, optimising its channel coverage and developing the aftermarket. The division is targeting key sectors including HVAC, chemicals, and basic materials. Across all of these, the drive to lower CO2 emissions is gaining momentum. The decarbonisation trend presents a key opportunity for CPI – through the electrification of actuation and the substitution of high maintenance and inefficient compressed air valve systems. New energy technologies such as hydrogen are exciting medium-term opportunities, and our project pipelines are building.

Capital deployment strategy

Rotork remains a highly cash generative business and our net cash balance increased to £178m at year end. Our cash position provides us with considerable financial flexibility 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
1 March 2021

Financial review

Order intake for the year was £590.2m (2019: £691.8m), down 14.7% from the prior year or 12.4% on an Organic Constant Currency (OCC) basis. Order intake in the second half was 3.6% lower than the first half of the year and 8.9% lower than the second half of 2019 on an OCC basis. Orders in the final quarter, whilst still down year-on-year, showed signs of recovery. Group revenue was 9.7% lower (7.4% OCC). Water & Power sales grew year-on-year, with both end markets ahead. The division reported an encouraging performance, with sales driven by water sector infrastructure investment as well as power sector refurbishment activity. We currently expect the latter to continue through 2021. Oil & Gas and CPI sales declined, reflecting challenging trading conditions and, particularly in the first half, COVID-19 disruption. Both divisions saw a lower rate of revenue decline in the second half.

By geography, Europe, Middle East & Africa (“EMEA”) revenues by destination were down slightly less year-on-year than for the Group. In Asia Pacific, sales growth in the second half was not quite sufficient to offset the decline in the first half and full year revenues were slightly down. Sales fell double-digits in the Americas reflecting the disposal of a distribution business at the end of 2019 and a significant reduction in activity for the Oil & Gas division. The rate of decline in Americas revenues was lower in the second half, although was still double-digit.

Gross margin increased 40 basis points to 47.0% driven by the 2019 disposal, productivity improvements, a positive divisional mix and lower travel costs and other temporary savings. The 2019 disposal was a margin dilutive business so on an OCC basis the increase in the year was 10 basis points. Adjusted operating profit was £142.5m, a decrease of 5.6% over the prior year, with the adjusted operating margin increasing 100 basis points to 23.6% (2019: 22.6%). Operating profit was £122.6m, 3.5% lower year-on-year. On an OCC basis, adjusted operating margin increased 90 basis points from 22.7% to 23.6%, the difference to the reported numbers reflecting the disposal of the lower margin business at the end of 2019. In addition to the improvements in gross margin, overheads were tightly controlled and reduced by £16.5m on an OCC basis. Personnel costs and travel were the two largest reductions. When combined with the £7.8m cost savings above gross profit, c.33% of the total £24.4m reduction might be considered temporary and likely to reverse once travel and other COVID-19 related restrictions reduce.

Net finance costs decreased by £2.5m to £0.5m as a result of a lower interest payable and a more favourable impact of exchange gains / losses.

The effect of lower corporate tax rates in regions where we operate resulted in the adjusted effective tax rate reducing to 23.4%, with adjusted earnings per share of 12.5p, a decrease of 3.8%. Statutory earnings per share were 10.7p, a decrease of 0.9%.

Growth Acceleration Programme

We entered 2020 with a number of the workstreams under the Growth Acceleration Programme (GAP) already underway and with considerable momentum. Within the Commercial Excellence pillar, during 2019 the customer-facing sales organisation was reorientated to be end-market facing in two regions of the world and work in the Americas was completed in the first quarter of 2020. Later in the year, and as a result of COVID-19 disrupting some of the GAP initiatives scheduled for 2020, we accelerated the work to restructure the sales back office functions starting in EMEA. These reorganisation activities account for the vast majority of the £5.9m restructuring costs in the year, with a £3.0m in-year benefit from the actions taken. The profit contribution of new products launched in the last three years was £2.1m, a 40% increase on 2019's £1.5m.

Within the Operational Excellence pillar the focus on managing our factories through COVID-19 redirected efforts that might otherwise have been spent on driving GAP initiatives. The global strategic sourcing (GSS) team had to focus on managing our supply base, as COVID-19 affected suppliers to varying degrees throughout the year, to ensure we maintained the supply of components required to meet customer deliveries. The challenges were both the situations at our suppliers' facilities and the logistics of getting the components to our factories. In spite of this the GSS team delivered incremental net savings of £2.3m in the

year. Continuous improvement and lean initiatives continued throughout the year with approximately 300 lean events completed. Nearly half of these delivered financial benefits amounting to £1.5m of savings in year. Lastly the footprint optimisation programme continued with a further two factories closed during the year. The benefits of these closures and the carry forward from 2019 closures delivered £2.3m of incremental benefits.

In total the Growth Acceleration Programme generated £11.2m compared with exceptional costs of £6.0m. This, together with the savings achieved in 2018 and 2019 mean the cumulative impact on the income statement of the Growth Acceleration Programme to date has been £23.4m, which exceeds the cumulative £17.1m restructuring costs. The cumulative cash benefits are now £19.7m, with an additional £47.8m generated from reduced working capital. Investment to date in IT and facilities was £23.6m. 2020 saw a significant increase in spend to £18.2m on the new ERP development as well as the investment to expand the Rochester (NY) factory which completed in the year.

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	122.6	14.1	5.9	142.5
Profit before tax	122.0	14.1	5.9	142.0
Tax	(28.7)	(3.0)	(1.5)	(33.2)
Profit after tax	93.3	11.1	4.4	108.8

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

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 6.0% over the year to £446.4m as there were no acquisitions during 2020 and we increased our net cash position. This resulted in an increase in ROCE despite the reduction in adjusted operating profit to 31.9% (2019: 31.8%).

Taxation

The Group's headline effective tax rate decreased from 24.1% to 23.5%. Removing the impact of the non-recurring adjustments provides a more reliable measure and on this basis, the adjusted effective tax rate is 23.4% (2019: 23.5%). The decrease is driven by the impact of a reduction in Indian withholding tax rates which is partially offset by an increase in the share of Group profits arising in higher tax jurisdictions. The Group expects its adjusted effective tax rate to remain higher than the standard UK rate due to higher rates of tax in key jurisdictions.

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 £178.1m at the end of the year (2019: £106.1m). Our cash conversion KPI shows a conversion of 129.5% of adjusted operating profit into cash compared to the 131.4% reported in 2019. The Group invested £25.3m in capital expenditure in 2020, an increase of £8.0m, as we continue to invest in our IT infrastructure and operating footprint as part of the Growth Acceleration Programme. Our Research and Development (R&D) cash spend has decreased 2% to £12.9m which represents 2.1% of revenue (2019: £13.2m and 2.0%). The most significant spend was associated with the expansion of the IQT3 product range. Dividends of £33.9m and tax payments of £30.8m 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 £12.6m whilst a reduction in trade receivables generated a further £13.1m. Trade receivables measured as days' sales outstanding reduced from 57 to 56 days. Net working capital in the balance sheet decreased to 21.0% of revenue compared with 24.2% in December 2019 and generated an £18.7m inflow in the cash flow statement.

COVID-19, Brexit and geopolitical risk

In this report last year we highlighted three areas of risk that we were monitoring and which could impact Rotork. It became apparent shortly afterwards that one of these, COVID-19, was going to have a significant impact globally. We established a COVID-19 Steering Committee in March 2020 which met daily to monitor the impact of and determine our response to the pandemic as it spread across the world, affecting the teams in our own facilities, our suppliers and our customers.

In the second quarter, when uncertainty regarding the pandemic was at its height, we carried out a series of risk assessments in order to plan for a range of scenarios. These mirrored some of the scenarios we include in our annual viability statement. Due to the level of uncertainty, we took the decision in March to withdraw the recommendation to pay a 2019 final dividend which had been declared in the 2019 preliminary results announcement. We also applied to the UK Government's Covid Corporate Funding Facility, although we decided not to complete the process and did not utilise the facility. We replaced our committed revolving credit facility which was due to expire mid-2020. We took advantage of a number of government backed schemes, such as furlough in the UK, to temporarily reduce the cost to the business of non-productive employees. Over the next few months, as the situation stabilised, we repaid all UK government support and were left with an immaterial benefit from other similar schemes globally. The benefit of these is included in the assessment of temporary saving shown above. At the mid-year we also decided to pay a 3.9p per share interim dividend, equivalent to the 2019 final dividend that had been proposed and then withdrawn. We also undertook to pay a dividend in respect of the whole of 2020 in May 2021.

Whilst monitoring the external influences of COVID-19 on the business, the COVID-19 Steering Committee also coordinated the internal response. This included initially planning for a sudden increase in numbers working from home for those employees who could, introducing social distancing measures within our factories and carrying out risk assessments so that they could continue to work safely. Externally it meant coordinating with our suppliers and logistics companies to ensure a consistent supply of components and working with our customers to understand the changes to their priorities. At the same time actions were taken to mitigate the reduction in revenue and the impact this would have on the results of the Group. A reduction in recruitment, postponing the majority of salary increases at all levels and restricting discretionary spend, plus the temporary savings, such as lower travel costs, which were a direct consequence of the pandemic, helped contain costs.

The more severe scenarios we considered in our exercise in the second quarter did not transpire for 2020. The dedication of all our employees, whether working from home or continuing to go to work, has meant we have been able to deliver a resilient set of results. The early actions to mitigate costs, combined with the

momentum in our Growth Acceleration Programme, has driven an increase in adjusted operating margins once again despite a reduction in revenue.

We entered 2020 expecting to see the final stages of the Brexit negotiations and the terms on which the UK would trade with other countries from 1 January 2021. The UK's decision to leave the EU 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 assessed and monitored the potential impact on the Group and it still continues to manage the implementation of mitigation plans and assess ongoing risks.

The following Brexit risks were identified as having a 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, duties and import/ export tariffs.
- Short term supply chain disruption: Potential changes in customer buying patterns, delays in Customs for products shipped to and from the EU and the rest of the world and border clearances and uncertainty over UK and EU product approvals.

With the completion of the transition period of the EU:UK Withdrawal Agreement on 31 December 2020 most of the risks around tariffs and barriers to trade have diminished and should not be material to our business. Whilst there has been some disruption to, and increased cost of, entry and exit from the UK ports, logistics issues and cost escalation relating to COVID-19 have been greater than the impact of Brexit to date. Increased inventory levels and extended lead-times have been effective ways to manage these risks so far.

As a global business we continue to monitor the trade position between China and the US, and between all locations where we are based or have customers or suppliers. In particular, we consider 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.

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 2020 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 annual update to the actuarial valuation at 31 March 2020 showed the deficit had grown to £45.9m and funding level decreased to 78%. This was due to the continued reduction in gilt yields and the lower value of assets at what was the start of the first COVID-19 lockdown (asset values have since recovered strongly).

On an accounting basis the deficit in the schemes increased from £29.6m to £38.5m during 2020 and the funding level decreased from 87% to 85%. The Company paid total contributions of £10.3m over the year and the schemes' assets increased in value by £20.8m. However, this was more than offset by the £29.7m increase in the value of the schemes' liabilities due to the much lower discount rate at the year-end, which reflected the fall in yields on AA corporate bonds over 2020.

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.

Jonathan Davis
Group Finance Director
1 March 2021

Consolidated income statement

For the year ended 31 December 2020

	Notes	2020 £000	2019 £000
Revenue	3	604,544	669,344
Cost of sales		(320,234)	(357,718)
Gross profit		284,310	311,626
Other income		1,581	2,875
Distribution costs		(5,271)	(6,408)
Administrative expenses		(157,336)	(180,434)
Other expenses		(710)	(649)
Adjusted operating profit	2,3	142,543	151,005
Adjustments			
- Amortisation of acquired intangible assets	3	(14,110)	(18,841)
- Other adjustments	4	(5,859)	(5,154)
Operating profit	2,3	122,574	127,010
Finance income	5	2,394	2,087
Finance expense	5	(2,931)	(5,040)
Profit before tax		122,037	124,057
Income tax expense	6	(28,709)	(29,957)
Profit for the year		93,328	94,100
Basic earnings per share	8	10.7p	10.8p
Adjusted basic earnings per share	8	12.5p	13.0p
Diluted earnings per share	8	10.7p	10.8p
Adjusted diluted earnings per share	8	12.5p	13.0p

Consolidated statement of comprehensive income

For the year ended 31 December 2020

	2020 £000	2019 £000
Profit for the year	93,328	94,100
Other comprehensive income		
<i>Items that may be subsequently reclassified to the income statement:</i>		
Foreign exchange translation differences	(3,913)	(12,643)
Effective portion of changes in fair value of cash flow hedges net of tax	(12)	2,081
	(3,925)	(10,562)
<i>Items that are not subsequently reclassified to the income statement:</i>		
Actuarial loss in pension scheme net of tax	(14,836)	(6,705)
Income and expenses recognised in other comprehensive income	(18,761)	(17,267)
Total comprehensive income for the year	74,567	76,833

Consolidated balance sheet

At 31 December 2020

	Notes	2020 £000	2019 £000
Non-current assets			
Goodwill		223,537	222,052
Intangible assets		25,145	40,848
Property, plant and equipment		100,620	89,062
Deferred tax assets		16,624	14,582
Total non-current assets		365,926	366,544
Current assets			
Inventories		61,467	73,905
Trade receivables		112,565	129,390
Current tax		7,180	4,830
Derivative financial instruments		1,582	2,196
Other receivables		25,868	27,558
Assets classified as held for sale		1,119	-
Cash and cash equivalents		187,204	117,612
Total current assets		396,985	355,491
Total assets		762,911	722,035
Equity			
Issued equity capital	7	4,370	4,363
Share premium		16,826	14,521
Other reserves		20,934	24,859
Retained earnings		540,400	495,657
Total equity		582,530	539,400
Non-current liabilities			
Interest bearing loans and borrowings		5,396	6,791
Employee benefits	9	42,846	33,576
Deferred tax liabilities		8,705	10,745
Derivative financial instruments		-	124
Provisions		1,720	1,964
Total non-current liabilities		58,667	53,200
Current liabilities			
Interest bearing loans and borrowings		3,754	4,752
Trade payables		33,560	41,195
Employee benefits	9	23,645	24,734
Current tax		14,765	13,270
Derivative financial instruments		168	52
Other payables		41,334	40,581
Provisions		4,488	4,851
Total current liabilities		121,714	129,435
Total liabilities		180,381	182,635
Total equity and liabilities		762,911	722,035

These financial statements were approved by the Board of Directors and authorised for issue on 1 March 2021 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 2018	4,358	13,024	34,930	1,644	(1,153)	460,825	513,628
Profit for the year	-	-	-	-	-	94,100	94,100
Other comprehensive income							
Foreign exchange translation differences	-	-	(12,643)	-	-	-	(12,643)
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	2,548	-	2,548
Actuarial loss on defined benefit pension plans	-	-	-	-	-	(8,058)	(8,058)
Tax on other comprehensive income	-	-	-	-	(467)	1,353	886
Total other comprehensive income	-	-	(12,643)	-	2,081	(6,705)	(17,267)
Total comprehensive income	-	-	(12,643)	-	2,081	87,395	76,833
Transactions with owners, recorded directly in equity							
Equity settled share-based payment transactions	-	-	-	-	-	(1,011)	(1,011)
Tax on equity settled share-based payment transactions	-	-	-	-	-	(8)	(8)
Share options exercised by employees	5	1,497	-	-	-	-	1,502
Own ordinary shares acquired	-	-	-	-	-	(5,287)	(5,287)
Own ordinary shares awarded under share schemes	-	-	-	-	-	6,030	6,030
Dividends	-	-	-	-	-	(52,287)	(52,287)
Balance at 31 December 2019	4,363	14,521	22,287	1,644	928	495,657	539,400
Profit for the year	-	-	-	-	-	93,328	93,328
Other comprehensive income							
Foreign exchange translation differences	-	-	(3,913)	-	-	-	(3,913)
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	6	-	6
Actuarial gain on defined benefit pension plans	-	-	-	-	-	(18,570)	(18,570)
Tax on other comprehensive income	-	-	-	-	(18)	3,734	3,716
Total other comprehensive income	-	-	(3,913)	-	(12)	(14,836)	(18,761)
Total comprehensive income	-	-	(3,913)	-	(12)	78,492	74,567
Transactions with owners, recorded directly in equity							
Equity settled share-based payment transactions	-	-	-	-	-	(306)	(306)
Tax on equity settled share-based payment transactions	-	-	-	-	-	(65)	(65)
Share options exercised by employees	7	2,305	-	-	-	-	2,312
Own ordinary shares acquired	-	-	-	-	-	(3,645)	(3,645)
Own ordinary shares awarded under share schemes	-	-	-	-	-	4,193	4,193
Dividends	-	-	-	-	-	(33,926)	(33,926)
Balance at 31 December 2020	4,370	16,826	18,374	1,644	916	540,400	582,530

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 2020

	Notes	2020 £000	2020 £000	2019 £000	2019 £000
Cash flows from operating activities					
Profit for the year		93,328		94,100	
<i>Adjustments for:</i>					
Amortisation of acquired intangibles		14,110		18,841	
Other adjustments	4	5,859		5,154	
Amortisation and impairment of development costs		2,967		2,874	
Depreciation		16,313		16,359	
Equity settled share-based payment expense		3,685		4,702	
Loss on sale of property, plant and equipment		146		5	
Finance income		(2,394)		(2,087)	
Finance expense		2,931		5,040	
Income tax expense		28,709		29,957	
		165,654		174,945	
Decrease in inventories		12,561		18,176	
Decrease in trade and other receivables		14,672		7,198	
Decrease in trade and other payables		(7,195)		(391)	
Restructuring costs paid		(6,437)		(5,151)	
Difference between pension charge and cash contribution		(10,109)		(6,070)	
Decrease in provisions		(483)		(347)	
Decrease in employee benefits		(622)		(1,160)	
		168,041		187,200	
Income taxes paid		(30,781)		(32,769)	
Net cash flows from operating activities			137,260		154,431
Investing activities					
Purchase of property, plant and equipment		(25,279)		(17,306)	
Development costs capitalised		(1,298)		(1,937)	
Sale of property, plant and equipment		272		663	
Disposal of businesses	4	3,807		-	
Settlement of hedging derivatives		(3,157)		(3,070)	
Interest received		1,389		1,628	
Net cash flows from investing activities			(24,266)		(20,022)
Financing activities					
Issue of ordinary share capital		2,312		1,501	
Own ordinary shares acquired		(3,645)		(5,287)	
Interest paid		(954)		(2,828)	
Decrease in bank loans		(69)		(59,967)	
Repayment of lease liabilities		(5,168)		(4,717)	
Dividends paid on ordinary shares		(33,926)		(52,287)	
Net cash flows from financing activities			(41,450)		(123,585)
Net increase in cash and cash equivalents			71,544		10,824
Cash and cash equivalents at 1 January		117,612		104,489	
Effect of exchange rate fluctuations on cash held		(1,952)		2,299	
Cash and cash equivalents at 31 December			187,204		117,612

Notes to the Group Financial Statements

For the year ended 31 December 2020

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 2020 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 international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

New accounting standards and interpretations

i. 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 2021. 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 on-going impact of COVID-19 on the Group has been considered. The directors have reviewed: the current financial position of the Group, which has net cash of £178m and unused committed debt facilities of £60m as at the period 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 have reverse stress tested the forecasts and are satisfied that the downside scenarios are considered remote and that the Group would continue to have headroom on existing facilities. 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 2020. 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 2020 or 2019. Statutory accounts for 2019, which were prepared under International Financial Reporting Standards as adopted by the EU, have been delivered to the registrar of companies. Those for 2020, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, 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 2020 will shortly be available to shareholders, and after adoption at the Annual General Meeting on 30 April 2021 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.

	2020	2019
Profit before tax	122,037	124,057
<i>Adjustments:</i>		
Amortisation of acquired intangible assets	14,110	18,841
(Gain)/loss on disposal of businesses	-	(2,539)
Redundancy and executive change costs	5,744	2,791
Other restructuring costs	115	4,902
Adjusted profit before tax	142,006	148,052

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:

	2020	2019
Net profit attributable to ordinary shareholders	93,328	94,100
<i>Adjustments:</i>		
Amortisation of acquired intangible assets	14,110	18,841
(Gain)/loss on disposal of businesses	-	(2,539)
Redundancy and executive change costs	5,744	2,791
Other restructuring costs	115	4,902
Tax effect on adjusted items	(4,484)	(4,908)
Adjusted net profit attributable to ordinary shareholders	108,813	113,187

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.

	2020	2019
Adjusted operating profit	142,543	151,005
Capital employed		
Shareholders' funds	582,530	539,400
Cash and cash equivalents	(187,204)	(117,612)
Interest bearing loans and borrowings	9,150	11,543
Pension deficit net of deferred tax	30,965	23,942
Capital employed	435,441	457,273
Average capital employed	446,357	474,647
Return on capital employed	31.9%	31.8%

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. Flowthrough

Flowthrough is calculated as the change in OCC adjusted operating profit as reported, divided into the change in OCC revenue.

	OCC 31 December 2020	OCC 31 December 2019	Change
Revenue	612,035	661,173	(49,138)
Adjusted operating profit	144,419	150,090	(5,671)
Flowthrough			11.5%

i. 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 2020 results are restated at 2019 exchange rates. There are no disposals or acquisitions in 2020 that are not consistently presented in both periods.

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

	31 December 2020	Currency adjustment	OCC 31 December 2020
Revenue	604,544	7,491	612,035
Cost of sales	(320,234)	(4,750)	(324,984)
Gross margin	284,310	2,741	287,051
Overheads	(141,767)	(865)	(142,632)
Adjusted operating profit	142,543	1,876	144,419
Interest	(537)	(4)	(541)
Adjusted profit before tax	142,006	1,872	143,878
Adjusted taxation	(33,193)	(438)	(33,631)
Adjusted profit after tax	108,813	1,434	110,247

	31 December 2019	Impact of 2019 disposals	31 December 2019
Revenue	669,344	(8,171)	661,173
Cost of sales	(357,718)	6,044	(351,674)
Gross margin	311,626	(2,127)	309,499
Overheads	(160,621)	1,212	(159,409)
Adjusted operating profit	151,005	(915)	150,090
Interest	(2,953)	-	(2,953)
Adjusted profit before tax	148,052	(915)	147,137
Taxation	(34,865)	320	(34,545)
Adjusted profit after tax	113,187	(595)	112,592

3. OPERATING SEGMENTS

The Group has chosen to move from a product focused structure to an end market segment focused structure that more closely meets customer needs. 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
- Water & Power
- Chemical, Process & Industrial

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 which 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 and remain the same as they were under the previous product division structure.

Segmental information has been restated for the year ended 31 December 2019 to reflect the change in Group structure.

Geographic analysis

Rotork has a worldwide presence in all 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 2020	Water & Power 2020	Chemical, Process & Industrial 2020	Unallocated 2020	Group 2020
Revenue from external customers	292,173	157,766	154,605	–	604,544
Adjusted operating profit*	67,949	47,037	38,553	(10,996)	142,543
Amortisation of acquired intangible assets	(7,380)	(945)	(5,785)	–	(14,110)
Segment result	60,569	46,092	32,768	(10,996)	128,433
Other adjustments					(5,859)
Operating profit					122,574
Net finance expense					(537)
Income tax expense					(28,709)
Profit for the year					93,328

	Oil & Gas 2019	Water & Power 2019	Chemical, Process & Industrial 2019	Unallocated 2019	Group 2019
Revenue from external customers	330,049	154,880	184,415	-	669,344
Adjusted operating profit*	75,544	45,095	41,976	(11,610)	151,005
Amortisation of acquired intangible assets	(10,739)	(2,638)	(5,464)	-	(18,841)
Segment result	64,805	42,457	36,512	(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

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

	Oil & Gas 2020	Power & Water 2020	Chemical, Process & Industrial 2020	Unallocated 2020	Group 2020
Depreciation	7,884	4,296	4,184	-	16,313
Amortisation:					
– Acquired intangible assets	7,380	945	5,785	–	14,110
– Development costs	1,204	565	673	–	2,442
Impairment of development cost assets	–	–	525	–	525

	Oil & Gas 2019	Power & Water 2019	Chemical, Process & Industrial 2019	Unallocated 2019	Group 2019
Depreciation	8,023	3,785	4,507	44	16,359
Amortisation:					
– Acquired intangible assets	10,739	2,638	5,464	–	18,841
– Development costs	1,417	665	792	–	2,874
Impairment of property, plant and equipment	–	–	–	1,935	1,935

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	2020	2019
UK	66,077	70,779
Italy	62,176	68,448
Rest of Europe	106,940	121,118
USA	109,929	140,965
Other Americas	35,965	40,732
Rest of World	223,457	227,302
	604,544	669,344

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:

	2020	2019
Gain on disposal of businesses	-	2,539
Redundancy and executive change costs	(5,744)	(2,791)
Other restructuring costs	(115)	(4,902)
	(5,859)	(5,154)
	(5,859)	(5,154)

Redundancy and executive change costs

A further £5,744,000 (2019: £1,578,000) redundancy and executive change costs have been incurred as a result of the progress made with the Growth Acceleration Programme which is in year three of the five year programme. In 2019 the Group's operations in Taunton, UK closed resulting in redundancy costs of £798,000. The operations in Tulsa, USA also ceased in 2019 and the production transferred to other manufacturing plants in the USA. The closure of the Tulsa facility resulted in redundancy costs of £415,000.

Gain on disposal of business

The gain on disposal of £2,539,000 in 2019 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 2019 balance sheet date. The cash proceeds were received in 2020.

Other restructuring costs

Other restructuring costs of £115,000 in 2020 relate to changes in operating footprint in the USA. 2019 costs included £1,046,000 relating to the closure of the Taunton facility and £2,096,000 relating to the closure of the Tulsa facility, including asset write-downs of £1,657,000. £200,000 relates to ending development and sales of products for the containment area of nuclear power plants and £1,560,000 related to the ongoing review of the global footprint, including a £413,000 loss on disposal of a property.

Income statement disclosure

All adjustments are included in administrative expenses, with the exception of the gain on disposal of business in 2019 which is included in other income and the 2019 loss on disposal of property is included in other expenses. 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

	2020	2019
Interest income	1,517	1,803
Foreign exchange gains	877	284
Finance income	2,394	2,087

	2020	2019
Interest expense	(872)	(2,686)
Interest expense on lease liabilities	(499)	(431)
Interest charge on pension scheme liabilities	(609)	(750)
Foreign exchange losses	(951)	(1,173)
Finance expense	(2,931)	(5,040)

6. INCOME TAX EXPENSE

	2020	2020	2019	2019
Current tax:				
UK corporation tax on profits for the year	2,711		3,777	
Adjustment in respect of prior years	(966)		(570)	
		1,745		3,207
Overseas tax on profits for the year	28,034		28,082	
Adjustment in respect of prior years	(232)		(235)	
		27,802		27,847
Total current tax		29,547		31,054
Deferred tax:				
Origination and reversal of other temporary differences	198		(1,135)	
Impact of rate change	(1,018)		173	
Adjustment in respect of prior years	(18)		(135)	
Total deferred tax		(838)		(1,097)
Total tax charge for year		28,709		29,957
Profit before tax		122,037		124,057
Profit before tax multiplied by the blended standard rate of corporation tax in the UK of 19.0% (2019: 19.0%)		23,187		23,571
<i>Effects of:</i>				
Different tax rates on overseas earnings		7,613		6,856
Permanent differences		595		1,537
Losses not recognised		292		(66)
Tax incentives		(744)		(1,174)
Impact of rate change		(1,018)		173
Adjustments to tax charge in respect of prior years		(1,216)		(940)
Total tax charge for year		28,709		29,957
Effective tax rate		23.5%		24.1%
Adjusted profit before tax (note 2b)		142,006		148,052
Total tax charge for the year		28,709		29,958
Amortisation of acquired intangible assets		3,010		4,070
Defined benefit pension schemes (note 4)		-		-
Restructuring costs (note 4)		1,474		838
Adjusted total tax charge for the year		33,193		34,866
Adjusted effective tax rate		23.4%		23.5%

A tax charge of £65,000 (2019: £8,000) in respect of share-based payments has been recognised directly in equity in the year.

The effective tax rate for the year is 23.5% (2019: 24.1%). The adjusted effective tax rate is 23.4% (2019: 23.5%) 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 23.5% in 2019 to 23.4% in 2020, principally because of a reduction in the deferred tax liability relating to unremitted earnings from India as a result of a decrease in Indian withholding tax rates from 1 April 2020. The consequent fall in the adjusted effective tax rate has been partially offset by 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. 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 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 £256,554,000 (2019: £312,364,000).

7. CAPITAL AND RESERVES

	0.5p Ordinary shares issued and fully paid up 2020	£1 Non- redeemable preference shares 2020	0.5p Ordinary shares issued and fully paid up 2019	£1 Non- redeemable preference shares 2019
At 1 January	4,363	40	4,358	40
Issued under employee share schemes	7	–	5	–
At 31 December	4,370	40	4,363	40
Number of shares (000)	873,955		872,538	

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 £2,312,000 (2019: £1,501,000) in respect of the 1,417,104 (2019: 912,549) ordinary shares issued during the year: £7,000 (2019: £5,000) was credited to share capital and £2,305,000 (2019: £1,497,000) 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 £2,937,000 (2019: £3,485,000) and represents 997,000 (2019: 1,136,000) 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:

	2020 Payment date	2020	2019
The 2019 final dividend was postponed (final dividend for 2018: 3.70p)	-	-	32,248
3.90p interim dividend for 2020 (interim dividend for 2019: 2.20p)	25 September	33,926	20,039
		33,926	52,287

The recommendation to pay a 3.90 pence per share final dividend in respect of 2019 was withdrawn on 31 March 2020 in response to the uncertainty arising from the COVID-19 pandemic. The Board decided to pay this dividend as an interim dividend of 3.90 pence which was paid to shareholders on 25 September 2020.

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

	2020	2019
Final proposed dividend per qualifying ordinary share		
6.30p	55,059	
3.90p		34,029

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 871.7m shares (2019: 871.0m shares) being the weighted average number of ordinary shares in issue (net of own ordinary shares held) for the year.

	2020	2019
Net profit attributable to ordinary shareholders	93,328	94,100
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	871,401	870,238
Effect of own shares held	17	387
Effect of shares issued under Sharesave plans	244	401
Weighted average number of ordinary shares during the year	871,662	871,026
Basic earnings per share	10.7p	10.8p

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.

	2020	2019
Adjusted net profit attributable to ordinary shareholders	108,813	113,187
Weighted average number of ordinary shares during the year	871,662	871,026
Adjusted basic earnings per share	12.5p	13.0p

Diluted earnings per share

Diluted earnings per share is based on the profit for the year attributable to the ordinary shareholders and 873.3m shares (2019: 873.6m 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).

	2020	2019
Net profit attributable to ordinary shareholders	93,328	94,100
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares for the year	871,662	871,026
Effect of Sharesave options	561	1,214
Effect of LTIP share awards	1,101	1,347
Weighted average number of ordinary shares (diluted) during the year	873,324	873,587
Diluted earnings per share	10.7p	10.8p

Adjusted diluted earnings per share

	2020	2019
Adjusted net profit attributable to ordinary shareholders	108,813	113,187
Weighted average number of ordinary shares (diluted) during the year	873,324	873,587
Adjusted diluted earnings per share	12.5p	13.0p

9. EMPLOYEE BENEFITS

	2020	2019
Recognised liability for defined benefit obligations:		
- Present value of funded obligations	252,959	223,222
- Fair value of plan assets	(214,442)	(193,646)
	38,517	29,576
Other pension scheme liabilities	243	241
Employee bonuses	19,676	20,399
Long term incentive plan	560	542
Employee indemnity provision	2,474	2,227
Other employee benefits	5,021	5,325
	66,491	58,310
Non-current	42,846	33,576
Current	23,645	24,734
	66,491	58,310

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.

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 £nil during the year (2019: £2,000), and there was no outstanding debt at 31 December 2020 (2019: £nil).

FINANCIAL CALENDAR

2 March 2021	Preliminary announcement of annual results for 2020
8 April 2021	Ex-dividend date for final proposed 2020 dividend
9 April 2021	Record date for final proposed 2020 dividend
30 April 2021	Announcement of trading update
30 April 2021	Annual General Meeting held at Rotork House, Brassmill Lane, Bath, BA1 3JQ
3 August 2021	Announcement of interim financial results for 2021