



Keeping the World Flowing

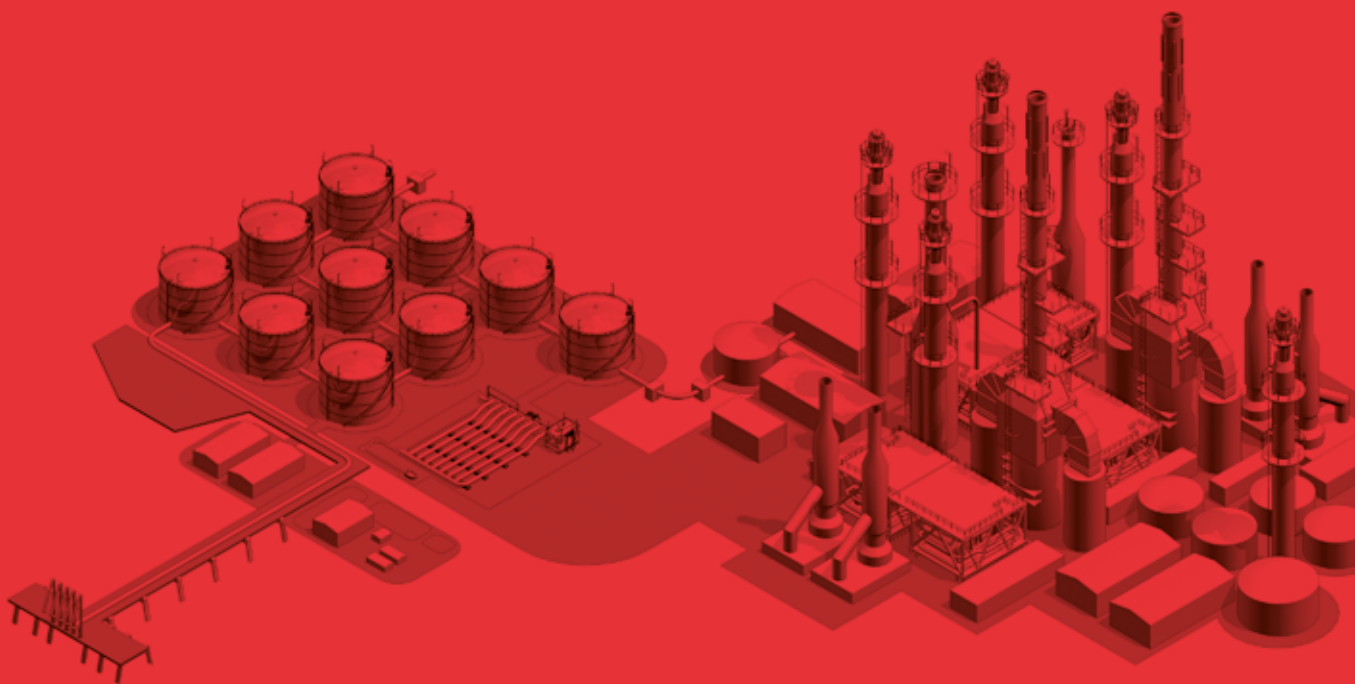
annual report and accounts 2013





Rotork is recognised as one of the world's leading designers and manufacturers of actuators and flow control equipment.

For nearly sixty years its products have been used in every industry where there is a need to control the flow of liquids and gases. From power stations in the UK, to water treatment plants in China, oil pipelines in Russia, to solar power stations in Spain, Rotork is always keeping the world flowing.





At a glance

Keeping the world flowing is something Rotork prides itself on. It specialises in the manufacture of actuators – a product used for the automation of industrial valves, as well as flow control solutions that all manage the flow of liquids and gases.

The Company's products contribute across the value chain in activities ranging from offshore and onshore production, refining and petrochemicals, water treatment, nuclear energy and concentrating solar power.

Divisions

The Group has chosen to organise the management and financial structure by the grouping of related products.

■ ROTORK CONTROLS

Operating Profit 2013*

£105.5m (+11.3%)

Rotork Controls manufactures electric actuators and control systems for the valve market throughout the world. Its main manufacturing facilities are in the UK, USA, Germany, China, India and Malaysia.

[See more on pages 16 to 17](#)

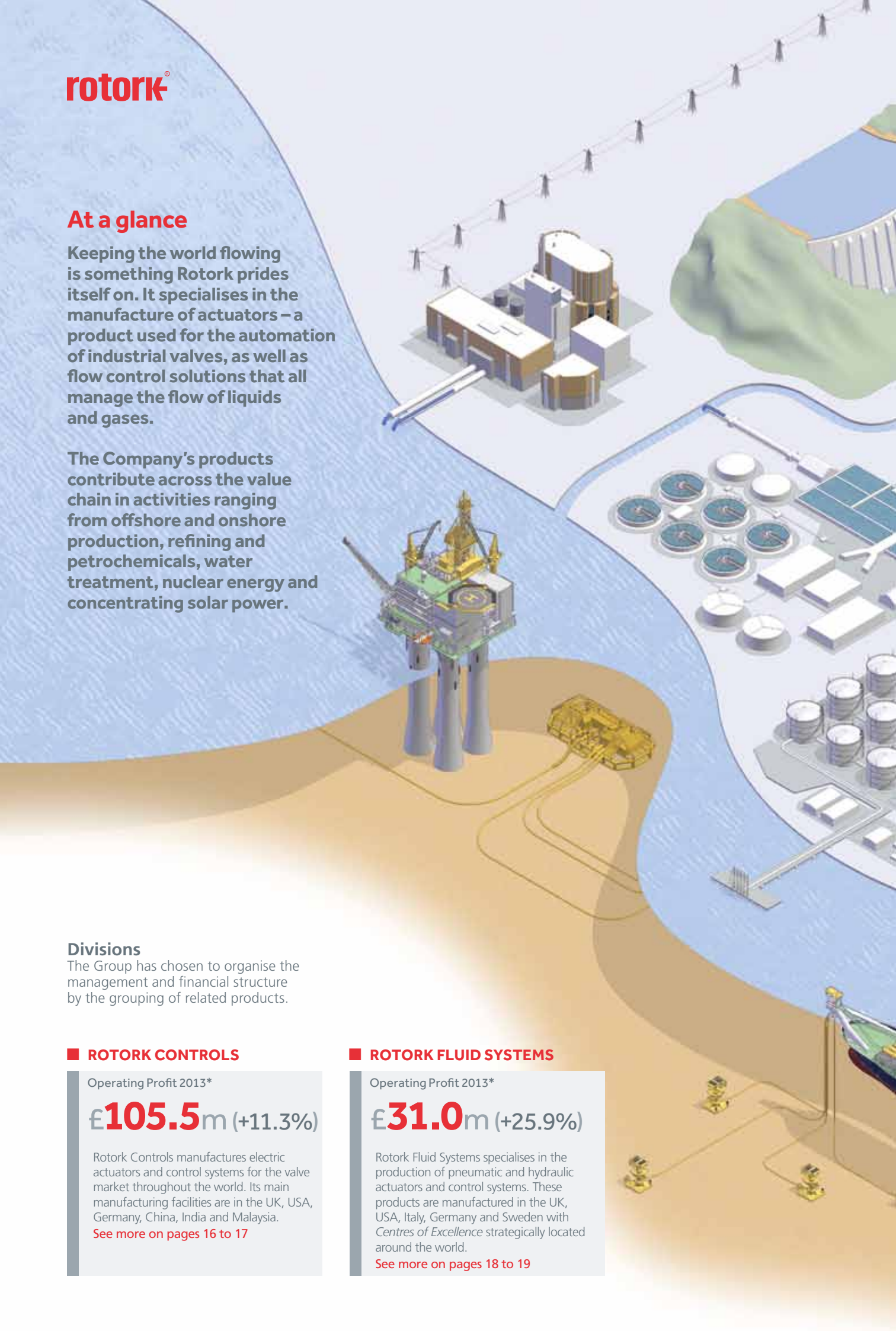
■ ROTORK FLUID SYSTEMS

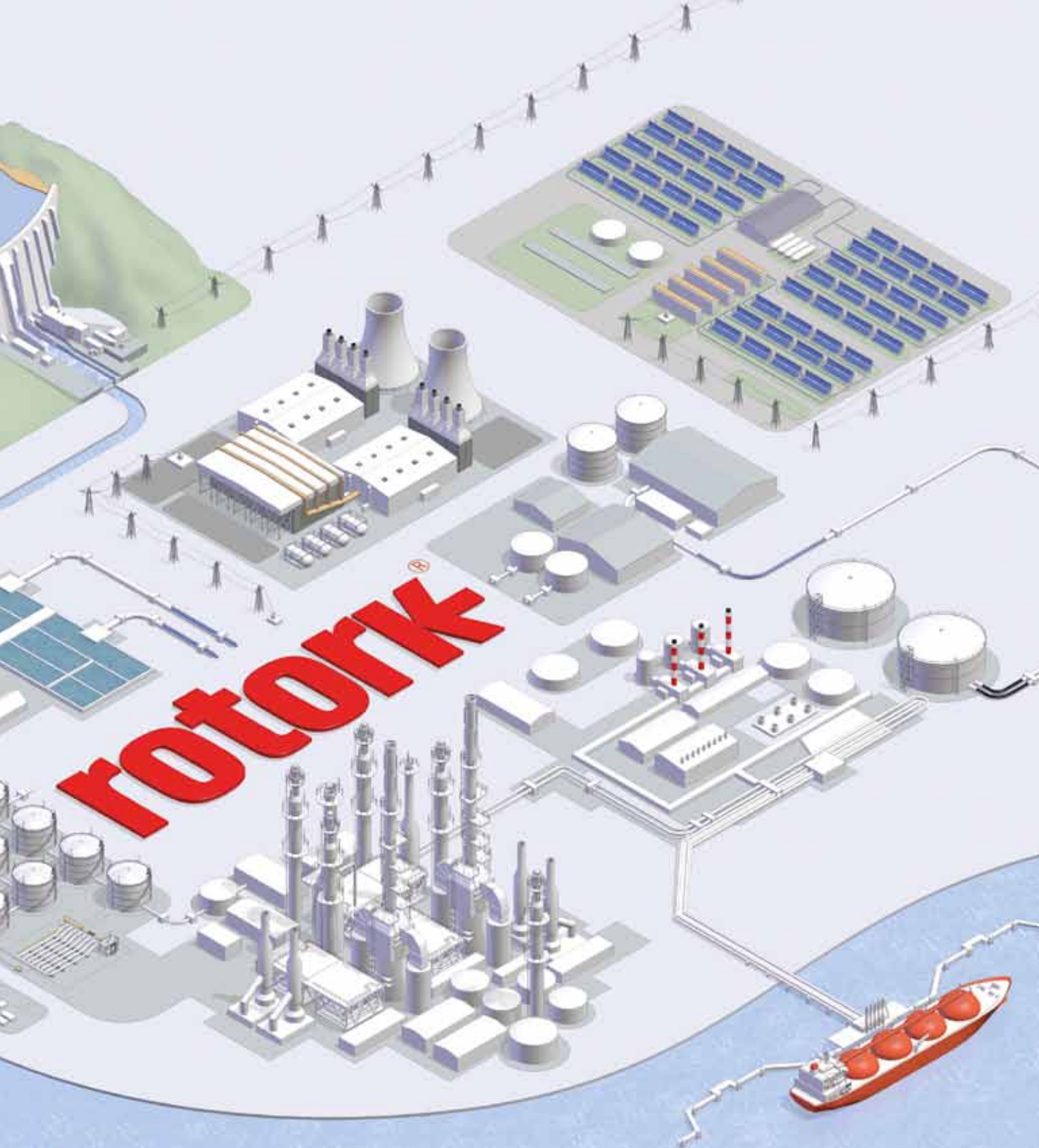
Operating Profit 2013*

£31.0m (+25.9%)

Rotork Fluid Systems specialises in the production of pneumatic and hydraulic actuators and control systems. These products are manufactured in the UK, USA, Italy, Germany and Sweden with *Centres of Excellence* strategically located around the world.

[See more on pages 18 to 19](#)





■ ROTORK GEARS

Operating Profit 2013*

£**13.0**m (+7.3%)

Rotork Gears manufactures complete gearbox assemblies and valve adaption kits for use with actuators and as direct valve operators. It has facilities in the UK, Netherlands, Italy, China, USA and India.

[See more on pages 20 to 21](#)

■ ROTORK INSTRUMENTS

Operating Profit 2013*

£**7.8**m (+53.5%)

Rotork Instruments manufactures products used in the pressure and flow control markets and has production sites in the USA and Italy, which are complemented by a large network of distribution and support centres.

[See more on pages 22 to 23](#)

Highlights

Keeping the World Flowing

When you turn on a tap or switch on a light, turn on a kettle or put fuel in your car, a flow control product is being used somewhere in the process of delivering that service.

Rotork products and services are helping companies in the oil & gas, water and waste water, power, marine, mining, food, pharmaceutical and chemical industries around the world to improve efficiency, assure safety and protect the environment.

From safety systems that may be needed just once in a lifetime to process controls that are constantly on the move, Rotork flow control products remain the clear choice, worldwide.

Revenue	£ 578.4 m	+13.0%
Operating Profit*	£ 151.4 m	+14.8%
Profit Before Tax	£ 138.0 m	+11.1%
Earnings Per Share	114.8 p	+11.3%

Highlights

- Record order intake, revenue and profit in each division
- Order intake up 7.3%
- Order book at £187.8m, up 3.8% from December 2012
- Continued expansion of product portfolio
- Four acquisitions completed in the year

Strategic report

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* References to adjusted profit throughout this document are defined as the IFRS profit, whether operating profit or profit before tax, with £12.1m (2012: £7.4m) of amortisation of acquired intangibles added back.

Geographical locations

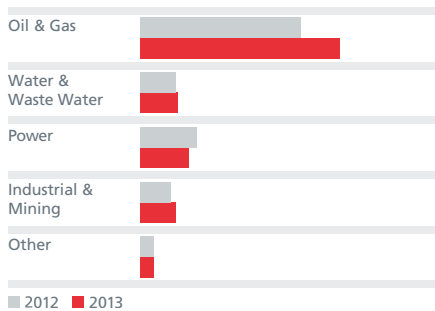
Serving the world

Rotork strives to ensure that it is in the correct location to support existing customers and to expand its customer base. It has always been committed to a global customer base, supporting operations in some of the most remote and challenging environments. Companies can source Rotork's products locally, supported by life-of-plant maintenance, repair and upgrade services.

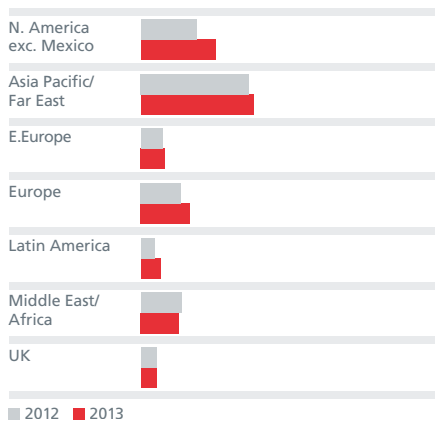
Rotork has established manufacturing facilities across the globe which, together with our own global network of local offices, regional *Centres of Excellence* and agents, provide over 800 Rotork outlets worldwide.

- A local service from a global company
- Over 350 service engineers available globally
- Structured support network with a flexible approach
- Over 120,000 flow control products under preventative maintenance contracts
- 24/7 access to client support centres

Group revenue by end user market



Group revenue by end user destination



8

manufacturing facilities

755

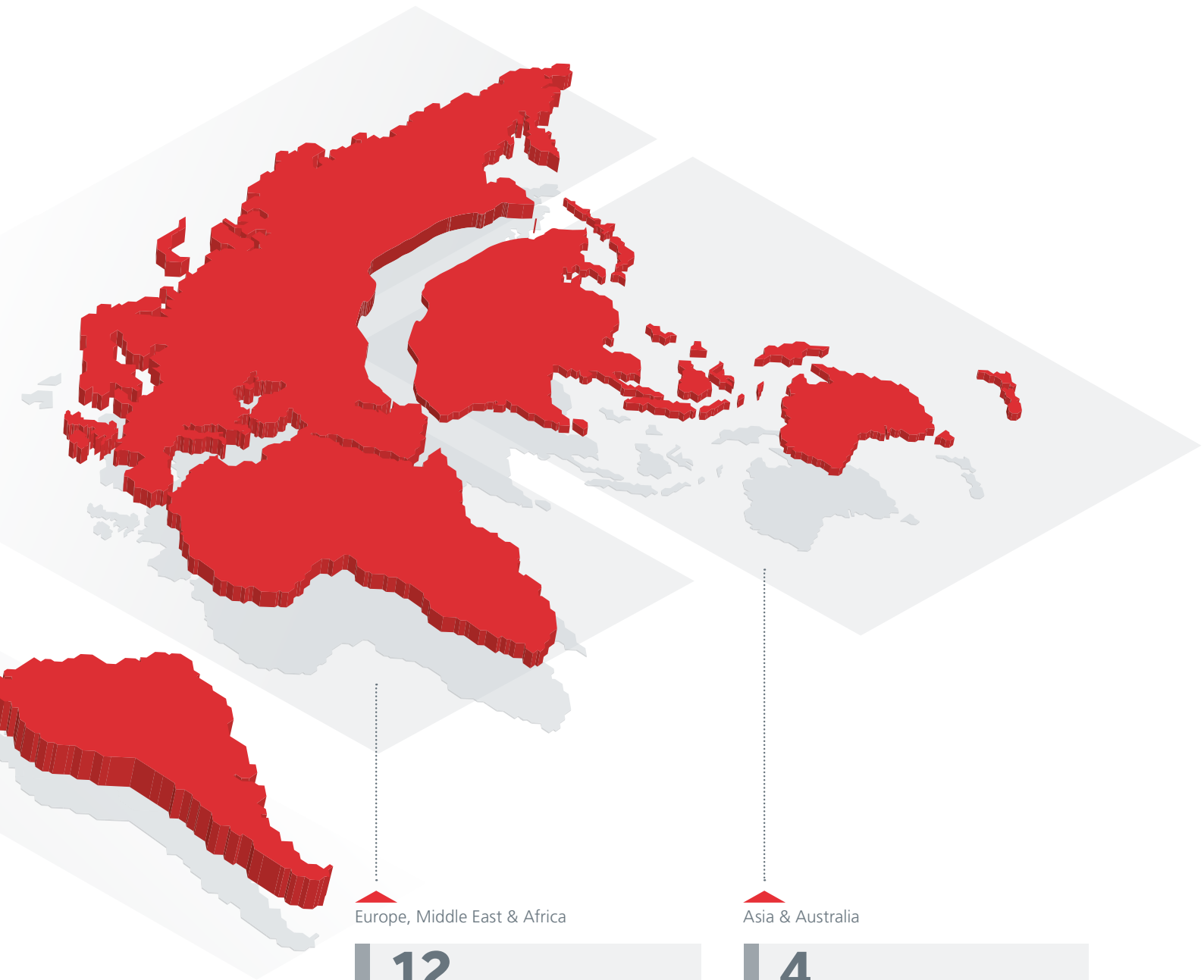
employees

12

offices

With the acquisition of Renfro the number of manufacturing sites has increased by one to now stand at eight. During 2013 Rotork Mexico relocated to new premises and we expanded two other offices. There are plans to open one new office in 2014.

Keeping the World Flowing



Europe, Middle East & Africa

Asia & Australia

12
manufacturing
facilities

4
manufacturing
facilities

1,591 **20**
employees offices

706 **26**
employees offices

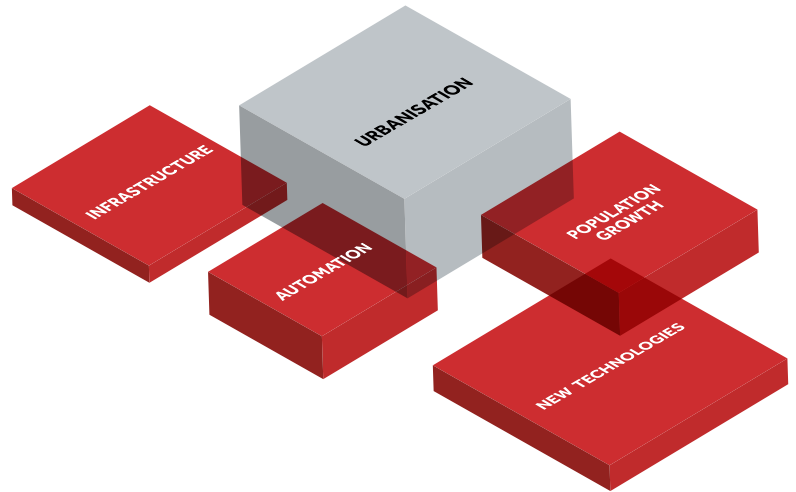
Following the acquisitions made in 2013, we have two additional manufacturing sites, one in Germany and one in Italy. We also opened a new office in Bath (UK) and expanded our Middle East office. In 2014 we plan to open four new offices and expand two of our current ones.

Our Malaysian facility that houses the sales and manufacturing operations moved to larger premises and we also expanded our Shanghai (China) facility. In 2014 we plan to open three new offices and expand one of our current offices.

Market overview

Market drivers

Many of the markets we serve are recognised as structural growth markets. The growth may be driven by investment in new infrastructure to support urbanisation or industrialisation, automation or refurbishment of existing plants. Population growth, the exploitation of new technologies and the desire to extract natural resources from ever more challenging locations are also drivers in some of our markets.



Urbanisation

There are increasing numbers of people living in urban areas especially in developing countries.

Population growth

Whilst the rate of increase has reduced in the developed world, in developing countries we expect to see the fastest population growth.

Infrastructure

Infrastructure is essential in order to support, sustain or enhance living conditions.

New technologies

New technological advances enable companies to increase the efficiency of their plant and improve the information being sent to the control centre, ultimately improving the return on investment.

Automation

All industry sectors continue to automate their operations to provide greater efficiency, improve safety or increase precision in production. Remote monitoring is also increasing.

TOTAL ADDRESSABLE MARKET

CONTROLS MARKET

£1,747m

FLUID SYSTEMS MARKET

£975m

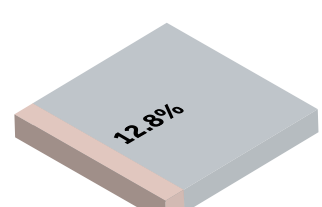
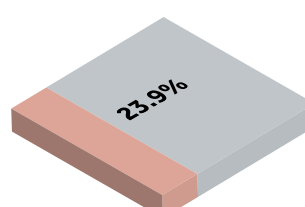
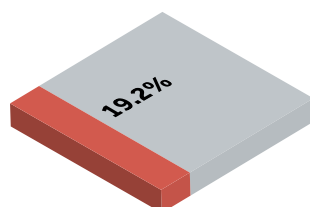
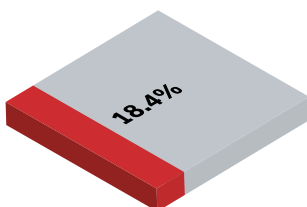
GEARS MARKET

£190m

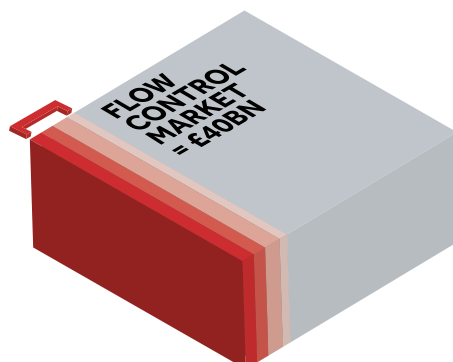
INSTRUMENTS MARKET

£188m

MARKET SHARE



**£3.1bn Rotork
addressable market**



Keeping the World Flowing

OIL & GAS



- Growth in global energy demand
- Unconventional oil & gas
- Global liquified natural gas (LNG) trade
- Strategic storage and reserves
- Geographic reallocation of refining capacity
- Greater capital intensity

POWER



- Urbanisation & population growth
- Industrialisation in developing countries
- Need for emissions reductions and increased efficiency
- Long term energy security – investment in nuclear & renewables

WATER



- Population growth
- Water scarcity and urbanisation
- Industrialisation – water re-use and desalination
- Ageing assets in developed economies
- Tighter environmental regulations

INDUSTRIAL AND OTHER



- Demand for metals, minerals and processed goods driven by developing countries
- Increased demand for vehicles from both commercial and consumer sectors
- Improved standards of living driving demand for Heating, Ventilation and Air Conditioning (HVAC), processed food & drink
- Rising energy costs creating the need for energy efficient equipment and systems

OPPORTUNITIES FOR GROWTH

■ CONTROLS

- Facility expansion
- New product launches
- HVAC market

■ FLUID SYSTEMS

- New product launches
- Expanding *Centres of Excellence*
- New markets

■ GEARS

- Valve adaption
- New markets

■ INSTRUMENTS

- Product development
- New markets
- Acquisitions

Business model and strategy

To maintain a market-leading position, we aim to provide high quality, technically advanced, innovative products coupled with a superior level of service that supports our customers' activities around the world.

Business model

Our global network of offices and manufacturing sites expands each year to ensure that support is local to the customer. The same Rotork culture is found at all of our sites and it is something we strive to bring to new offices and acquired businesses so that customers get consistently high quality service throughout the world. We operate an asset-light business model, with most of our manufacturing sites purchasing components in a finished form and then assembling to order.

Competitive strengths

■ TECHNOLOGICAL LEADERSHIP

Understanding our customers and the markets we serve allows us to continue to develop new products and lead the evolution of actuator and flow control products.

■ GLOBAL FOOTPRINT

Our offices around the world allow us to manage the complex global projects which account for the majority of our sales and to support customers in the field. Rotork Site Services work with our customers by installing and commissioning our actuators and by meeting their service requirements.

■ DIVERSE END MARKET EXPOSURE

Wherever fluids or gases are being moved and the process needs to be automated or contain failsafe controls, actuators and flow control products are required. We highlight the oil & gas, power and water markets because they use actuators most intensively and in a broad range of applications but we also sell to many other markets.

■ BREADTH OF PRODUCT PORTFOLIO

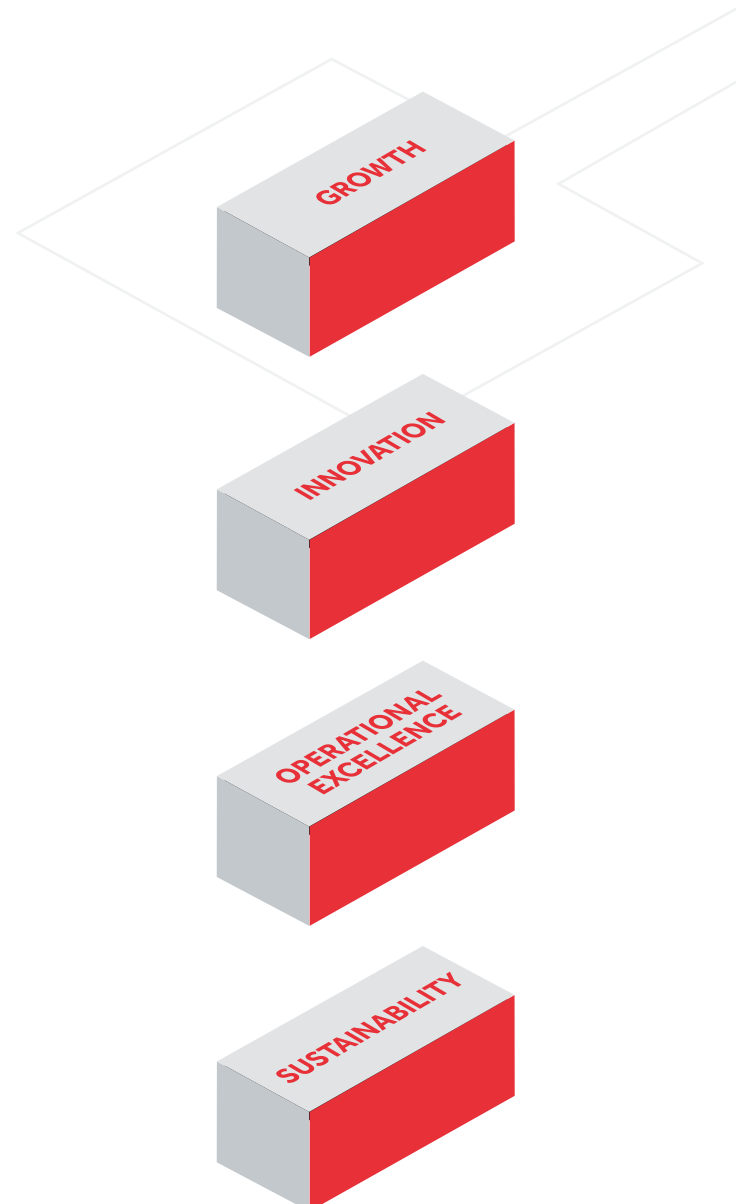
Through product development and acquisitions, we have built up the broadest range of actuators on the market and have started to add a range of flow control instruments. This ensures we have the appropriate product for the widest range of applications within a site or a project.

■ ASSET-LIGHT BUSINESS MODEL

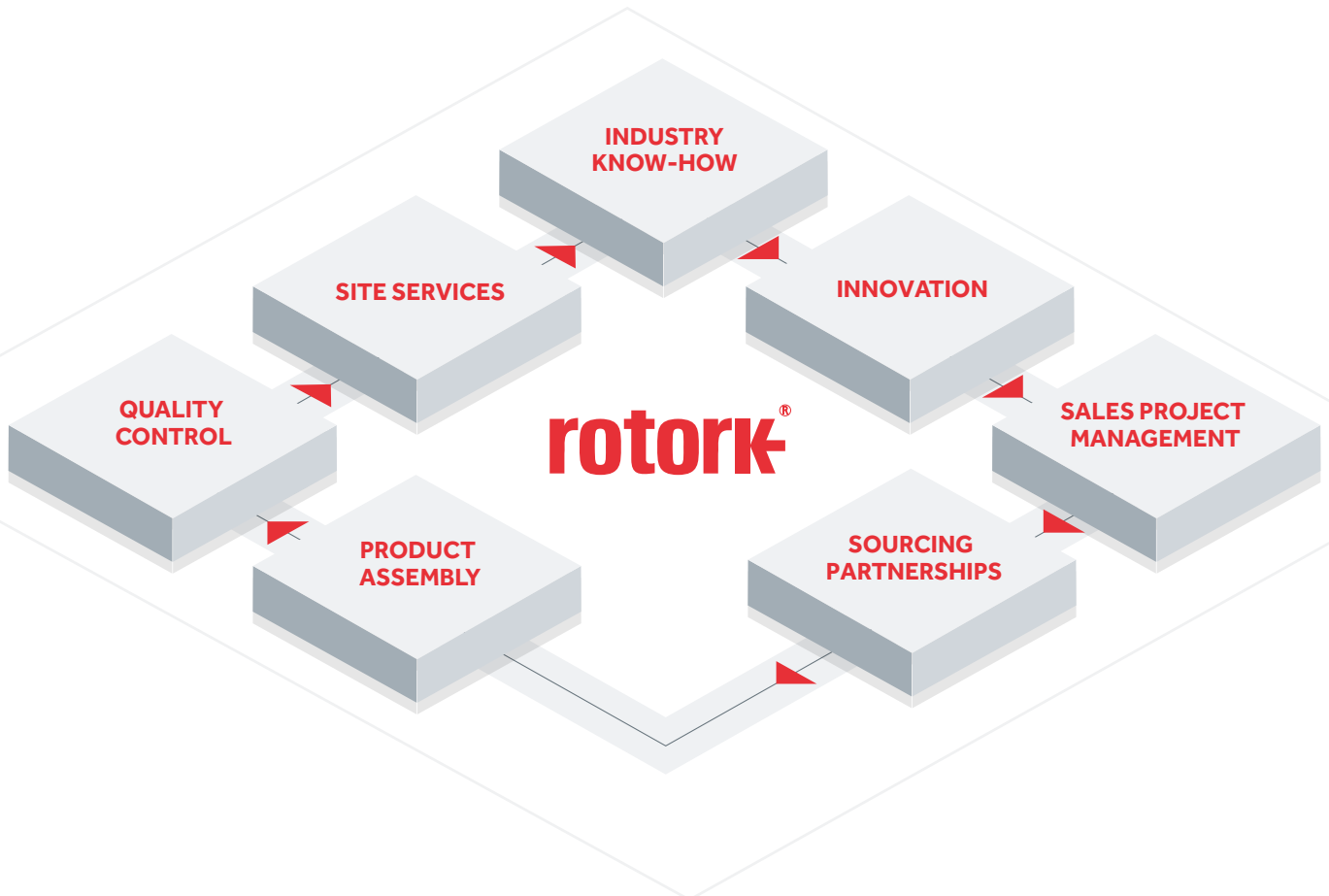
Over 90% of our products are built using an outsourced manufacturing model, with our workforce assembling components and configuring products to match customer orders. We have developed a global network of suppliers who manufacture the components to our designs and who use our tooling.

■ QUALITY

Our products are used in demanding environments where consistency of performance is often critical to a process. Customers expect Rotork products to be reliable and our quality control procedures, which extend to cover our supply chain, are central to delivering this.



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Strategy

Rotork's vision is to be the leader in our targeted segments of the global flow control market. The targeted segments comprise the traditional electric, fluid power and manual actuators used to control the flow of fluids and gases. These markets are addressed by our Controls, Fluid Systems and Gears divisions. In addition, the broader instrumentation, diagnostics and feedback devices used in pressure control and measurement or flow control and measurement, form the targeted segments for Rotork's Instruments division.

ROTORK STRATEGY

- Providing high quality and innovative products and services to control the flow of fluids and gases
- Meeting customer needs through global expertise delivered locally
- Achieving consistent, sustainable and profitable growth
- Being the employer of choice

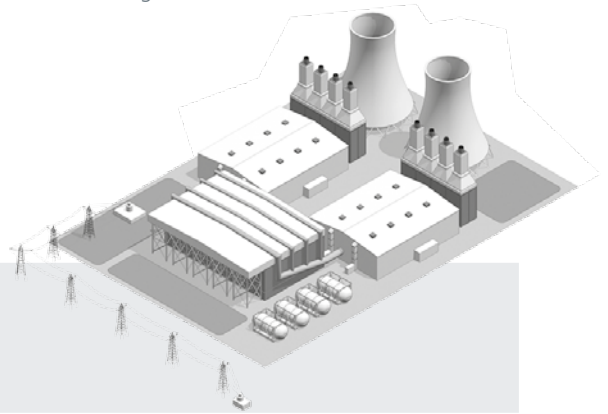
Progress against strategic priorities

We seek to deliver a high return on capital, strong and sustainable margins and consistent year-on-year growth in revenues and profit which, combined with the asset-light model, deliver strong cash generation. This cash is used to fund the growth of the business, both organically and through targeted acquisitions, and to fund sustainable and consistent growth in our core dividend.

To provide short-term focus, we agree an annual set of key objectives. The progress against these during the year and objectives for the coming year are shown below.



Rotork is focused on growth and our objectives reflect this. We have always grown through a combination of organic expansion and acquisition and we will continue to pursue both routes in the future.



STRATEGIC PRIORITIES

■ SALES GROWTH

Deliver profitable sales growth by focusing on the customer, increasing our international coverage, broadening our end markets and continuing to integrate our new acquisitions.

■ ACQUISITIONS

These are a core part of our growth strategy. Our criteria for acquisitions are that they bring Rotork a new product, a new geographical market or a new market sector. Often the target will satisfy two or even three of these criteria. We retain a rigorous and disciplined approach to acquisition pricing.

■ CUSTOMER SUPPORT PROGRAMME

We continue to develop our Rotork Site Services capabilities to ensure we provide the level of local support our customers have come to expect from us.

ACHIEVEMENTS 2013

Expanded or moved to larger facilities in Bath (UK), Middle East, Mexico, Malaysia, Brazil, Shanghai (China) and Houston (USA). Gained greater knowledge of new end markets outside of our traditional areas.

Acquired Schischek (January), Flowco (July) and GT Attuatori and Renfro (August).

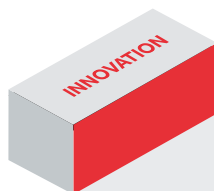
Increased the number of service engineers by 9%, expanded the RSS management team and expanded the service workshops in five locations.

OBJECTIVES 2014

Move into the new factory in Leeds (UK) as well as considering locations for new sales offices or expansion of existing offices. Continue to build knowledge of a number of less well developed end markets and consider these opportunities.

Execute acquisition plan of identified opportunities.

Launch the Client Support Programme service platform whilst continuing to expand the service team and establish new workshops where there is customer demand.



The introduction of new technologies and features into actuators has been central to Rotork's development. We continue to look for ways to enhance our products and satisfy our customers' requirements.

STRATEGIC PRIORITIES

■ NEW PRODUCT

Introduce and develop new products in each of the divisions.

ACHIEVEMENTS 2013

There were a number of product launches and expansion of product ranges / certifications during the year in all divisions.

OBJECTIVES 2014

A number of product launches are scheduled this year in line with the product roadmap established for each division. Development continues in other areas, including nuclear and within the recently acquired businesses.

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Rotork has operated an outsourced manufacturing model for many years. In our newly acquired businesses our preference is also to outsource the low value add processes but we review each situation and decide on a case by case basis.

STRATEGIC PRIORITIES

■ MANUFACTURING EXCELLENCE

Rotork continues to develop world-class manufacturing.

■ SUPPLY CHAIN MANAGEMENT

Rotork's outsourced manufacturing model means that material costs are the most significant component of direct costs. We have always sought to control these costs and wherever possible leverage our global presence to source materials.

■ GLOBAL BUSINESS SYSTEMS

Rollout our global system for the sales and service offices and start development of the manufacturing functionality.

ACHIEVEMENTS 2013

A focus within our facilities to drive process improvements has been supported in some locations by new or expanded facilities and enhancements to systems.

We continued to expand our sourcing team. We managed to mitigate inflationary price pressures through negotiation and finding new suppliers to deliver cost savings throughout the year.

The new system is now operational in many sites and the rollout template is now well developed.

OBJECTIVES 2014

In conjunction with the development of a manufacturing version of our global business system, we will carry out a review of our procedures in order to share best practice within the Group.

Continue to look for opportunities to take costs out of all our products through sourcing or product development. Our proven sourcing capabilities will be supported with increased resources once again as we also focus on recently acquired businesses.

Continue the rollout through the sales and service offices and start development of manufacturing system.



In order to support our long-term focus, Rotork requires trained and motivated employees to deliver our strategy. This, together with providing a safe working environment, is key to maintaining the high levels of staff retention we currently enjoy.

STRATEGIC PRIORITIES

■ EMPLOYEE DEVELOPMENT

We will invest in our people and encourage internal development to support our future growth plans. We recognise the benefits of diversity amongst our employees and will promote this both through external appointments and internal development.

■ CORPORATE SOCIAL RESPONSIBILITY (CSR)

Our objectives for CSR are monitored by four separate committees covering health and safety, environment, ethics and social issues which report to the CSR Committee chaired by the Chief Executive. Our approach in these areas is to communicate best practice throughout the Group, training those responsible and, where appropriate, verifying adoption in each subsidiary.

ACHIEVEMENTS 2013

The Group training team has initiated a number of training plans targeted at different groups throughout the world. The Group's Statement re: Women on Boards has set the tone for gender diversity within the Group. Our graduate and apprentice recruitment programme continues to grow.

Health and safety audit scores improved in the year and the associated KPI (Accident Frequency Rate) also improved. Our new environmental KPI, focused on carbon emissions showed an improvement in the year. The ethics committee continued to communicate the provisions of the UK Bribery Act now using online training. Our employees gave their time and energy to support a wide variety of good causes around the world.

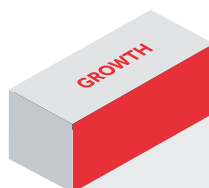
OBJECTIVES 2014

Broaden the range of online and face to face training programmes to cover more employees. Continue to grow the graduate and apprentice programmes and through this, as well as higher level recruitments, promote diversity.

Continue to communicate best practice to all locations and provide the necessary training to support local teams. Focus on year two carbon emissions and our targeted 3% reduction in CO₂ per £ of revenue in 2014. Encourage our employees to continue in their efforts for our global charity, WaterAid, as well as other local charities in the countries in which we operate.

Strategy in action – Focused on growth

We will seek to grow our addressable market in three ways: through acquisitions, organic growth in our existing and new markets and through product development that will allow us to address a wider section of our existing market and take us into new markets.



Rotork is focused on growth and our objectives reflect this. We have always grown through a combination of organic expansion and acquisition and we will continue to pursue both routes in the future.

Organic growth

GEOGRAPHIC COVERAGE

We will continue to invest in our infrastructure to cope with the increased levels of demand and take advantage of the opportunities in the markets that we serve. Our facilities will provide a safe working environment for our staff. We will continue to lease facilities as a preference, in line with our asset-light business model, and only purchase a facility as part of an acquisition or if there are specific operational reasons to do so.

- Realise new facility plans
- Review suitability of all locations and invest or restructure as appropriate
- Continually improve delivery performance to exceed customer expectations
- Continuous improvement in Quality Excellence
- Drive plant efficiency through the implementation of best practices and lean initiatives
- Complete move to new Leeds facility
- Focus on cost reduction in existing plants
- Reduce and maintain inventory to sales ratios at target levels

PRODUCT DEVELOPMENT



By leveraging Group technology and expertise we provide our customers with innovative and competitive solutions to their needs in a timely manner. This is supported by a continuous search for new technology to maintain our market leadership.

- Reduce product development time
- Increase interaction with other product introduction stakeholders
- Continual development and utilisation of RIDEC
- Continue to develop Group processes through the Group Engineering Forum
- Leverage Group technology throughout the product ranges
- Value Engineering
- Develop a Group range of nuclear products

Growth by acquisition

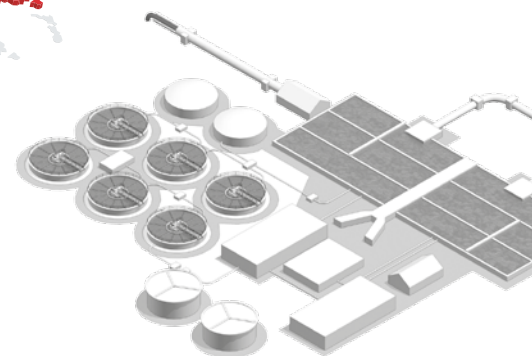
Our acquisition strategy remains unchanged: we continue to look for opportunities to grow through acquisition. Our target companies will be in the field of flow control and are tested against our set criteria. They should satisfy at least one of the following criteria; enhance our position in an end user market, enhance or extend our product offering or enhance our position in a geographic market. During 2013 we acquired four companies; Schischek, GT Attuatori, Renfro and Flowco.

1. SCHISCHEK

- Design, manufacture and sale of explosion-proof electric actuators
- Established in 1975
- HVAC market place
- Part of the Controls division
- Exposure to attractive new end markets

Following the acquisition of the Schischek group of companies in January 2013, it has now been fully integrated and rebranded as Rotork Schischek. Rotork Schischek is a leader in the design, manufacture and sale of explosion-proof electric actuators, principally for the heating, ventilation, and air conditioning (HVAC) market place.

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Schischek meets all three of our acquisition criteria. The acquisition has enhanced Rotork's existing range of actuators, provided Rotork with exposure to an attractive new end market and increased our scope for growth in Germany and Europe.

Schischek has its main sites in Langenzenn near Nuremberg in Southern Germany and Lutzenberg in Switzerland. Germany is one of the largest domestic markets in Europe and is a global centre for industrial process manufacturers and for this reason we have recently restructured our sales and management team in Germany to leverage our current infrastructure and drive growth.

2. GT ATTUATORI

- Manufacture a range of pneumatic rack and pinion actuators
- Established in 1963
- Based in Milan, Italy and Sinzig, Germany
- *Centre of Excellence* in Germany
- Part of RFS division

The acquisition of GTA has brought one of the longest established and best regarded rack and pinion manufacturers in our markets to Rotork. GTA has become part of our Fluid Systems division and this acquisition extends our distribution sales, extends our product offering and enhances our distribution channel in Europe.

GTA has a plant in Milan, Italy, and two businesses in Germany. One of these is a *Centre of Excellence*, selling packages of actuators and valves, and both have been integrated into our new German sales structure.

3. RENFRO

- Design and manufacture valve adaptations
- Established in 1979
- Based in Broken Arrow, Oklahoma
- Part of Gears division

Renfro is another long established business with an excellent reputation for delivering high quality products and services to its customers mainly in the oil & gas, water treatment and food processing industries.

The acquisition provides Rotork with the opportunity to repeat the success of its UK-based valvekits business by expanding the Renfro offering across the USA. Rotork acquired Renfro because it will extend our valve adaption capability and allow us to grow the valvekits business in the USA.

4. FLOWCO

- Dedicated team of service engineers
- Based near Bath, UK
- Focus on water industry
- Part of Controls division

Flowco is an actuator service company based near Rotork's Bath headquarters, UK. Flowco has excellent relationships with its water utility customer base who value the responsiveness of its service offering. Referring to our criteria, Flowco was acquired in order to extend our service capability in the UK market.

Chairman's statement



ROGER LOCKWOOD
CHAIRMAN

Our strategy of expanding our product portfolio, geographic reach and end market exposure has enabled us to deliver another year of record order intake, revenue and profit.

- 11.7% increase in dividends
- Positive contributions from all acquisitions during the year
- A number of product launches in 2013 with more planned for 2014
- The global markets that we serve remain active

Financial Highlights

The 13% growth in revenue this year to £578m benefited from the four acquisitions made during the year and a currency tailwind. On an organic constant currency basis revenue grew 6% with currency adding 2% and acquisitions providing the remaining 5%. Adjusted* operating profit increased by 15% to £151m, or 9% on an organic constant currency basis, delivering an operating margin of 26.2%, compared with 25.8% in 2012. Each of the divisions reported improved margins compared with the prior year. Earnings per share increased 11% to 114.8 pence per share or, based on adjusted profit*, by 14% to 124.9 pence. With operating cash conversion of 100% in the year, net cash balances increased by £9m to £69m at the year end.

Growth has been generated this year from developing both new end markets and new geographies and from a combination of organic expansion and acquisition.

Acquisitions have always been a part of our growth strategy and this year we acquired four companies that supplemented our organic growth.

At the beginning of 2013 we acquired the Schischek group of companies, which performed very well in the year, and mid-year we acquired GTA Group, a rack and pinion actuator manufacturer. The products of both acquisitions are now being sold through

Rotork's network of sales subsidiaries and the process of integration is well underway. Flowco, acquired in July, services the water utilities after-market and has become part of our Rotork UK business. Renfro, acquired in August, provides Rotork with the opportunity to create a US-based valve adaption business similar to our current Valvekits business in the UK. All of the acquisitions made positive contributions during the year, as did Soldo, the Italian switchbox manufacturer acquired in November 2012, which delivered a good first full year of trading within the Instruments division.

Innovation has always been one of Rotork's core strengths. This year saw a number of product launches with more planned in each division for 2014. The Rotork Innovation Design & Engineering Centre (RIDECE) based in Chennai (India) has supported these efforts, working with all Rotork divisions and helping accelerate the pace of innovation.

I would like to acknowledge the high level of commitment and professionalism of our employees and to congratulate them on their contribution in delivering another year of record results.

Board Composition

After serving on our Board for nine years, latterly as the Senior Independent Director, Ian King will retire at the June Board meeting. I would like to thank Ian on behalf of the

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11.7%
dividend increase



Board for his excellent contribution to the Group over this period. We are currently recruiting to fill the vacancy that Ian's departure will create and we will announce this and any consequent changes in positions in due course. The Board is compliant with the Corporate Governance Code at present in that half the Board, excluding myself as Chairman, are independent non-executives and following the changes outlined above it will remain compliant. In addition the Board meets our stated aim that 25% of our independent non-executives are women.

Board Performance

We have used external consultants to conduct an independent appraisal of Board effectiveness for a number of years and did so again this year. The feedback from the review was positive and there was a strong sense that the Board has continued to build on the progress made in prior years. There is a level of openness and support between Board members which allows the Board to function effectively and in a way that all members are comfortable with. The review noted that improvements had been made this year in the process of setting strategy and monitoring the performance of new initiatives and acquisitions. The focus areas for the coming year include succession planning, talent management and continuing to manage the growth of the Company, whether that is within the existing operations or through the making and integration of

acquisitions. Overall, I remain satisfied that the composition of the Board with its broad range of experience and skills enables it to fulfil its role to full effect.

Corporate Governance

The Board is committed to high standards of governance, we see this as central to delivering increasing shareholder value over the long term. The Board considers all the aspects of the business necessary to provide good governance and these are set out in the Corporate Governance Report. I am pleased to be able to confirm that Rotork complies with all aspects of the 2010 and 2012 versions of the UK Corporate Governance Code.

Dividend

The Board recommends a final dividend of 30.0p per share which, taken together with the 2013 interim dividend, gives a payment of 48.05p per share (2012 dividend: 43.0p), representing a 11.7% increase in dividends. This dividend will be payable on 19 May 2014 to shareholders on the register on 11 April 2014.

Outlook

We continue to invest for growth, increasing our international sales network and expanding our product portfolio both organically and by acquisition to strengthen our presence in the wider flow control market.

The global markets that we serve remain active, providing further opportunities for growth, although we recognise that we are likely to experience weakness within some regions due to economic conditions and a headwind from currency. Nevertheless the Board remains confident of achieving further progress in the coming year.

Roger Lockwood

Chairman

3 March 2014

* References to adjusted profit throughout this document are defined as the IFRS profit, whether operating profit or profit before tax, with £12.1m (2012: £7.4m) of amortisation of acquired intangibles added back.

Chief Executive's review



PETER FRANCE
CHIEF EXECUTIVE

Rotork's performance once again highlights the benefits of our diverse end market exposure and the critical role that our products play in keeping the world flowing. We have continued to invest in our product portfolio and international sales channels and each of our divisions has achieved record results this year.

- Record order intake, revenue and profit in each division
- Sales to oil & gas market up 24%
- Four acquisitions completed in the year
- Increased product portfolio
- Increased investment in infrastructure

Our geographic presence continues to grow and during the year we expanded our factories in Shanghai and Houston, moved to new facilities in Malaysia, Mexico, Middle East and Brazil and opened a new office in Bath, UK. We now have 24 manufacturing sites, 58 national offices and 81 regional locations in 34 countries. In total we have over 800 sales channels in 95 countries. In line with our strategy and the requirements of our customers, we remain focused on building a truly global operation with a local presence.

The year ended strongly, with order intake returning to the levels we saw at the start of 2013, although the strengthening of sterling reduced the fourth quarter reported order intake by 6.1% compared with the first quarter. For the year as a whole order intake was £578.7m, 7.3% higher than 2012. Acquisitions contributed 4.9% of the growth and currency a further 1.6%.

During the year, we delivered on orders from a number of the larger projects won in 2012. As a result, revenue grew 13.0% to £578.4m and was boosted by a record output in the last quarter, beating the previous record set in the final quarter of 2012, with organic constant currency growth of 6.3%. The adjusted* operating profit margin was 26.2%, a 40 basis point improvement on 2012.

At our Capital Markets Day in November we introduced our new strapline, 'Keeping the World Flowing'. As a flow control company, Rotork's products impact our everyday lives from the moment we wake until the end of the day, whether we are turning on a light, filling a kettle or putting fuel in our car. Our products operate in some of the most remote and challenging environments, where reliability and local support are vital to keep our customers' operations running. The industries we serve often have high barriers to entry and our products often require certification because of their mission-critical nature. Our strategy is to continue to expand our product portfolio and strengthen our geographic reach, whilst broadening our end-market exposure.

In 2013 we saw a 24% increase in sales to the oil & gas market, which now represents 59% of Group revenue. These sales were into many different parts of the oil & gas industry with upstream sales increasing to 11% of Group revenue, mid stream to 22% and downstream reducing to 26%. The increases in upstream and midstream were driven partly by the major projects delivered during the year in Australia and Mexico. The Indian power market has still not regained its former strength and, combined with the consequential effect this has had on demand from Chinese boiler makers, revenue from the power market declined 13%. The long-term drivers behind this market remain positive and we remain confident that it will return to growth. Water sales grew 4% with products serving this end market now to be found in each of the divisions. The growth of our Instruments division and recent acquisitions

such as Schischek have boosted our industrial and mining sales, which rose by 18% such that revenue from these end markets is now very close to our sales in the water market.

During the year we invested in our infrastructure and will continue to do so in 2014. Our sales office network will continue to grow as we look at opportunities for new offices in Eastern Europe, China, Southern Africa and Australia. These new locations have been identified as areas where either there is a significant installed base of our products which will provide service opportunities or where there are opportunities for new product sales. We will also continue to invest in our existing locations with the new factory in Leeds due to complete in 2014, the planned expansion of our Singapore office and our business in Bilbao, Spain, relocated to new and larger premises.

Research and Development

Innovation remains a core driver of our growth and 2013 has seen product launches or range expansions in all divisions. In Controls we extended the range of IQ3 sizes and options available and continued the process of certifying the product for more of the markets we sell into. In Fluid Systems the second phase of the Gas-over-Oil product range was launched and both Gears and Instruments launched a number of new ranges.

Keeping the World Flowing



13.0%
revenue growth



We have continued to add to the number of engineers who are focused on product development and we have restructured our electronics development team to reflect the fact that this resource supports all of the divisions rather than just Controls. Our spend on R&D increased once again this year, up 13.4% to £8.4m, despite the investment in IQ3 now being past the peak spend prior to initial launch. The initiatives currently being worked on will support product launches in 2014 and beyond.

Rotork Site Services (RSS)

RSS predominately operates within Rotork Controls and Rotork Fluid Systems and we have built on this position to provide a standard approach to how we service customers of all our products and divisions. The team focuses on their ability to provide service and support in virtually every country in the world through preventative maintenance contracts, onsite and workshop service and retrofit solutions.

Our flow control products are often required to support operations in some of the most remote and challenging environments and our customers demand reliable products. Should they require support, local service is critical. To extend our current offering we are launching a new Client Support Programme in 2014 that will offer a tailor-made service that precisely fits the specific needs of every customer.

The performance of RSS is measured against key metrics including the number of service engineers. In 2013 we increased the number of service engineers by 9% so that we now

have over 350 service employees around the world. The number of actuators under some form of preventative maintenance contract is greater than 120,000.

Our people

Rotork is a great place to work and it is important for our people to have input into the development and future of the Company. For nearly sixty years we have sought to foster an open and honest culture based on employee involvement. In November we conducted our annual Employee Satisfaction Survey, where the response rate increased from 77% to 79% and the overall satisfaction score also improved. The global results showed that on average people are most satisfied with Rotork's products and services, our approach to health and safety, values and ethics, are happy that they have a secure and interesting job and would recommend Rotork as an employer to a friend.

Our workforce increased by 250 people in 2013. From the four acquisitions we welcomed 168 employees to the Rotork family and 82 were recruited through growth in our existing locations. This means we now have over 3,050 employees based in 34 countries.

The success of Rotork is down to the hard work and dedication of our people. I would like to personally thank each and every one of them for making Rotork the market leading world-class business that it is today.

Corporate Social Responsibility

We recognise our responsibilities relating to our people, the companies we trade with, as well as the communities and physical environments in which we work. The Rotork Corporate Social Responsibility (CSR) Committee has set high standards in order for these to be embedded within each business. There are four Sub-Committees which each report to the CSR Committee throughout the year on the progress made in the areas of environment, health and safety, ethics and social issues.

WaterAid continues to be our chosen global charity with £55,000 donated by Rotork together with £6,600 contributed by employee fundraising events. We also support local charitable events and additionally this year we have made a special donation to the Institute of Cancer Research, London. It has been a particularly difficult year with cancer deeply affecting the lives and families of a number of our colleagues.

For more information about the CSR Committee and details of the work carried out during the year see pages 34 to 41.

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Business review – Controls

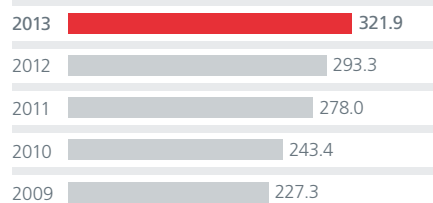


GRANT WOOD
MD ROTORK CONTROLS

The year ended with improving order input and strong fourth quarter revenue. This resulted in full year revenue growth of 9.7% which in turn drove a 50 basis point improvement in adjusted* operating profit margin.

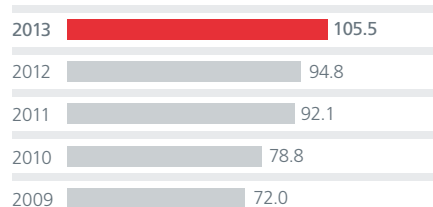
Revenue (£m)

+9.7%



Adjusted* Operating Profit (£m)

+11.3%



Having launched the third generation of our flagship IQ actuator in 2012, this year was one of transition with IQ2 volumes diminishing and IQ3 growing. IQ3 was first manufactured at our site in Bath, where it now accounts for the vast majority of IQ production and has now been rolled out to our factory in Rochester (USA). Innovation has been key to Rotork's success over the years and the benefits and features of the IQ3 have reinforced our reputation for being the market leader for medium to heavy-duty electric actuators. The Compact Modulating Actuator (CMA), launched at the end of 2012, gained market acceptance during 2013 and we saw sales of this product line supplement those of the Control Valve Actuator (CVA) and expand our process control sales.

In 2012 we received a number of large Australian coal seam gas project orders that we did not expect to be repeated in 2013. As a result, although order intake increased by 2.9% on a reported basis, on an organic constant currency basis it was 3.4% lower than 2012. Overall activity levels improved towards the end of the year but the order book closed the year 2.6% lower at £100.3m.

Revenue grew 9.7% to £321.9m, supported by the delivery of the projects referred to above. Removing the impact of currency and acquisitions revenue growth was 3.1%. Schischek performed in line with our expectations whilst the impact of currency, which had been a tailwind in the first half, was neutral in the second half. Adjusted* operating profit increased by 11.3% to

£105.5m, producing a margin of 32.8%, which was 50 basis points higher than 2012 and mainly arose from lower material costs. Whilst currency increased the reported profit, it had a slight dampening effect on margin. Schischek margins were in line with the division as a whole, resulting in organic constant currency margins of 33.0%, with adjusted operating profit growth on this basis of 5.2%.

Our North American offices performed well overall and this was due to a number of factors including; the continued expansion of tight oil & gas exploration and production in the US; our targeted growth in municipal water infrastructure; and a strong export market from the US valvemakers focused on the global oil & gas markets. China continued to deliver growth and despite the downturn in power projects globally, there were still significant projects in power.

Following the investment in our facilities in China we continue to focus on expanding our domestic business alongside our international one. Korea was an important market for us this year due to the success of Korean contractors securing international EPC contracts. As expected, Australia had a positive year, benefiting from coal seam gas projects. Some of the domestic markets of our European companies were still subdued but this was offset by our export business with European valvemakers, whose international markets were strong. Following our investment in the Middle East, this office produced a year of good growth. The Indian power market did not regain its previous highs in the year and this impacted our

Keeping the World Flowing



Indian subsidiary with our electric actuator sales flat year-on-year.

At the beginning of 2013 we acquired Schischek, an electric actuator company focused on the Heating, Ventilation and Air Conditioning (HVAC) market, and we have started integrating it into our international sales network and reorganising how we operate in Germany. The business met our expectations in the year and we expect further growth in 2014 as the integration continues and our offices identify opportunities in Schischek's end markets. In July 2013 we acquired Flowco, an actuator service company based near our headquarters in Bath, and the company has been successfully integrated into our Rotork UK sales subsidiary.

During 2013 we relocated our offices in Mexico and Malaysia. The investment in Mexico will facilitate further growth in this active market whilst the new Malaysian office will allow us to serve the local market better and grow our valve automation and retrofit sales. As planned, Rotork expanded into a new office, workshop and production storage facility near its headquarters in Bath. During 2014 we plan to develop our international network further and broaden the range of products offered through our existing facilities.

Product development remains an important part of our growth strategy and 2013 saw the continued development of our IQ3 and CMA product ranges, with the full range of sizes and options becoming available. In 2014 we look forward to continuing to launch innovative new products.

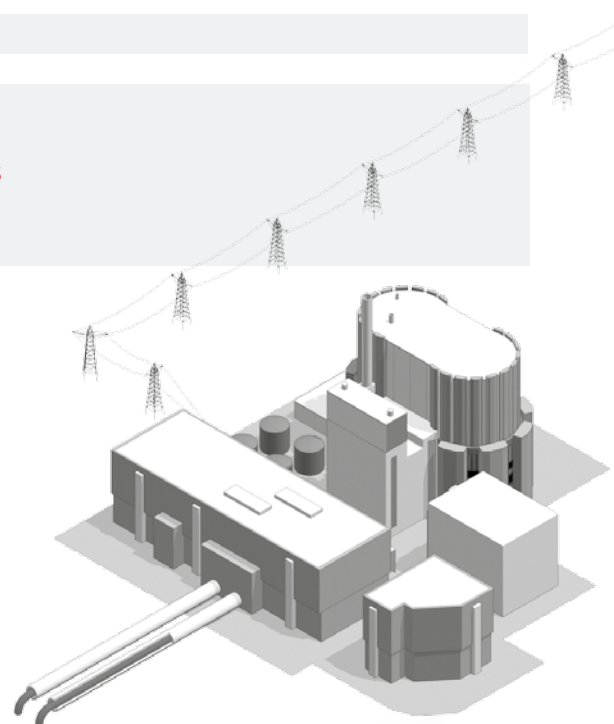
CASE STUDY

Rotork's intelligent electric valve actuators with digital 2-wire monitoring and control were specified for valve automation at the Olivenza Thermosolar power plant in Spain, a CSP (Concentrated Solar Power) technology facility that is generating eco-friendly electricity for up to 50,000 households.

The Olivenza Thermosolar power plant is the second plant to be operated by the Spanish company Ibereolica. Rotork supplied IQ range electric actuators with Pakscan digital control at the company's first plant, Moron Thermosolar.

OPPORTUNITIES

- Facility expansion
- New product launches
- HVAC market



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Business review – Fluid Systems

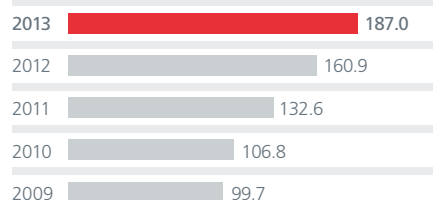


ALEX BUSBY
MD ROTORK FLUID SYSTEMS

Rotork Fluid Systems (RFS) had another strong year with double-digit growth in order intake and revenue. We also saw adjusted* operating margin increase by 130 basis points to 16.6% in the year, reflecting the benefit of operational gearing and our focus on cost management.

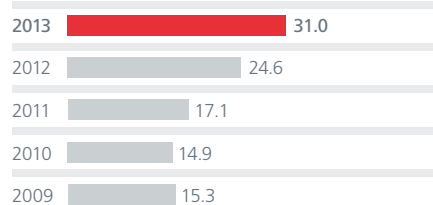
Revenue (£m)

+16.2%



Adjusted* Operating Profit (£m)

+25.9%



RFS manufactures a wide range of pneumatic, hydraulic and electro-hydraulic actuators mainly for the oil & gas market. Oil & gas covers a wide range of applications and RFS benefited from strong demand from liquefied natural gas (LNG), gas and liquids pipelines, gas storage and offshore projects during the year. Our diverse product portfolio and engineering capability enables us to participate in the upstream, midstream and downstream markets.

Revenue grew 16.2% to £187.0m, a new record, with the second half accounting for 52% of annual revenue. This weighting was in line with the Group as a whole and less pronounced than the 56% second half weighting in the division last year. Removing the small contribution from the GTA acquisition and the positive currency impact, revenue grew 11.7%. Order intake grew at a slower rate than revenue, up 12.2%, but still exceeded revenue which led to a 14.3% increase in order book during the year to £76.0m. Adjusted* operating profit of £31.0m was 25.9% higher than the prior year and set a record operating margin of 16.6%, a 130 basis point improvement on 2012. Both currency and acquisitions were a headwind, so on an organic constant currency basis adjusted operating profit margins were 16.9%. The positive impact of operational gearing and improvements to material costs were the main contributors to the further improvement in margins.

Oil & gas remained the largest end-market for RFS with revenue from this segment increasing 21%. This represented 77% of the division's revenue in the year but was spread across many aspects of the oil & gas market, ranging from wellhead skids in Australia in upstream, to safety systems in tank storage applications in downstream. We also saw good increases in our sales destined for the water, industrial and mining markets, albeit slower than the rate of growth in oil & gas.

In August 2013 we acquired the GTA Group, comprising G.T. Attuatori Italia S.r.l. based in Italy, together with G.T. Attuatori Europe GmbH and Max Process GmbH, both of which are in Germany. This acquisition extends our product portfolio with a small rack and pinion actuator which is often sold in petrochemical and industrial applications. Since the acquisition we have focused our attention on improving GTA's supply chain and sales channels and we anticipate that we will see the benefit of this in 2014 and beyond.

We have continued to integrate K-Tork, based in Dallas (USA) into our business and are focused on developing its products to cover a wider range of sizes and options. This is in conjunction with a review of component sourcing to take advantage of our international supply chain. K-Tork's products are often used in power, water and the process control market and will further diversify RFS's end-market exposure.

Keeping the World Flowing



Geographically, we saw strong performances from around the world, with the biggest improvements in Italy, Russia, Spain, Singapore and Australia. Australia benefited in particular from coal seam gas investment. Mexico continues to be an important market following the large pipeline projects we won a few years ago and we have grown our service business significantly. In 2011 we acquired full ownership of the Mexican business and in 2013 we opened a new *Centre of Excellence* (CoE) in Mexico to meet the increasing demands of our local customers. The CoEs provide valve automation facilities for factory fitting, testing, panel build, actuator overhaul capabilities and other local support.

To ensure that we continue to provide support to our customers locally we made further investment in our facilities, with several office moves and expansions during the year. The Middle East workshop was opened in April and a new Malaysian facility opened in August. We also expanded our facilities in Brazil and Mexico.

Increasingly the market is requiring safety systems as standard in hazardous applications and we have made considerable investment in R&D in this area of the business. We have continued to develop our existing product portfolio and have four products planned to launch in 2014, including a new product from Rotork Hiller, our US-based company focused on the nuclear power industry.

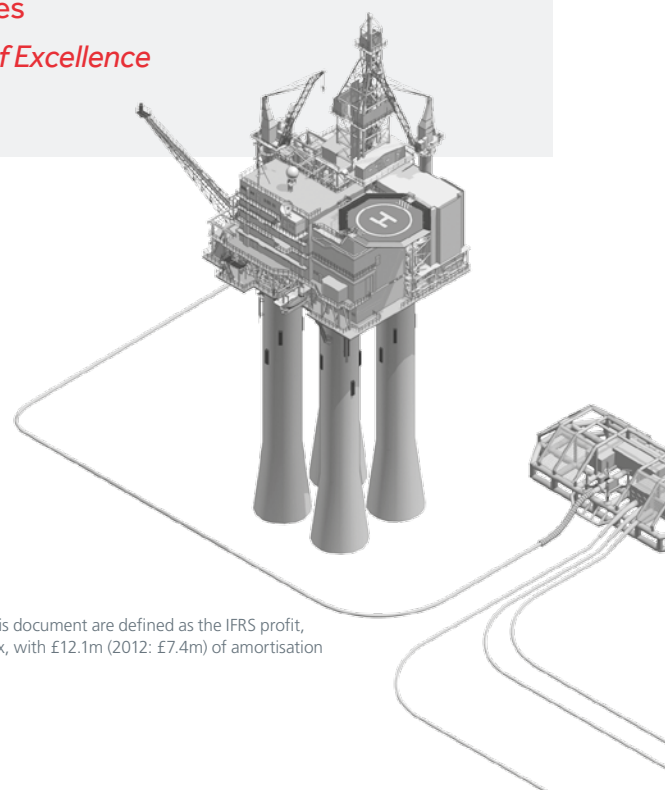
CASE STUDY

Rotork was selected for routine and safety-related valve control duties on Turkey's pipeline network. The pipelines carry products including natural gas from Asian countries and traverse Turkey en-route for export to other final destinations or as a source of energy for domestic consumption.

Compressor stations along the route are designed to preserve the pressure level in the networks and transfer the gas for local area consumption. These are among the pipeline locations where Rotork valve actuation technologies are widely utilised.

OPPORTUNITIES

- New product launches
- Expanding *Centres of Excellence*
- New markets



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Business review – Gears

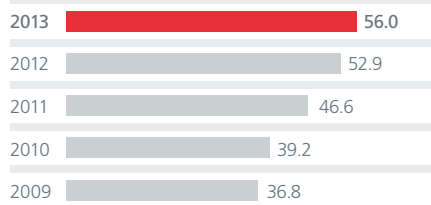


DAVID LITTLEJOHNS
MD ROTORK GEARS

For the first time sales to third party customers accounted for over 80% of revenue, reflecting the success of our strategy of expanding our international sales presence and reducing reliance on intragroup sales.

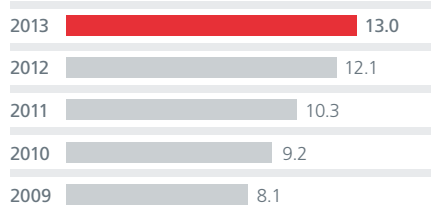
Revenue (£m)

+6.0%



Adjusted* Operating Profit (£m)

+7.3%



The Gears division manufactures manual and motorised gearboxes and accessories. There are two sales channels for gearboxes and accessories; sales made to a Rotork division or to a third party valvemaker. A gearbox is effectively a component of the valve and, with the majority of valves still being manually operated, most require a gearbox to provide the necessary mechanical advantage to operate the valve. Each valvemaker therefore requires a supply of gearboxes and whilst some make their own, our sales proposition is attractive. We provide high quality, reliable gearboxes which we are able to support throughout the world. Our scale and international supply chain allows us to offer the valvemaker an outsourced solution at a competitive price.

Positive performances were seen in the year from our businesses in Italy, The Netherlands and Spain. The market in India also improved as we strengthened our local manufacturing capabilities in the year. The establishment of our Indian Gears manufacturing plant has strengthened our international component supply chain.

Order intake ended the year ahead of 2012, up 5.1% in total, or 1.5% on an organic constant currency basis. Revenue increased by 6.0% to £56.0m resulting in the order book reducing by 0.9% during the year.

However, without the positive impacts of Renfro and currency, revenue growth was 2.2%. Adjusted* operating profit increased by 7.3% to £13.0m and the margin improved 20 basis points to 23.1%. Whilst product mix was positive in the Italian factory it was negative in China but, by careful management of the cost base, net margins improved slightly. Currency and acquisitions were both slightly dilutive to adjusted operating margins, so with organic constant currency profit growth of 4.9%, the margin was 60 basis points higher at 23.5%.

Rotork Valvekits is our valve adaption business based in the UK. As part of our strategy to expand this product offering internationally, in August we acquired Renfro Associates Inc., a valve adaption and mounting business based in Broken Arrow (USA). This long established business has an excellent reputation for delivering high quality product and service to its customers and provides us with the opportunity to replicate our successful UK business model across the USA.

During 2013 we expanded our manufacturing facilities in Shanghai and in Houston. The extra capacity in both locations will enable us to service the local markets more efficiently. 2014 will see the completion of the new Leeds facility and the businesses there relocate into a modern manufacturing plant.

Keeping the World Flowing



Sales into the various oil & gas markets remained constant at 52% of Gears' revenue this year but within this we saw growth in sales of subsea gearboxes. These heavily engineered gearboxes are manufactured in Italy close to the valvemakers. Like other divisions, we saw a reduction in sales into power but this was offset by growth in the water market.

In 2012 we created a new product introduction team dedicated to developing new products. During 2013 we brought to market a range of new products including two manual gearboxes and a motorised gearbox and we have continued to offer project specific subsea product solutions. A new multi-turn gearbox has been specifically designed to comply with GOST, a standard for valves in the oil, gas, power generation and utility industries throughout Russia and the neighbouring countries. We are continuing to invest in Research & Development in terms of recruiting additional engineers and in our testing capability to improve further our ability to bring new products to market. The new FB fire protection series of gearboxes also enables us to access a market that we have yet to address.

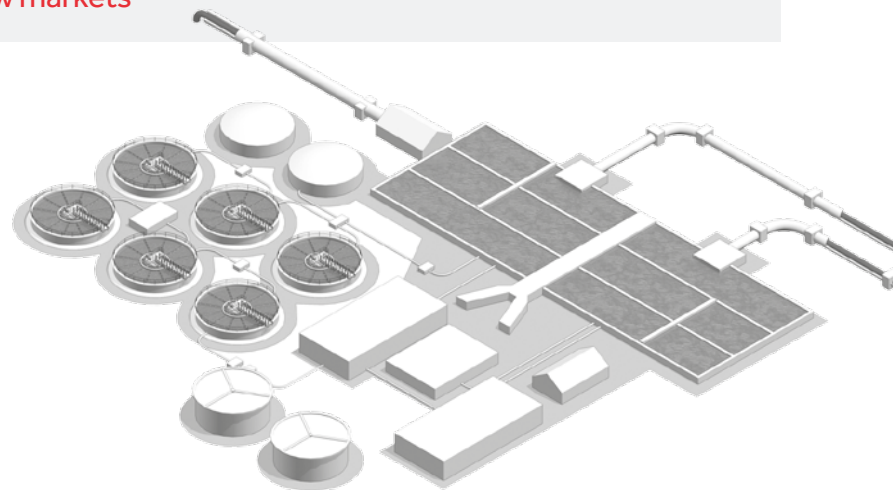
CASE STUDY

Rotork flow control equipment has been installed throughout a major water industry AMP5 environmental improvement project at a sewage treatment works serving Somerset's largest tourist resort on the south west coast of the UK. Wessex Water has invested £26m at the site to achieve improved bathing water quality for the resort of Weston-super-Mare.

Rotork's scope of supply for flow control in the project encompasses IQ multi-turn and IQT quarter-turn intelligent electric actuators and IB manual gearboxes for motorised and hand operated valves and penstocks throughout the new works.

OPPORTUNITIES

- Valve adaption
- New markets



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Business review – Instruments

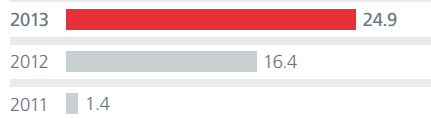


ALAN PAINE
MD ROTORK INSTRUMENTS

The first full year contribution from Soldo has provided a solid platform for growth for the Instruments division.

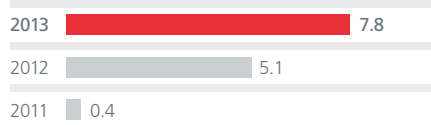
Revenue (£m)

+51.8%



Adjusted* Operating Profit (£m)

+53.5%



The Instruments division was formed in late 2011 and is Rotork's vehicle to expand our addressable market beyond actuators into the wider flow control market. The division now comprises two companies both of which make products that measure or control flow and pressure. Rotork Fairchild, which is based in Winston-Salem (USA), manufactures precision pneumatic and electro-pneumatic control products whilst Soldo, based in Desenzano (Italy) is a switchbox manufacturer. These products can be used in conjunction with actuators but are also used in other end markets, further broadening our end market exposure as we implement our strategy of organic as well as acquisition-led growth.

With a first full year contribution from Soldo, revenue grew 51.8% to £24.9m, or 16.6% on a like-for-like basis. Investment in product development and the sales infrastructure continued through the year and the increase in revenue supported a 30 basis point rise in adjusted operating profit margin to 31.4%. The £7.8m adjusted* operating profit is 53.5% higher than 2012 or 20.0% higher on an organic constant currency basis.

Rotork Fairchild experienced good growth in North America, Europe and Japan. Our strong performance in North America was due to the reorganisation and strengthening of the sales team, an improved trading environment and growth in the medical industry sales supported by a new product introduction. North Asia performed well with

project successes in the tyre sector being one of the highlights. Our European sales were supported by customers there winning export projects around the world. Australia and Brazil are less well developed markets for Fairchild, with Brazil affected by a slower than expected pulp and paper industry. Both will be focus markets for the coming year.

The Instruments division has the most diversified end market exposure of all Rotork's divisions. 34% of sales are now into oil & gas and this has increased with the addition of Soldo which has a greater oil & gas focus than the Fairchild products. Water and power accounted for 5% between them with industrial and mining a further 18%. The balance fell into our "Other" category reflecting the fact that pneumatic control is used in a wide range of industries.

During the year we moved a number of offices to take advantage of improved facilities, foster closer working relationships with other divisions and control costs. We moved the Soldo USA office from Cincinnati to Winston-Salem, where it has been a successfully integrated into the Fairchild operation. In Brazil we moved Fairchild into the Rotork Sao Paulo facility and in China the Fairchild office in Chengdu moved to a new building where the Rotork sales team in Chengdu has now joined them. In 2014 we have already merged the Soldo Asia business into Rotork Singapore and will continue to look for similar opportunities in other parts of the world.

Keeping the World Flowing



Rotork Instruments operates an asset-light business model and has outsourced the majority of component manufacture. Rotork's international supply chain provides opportunities to support our ongoing material cost management programme. In 2013 there were a number of products launched for Rotork Fairchild whereas the focus for Soldo was on integration. New products are currently under development in both companies and we will see several of these launched during 2014.

There are further opportunities with both product lines to grow sales organically using the Rotork global sales offices. Whilst the route to market is typically not the same as the other divisions, being more distribution sales than project sales, the sales offices provide a base from which to enter a new territory. Growth will also be through acquisitions as we look to build the product portfolio with other devices used in flow control which share the same technologies, routes to market, customers or end markets.

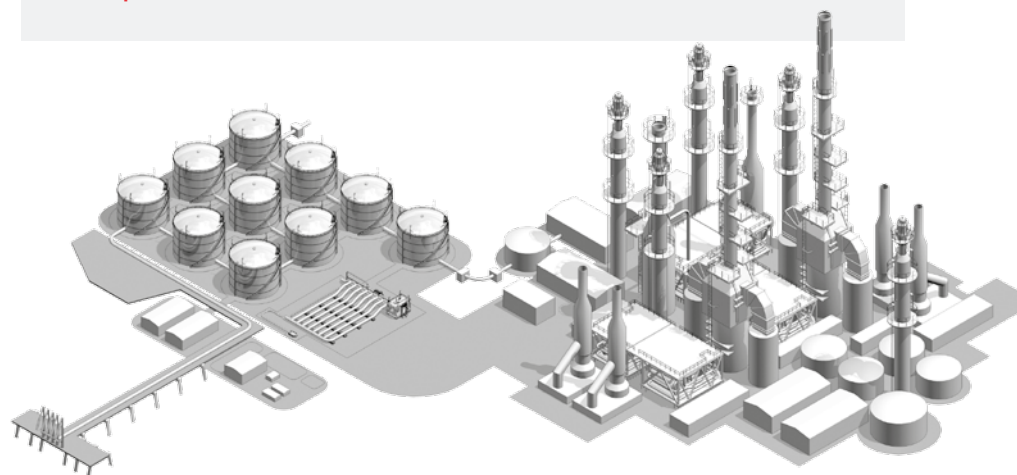
CASE STUDY

Rotork Fairchild pressure regulators were selected for high accuracy research applications at the TRI Australasia facility near to Queensland's Gold Coast. TRI Australasia offers highly specialised services including a range of geo-synthetic testing and quality assurance programmes for a multitude of industries.

The Fairchild Model 10 regulators have been installed on two processes where compressed air is used to check for the content of water retention within clay. Both processes demand highly accurate set point pressure supplies in order for the tests to maintain reliable results.

OPPORTUNITIES

- Product development
- New markets
- Acquisitions



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Financial review



JONATHAN DAVIS
FINANCE DIRECTOR

In 2013 we achieved record levels of order intake, revenue and profit and delivered an improved adjusted operating margin. Over the last ten-year period, compound annual organic revenue growth has now risen to 13.3%, or 15.6% including acquisitions.

- Revenue growth of 13.0%
- Operating* profit margin increased to 26.2%
- Effective tax rate reduced from 28.1% to 27.9%
- Return on capital employed of 59.1%

Headline revenue grew by 13.0%, or £66.7m, to £578.4m, or by 6.3% on an organic constant currency basis. Our growth benefited from sterling weakening against most of the currencies important to Rotork, with £9.1m of the revenue increase the result of currency although this tailwind was significantly reduced in the second half of the year. Acquisitions were a further contributor to growth, with the four acquisitions made during 2013 and a full year contribution from Soldo, acquired in November 2012, adding £25.2m to revenue.

Adjusted operating profit (stated before the amortisation of intangible assets) grew marginally ahead of the rate of revenue, increasing 14.8% to £151.4m, and delivering a margin of 26.2% compared with 25.8% in 2012 with all divisions reporting improved margins. This 40 basis point improvement was the result of a 130 basis point improvement in margins in Fluid Systems, the division which grew revenue by the largest amount organically. Fluid Systems is our lowest margin division so this introduced a small divisional mix headwind but this was small compared with the improvement in Fluid Systems margins, as well as a small improvement in Controls' and Gears' organic constant currency margins. This year's acquisitions, predominantly influenced by Schischek, were accretive to margins but the currency impact was dilutive, so removing the effect of both left Group margins slightly higher at 26.3%.

The net finance expense increased from £0.3m in 2012 to £1.3m mainly as a result of the introduction of the revised IAS19. The net interest charge in respect of the pension scheme liabilities increased by £0.8m in the year to £1.2m. We have updated the presentation of the 2012 expense but not restated the comparatives. If we had restated the cost would have been £0.6m higher at £1.0m and the increase in the year reduced to £0.2m.

Acquisitions

Rotork has grown through a combination of organic expansion and acquisitions. Acquisitions are made on the basis that they will provide a product we currently don't have, improve our access to a geographic or end user market or some combination of these objectives. During the year we completed four acquisitions for a total consideration of £48.0m. Schischek, acquired in January 2013 for £35.0m, was the largest of these with the three other mid-year acquisitions of Flowco, GTA and Renfro costing a combined £13.0m. Taking all four acquisitions together, £24.2m of the consideration was attributed to intangible assets which will be amortised and £24.9m is goodwill which will be subject to an annual impairment review.

Keeping the World Flowing

Organic business growth

£m	2013 as reported	Constant currency adjustment	2013 at 2012 exchange rates	Remove acquisitions	Organic business at 2012 exchange rates	2012 as reported				
Revenue	578.4	(9.1)	569.3	(25.2)	544.1	511.7				
Cost of sales	(304.0)	6.7	(297.3)	11.9	(285.4)	(272.2)				
Gross profit	47.4%	274.4	(2.4)	47.8%	272.0	(13.3)	47.6%	258.7	46.8%	239.5
Overheads	21.2%	(123.0)	1.4	21.4%	(121.6)	6.0	21.3%	(115.6)	21.0%	(107.6)
Adjusted operating profit*	26.2%	151.4	(1.0)	26.4%	150.4	(7.3)	26.3%	143.1	25.8%	131.9
Net finance expense		(1.3)	–		(1.3)	–		(1.3)		(0.3)
Adjusted profit before tax*	26.0%	150.1	(1.0)	26.2%	149.1	(7.3)	26.1%	141.8	25.7%	131.6

* Adjusted is before the amortisation of acquired intangible assets.

The increased number and value of acquisitions this year led to a rise in the amortisation charge related to acquired intangible assets to £12.1m (2012: £7.4m). With the acquisitions taking place throughout the year, and Soldo acquired in November 2012, in order to adjust the income statement to show a like-for-like period for each acquisition, 2013 revenue has to be reduced by £25.2m and adjusted* operating profit by £7.3m. The profit margin in the acquired business was slightly accretive in aggregate, at 28.9%, with Schischek the key contributor to this.

Currency

The weakness of sterling in 2013 compared with 2012 resulted in a significant tailwind for our 2013 results. The tailwind was very much stronger in the first half of the year but sterling strengthened appreciably in the second half, particularly against the Australian dollar, Indian rupee and South African rand. Looking at the constant currency adjustment to revenue, of the £9.1m full year impact, £7.2m was felt in the first half with only the remaining £1.9m in the second half of the year. US dollar and related currencies represented around 40% of Group sales and are our largest non-sterling currency flows. The largest influence on the reduced second half currency tailwind was

the US dollar moving from 3% stronger than sterling in the first half compared with 2012 to only 1% stronger in the second half. The euro remained 4% stronger in both halves of the year and with a greater euro-denominated sales base, Fluid Systems and Gears therefore benefited from the positive currency in the second half which Controls and Instruments did not.

These currency impacts were a mix of both translation and transaction and the £1.0m increase in operating profit was net of any cost / benefit of sourcing components from outside the respective factories' home country. Whilst we manufacture and sell from offices based in 34 countries, with 19 different currencies, and source components from a wide geographic footprint, the Group is still a net seller of euros and US dollars. It is the net sale of these currencies which we principally address through our hedging policy, covering up to 75% of trading transactions in the next 12 months and up to 50% between 12 and 24 months.

In order to estimate the impact of currency, at the current exchange rates we consider the effect of a 1 cent movement versus sterling. For the euro a 1 cent movement now results in a £325,000 adjustment to profit and for the US dollar a £450,000 adjustment.

Return on capital employed (ROCE)

Our asset-light business model and high profit margins mean Rotork generates high ROCE. Our definition of ROCE is based on adjusted* operating profit as a return on the average net assets excluding net cash and the pension scheme liability net of the related deferred tax. This means that as we make acquisitions our capital base grows with intangible assets and goodwill being recognised. During the year intangibles and goodwill increased by £37.2m in total which, after allowing for the related deferred tax, accounts for approximately half of the increase in capital employed which rose 21.4% to £281.0m. As a result of this, ROCE reduced to 59.1% despite the improved profit margin and growth in revenue this year.

Taxation

The Group's effective tax rate fell from 28.1% to 27.9%. This is a blended rate from the 25 countries in which we currently pay tax and is affected by the mix of where our taxable profits are generated, as well as changes to the tax rates within those jurisdictions. We continue to see a general reduction in the rate of corporation tax in a number of jurisdictions where we operate, including the UK. Our 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.

Financial review continued

- 11.7% increase in total dividend
- Dividend cover of 2.4
- Control of working capital increases cash generation to 99.6%
- £43.2m cash outflow on acquisitions

Cash generation

The cash balance finished the year at £68.9m, £9.0m higher than the start of the year. The three largest categories of cash expenditure were: £43.2m on acquisitions, £39.9m of tax paid and £38.7m of dividends paid. These were all higher than the previous year but the higher value of acquisitions, more than double the £20.7m spent in 2012, represented the largest increase. Capital expenditure of £10.4m was £2.2m lower than the prior year, partly due to rescheduling of the investment in the new Leeds factory, with the majority of the fit out spend deferred to 2014.

Our cash generation key performance indicator, which compares operating cash generation with adjusted operating profit, improved again this year to 99.6% (2012: 95.4%). Control of working capital is key to improving this measure and working capital has reduced as a function of revenue in the year despite a weighting of revenue to the fourth quarter. Inventory, trade receivables and trade payables have all reduced as a function of revenue with net working capital as a whole falling from 25.5% of revenue to 24.7%. We measure our performance for trade receivable collections using days' sales outstanding and have reduced this a further day this year to 56 days.

Credit management

The Group's credit risk is primarily attributable to trade receivables, with the risk spread over a large number of countries and customers, and no significant concentration of risk. Credit worthiness checks are undertaken before entering into contracts or commencing trade with new customers. The majority of our trade receivables are insured, so the authorisation process operates in conjunction with the insurer, taking advantage of their market intelligence. Where appropriate, we use trade finance instruments such as letters of credit to mitigate any identified risk.

Treasury

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

Keeping the World Flowing



30.0p
final dividend



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

In January 2013 we established a £15m one year committed facility in order to part-finance the acquisition of Schischek and in January 2014 extended this for a further twelve months. This facility is in place to provide flexibility regarding the location of cash deposits and timing of receipts, and is in addition to uncommitted overdraft facilities the Group has in a number of countries.

Dividends

The Board is proposing a 12.8% increase in the final dividend to 30.0p per share. When taken together with the 18.05p interim dividend paid in September, this represents a 11.7% increase in dividends over the prior year. This gives dividend cover of 2.4 times (2012: 2.4 times). Our dividend policy is to grow the core dividends generally in line with earnings and supplement core dividends with additional dividends when the Board considers it appropriate to do so.

Retirement benefits

The Group accounts for post-retirement benefits in accordance with IAS19, Employee Benefits. The balance sheet reflects the net deficit on these schemes at 31 December 2013 based on the market value of the assets at that date, and the valuation of liabilities using year end AA corporate bond yields. We have closed both the main defined benefit pension schemes to new entrants; the UK scheme in 2003 and the US one in 2009, in order to reduce the risk of volatility of the Group's liabilities.

The most recent triennial valuation for the UK scheme took place as at 31 March 2013 and was adversely affected by the lower yield on long-dated gilts at that date, which is the key driver behind the value of the scheme's liabilities. As a result, despite better than expected investment returns and the agreed past deficit contributions, the funding level was lower than at the previous valuation. A recovery plan has been agreed with the Trustees which will see past service contributions from the Company of £5.2m during 2014, £5.5m in 2015 and £5.5m in 2016, at which time the next valuation will take place.

At 31 December 2013, some of the adverse impact of the lower gilt yields had reversed. As a consequence the IAS19 deficit was £20.2m, an 87% funding level which compares with an 81% funding level at the start of the financial year.

* References to adjusted profit throughout this document are defined as the IFRS profit, whether operating profit or profit before tax, with £12.1m (2012: £7.4m) of amortisation of acquired intangibles added back.

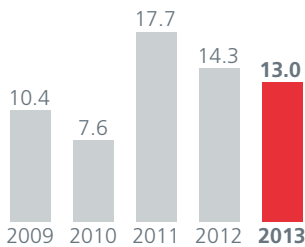
Key performance indicators

Financial KPIs

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

SALES REVENUE GROWTH

13.0%



Reasons for choice

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

How we calculate

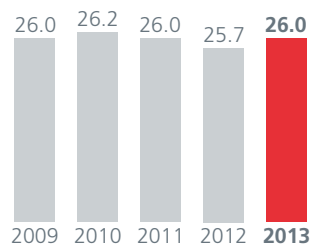
Increase in sales revenue year on year divided by prior year sales revenue.

Comments on results

We grew revenue by 13.0% with some markets making progress in the year and some going backwards. This varied pattern is typical of Rotork's markets and our ability to grow despite areas of weakness is one of the benefits of our diverse geographic and end market exposure.

RETURN ON SALES

26.0%



Reasons for choice

This measure brings together the combined effects of procurement costs and pricing as well as the leverage of our operating assets. It is also a check on the quality of revenue growth but is heavily influenced by divisional mix.

How we calculate

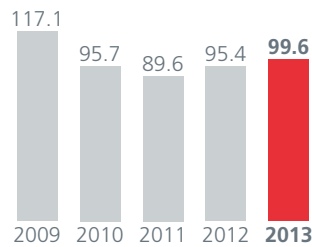
Adjusted* profit before tax (after financing and interest) shown as a percentage of sales revenue.

Comments on results

The improvement in this measure reflects the further improvement in Fluid Systems margins as well as improvements in Controls, both of which are the result of lower material costs. This more than offsets higher finance charges related to defined benefit pension schemes.

CASH GENERATION

99.6%



Reasons for choice

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

How we calculate

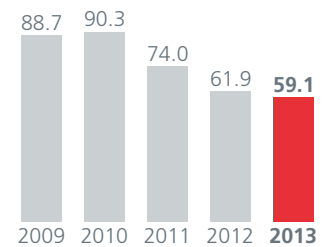
Cash flow from operating activities before tax outflows and the pension charge to cash adjustment as a percentage of adjusted operating profit*.

Comments on results

Working capital as a function of revenue has reduced from 25.5% in 2012 to 24.7%, and as a result operating cash conversion improved this year.

RETURN ON CAPITAL EMPLOYED

59.1%



Reasons for choice

Rotork has an asset-light business model by design and reporting this ratio internally helps management at Group level monitor our adherence to this philosophy.

How we calculate

Adjusted* operating profit as a percentage of average capital employed. Capital employed is defined as shareholders' funds less net cash held, with the pension fund deficit net of related deferred tax asset added back. The calculation is shown on page 113.

Comments on results

Average capital employed rose by 20% due to the 2012 and 2013 acquisitions, whose value on our balance sheet includes the intangible assets associated with their acquisition. This KPI remains at sector-leading levels.

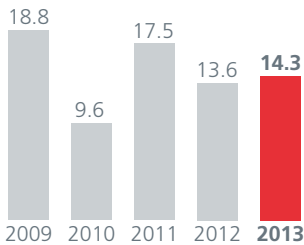
* References to adjusted profit throughout this document are defined as the IFRS profit, whether operating profit or profit before tax, with £12.1m (2012: £7.4m) of amortisation of acquired intangibles added back.

Keeping the World Flowing

Non-financial KPIs

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

EARNINGS PER SHARE GROWTH 14.3%



Reasons for choice

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

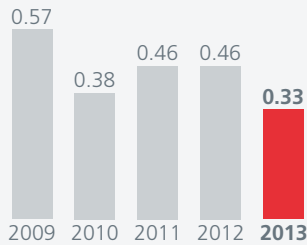
How we calculate

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

Comments on results

The lower tax rate in the UK and the international mix of where our profits were generated led to a further reduction in the effective tax rate and therefore EPS growth ahead of the underlying profit growth.

ACCIDENT FREQUENCY RATE 0.33



Reasons for choice

The Accident Frequency Rate (AFR) is used as one measure of the effectiveness of our health and safety procedures.

How we calculate

The formula we have used for calculating our AFR is the number of reportable injuries divided by the number of hours worked, multiplied by 100,000.

Comments on results

This is the best result since we started using this measure and reflects a return on the investment in training and safety audits which have taken place in recent years.

CARBON EMISSIONS -7.1%



Reasons for choice

This KPI has been introduced in 2013 and compares this year's carbon emissions stated as a function of revenue with last year's. This KPI replaces waste recycling as it represents a broader measure of our impact on the environment.

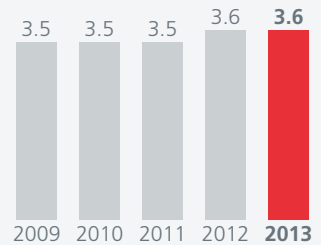
How we calculate

Energy usage data (scope 1 and 2) is collected and converted to equivalent tonnes of CO₂ and then reported as a function of revenue. Further detail is contained in the Corporate and Social Responsibility report.

Comments on results

This year we have introduced this new KPI and a number of initiatives around the world have generated a reduction.

EMPLOYEE SATISFACTION 3.6



Reasons for choice

The survey as a whole enabled the Group to get feedback from across the business on how we relate to our employees and what we can do better.

How we calculate

Employees scored their responses directly into a prepared survey with one being very dissatisfied and five being very satisfied.

Comments on results

The response rate for the survey increased a further 2% to 79% and the overall score was slightly higher than last year. The individual questions relating to the belief that we strive to improve our products, that employees are satisfied with the Company's values and are proud of our charitable activities showed the greatest improvement.

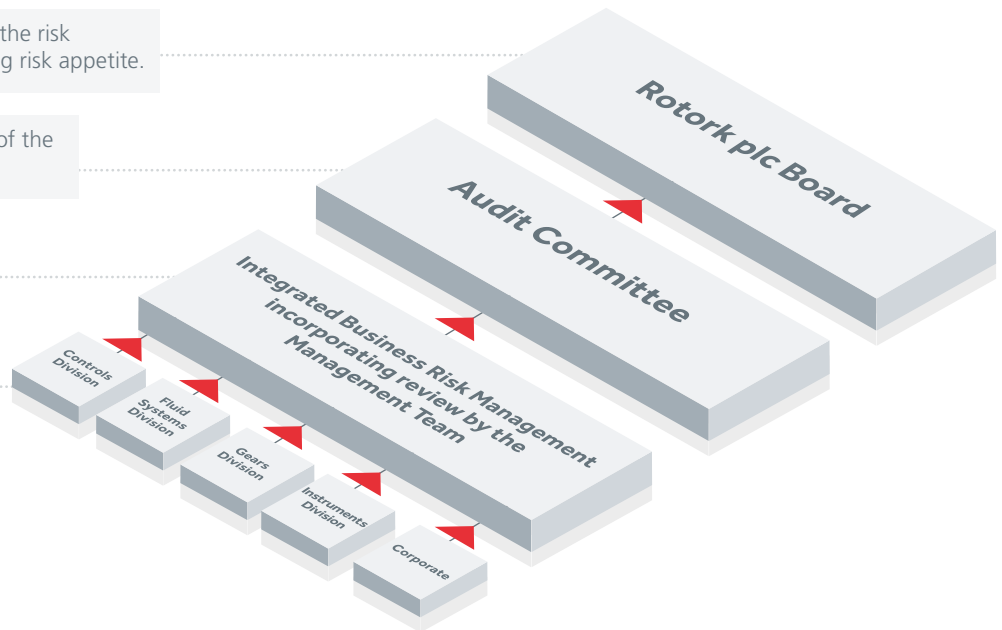
How we manage risk

Overall responsibility for maintaining the risk management process and determining risk appetite.

Audit Committee provides oversight of the internal control framework.

Executive and senior management consider risk management for the Group as a whole.

Detailed risk assessment and consideration of mitigation is carried out at the divisional level.



Managing business risks

The assessment and management of risk is the responsibility of the Board, and the development and execution of a comprehensive and robust system of risk management is a high priority in Rotork. Managing the risks to our business is essential to the long-term success and sustainability of the Group and our approach to risk is intended to protect the interest of shareholders and all interested parties. The risk management process is an established way of identifying and managing risk, first at divisional board level, and then for the Group as a whole and it works within our governance framework set out in our corporate governance report, see pages 46 to 55.

The Board's role in risk management involves promoting a culture that emphasises integrity at all levels of business operations. This includes ensuring that risk management is embedded within the core processes of the Group, determining the principal risks, communicating these effectively across the businesses and setting the overall policies for risk management and control. The geographic spread of our activities makes communication of these policies and standards a key part of ensuring consistency across all of our operations.

The Finance Director is responsible for risk management within the Group and leads the development of the risk management process and the tools used. The Board approves risk appetite for the Group and considers the consequential actions in terms of mitigation where possible and appropriate.

Determining risk appetite

The Board is responsible for determining the nature and extent of the risks it is willing to take in achieving its strategic objectives. This risk appetite is not only considered during the risk review meetings but also during a number of other Board discussions during the year. These include strategy discussions, consideration of insurance coverage, setting of scope and timing of the internal audit and health and safety audit programmes and amendments to Group policies and procedures in areas such as whistleblowing and bribery and corruption. The remuneration committee of the Board considers risks related to staff retention and the nomination committee the risks around succession planning. In addition where specific risks are identified during the year these are identified in the written reports received by the Board each month.

Risk management process

The major risks affecting the Group are first identified and considered by the divisional boards during their regular meetings. Once a risk has been identified, it is allocated to one of the directors to ensure the risk is appropriately considered and the risk is managed. Risks are categorised on a matrix reflecting likelihood and impact on the business. The assessment of likelihood is considered after allowing for the effect of mitigation whilst the impact is measured before allowing for mitigation such as insurance recoveries. The impact scale is determined as a function of annual profit so that each division has an appropriate benchmark. Once the assessment matrix is completed by each division, the risks are then aggregated and re-evaluated in relation to the Group as a whole using an appropriate Group impact scale.

Identified risks are discussed and the progress reviewed at both Rotork Management Board and divisional board meetings during the year. Senior management, in association with the full Board of Directors, meets twice a year to consider the Group risk matrix and progress with mitigating actions. The external Auditor is invited to attend one of the meetings each year.

Keeping the World Flowing



This is an ongoing process involving regular assessment of the risks, with clear and consistent procedures for monitoring, updating and implementing appropriate controls to manage the identified risks. We are therefore confident that we have a methodology for ensuring that the Group’s approach to dealing with individual risks is robust and timely.

Classification of key risks

We identify three main risk types:

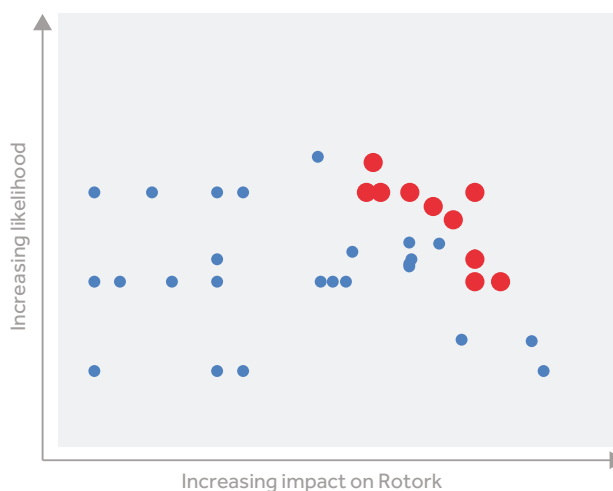
Strategic – Risks that potentially could affect the strategic aims of the business, or those issues that could affect the strategic objectives that the Group is addressing;

Operational – Risks arising out of the operational activities of the Group relating to areas such as logistics, procurement, product development and interaction with commercial partners; and

Financial – Issues that could affect the finances of the business both externally from matters initially outside of our control, and from the perspective of internal controls and processes.

The risks considered during the process cover all aspects of the Group’s activities and cover a far wider range of areas including environmental, reputational and ethical risks as well as product, competitor or financial risks, but not all of these areas are represented in the top 10 risks which are listed on pages 32 to 33. These are categorised by the three main risk areas identified Mitigation, where possible, and is shown for each risk area identified.

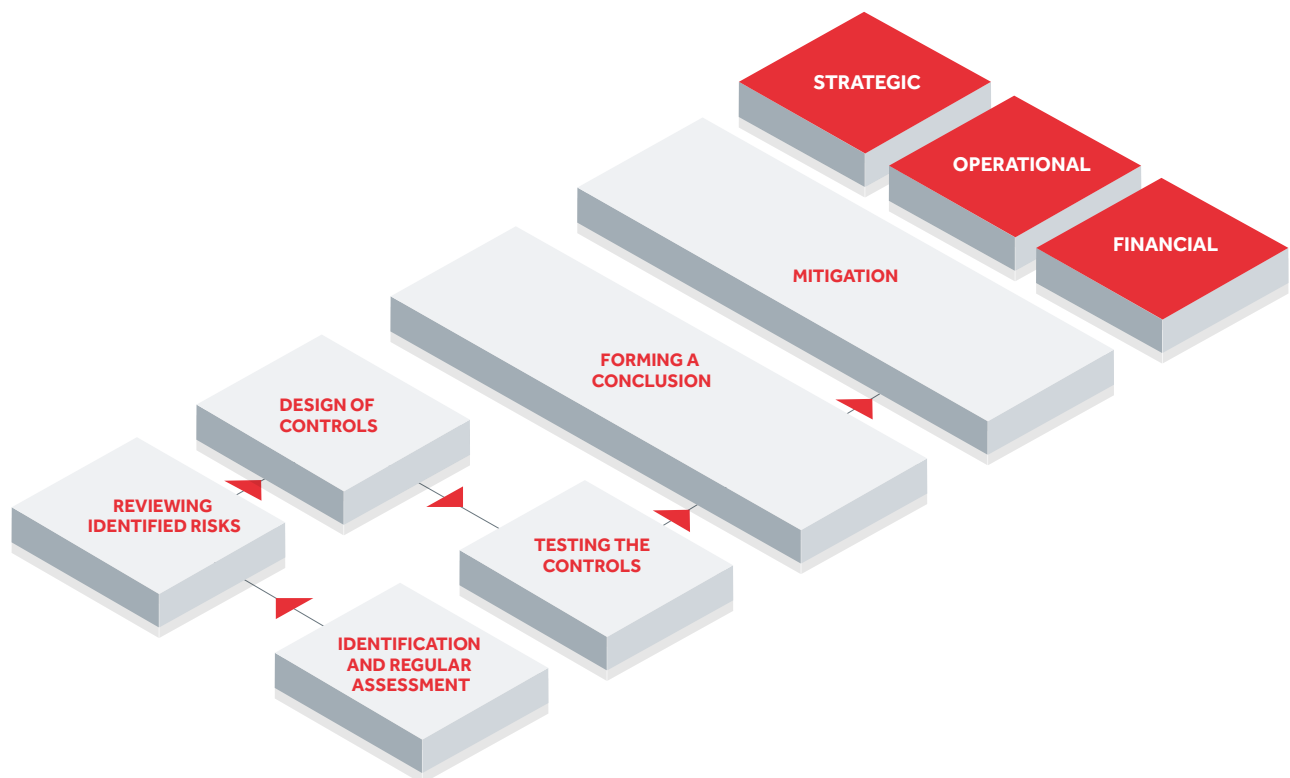
Key Risks Identified



Principal risks and uncertainties

STRATEGIC RISKS

Description	Potential Impact	Mitigation
<i>Competition on price as a result of an existing competitor moving to manufacture in a lower cost area of the world.</i>	Where a competitor decides to use cost savings to reduce their selling prices, this could lead to a reduction in the general market price. Rotork might need to respond to a change in market price levels whilst still maintaining the price premium currently enjoyed for some products.	Rotork already has a direct presence, in terms of production, sales and service support, in many low cost locations and regularly reviews opportunities in other countries. There is a constant drive to maintain differentiation from the competition both in terms of the quality of our products and of the service we provide and thus ensure that price is not the only means of gaining a competitive advantage.
<i>Not having the appropriate products, either in terms of features or costs.</i>	In order to be able to compete on a project, our products must meet both the necessary specification and pricing level. A failure on either count could harm our competitive position and result in us not winning the project.	Development of products, or acquisition of companies with those products, to meet required specifications and broaden our product portfolio is an ongoing activity as is the drive to take cost out of our products to meet target pricing levels.
<i>Lower investment in Rotork's traditional market sectors.</i>	A reduction in capital or maintenance expenditure in one of Rotork's key market sectors would result in a smaller addressable market, which in turn could lead to a reduction in revenue from that sector.	Identification of potential new end markets or ones which are becoming more active takes place in each location and is coordinated at divisional level. This is supported by product development and innovation to address new markets and new applications in existing markets. At a Group level our geographic and end market diversification provides resilience to a reduction in any one area or market.



Keeping the World Flowing

OPERATIONAL RISKS

Description	Potential Impact	Mitigation
<i>Major in field product failure arising from a component defect or warranty issue which might require a product recall.</i>	Replacement of defective components or complete units would give rise to a direct financial cost and there could also be a reputational risk.	A comprehensive set of quality control procedures operates over suppliers. These include supplier visits, audits and a scorecard system to measure their performance. In some markets legislation determines that this risk is entirely passed to the end user. Our global service coverage ensures that any product failure issues could be dealt with quickly and efficiently to minimise any reputational impact.
<i>Failure of a key supplier or a tooling failure at a supplier causing disruption to planned manufacturing.</i>	Where customer delivery expectations are not met, this could lead to financial penalties and damage customer relationships.	Dual sourcing for key components wherever possible provides the best mitigation for key suppliers with regular monitoring and replacement of tooling at all suppliers. Inventory levels are maintained at a sufficient level to protect against short-term disruption.
<i>Failure of an acquisition to deliver the growth or synergies anticipated, due to incorrect assumptions or changing market conditions, or failure to integrate an acquisition to ensure compliance with Rotork's policies and procedures.</i>	Whilst growth opportunities, cost savings and synergies are identified prior to completion, these may not always be delivered at the levels anticipated or to the timetable expected following the acquisition.	During the due diligence process a 100 day plan is prepared to manage the important initial stages of integration. Consideration is given to the composition and skills of the management team with the necessary training and support provided by a variety of Rotork personnel. This should ensure an effective integration and communication of Rotork's policies and procedures, whilst monitoring delivery of the financial plan.
<i>Failure of IT security systems to prevent penetration by unauthorised people and access to commercially sensitive data.</i>	Sensitive data is stored and transmitted electronically around the world. The Group is therefore exposed to the risk of data loss by cyber attack. This data might contain technically or commercially sensitive information which would provide a competitor with an advantage.	Rotork has a range of measures in place to monitor and mitigate this risk.

FINANCIAL RISKS

Description	Potential Impact	Mitigation
<i>Volatility of exchange rates would impact Rotork's reported results and competitive position.</i>	Significant fluctuations in exchange rates could have an adverse impact on Rotork's reported results and adversely affect the pricing point of our products in other currencies.	A clear treasury hedging policy addresses short-term risk and this works together with the natural hedging provided by the geographical spread of operations, sourcing and customers. Whilst this will protect against some of the transaction exposure our reported results would still be impacted by the translation of our non-UK operations.
<i>Political instability in a key end market.</i>	Disruption of normal business activity would impact our sales in that country and might ultimately lead to loss of any assets located in that country as well.	The wide geographic spread of Rotork's operations and customers diminishes the impact of any one market on the results of the Group as a whole.
<i>Growth of the defined benefit pension scheme deficit.</i>	The amount of the deficit may be adversely affected by a number of factors including investment returns, long term interest rates, price inflation and members' longevity. This in turn might lead to a requirement for the Company to increase cash contributions to the schemes.	Both defined benefit schemes are closed to new members, with the UK scheme closed in January 2003. The Group and trustees monitor the performance of the scheme regularly, taking actuarial and investment advice as appropriate. The results of these reviews are discussed by the Board.

Corporate social responsibility

The Group believes that responsible business is the best business. It can benefit our operational effectiveness, develop our industry leading products, grow our business and build on the trust of our stakeholders.



The Oromia region of Ethiopia, in the Jeldu district.
Photographer credit: David Balhuizen, Belu/WaterAid.

WHY DOES CORPORATE SOCIAL RESPONSIBILITY (CSR) MATTER TO THE GROUP?

The Group believes that responsible business is the best business. It can benefit our operational effectiveness, develop our industry leading products, grow our business and build on the trust of our stakeholders. Sustainability lies at the heart of the Group's commitment to social responsibility and it represents a valuable opportunity to ensure that the Group continues to be successful in the long term. For these reasons, the Group endeavours to entrench CSR across all its processes and ways of working.

The Group's approach to CSR is focused around four main themes:

THE ENVIRONMENT

The environmental programme, described in more detail on pages 35 to 37, benefits the Group in a number of ways including ensuring compliance with legal requirements in all territories in which the Group operates, achieving cost savings by reducing waste and resource consumption, and reducing emissions which contributes to sustaining the environments in which the Group operates.

ETHICS AND VALUES

The Group looks to conduct business in an honest and ethical manner at all times. High standards of ethics and values are important to the Group because they help to foster an open and honest culture which contributes to the effectiveness of our people, allowing us to attract, motivate and retain talent, build on the trust of our stakeholders and to enhance and protect our reputation. Furthermore, behaving ethically and honestly, for example by taking a zero tolerance approach to bribery and corruption, contributes to improving standards in markets around the world which will help nurture and grow these markets. More details of the Group's ethics and values can be found on pages 37 to 39.

HEALTH AND SAFETY

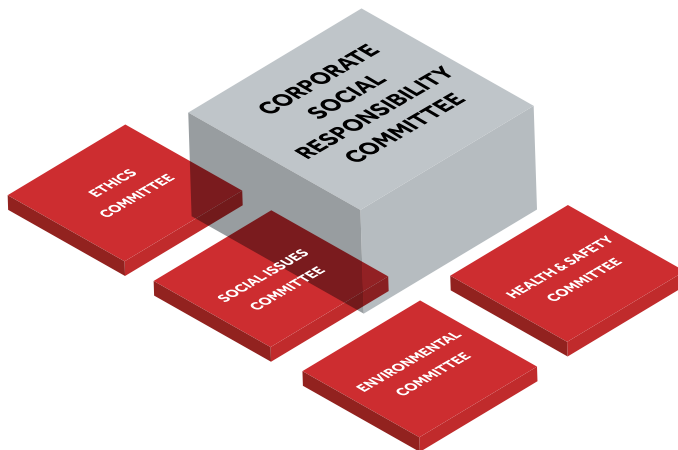
The Group's employees are essential to the success of the business. Providing a safe working environment is paramount and by ensuring our people are safe we enhance the effectiveness of our workforce by mitigating the risk of injury and reducing costs associated with employee illness or injury. The Group's approach to health and safety can be found on pages 39 to 40.

COMMUNITY INVOLVEMENT

The Group's asset-light business model means that we do not significantly disrupt local communities where we are based. Nevertheless, we recognise that we operate in a wide number of territories around the world and that our operations have some impact on the communities within these territories. Furthermore, the Group's employees, customers and suppliers are often members of these communities and normally these businesses are run by local people. A product of this engagement is to ensure that the Group continues to be welcomed in the communities we work in and this contributes to the sustainability of our operations. Local causes are supported through each location having its own charity committee focused on its local community. More details on community involvement can be found on pages 40 to 41.

The Group recognises that shareholders are becoming increasingly focused on CSR issues and take into account the Guidelines on Social Responsibility issued by the Association of British Insurers. The Group has been a member of the UN Global Compact since 2003 and continues to be included in the FTSE4Good index where we maintain an above average score in the global rankings, UK rankings and industry sector rankings.

Keeping the World Flowing



The Group believes that the approach it takes to CSR, as set out in this report, helps to meet the expectations of our stakeholders and contributes to the success of our corporate strategy by promoting an effective and sustainable business.

The Chief Executive chairs the CSR Committee and reports progress to the Board. The CSR Committee is a management committee, which has four sub-committees with each representing one of the aspects of CSR described opposite. Presentations are given by the Chairmen of the four sub-committees to the Board on activity and progress in their areas of CSR during the year.

The diagram above sets out our CSR structure.

PROGRESS, PERFORMANCE AND TARGETS THE ENVIRONMENT

Overview

Policies, procedures and systems are in place to eliminate, reduce or control our operational impact on the environment and to ensure compliance with all relevant legislation. Legal compliance audits, measurement and monitoring are carried out to ensure policies are followed and systems are effective in managing these impacts. Training is provided to enable employees to carry out their duties without risk to themselves, others or the environment.

The Group considers environmental risks but given the Group's business model, considers the overall risk to the environment from the Group's activities to be relatively low. The Group notes the following operational risks:

- EU Registration, Evaluation and Authorisation of Chemicals (REACH) legislation. As a downstream user, the Group relies on the manufacturers of chemicals and preparations for continuing availability of its products. We continuously monitor the chemicals and preparations used; and

- EU Restriction of Hazardous Substances in Electrical and Electronic Equipment Directive (RoHS 2). The Group's electronic products will need to comply with RoHS 2 by 2017. We are evaluating our products, systems and procedures in light of RoHS 2 and taking action as necessary to ensure compliance.

Features of the Group's legal compliance activities include:

- Mandatory carbon reporting, Rotork's scope 1, 2 and 3 emissions, through energy use have been independently assessed. For further details please see the Greenhouse Gases Reporting section of this report, on page 37;
- Waste Packaging (Producers' Obligation) Regulation 2007, Rotork is a member of the Clarity compliance scheme;
- Waste Electrical and Electronic Equipment Regulations 2006, Rotork is a member of the Clarity-WEEE compliance scheme;
- Waste Battery and Accumulator Regulations 2009, Rotork is registered as a small battery producer; and
- Use of licensed waste carriers for the removal of all types of waste from Rotork facilities.

Group Environmental Policy and Procedures

The Group's environmental policy applies to the Company and all its subsidiaries worldwide. The policy includes commitments to the prevention of pollution, compliance with all relevant legal and regulatory requirements, search for opportunities to reduce energy and to the continuous improvement of environmental performance. The Group's environmental policy can be found at www.rotork.com in the Investors' section under Corporate Responsibility – Environment.

Separate policies define the Company's expectations on a number of environmental issues such as recycling, water use and energy consumption. Some Rotork businesses, which operate in regions that have fewer environmental facilities available (for example, recycling facilities), can present challenges but it is Rotork's expectation that our environmental policies are implemented consistently across the Group.

Operational control procedures are in place to manage a wide number of environmental activities such as the generation and disposal of hazardous waste, storage and use of oil and volatile organic compounds (VOC), or the maintenance of air conditioning equipment. Where necessary, emergency plans are produced and appropriately communicated to manage and control potential incidents which may pollute, such as oil spills.

Systems are in place to monitor environmental performance across the Group. This report sets out performance summaries of:

- Energy consumption;
- Waste generation and recycling (including hazardous waste); and
- Water consumption.

Data on VOC and refrigerants (HFC) is also recorded and reported in the Environmental Report, available from the Investors' Section of the Rotork website under Corporate Social Responsibility – Environment. An update on Group environmental performance is given at quarterly CSR Committee meetings where actions are documented and progress reviewed at the next meeting. This year's report encompasses more data than before due to additional locations, including recent acquisitions.

Corporate social responsibility continued



Rotork has made a special donation to "One bike, a thousand hopes 2013" campaign in memory of Mauro Talini, the brother of an employee in Lucca, Italy.



Employees from Rotork's Calgary office generously donated time to help clean-up homes that were devastated in the Alberta, Canada flooding.



A group of 15 Houston, USA employees donned capes and masks, and participated in a 5K race to benefit Court Appointed Special Advocates for children.

A more detailed report of environmental performance for the year ending 31 December 2013 will be given in the Environmental Report, published on the Rotork website in April 2014. A copy of the Environmental Report containing 2012 performance data can be found at www.rotork.com in the Investors' section under Corporate Social Responsibility – Environment.

Progress

Energy Consumption

The Group operates an assembly only philosophy in all but five of its business units and we rely on specialist suppliers for most of our manufactured components and assemblies. In all facilities energy is used for IT systems, lighting, heating and cooling. Exceptions are the Group's operations in Losser (The Netherlands), Falun (Sweden), Mansfield (UK) and Winston-Salem and Broken Arrow (USA) where some machine processes are in operation. In other locations test equipment is used to ensure the product meets customer operational requirements which can consume large amounts of energy for short periods of time when in use.

Consumption of electricity, gas and steam is calculated using utility invoices. Liquid petroleum gas (LPG) and oil is calculated using sales invoices.

2013 Energy Consumption Performance Summary and 2014 Targets

- On a like for like basis, energy consumption increased 4.73% compared with 2012, slightly below the rate of organic revenue increase. With the inclusion of new reporting companies this year, the overall increase was 8.68%.
- New acquisitions in USA, Germany, Italy and the new head office in the UK accounted for 3.77% of the increase. There were also increases in business activity with small fluctuations in climate conditions at some facilities also contributing to the increase.

Waste Generation and Recycling

Waste generation includes packaging waste (card, wood and plastic), metal waste (ferrous and non-ferrous), hazardous materials (paint waste, oils and adhesives), batteries and waste electrical electronic equipment (WEEE).

The Group's policy is to recycle where possible. We have installed recycling equipment (such as balers and wood crushers) at a number of the high volume locations. To ensure suppliers also play their part we have introduced our own minimum packaging requirements for suppliers.

2013 Waste Generation and Recycling Performance Summary

- Waste generation decreased and, consequently, recycling decreased.
- The percentage of recycled waste against total waste generated decreased against 2012 results.

A detailed report is available in the 2013 Environmental Report.

Water Consumption

Water consumption is measured across the Group. For the majority of Rotork locations water consumption derives from normal operation and sanitary use. Exceptions to this include our facilities in Winston-Salem (USA), Bangalore and Chennai (India), Shanghai (China), Bath (UK) and Lucca (Italy), where processes involving the use of water are in operation.

2013 Water Consumption Performance Summary

On a like-for-like basis water consumption in 2013 fell by 11% compared to 2012. With the inclusion of new reporting companies the overall water consumption increased 1%.

Keeping the World Flowing

Greenhouse Gases Reporting Mandatory Greenhouse Gases Emissions Reporting

During 2013, a Group KPI measuring the Group's Scope 1 and 2 emissions was introduced and is measured against turnover. During 2013, the Group's Scope 1 and 2 emissions decreased by 7.1% per million pounds of turnover. More details regarding this KPI can be found on page 29.

The table below shows the Group's greenhouse gas (GHG) emissions data in tonnes for the last two financial years.

Emissions (tonnes)	2013	2012
Scope 1 (i)	5,024	4,448
Scope 2 (ii)	5,317	5,396
Scope 3 (iii)	2,284	2,044

- (i) The Group's Scope 1 GHG emissions are derived from the consumption of gas, liquid petroleum gas, oil and through business travel and the transport of goods via Rotork owned vehicles
- (ii) The Group's Scope 2 GHG emissions are derived from the consumption of electricity and steam
- (iii) The Group's Scope 3 GHG emissions are derived from well to tank and transmission factors taken from the UK Government Conversion Factors for Company Reporting. They have been used for all sites except for the USA sites where specific factors are available for transmission losses

Assurance of GHG emissions report

On 28 January 2014, EEF undertook an assurance audit of the Group's GHG emissions report against the requirements of the Defra Environmental Reporting Guidelines issued in June 2013. The audit took place at the Group's Bath site and consisted of a desktop review of the GHG report and the supporting evidence and calculations.

The Group calculates GHG emissions in accordance with the Greenhouse Gas Protocol (GHG Protocol) developed jointly by the World Business Council for Sustainable Development and the World Resource Institute.

2013 Carbon Emissions via Energy Consumption Performance Summary

- On a like-for-like basis, emissions increased 1.34% compared with 2012, the overall increase was 5.14%.
- New acquisitions in USA, Germany, Italy and the UK, including the new head office in Bath, accounted for 3.63% of the increase. There were also increases in business activity with small fluctuations in climate conditions at some facilities which contributed to the increase.

2014 Targets

- Achieve 3% year-on-year reduction in carbon emissions against revenue.

ETHICS AND VALUES

Overview

Ethics and values are central to the way we do business. The Group's Ethics and Values Statement can be viewed on our website, in a number of languages, at www.rotork.com/en/investors/index/ethicsvalues. Our ethics and values can be split into four strands:

Human rights and ethical business

The Group is fully committed to respecting internationally proclaimed human rights as defined in the International Declaration of Human Rights and the International Labour Organisation's standards. The Group does not accept any form of child or forced labour and embracing the UN Global Compact principles throughout the business is a demonstration of this commitment.

The Group recognises that an open and honest culture is key to understanding concerns within the business and to uncover and investigate any potential wrongdoing. In 2013, the Group launched a refreshed and updated whistleblowing policy with an independent external whistleblowing hotline.

Employees

The Group has a firm commitment to all its employees regarding wellbeing and development. Many of the Group's offices provide health checks for their employees, as well as encouraging participation in sports teams or one-off charitable sporting events. More details regarding charitable activities can be found in the Community Involvement section of this report.

Rotork has an objective and fair recruitment process which promotes equal opportunities across the Group in line with the 'Respect at Work and Equality of Opportunity' policy. Employee views and direct communication are part of our values and we run employee suggestion schemes, an annual Employee Satisfaction Survey and several locations have employee forums where employees can raise issues to be dealt with by management.

Rotork has built a strong partnership with the Institute of Mechanical Engineers (IMECHE) to support engineers in gaining Incorporated and Chartered accreditation. The success of the new registrants has encouraged other Rotork engineers to work towards accreditation with IMECHE next year.

The Group also supports apprenticeship schemes for young men and women which helps to increase access into all aspects of the Group's business.

In 2013 Rotork produced a diversity policy and targets to be achieved by September 2015. More details of Rotork's diversity policy and targets can be found in the Corporate Governance report on page 55.

Corporate social responsibility continued

Bribery and corruption

The Group has a zero tolerance policy on bribery and corruption worldwide, irrespective of country or business culture. The Group's Ethics and Values statement makes clear that our employees will never offer, pay or solicit bribes in any form and is published on the Group's website in a number of languages. The Group does not make political contributions in cash or kind anywhere in the world.

The Group's whistleblowing policy gives whistleblowers a platform to alert senior management, anonymously if the employee wishes, to any suspected bribery or corruption, through an independent, external hotline if necessary.

The Group also makes use of detailed background checks provided by specialist bribery and corruption due diligence consultants before dealing with unknown third parties (including agents, prospective acquisitions and suppliers) operating in higher risk jurisdictions or market sectors. The Group makes use of objective guidance on country risk, such as the Corruption Perception Index by Transparency International. When working with the unknown third party, and after the initial detailed background checks, the Group also continually screens these third parties against a large number of international sources which could detect unethical behaviour including watchlists, sanctions lists and the media using its due diligence consultants' proprietary databases. These third parties are also subject to continual screening.

During 2013, the Group developed and rolled out anti-bribery and corruption training to all employees working in sales and purchasing roles as well as to senior accountants and all managers and directors (including executive and non-executive directors). The anti-bribery and corruption training is delivered as an e-learning module which includes an assessment. The course has been translated into several local languages. All users are given three months to successfully complete the course. Approximately 1,000 employees are required to successfully complete the course.

Suppliers

The Group has continued to invest in its outsourcing model, selecting suppliers with sound reputations in the marketplace. Many of the suppliers have a long-term working relationship with the Company, ensuring ingrained product knowledge within the supply chain. Suppliers are subject to continuous automated online monitoring against sanctions lists, watchlists, regulatory and court records and a large number of national and international media sources and the Company is alerted where any derogatory information is uncovered.

The supplier assessment programme includes more detailed CSR themed questions associated with equal rights and equal pay, anti-bribery and corruption policies, charitable giving, environmental impact and anti-compulsory or child labour practices. These surveys consider current and established suppliers. In 2013, 23 suppliers to the Group's Bath factory were evaluated using this assessment programme.

The assessments are discussed directly with the suppliers and any corrective action plan is agreed between the Company and the supplier.

Rotork Controls Limited and Rotork UK Limited, the Group's main UK trading companies, and Rotork plc, are signatories to the Prompt Payment Code which ensures that suppliers are paid according to the terms agreed and this encourages good practice be passed down supply chains.

Progress

- An updated and refreshed Group whistleblowing policy was launched which incorporates the use of an independent external whistleblowing hotline as an alternative method to raising whistleblowing concerns;
- Following on from a revision of the supplier audit questionnaire in 2011 to include questions centred around CSR, the target of auditing a further 20 of the top 50 suppliers and all new suppliers to Rotork's Bath manufacturing facility set in 2013 was exceeded. The relationship with one supplier was terminated as a result of this auditing;
- A FTSE4Good score of 3.8 out of 5 was maintained. This is in excess of UK, global and industry averages;
- An employee satisfaction survey score of 3.64 out of 5 was achieved, a small increase on the previous year with record numbers of employees participating;
- Presentations relating to bribery and corruption given by senior management and the Group's legal department to International Sales Managers' regional meetings in the UK, USA and China and the whistleblowing policy was communicated to all employees in every edition of the Rotork e-newsletter; and
- Bribery and corruption training rolled out to relevant employees in English, Korean, German, Spanish and Chinese.

Keeping the World Flowing

2014 Targets

- Roll out bribery and corruption training in all other relevant languages;
- Roll out bribery and corruption training to Rotork agents;
- Make progress towards achieving Rotork's 2015 diversity targets; and
- Continue to communicate the whistleblowing policy regularly through the Rotork e-newsletter.

HEALTH AND SAFETY

Overview

The safety of Group employees, customers and visitors is of paramount importance to the Group. It is our policy to provide a safe working environment for all employees and visitors to any of the Group's sites and ensure employees work safely. For these reasons, policies and procedures are in place to help to eliminate, reduce or control our operational risks and ensure compliance with health and safety legislation.

The Group undertakes health and safety audits at all of its locations. A schedule of audits is established and approved by the CSR Committee. Each Rotork location is audited against a checklist which has been developed to ensure each location meets the Group's standards for health and safety. Each item on the checklist is assessed against pre-determined criteria and scored. A calculation of the overall score gives the company a rating and any company not achieving the baseline rating is given limited time to improve.

All audits are reviewed by the Group's Health and Safety Officer and all actions resulting from audits are recorded and monitored for correct and timely rectification.

A report of Group health and safety performance is given at quarterly CSR Committee meetings and all actions are recorded and progress reviewed at the next meeting. The results of audits, the rating of locations and the status of audit actions are reviewed by the Health and Safety Committee and any actions identified are acted upon.

Training is provided to enable employees to carry out their duties without risk to themselves or to others.

The Group Health and Safety Policy is endorsed by the Chief Executive and sets out the Group's requirement to 'meet or exceed legislative and other requirements in the countries in which Rotork operates'. The policy can be viewed on the Group's website under Corporate Social Responsibility – Health and Safety in the Investors' section.

Effective management of the Group's health and safety programme enables us to:

- Minimise the risk of injury to our employees, customers and suppliers and damage to property;
- Reduce costs associated with employee illness, injury and loss of physical assets; and
- Continually improve the Group's health and safety practices.

The Group operates a behaviour-based safety programme. This requires managers and supervisors to encourage safe working practices by:

- Promoting regular safety observations by all staff;
- Regularly asking employees for their suggestions for improving safety at their facility;
- Holding employees accountable for observing these practices;
- Providing managing safety courses for line management; and
- Regular health and safety training to employees on subjects such as manual handling and confined spaces.

The Group's Health and Safety Policy and Arrangements document sets out the Company's policies for all of its foreseen activities. Rotork employees are engaged in activities which include manual handling of heavy objects, mechanical lifting, operating machinery and driving to suppliers' and customers' locations. In addition to working in the Group's facilities, employees also work on customer sites, which are often more hazardous. To reduce the risks associated with these activities, additional safe working practices are in place and include:

- Site surveys, to establish requirements, measurements and an assessment of the potential work area;
- Project assessments to identify risks, hazards and necessary controls to eliminate, reduce or control the risk to a reasonable level;
- Method statements, detailing work to be done and controls to be put in place and equipment to be used;
- Point of work risk assessments, before work starts, which must also be reviewed after any period away from the work area;
- The use of permits-to-work when working in hazardous environments such as confined space work; and
- Unannounced internal audits of employees when working on a customer site.

Five performance indicators are monitored across the Group and performance against these indicators is reported to the Audit Committee:

- Accident frequency rate (which is a reported Group KPI);
- Lost time rate;
- Incident frequency rate;
- Health and safety audit rating; and
- On time completion of health and safety audit actions.

Corporate social responsibility continued

By monitoring the results of these performance indicators we are able to identify areas of strong performance which can then be shared across the Group and areas of weakness which may require additional resources and training.

Progress

One of the Group's non-financial KPIs is Accident Frequency Rate (AFR). A target is calculated as an average of the past three years' AFR performance. In 2013, the Group achieved an AFR of 0.33, achieving the 2013 target of 0.43.

Details of the Group's AFR over the past five years and how it is calculated is shown on page 29.

2014 Targets

- Achieve an AFR of 0.42.

COMMUNITY INVOLVEMENT

Overview

The Group considers it important to contribute to and engage positively with stakeholders in the communities in which we operate and to be a good community neighbour around the world. We regard this as part of our ongoing responsibilities as a corporate entity. The Group seeks to be regarded as a good corporate citizen. This links into our corporate values which include producing a positive and beneficial impact in the areas in which we operate. One of the ways the Group does this is by having local charity committees at each of our sites which donate to local charitable causes. This empowers local employees to decide how to distribute the funds in their local communities. The Group aims to contribute 0.1% of profits to local charitable causes.

Local community involvement highlights from the year include:

- Rotork Malaysia visited and donated items to AsSolihin Orphanage;
- Various locations running apprenticeships, work placements and internship programmes;
- Rotork Mexico joined forces with the Mexican Red Cross to provide donations of food and personal hygiene items to those affected by two storms that hit Mexico;
- Rotork Sweden made a donation to a local High School for children with disabilities, enabling them to travel to the UK to meet children from similar schools; and
- Rotork Fairchild, USA employees donated Christmas gifts of toys and clothes to local children.

Rotork operates a number of educational initiatives such as apprenticeship schemes and co-operative relationships with numerous universities. The Group is the industry member of the Bath Education Trust, which aims to advance education in Bath schools and promote community cohesion. In 2013, City of Bath College joined forces with Rotork to offer engineering apprenticeships, which will see five to seven apprentices a year becoming fully qualified engineering technicians, to form a strong part of Rotork's future. Rotork also offers graduate work placements and degree sponsorship to promising students, employees and the most talented individuals from our internship scheme.

The Group is also a member of an initiative of the Engineering Development Trust who help 11-21 year olds to enhance their technical, personal and employability skills through industry-led projects, industrial placements and specialised courses. In Germany, Rotork provided practice interview training at a local High School to help students with lower chances on the job market.

In addition to local charitable activities, the Group has supported two major charities in 2013, WaterAid and The Institute of Cancer Research. A specific WaterAid project is supported and the Group receives updates throughout the year on the progress of this project.

WaterAid uses the Group's support to help fund the Jeldu Woreda Project in Ethiopia, which aims to deliver safe and adequate water, sanitation and hygiene facilities to local communities. The original project, funded by Rotork since 2011, has now been completed benefitting 16,500 individuals living in three villages in Ethiopia. As planned this project was completed by the end of March 2013 and all facilities are solar powered.

In 2014, the Group will support WaterAid's Metu-Hurumu Woreda WaSH Project in Ethiopia, situated in the same area of Ethiopia as the Jeldu Woreda Project supported by the Group. This project will target 10 villages and provide over 128,000 people with safe water and sanitation. The project is a combination of water supply provision, water resource management and livelihood improvement and has been identified that this approach is of critical importance to improve the wellbeing of the communities in the Keber watershed.

2013 has been a particularly difficult year with cancer deeply affecting the lives and families of a number of our colleagues.

Keeping the World Flowing

Therefore, in addition to our ongoing support for WaterAid, the Group has made a donation to The Institute of Cancer Research (ICR), London. This is one of the world's most influential cancer research institutes, with an outstanding record of achievement dating back more than 100 years. Scientists and clinicians at the ICR are working every day to make a real impact on cancer patients' lives.

The ICR's mission is to make the discoveries that defeat cancer and the Group is pleased to support that aim.

Rotork also made a special donation to 'One bike, a thousand hopes 2013' campaign, in memory of the brother of an employee based in Lucca, Italy.

Progress

- £55,000 contributed by the Group to WaterAid plus a further £6,600 contributed to WaterAid through employee fundraising activities;
- £57,000 contributed to the ICR;
- £10,000 contributed to Mauro Talini and Father Kolbe International no-profit Association.

2014 Targets

- To increase donations to charitable causes. The Group will:
 - Donate 0.1% of Group profits to Rotork's nominated international charity; and
 - Donate 0.1% of Group profits to charitable causes local to Rotork's operating sites.
- To continue to support WaterAid and in particular the Metu-Hurumu Woreda WaSH Project.

Contacts and feedback

The Group welcomes and values feedback. If you have any comments regarding this CSR report or any aspect of the Group's CSR programme, please contact Stephen Jones, Company Secretary, by writing to him at the Rotork plc registered office, full details of which can be found in the corporate directory on page 126.



Rotork offices in China walked Mount Tai to raise money for WaterAid.



The Rotork Middle East office collected clothing for the Philippines appeal.

Board of Directors

PETER FRANCE
CHIEF EXECUTIVE



Peter was appointed as Chief Executive of Rotork plc in 2008. He joined Rotork in 1989 as an Inside Sales Engineer. In 1998, he was appointed Director and General Manager at Rotork Singapore before becoming Managing Director of the Fluid Systems Division and then Chief Operating Officer.

BIOGRAPHY

APPOINTED TO THE BOARD

2006

EXTERNAL APPOINTMENTS

Chairman of the Bath Education Trust

COMMITTEE MEMBERSHIP

Nomination

JONATHAN DAVIS
FINANCE DIRECTOR



Jonathan joined Rotork in 2002 after holding a number of finance positions in listed companies. He gained experience of the Rotork business initially as Group Financial Controller and then as Finance Director of the Rotork Controls Division and in 2010 was appointed Group Finance Director.

2010

GRAHAM OGDEN
RESEARCH AND
DEVELOPMENT DIRECTOR



Graham has been with Rotork since 1985 and has been closely involved in product development including our award winning IQ series. Graham has been Research and Development Director since 1997.

BIOGRAPHY

APPOINTED TO THE BOARD

2005

EXTERNAL APPOINTMENTS

COMMITTEE MEMBERSHIP

BOB ARNOLD
PRESIDENT OF ROTORK CONTROLS INC.



Bob was appointed President of Rotork Controls Inc. in 1988 and has responsibility for all Rotork's interests in the Americas. He joined Rotork Controls Inc. in 1978 as Engineering Manager subsequently becoming Vice President, Engineering. Prior to joining Rotork Bob worked for Westinghouse in the USA as a Design Engineer in the Nuclear Valve Group.

2001

Keeping the World Flowing

ROGER LOCKWOOD CHAIRMAN



Roger has been a non-executive director of Rotork since joining the Board and became non-executive Chairman in November 1998. He previously held CEO roles in automotive and engineering businesses.

1988

Chairman of Hydro International plc

Nomination (Chairman)

IAN KING SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR



Previously Ian held a number of Executive General Management roles across BAE Systems and Marconi. In 2007, Ian was appointed Chief Operating Officer UK and Rest of the World and was also appointed to the Plc Board of BAE Systems. He became Chief Executive of BAE Systems in September 2008.

2005

Chief Executive of BAE Systems Plc

Audit, Nomination and Remuneration

SALLY JAMES NON-EXECUTIVE DIRECTOR



Sally previously held senior legal roles in investment banking in London and Chicago including Managing Director and EMEA General Counsel for UBS Investment Bank. She has also held the position of Bursar of Corpus Christi College, Cambridge.

2012

Non-executive director of UBS Limited
Non-executive director of Towry Limited
Non-executive director of
Moneysupermarket.com Group PLC
Non-executive director of Abdi Limited
Trustee of Legal Education Foundation

Audit, Remuneration and Nomination

JOHN NICHOLAS NON-EXECUTIVE DIRECTOR



John was previously Group Finance Director of Tate & Lyle plc and Kidde plc.

2008

Non-executive director of Mondipol
Non-executive director of Hunting plc
Non-executive director of Diploma plc
Member of the Financial Reporting Review
Panel of the Financial Reporting Council (FRC)

Audit (Chairman), Nomination and
Remuneration

GARY BULLARD NON-EXECUTIVE DIRECTOR



Gary previously held senior management positions, including sales and marketing roles, at IBM and BT Group plc and was a non-executive director of Chloride Group plc. Gary most recently held the position of President Logica UK until October 2012 and was a member of the Executive Committee of Logica plc.

2010

Founder and CEO of Catquin Ltd
Chairman of New Model Identity Ltd
Non-executive director of The Smart Cube

Remuneration (Chairman), Audit and
Nomination

Management board

PETER FRANCE
CHIEF EXECUTIVE
JONATHAN DAVIS
FINANCE DIRECTOR

BOB ARNOLD
PRESIDENT OF
ROTORK CONTROLS INC.

GRAHAM OGDEN
RESEARCH AND DEVELOPMENT
DIRECTOR

Biographies for the Management Board members above are on page 42.

GRANT WOOD
MD ROTORK CONTROLS



Grant joined Rotork in 2006 as Director of Rotork Site Services (RSS) before being appointed as Managing Director of Rotork's Controls Division and joining the Rotork Management Board in March 2011. Before joining Rotork, Grant gained considerable experience in the utility, financial and energy sectors.

ALEX BUSBY
MD ROTORK FLUID SYSTEMS



Alex joined Rotork in 1985. In 1989 he went to a company in the same industry holding various management roles in Asia and Europe. He re-joined Rotork in 2003 as Business Development Manager, and then was Business Development Director, before becoming Managing Director of Rotork Fluid Systems and joining the Rotork Management Board in 2008.

ALASTAIR SPURR
GROUP OPERATIONS DIRECTOR



Alastair joined Rotork in 2005 as Operations Director of the Controls Division. He joined the Rotork Management Board at its inception in 2007 and in January 2011 he was appointed Group Operations Director. Before joining Rotork, Alastair held positions within the engineering, construction and retail industries.

STEPHEN JONES
GROUP LEGAL DIRECTOR



Stephen joined Rotork in 1999. He is Group Legal Director and Company Secretary and joined the Rotork Management Board at its inception in 2007. He is a Solicitor and has held positions in the engineering and construction industries as well as in private practice.

Keeping the World Flowing

DAVID LITTLEJOHNS
MD ROTORK GEARS



David joined the engineering design department in 1985 and he moved to Rochester, USA in 1996 as an engineer. He moved into sales before becoming General Manager in California. In 2006 he was appointed Managing Director of the Gears Division. He joined the Rotork Management Board at its inception in 2007.

ALAN PAINE
MD ROTORK INSTRUMENTS



Alan joined Rotork as Managing Director of Rotork Fairchild upon acquisition in November 2011. He was appointed as Managing Director of the Instruments Division and joined the Rotork Management Board in January 2013. Before joining Rotork, Alan managed several international companies in the automotive and linear bearings industries.

CARLOS ELVIRA
GROUP SALES AND
MARKETING DIRECTOR



Carlos joined in 1981 as the first Graduate Trainee in International Sales. He became International Sales Manager in 1989. In 1999 he became Controls Sales and Marketing Director and joined the Rotork Management Board at its inception in 2007. In January 2011, he was appointed Group Sales and Marketing Director.

MARK WILLIAMS
GROUP HR DIRECTOR



Mark joined Rotork in 2007 as Bath HR Manager before being appointed as Group HR Director in 2009. He joined the Rotork Management Board as Group HR Director at the beginning of 2012. Prior to joining Rotork, Mark held various HR positions in the automotive manufacturing sector and transport industries.

PAMELA BINGHAM
GROUP BUSINESS
DEVELOPMENT DIRECTOR



Pamela joined Rotork as Group Business Development Director and the Rotork Management Board in March 2012. She has gained a wealth of experience in legal, commercial and business development roles. Pamela has worked in the engineering, mining, renewable energy and oil and gas sectors.

Corporate governance



ROGER LOCKWOOD
CHAIRMAN

Statement from Chairman

The continuing success of Rotork, its reputation in its markets and its relationships with its stakeholders is dependent on and safeguarded by the leadership provided by an effective board. Good corporate governance supports the effectiveness of your board and contributes towards the long-term success of our company.

Our corporate governance report is set out on pages 46 to 55 and describes the roles, accountabilities and expectations for our directors and Board structures. We are subject to the UK Corporate Governance Code (Code) and whilst ensuring we provide detailed reporting, we have sought to place emphasis on explaining how the principles of the Code are applied across our group. A summary of the business the Board considered during 2013 is also set out opposite. I am pleased to report that throughout 2013, we complied with the 2010 and 2012 versions of the Code in all respects.

Corporate governance highlights for 2013 include responding to Lord Davies' call for action by setting out a number of specific actions and targets to improve gender diversity by September 2015. The Board has also developed a diversity policy which is applicable to the whole of the Group. These are detailed in the Corporate Governance Report on pages 50 and 55. Throughout the year, the Remuneration Committee held a number of additional meetings to consider the requirements of the new remuneration reporting regulations and more details of this can be found in the Directors' Remuneration Report on pages 56 to 69.

During 2013, we also rolled out a comprehensive anti-bribery and corruption training programme to all directors (including non-executive directors), managers, senior finance personnel and those employees who deal with customers or suppliers. This equates to approximately one third of the workforce. The training requires all users to successfully pass a test. Taken together with the successful completion of the rollout of our revised whistleblowing policy and independent hotline, this underscores the importance of the ethics and values policy of the Group and ensures it continues to be firmly embedded and understood across the Group.

I believe that good corporate governance, when properly applied, supports and protects our business and its long term success by creating a link, based on trust and engagement, between Rotork and its stakeholders. It is important for governance to focus on the entire organisation and at Rotork we seek to apply it across our activities worldwide in a consistent and unified way to create and maintain the right culture throughout our Group. I believe this allows us to produce a better business. Rotork's products and services are offered in many markets and territories and we recognise that our business activities affect a diverse range of stakeholders. With that in mind, we must ensure that we consistently do things the right way through a unified approach. Our corporate governance arrangements underpin this by ensuring that our people know not just what to do, but how to do it.

Roger Lockwood
Chairman

Keeping the World Flowing

Summary of 2013 Board Business

March	<ul style="list-style-type: none"> – Performance and business review including a review of prospective acquisitions. – Investor relations report from Chief Executive. – Consideration of the Audit Committee recommendation to approve the 2012 financial statements for presentation to the shareholders for their approval at the Annual General Meeting (AGM). – Consideration of the 2012 financial statements and potential final dividend amount. – Receipt of a presentation from the Chief Executive and Finance Director of the preliminary announcement of the 2012 final financial results. – Review of 2012 corporate objectives. – Presentations from the Group Human Resources Director, Group Legal Director and Group Operations Director on Corporate Social Responsibility.
April (2 meetings)	<ul style="list-style-type: none"> – Performance and business review including a review of prospective acquisitions. – Investor relations report from Chief Executive. – Consideration of the AGM proxy returns and reports and consideration of the AGM arrangements. – Review of Second Annual Review of Women on Boards and discussion on development of a Board Diversity Policy. – A presentation from Citi, Rotork's joint corporate brokers. – A presentation from the Group Business Development Director.
June (meeting held at Rotork's plant in Lucca, Italy)	<ul style="list-style-type: none"> – Performance and business review including a review of prospective acquisitions. – Investor relations report from Chief Executive and report from Chairman on meeting with institutional investors. – Discussion of the half year interim dividend. – Group Risk Review. – Group strategy presentation by Chief Executive and Board discussion on strategy. – Discussion of Board Diversity Policy. – Consideration of corporate governance developments. – Consideration of the draft 2014 Board timetable. – A presentation from Rotork Fluid Systems' Divisional Managing Director and local Italian management.
August	<ul style="list-style-type: none"> – Performance and business review including a review of prospective acquisitions. – Investor relations report from Chief Executive. – Receipt of a presentation from the Chief Executive and Finance Director of the half year results. – Consideration and approval of half year report and consideration of interim dividend. – Strategy discussion. – Consideration of Board Diversity Policy. – Presentations from Rotork Instruments' Divisional Managing Director.
September	<ul style="list-style-type: none"> – Performance and business review including a review of prospective acquisitions. – Investor relations report from Chief Executive. – Consideration of legal and corporate governance developments including institutional investor corporate governance and shareholder engagement guidance and changes to narrative reporting legislation. – A presentation from Rotork Gears' Divisional Managing Director.
November (2 meetings)	<ul style="list-style-type: none"> – Performance and business review including a review of prospective acquisitions. – Investor relations report from Chief Executive. – Approval of the 2014 budget. – Consideration of Board Diversity Policy. – Consideration of risk appetite. – Consideration and approval of revised employment of former employees of the external auditor policy. – Presentations from the Group Sales and Marketing Director and Group Research and Development Director.
December	<ul style="list-style-type: none"> – Performance and business review including review of prospective acquisitions. – Investor relations report from Chief Executive. – Discussion of potential 2013 final dividend amount. – Review of effectiveness of risk management and internal control systems. – Consideration of corporate governance developments. – Consideration of board performance evaluation. – Approval of Directors' situational conflicts of interests disclosures. – Review of risk management and internal control systems. – Approval of 2014 corporate objectives. – Presentations from the Rotork Controls' Divisional Managing Director and Rotork Site Services' Managing Director.

Corporate governance continued

UK CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT

The following section on pages 48 to 55 is a summary of the system of corporate governance adopted by Rotork. Throughout the year ended 31 December 2013, Rotork plc fully complied with both the 2010 and 2012 versions of the UK Corporate Governance Code (Code). The Code is available to download at www.frc.org.uk.

THE BOARD OF DIRECTORS

The Board has a duty to promote the long-term success of Rotork for its shareholders. Its role therefore includes approval of strategy, risk reviews, major contract approvals, finance matters and internal control and risk management.

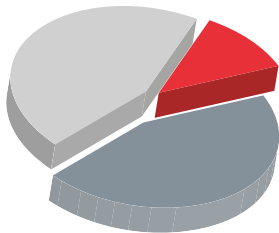
The terms and conditions of appointment of directors are available for inspection during business hours at the registered office of Rotork plc and at the AGM.

Board Composition

Rotork is led by an effective Board which consists of nine members: the Chairman, four independent non-executive directors and four executive directors. Apart from the Chairman, all non-executive directors are considered to be independent from Rotork and are appointed for an initial term of three years. Upon the completion of this term, the appointment is reviewed and, if appropriate, extended for up to a further two three year terms following which the director normally retires.

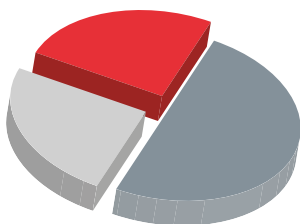
The biographies of the directors and details of Board committee membership are set out on pages 42 to 43.

Balance of Independent Non-Executive Directors and Executive Directors as at 31 December 2013



- Non-Executive Chairman
- Independent Non-Executive Directors
- Executive Directors

Length of Tenure of Independent Non-Executive Directors as at 31 December 2013



- Years
- 0 – 3
 - 3 – 6
 - 6 – 9

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

Directors' attendance at Board and Committee meetings during 2013:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
No. of Meetings	9	5	6	1
RH Arnold	9	2 ⁽ⁱ⁾	n/a	n/a
JM Davis	9	5 ⁽ⁱ⁾	n/a	n/a
PI France	9	5 ⁽ⁱ⁾	6 ⁽ⁱ⁾	1
GM Ogden	9	2 ⁽ⁱ⁾	n/a	n/a
GB Bullard	9	5	6	1
SA James	9	5	6	1
IG King	6	3	4	1
RC Lockwood	9	5 ⁽ⁱ⁾	5 ⁽ⁱ⁾	1
JE Nicholas	9	5	6	1

(i) By invitation

Roles and Responsibilities

There is a documented clear division of responsibilities between the Chairman and the Chief Executive to ensure that there is a balance of power and authority between leadership of the Board and executive leadership.

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

HOW THE BOARD OPERATES EFFECTIVELY

Board Activities

As part of Rotork's Board effectiveness, day-to-day responsibility for the running of the Company is delegated to executive management. However, there are a number of matters where it is not considered appropriate to do this. The Board therefore has a formal and documented schedule of matters reserved for its decision which includes:

- Approval of Group strategy;
- Major capital projects and major contracts approval;
- Acquisition and disposal of any company, business or fixed asset in excess of agreed levels;
- Changes to Group corporate, capital, management or control structures or listing status;
- Approval of preliminary announcements and results, annual report, dividends and significant changes in accountancy policies and procedures and treasury policy;
- Approval of bank borrowings exceeding a certain percentage of the relevant company's turnover;
- Undertaking an annual assessment of the Group risk control process;
- Making appointments and removals (following Nomination Committee recommendations) and changing the size and composition of the Board;
- Succession planning;
- Determining membership and chairmanship of Board Committees;
- Appointment, re-appointment or removal of the external auditor (following Audit Committee recommendation);
- Approval of all resolutions and corresponding documentation to be put to the shareholders at a general meeting and the annual report;

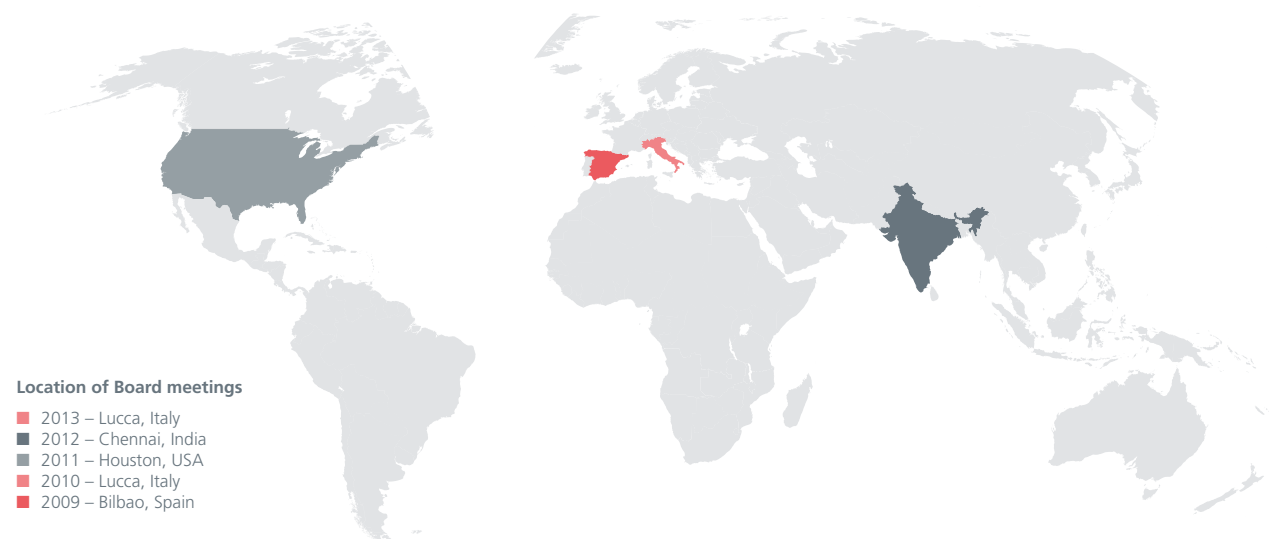
Keeping the World Flowing

- Approval of auditor, brokers and principal corporate finance adviser;
- Prosecution, defence or settlement of any material litigation;
- Approval of overall levels of insurance for the Group;
- Major changes to the Group's pension schemes.

In 2013, the Board met seven times at scheduled meetings and two times at additional meetings to consider other business including approval of Interim Management Statements.

The Chairman, through the Company Secretary, ensures that the Board agenda and all relevant information is circulated to the Board directors sufficiently in advance of the meeting. The Chairman and the Company Secretary discuss the agenda in detail ahead of every meeting and the Chairman and Chief Executive always have a review meeting ahead of each Board meeting.

At least once annually, the Board travels to and meets at one of Rotork's locations other than its head office in Bath. This allows the Board, and in particular the non-executive directors, the opportunity to gain a deeper understanding of overseas businesses and their markets and to interact with local management and staff as well as to view new capital investments and acquisitions. In 2013, the Board visited Rotork's manufacturing facility in Lucca (Italy). The Board met and received presentations from local management.



All Board directors constructively challenge executive management at Board meetings and are entitled to unfettered access to information and management across the Group should they require it. Rotork's executive directors understand the distinction between their roles as executive managers and as Board directors. The Chairman facilitates discussion by ensuring that all Board members have the opportunity to fully contribute to all agenda items at Board meetings and he always seeks to obtain unanimous decisions while allowing sufficient time for discussion and then drawing discussions to a close in an orderly manner. This means that a range of views are offered by both executive and non-executive directors, when the Board discusses any particular issue or topic. Rotork Board members come from a variety of professional backgrounds including engineering, legal, accountancy and international sales and collectively possess significant managerial experience as well as experience of being company directors of other public limited companies.

At each Board meeting, the Board receives presentations from senior management regarding that senior manager's area of responsibility. The Board has the opportunity to ask questions to senior management following their presentations.

The Chief Executive and Finance Director present to the Board the content of preliminary and half year results announcements and the Board is invited to comment on and approve those announcements.

The performance of the Board is enhanced by the good working relationship between the Chief Executive and the Chairman who continue to work together to ensure that the best use of the time and talents of the Board are applied at Board meetings.

Corporate governance continued

Induction and Development

New Board members receive a suitable and tailored induction. This is facilitated by the Company Secretary under the direction of the Chairman. No new directors were appointed during the year.

As part of Sally James' ongoing induction she visited Rotork's manufacturing facilities in Lucca, Italy where she received training on Rotork Fluid Systems' products and met the local workforce.

Directors are encouraged to continually update their professional skills and knowledge. During 2013, development activities for the directors included:

- Attendance by the non-executive directors and the Chairman at a general Rotork products training course covering all Rotork products;
- Attendance by the Chairman, Chief Executive and Finance Director at a crisis management training course provided by FTI Consulting;
- The Chairman of the Remuneration Committee attended an Association of British Insurers Investment Conference which included presentations and discussions on executive remuneration;
- The Chairman of the Audit Committee attended a Financial Reporting Council (FRC) seminar for Audit Committee Chairmen and attended a number of webinars and workshops on technical and governance matters; and
- All directors received the Rotork anti-bribery and corruption e-learning training module and completed this by early 2014.

The Chairman is responsible for reviewing the level and nature of training given to the Board of directors at least annually.

Performance Evaluations

During 2013 the Board undertook a detailed review of its performance, based on a written questionnaire which was designed, in collaboration with the Chairman and Company Secretary, by Vivienne Cassley of Useful Thinking, an external consultancy, who also provided an analysis on the responses.

The feedback from the review was positive and there was a strong sense that the Board has continued to build on the progress made in prior years. There is a level of openness and support between Board members which allows the Board to function effectively and in a way that all members are comfortable with. The review noted that improvements had been made this year in the process of setting strategy and monitoring the performance of new initiatives and acquisitions.

The review also revisited matters raised in 2012, and recorded continuing progress in these. For example, during 2013 the Board:

- Continued to monitor and adjust the processes governing identification and management of risk as the Group continues to expand and diversify; and
- Appointed new external advisers to the Remuneration Committee to advise members in setting appropriate levels of remuneration.

Board members identified key areas for focus in 2014, including:

- Succession planning and development of management immediately below Board level; and
- Continued focus on longer term product and acquisition priorities.

IG King is the current Senior Independent Director. As part of his role, he annually arranges a meeting of the non-executive directors to appraise the Chairman's performance. This feedback is used to discuss with the Chairman his performance.

Diversity on the Board

Rotork recognises the benefits that gender diversity can bring to the Boardroom and to the Group as a whole. Having met its first published target of achieving 25% female representation in its independent non-executive directorate last year, Rotork responded to Lord Davies' call for action in the Second Annual Review of Women on Boards by announcing the future action it will take to improve diversity in senior management and throughout the organisation. Rotork has also published a diversity policy which covers diversity on the Board and throughout the organisation. Details of this policy are set out in the report of the Nomination Committee on page 55.

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board is cognisant of its responsibility to present a fair, balanced and understandable assessment of the Company's position. The Board is responsible for Rotork's system of internal control and risk management and meets at least annually to review the effectiveness of it. Internal control can only provide reasonable, not absolute, assurance against material misstatement or loss, as it is designed to manage the risks rather than remove them altogether.

The system covers controls which enable Rotork to respond appropriately to financial, operational, compliance and any other risks. The system accords with the Turnbull Guidance, Internal Control – Guidance for Directors on the Combined Code, and key elements include:

- Robust assurance processes and controls over financial reporting procedures;
- A formal schedule of reserved matters for the Board including responsibility for reviewing Group strategy;
- Clearly defined levels of authority and a division of responsibilities throughout the Group;
- Formal documentation procedures;
- A formal whistleblowing policy with an external whistleblowing hotline; and
- An internal audit function made up of accountants from head office and across subsidiaries supported by regular training in internal audit, best practice and control procedures to monitor and identify weaknesses in internal controls.

All members of the Board receive full Audit Committee papers and prior meeting minutes. Additionally, the Audit Committee Chairman briefs the Board on the main business of the previous Audit Committee meeting as well as making recommendations from the Audit Committee to the Board. Board members therefore receive information and updates on the work of the Audit Committee in reviewing the effectiveness of the Company's risk management and internal control systems throughout the year. The Board then carries out its review of the system of internal control.

Keeping the World Flowing

There is a continuous process for identifying, evaluating and managing the significant risks faced by Rotork, details of which can be found on pages 30 to 31. In the year under review, the annual review of the system of internal control identified no significant internal control failings or weaknesses.

The Group's key risks, changes during the year under review and details of processes to manage these risks can be found on pages 32 to 33.

RELATIONS WITH SHAREHOLDERS

Communication with shareholders is a priority for Rotork and Rotork maintains a regular dialogue with its major shareholders. Rotork recognises the value of the UK Stewardship Code. In 2013 the Board, and in particular the Chief Executive and Finance Director have met with the shareholders in a number of ways including:

- Hosting conference calls;
- Hosting webcasts;
- Attending shareholder events;
- Hosting investor site visits;
- Attending conferences;
- Hosting and participating in Roadshows; and
- Arranging ad hoc meetings with shareholders.

Through the Chief Executive, the Chairman ensures that all directors are made aware of major shareholder issues and concerns and accordingly the Chief Executive reports to the Board at each Board meeting on meetings with analysts and fund managers as well as shareholders.

During 2013, the Chairman and Company Secretary met with a number of institutional investors at the invitation of the Corporate Governance Director of a major shareholder to discuss gender diversity. The Chairman and Company Secretary also held discussions with a major shareholder on various corporate governance issues after they responded to a letter from the Company Secretary on behalf of the Board seeking feedback on the level of contact they received from the Board and in particular the Chairman and the independent non-executive directors. All responses received confirmed that the level of contact provided was satisfactory.

The Board also received updates and discussed guidance issued by professional bodies, including the Institute of Chartered Secretaries and Administrators and the 2020 Investor Stewardship Working Party (which is comprised of major institutional investors) on improving methods of effective engagement with shareholders, particularly on issues other than performance such as strategy, board effectiveness and governance arrangements which underpin sustainable long term performance. The Board also considered the Government's responses following Professor Kay's review of UK equity markets and long term decision making including the establishment of an Investor Forum.

Rotork makes constructive use of its AGM as an opportunity for the Board to communicate with and answer questions from those shareholders who attend in person. The entire Board is normally available during the meeting and for lunch following the meeting to allow direct interaction between its directors and the shareholders.

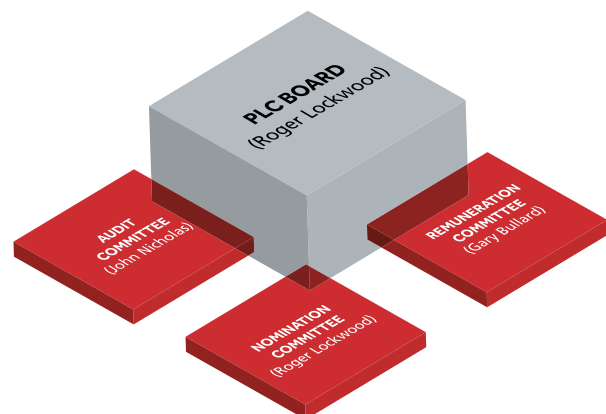
Rotork also maintains a comprehensive investor relations section on its website which provides a variety of resources for investors including current webcasts, presentations and press releases. The website can be accessed at www.rotork.com/en/investors.

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

BOARD COMMITTEES

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

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



Corporate governance continued

AUDIT COMMITTEE



Chairman: JE Nicholas

Members: GB Bullard, SA James, IG King

During 2013, the Committee focused on the integrity of the Group's financial reporting and the effectiveness of internal and external audit. We have monitored changes in governance requirements, in particular those relating to audit tendering. The Committee's tendering plans are set out in the following report.

All Committee members are independent non-executive directors. The Board considers JE Nicholas, the Chairman of the Committee to have recent and relevant financial experience. He and IG King both hold a professional accounting qualification. Biographies of each member of the Committee can be found on pages 42 to 43. The Chairman, Chief Executive, Finance Director and external auditor also regularly attend meetings by invitation.

The Committee operates under formal terms of reference which are reviewed annually. A copy of the terms of reference is available on the Rotork website www.rotork.com. Principal responsibilities are to review and report to the Board on:

- The integrity of financial reporting;
- Significant accounting policies and judgements;
- Internal control and risk management systems including monitoring the effectiveness of internal audit;
- The appointment, independence and effectiveness of the external auditor, including the policy relating to non-audit work and policy relating to employment of former staff of the external auditor;
- The external auditor's remuneration; and
- The whistleblowing policy.

Activities of the Audit Committee during the year

The Committee met five times during the year. A summary of principal activities is set out opposite:

SUMMARY OF 2013 AUDIT COMMITTEE BUSINESS

Month	Principal activities
March	<ul style="list-style-type: none"> – Review of the full year accounts including material judgments and estimates, the draft Annual Report 2012, governance reports and draft results announcements. – Internal controls and risk management review including consideration of processes and procedures for risk management, effectiveness of internal controls and fraud risk. – Review of internal audit reports, the internal audit programme, its remit, resourcing and effectiveness, and of the need for a separate internal audit function. – Consideration of and reporting to the Board on the external auditor's independence, objectivity and effectiveness including the annual audit. The auditor's representation letter, views on the control environment and fraud risk management; and reappointment of the external auditor, including whether it is appropriate to put the external audit contract out to tender. – Meeting with the external auditor without the presence of management. – Consideration of accounting and corporate governance developments. – Review of non-audit services undertaken by the external auditor.
April	<ul style="list-style-type: none"> – Interim Management Statement review.
August	<ul style="list-style-type: none"> – Review of the interim accounts including material judgments, estimates and draft results announcements. – Internal controls and risk management review including reviewing policies and procedures for preventing bribery and corruption and consideration of significant internal audit reports. – Review of external auditor's report on the interim accounts and the proposed full year external audit scope, key risks, materiality and year-end issues. – Review of non-audit services undertaken by the external auditor. – Meeting with the external auditor without the presence of management. – Consideration of accounting and corporate governance developments. – Consideration of future plans regarding submitting the external audit for tender.
November (2 meetings)	<ul style="list-style-type: none"> – Interim Management Statement review. – Internal controls and risk management review including key risks and mitigating controls; processes and procedures for risk management and consideration of significant internal audit reports. – Review of the policy on employment of former audit staff and policy on and extent of non-audit services provided by the external auditor. – Consideration of the external auditor's fees, engagement letter and risk of them leaving the market. – Review of whistleblowing policy and hotline – Annual review of Audit Committee effectiveness and Terms of Reference. – Consideration of accounting and corporate governance developments. – Consideration of Audit Committee Schedule of Work 2014.

Keeping the World Flowing

Financial Reporting

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

- Accounting policies and practices;
- The clarity of disclosures and compliance with International Financial Reporting Standards, UK company law and the UK Corporate Governance Code;
- Material areas in which significant judgements have been applied or where there has been discussion with the external auditor; and
- Upon request of the Board, advising the Board on whether the annual report and financial statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance as a whole.

To assist the Committee, the Finance Director presents a detailed report at each meeting outlining significant matters and the external auditor presents a report on the work they have undertaken.

The principal matters of judgement considered by the Committee in relation to the 2013 accounts and how they were addressed were:

- Goodwill impairment testing. The year end balance sheet includes Goodwill of £105m, this represents approximately 21.7% of the Group assets. The Committee reviewed the carrying value of Goodwill by examining a report from the Finance Director which set out the values attributable to each cash generating unit, the expected value in use, based on projected cash flows and the key economic assumptions related to growth rates and discount values. The Committee also considered the work undertaken by KPMG in testing the projections.

The Committee discussed the appropriateness of the assumptions used and compared expected growth rates to historic averages and the discount rate to the Group weighted average cost of capital and appropriate risk premiums. The Committee also considered whether it was possible that a reasonable change in assumptions might indicate impairment. The Committee challenged the use of a single discount rate for the Group but after discussion, it was satisfied that the assumptions and the disclosures in the report and accounts were appropriate.

- Acquired intangible assets. During 2013, the Group acquired four businesses, the largest of these was Schischek which was acquired in January. The Committee reviewed the accounting and reporting in relation to these acquisitions, in particular the determination and valuation of intangible assets.

The Committee considered this report together with comments from KPMG; it also examined the disclosures in the report and accounts and concluded the judgements made were reasonable and that the reporting was accurate.

External Auditor

KPMG and its predecessor firms have been auditor to the Group for over fifty years and during this time a tender has not been conducted. The fees for this work carried out by KPMG are set out in note 8 of the report and accounts.

During 2013, the Committee considered how to achieve a high quality audit for the Group as a whole and decided to bring all external audit work under one firm. The Committee considers that the appropriate means of achieving this is to offer all the external audit work for tender.

The Committee also considered the timing and process of the tender against a background of substantial regulatory developments. It concluded that it was in the best interests of the Group to commence the tender process following the publication of the 2013 results. It also concluded that, in view of the extensive period that KPMG has been auditor and the pending EU regulatory change which is likely to require a change of auditor, KPMG would not be invited to tender. Pending the selection and appointment of a new audit firm, the Board is recommending the appointment of KPMG at the AGM. The result of the tender and appropriate transition arrangements will be advised in due course.

The Committee assesses the effectiveness of the external audit process and the quality of the audit work throughout the year.

The assessment considers:

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

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

Corporate governance continued

Non-Audit Services

In order to safeguard the independence and objectivity of the external auditor, the Board has adopted a policy on non-audit services which restricts the work and fees available to the external audit firm.

The policy specifies certain activities which the external auditor may not undertake such as work relating to financial statements which may be subject to external audits or management or significant involvement with internal audit services.

For work within the policy scope, namely anything other than audit, half year review or tax compliance work, authority has been delegated to the Finance Director to approve fees of up to £10,000 per project or £40,000 in aggregate for general work, £50,000 in aggregate for tax work and £10,000 for acquisition related work. Non-audit work above these levels requires the prior approval of the Committee Chairman or the Committee as a whole.

At each Committee meeting, a summary is provided of all non-audit services awarded to KPMG during the year.

An analysis of fees paid to KPMG, including the split between audit and non-audit is included in note 8 of the report and accounts. The total non-audit fees for 2013 represent 51% of the audit fee paid.

Internal Controls and Risk Management

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

During the year, the Committee considered reports on internal control from the Finance Director and reports on procedures to prevent bribery and corruption from the Company Secretary. The Committee was satisfied with the arrangements in place.

The Group does not have a separate independent internal audit function but does have a well established internal audit approach of using staff from one division to undertake audits in a different division. This arrangement encourages the sharing of best practice and provides career development for the staff involved. External resource is used to supplement the internal team where specific technical or language expertise is required. The Committee receives a report at each meeting on the activities of internal audit, any significant matters arising and the management response. The Committee reviews each year, the internal audit arrangements including the annual audit plan and staffing. It also considers whether a separate internal audit activity is required. The Committee recognises that the increasing size of the Group is likely to require some dedicated internal audit resource in the future but it is satisfied with the effectiveness of the current arrangements at this time.

The Group has operated a risk management process for several years. The process draws on divisional operating management considering and assessing the risks in each of their businesses. This leads in due course to a Group meeting at which the principal risks, mitigation and management are reviewed. All Committee members are invited to this meeting and in 2013 three members attended. The Committee gains a detailed understanding of the risk management process and considers the process effective.

Other Matters

In accordance with its terms of reference, the Committee carried out a review of its effectiveness, including how it discharged its responsibilities and terms of reference. The Committee's activities were also reviewed as part of the external review of Board effectiveness during the year. Details of this process can be found on page 50.

Throughout the year, the Committee also considered relevant accounting and corporate governance developments.

Keeping the World Flowing

NOMINATION COMMITTEE



Chairman: RC Lockwood

Members: GB Bullard, PI France, SA James, IG King, JE Nicholas

The Nomination Committee is responsible for leading the process for Board appointments and making recommendations to the Board; ensuring succession planning is in place; reviewing the balance of skills and experience on the Board; regularly reviewing the structure, size and composition of the Board, including its balance of skills, knowledge and experience and making recommendations as appropriate.

Activities of the Committee during the year

The Committee formally met once during the year and considered the balance of skills, knowledge and experience on the Board and improvements that could be made in that regard.

The Committee also considered succession planning in order to satisfy itself that plans are in place for an orderly succession for appointments to the Board and senior management to maintain an appropriate balance of skills and experience within the Group and to ensure progressive refreshing of the Board.

All members of the Committee were involved in discussions concerning consideration of an appropriate shortlist of external search consultants to advise the Committee and during the year, following this review exercise, Korn/Ferry were appointed as the Committee's external search consultants.

Following the appointment of Korn/Ferry, they were briefed on a search for an additional non-executive director and this activity was ongoing to year end and beyond.

Diversity Policy

The Board is committed to maintaining an appropriate balance of skills and experience on its Board through a diverse mix of skills, experience, knowledge and background. In considering diversity, gender will play an important role but the Board will take account of ethnicity, nationality, background, profession and personality.

The Board will take a number of voluntary actions to improve diversity including: only using external search consultants (where such consultants are engaged to make an appointment) which have signed up to the Voluntary Code of Conduct for Executive Search Firms and assisting the development of the executive pipeline by encouraging senior employees to take on additional roles, such as seeking non-executive director roles, to gain valuable board experience.

More generally throughout the organisation, the Diversity Policy also states other actions the Group will take including training management on diversity by the end of 2014, providing senior mentors to employees progressing through the Group to guide career progression and, through the use of technology, promoting flexible working arrangements. It is expected that these actions will contribute to a more diverse pool of talent throughout the Group.

REMUNERATION COMMITTEE

The work of the Remuneration Committee is described in the Remuneration Report on pages 56 to 69 of the Report of the Directors.

Directors' remuneration report

STATEMENT FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE



Chairman: GB Bullard

Members: SA James, IG King, JE Nicholas

During 2013, the Remuneration Committee (Committee) closely monitored developments relating to remuneration and in particular in relation to the preparation of the Company's first remuneration policy to be approved by shareholders. The Directors' Remuneration Report is split into two parts:

- The Policy Report, which sets out the Company's proposed policy on directors' remuneration. The proposed policy is subject to a binding shareholder vote at the 2014 AGM and after that every third year; and
- The Annual Report on Remuneration discloses the payments and awards made to the directors and shows the link between remuneration and the Group's performance. The annual report on remuneration together with this introductory statement is subject to an advisory shareholder vote at the 2014 AGM.

Throughout the year the Committee has considered updates on best practice from relevant providers of corporate governance guidance including the Association of British Insurers, the National Association of Pension Funds (NAPF) and Institutional Shareholder Services/Research, Recommendation and Electronic Voting (ISS/RREV). The Group supports the continued drive for improvement of best practice and for greater focus on transparency, moderation, simplicity and a closer alignment of the interests of the directors with those of the shareholders.

As set out in the Annual Report on Remuneration, the Company performed well against its targets in 2013 resulting in an annual cash bonus payout of 94.4% of the maximum bonus opportunity available and a Long Term Incentive Plan (LTIP) vesting rate of 67% for the 2011 award (which vests based on performance to 31 December 2013).

In 2014, the Committee will continue to be mindful of employee remuneration conditions around the Group when determining salary adjustments and does not intend to make awards under the LTIP of more than 100% of basic salary.

Activities of the Remuneration Committee during the year

The Committee met six times during the year.

SUMMARY OF 2013 REMUNERATION COMMITTEE BUSINESS

Month	Principal activities
March (2 meetings)	<ul style="list-style-type: none"> – Approval of LTIP award levels and bonus opportunity for 2013 for executive directors and other members of senior management; – Approval of the Remuneration Report 2012; and – Consideration on executive remuneration principles of NAPF and others.
	<ul style="list-style-type: none"> – Consideration and approval of Chairman's fees for 2013-2015.
June	<ul style="list-style-type: none"> – Review of AGM voting outcome and feedback from shareholders; – Review of LTIP performance; – Consideration of a PwC report on executive remuneration trends; and – Consideration of published new directors' remuneration reporting regulations
August	<ul style="list-style-type: none"> – Consideration of remuneration policy to be approved by shareholders; and – Consideration and approval of New Bridge Street (NBS) as advisor to the Committee.
November	<ul style="list-style-type: none"> – Consideration of the first draft of the remuneration policy to be approved by shareholders.
December	<ul style="list-style-type: none"> – Approval of the Committee's schedule of work for 2014; – Consideration of current investor guidance from Association of British Insurers on remuneration; – Consideration of salary benchmarking report from NBS; – Setting of basic salary for executive directors; – Approval of the remuneration policy to be approved by shareholders; and – Approval of introduction of clawback to the LTIP.

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REMUNERATION REPORT

The Company's first policy report is presented to shareholders by the Board at the AGM for approval, along with the Annual Report on Remuneration. The auditor is required to report on the information concerning the single figure of remuneration, total pension entitlements, scheme interests awarded during the financial year, payments made to past directors (if any), payments for loss of office (if any) and the statement of directors' shareholdings and share interests shown within the Annual Report on Remuneration.

POLICY REPORT

This report sets out the policy of the Company on the remuneration of the directors. This policy will be put to shareholders for approval at the AGM of the Company to be held on 25 April 2014 and will take effect from that date.

Role of the Remuneration Committee

The principal role of the Committee is to determine the framework and policy for remuneration of the executive directors and the Chairman, ensuring that remuneration levels are sufficient but not excessive in order to attract, retain and motivate directors of the quality required to run the Company.

The full terms of reference of the Committee can be found on the Company's website at: www.rotork.com/en/investors/index/committees. Key responsibilities include:

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

Consideration of conditions elsewhere in the Company

The Committee is sensitive to employee remuneration conditions in the Company and in determining remuneration takes account of remuneration conditions throughout the Company. While the Committee does not consult with employees on remuneration, it does invite the Group Human Resources Director to its meetings to provide, amongst other things, details of employee remuneration conditions and metrics such as pay rises awarded to employees.

Consideration of shareholder views

In formulating the Remuneration Policy, the Committee takes into account guidance issued by shareholder trade associations, including the Association of British Insurers, the NAPF and ISS/RREV. The Committee also takes into consideration any views expressed by shareholders during the year (including at the AGM) and encourages an open dialogue with its largest shareholders. Major shareholders would be consulted in advance about changes to the approved Remuneration Policy or any significant changes to the way in which it is implemented.

Directors' remuneration report continued

Overview of the directors' Remuneration Policy

DIRECTORS' FUTURE POLICY TABLE

Element of remuneration	Purpose and how it supports the strategy	How the element operates (including maximum amounts payable)	Framework used to assess performance
Base salary	To attract and retain executive directors of the right calibre and provide a core level of reward for the role.	<p>Salary levels (and subsequent salary increases) are set after taking into account the responsibilities of the role, the value of the individual in terms of skills, experience and personal contribution, company performance, internal relativities and pay conditions, and external market data (benchmarked against companies of a similar size and complexity and other companies in the same industry sector). The Committee also considers the impact of any increase to salaries on the total remuneration package.</p> <p>Salaries are paid monthly and reviewed annually (salaries are normally reviewed in December, with any changes effective from 1 January). Details of the current salaries of the executive directors are set out in the Annual Report on Remuneration.</p> <p>Any salary increase will ordinarily be in line with the typical increase (as a percentage of salary) applied to the UK workforce. However, the Committee retains the discretion to award a higher increase if appropriate. For example, where there is a change in responsibility, progression in the role or to reflect the increased experience of the individual.</p>	N/A
Benefits	To attract and retain executive directors of the right calibre by providing a market competitive level of benefit provision.	<p>The range of benefits that may be provided is set by the Committee after taking into account local market practice in the country where the executive is based. The executive directors' benefits currently comprise a car and fuel, or car and fuel allowance, personal accident insurance for UK executive directors only and private medical insurance. Additional benefits may be provided, as appropriate.</p> <p>Executive directors are also entitled to membership of the all-employee Rotork Share Incentive Plan (SIP), or Overseas Profit Linked Share Scheme (OPLSS), within the maximum limits as set by HMRC.</p> <p>There is no prescribed maximum level, but the Committee monitors the overall cost of the benefit provision to ensure that it remains appropriately proportionate.</p>	N/A

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Element of remuneration	Purpose and how it supports the strategy	How the element operates (including maximum amounts payable)	Framework used to assess performance
Annual Cash Bonus	Drives and rewards performance against annual financial and operational goals which are consistent with the medium to long term strategic needs of the business.	The maximum annual bonus potential is 125% of salary for the Chief Executive and 100% of salary for other Executive Directors. Bonuses are paid in cash.	<p>The executive annual bonus is focussed on the delivery of strategically important performance measures. These include demanding financial and non-financial measures. The financial measures (which account for the majority of the bonus potential) are currently based on annual profit target, three year profit growth, earnings per share and cash generation. The non-financial measures currently include the accident frequency rate and CO₂ emissions. However, the Committee may use different measures and/or weightings for future bonus cycles to take into account changes in the strategic needs of the business.</p> <p>For each measure, normally a sliding scale of stretching targets is set by the Committee, which apply from the beginning of each financial year. The threshold level of bonus under each financial measure varies but accounts for no more than one third of the maximum bonus opportunity under any single measure. Under the terms of the bonus plan, the Committee has the discretion, in exceptional circumstances, to amend previously set targets or to adjust the proposed payout to ensure a fair and appropriate outcome.</p>
Long Term Incentive Plan (LTIP)	To incentivise long term value creation and alignment with shareholder interests.	<p>The LTIP permits an annual grant of shares which vest subject to performance and continued employment. The LTIP awards will be granted in accordance with the rules of the plan, which were approved by shareholders in 2010, and the discretions contained therein. A copy of the rules is available on request from the Company Secretary.</p> <p>Under the rules of the LTIP, the maximum award size is 150% of salary. Details of the proposed award level for 2014 are set out in the Annual Report on Remuneration.</p> <p>Awards under the LTIP may be granted in the form of conditional shares, forfeitable shares, nil-cost options or cash (where the award cannot be settled in shares). Awards are currently structured as nil-cost options.</p> <p>The executive directors are also subject to a shareholding requirement to build and maintain a shareholding in Rotork equivalent to 150% of salary.</p>	<p>Awards under the LTIP are currently subject to two performance conditions. Half of the awards are subject to an earnings per share performance condition and half of the awards are subject to a relative total shareholder return (TSR) performance condition, each measured over three financial years. The TSR performance condition is also subject to an underpin relating to underlying financial performance. A sliding scale of targets is set for each measure with no more than 25% of the award (under each measure) vesting for achieving the threshold performance hurdle. The performance targets are set prior to the grant of each award. Different targets and/or weightings between measures may be set for future award cycles.</p> <p>Under the LTIP rules approved by shareholders, the Committee has the discretion to amend the targets applying to existing awards in exceptional circumstances providing the new targets are no less challenging than originally envisaged. The Committee also has the power to adjust the number of shares subject to an award in the event of a variation in the capital of the Company.</p>

Directors' remuneration report continued

Element of remuneration	Purpose and how it supports the strategy	How the element operates (including maximum amounts payable)	Framework used to assess performance
Pension	To provide a market competitive remuneration package to enable the recruitment and retention of the executive directors.	<p>The Company may fund contributions to a director's pension as appropriate. This may include participation in the Company's defined benefit pension schemes (which are now closed to new members), contributions to a money purchase scheme and/or payment of a cash allowance where appropriate.</p> <p>Further details on the Company's policy on pension arrangements (including maximum entitlements) are set out below this table.</p> <p>Life assurance is provided for executive directors based in the UK only.</p>	N/A
Chairman and non-executive directors' fees	To attract and retain non-executive directors of the right calibre.	<p>Fees for the Chairman and non-executive directors are reviewed periodically.</p> <p>Non-executive director fees are determined by the Chairman and Chief Executive. The fees for the Chairman are determined by the Committee taking into account views of the Chief Executive. The Chairman excludes himself from such discussions.</p> <p>The fees for the non-executive directors (which are paid quarterly in cash) normally comprise a basic Board fee, with additional fees paid to the Senior Independent Director and for chairing a Committee. The fee levels set are set by reference to rates in companies of comparable size and complexity. The fee levels are reviewed periodically taking into account the responsibilities of the role and the time commitment of the individual.</p> <p>The maximum aggregate fee level is £500,000, as set out in the Company's Articles of Association.</p>	N/A

Performance measures

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

Clawback and malus

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

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

Pension policy

PI France and JM Davis are active members of the Rotork Pension and Life Assurance Scheme (a defined benefit pension scheme). If they remain active members of this pension scheme until their normal retirement age of 60 and 65 respectively, PI France will be entitled to a pension of 66.7% of the earnings cap and JM Davis will be entitled to a pension of 47.5% of the earnings cap (which is currently set at £141,000 per annum) but may increase in line with inflation. These figures ignore any benefits transferred from another pension arrangement and the tax implications of remaining in the Rotork Pension scheme until normal retirement age. In addition, they receive a cash allowance on salary above the cap (22.5% for PI France and 18% for JM Davis). GM Ogden is a preserved member of the Rotork Pension and Life Assurance Scheme and now receives a cash allowance of 44% of salary in lieu of pension. RH Arnold is a member of the Rotork Controls Inc. pension scheme and a supplementary executive retirement plan, which in aggregate are targeted to provide a pension of 60% of uncapped basic salary at age 65. The Company's defined benefit pension schemes in the UK and USA are closed to new entrants. The pension arrangement that would be offered to a new executive director would be limited to a maximum 25% of salary cash allowance or contribution to one of the Company's defined contribution schemes and/or continued participation in a defined benefit scheme if the executive is an existing member of one of the schemes.

Keeping the World Flowing

Differences between the policy on directors' remuneration and the policy on employee remuneration

The Board recognises that it is appropriate for a significant proportion of executive directors' remuneration to be contingent on the performance of the Company and that such remuneration is at risk subject to the satisfaction of stretching performance conditions. Consequently, executive directors are invited to participate in the LTIP where shares awarded will vest contingent upon performance conditions over a three-year period. Executive directors are also invited to participate in the annual cash bonus scheme which will result in a cash bonus payment being made if targets are achieved. For employee remuneration, the Board considers it more appropriate that employees share in the success of the Company through a profit based bonus plan which is based on the performance of their business unit. This is coupled with the opportunity, for eligible employees, to receive free shares from the Company, paid from the Company's profits.

Approach to recruitment remuneration

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

The structure of the variable pay element will be in accordance with Rotork's approved policy detailed above. The maximum aggregate variable pay opportunity under the policy is up to 275% of salary for the role of Chief Executive and up to 250% of salary for other executive directors. Different performance measures may be set initially for the annual bonus, taking into account the responsibilities of the individual, and the point in the financial year that the executive joined.

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

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

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

Service contracts and policy on payments for loss of office

Under the executive directors' service contracts twelve months' notice of termination of employment is required by either party (except in the case of RH Arnold, see below). Should notice be served, the executives can continue to receive basic salary, benefits and pension for the duration of their notice period during which time the Company may require the individual to continue to fulfil their current duties or, for PI France or JM Davis, may assign a period of garden leave. The Company applies a general principle of mitigation in relation to termination payments and the service contracts for PI France and JM Davis (which reflect the policy to be used for future hires) expressly include the use of monthly phased payments following termination in lieu of notice which can be reduced to the extent that alternative remunerated employment is found.

The service contracts for PI France and JM Davis also enable the Company to elect to make a payment in lieu of notice equivalent in value to twelve months' base salary only.

RH Arnold does not have a signed service agreement in place. Instead the conditions of his employment are governed by local state law (he is resident in the USA). The Company may terminate his employment without notice or compensation (providing it meets any employer obligations such as the settlement of unpaid holiday entitlement and sick leave).

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

The rules of the LTIP set out what happens to awards if a participant leaves employment before the end of the vesting period. Generally, any outstanding share awards will lapse when an executive leaves employment except in certain circumstances. If the executive leaves employment as a result of death, injury, retirement, transfer of employment or any other reason at the discretion of the Committee, then they will be treated as a 'good leaver' under the plan rules. The shares for a good leaver will vest subject to an assessment of performance, with a pro-rata reduction to reflect the proportion of the vesting period served. For awards granted in 2013 and prior, the awards for a good leaver will vest on cessation of employment. For awards to be granted in 2014 and beyond, the awards for a good leaver will vest on the normal vesting date, unless the Committee determines that they should vest early (for example, following the death of the participant). In determining whether an executive should be treated as a good leaver and the extent to which their award may vest (up to the pro-rated amount), the Committee will take into account the circumstances of an individual's departure.

Directors' remuneration report continued

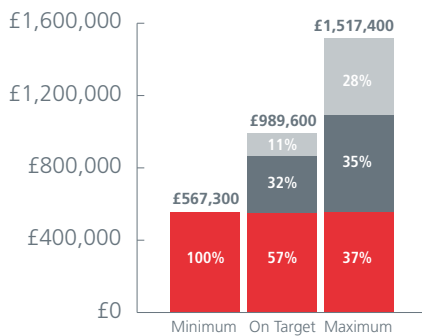
Outplacement services and reimbursement of legal costs may be provided where appropriate.

Any statutory entitlements or sums to settle or compromise claims in connection with a termination would be paid as necessary.

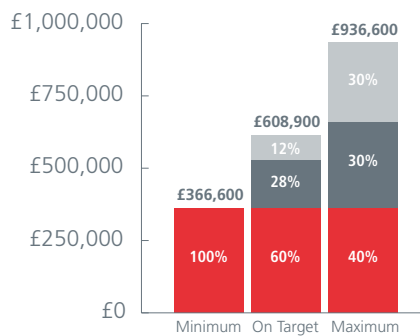
Illustration of the application of the remuneration policy

The charts below illustrate how the remuneration policy would function for minimum, on target and maximum performance for 2014 for each executive director.

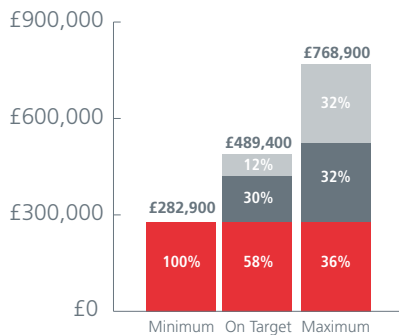
PI France



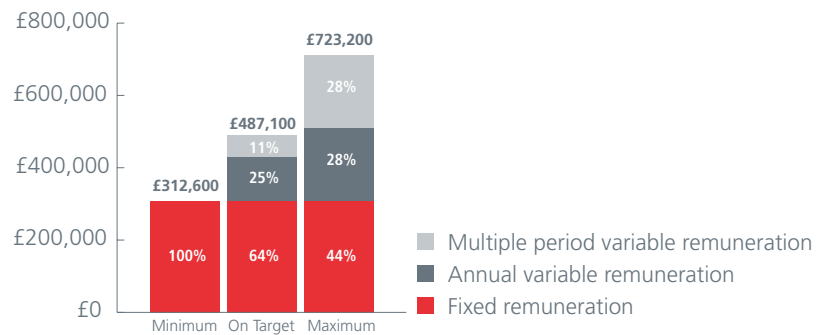
JM Davis



RH Arnold



GM Ogden



Footnote to charts:

Salary levels (and consequently the other elements of the remuneration package which are calculated as a percentage of salary) are based on those applying on 1 January 2014. Taxable benefits are shown as the cost to the Company of supplying those benefits for the year ending 31 December 2013. On target performance, for illustrative purposes, assumes achievement of 60% of the maximum available bonus and threshold LTIP vesting (25% of the maximum). Maximum performance assumes achievement of the maximum bonus and full vesting of the LTIP shares. The LTIP grant level for all executives is 100% of salary. No share price growth has been assumed and for simplicity, the benefit derived from participating in the Company's all employee SIP or OPLSS have been excluded.

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ANNUAL REPORT ON REMUNERATION

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

Executive directors

Name	Salary		Benefits ⁽ⁱ⁾		Annual cash bonus		LTIP ⁽ⁱⁱ⁾		Pension and related benefits		Total remuneration	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
RH Arnold	240	228	17	17	226	208	242	360	32	92	757	905
JM Davis	270	262	18	17	255	239	264	321	116	91	923	930
PI France	412	400	18	17	486	457	412	573	126	92	1,454	1,539
GM Ogden	200	195	17	17	189	178	204	287	88	79	698	756

(i) The benefit value consists of a car and fuel (or a car and fuel allowance), private medical insurance (executive director only) and the cash value on allocation of SIP and OPLSS share awards as appropriate.

(ii) The 2013 figures relate to the vesting of the 2011 LTIP award which vests based on performance to 31 December 2013. The award vested at 67% and has been valued using the average share price for the period 1 October to 31 December 2013. The award will vest in March 2014.

Directors not performing an executive function

Name	Base Fees		Additional fees		Total remuneration	
	2013	2012	2013	2012	2013	2012
GB Bullard	40	40	6	6	46	46
SA James	40	26	–	–	40	26
IG King	40	40	7	7	47	47
RC Lockwood	140	115	–	–	140	115
JE Nicholas	40	40	7	7	47	47

Additional fees relate to the supplementary fee paid to the Chairmen of the Audit and Remuneration Committees and the Senior Independent Director.

All directors have confirmed that, save as disclosed in the single figures of remuneration tables above, they have not received any other items in the nature of remuneration.

Annual Cash Bonus for 2013

The annual cash bonus is calculated according to targets which total 80% and which are allocated to directors at 100% of basic salary, except for the Chief Executive where the allocation is 125% of basic salary. The targets, weightings and achievement in relation to performance in 2013 are as follows:

	Performance required at target	% payable at target performance	Performance required at maximum	% payable at maximum	Performance outcome	% bonus awarded
Accident Frequency Rate	<0.43	5%	<0.43	5%	0.33	5.0%
CO ₂ reduction	-1.5%	5%	-1.5%	5%	-7.1%	5.0%
Cash generation	100%	10%	100%	10%	99.6%	9.7%
EPS growth	120.2p	10%	120.2p	10%	124.9p	10.0%
Three year profit growth	£140.0m	15%	£155.6m	25%	£151.8m	22.6%
Annual profit target	£142.6m	15%	£154.0m	25%	£151.4m	23.2%
Total	–	60%	–	80%	–	75.5%

Overall this resulted in the following bonus payments:

- RH Arnold – £226,000 (94.4% of salary)
- JM Davis – £255,000 (94.4% of salary)
- PI France – £486,000 (118.0% of salary)
- GM Ogden – £189,000 (94.4% of salary)

Directors' remuneration report continued

Long Term Incentive Plan

The Company's Long Term Incentive Plan (LTIP) rewards the creation of shareholder value which is a strategic priority. Performance is measured over a three year period using a combination of earnings per share, growth and relative total shareholder return (TSR) compared to a comparator group. The performance measures and weightings are summarised in the table below.

The awards granted and vesting under this plan to the executives are detailed in the table below:

	Note	Year of grant	Awards at 1 January 2013	Awards granted during the year	Awards vesting during the year	Awards lapsed during the year	Awards at 31 December 2013	Vesting Date
RH Arnold	(i)	2010	16,170	–	(12,208)	(3,962)	–	7 March 2013
	(ii)	2011	12,904	–	–	–	12,904	6 March 2014
	(iii)	2012	11,114	–	–	–	11,114	5 March 2015
	(iv)	2013	–	8,362	–	–	8,362	3 March 2016
			40,188	8,362	(12,208)	(3,962)	32,380	
JM Davis	(i)	2010	14,418	–	(10,885)	(3,533)	–	7 March 2013
	(ii)	2011	14,076	–	–	–	14,076	6 March 2014
	(iii)	2012	12,654	–	–	–	12,654	5 March 2015
	(iv)	2013	–	9,292	–	–	9,292	3 March 2016
			41,148	9,292	(10,885)	(3,533)	36,022	
PI France	(i)	2010	25,378	–	(19,432)	(5,946)	–	7 March 2013
	(ii)	2011	21,994	–	–	–	21,994	6 March 2014
	(iii)	2012	19,314	–	–	–	19,314	5 March 2015
	(iv)	2013	–	14,182	–	–	14,182	3 March 2016
			66,686	14,182	(19,432)	(5,946)	55,490	
GM Ogden	(i)	2010	12,870	–	(9,716)	(3,154)	–	7 March 2013
	(ii)	2011	10,888	–	–	–	10,888	6 March 2014
	(iii)	2012	9,412	–	–	–	9,412	5 March 2015
	(iv)	2013	–	6,984	–	–	6,984	3 March 2016
			33,170	6,984	(9,716)	(3,154)	27,284	

- (i) The 2010 awards were subject to TSR and EPS performance to 31 December 2012 (each condition accounting for 50% of the award). TSR was measured relative to a bespoke group of 17 comparable companies with the Company's TSR performance over the three-year performance period required to be at least equal to the performance of the median company in the comparator group for 25% of the awards to vest, increasing on a straight line basis to 100% of the awards vesting if the TSR performance was equal to or above the upper quartile. Rotork's actual TSR performance was 123% resulting in 51% of the TSR element of the award vesting. The Company's EPS growth over the three-year performance period had to be at least equal to RPI + 10% for 15% of the awards to vest, increasing on a straight line basis to 100% of the awards vesting if the EPS growth was equal to RPI + 25%. Rotork's actual EPS growth was 39% resulting in 100% of the EPS element of the award vesting. The overall vesting of the awards was 75.5% and the total number of shares vesting in respect of all executives was therefore 52,241. The shares vested on 7 March 2013 and were exercised on the same date. The share price on that date was £29.50.
- (ii) The 2011 awards were based on TSR and EPS performance to 31 December 2013 (each condition accounting for 50% of the award). TSR was measured relative to a bespoke group of 18 comparable companies with 25% vesting at median increasing to full vesting for upper quartile performance or above. For the EPS condition, EPS growth must be at least RPI + 10% for 25% vesting, increasing on a straight-line basis to full vesting for EPS growth of RPI + 25% and above. Rotork's actual TSR performance was 72% resulting in 34% of the TSR element of the award vesting. Rotork's actual EPS growth was 42.6% resulting in 100% of the EPS element of the award vesting. The overall vesting of the awards was 67% and the total number of shares vesting in respect of all Executives was therefore 40,104. The shares will vest in March 2014.
- (iii) The performance conditions for the 2012 awards are based on performance to 31 December 2014. The targets are the same as for the 2011 awards except that the TSR comparator group is the FTSE 250 Index excluding all financial services, insurance companies and investment trusts.
- (iv) The 2013 awards were granted on 7 March 2013 and are subject to the same performance targets as the 2012 awards (albeit based on performance to 31 December 2015). Further details on the awards are set out in the table below.

LTIP awards made during the year (Audited)

	Share awards made during 2013	Basis on which award made	Face value of award	Number of shares vesting for minimum performance ¹	Number of shares vesting for maximum performance	End of performance period
RH Arnold	8,362	100% of salary	£242,916	2,090	8,362	31 December 2015
JM Davis	9,292	100% of salary	£269,932	2,323	9,292	31 December 2015
PI France	14,182	100% of salary	£411,987	3,545	14,182	31 December 2015
GM Ogden	6,984	100% of salary	£202,885	1,746	6,984	31 December 2015

¹ Vesting if the minimum performance EPS and TSR conditions are achieved (25% of the maximum award). The share price used at the date of award 7 March 2013 was £29.05.

Keeping the World Flowing

Free SIP and OPLSS Share Awards (Audited)

In common with all eligible employees, UK based executive directors receive an entitlement to ordinary shares under the SIP which is approved by Her Majesty's Revenue and Customs (HMRC). Under the SIP and the OPLSS an aggregate total of up to 5% of profits are distributed to employees each year in the form of ordinary shares. The distribution is calculated by reference to years of service and basic salary. Details of free share awards under the SIP and OPLSS made to executive directors in 2013 are set out below. Free shares awarded to all three UK executive directors under the SIP are subject to the HMRC upper limit of £3,000 by value. This limit also applies to the OPLSS for the year under review.

	Date of Grant	Free share awards made during the year	Basis on which award made	Face value of award
RH Arnold	10 April 2013	105	Non-performance based	£2,989
JM Davis	10 April 2013	105	Non-performance based	£2,989
PI France	10 April 2013	105	Non-performance based	£2,989
GM Ogden	10 April 2013	105	Non-performance based	£2,989

The share price used for the award was £28.47.

RH Arnold, in common with other eligible overseas employees, participates in the OPLSS. The scheme Trustee is based in Jersey, Channel Islands. The figure shown for RH Arnold relates solely to OPLSS.

Partnership SIP Share Awards (Audited)

In line with all eligible UK based employees, UK based directors are entitled to purchase monthly Partnership Shares under the SIP to a maximum of £125 per month. Interests in Partnership Shares as at 31 December 2013 are shown in the table below:

	Partnership share interest as at 31 December 2013
RH Arnold	N/A
JM Davis	683
PI France	193
GM Ogden	—

Sharesave Options Granted to Executive Directors (Audited)

In common with all eligible UK employees, UK based executive directors are entitled to participate in the HMRC approved Rotork Sharesave scheme. Under the Sharesave scheme, employees are permitted to save up to £250 per month for a term of three or five years, after which the employee is allowed to exercise the share option. The option price is determined in accordance with the HMRC approved Sharesave Scheme Rules and is calculated by taking an average of the share price over the five days preceding the invitation date.

The option exercise period is six months duration after which the options lapse.

	Shares under option	Basis on which award made	Option price	Duration	Date of grant	Date of vesting
JM Davis	410	Non-performance based	£21.94	3 years	30/09/13	01/12/2016
PI France	1,179	Non-performance based	£13.10	5 years	5/10/10	01/12/2015
GM Ogden	410	Non-performance based	£21.94	3 years	30/09/13	01/12/2016

Statement of directors' shareholding and share interests (Audited)

The table below shows total beneficial shareholdings of the directors as at 31 December 2013.

	Beneficial shares held		Outstanding LTIP awards 2013	Outstanding options 2013	% Shareholding of salary achieved(i) 2013
	2013	2012			
RH Arnold	33,161	25,357	32,380	—	476%
JM Davis	17,371	13,911	36,022	410	185%
PI France	59,382	56,223	55,490	1,179	414%
GM Ogden	38,735	36,559	27,284	410	457%
GB Bullard	2,799	2,797	—	—	N/A
SA James	1,050	—	—	—	N/A
IG King	7,013	7,013	—	—	N/A
RC Lockwood	500	500	—	—	N/A
JE Nicholas	500	500	—	—	N/A

(i) The share price used to determine the percentage of the shareholding of salary achieved is £28.70 being the share price as at 31 December 2013.

Directors' remuneration report continued

Share retention policy statement

All executive directors are required to maintain a shareholding of at least 150% of basic salary. The policy requires the use of shares vesting under the LTIP to achieve this requirement. All executive directors have met this requirement. There has been no change in the directors' interests in the ordinary share capital of the Company between 31 December 2013 and 3 March 2014.

Total pension entitlements (Audited)

Director	Normal Retirement Age	Total accrued pension in the defined benefit scheme as at 31 December 2013 (£)	Value of pension related benefits (£) during company financial year to:					
			31 December 2012			31 December 2013		
			Defined benefit scheme	Cash in lieu of pension	Total	Defined benefit scheme	Cash in lieu of pension	Total
RH Arnold	65	121,174	(92,150)	0	(92,150)	38,280	0	32,280
JM Davis	65	24,413	67,220	23,846	91,066	91,920	23,858	115,778
PI France	60	56,356	31,640	60,840	92,480	63,660	61,785	125,445
GM Ogden	60	95,846	16,080	63,403	79,483	0	88,129	88,129

Notes:

- The amounts above have been calculated in accordance with Statutory Instrument 2013 No 1981 – The Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.
- The total accrued pension in the defined benefit scheme as at 31 December 2013 is that which would be paid annually on retirement from normal pension age, based on service to 31 December 2013, except for GM Ogden who became a preserved member of the Rotork Pension and Life Assurance Scheme on 5 April 2012. GM Ogden's total benefit as at 31 December 2013 includes deferred revaluation applied to that date.
- The value of benefits in the defined benefit pension scheme is based on the increase in accrued pension over the year incorporating an increase for Consumer Prices Index (CPI) inflation.
- The figures as at 31 December 2012 were not disclosed in the 31 December 2012 accounts but have been calculated as if the new regulations had applied at that date.
- GM Ogden became a preserved member of the Scheme as at 5 April 2012 and so did not accrue any additional pension during 2013. He received a cash allowance of £88,129 in lieu of this pension benefit in 2013.
- The pensionable salary used to calculate benefits in the defined benefit scheme for PI France and JM Davis is restricted to a Scheme specific earnings cap which is currently £137,400. In consideration of this limitation on their benefits under the scheme they receive a monthly cash sum equal to 22.5% and 18% respectively of their basic salary above the Scheme's specific cap. During 2013 this resulted in an additional cash allowance of £61,785 and £23,858 in lieu of the additional pension benefits respectively.
- The figures shown for RH Arnold are in respect of his membership of the Rotork Controls Inc., pension scheme and a supplemental executive retirement plan so that, in aggregate, the pension arrangements for RH Arnold are targeted to provide a pension of at least 60% of uncapped basic salary at age 65. The valuations of the benefits are affected by movements in the US dollar relative to sterling and are therefore not directly comparable with the directors in the UK scheme.
- The accrued pension figures for PI France exclude a fixed transfer-in pension amount of £5,123.11 which is payable from his normal retirement date at age 60.

Directors' Pension Disclosures required under the Listing Rules of the UK Listing Authority (Audited)

	Increase in accrued pension in the defined benefit scheme during the year ¹ £	Increase in transfer value during the year £000s
RH Arnold	8,625	121
JM Davis	5,023	79
P France	4,218	76
GM Ogden	2,473	29

Notes:

- The figures shown for the increase in accrued pension and transfer value over the year exclude any increase for inflation.
- The transfer values have been calculated in accordance with the relevant Technical Actuarial Standards (TASs) published by the Financial Reporting Council.
- The increase in accrued pension and the increase in transfer value over the year for RH Arnold are affected by movements in the US dollar relative to sterling. The transfer value of accrued pension for RH Arnold reflects the benefits provided by the US scheme together with a US valuation of these benefits and is therefore not directly comparable with the transfer values for directors in the UK scheme.

Keeping the World Flowing

Payments to past directors (Audited)

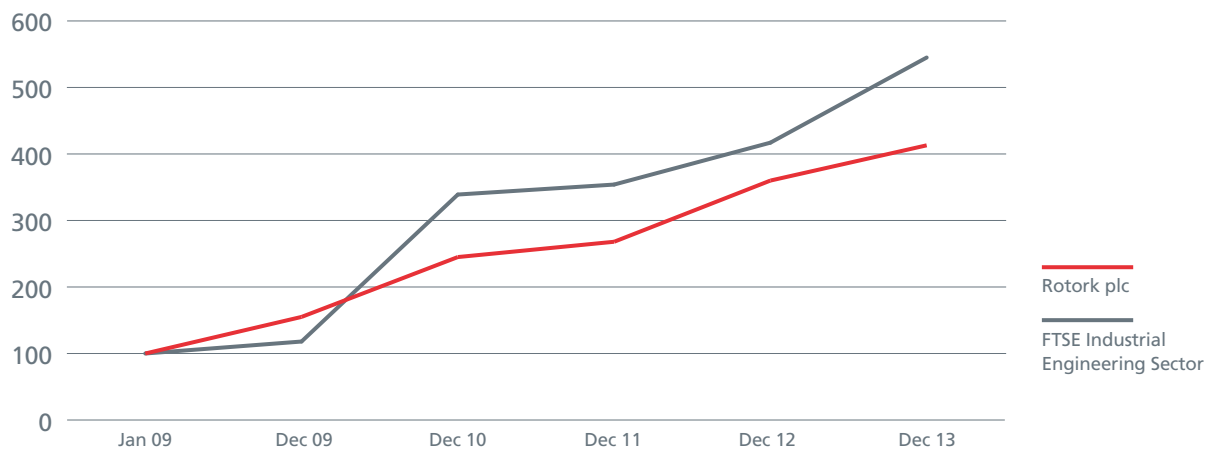
No payments were made to past directors during the year.

Payments for loss of office (Audited)

No payments for loss of office were made during the year.

TSR performance graph and historic Chief Executive Remuneration table

Rotork plc Total Return Index vs the Total Return Index of the FTSE Industrial Engineering Sector for the 5 Financial Years ending 31 December 2013 (rebased as at January 2009)



Year	Chief Executive	Chief Executive single figure remuneration (£000s)	Annual cash bonus as a percentage of maximum opportunity	LTIP vesting rate as a percentage of maximum opportunity
2013	PI France	1,454	94.4%	67.0%
2012	PI France	1,539	91.3%	75.5%
2011	PI France	1,182	88.9%	30.0%
2010	PI France	1,288	91.9%	94.4%
2009	PI France	1,062	99.5%	100.0%

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

This shows the percentage change in remuneration (salary, benefits and bonus) between 2012 and 2013 of the Chief Executive, PI France, compared to percentage change for UK employees, being the group against which salary increases are compared, calculated on a per head basis.

It is not practical to obtain a breakdown of base salary, benefits and bonuses for the whole Group but total remuneration per employee across the Group rose by 4.1% from 2012 to 2013. The typical salary increase for the UK workforce was between 2.5% and 3%.

	PI France Chief Executive		Average per UK employee	
	2013	2012	2013	2012
	% Change from 2012		% Change from 2012	
Base Salary	3.0%		1.9%	
Benefits	3.0%		0.8%	
Bonus	5.7%		(0.1)%	

Directors' remuneration report continued

Relative importance of spend on pay

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

Employee Remuneration (£000s)

+17.7%



Dividends (£000s)

+14.2%



	2013	2012	Percentage change
Employee Remuneration (£000s)	134,526	114,329	17.7%
Dividends (£000s) (i)	38,735	33,924	14.2%

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

Statement of implementation of the remuneration policy in 2014

The base salaries for the executive directors were reviewed in December 2013 and the percentage increases shown below (effective from 1 January 2014) were agreed by the Committee. Except for RH Arnold and JM Davis, this is consistent with the typical increase for the UK workforce (which was between 2.5%-3%). JM Davis received a higher increase reflecting his increased experience and performance in the role. The salaries from 1 January 2014 are therefore as follows:

- RH Arnold - \$382,868 (2%)
- JM Davis - £285,000 (5.6%)
- PI France - £422,300 (2.5%)
- GM Ogden - £205,301 (2.5%)

The annual cash bonus for 2014 will be based on annual profit target (25%), three year profit growth (25%), EPS (10%), cash generation (10%), accident frequency rate (5%) and CO₂ emissions (5%). These targets total 80% and are then allocated to executive directors at 100% of basic salary, except for the Chief Executive where the allocation is 125% of basic salary. The specific targets relating to the bonus have not been disclosed as they are considered by the Committee to be commercially sensitive but full details will be given on a retrospective basis in next year's report.

Consistent with the approach used in previous years, LTIP awards of 100% of salary will be granted and the performance conditions will be subject to TSR and EPS performance conditions (each accounting for 50% of the award). TSR will be measured relative to the FTSE 250 Index excluding all financial services, insurance companies and investment trusts (2012 awards) with 25% vesting at median increasing to full vesting for upper quartile performance or above. For the EPS condition, EPS growth must be at least RPI + 10% for 25% vesting, increasing on a straight-line basis to full vesting for EPS growth of RPI + 25% and above.

The fees for the Chairman and non-executive directors were also reviewed in December 2013.

Keeping the World Flowing

Consideration by the directors of matters relating to directors' remuneration

The members of the Committee are: GB Bullard (Chairman), SA James, IG King and JE Nicholas. The Committee invites the Group Human Resources Director to inform the Committee of pay awards throughout the Group when setting executive director remuneration. The Chairman and Chief Executive are also invited to attend meetings except when their own remuneration is considered. The Company Secretary acts as secretary to the Committee.

PwC was replaced by New Bridge Street as remuneration advisors to the Committee during the year. New Bridge Street was appointed by the Committee in September 2013 following a retendering process. New Bridge Street is a trading name of Aon plc and a signatory to the Remuneration Consultants' Group Code of Conduct. A subsidiary of Aon plc is the scheme actuary for the Group's USA pension plan. The Committee is satisfied that New Bridge Street is sufficiently independent to act as remuneration advisor to the Committee. In 2013, the Company paid £18,000 to PwC (2012: £4,300) and £13,333 to New Bridge Street for services to the Committee.

Statement of voting at general meeting

At the 2013 AGM of the Company, the percentages of votes cast 'for', 'against' and 'withheld' in respect of the directors' remuneration report were as follows:

Votes cast 'for'	Votes cast 'against'	Votes 'withheld'
97%	1.6%	1.4%

'Against' votes cast at the AGM were a very small proportion of the overall votes and accordingly the directors did not deem it necessary to take any remedial action regarding these votes.

Report of the directors

The directors submit their report which incorporates the management report required under the Disclosure and Transparency Rules for listed companies and the audited accounts for the year ended 31 December 2013 as set out on pages 75 to 123. In compiling this report, the directors have consulted with the management of the Group.

Directors

The names of the directors in office during the year and their biographies and other details are set out on pages 42 to 43.

Directors' indemnification and insurance

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

Powers of the directors

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

Appointment and removal of directors

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

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

Political donations

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

Dividend

The directors recommend a final dividend of 30.0p per ordinary share (2012: 26.6p) for the year, payable on 19 May 2014 to shareholders on the register on 11 April 2014. An interim dividend for 2013 of 18.05p per ordinary share (2012: 16.4p) was paid on 27 September 2013.

Information required in the Directors' report set out in Strategic Report

Information relating to likely future developments of the Company and its subsidiaries and information relating to research and development activities of the Company and its subsidiaries is set out in the Strategic Report on pages 1 to 41.

Use of financial instruments

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

Post-balance sheet events

There have been no important post-balance sheet events.

Existence of branches outside the UK

The Company has no branches outside of the UK.

Share capital

Details of the Company's share capital including the rights and obligations attached to each class of shares and the ordinary shares issued during 2013 are summarised in note 17 of the financial statements. 5p ordinary shares represent over 99.9% of the Company's total share capital and £1 9.5% cumulative preference shares represent less than 0.1% of the Company's total share capital.

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

At the Company's last AGM held on 26 April 2013, the shareholders authorised the Company to make market purchases of ordinary shares limited to just under approximately 10% of its issued ordinary share capital at that time and of certain issued preference shares, and to allot shares within certain limits approved by shareholders. These authorities expire at the 2014 AGM and appropriate renewals will be sought.

The Company did not acquire any of its own shares in 2013.

The Company's Articles of Association contain customary restrictions on the transfer of shares as applicable only in certain limited circumstances (e.g. in relation to transfers to a minor). Save for those provisions, there are no restrictions on the transfer of ordinary shares in the capital of the Company other than certain restrictions which may be required from time to time by law, for example, insider trading law. In accordance with the Model Code, which forms part of the Listing Rules of the UK Listing Authority (as adopted by the Company), directors and certain employees are required to seek the prior approval of the Company to deal in its shares.

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

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

Amendments to the Company's Articles of Association

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

Significant agreements – change of control

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

Greenhouse gas emissions

The disclosures concerning greenhouse gas emissions required by law are set out in the Corporate Social Responsibility report on page 37.

Keeping the World Flowing

Substantial shareholders

At 31 December 2013, the interests in issued share capital which had been notified to the Company under the Disclosure and Transparency Rules (DTR 5) of the UK Listing Authority are shown below.

Identity	Size of holding	Nature of holding
Mondrian Investment Partners Limited	3.99%	Direct

Corporate governance

The Company's corporate governance report can be found on pages 46 to 55.

Disclosure of information to auditors

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

'Going Concern' basis of preparation

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. In forming this view, the directors have considered trading and cash flow forecasts, financial commitments, the significant order book with customers spread across different geographic areas and industries and the significant net cash position.

Statement of directors' responsibility for preparing the Annual Report and Financial Statements

The following statement, which should be read in conjunction with the auditors' Statement of Auditors' Responsibilities, included in the audit report, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

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

Company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law and have elected to prepare the Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and Company for that period. In preparing each of the Group and Company financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;

- For the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- For the Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the directors, whose names and functions are listed on pages 42 to 43 confirm that, to the best of each person's knowledge and belief:

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

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

External auditor

The Company's auditor, KPMG Audit Plc, has instigated an orderly wind down of business. Upon the recommendation of the Audit Committee and approval of the Board, a resolution to appoint KPMG LLP as auditor, and to authorise the directors to determine their remuneration are to be proposed at the forthcoming AGM.

On behalf of the Board

Stephen Rhys Jones
 Company Secretary

3 March 2014

Independent auditor's report to the members of Rotork plc only

OPINIONS AND CONCLUSIONS ARISING FROM OUR AUDIT

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Rotork plc for the year ended 31 December 2013 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes. In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2013 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

Goodwill (£105.2 million)

Refer to page 53 (Audit Committee Report – contained within the Corporate Governance Report), page 80 (accounting policy) and pages 94 to 95 (financial statements)

- The risk – Goodwill acquired in a business combination is allocated at acquisition to the Cash Generating Units (CGUs) that are expected to benefit from the combination. The recoverable amounts of the CGUs are determined from value in use calculations. This is a key judgement area as adverse changes in assumptions, particularly relating to the forecasting of cash flows and discount rates could reduce the recoverable amount below the carrying amount. The group reviews goodwill for impairment either annually or, if earlier, when there is an indication of impairment. With the increasing number of acquisitions this is an area of increasing judgement and complexity.
- Our response – In this area we performed a number of audit procedures which included, but were not limited to, the following. We challenged the group's judgements in relation to the allocation of goodwill to CGUs and the appropriateness of the methodology for testing for impairment. We tested the principles and integrity of the discounted cash flow model used. We challenged the group's assessment of impairment including consideration of the key inputs of the forecast cash flows, the discount rate used, the growth rate assumed and the historical accuracy of budgets. We used external data to determine an appropriate range for the discount rates for the various CGUs and compared the actual rate used to that range. For the period covered by the business plan, we considered whether the growth rate used was consistent with both historical performance and future business strategies.

We evaluated the group's sensitivity analysis and also performed our own analysis to assess the sensitivity of the impairment reviews to changes in the key assumptions of discount and growth rates. Throughout our audit procedures we considered the potential risk of management bias.

We considered the adequacy of the Group's disclosures in respect of impairment testing of goodwill and whether disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions properly reflected the risks inherent in the valuation of goodwill.

Other intangible assets (additions of £24.2 million)

Refer to page 53 (Audit Committee Report – contained within the Corporate Governance Report), pages 80, 81 and 83 (accounting policies) and page 96 (financial statements)

- The risk – The acquired intangible assets of customer relationships, brand, trademarks and patents, and order book are valued on acquisition using discounted cash flows and relief from royalty methods. In applying these methodologies, the Group makes a number of key judgements and estimates relating to each class of intangible asset identified, including the discount rate, growth rate and royalty rate. The identification of intangible assets requires significant levels of judgement and the values assigned to them are sensitive to the assumptions used and, for this reason, acquired intangibles are considered a significant audit risk.
- Our response – In this area we performed a number of audit procedures which included, but were not limited to, the following. We tested the principles and integrity of the discounted cash flow and relief from royalty models used. We challenged the group's process for identifying intangible assets and considered the appropriateness of the intangibles identified in relation to the relevant accounting standards. We challenged the valuation of these including the key assumptions of the discount rate used, the growth rate assumed and the royalty rates applied. We agreed the discount and royalty rates, along with revenue and customer figures, used to externally derived data and considered whether the growth rate used was consistent with historical performance. We utilised our own valuation specialists to the extent necessary in performing our work.

We performed analysis to assess the sensitivity of the valuation of the acquired intangibles to changes in the key assumptions of discount and growth rates. Throughout our audit procedures we considered the potential risk of management bias.

In addition, we assessed the appropriateness and completeness of the disclosure in the financial statements and compliance with relevant accounting standards.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the financial statements as a whole was set at £9.7 million. This has been determined with reference to a benchmark of group profit before taxation (of which it represents 7%), which we consider to be one of the principal considerations for members of the company in assessing the financial performance of the group.

We agreed with the audit committee to report to it all uncorrected misstatements we identified through our audit with a value in excess of £450,000, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds. In addition, we agreed with the audit committee to report to it all individual corrected misstatements greater than £1.0 million and, in aggregate, all smaller corrected misstatements between £0.5 million and £1.0 million.

Audits for group reporting purposes were performed by component auditors at the key reporting components in the following countries: Australia, China, Germany, Hong Kong, Italy, Russia, Singapore, Spain, the United Kingdom and the United States of America; and by the group audit team in the United Kingdom. In addition, specified audit procedures for group reporting purposes were performed by component auditors at the key reporting components in the following countries: Canada, India and the United States of America. These group procedures covered 77% of total group revenue, 84% of group profit before taxation and 83% of total group assets.

The audits undertaken for group reporting purposes at the key reporting components of the group were all performed to materiality levels set by, or agreed with, the group audit team. These materiality levels were set individually for each component and ranged from £0.1 million to £7 million.

Detailed audit instructions were sent to all the auditors in these locations. These instructions covered the significant areas that should be covered by these audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the group audit team. The group audit team visited the following locations: China, Hong Kong, Singapore and the United States of America. Telephone meetings were also held with the auditors at the majority of the other locations that were not physically visited.

The remaining 23% of revenue, 16% of group profit before taxation and 17% of total group assets is represented by 27 reporting components around the world. None of these 27 reporting components represented more than 2% of revenue, profit before taxation or total group assets. Local statutory audits are performed over 10 of these components, but generally these are completed after the date of this report.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the corporate governance statement set out on pages 46 to 55 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Independent auditor's report to the members of Rotork plc only continued

5. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy; or
- the Audit Committee Report (contained within the Corporate Governance Report) does not appropriately address matters communicated by us to the audit committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 71, in relation to going concern; and
- the part of the Corporate Governance Statement on page 48 relating to the company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Statement of Directors' Responsibility (set out on page 71), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Philip Cotton

(Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

100 Temple Street

Bristol BS1 6AG

3 March 2014

Consolidated income statement

For the year ended 31 December 2013

	Notes	2013 £000	2012 £000
Revenue	2	578,440	511,747
Cost of sales		(304,066)	(272,199)
Gross profit		274,374	239,548
Other income	4	206	908
Distribution costs		(5,623)	(4,214)
Administrative expenses		(129,576)	(111,743)
Other expenses	5	(116)	(32)
Adjusted operating profits		151,412	131,866
Amortisation of acquired intangible assets		(12,147)	(7,399)
Operating profit	2	139,265	124,467
Net finance expense	7	(1,268)	(273)
Profit before tax	8	137,997	124,194
Income tax expense	9	(38,488)	(34,879)
Profit for the year		99,509	89,315
Basic earnings per share	18	114.8p	103.1p
Adjusted basic earnings per share	18	124.9p	109.3p
Diluted earnings per share	18	114.3p	102.6p
Adjusted diluted earnings per share	18	124.3p	108.8p

Consolidated statement of comprehensive income

For the year ended 31 December 2013

	2013 £000	2012 £000
Profit for the year	99,509	89,315
Other comprehensive income		
<i>Items that may be subsequently reclassified to the income statement:</i>		
Foreign exchange translation differences	(4,981)	(3,967)
Effective portion of changes in fair value of cash flow hedges net of tax	1,274	399
<i>Items that are not subsequently reclassified to the income statement:</i>		
Actuarial gain/(loss) in pension scheme net of tax	5,528	(8,598)
Income and expenses recognised directly in equity	1,821	(12,166)
Total comprehensive income for the year	101,330	77,149

Consolidated balance sheet

At 31 December 2013

	Notes	2013 £000	2012 £000
Non-current assets			
Property, plant and equipment	10	45,871	38,445
Goodwill	11	105,150	80,729
Intangible assets	12	53,481	40,743
Derivative financial instruments	23	804	–
Deferred tax assets	13	11,778	12,984
Other receivables	15	1,532	1,674
Total non-current assets		218,616	174,575
Current assets			
Inventories	14	75,081	71,100
Trade receivables	15	105,976	95,822
Current tax	15	1,145	1,946
Derivative financial instruments	23	2,933	2,254
Other receivables	15	12,152	9,662
Cash and cash equivalents	16	68,873	59,868
Total current assets		266,160	240,652
Total assets		484,776	415,227
Equity			
Issued equity capital	17	4,344	4,340
Share premium		8,840	8,258
Reserves		6,649	10,356
Retained earnings		312,246	246,369
Total equity		332,079	269,323
Non-current liabilities			
Interest bearing loans and borrowings	19	1,678	116
Employee benefits	20	22,705	32,060
Deferred tax liabilities	13	16,920	13,488
Provisions	21	2,628	2,701
Total non-current liabilities		43,931	48,365
Current liabilities			
Interest bearing loans and borrowings	19	532	56
Trade payables	22	38,019	36,355
Employee benefits	20	17,479	14,065
Current tax	22	14,836	11,143
Derivative financial instruments	23	32	96
Other payables	22	31,002	31,889
Provisions	21	6,866	3,935
Total current liabilities		108,766	97,539
Total liabilities		152,697	145,904
Total equity and liabilities		484,776	415,227

These financial statements were approved by the Board of Directors on 3 March 2014 and were signed on its behalf by:

PI France and JM Davis, Directors.

Consolidated statement of changes in equity

	Issued equity capital	Share premium	Translation reserve	Capital redemption reserve	Hedging reserve	Retained earnings	Total
Balance at 31 December 2011	4,338	7,835	11,616	1,644	664	198,072	224,169
Profit for the year	–	–	–	–	–	89,315	89,315
Other comprehensive income							
Foreign exchange translation differences	–	–	(3,967)	–	–	–	(3,967)
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	539	–	539
Actuarial loss on defined benefit pension plans	–	–	–	–	–	(9,912)	(9,912)
Tax in other comprehensive income	–	–	–	–	(140)	1,314	1,174
Total other comprehensive income	–	–	(3,967)	–	399	(8,598)	(12,166)
Total comprehensive income	–	–	(3,967)	–	399	80,717	77,149
Transactions with owners, recorded directly in equity							
Equity settled share-based payments transactions	–	–	–	–	–	1,117	1,117
Tax on equity settled share-based payment transactions	–	–	–	–	–	102	102
Share options exercised by employees	2	423	–	–	–	–	425
Own ordinary shares acquired	–	–	–	–	–	(2,850)	(2,850)
Own ordinary shares awarded under share schemes	–	–	–	–	–	3,135	3,135
Dividends	–	–	–	–	–	(33,924)	(33,924)
Balance at 31 December 2012	4,340	8,258	7,649	1,644	1,063	246,369	269,323
Profit for the year	–	–	–	–	–	99,509	99,509
Other comprehensive income							
Foreign exchange translation differences	–	–	(4,981)	–	–	–	(4,981)
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	1,598	–	1,598
Actuarial gain on defined benefit pension plans	–	–	–	–	–	7,669	7,669
Tax in other comprehensive income	–	–	–	–	(324)	(2,141)	(2,465)
Total other comprehensive income	–	–	(4,981)	–	1,274	5,528	1,821
Total comprehensive income	–	–	(4,981)	–	1,274	105,037	101,330
Transactions with owners, recorded directly in equity							
Equity settled share-based payments transactions	–	–	–	–	–	143	143
Tax on equity settled share-based payment transactions	–	–	–	–	–	632	632
Share options exercised by employees	4	582	–	–	–	–	586
Own ordinary shares acquired	–	–	–	–	–	(5,601)	(5,601)
Own ordinary shares awarded under share schemes	–	–	–	–	–	4,401	4,401
Dividends	–	–	–	–	–	(38,735)	(38,735)
Balance at 31 December 2013	4,344	8,840	2,668	1,644	2,337	312,246	332,079

Detailed explanations for equity capital, the translation reserve, capital redemption reserve and hedging reserve can be seen in note 17.

Consolidated statement of cash flows

For the year ended 31 December 2013

	Notes	2013 £000	2013 £000	2012 £000	2012 £000
Cash flows from operating activities					
Profit for the year		99,509		89,315	
<i>Adjustments for:</i>					
Amortisation of intangibles		12,147		7,399	
Amortisation of development costs		1,214		924	
Depreciation		6,801		5,452	
Equity settled share-based payment expense		2,178		2,030	
Profit on sale of property, plant and equipment		(25)		(859)	
Net finance expense		1,268		273	
Income tax expense		38,488		34,879	
		161,580		139,413	
Increase in inventories		(1,740)		(9,474)	
Increase in trade and other receivables		(10,786)		(2,220)	
Decrease in trade and other payables		(1,778)		(3,341)	
Difference between pension charge and cash contribution		(534)		(7,211)	
Increase/(decrease) in provisions		863		(264)	
Increase in other employee benefits		2,621		1,711	
		150,226		118,614	
Income taxes paid		(39,866)		(37,641)	
Cash flows from operating activities			110,360		80,973
Investing activities					
Purchase of property, plant and equipment		(10,419)		(12,564)	
Development costs capitalised		(2,033)		(2,075)	
Sale of property, plant and equipment		159		1,007	
Acquisition of businesses, net of cash acquired	3	(43,235)		(20,674)	
Contingent consideration paid		(250)		(200)	
Interest received		917		623	
Cash flows from investing activities			(54,861)		(33,883)
Financing activities					
Issue of ordinary share capital		586		425	
Purchase of ordinary share capital		(5,601)		(2,850)	
Interest paid		(653)		(163)	
Repayment of amounts borrowed		(618)		(64)	
Repayment of finance lease liabilities		(34)		(68)	
Dividends paid on ordinary shares		(38,735)		(33,924)	
Cash flows from financing activities			(45,055)		(36,644)
Increase in cash and cash equivalents			10,444		10,446
Cash and cash equivalents at 1 January		59,868		48,519	
Effect of exchange rate fluctuations on cash held		(1,439)		903	
Cash and cash equivalents at 31 December	16		68,873		59,868

Notes to the Group financial statements

For the year ended 31 December 2013

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

Rotork plc is a company domiciled in England. The consolidated financial statements of the Company for the year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the Group). The accounting policies contained below in note 1 and the disclosures in notes 2 to 30 all relate to the Group financial statements. The Company balance sheet can be found following note 30. As the Company has elected to continue reporting under UK GAAP, the applicable accounting policies are contained in note a, and notes b to k relate to the Company's financial statements.

1. ACCOUNTING POLICIES

The accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

Basis of preparation

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

The consolidated financial statements have been prepared under the historical cost convention subject to the items referred to in the derivative financial instruments accounting policy below.

New accounting standards and interpretations

The amendments to IAS19 Employee benefits have been applied from 1 January 2013. The principal change relates to the requirement to use the schemes' discount rate to calculate the return on assets rather than using a rate of return appropriate to the various asset classes.

The amended standard also requires administration costs to be recognised separately from the current service cost in the income statement as they are incurred. Due to the Group already expensing administration costs as they are incurred the current service cost has been split to separately disclose the administration cost comparative.

The application of the amended standard in the 2012 financial year would have increased the net pension interest cost by £588,000 from £390,000 to £978,000, reducing the pre-tax profit by £588,000. The impact on the 2012 basic earnings per share would be a reduction of 0.5p to 102.6p. As a result of the adjustments not being material to the income statement, balance sheet or shareholders' equity prior year balances have not been restated.

The following standards and amendments have also been applied from 1 January 2013:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IAS 1 Presentation of Financial Statements (amendments)

Application of these standards and amendments has not had any material impact on the disclosures, net assets or results of the Group.

Recent accounting developments

IFRS 9 Financial Instruments has been issued but is not yet effective and has not been adopted as application was not mandatory for the year. The directors anticipate that the adoption of this standard will not have a material impact on the disclosures, net assets or results of the Group.

Going concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. In forming this view, the directors have considered trading and cash flow forecasts, financial commitments, the significant order book with customers spread across different geographic areas and industries and the significant net cash position.

Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year to 31 December 2013. 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.

Notes to the Group financial statements continued

For the year ended 31 December 2013

1. ACCOUNTING POLICIES continued

Foreign currencies

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to sterling at foreign exchange rates at the dates the values were determined.

Assets and liabilities of foreign subsidiaries, including goodwill and fair value adjustments arising on consolidation, are translated into sterling at rates of exchange ruling at the balance sheet date. The revenues and expenses of foreign subsidiaries are translated to sterling at rates approximating those ruling at the date of the transactions. Differences on exchange arising from the retranslation of the opening net investment in subsidiaries, and from the translation of the results of those subsidiaries at average rate, are reported as an item of other comprehensive income and accumulated in the translation reserve.

Any differences that have arisen since 1 January 2004, the date of transition to IFRS, are presented as a separate component of equity. Translation differences that arose before the date of transition to IFRS in respect of all foreign entities are not presented as a separate component.

Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods or services. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities.

Revenue from the sale of actuators, gearboxes and flow control products is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer in accordance with the contracted shipping terms.

Revenue from service work is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated completion costs, the possible return of goods or continuing management involvement with the goods.

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the income statement.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

For acquisitions between 1 January 2004 and 31 December 2009, goodwill represents the difference between the cost of the acquisition, including acquisition costs and the fair value of the net identifiable assets acquired.

In respect of acquisitions prior to 1 January 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under UK GAAP on transition to IFRS.

Goodwill is stated at cost or deemed cost less any impairment losses. The carrying value of goodwill is reviewed at each balance sheet date and is allocated to cash-generating units (CGU). An impairment loss is recognised whenever the carrying value of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Keeping the World Flowing

1. ACCOUNTING POLICIES continued

Intangible assets

i) Research & development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred. Development costs incurred after the point at which the commercial and technical feasibility of the product have been proven, and the decision to complete the development has been taken and resources made available, are capitalised. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. Development expenditure has an estimated useful life of five years and is written off on a straight-line basis.

ii) Other intangible assets

Other intangible assets that are acquired by the Group as part of a business combination are stated at cost less accumulated amortisation and impairment losses. The useful life of each of these assets is assessed based on discussions with the management of the acquired business and takes account of the differing natures of each of the intangibles acquired. The assessed useful lives of intangibles acquired are as follows:

Brands and trademarks	4 to 10 years
Customer relationships	2 to 5 years
Product design patents	5 to 8 years
Order backlog	3 months to 1 year

Amortisation is charged on a straight-line basis over the estimated useful life of the assets.

Property, plant and equipment

Freehold land is not depreciated. Long leasehold buildings are amortised over 50 years or the expected useful life of the building where less than 50 years. Other assets are depreciated in equal annual instalments by reference to their estimated useful lives and residual values at the following annual rates:

Freehold buildings	2% to 4%
Short leasehold buildings	period of lease
Plant and equipment	10% to 33%

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation. Certain items of property that had been revalued to fair value on or prior to 1 January 2004, the date of transition to IFRS, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Leases

Where fixed assets are financed by leasing agreements, which give rights approximating to ownership, the assets are treated as if they had been purchased and the capital element of the leasing commitments are shown as obligations under finance leases. Assets acquired under finance leases are initially recognised at the present value of the minimum lease payments. The rentals payable are apportioned between interest, which is charged to the income statement, and liability, which reduces the outstanding obligation so as to give a constant rate of charge on the outstanding lease obligations. Costs in respect of operating leases are charged on a straight-line basis over the term of the lease in arriving at the operating profit.

Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profits. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Notes to the Group financial statements continued

For the year ended 31 December 2013

1. ACCOUNTING POLICIES continued

Inventory and work in progress

Inventory and work in progress is valued at the lower of cost, on a 'first in, first out' basis, and net realisable value. In respect of work in progress and finished goods, cost includes all production overheads and the attributable proportion of indirect overhead expenses which are required to bring inventories to their present location and condition. The net realisable value in respect of old and slow moving inventory is assessed by reference to historic usage patterns and forecast future usage.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short term (with an original maturity less than three months) deposits. Bank overdrafts that are repayable on demand form part of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

Equity

Equity comprises issued equity capital, share premium, reserves and retained earnings.

When issued equity capital is repurchased, the amount paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are debited direct to equity and shown as a deduction from retained earnings.

Provisions

i) Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty cost data, known issues and management expectations of future costs.

ii) Contingent consideration

The terms of an acquisition may provide that the value of the purchase consideration, which may be payable in cash at a future date, depends on uncertain future events. Where it is not possible to estimate the amounts payable with any degree of certainty, the amounts recognised in the financial statements represent a fair value estimate at the balance sheet date of the amounts expected to be paid.

Employee benefits

i) Pension plans

The Group operates a number of defined benefit pension schemes and contributes to these schemes in accordance with qualified actuaries' recommendations. In respect of all actuarial gains and losses that arise in calculating the Group's obligation in respect of the plans, these are recognised in equity. Interest on pension scheme liabilities has been recognised within financing expenses.

The Group also operates a number of defined contribution pension schemes. The costs for these schemes are recognised in the income statement as incurred.

ii) Share-based payment transactions

The Rotork Sharesave Plan, introduced in 2004, offers certain employees the opportunity to purchase shares in Rotork plc at a discounted price compared with the market price at the time of grant. Details of the scheme are given in note 25. The fair value of the right/option is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period between grant and maturity. The right/option reaches maturity when the employee becomes unconditionally entitled. The fair value of the grant is measured using a Black-Scholes model, taking into account the terms and conditions upon which the rights were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

The Rotork Long Term Incentive Plan grants awards of shares to executive directors and senior managers. These awards may vest after a period of three years dependent upon both market and non-market performance conditions being met. Details of the grants are given in note 25. The fair value of the award is measured at grant date, using a Monte Carlo simulation model which takes into account the market based performance criteria, and spread over the vesting period. The fair value of the award is recognised as an employee expense with a corresponding increase in equity for the share settled award. The amount recognised as an expense is adjusted to exclude options that do not vest as a result of non-market performance conditions not being met.

iii) Long term service leave

The Group's net obligation in respect of long term service leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

iv) Other employee benefits

The Group offers a number of discretionary bonus schemes to employees around the world. The costs of these schemes are recognised in the income statement as incurred. This includes the Share Incentive Plan and Overseas Profit Linked Share Scheme both of which are a known liability at the year end.

Keeping the World Flowing

1. ACCOUNTING POLICIES *continued*

Derivative financial instruments

The Group uses forward exchange contracts and swaps to hedge its exposure to foreign exchange risk arising from operational and financing activities. These are the only derivative financial instruments used by the Group. In accordance with its Treasury Policy, the Group does not hold or issue contracts for trading purposes. Forward exchange contracts that do not qualify for hedge accounting are accounted for as trading instruments.

Forward exchange contracts are recognised initially at fair value. Where a forward exchange contract is designated as a hedge of the variability in cash flows of a recognised liability, a firm commitment or a highly probable forecasted transaction, the effective part of any gain or loss on the forward contract is recognised directly in equity. Any effective cumulative gain or loss is removed from equity and recognised in the income statement at the same time as the hedged transaction. The ineffective part of any gain or loss is recognised in the income statement immediately.

When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss held in equity is recognised in the income statement immediately.

Dividends

Interim dividends are recorded in the financial statements when they are paid. Final dividends are recorded in the financial statements in the period which they are approved by the Company's shareholders.

Critical accounting estimates and judgements

Estimates and judgements are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a risk of causing a material adjustment to the carrying amount of assets and liabilities in the next financial year are listed below.

Impairment of Intangible assets

Intangible assets (other than goodwill) are amortised over their useful lives which are based on management's estimates of the period over which the assets will generate revenue. The useful lives are periodically reviewed to ensure they continue to be appropriate. Changes to the estimates used can result in significant variations in the carrying value.

The Group assesses the impairment of intangible assets subject to amortisation whenever events or changes in circumstances indicate that the carrying value might not be recoverable. Additionally, goodwill arising on acquisitions and indefinite lived assets are subject to impairment review.

The Group undertakes an impairment review annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable.

Factors considered important that could trigger an impairment review of intangible assets include the following:

- significant underperformance relative to historical or projected future operating results;
- significant changes in the use of the acquired assets or the strategy for the overall business; or
- significant negative industry or economic trends.

Explanations of the estimates, judgements and sensitivities in respect of the current year impairment review are detailed in note 11.

Valuation of acquired intangible assets

Acquisitions may result in the recognition of customer relationships, brands and trademarks, product design patents and order backlogs. These are valued using discounted cash flow models or a relief from royalty method. In applying these methodologies certain key judgements and assumptions are made over discount rates, growth rates, royalty rates and tax rates where a group of companies are acquired. Further details of the accounting policies are shown earlier in this note and the valuation of the acquired intangible assets are shown in note 12.

Keeping the World Flowing

2. OPERATING SEGMENTS continued

	Controls 2013	Fluid Systems 2013	Gears 2013	Instruments 2013	Unallocated 2013	Group 2013
Depreciation	4,353	1,692	427	329	–	6,801
Amortisation:						
– Other intangibles	4,363	1,920	403	5,461	–	12,147
– Development costs	1,193	9	12	–	–	1,214
Non-cash items: equity settled share-based payments	881	427	271	35	563	2,177
Net financing expense	–	–	–	–	(1,268)	(1,268)
Acquired as part of business combinations:						
– Goodwill	19,766	3,688	1,398	–	–	24,852
– Intangible assets	19,548	3,277	1,413	–	–	24,238
Capital expenditure	7,108	2,350	581	281	–	10,320

	Controls 2012	Fluid Systems 2012	Gears 2012	Instruments 2012	Unallocated 2012	Group 2012
Depreciation	3,708	1,258	251	235	–	5,452
Amortisation:						
– Other intangibles	733	2,249	218	4,199	–	7,399
– Development costs	924	–	–	–	–	924
Non-cash items: equity settled share-based payments	698	396	271	–	665	2,030
Net financing expense	–	–	–	–	(273)	(273)
Acquired as part of business combinations:						
– Goodwill	–	–	–	13,952	–	13,952
– Intangible assets	–	–	–	9,668	–	9,668
Capital expenditure	8,656	2,113	1,295	372	–	12,436

Balance sheets are reviewed by operating subsidiary and operating segment balance sheets are not prepared, as such no further analysis of operating segments assets and liabilities are presented.

Geographical analysis:

	UK 2013	Rest of Europe 2013	USA 2013	Other Americas 2013	Rest of World 2013	Group 2013
Revenue from external customers by location of customer	31,765	180,865	117,346	59,112	189,352	578,440
Non-current assets:						
– Goodwill	5,691	55,205	40,154	770	3,330	105,150
– Intangible assets	5,538	27,317	20,351	–	275	53,481
– Property, plant and equipment	16,304	15,176	6,706	768	6,917	45,871

	UK 2012	Rest of Europe 2012	USA 2012	Other Americas 2012	Rest of World 2012	Group 2012
Revenue from external customers by location of customer	28,448	156,525	106,027	53,323	167,424	511,747
Non-current assets:						
– Goodwill	5,009	31,925	39,603	776	3,416	80,729
– Intangible assets	4,496	11,107	24,288	506	346	40,743
– Property, plant and equipment	13,944	10,529	6,005	622	7,345	38,445

Notes to the Group financial statements continued

For the year ended 31 December 2013

3. ACQUISITIONS

2013

i) Schischek

On 15 January 2013 the Group acquired 100% of the share capital of the Schischek Group of companies (Schischek) for £35,030,000. Schischek is a leader in the design, manufacture and sale of explosion-proof electric actuators, sensors, transmitters and controller products for a wide range of industries, based in Langenzenn, Bavaria, Germany. The acquired business is reported within the Controls division. In the fifty weeks to 31 December 2013 Schischek contributed £15,109,000 to Group revenue and £4,979,000 to consolidated operating profit before amortisation. The amortisation charge in the fifty week period from the acquired intangible assets was £3,322,000. If the acquisition had occurred on 1 January 2013 the contribution made by the business would not be materially different. It is not practicable to disclose profit before tax or profit attributable to equity shareholders as the Group manages its Treasury function on a Group basis.

ii) Other acquisitions

On 5 July 2013 the Group acquired 100% of the share capital of Flowco Limited (Flowco) based near Bath, UK for a consideration of £2,151,000. Flowco is a valve and actuator service company and is reported as part of the Controls division.

On 2 August 2013 the Group acquired 100% of the share capital of:

- the GTA Group (GTA) for £8,064,000. GTA is a leading manufacturer of rack and pinion pneumatic valve actuators and is principally based in Milan, Italy. The acquired businesses are reported within the Rotork Fluid System division.
- Renfro (Renfro) for £2,786,000. Renfro is a valve adaptation and accessories business based in Broken Arrow, Oklahoma, USA. The acquired business is reported within the Rotork Gears division.

In the period from acquisition to 31 December 2013 the businesses contributed £4,894,000 to Group revenue and £445,000 to consolidated operating profit before amortisation. The amortisation charge in respect of these acquisitions during the year was £896,000.

If these other acquisitions had occurred on 1 January 2013 the businesses would have contributed £11,573,000 to Group revenue and £1,178,000 to Group operating profit. It is not practicable to disclose profit before tax or profit attributable to equity shareholders as the Group manages its Treasury function on a Group basis.

iii) Acquisitions fair value table

The four acquisitions had the following effect on the Group's assets and liabilities.

Keeping the World Flowing

3. ACQUISITIONS continued

	Schischek			Other acquisitions			Total
	Book value	Adjustments	Fair value	Book value	Adjustments	Fair value	Fair value
Non-current assets							
Property, plant and equipment	3,238	–	3,238	1,745	(20)	1,725	4,963
Intangible assets	–	18,541	18,541	–	5,697	5,697	24,238
Current assets							
Inventory	1,353	(135)	1,218	3,198	(476)	2,722	3,940
Trade and other receivables	2,197	(81)	2,116	2,508	(91)	2,417	4,533
Cash	1,610	–	1,610	1,211	–	1,211	2,821
Current liabilities							
Trade and other payables	(2,211)	–	(2,211)	(3,361)	(142)	(3,503)	(5,714)
Warranty provision	(97)	(144)	(241)	–	(148)	(148)	(389)
Corporation tax	(745)	(418)	(1,163)	(272)	(157)	(429)	(1,592)
Loans and other borrowings	(295)	–	(295)	(840)	–	(840)	(1,135)
Non-current liabilities							
Deferred tax liability	–	(5,043)	(5,043)	(14)	(1,567)	(1,581)	(6,624)
Loans and other borrowings	(1,824)	–	(1,824)	(38)	–	(38)	(1,862)
Total net assets							
	3,226	12,720	15,946	4,137	3,096	7,233	23,179
Goodwill			19,084			5,768	24,852
Purchase consideration							
			35,030			13,001	48,031
Paid in cash			35,030			11,026	46,056
Contingent consideration			–			1,975	1,975
Purchase consideration							
			35,030			13,001	48,031
Purchase consideration paid in cash			35,030			11,026	46,056
Cash held in subsidiary			(1,610)			(1,211)	(2,821)
Cash outflow on acquisition							
			33,420			9,815	43,235

The adjustments shown in the table represent the alignment of accounting policies of the acquired businesses to Rotork Group policies and the fair value adjustments of the assets and liabilities at the acquisition date of each of the businesses.

Goodwill has arisen on these acquisitions as a result of the value attributed to staff expertise and the assembled workforce, which did not meet the recognition criteria for a separate intangible asset.

The intangible assets identified comprise customer relationships, brands, product design patents and acquired order books.

2012

On 9 November 2012 the Group acquired 100% of the share capital of Soldo srl. (Soldo) for £23,112,000. Soldo designs and manufactures control accessories for valve automation and is headquartered near Verona in Northern Italy. The acquired business is reported within the Instruments division. In the period since acquisition Soldo contributed £802,000 to Group revenue and £248,000 to consolidated operating profit before amortisation. The amortisation charge in the period since acquisition from the acquired intangible assets was £313,000.

If the acquisition had occurred on 1 January 2012 the business would have contributed £6,284,000 to Group revenue and £1,909,000 to Group operating profit. It is not practicable to disclose profit before tax or profit attributable to equity shareholders as the Group manages its Treasury function on a Group basis.

Notes to the Group financial statements continued

For the year ended 31 December 2013

3. ACQUISITIONS continued

2012 continued

The acquisition had the following effect on the Group's assets and liabilities.

	Book value	Adjustments	Fair value
Current assets			
Inventory	1,044	(320)	724
Trade and other receivables	1,474	(17)	1,457
Cash	1,640	–	1,640
Current liabilities			
Trade and other payables	(983)	(52)	(1,035)
Warranty provision	–	(54)	(54)
Corporation tax	(486)	–	(486)
Non-current assets/liabilities			
Property, plant and equipment	361	–	361
Intangible assets	–	9,668	9,668
Deferred tax	3	(3,118)	(3,115)
Total net assets	3,053	6,107	9,160
Goodwill			13,952
Purchase consideration			23,112
Paid in cash			22,314
Contingent consideration			798
Purchase consideration			23,112
Purchase consideration paid in cash			22,314
Cash held in subsidiary			(1,640)
Cash outflow on acquisition			20,674

The adjustments shown in the table represent the alignment of accounting policies to Rotork Group policies and the fair value adjustments of the assets and liabilities at the acquisition date.

The contingent consideration is based on a 2013 profit target and will be payable in early 2014.

Goodwill has arisen on the acquisition as a result of the value attributed to staff expertise and the assembled workforce, which did not meet the recognition criteria for a separate intangible asset.

The intangible assets identified are customer relationships, the Soldo brand and the acquired order book.

Keeping the World Flowing

4. OTHER INCOME

	2013	2012
Gain on disposal of property, plant and equipment	125	877
Other	81	31
	206	908

5. OTHER EXPENSES

	2013	2012
Loss on disposal of property, plant and equipment	100	18
Other	16	14
	116	32

6. PERSONNEL EXPENSES

	2013	2012
Wages and salaries (including bonus and incentive plans)	112,497	95,942
Social security costs	13,888	11,343
Pension costs (note 24)	6,002	4,995
Share-based payments (note 25)	2,177	2,030
(Decrease)/Increase in liability for long term service leave	(38)	19
	134,526	114,329

The share-based payments are equity settled, comprising £285,000 (2012: £248,000) for the Sharesave plan and £1,892,000 (2012: £1,782,000) for the Long Term Incentive Plan.

	2013 Number	2012 Number
During the year, the average weekly number of employees, analysed by business segment was:		
Controls	1,701	1,576
Fluid Systems	731	627
Gears	322	272
Instruments	138	106
	2,892	2,581
UK	607	567
Overseas	2,285	2,014
	2,892	2,581

Notes to the Group financial statements continued

For the year ended 31 December 2013

7. NET FINANCE EXPENSE

Recognised in the income statement	2013	Restated 2012
Interest income	917	616
Expected return on assets in the pension schemes	–	–
Foreign exchange gains	256	30
	1,173	646
Interest expense	(653)	(162)
Interest charge on pension scheme liabilities	(1,168)	(390)
Foreign exchange losses	(620)	(367)
	(2,441)	(919)
Net Finance expense	(1,268)	(273)

The comparative balances for expected return from pension scheme assets have been reclassified to show a net interest charge on pension scheme liabilities in line with the changes in IAS19 which are explained in note 1.

Recognised in equity	2013	2012
Effective portion of changes in fair value of cash flow hedges	3,035	1,063
Fair value of cash flow hedges transferred to income statement	(1,437)	(664)
Foreign currency translation differences for foreign operations	(4,981)	(3,967)
	(3,383)	(3,568)
Recognised in:		
Hedging reserve	1,598	399
Translation reserve	(4,981)	(3,967)
	(3,383)	(3,568)

Keeping the World Flowing

8. PROFIT BEFORE TAX

Profit before tax is stated after charging the following:

	Notes	2013	2012
Depreciation of property, plant and equipment:			
– Owned assets	i	6,699	5,416
– Assets held under finance lease contracts	i	102	36
Amortisation:			
– Other intangibles	i	12,147	7,399
– Development costs	i	1,214	924
Inventory write downs recognised in the year	i	1,816	1,095
Hire of plant and machinery	i	1,283	932
Other operating lease rentals	i	2,170	1,918
Research & development expenditure	ii	6,361	5,328
Exchange differences realised	iii	364	336
Audit fees and expenses paid to KPMG Audit Plc:			
– Audit of these financial statements		332	302
– Audit of financial statements of subsidiaries of the Company		161	86
		493	388
Other auditors of Group reporting subsidiaries		95	138
Total audit fees and expenses		588	526
Amounts paid to KPMG Audit Plc and its associates in respect of:			
– Taxation compliance services		144	73
– Half year review		40	–
– Other assurance services		69	23
		253	96

These costs can be found under the following headings in the income statement:

- i) Both within cost of sales and administrative expenses;
- ii) Within administrative expenses;
- iii) Within financing income and expenses.

Notes to the Group financial statements continued

For the year ended 31 December 2013

9. INCOME TAX EXPENSE

	2013	2013	2012	2012
Current tax:				
UK corporation tax on profits for the year	7,986		9,017	
Adjustment in respect of prior years	156		(295)	
		8,142		8,722
Overseas tax on profits for the year	34,790		27,892	
Adjustment in respect of prior years	(59)		480	
		34,731		28,372
Total current tax		42,873		37,094
Deferred tax:				
Origination and reversal of other temporary differences	(4,177)		(2,531)	
Adjustment in respect of prior years	(208)		316	
Total deferred tax		(4,385)		(2,215)
Total tax charge for year		38,488		34,879
Effective tax rate (based on profit before tax)		27.9%		28.1%
Profit before tax		137,997		124,194
Profit before tax multiplied by standard rate of corporation tax in the UK of 23.25% (2012: 24.5%)		32,084		30,428
<i>Effects of:</i>				
Different tax rates on overseas earnings		6,019		3,942
Permanent differences		497		14
Utilisation of overseas tax holidays		(1)		(6)
Adjustments to tax charge in respect of prior years		(111)		501
Total tax charge for year		38,488		34,879

A tax credit of £632,000 (2012: £102,000) in respect of share-based payments has been recognised directly in equity in the year.

The Group continues to expect its effective rate of corporation tax to be higher than the standard UK rate due to higher rates of tax in the USA, Canada, France, Germany, Italy, Japan and India.

A credit of £3,611,000 (2012: £2,399,000) in respect of acquired intangible asset amortisation is included in the deferred tax credit of £4,385,000 (2012: £2,215,000).

There is an unrecognised deferred tax liability for temporary differences associated with investments in subsidiaries. Rotork plc controls the dividend policies of its subsidiaries and subsequently the timing of the reversal of the temporary differences. It is not practical to quantify the unprovided temporary differences as acknowledged within paragraph 40 of IAS 12.

Keeping the World Flowing

10. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and equipment	Total
Cost			
1 January 2012	23,918	45,598	69,516
Additions	4,403	8,033	12,436
Disposals	(67)	(1,258)	(1,325)
Acquisition through business combinations	–	361	361
Exchange adjustments	(487)	(929)	(1,416)
31 December 2012	27,767	51,805	79,572
Additions	2,287	8,033	10,320
Disposals	(12)	(1,530)	(1,542)
Acquisition through business combinations	3,519	1,444	4,963
Exchange adjustments	(508)	(1,078)	(1,586)
31 December 2013	33,053	58,674	91,727
Depreciation			
1 January 2012	7,218	30,344	37,562
Charge for the year	646	4,806	5,452
Disposals	(26)	(1,154)	(1,180)
Exchange adjustments	(88)	(619)	(707)
31 December 2012	7,750	33,377	41,127
Charge for the year	745	6,056	6,801
Disposals	(11)	(1,405)	(1,416)
Exchange adjustments	(76)	(580)	(656)
31 December 2013	8,408	37,448	45,856
Net Book Value			
31 December 2012	20,017	18,428	38,445
31 December 2013	24,645	21,226	45,871

The net book value of the Group's plant and equipment includes £61,000 (2012: £28,000) in respect of assets held under finance leases.

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

	2013	2012
Land	2,794	2,262
Buildings	21,851	17,755
Net book value at 31 December	24,645	20,017

It is the Group's policy to test assets for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable.

Notes to the Group financial statements continued

For the year ended 31 December 2013

11. GOODWILL

	2013	2012
Cost		
At 1 January	80,729	68,459
Acquisition through business combinations	24,852	13,952
Exchange adjustments	(431)	(1,682)
At 31 December	105,150	80,729
Provision for impairment		
At 1 January and 31 December	–	–
Carrying amounts	105,150	80,729

Cash generating units

Goodwill acquired through business combinations have been allocated to the lowest level of cash generating unit (CGU) and to the division in which it is reported. Where the acquired entities' growth into new markets is through the Group's existing sales network the lowest level of CGU is considered to be at the divisional level.

The carrying value of goodwill is allocated as follows:

	2013	2012
Controls		
Schischek	19,003	–
Other cash generating units	9,279	8,707
	28,282	8,707
Fluid Systems		
Rotork Fluid Systems	7,594	7,422
Rotork Sweden	6,796	6,837
Other cash generating units	11,978	8,611
	26,368	22,870
Gears		
Other cash generating units	9,069	7,709
	9,069	7,709
Instruments		
Fairchild	26,722	27,247
Soldo	14,709	14,196
	41,431	41,443
Total Group	105,150	80,729

Impairment testing

Goodwill is not amortised but is tested annually for impairment.

Value in use calculations are used to determine the recoverable amount of goodwill allocated to each of the CGUs. These calculations use cash flow projections on actual operating results and management forecasts.

Keeping the World Flowing

11. GOODWILL continued

The key assumptions in the annual impairment review which cover all CGUs are set out below:

i) Management forecasts

The three year plan is a bottom up process which takes place as part of the annual budget process. The three year plan is prepared by each reporting entities' management reflecting their view of the local market, known projects and experience of past performance. The annual budget and the three year plan are approved by the Board each year.

ii) Long term growth rates

In the period after the three year plan growth rates are forecast at 2% per annum for each CGU (2012: 2%). A rate of 2% is considered to be prudent given the significant organic growth of the business over the last 10 years.

iii) Discount rates

All Rotork divisions operate in the same industry sectors and markets around the world. Therefore discount rates for each of the CGUs are considered to be 10.5 % (2012: 10.4%) which represents a reasonable rate for a market participant in this sector.

Sensitivity analysis

Sensitivity analysis has been undertaken for each CGU to assess the impact of any reasonable change in assumptions. Using the key assumptions above there is no reasonable change that would cause the carrying values of any CGU to exceed the recoverable amount apart from Soldo and Fairchild, the sensitivities for which are explained below.

With regard to Soldo, which has only been part of the Group for 14 months, downside sensitivities have been assessed. An increase in the discount rate to 14.9% would result in the goodwill being impaired. If the long term growth rate was 3% rather than 2%, the discount rate would need to increase to 15.7% for the goodwill to become impaired.

With regard to Fairchild, downside sensitivities have been assessed and an increase in the discount rate to 15.0% (2012: 12.8%) would result in the goodwill being impaired. If the long term growth rate was 3% rather than 2%, the discount rate would need to increase to 15.8% (2012: 13.6%) for the goodwill to become impaired.

It is anticipated that as Soldo and Fairchild become more established within the Group and each of the companies leverage the sales network opportunities the long term growth rate should comfortably exceed the 2.0% growth rate assumed in the forecast.

Notes to the Group financial statements continued

For the year ended 31 December 2013

12. INTANGIBLE ASSETS

	Research & development costs	Business combinations acquired intangible assets			Total
		Brands	Customer relationships	Other	
Cost					
1 January 2012	6,994	17,678	22,593	3,789	51,054
Acquisition through business combinations	–	4,808	4,706	154	9,668
Internally developed	2,075	–	–	–	2,075
Exchange adjustments	–	(532)	(577)	(101)	(1,210)
31 December 2012	9,069	21,954	26,722	3,842	61,587
Acquisition through business combinations	–	7,968	12,298	3,972	24,238
Internally developed	2,033	–	–	–	2,033
Exchange adjustments	(6)	(242)	(584)	(84)	(916)
31 December 2013	11,096	29,680	38,436	7,730	86,942
Amortisation					
1 January 2012	3,926	1,912	4,203	2,688	12,729
Charge for the year	924	2,256	4,669	474	8,323
Exchange adjustments	–	(58)	(80)	(70)	(208)
31 December 2012	4,850	4,110	8,792	3,092	20,844
Charge for the year	1,214	3,816	6,684	1,647	13,361
Exchange adjustments	–	(201)	(456)	(87)	(744)
31 December 2013	6,064	7,725	15,020	4,652	33,461
Net Book Value					
31 December 2012	4,219	17,844	17,930	750	40,743
31 December 2013	5,032	21,955	23,416	3,078	53,481

Other acquired intangible assets represent order books and intellectual property.

The amortisation charge is recognised within administrative expenses in the income statement.

Keeping the World Flowing

13. RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

	Assets 2013	Liabilities 2013	Net 2013	Assets 2012	Liabilities 2012	Net 2012
Property, plant and equipment	282	(1,094)	(812)	384	(1,238)	(854)
Intangible assets	–	(14,731)	(14,731)	–	(11,455)	(11,455)
Employee benefits	5,890	–	5,890	8,004	–	8,004
Provisions	5,535	–	5,535	4,701	–	4,701
Other items	1,605	(2,629)	(1,024)	1,267	(2,167)	(900)
Net tax assets/(liabilities)	13,312	(18,454)	(5,142)	14,356	(14,860)	(504)
Set off of tax	(1,534)	1,534	–	(1,372)	1,372	–
	11,778	(16,920)	(5,142)	12,984	(13,488)	(504)

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

	2013	2012
Balance at 1 January	(504)	462
Credited to the income statement	4,385	2,215
Charged directly to equity in respect of share-based payments	188	(116)
Acquired as part of business combinations	(6,624)	(3,115)
Credited directly to equity in respect of pension schemes	(2,141)	286
Charged directly to hedging reserves in respect of cash flow hedges	(324)	(140)
Exchange differences	(122)	(96)
Balance at 31 December	(5,142)	(504)

A deferred tax asset of £11,778,000 (2012: £12,984,000) has been recognised at 31 December 2013. The directors are of the opinion, based on recent and forecast trading, that the level of profits in the current and future years make it more likely than not that these assets will be recovered.

A deferred tax asset of £1,664,000 (2012: £1,807,000) has not been recognised in relation to capital losses. This asset may be recovered if sufficient capital profits are made in future in the companies concerned. There is no expiry date in relation to this asset.

14. INVENTORIES

	2013	2012
Raw materials and consumables	51,844	48,279
Work in progress	8,445	11,474
Finished goods	14,792	11,347
	75,081	71,100

Included in cost of sales was £217,697,000 (2012: £199,710,000) in respect of inventories consumed in the year.

Notes to the Group financial statements continued

For the year ended 31 December 2013

15. TRADE AND OTHER RECEIVABLES

	2013	2012
Non-current assets:		
Insurance policy	1,465	1,368
Other	67	306
Other receivables	1,532	1,674
Current assets:		
Trade receivables	107,801	97,635
Less provision for impairment of receivables	(1,825)	(1,813)
Trade receivables – net	105,976	95,822
Corporation tax	1,145	1,946
Current tax	1,145	1,946
Other non-trade receivables	7,333	5,196
Prepayments and accrued income	4,819	4,466
Other receivables	12,152	9,662

16. CASH AND CASH EQUIVALENTS

	2013	2012
Bank balances	40,747	42,746
Cash in hand	43	101
Short term deposits	28,083	17,021
Cash and cash equivalents	68,873	59,868
Bank overdraft	–	–
Cash and cash equivalents in the Consolidated Statement of Cash Flows	68,873	59,868

Keeping the World Flowing

17. CAPITAL AND RESERVES

Share capital and share premium

	5p Ordinary shares Issued and fully paid up 2013	£1 Non- redeemable preference shares 2013	5p Ordinary shares Issued and fully paid up 2012	£1 Non- redeemable preference shares 2012
At 1 January	4,340	40	4,338	40
Issued under employee share schemes	4	–	2	–
At 31 December	4,344	40	4,340	40
Number of shares (000)	86,871		86,808	

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 £586,000 (2012: £425,000) in respect of the 62,904 (2012: 57,481) ordinary shares issued during the year: £4,000 (2012: £2,000) was credited to share capital and £582,000 (2012: £423,000) to share premium. Further details of the share awards are shown in note 25.

The preference shareholders take priority over the ordinary shareholders when there is a distribution upon winding up the Company or on a reduction of equity involving a return of capital. The holders of preference shares are entitled to vote at a general meeting of the Company if a preference dividend is in arrears for six months or the business of the meeting includes the consideration of a resolution for winding up the Company or the alteration of the preference shareholders' rights.

Within the retained earnings reserve are own shares held. The investment in own shares represents 162,518 (2012: 169,511) 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:

	2013 Payment date	2013	2012
26.6p final dividend (2012: 22.75p)	16 May	23,082	19,718
18.05p interim dividend (2012: 16.4p)	24 September	15,653	14,206
		38,735	33,924

After the balance sheet date the following dividends per qualifying ordinary share were proposed by the directors. The dividends have not been provided for and there are no corporation tax consequences.

	2013	2012
Final proposed dividend per qualifying ordinary share		
30.0p	26,061	
26.6p		23,091

Notes to the Group financial statements continued

For the year ended 31 December 2013

18. EARNINGS PER SHARE

Basic earnings per share

Earnings per share is calculated for both the current and previous years using the profit attributable to the ordinary shareholders for the year. The earnings per share calculation is based on 86.7m shares (2012: 86.6m shares) being the weighted average number of ordinary shares in issue (net of own ordinary shares held) for the year.

	2013	2012
Net profit attributable to ordinary shareholders	99,509	89,315
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	86,638	86,523
Effect of own shares held	44	55
Effect of shares issued under Share option schemes/Sharesave plans	9	14
Weighted average number of ordinary shares during the year	86,691	86,592
Basic earnings per share	114.8p	103.1p

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 amortisation charge.

	2013	2012
Net profit attributable to ordinary shareholders	99,509	89,315
Amortisation	12,147	7,399
Tax effect on amortisation at effective rate	(3,388)	(2,078)
Adjusted net profit attributable to ordinary shareholders	108,268	94,636
Weighted average number of ordinary shares during the year	86,691	86,592
Adjusted basic earnings per share	124.9p	109.3p

Diluted earnings per share

Diluted earnings per share is based on the profit for the year attributable to the ordinary shareholders and 87.1m shares (2012: 87.0m 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 three categories of potentially dilutive ordinary shares: those share options granted to employees under the Share option scheme and 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).

	2013	2012
Net profit attributable to ordinary shareholders	99,509	89,315
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares for the year	86,691	86,592
Effect of Sharesave options in issue	103	106
Effect of LTIP shares in issue	277	343
Weighted average number of ordinary shares (diluted) during the year	87,071	87,041
Diluted earnings per share	114.3p	102.6p
Adjusted diluted earnings per share	124.3p	108.8p

Keeping the World Flowing

19. INTEREST BEARING LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest bearing loans and borrowings. For more information about the Group's exposure to interest rate and currency risk, see note 26.

	2013	2012
Non-current liabilities		
Preference shares classified as debt	40	40
Bank loans	1,607	62
Finance lease liabilities	31	14
	1,678	116
Current liabilities		
Bank loans	502	30
Finance lease liabilities	30	26
	532	56

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

	Currency	Interest rates	Year of maturity	2013	2012
Non-redeemable preference shares	Sterling	9.5%	–	40	40
Bank loans and overdrafts	Euro	0% – 4.5%	2014-32	2,109	92
Finance lease liabilities	Sterling, Euro & Yen	0% – 6.7%	2014-17	61	40
				2,210	172

Repayment profile

Finance leases, bank loans and overdrafts are payable as follows:

	Principal 2013	Interest 2013	Minimum payments 2013	Principal 2012	Interest 2012	Minimum payments 2012
Bank loans less than one year	502	37	539	30	–	30
Bank loans more than one and less than five years	736	105	841	62	–	62
Bank loans more than five years	871	140	1,011	–	–	–
Finance leases less than one year	30	3	33	26	1	27
Finance leases more than one and less than five years	31	2	33	14	1	15
	2,170	287	2,457	132	2	134

Notes to the Group financial statements continued

For the year ended 31 December 2013

20. EMPLOYEE BENEFITS

	2013	Restated 2012
Recognised liability for defined benefit obligations:		
– Present value of funded obligations	152,882	151,501
– Fair value of plan assets	(132,684)	(122,802)
	20,198	28,699
Other pension scheme liabilities	477	1,291
Employee bonuses	14,726	11,958
Long term incentive plan	576	620
Employee indemnity provision	1,833	1,329
Other employee benefits	2,374	2,228
	40,184	46,125
Non-current	22,705	32,060
Current	17,479	14,065
	40,184	46,125

The comparatives of employee bonuses, other employee benefits and other payables (note 22) have been reclassified to improve the information provided in the disclosure. The effect of this restatement is that the total current employee benefits have increased by £3,323,000 to £14,065,000. This change has no impact on the Consolidated income statements, the Consolidated statement of changes in equity, the consolidated statement of cash flows or the net assets of the Group.

Defined benefit pension scheme disclosures are detailed in note 24.

Keeping the World Flowing

21. PROVISIONS

	Contingent consideration	Warranty provision	Total
Balance at 1 January 2013	1,122	5,514	6,636
Exchange differences	(29)	(117)	(146)
Increase as a result of business combinations	1,975	389	2,364
Provisions used during the year	(250)	(978)	(1,228)
Charged in the year	(9)	1,877	1,868
Balance at 31 December 2013	2,809	6,685	9,494

Maturity at 31 December 2013

Non-current	400	2,228	2,628
Current	2,409	4,457	6,866
	2,809	6,685	9,494

Maturity at 31 December 2012

Non-current	863	1,838	2,701
Current	259	3,676	3,935
	1,122	5,514	6,636

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, the typical warranty period is now 18 months.

Contingent consideration relates to amounts outstanding in respect of the acquisitions of Soldo srl, Flowco Limited and the GTA Group. It is anticipated that the non-current balance will be settled in 2015.

22. TRADE AND OTHER PAYABLES

	2013	Restated 2012
Trade payables	38,019	36,355
Corporation tax	14,836	11,143
Current tax	14,836	11,143
Other taxes and social security	6,922	5,795
Payments on account	7,995	9,108
Other payables and accrued expenses	16,085	16,986
Other payables	31,002	31,889

The comparatives of other payables and accrued expenses and employee benefits (note 20) have been reclassified to improve the information provided in the disclosure. The effect of this restatement is that other payables and accrued expenses have decreased by £3,323,000 to £16,986,000. This change has no impact on the consolidated income statements, the consolidated statement of changes in equity, the consolidated statement of cash flows or the net assets of the Group.

Notes to the Group financial statements continued

For the year ended 31 December 2013

23. DERIVATIVE FINANCIAL INSTRUMENTS

	2013 Assets	2013 Liabilities	2012 Assets	2012 Liabilities
Forward foreign exchange contracts – cash flow hedges	3,067	32	1,507	70
Foreign exchange swaps – cash flow hedges	670	–	747	26
Total	3,737	32	2,254	96
<i>Less non-current portion:</i>				
Forward foreign exchange contracts – cash flow hedges	(804)	–	–	–
Current portion	2,933	32	2,254	96

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

There was no ineffectiveness to be recorded from the use of foreign exchange contracts.

The hedged forecast transactions denominated in foreign currency are expected to occur at various dates. Gains and losses in respect of these derivatives recognised in the hedging reserve in equity (note 17) at 31 December 2013 are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement.

24. PENSION SCHEMES

i) Defined benefit pension schemes

The Group operates two defined benefit pension arrangements one in the UK called the Rotork Pension and Life Assurance Scheme (UK Scheme) and one in the USA called the Rotork Controls Inc. Pension Plan. The Schemes provide benefits based on final salary and length of service on retirement, leaving service or death.

The UK Scheme is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the Scheme is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process the Company must agree with the trustees of the Scheme the contributions to be paid to address any shortfall against the Statutory Funding Objective and contributions to pay for future accrual of benefits.

The UK Scheme is managed by a Trustee, with directors appointed in part by the Group and part from elections by members of the Scheme. The Trustee has responsibility for obtaining valuations of the fund, administering benefit payments and investing the Scheme's assets. The Trustee delegates some of these functions to their professional advisers where appropriate.

The US Pension Plan is subject to the ERISA funding requirements. A valuation of the Plan is valued yearly to ensure the Funding Objective is met under ERISA by contributing at least the Minimum Required Contribution. As part of this process the Company must contribute to the Plan enough contributions to ensure at least the Minimum Contribution is deposited in the Trust to pay for the accrual of benefits.

The two defined benefit pension arrangements expose the Group to a number of risks:

- Investment risk. The Schemes hold investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term the short-term volatility can cause additional funding to be required if a deficit emerges.
- Interest rate risk. The Schemes' liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Scheme holds assets such as equities the value of the assets and liabilities may not move in the same way.
- Inflation risk. A significant proportion of the benefits under the Schemes are linked to inflation. Although the Schemes' assets are expected to provide a good hedge against inflation over the long term, movements over the short-term could lead to deficits emerging.
- Mortality risk. In the event that members live longer than assumed a deficit will emerge in the Scheme.

There were no plan amendments, curtailments or settlements during the period.

Keeping the World Flowing

24. PENSION SCHEMES continued

Movements in the present value of defined benefit obligations

	2013	2012
Liabilities at 1 January	151,501	132,804
Current service costs	2,773	2,350
Administration costs	345	272
Member contributions	499	487
Interest cost	6,448	6,400
Benefits paid	(4,079)	(3,639)
Actuarial (gain) / loss	(4,314)	13,524
Currency gain	(291)	(697)
Liabilities at 31 December	152,882	151,501

Movements in fair value of plan assets

	2013	2012
Assets at 1 January	122,802	107,429
Interest income on plan assets	5,280	6,010
Employer contributions	4,999	9,263
Member contributions	499	487
Benefits paid	(4,079)	(3,639)
Return on plan assets, excluding interest income on plan assets	3,355	3,612
Currency loss	(172)	(360)
Assets at 31 December	132,684	122,802

Expense recognised in the income statement

	2013	2012
Current service costs	2,773	2,350
Administration costs	345	272
Net interest cost	1,168	390
	4,286	3,012

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

	2013	2012
Cost of sales	972	435
Administrative expenses	2,146	2,187
Net interest cost	1,168	390
	4,286	3,012

Remeasurements over the year

	2013	2012
Experience adjustments on plan assets	3,355	3,612
Experience adjustments on plan liabilities	589	(20)
Actuarial gain/(loss) from changes to financial assumptions	1,715	(13,504)
Actuarial gain from changes to demographic assumptions	2,010	–
Experience adjustments on currency	119	337
	7,788	(9,575)

Notes to the Group financial statements continued

For the year ended 31 December 2013

24. PENSION SCHEMES continued

Reconciliation of net defined benefit obligation

	2013	2012
Net defined benefit obligation at the beginning of the year	28,699	25,375
Current service costs	2,773	2,350
Administration costs	345	272
Net interest cost	1,168	390
Remeasurements over the year	(7,788)	9,575
Employer contributions	(4,999)	(9,263)
	20,198	28,699

Liability for defined benefit obligations

The principal actuarial assumptions at 31 December 2013 (expressed as weighted averages):

	UK scheme (% per annum)		US scheme (% per annum)		Average (% per annum)	
	2013	2012	2013	2012	2013	2012
Discount rate	4.6	4.3	5.0	4.1	4.6	4.3
Rate of increase in salaries	3.9	3.4	4.5	4.5	4.0	3.5
Rate of increase in pensions (post May 2000)	3.3	2.8	0.0	0.0	3.0	2.5
Rate of increase in pensions (pre May 2000)	4.6	4.5	0.0	0.0	4.2	4.0
Rate of inflation	3.4	2.9	3.5	3.5	3.4	3.0

The Retail Price Index is used as the rate of inflation as it is a requirement of the pension scheme rules.

The split of the schemes' assets were as follows:

	2013 Fair value	2012 Fair value
Equities	68,724	58,809
Bonds	46,782	47,480
Property	7,485	6,883
Cash	931	1,663
US deposit administration contract	8,763	7,967
Total	132,685	122,802
Actual return on the schemes' assets	8,636	9,262

The mortality assumptions used are the S1NXA year of birth tables with future improvements in mortality based on the CMI_2012 projections (2012: CMI_2009 projections) with a long-term rate of improvement of 1.25% per annum (2012: 1.5%).

By way of example the respective mortality tables indicate the following life expectancy:

Current Age	2013 Life Expectancy at age 65		2012 Life Expectancy at age 65	
	Male	Female	Male	Female
65	22.4	24.9	22.5	24.8
45	24.1	26.8	24.8	27.2

Keeping the World Flowing

24. PENSION SCHEMES continued

Sensitivity analysis on the scheme liabilities

Adjustments to assumptions	Approximate effect on liabilities
Discount rate	
Plus 0.5% pa	(14,139)
Minus 0.5% pa	16,332
Inflation	
Plus 0.5% pa	8,152
Minus 0.5% pa	(7,509)
Salary Increase	
Plus 0.5% pa	3,440
Minus 0.5% pa	(3,184)
Life Expectancy	
Decrease mortality rates by a factor of 10%	5,044
Increase mortality rates by a factor of 10%	(4,509)

Note that the above sensitivities are approximate and only show the likely effect of an assumption being adjusted whilst all other assumptions remain the same.

For the life expectancy sensitivity we have increased/decreased the mortality rates by a factor of 10%. Broadly speaking this decreases/increases the assumed life expectancy by 1 year.

The sensitivity analysis shown above was determined using the same method as per the calculation of liabilities for the balance sheet disclosures, but using assumptions adjusted as detailed above.

Effect of the Schemes on Groups future cashflows

The Group is required to agree a Schedule of Contributions with the Trustees of the UK Scheme following a valuation which must be carried out at least once every three years. The next valuation of the Scheme will have an effective date of 31 March 2016. In the event that the valuation reveals a larger deficit than expected the Group may be required to increase contributions above those set out in the existing Schedule of Contributions. Conversely, if the position is better than expected contributions may be reduced.

The Group estimates that cash contributions to the Group's defined benefit pension schemes during 2014 will be £3,381,000 for regular payments and additional payments of £5,200,000 in relation to past service (2012: £2,450,000).

The weighted average duration of the defined benefit obligation is 21 years.

ii) Other pension plans

The Group makes a contribution to a number of defined contribution plans around the world to provide benefits for employees upon retirement. Total expense relating to these plans in the year was £2,884,000 (2012: £2,558,000).

Notes to the Group financial statements continued

For the year ended 31 December 2013

25. SHARE-BASED PAYMENTS

The Group awards shares under the Long Term Incentive Plan (LTIP) and under the Save As You Earn scheme. The share-based payment expense included in the income statement for each of the plans can be analysed as follows:

	2013	2012
LTIP – equity settled	1,892	1,782
Sharesave plan	285	248
Total expense recognised as employee costs (note 6)	2,177	2,030

Volatility assumptions for equity-based payments

The expected volatility of all equity compensation benefits is based on the historic volatility (calculated based on the weighted average remaining life of each benefit), adjusted for any expected changes to future volatility due to publicly available information.

a) Sharesave plan

UK employees are invited to join the Sharesave plan when an offer is made each year. All the offers to date were made at a 20% discount to market price at the time. There are no performance criteria for the Sharesave plan. Employees are given the option of joining either the 3 year or the 5 year scheme.

	3 year scheme		5 year scheme	
	2013	2012	2013	2012
Grant date	30 September	1 December	30 September	1 December
Share price at grant date	£27.27	£24.80	£27.27	£24.80
Exercise price	£21.94	£17.62	£21.94	£17.62
Shares granted under scheme	28,822	27,772	26,137	25,939
Vesting period	3 years	3 years	5 years	5 years
Expected volatility	24.9%	26.3%	31.5%	33.4%
Risk free rate	0.92%	0.4%	1.62%	0.8%
Expected dividends expressed as a dividend yield	1.6%	1.6%	1.6%	1.6%
Probability of ceasing employment before vesting	20%	20%	20%	20%
Fair value	£6.82	£7.62	£9.03	£9.25

Movements in the number of share options outstanding and their weighted average exercise prices are as follows:

	2013		2012	
	Average exercise price in £ per share	Options	Average exercise price in £ per share	Options
At 1 January	12.24	242,830	10.17	247,588
Granted	21.94	54,959	17.62	53,711
Exercised	8.96	(62,904)	7.45	(51,174)
Lapsed	15.76	(6,922)	12.18	(7,295)
At 31 December	15.28	227,963	12.24	242,830

Of the 227,963 outstanding options (2012: 242,830), 4,562 are exercisable (2012: 5,760).

The Group received proceeds of £586,000 in respect of the 62,904 options exercised during the year: £4,000 was credited to share capital and £582,000 to share premium. The weighted average share price at date of exercise was £26.51 (2012: £24.40).

The weighted average remaining life of 82,224 (2012: 79,106) awards outstanding under the 3 year plan is two years. The weighted average remaining life of 145,739 (2012: 163,724) awards outstanding under the 5 year plan is two years.

Keeping the World Flowing

25. SHARE-BASED PAYMENTS *continued*

b) Long Term Incentive Plan

The Long Term Incentive Plan (LTIP) is a performance share plan under which shares are conditionally allocated to selected members of senior management at the discretion of the Remuneration Committee on an annual basis. Following shareholder approval of the LTIP at the Company's AGM on 18 May 2000, awards over shares are made to executive directors and senior managers each year.

2010 LTIP plan

Following shareholder approval of the 2010 LTIP plan at the Company's AGM on 23 April 2010, awards of shares have been made annually to executive and senior managers. Half of these awards vest under a TSR performance condition and half under an EPS performance condition.

TSR measures the change in value of a share and reinvested dividends over the period of measurement. The actual number of shares transferred will be determined by the number of shares initially allocated multiplied by a vesting percentage. The actual number of shares transferred will be 25% at the 50th percentile rising to 100% at the 75th percentile.

The EPS performance condition is satisfied with 15% of the awards vesting if the EPS growth is RPI + 10% over the vesting period up to a maximum of 100% vesting if EPS growth exceeds RPI +25%.

The performance period for the 2010 awards ended on 31 December 2012. Messrs. PricewaterhouseCoopers LLP as independent actuaries certified to the Remuneration Committee that there was a 75.5% vesting of this award as the Company was in the 59th percentile relative to the comparator group and the Group's EPS growth has exceeded the minimum average annual growth in the RPI plus 2% per annum. The awards vested during 2013.

The performance period for the 2011 awards ended on 31 December 2013. Messrs. PricewaterhouseCoopers LLP as independent actuaries certified to the Remuneration Committee that there was a 67.0% vesting of these awards based on the performance criteria of the scheme. The awards will vest during 2014.

	2013	2012
Grant date	7 March 2013	1 March 2012
Share price at grant date	£29.05	£20.70
Shares granted under scheme	98,832	124,275
Vesting period	3 years	3 years
Expected volatility	25.7%	28%
Risk free rate	0.3%	0.5%
Expected dividends expressed as a dividend yield	1.5%	2.4%
Probability of ceasing employment before vesting	5% p.a.	5% p.a.
Fair value of awards under TSR performance conditions	£17.02	£12.49
Fair value of awards under EPS performance conditions	£28.19	£19.36

	Outstanding at start of year	Granted during year	Vested during year	Lapsed	Outstanding at end of year
2010 Award	133,246	–	(100,589)	(32,657)	–
2011 Award	124,906	–	–	–	124,906
2012 Award	122,695	–	–	–	122,695
2013 Award	–	98,832	–	–	98,832
	380,847	98,832	(100,589)	(32,657)	346,433

At the date of vesting the 2010 awards were valued at £29.50. The weighted average remaining life of awards outstanding at the year end is one year.

Notes to the Group financial statements continued

For the year ended 31 December 2013

26. FINANCIAL INSTRUMENTS

Financial risk and treasury policies

The Treasury department maintains liquidity, identifies and manages foreign exchange risk, manages relations with the Group's bankers and provides a treasury service to the Group's businesses. Treasury dealings such as investments, borrowings and foreign exchange are conducted only to support underlying business transactions.

The Group has clearly defined policies for the management of credit, foreign exchange and interest rate risk. The Group Treasury department is not a profit centre and, therefore, does not undertake speculative foreign exchange dealings for which there is no underlying exposure. Exposures resulting from sales and purchases in foreign currency are matched where possible and the net exposure may be hedged.

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash on deposit with financial institutions.

Management has a credit policy in place and exposure to credit risk is both monitored on an ongoing basis and reduced through the use of credit insurance covering 80% to 90% of trade receivables at any time. Credit evaluations are carried out on all customers requiring credit above a certain threshold, with varying approval levels set around this depending on the value of the sale. At the balance sheet date there were no significant concentrations of credit risk.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim.

The Group maintains an allowance for impairment in respect of non-insured receivables where recoverability is considered doubtful.

The Group Treasury Committee meets regularly and reviews the credit risk associated with institutions that hold a material cash balance. As well as credit ratings, counterparties and instruments are assessed for credit default swap pricing and liquidity of funds.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2013	2012
Trade receivables	105,976	95,822
Other receivables	13,684	11,336
Cash and cash equivalents	68,873	59,868
Foreign exchange contracts	3,737	2,254
	192,270	169,280

The maximum exposure to credit risk for trade receivables at the reporting date by currency was:

	Carrying amount	
	2013	2012
Sterling	13,166	9,273
US dollar	30,128	29,486
Euro	42,244	37,102
Indian rupee	3,528	3,744
Other	16,910	16,217
	105,976	95,822

Keeping the World Flowing

26. FINANCIAL INSTRUMENTS continued

Provisions against trade receivables

The aging of trade receivables and the associated provision for impairment at the reporting date was:

	Gross 2013	Provision 2013	Gross 2012	Provision 2012
Not past due	73,493	(225)	63,581	(102)
Past due 0–30 days	15,873	(56)	17,716	(16)
Past due 31–60 days	9,117	(68)	7,030	(50)
Past due 61–90 days	3,107	(143)	3,244	(123)
Past due more than 91 days	6,211	(1,333)	6,064	(1,522)
	107,801	(1,825)	97,635	(1,813)

b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group is highly cash generative, and uses monthly cash flow forecasts to monitor cash requirements and to optimise its return on investments. Typically the Group ensures that it has sufficient cash on hand to meet foreseeable operational expenses; it also maintains a £7m overdraft facility (2012: £7m) on which interest would be payable at base rate plus 1.5%. In January 2014 the Group extended its £15m committed loan facility until January 2015. Interest is payable on this committed facility at LIBOR plus 1%.

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

31 December 2013	Carrying amount	Contractual cash flows	Analysis of contractual cash flow maturities			
			Less than 12 months	1–2 years	2–5 years	More than 5 years
Bank loans and overdrafts	2,109	2,391	539	308	533	1,011
Finance lease liabilities	61	66	33	22	11	–
Trade and other payables	69,021	69,021	69,021	–	–	–
Foreign exchange contracts	32	32	32	–	–	–
Non-redeemable preference shares	40	40	–	–	–	40
	71,263	71,550	69,625	330	544	1,051

31 December 2012	Carrying amount	Contractual cash flows	Analysis of contractual cash flow maturities			
			Less than 12 months	1–2 years	2–5 years	More than 5 years
Bank loans and overdrafts	92	92	30	30	32	–
Finance lease liabilities	40	42	28	11	3	–
Trade and other payables	68,244	68,244	68,244	–	–	–
Forward exchange contracts	96	96	96	–	–	–
Non-redeemable preference shares	40	40	–	–	–	40
	68,512	68,514	68,398	41	35	40

Where a counterparty experiences credit stress then the foreign exchange contracts may be settled on a net basis but standard practice is to settle on a gross basis and the undiscounted gross outflow in respect of these contracts is £166,745,000 (2012: £134,353,000) and the gross inflow is £170,588,000 (2012: £136,625,000).

Notes to the Group financial statements continued

For the year ended 31 December 2013

26. FINANCIAL INSTRUMENTS continued

c) Market risk

Market risk arises from changes in market prices, such as currency rates and interest rates, and may affect the Group's results. The objective of market risk management is to manage and control market risk within suitable parameters.

i) Currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the business unit's functional currency. The currencies primarily giving rise to this risk are the US dollar and related currencies and the euro. The Group hedges up to 75% of forecast US dollar or euro foreign currency exposures using forward exchange contracts. In respect of other non-sterling monetary assets and liabilities the exposures may also be hedged up to 75% where this is deemed appropriate.

As part of the Group's cash management some of the overseas subsidiaries have loan and deposit balances where their intra-group counterparty is in the UK. The balances are typically in local currency for the subsidiary so the UK holds a foreign currency current asset or liability which is usually hedged through the use of foreign exchange swaps. At the balance sheet date only the 'forward' part of the swap remains and this is designated as a cash flow hedge to match the currency exposure of the intercompany loan asset.

The Group classifies its forward exchange contracts (that hedge both the forecast sale and purchase transactions and the intercompany loan and deposit balances) as cash flow hedges and states them at fair value. The net fair value of foreign exchange contracts used as hedges at 31 December 2013 was a £3,705,000 asset (2012: £2,158,000 asset) comprising an asset of £3,737,000 (2012: £2,254,000) and a liability of £32,000 (2012: £96,000). Forward exchange contracts in place at 31 December 2013 mature in 2014 and 2015.

Changes in the fair value of foreign exchange contracts that economically hedge monetary assets and liabilities in foreign currencies, and for which no hedge accounting is applied, are recognised in the income statement.

Sensitivity analysis

It is estimated that, with all other variables held equal (in particular other exchange rates), a general change of one cent in the value of euro against sterling would have had an impact on the Group's operating profit for the year ended 31 December 2013 of £325,000 (2012: £350,000) and a change of one cent in the value of US dollar against sterling would have had an impact of the Group's operating profit for the year ended 31 December 2013 of £450,000 (2012: £350,000). The method of estimation, which has been applied consistently, involves assessing the transaction impact of US dollar and euro cash flows and the translation impact of US dollar and euro profits

The following significant exchange rates applied during the year:

	Average rate		Closing rate	
	2013	2012	2013	2012
US dollar	1.56	1.59	1.66	1.62
Euro	1.18	1.23	1.20	1.23

ii) Interest rate risk

The Group does not undertake any hedging activity in this area. All cash deposits are made at prevailing interest rates and the majority is available with same day notice, though deposits are sometimes made with a maturity of no more than three months. The main element of interest rate risk concerns sterling, US dollar, euro and renminbi deposits, all of which are on a floating rate basis.

The interest rate profile of the Group's financial liabilities at 31 December was as follows:

	2013	2012
Fixed rate financial liabilities	1,010	150
Floating rate financial liabilities	1,200	22
	2,210	172

The fixed and floating rate financial liabilities comprise finance leases, preference shares and bank loans. The floating rate lease obligations bear interest at rates determined by reference to the relevant LIBOR or equivalent rate.

The weighted average interest rate of the fixed rate financial liabilities is 1.6% or 2.0% excluding the zero rate debt (2012: 1.1% or 6.3%). The weighted average period for which (non zero) interest rates on the fixed rate financial liabilities are fixed is 3.4 years.

Keeping the World Flowing

26. FINANCIAL INSTRUMENTS continued

The maturity profile of the Group's financial liabilities at 31 December was as follows:

	2013	2012
In one year or less	532	56
In more than one year but not more than two years	297	41
In more than two years but not more than five years	470	35
In more than five years	911	40
Total	2,210	172

d) Capital risk management

The primary objective of the Group's capital management is to ensure it maintains sufficient capital in order to support its business and maximise shareholder value. The group has an asset-light business model and uses cash generated from operations to either invest organically or by acquisition. The Group manages its capital structure and makes adjustments to it in light of changes in economic and market conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares.

The Group defines capital as net funds and equity attributable to shareholders (see note 17). There are no externally imposed restrictions on the Group's capital structure.

The Group monitors capital using the following indicators:

i) Group net funds

	2013	2012
Total borrowings	(2,210)	(172)
Cash and cash equivalents (note 16)	68,873	59,868
Group net funds	66,663	59,696

ii) Return on capital employed

	2013	2012
Adjusted operating profit		
Operating profit	139,265	124,467
Amortisation of acquired intangible assets	12,147	7,399
	151,412	131,866

Capital employed

Shareholders funds	332,079	269,323
Cash and cash equivalents (note 16)	(68,873)	(59,868)
Interest bearing loans and borrowings	2,210	172
Net cash	(66,663)	(59,696)
Pension deficit net of deferred tax	15,552	21,811
	280,968	231,438
Average capital employed	256,203	213,090
Return on capital employed	59.1%	61.9%

Notes to the Group financial statements continued

For the year ended 31 December 2013

26. FINANCIAL INSTRUMENTS continued

e) Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, were as follows:

	Carrying Amount 2013	Fair Value 2013	Carrying Amount 2012	Fair Value 2012
Loans and receivables				
Trade receivables	105,976	105,976	95,822	95,822
Other receivables	13,684	13,684	11,336	11,336
Financial assets				
Cash and cash equivalents	68,873	68,873	59,868	59,868
Designated cash flow hedges				
Foreign exchange contracts:				
Financial assets	3,737	3,737	2,254	2,254
Financial liabilities	(32)	(32)	(96)	(96)
Financial liabilities at amortised cost				
Bank overdraft and borrowings	(2,109)	(2,109)	(92)	(92)
Trade and other payables	(69,021)	(69,021)	(68,244)	(68,244)
Contingent consideration	(2,809)	(2,809)	(1,122)	(1,122)
Preference shares	(40)	(40)	(40)	(40)
Finance lease liabilities	(61)	(61)	(40)	(40)
	118,198	118,198	99,646	99,646

Fair value Hierarchy

The fair value of the Group's outstanding derivative financial assets and liabilities consisted of foreign exchange contracts and swaps and were estimated using year end spot rates adjusted for the forward points to the appropriate value dates, and gains and losses are taken to equity estimated using market foreign exchange rates at the balance sheet date. All derivative financial instruments are categorised at Level 2 of the fair value hierarchy.

The other financial instruments are classified as level 3 in the fair value hierarchy and are valued as follows:

i) Trade and other receivables/payables

As the majority of receivables/payables have a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

ii) Contingent consideration

As all the contingent consideration is contractually due for payment within 18 months, the carrying amount is equal to the fair value.

Keeping the World Flowing

27. OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

	2013	2012
Less than one year	4,568	4,296
Between one and five years	10,349	8,916
More than five years	988	1,051
	15,905	14,263

Of the £15,905,000 (2012: £14,263,000), £12,396,000 (2012: £10,576,000) relates to property and the balance to plant and equipment.

28. CAPITAL COMMITMENTS

Capital commitments at 31 December for which no provision has been made in these accounts were:

	2013	2012
Contracted	4,617	2,175

29. CONTINGENCIES

	2013	2012
Performance guarantees and indemnities	5,660	5,246

The performance guarantees and indemnities have been entered into in the normal course of business. A liability would only arise in the event of the Group failing to fulfil its contractual obligations.

30. RELATED PARTIES

The Group has a related party relationship with its subsidiaries and with its directors and key management. A list of subsidiaries is shown on pages 120 and 121 of these financial statements. Transactions between two subsidiaries for the sale and purchase of products or the subsidiary and parent Company for management charges are priced on an arms length basis.

Sales to subsidiaries and associates of BAE Systems plc, a related party by virtue of non-executive director IG King's directorship of that company, totalled £49,000 during the year (2012: £34,000) and £nil was outstanding at 31 December 2013 (2012: £15,000).

UBS Investment Bank are a related party by virtue of non-executive director SA James' directorship of UBS Limited. UBS Investment Bank provides the Group financial advice and stockbroking services. The current arrangement with UBS Investment Limited is that out of pocket expenses will be reimbursed and no fees will be charged for their regular advisory or broking services. Expenses of £4,000 have been reimbursed in the year (2012: £4,000) and no balance was outstanding at 31 December 2013 (2012: £nil).

Key management emoluments

The emoluments of those members of the management team, including directors, who are responsible for planning, directing and controlling the activities of the Group were:

	2013	2012
Emoluments including social security costs	4,816	4,510
Post employment benefits	287	270
Pension supplement	206	187
Share-based payments	1,465	1,418
	6,774	6,385

Rotork plc Company balance sheet

At 31 December 2013

	Notes	2013 £000	2012 £000
Fixed assets			
Tangible assets	c	1,183	1,152
Investments	d	43,205	43,205
		44,388	44,357
Current assets			
Debtors	f	79,411	63,754
Cash at bank and in hand	e	4,277	1,074
		83,688	64,828
Creditors:			
Amounts falling due within one year	g	8,045	5,070
Net current assets		75,643	59,758
Total assets less current liabilities		120,031	104,115
Creditors:			
Amounts falling due after more than one year	h	40	40
Net assets		119,991	104,075
Capital and reserves			
Called up share capital	j	4,344	4,340
Share premium account	j	8,840	8,258
Capital redemption reserve	j	1,644	1,644
Profit and loss account	j	105,163	89,833
Equity shareholders' funds		119,991	104,075

These Company financial statements were approved by the Board of Directors on 3 March 2014 and were signed on its behalf by:

PI France and **JM Davis**, Directors.

Notes to the Company financial statements

For the year ended 31 December 2013

a) ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements. Notes a to k relate to the Company rather than the Group.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK GAAP.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the Group includes the Company in its own published consolidated financial statements.

The Company has taken advantage of the exemption available under FRS 8 and has not disclosed transactions with entities which are subsidiaries of the Group.

The Group financial statements contain financial instruments disclosures which comply with FRS 29 'Financial Instruments: Disclosures'. Consequently, the Company has taken advantage of the exemption in FRS 29 not to present separate financial instrument disclosures for the Company.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee. The Company continues to account for intra-group cross guarantees under FRS 12.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Investments

Investments are measured at cost less any provision for impairment and comprise investments in subsidiary companies.

Depreciation and amortisation

Freehold land is not depreciated. Long leasehold buildings are amortised over 50 years or the expected useful life of the building where less than 50 years. Other assets are depreciated by equal annual instalments by reference to their estimated useful lives and residual values at the following annual rates:

Freehold buildings	2% to 4%
Plant and equipment	10% to 33%

Post-retirement benefits

The Company participates in a UK Group pension scheme providing benefits based on final pensionable salary. The assets of the scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 Retirement benefits, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Classification of preference shares

Following the adoption of the presentation elements of FRS 25, Financial Instruments, the cumulative redeemable preference shares issued by the Company are classified as long term debt. The preference dividends are charged within interest payable.

Notes to the Company financial statements continued

For the year ended 31 December 2013

a) ACCOUNTING POLICIES continued

Share-based payments

The Company has adopted FRS 20 and the accounting policies followed are in all material respects the same as the Group's policy under IFRS 2. This policy is shown in note 1 to the Group financial statements. Costs in relation to share-based awards made to other Group company employees are recharged to each subsidiary company.

Deferred taxation

Deferred tax is provided in full, without discounting, on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date at rates expected to apply when they crystallise based on current tax rates and law, except for the items explained below.

Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the assets or on unremitted earnings of subsidiaries where there is no commitment to remit those earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Dividends

Interim dividends are recorded in the financial statements when they are paid. Final dividends are recorded in the financial statements in the period which they are approved by the Company's shareholders.

b) PERSONNEL EXPENSES IN THE COMPANY PROFIT AND LOSS ACCOUNT

	2013	2012
Wages and salaries (including bonus and incentive plans)	3,131	2,731
Social security costs	457	345
Pension costs	368	337
Share-based payments	663	603
	4,619	4,016

During the year there were 12 (2012: eleven) employees of Rotork plc plus the four (2012: four) executive directors. The personnel costs accounted for within the Company include the full costs of the employees, the Group Finance Director, the Group Chief Executive, but the full costs of the other two executive directors are reported within the subsidiary where they are based.

Disclosures required by paragraph 1 of schedule 5 of SI2008/410 are set out in the director's remuneration report on pages 56 to 69.

Share-based payments

The share-based payment charge relates to employees of the Company participating in the Long Term Incentive Plan (LTIP). The disclosures required under FRS 20 can be found in note 25 to the Group Financial Statements. The table below sets out the movement of share options under the LTIP for employees of the Company.

	Outstanding at start of year	Granted during year	Vested during year	Lapsed during year	Outstanding at end of year
2010 Award	36,318	–	(27,419)	(8,899)	–
2011 Award	44,386	–	–	–	44,386
2012 Award	43,503	–	–	–	43,503
2013 Award	–	32,616	–	–	32,616
	124,207	32,616	(27,419)	(8,899)	120,505

At the date of vesting the 2010 awards were valued at £29.50. The weighted average remaining life of awards outstanding at the year end is one year.

Keeping the World Flowing

c) TANGIBLE ASSETS IN THE COMPANY BALANCE SHEET

	Land and buildings	Plant and equipment	Total
Cost			
At 1 January 2013	1,468	103	1,571
Additions	–	69	69
At 31 December 2013	1,468	172	1,640
Depreciation			
At 1 January 2013	406	13	419
Charge for year	29	9	38
At 31 December 2013	435	22	457
Net book value			
at 31 December 2013	1,033	150	1,183
at 31 December 2012	1,062	90	1,152
		2013	2012
Net book value of land and buildings can be analysed between:			
Freehold land		60	60
Freehold buildings		973	1,002
Net book value at 31 December		1,033	1,062

Notes to the Company financial statements continued

For the year ended 31 December 2013

d) INVESTMENTS IN THE COMPANY BALANCE SHEET

Shares in Group companies

	2013	2012
At 1 January	43,205	43,205
Increased investment in subsidiary undertakings	–	–
At 31 December	43,205	43,205

A listing of the principal subsidiaries of the Group, all of which are wholly owned, is set out below:

Company and country of incorporation	Nature of business
Rotork Overseas Ltd, England and Wales	Intermediate holding company for the following:
Rotork Inc, USA	Intermediate holding company.
¹ Rotork Controls Inc, USA	Manufacture and sale of actuators.
¹ Remote Control Inc, USA	""
¹ Flow-Quip Inc, USA	Assemble and distribute fluid power solutions.
¹ Ralph A. Hiller Company, USA	Manufacture and sale of actuators.
¹ Rotork (Thailand) Ltd, Thailand	""
¹ Ranger Acquisition Corp, USA	Intermediate holding company.
² Fairchild Industrial Products Company, USA	Manufacture of high precision pneumatic controls.
² K-Tork International Inc, USA	Intermediate holding company.
² Renfro Associates, Inc, USA	Manufacture of valve adaption kits
³ Controls International Inc, USA	Manufacture and sale of vane actuators.
Rotork Controls (Iberia) SL, Spain	Sale of valve actuators.
⁴ Centork Valve Control SL, Spain	Manufacture and sale of actuators.
Rotork (Actuation) Sdn Bhd, Malaysia	""
Rotork Controls (Deutschland) GmbH, Germany	""
Rotork Fluid Systems Srl, Italy	""
Rotork Sweden AB, Sweden	""
Rotork Controls (Canada) Ltd, Canada	Sale of actuators.
Rotork Motorisation SAS, France	""
Rotork BV, Netherlands	""
Rotork Controls (Singapore) Pte Ltd, Singapore	""
Rotork Australia Pty Ltd, Australia	""
Rotork Controls de Venezuela SA, Venezuela	""
Rotork Ltd, Hong Kong	""
Rotork (Malaysia) Sdn Bhd, Malaysia	""
Rotork Controls (Korea) Co. Ltd, South Korea	""
Rotork Africa (Pty) Limited, South Africa	""
Rotork Japan Co. Ltd, Japan	""
Rotork RUS Ltd, Russia	""
Rotork Controls Comercio de Atuadores LTDA, Brazil	""
Rotork Norge AS, Norway	""
Rotork Middle East FZE, Jebel Ali, Dubai	""
Rotork Servo Controles de Mexico SA de CV, Mexico	""
Rotork Controls Italia Srl, Italy	""
⁵ Rotork Gears Srl, Italy	Manufacture and sale of gearboxes for actuators.
Rotork Gears BV, Netherlands	""
Rotork Italy Holdings Srl, Italy	Intermediate holding company.
⁶ GT Attuatori Srl, Italy	Manufacturer of pneumatic rack and pinion.
⁶ Soldo Srl, Italy	Design & Manufactures control accessories for automation.
⁷ Soldo Asia Pacific Pte Limited, Singapore	""

Keeping the World Flowing

Company and country of incorporation	Nature of business
Rotork Germany Holdings GmbH, Germany	Intermediate holding company.
⁸ Schischek Produktion Technischer Geräte GmbH, Germany	Manufacturer of explosion-proof electric actuator
⁸ Schischek GmbH, Germany	Sale of explosion-proof electric actuator
⁸ Max Process GmbH, Germany	Manufacturer of pneumatic rack and pinion
⁹ GT Attuatori Europe GmbH, Germany	""
Schischek AG, Switzerland	Sale of explosion-proof electric actuators.
¹⁰ Schischek EURL, France	""
¹⁰ Schischek Srl, Italy	""
¹⁰ Schischek Ltd, England and Wales	""
¹⁰ Schischek Inc, USA	""
¹ Owned by Rotork Inc, USA	
² Owned by Ranger Acquisition Corp, USA	
³ Owned by K-Tork International Inc, USA	
⁴ Owned by Rotork Controls (Iberia) SL, Spain	
⁵ Owned by Rotork Controls Italia Srl, Italy	
⁶ Owned by Rotork Italy Holdings Srl, Italy	
⁷ Owned by Soldo Srl, Italy	
⁸ Owned by Rotork Germany Holdings GmbH, Germany	
⁹ Owned by Max Process GmbH, Germany	
¹⁰ Owned by Schischek AG, Switzerland	
Rotork Controls Ltd, England and Wales	Manufacture and sale of actuators, and Intermediate holding company for the following:
Rotork UK Ltd, England and Wales	Manufacture and sale of gearboxes and actuators.
Rotork Actuation (Shanghai) Co. Ltd, China	""
Rotork Trading (Shanghai) Co. Ltd, China	Sale of gearboxes and actuators.
Rotork Controls (India) Ltd, India	Manufacture and sale of actuators.

A full list of undertakings is attached to the Annual Return of the Company.

Notes to the Company financial statements continued

For the year ended 31 December 2013

e) CASH AT BANK AND IN HAND IN THE COMPANY BALANCE SHEET

	2013	2012
Bank balances	4,277	1,074
Cash at bank and in hand	4,277	1,074

f) DEBTORS DUE WITHIN ONE YEAR IN THE COMPANY BALANCE SHEET

	2013	2012
Amounts owed by Group undertakings	78,377	62,660
Other debtors	39	58
Prepayments and accrued income	249	127
Corporation tax	474	660
Deferred taxation	272	249
	79,411	63,754

A deferred tax asset of £272,000 (2012: £249,000) has been recognised. This asset principally relates to timing differences in respect of share-based payments. The directors are of the opinion, based on recent and forecast trading that the level of future and current profits make it more likely than not that the asset will be recovered.

g) CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR IN THE COMPANY BALANCE SHEET

	2013	2012
Trade creditors	80	124
Amounts owed to Group undertakings	3,653	1,052
Other taxes and social security	39	24
Other creditors	3,766	3,183
Accruals and deferred income	507	687
	8,045	5,070

The Company has a £25m gross overdraft facility (2012: £20m) and is part of a UK banking arrangement, see note i.

h) CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR IN THE COMPANY BALANCE SHEET

	2013	2012
Preference shares classified as debt	40	40

This debt is not redeemable at any fixed future date.

Keeping the World Flowing

i) CONTINGENCIES IN THE COMPANY

The UK banking arrangements are subject to cross-guarantees between the Company and its UK subsidiaries. These accounts are subject to a right of set-off. The performance guarantees and indemnities have been entered into in the normal course of business. A liability would only arise in the event of the Group failing to fulfil its contractual obligations.

In January 2014 the Company extended for a further year the £15m committed loan facility. Interest is payable on this facility at LIBOR plus 1%.

j) CAPITAL AND RESERVES IN THE COMPANY BALANCE SHEET

	Share capital	Share premium	Capital redemption reserve	Retained earnings	Equity Shareholders' funds
Balance at 1 January 2013	4,340	8,258	1,644	89,833	104,075
Profit for the year	–	–	–	55,122	55,122
Equity settled share-based payment transactions net of tax	–	–	–	143	143
Share options exercised by employees	4	582	–	–	586
Own ordinary shares acquired	–	–	–	(5,601)	(5,601)
Own ordinary shares awarded under share schemes	–	–	–	4,401	4,401
Dividends	–	–	–	(38,735)	(38,735)
Balance at 31 December 2013	4,344	8,840	1,644	105,163	119,991

Details of the number of ordinary shares in issue and dividends paid in the year are given in note 17 to the Group Financial Statements.

Profit for the financial year in the accounts of the Company is £55,122,000 (2012: £61,265,000).

k) CAPITAL RISK MANAGEMENT IN THE COMPANY

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure.

In order to maintain or adjust the capital structure the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The Company's net funds at the balance sheet date were:

	2013	2012
Preference shares	(40)	(40)
Cash at bank and in hand	4,277	1,074
Company net funds	4,237	1,034

Ten year trading history

	2013 £000 IFRS	2012 £000 IFRS	2011 £000 IFRS	2010 £000 IFRS	2009 £000 IFRS	2008 £000 IFRS	2007 £000 IFRS	2006 £000 IFRS	2005 £000 IFRS	2004 £000 IFRS
Revenue	578,440	511,747	447,833	380,560	353,521	320,207	235,688	206,709	174,839	146,883
Cost of sales	(304,066)	(272,199)	(236,359)	(199,742)	(187,600)	(176,046)	(127,748)	(115,603)	(95,358)	(79,097)
Gross profit	274,374	239,548	211,474	180,818	165,921	144,161	107,940	91,106	79,481	67,786
Overheads	(135,109)	(115,081)	(99,474)	(83,094)	(74,384)	(69,272)	(52,553)	(46,017)	(42,951)	(37,354)
Operating profit	139,265	124,467	112,000	97,724	91,537	74,889	55,387	45,089	36,530	30,432
Adjusted* operating profit	151,412	131,866	115,921	99,442	92,103	76,014	55,461	45,187	36,709	30,502
Amortisation of acquired intangible assets	(12,147)	(7,399)	(3,921)	(1,718)	(1,153)	(1,125)	(74)	(98)	(179)	(70)
Disposal of property	–	–	–	–	587	–	–	–	–	–
Operating profit	139,265	124,467	112,000	97,724	91,537	74,889	55,387	45,089	36,530	30,432
Net interest	(1,268)	(273)	550	131	(621)	862	1,866	972	127	1,074
Profit before taxation	137,997	124,194	112,550	97,855	90,916	75,751	57,253	46,061	36,657	31,506
Tax expense	(38,488)	(34,879)	(32,149)	(28,334)	(26,884)	(22,331)	(17,957)	(14,728)	(12,043)	(10,508)
Profit for the year	99,509	89,315	80,401	69,521	64,032	53,420	39,296	31,333	24,614	20,998
Dividends	38,735	33,924	49,534	35,912	24,102	29,970	24,732	24,140	13,437	17,751
Basic EPS	114.8p	103.1p	93.0p	80.5p	74.2p	62.0p	45.6p	36.4p	28.6p	24.5p
Adjusted* EPS	124.9p	109.3p	96.2p	81.9p	74.7p	62.9p	45.7p	36.5p	28.7p	24.5p
Diluted EPS	114.3p	102.6p	92.6p	80.2p	73.9p	61.6p	45.2p	36.1p	28.4p	24.3p

* Adjusted is before the amortisation of acquired intangible assets and the disposal of property.

Share register information

The tables below show the split of shareholder and size of shareholding in Rotork plc

Ordinary shareholder by type	Number of holdings	%	Number of shares	%
Individuals	1,966	67.6	2,601,687	3.0
Bank or nominees	869	29.8	83,072,419	95.6
Other company	44	1.5	171,229	0.2
Other corporate body	31	1.1	1,026,504	1.2
	2,910	100.0	86,871,839	100.0

Range	Number of holdings	%	Number of shares	%
1 – 1,000	1,750	60.2	599,000	0.7
1,001 – 2,000	361	12.4	539,315	0.6
2,001 – 5,000	335	11.5	1,026,837	1.2
5,001 – 10,000	137	4.7	974,290	1.1
10,001 – 50,000	174	6.0	3,999,729	4.6
50,001 – 100,000	53	1.8	3,840,331	4.4
100,001 +	100	3.4	75,892,337	87.4
	2,910	100.0	86,871,839	100.0

Source: Equiniti

DIVIDEND INFORMATION

The table below details the amounts of interim, final and additional dividends declared in respect of each of the last five years.

	Interim dividend (p)	Final dividend (p)	Additional interim dividends (p)	Total dividend (p)
2013	18.05	30.00	–	48.05
2012	16.40	26.60	–	43.00
2011	14.50	22.75	23.00	60.25
2010	12.75	19.75	11.50	44.00
2009	11.15	17.25	–	28.40

FINANCIAL CALENDAR

4 March 2014	Preliminary announcement of annual results for 2013
9 April 2014	Ex-dividend date for final proposed 2013 dividend
11 April 2014	Record date for final proposed 2013 dividend
25 April 2014	Annual General Meeting held at Rotork House, Brassmill Lane, Bath, BA1 3JQ
19 May 2014	Payment date for final proposed 2013 dividend
5 August 2014	Announcement of interim financial results for 2014

Corporate directory

Company Secretary

Stephen Rhys Jones

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