

# Delivering resilience, investing for growth

**Delivering resilience,  
investing for growth**

**In challenging  
times like these,  
our Purpose, 'keeping  
the world flowing  
for future generations',  
has never felt  
more relevant.**

Our Purpose is a powerful motivator, encouraging us to make a positive difference to people's lives not just today, but also into the future. The products and services we offer help provide vital resources to those who need them whilst ensuring safety and helping reduce emissions and environmental risks.

 [Read more on page 14](#)

## Demonstrating our resilience →

Over the last three years we have been working hard to improve our ability to manage cycles and these efforts started to pay off in 2020

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## one rotork®

### Putting our customers at the centre

We completed the realignment of our salesforce to our end markets and further refined our new product development processes

[Read more on page 24](#)

### Living our Values

We strive to live our Values every day: Stronger Together, Always Innovating and Trusted Partner

[Read more on page 58](#)

## Helping our customers improve their environmental impact

Our comprehensive product and services portfolio and over 60 years of industry knowledge mean customers rely on us to help them deliver reliable, energy-efficient solutions that minimise their environmental impact

[Read more on page 14](#)

## Building on our strong and distinct culture

We are working hard to develop our culture to support our growth and margin ambitions

[Read more on page 28](#)



Some people imagery in this report was taken prior to the COVID-19 pandemic.

## Response to COVID-19

Rotork people adapted to the extraordinary events of 2020 with fortitude and determination

[Read more on page 22](#)

## Introducing our ESG Committee

The formation of our Environmental, Social and Governance Committee recognises the importance of these matters

[Read more on page 102](#)

## Highlights

Rotork delivered a resilient performance in 2020 despite the unprecedented external environment.



Rotork is a strong cash generator and recognises the importance of a growing dividend subject to the cash needs of the business.

**Proposed dividend**  
Up 1.6%

# 6.3p

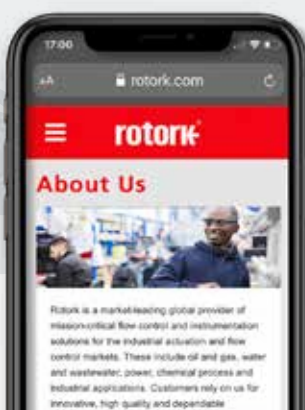
## Financial highlights

Adjusted operating margins were 100 basis points higher year-on-year, and ahead of expectations, despite sales being down on the prior period. Our Growth Acceleration Programme continued to deliver planned benefits.

[Read more on page 24](#)



To view our latest results or for more information about what we do visit [www.rotork.com](http://www.rotork.com)



### Revenue

# £605m

Revenues were lower year-on-year due to subdued large project activity, customer site access issues and disruption to production and logistics.

2020	£604.5m
2019	£669.3m
2018	£695.7m

### Adjusted\* operating profit

# £143m

Adjusted operating profits declined by just 3.8% year-on-year on an OCC basis.

2020	£142.6m
2019	£151.0m
2018	£146.0m

### Adjusted\* operating profit margin

KPI

# 23.6%

Our medium term target is to return our adjusted operating margins to the mid 20s.

2020	23.6%
2019	22.6%
2018	21.0%

### Profit before tax

# £122m

Statutory profit before tax fell less than adjusted operating profit due to lower interest expense.

2020	£122.0m
2019	£124.1m
2018	£120.7m

[Read more on page 46](#)

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



**Keeping the world flowing for future generations**

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

**Sustainable development**

The main UN SDGs we will target:

**6,7,9,12 & 13**

We will also support:

**5 & 8**



**Diversity of talent**

A diverse workforce will help us achieve our strategic objectives. We strive to create an inclusive and respectful culture, where everyone has a voice.

**Ethnic diversity**

Rotork Management Board level

**18%**

**Non-financial highlights**

**1 Health & Safety**

KPI

The lost time injury rate (LTIR) is a measure of the effectiveness of our Health and Safety procedures. Our LTIR fell to 0.24 in 2020 (from 0.25 the prior year).

[Read more on page 64](#)

**2 Women in senior roles**

Our Hampton-Alexander 'Women on Executive Committee and Direct Reports' figure remained at 23.1% in 2020.

[Read more on page 63](#)

**3 50%+ employees owning shares**

Rotork is proud to have well above average employee share ownership. We offer employees the opportunity to own Rotork shares in all geographic locations where it is practicable to do so.

**4 Reduced environmental impact**

KPI

We reduced our scope 1 and 2 CO<sub>2</sub>e emissions by 18% last year, or 9.5% per £1 million of revenue.

[Read more on page 70](#)

**5 Highly engaged employees**

The engagement survey asks employees to rate Rotork as a place to work. Respondents can answer 1-10, where 10 is good. In 2020 we scored an average of 7.1 (2019: 7.3).

**6 The right pace of change**

We consider the 'pace of change' question in our employee survey as important given our initiatives underway. Respondents can answer 1-10, with 10 being too fast. Pace of change has remained steady at between 6.1 and 6.5 points.



**Score B** CDP is a global disclosure system for investors and companies measuring environmental impact. We improved our B- rating in 2019 to a B in 2020 (the scale is D- to A). We aim to achieve an A rating.



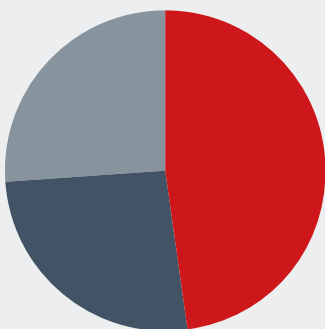
FTSE4Good

## At a glance

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

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

Group revenue split by division %



	Oil & Gas	48%
	Water & Power	26%
	Chemical, Process & Industrial	26%

## one rotork®

A global business with nearly 3,400 employees, we serve customers in more than 173 countries through our network of 65 offices, 20 manufacturing facilities and through local agents. Our 450 service personnel are based throughout our network providing maintenance, repair and upgrade services.

Group revenue

£605m

## Our new end market aligned divisional structure

One of the most important Growth Acceleration Programme initiatives which we completed in early 2020 was our move from a product focused to an end market segment focused structure that more closely meets customer needs.

### 1 Oil & Gas

Rotork's products and services are used by oil and gas customers across their upstream, midstream and downstream segments including in off- and onshore production facilities, refining, processing, transportation, storage and distribution. Our products are used to control and manage fluids (including water and hydrogen) from well site to final product (including net zero carbon fuels and biodiesel), whilst delivering productivity, ensuring safety, and improving environmental performance. Around 75% of sales are to the less cyclical midstream and downstream segments.

Sales

£292m

Read more on page 51

### 2 Water & Power

The water and wastewater and power sectors are major users of Rotork flow control equipment. Spend on new and existing water infrastructure is forecast to grow for years to come, with applications for actuation technologies found in water production, distribution, collection, wastewater treatment, drainage and flood management. In the power sector there is increased focus on solar, waste-to-energy and carbon capture, utilisation and storage applications as well as on life-extension, modernisation and maintenance activity at traditional power plants.

Sales

£158m

Read more on page 52

### 3 Chemical, Process & Industrial

Growing demand for bulk and specialty chemicals, industrial gases and basic materials such as metals, glass and cement present exciting opportunities for CPI. Our actuators, positioners, solenoids and regulators have a wide range of applications from mining to manufacturing, including automation, control, instrumentation, measurement, diagnostics, networking and asset management. Our products have applications in exciting new markets including the production of green hydrogen and hydrogen fuel cells, chemical recycling and CO<sub>2</sub> capture and utilisation.

Sales

£155m

Read more on page 53



**Employees**  
Globally

**3,400**



**Countries**  
Served

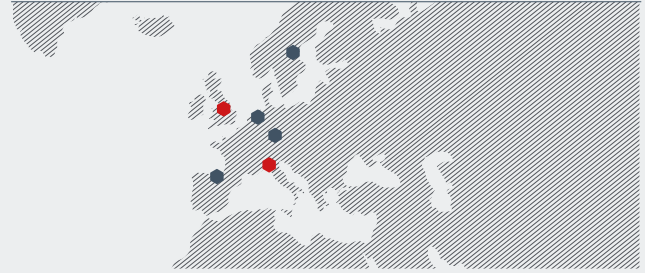
**173+**



## Our products and services

We operate in four principal areas: world-leading electric valve actuators and network control systems; pneumatic, hydraulic and electro-hydraulic actuators and control systems; specialist gearboxes; and niche measurement, flow and pressure control products.

## Where we operate

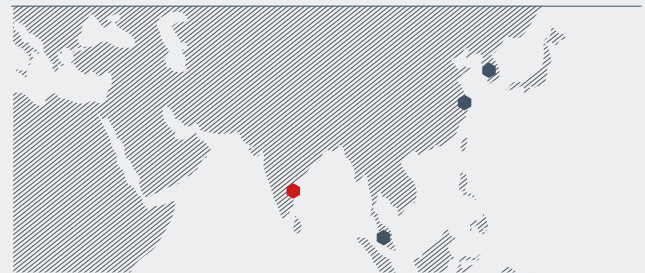


### Europe, Middle East and Africa Breakdown

Manufacturing facilities	11
Offices	26
Employees	1,834

### Europe, Middle East and Africa Sales

**£240m**



### Asia Pacific Breakdown

Manufacturing facilities	5
Offices	29
Employees	988

### Asia Pacific Sales

**£220m**



### Americas Breakdown

Manufacturing facilities	4
Offices	10
Employees	530

### Americas Sales

**£145m**

- Manufacturing facilities
- Locations with multiple manufacturing facilities

## Investment proposition

# Driving superior value for our shareholders, today and for the future



1

## Market leadership

### Global leader in highly attractive markets

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

[Read more on page 12](#)

2

## Distinct culture

### Strong Values, performance culture

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

[Read more on page 28](#)

3

## Growth ambition

### Exciting growth prospects

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

[Read more on page 24](#)

**Adjusted operating profit margin (%)**

**23.6%**

**Net cash balance £m**

**£178m**



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



### Our strategy

Our strategic objectives are sustainable accelerated growth and increased margins. We target delivering accelerated year-on-year growth in revenues and profits through a combination of organic growth and acquisitions. We aim to deliver higher margins through simplifying our core business, manufacturing improvements and development of our global supply chain. Importantly, we will continue to play our part in improving our world and making it more sustainable by helping our customers better their environmental performance, whilst at the same time working to improve our own environmental and social performance as well as that of our suppliers.

[Read more on page 30](#)

4

## Rising margins

### High returns with room for upside

Our adjusted operating profit margin was 23.6% in 2020, up from 22.6% in 2019, amongst the highest in the industrial goods sector. We target a further increase in margin to the mid-20s over time. Our Return on Capital Employed (ROCE), at 31.9% in 2020, is also well above the average amongst our peers.

[Read more on page 33](#)

5

## Highly cash generative

### Strong cash generation and balance sheet

Rotork's businesses are extremely cash generative. Cash conversion averaged 122% over the last five years. This cashflow enables us to fund organic investments and pay a progressive annual dividend. Our policy is to maintain a strong balance sheet, giving us the flexibility to invest and to make acquisitions. At the end of 2020 we had a net cash balance of £178.1m.

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6

## Progressive dividend

### Over 50-year dividend track record

We have a strong dividend track record, increasing our annual ordinary dividend payment to shareholders every year for 20 years, and paying extra or special dividends on six occasions. The Board proposes a 1.6% increase in the dividend for the full year 2020.

[Read more on page 11](#)

20-year dividend growth CAGR

8.6%

20-year basic EPS growth CAGR

10.1%



We are seizing the opportunity to work in partnership with our customers to deliver our Purpose and support a sustainable future.

→ **450**

**Site Services personnel**  
providing advanced predictive and preventative maintenance, repair and upgrade services on a global basis

# Keeping the world flowing for future generations

## Chairman's statement

### Rotork's earlier work to improve its cyclical resilience started to pay off in 2020 as the Group responded extremely well to the significant challenges presented by COVID-19

**Martin Lamb**  
Chairman

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

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

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

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

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

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

### Sustainability at Rotork

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



**The response of team Rotork to these challenges has been nothing short of extraordinary**

[Read more on page 23](#)

Rotork is in a prime position to make a big difference here. We are able to improve our customers' outcomes in high carbon environments with smart products and services. Our environmental 'handprint', as we term it, is potentially very significant. Our 'footprint', how we impact through our own facilities and operations, is much smaller but no less important. The importance of these aspects of sustainability are firmly recognised by the Board, and we established a formal Environmental, Social and Governance ("ESG") Board Committee and appointed our first Head of ESG and Sustainability during the year.

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

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

### Growth Acceleration Programme

We are now half way through our Growth Acceleration Programme and its implementation continued at pace in 2020 despite the challenges of COVID-19. In addition to building cyclical resilience, as referenced earlier, one of the most important GAP goals, and a precursor to accelerating long term growth, was to put customers at the centre of what we do. To do this we needed to align our sales organisation more closely with our end markets, and to centralise and refine our innovation and new product development processes. With both initiatives successfully completed during the year we are well placed to begin our journey of accelerating long term growth.

### Financial highlights

Our earlier work to improve Rotork's cyclical resilience developed increased momentum in 2020 and I am pleased to say that the Group's financial performance was impressive given the circumstances and some way ahead of where it would have been were it not for the Growth Acceleration Programme.

Revenue declined by 9.7% to £605m, or 7.4% on an OCC basis. The revenue reduction largely reflected reduced activity at Rotork Site Services. Adjusted operating profit decreased by £8.4m to £142.5m (OCC down 3.8%) with adjusted operating margins up 100bps at 23.6%. The margin increase largely reflected GAP savings and cost mitigation actions which were partly offset by lower volumes.

### Board update

The Rotork Board comprises two executive directors, five independent non-executive directors and myself as non-executive Chairman, in full compliance with the Governance Code 2018. More than one third of the Board are female. We welcome the Parker Review target for all FTSE 250 boards to have at least one director from an ethnic minority background by 2024.

As part of our Board succession planning, Lucinda Bell stepped down from the Board and as Chair of the Audit Committee on 30 September 2020. Lucinda was appointed to the Board in July 2014. I would like to thank Lucinda for her invaluable contribution to Rotork over the last six years. Sally James assumed the role of Chair of the Audit Committee following Lucinda's departure.

We appointed one new non-executive director during the year and are pleased to welcome Janice Stipp to Rotork. Janice brings highly relevant sectoral and financial expertise and will take over from Sally James as Chair of the Audit Committee upon the conclusion of the Company's 2021 AGM.

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

### Corporate Governance

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

### Dividend

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

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

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

### Outlook

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

### Martin Lamb

Chairman  
1 March 2021

# Our market dynamics

## Global mega trends driving our growth

### How our products and services assist

Everything we do at Rotork is about automation, control, efficiency and safety. Accurate control in the critical/severe areas in which our customers operate takes away human error and therefore reduces negative impact on the environment. When needed our products can take control or intervene, resulting in less fugitive emissions.



### COVID-19

Global COVID-19 recovery plans have at least one thing in common: a desire to 'Build Back Better'. What this means exactly differs by location. But key themes include a desire to promote greater energy efficiency, increase digitalisation and modernise infrastructure; to help create a more resilient and sustainable future for all.

### Trend

1

#### Population and middle class growth, urbanisation

2

#### Automation, energy-efficiency, electrification

### General impact

Global GDP growth continues – with developing markets growing faster than developed markets, and urban areas growing faster than rural areas.

Upgrade from manual to automated valves and process control. Move from less energy-efficient fluid to electric powered controls over time.

### Oil & Gas

Demand for oil and gas will continue to grow albeit at a slower rate than previously. Whilst transportation demand may slow, other sectors are expected to grow (fibres, plastics, fertilisers etc.). The demand for natural gas is increasing as a 'transition fuel'.

Lower prices have led to increased technology adoption in the conservative upstream and placed cost reduction through automation at the top of the agenda. Downstream, pressure on refining margins is driving investment in more efficient plant.

### Water & Power

Demand for water infrastructure is strong across developing and developed markets for health and safety and economic development reasons. Electricity demand rises each year, driven by GDP growth and electrification (of many sectors, not just vehicles).

Water markets are generally highly regulated and the scope to increase price is limited. Capital investment is rewarded however, making automation projects attractive. In power generation, investment in smaller gas plants is more attractive than in larger combustion plants.

### Chemical, Process & Industrial (CPI)

Middle class growth is driving demand for 'quality of life' products such as appliances, insulation and construction materials, chemicals, consumer goods, textiles/clothing, premium food stuffs, pharmaceuticals, transport equipment etc.

Plant level process automation is increasingly the norm for CPI's customers as markets demand higher quality products at competitive prices with less environmental impact. Rotork's actuators, control systems and instruments offer proven solutions.

Rotork's products and services are relied upon to keep critical processes flowing – from the water we drink, to the energy sources that keep us warm and provide essential transportation.



Trend	3	4	5	6
General impact	<p><b>Digitalisation, industrial internet, technology</b></p> <p>Condition monitoring, remote diagnostics, and preventative/predictive maintenance are becoming the standard across industry.</p>	<p><b>Globalisation, trade, regulatory developments</b></p> <p>Political developments and the COVID-19 pandemic appear to have slowed globalisation, in some cases necessitating on-shoring of capacity.</p>	<p><b>Infrastructure investment and modernisation</b></p> <p>Infrastructure investment is forecast to grow significantly faster than GDP for decades. Whilst Asia dominates, there is scope for catch-up elsewhere.</p>	<p><b>Climate change, decarbonisation, water scarcity</b></p> <p>Climate change is a global environmental issue, contributed to by greenhouse gas emissions by the transportation, power and industrial sectors.</p>
Oil & Gas	<p>The industry is embracing new technologies such as data analytics, wireless, cloud computing, digital twins and predictive maintenance. The demand for automated flow control devices and sensors for use in pipelines and tank farms continues to grow.</p>	<p>Refining is migrating East where larger more complex refineries are being constructed. Shutting refineries in the West are rarely closed completely – often converted to produce biodiesel and/or into storage facilities.</p>	<p>The outlook for LNG-related infrastructure investment is positive as is the new investment in LNG ships, terminals and tank farms. Pipelines, liquefaction and regasification plants are required to connect new demand with supply.</p>	<p>The industry is committed to reducing its emissions and better managing process water. Low- or no- carbon fuels are being developed (including hydrogen). New technology is being deployed to reduce or prevent methane emissions and flaring.</p>
Water & Power	<p>Leak detection, monitoring and quality are a major focus of the water industry and shortages are driving the development of smart grids. Large traditional power plants are deploying digital solutions to increase asset efficiency, reduce emissions and optimise fuel and water inputs.</p>	<p>Increasing regulations relating to water quality, water re-use and sludge treatment are driving water-related capital expenditure across industry. Rotork is well placed to benefit, for example through the new CK range of waterproof electric actuators.</p>	<p>The water network infrastructure requires modernisation in many countries. Desalination investment continues. Whilst fewer traditional power plants are being constructed globally, the installed base requires maintenance and modernisation.</p>	<p>Water scarcity is resulting in greater need for recycling and desalination. Rising water levels are necessitating flood defence investment. Traditional power stations are installing flue-gas desulphurisation and switching to biofuel.</p>
Chemical, Process & Industrial (CPI)	<p>Digitalisation has been more widely adopted in CPI than in other end-markets. Rotork products enable real-time monitoring and allow problems to be fixed before they escalate, improving safety, productivity, and performance.</p>	<p>Trade tensions may have reversed some earlier globalisation, in some cases necessitating investment in local production. The specialist marine sector is expected to benefit from increased demand for hydrocarbon transportation.</p>	<p>Rotork's products and systems are used to safely control critical processes in numerous sectors benefiting from infrastructure spend including mining, metals, pulp &amp; paper, chemicals, glass, marine and rail.</p>	<p>Decarbonisation is an opportunity for CPI. The battery, semi-conductor and insulation industries are expected to benefit from energy efficiency efforts. Methane and CO<sub>2</sub> capture systems are valve and actuator intensive.</p>

# How our products help our customers improve their environmental performance

Our comprehensive product and services portfolio and over 60 years of industry knowledge mean customers rely on us to help them deliver reliable, energy-efficient solutions that minimise their environmental impact. Everything we do at Rotork is about control and efficiency. Accurate control in the areas in which we operate takes away human error and therefore reduces negative impact on the environment. Rapid control and intervention, when needed, results in less fugitive emissions.

The innovative research and development activities across Rotork ensure cutting-edge products are available for every application across the markets we serve. Our new product development is particularly focused on products that help reduce our customers' emissions, improve their water recovery, recycling and treatment, lower their energy consumption and enable them to integrate renewable energy into their operations.



1

## Rotork's intelligent electric actuators...

...are in many cases a more environmentally friendly solution than inefficient fluid power actuators. For example, pneumatic controllers traditionally use natural gas as the power supply and may emit gas on every stroke or action, resulting in a high level of fugitive emissions.

...control the flow of hydrogen gas in fuel cell power plants which provide near zero emission low-carbon electricity.

...enable advanced process control resulting in greater efficiency and reduced emissions. Our CMA and CVA actuators are suited to applications where accurate, precise control is essential, for example controlling the air-to-fuel ratio in power plant and combustion applications.

...operate the valves and dampers in flue gas desulphurisation systems significantly reducing the sulphur emissions of traditional power plants.

...are the control product of choice for automated flood alleviation schemes.

...administer the cooling on offshore high voltage direct current platforms, and enable wind generated electricity to be transferred over long distances safely and efficiently.

...are used in exciting growth applications such as biofuels, flue-gas desulphurisation, carbon capture, utilisation and storage, methane capture and hydrogen production, transportation and utilisation.

2

## Other Rotork products...

...K-TORK pneumatic vane actuators are widely used in water filtration plants which produce many millions of gallons of high-quality drinking water each and every day. These heavy-duty modulating quarter-turn actuators control the flow of surface water in and out of the membrane system of ultrafiltration low-pressure membrane plants, thereby removing particles.

...our fail-safe solutions help improve environmental performance by containing process/equipment failure issues on site. For example, the recently launched IQT Shutdown Battery provides fail-to-position functionality to an electric actuator. This prevents any potential environmental consequences due to loss of power.

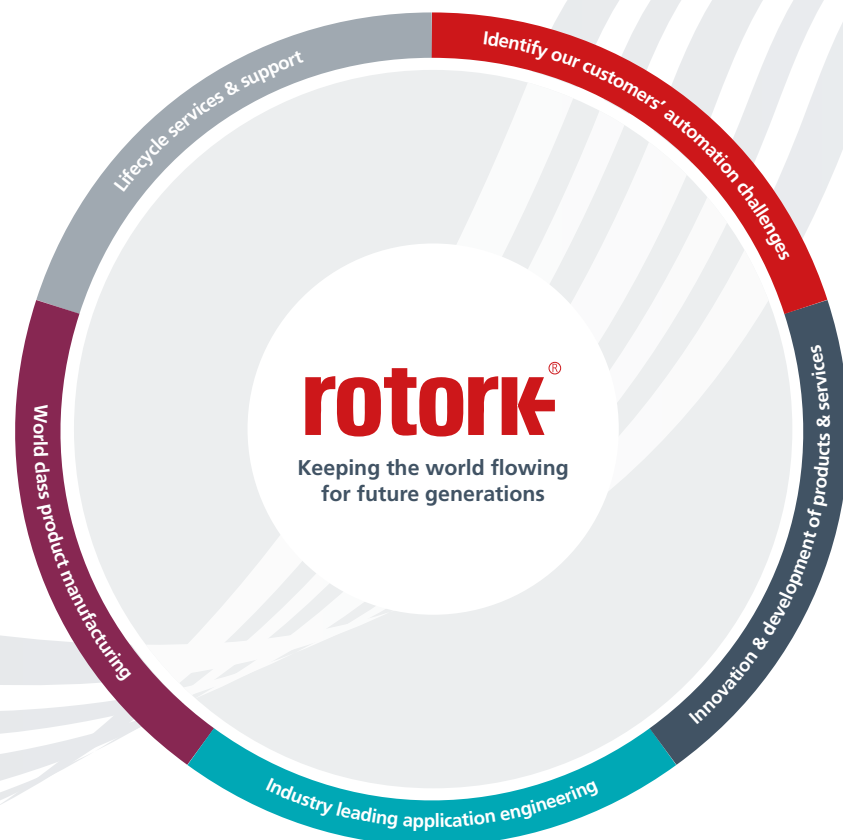
...the Rotork Master Station is an intelligent control centre, capable of operating up to 240 actuators in an inexpensively installed single cable loop. With its long-range signalling capabilities, it is the controller of choice for large parabolic trough solar energy plants.

...our latest low-power high-efficiency chemical dosing pumps are 40% more efficient than competitor products and sufficiently low-power to be driven by solar panels.

...the Electronic Line Break, or ELB, is an electronic pipeline monitoring system which operates with our actuators. The ELB instructs the actuator to move to a defined emergency position upon detecting any break. This means that pipeline breaks are immediately identified and contained, avoiding environmental impacts.

# Business model

## Our core activities



1

### Identify our customers' automation challenges

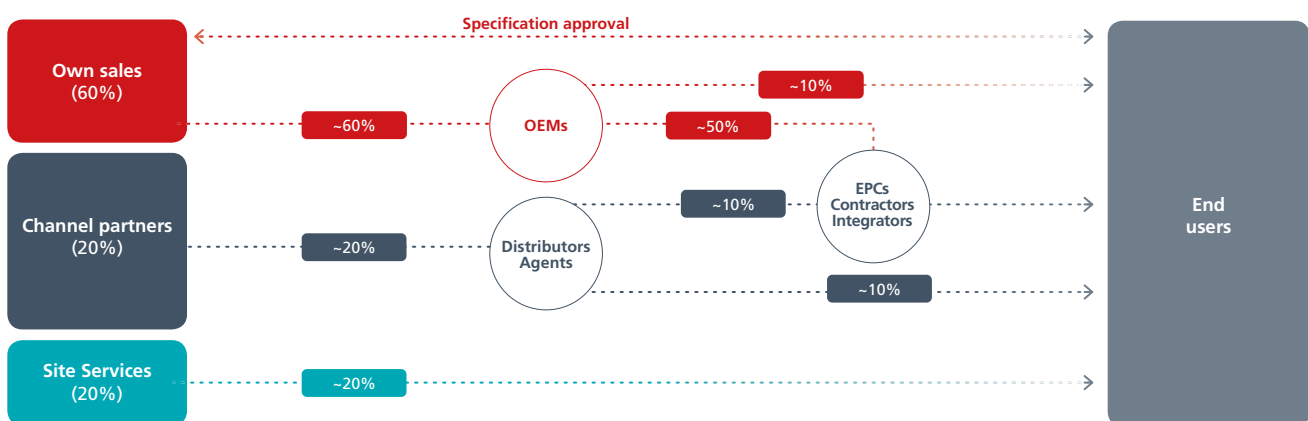
Our customers rely upon Rotork for innovative solutions to safely control the flow of their liquids, gases and powders. We proactively seek out their product and service needs and develop solutions that offer improved efficiency, assured safety and environmental protection and are tailored to their precise requirements.

2

### Innovation & development of products & services

The innovative research and development activities across Rotork ensure cutting-edge products are available for every application across the markets we serve. Our new product development is particularly focused on products that help improve our customers' efficiency and environmental performance.

## Our routes to market



## Maintaining our competitive advantage

### 1. Brand and reputation

Our well recognised brand and our reputation for high quality, innovative, reliable and durable solutions is built on our over 60-year history.

### 2. Product offering

We offer a broad suite of automation products, all benefiting from industry and customer certifications and protected by patents and copyrights.

### 3. Site Services

Rotork Site Services has the largest footprint in the industry and provides superior support to customers globally 365 days per year.

**3**  
**Industry leading application engineering**  
 We have been widely acknowledged as the market leader in flow control for over 60 years, recognised for our comprehensive, high quality, range of products and solutions. Our products are available with extensive certifications, including for use in hazardous areas and safety applications, and as explosion-proof.

**4**  
**World class product manufacturing**  
 We are a global business with product manufacturing sites located around the world. Our factories operate to the highest international standards and supply our quality products to our customers on-time and at short notice if required.

**5**  
**Lifecycle services & support**  
 We offer dedicated, expert service and support from initial inquiry, to product installation, and through Rotork Site Services, long-term aftersales care including planned and predictive maintenance and end-of-life decommissioning.



**Own sales**  
 Our highly experienced sales and application engineering teams

**Channel partners**  
 Industrial distributors and manufacturer's agents

**Site Services**  
 Our market leading global aftersales and service team

**Specification approval**  
 Understanding customer needs and confirming our products meet them

**OEMs**  
 Customers who incorporate Rotork components into their products and systems

**EPCs, contractors and integrators**  
 Third party infrastructure construction and specialty automation partners

**How we share value with our stakeholders**

**Customers**  
 We provide innovative solutions that help customers improve efficiency, minimise their environmental impact and assure safety  
**£13m**  
**amount invested in research & development**

**Employees**  
 We are committed to creating a diverse and inclusive environment where each and every employee is paid fairly and is helped to do their best  
**£164m**  
**paid in wages, salaries, social security etc**

**Suppliers**  
 We have a reputation for integrity, fair dealing, ethical behaviour and paying on time  
**£211m**  
**spent with external material suppliers**

**Governments**  
 We engage with local and national governments and welcome paying the taxes we owe on time  
**£31m**  
**corporation tax paid**

**Communities**  
 We engage positively with our local communities and offer support through charitable giving and volunteering  
**£0.24m**  
**charitable donations paid**

**The environment**  
 We are fully committed to reducing our own environmental impact by lowering our energy and water consumption and waste production  
**18%**  
**reduction in scope 1 & 2 carbon emissions**

**Shareholders**  
 We have a strong track record of creating shareholder value and have increased our dividend each year for 20 years  
**£53m**  
**dividends to be paid to shareholders**

**4. Installed base**  
 The biggest global installed base of heavy-duty electric actuators provides significant opportunity for our aftermarket businesses.

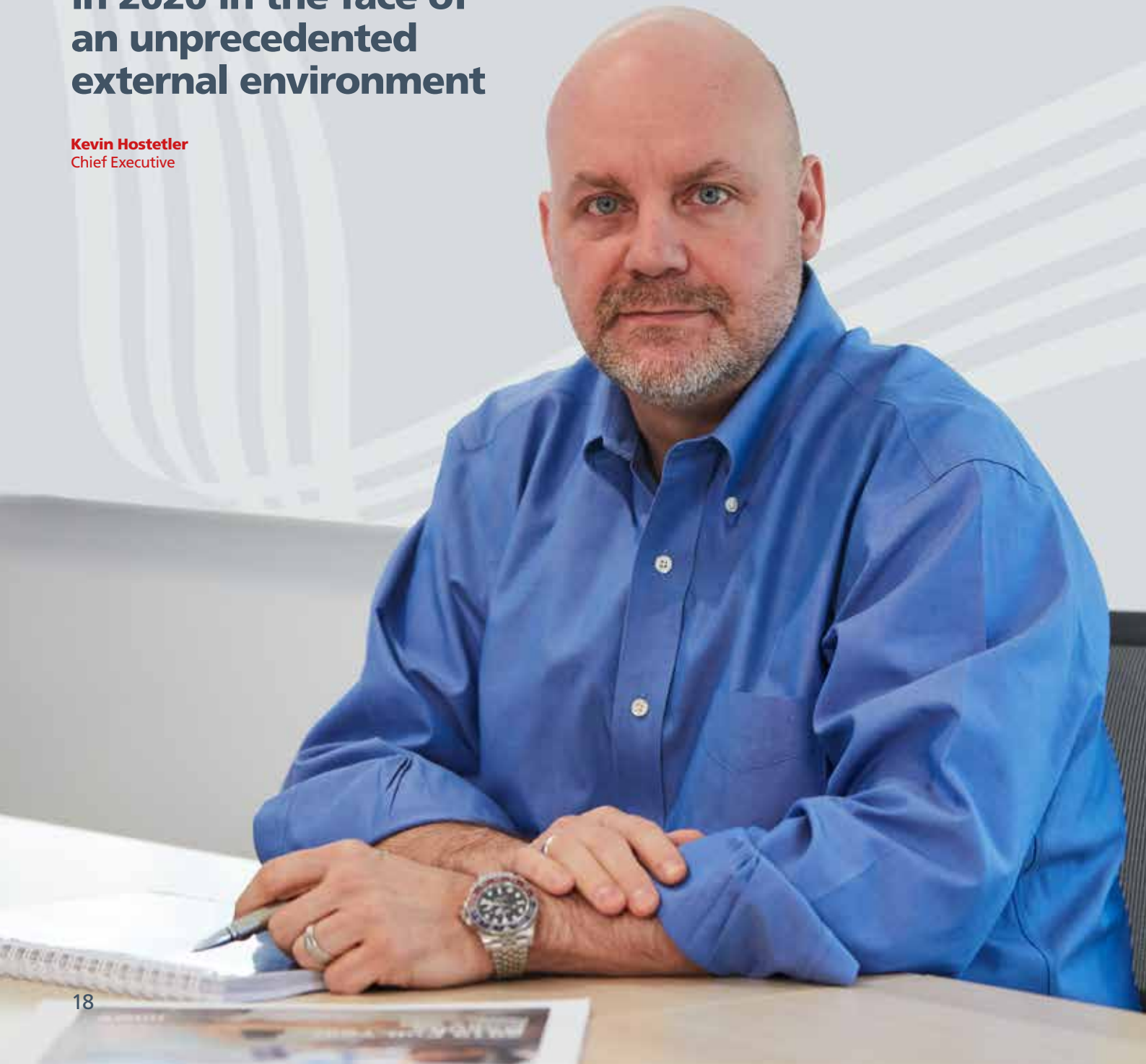
**5. People & culture**  
 We strive to attract, develop and retain talented people. We have a strong culture, encapsulated by our Values: Stronger Together, Always Innovating and Trusted Partner.

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

## Chief Executive's statement

**Thanks to the extraordinary efforts of all our people, Rotork delivered a resilient performance in 2020 in the face of an unprecedented external environment**

**Kevin Hostetler**  
Chief Executive



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

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

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

It is now nearly two years since we launched the Rotork values and it is interesting to review them in the light of the challenges we all faced during 2020. In summary, they've stood up to the test. There can be no doubt that we have been 'Stronger Together', and we surely demonstrated to our customers and suppliers that we are a 'Trusted Partner'. We've regularly said that 'Always Innovating' is not just about new product development – it applies to everything we do. Innovation was everywhere in 2020. To mention just three examples: in the expansion of our remote IT network capacity; in the re-configuring of our factories and offices; and in the re-routing of our logistics channels.

The rise of the Black Lives Matter movement in 2020 serves to remind of the importance of diversity and inclusion initiatives. I am pleased to say that Rotork has always been strong in this area and has made further progress in recent years. We have undertaken an ethnicity pay analysis for 2019/20 to identify how we can further support our Black, Asian and minority ethnic colleagues. More information is set out on page 62.

The pandemic has demonstrated that home working can be very effective, and we are already planning to develop the flexible working opportunities we offer our colleagues.

### Health, safety and wellbeing

The wellbeing of our people, partners and visitors is the number one priority of everyone at Rotork. However, 2020 must rank as one of the most challenging years the Group has ever faced. I am extremely proud of our response to COVID-19, and discuss this in detail in the CEO Q&A on page 22. It was with the greatest regret that I reported in October's People & Environment Report that one of our employees met with a fatal accident in July. Our thoughts remain with the family and friends he leaves behind. This distressing event has served to reinforce the focus of the PLC Board and the senior leadership team on health & safety.

### Environmental, Social & Governance

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

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

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

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

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

### Did you know?

Hydrogen has the potential to be a secure, clean, safe and affordable complement to today's fossil fuels. According to the US Department of Energy, the energy in 1kg of hydrogen is about the same as in one gallon of gasoline. Rotork is already active in the hydrogen sector, supplying products used in reforming, fertiliser production, electrolyzers and fuel cells. We see future opportunities for us not just in hydrogen production but also in storage and transport, conversion and utilisation.

We're keeping the world flowing for future generations.

[Read more on page 13](#)



## Chief Executive's statement continued

In October we published our People & Environment Report. In this we provided additional information on our safety, diversity and environmental performance and highlighted the many ways Rotork's products and services are essential to our customers' efforts to reduce their environmental impacts. We plan to build on this progress and publish a fuller annual Sustainability Report starting in 2021. This will include details of our current view of climate-related risks and opportunities, in line with the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD). A high-level TCFD summary is provided on page 73 of this report.

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

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

### Growth Acceleration Programme

Our Growth Acceleration Programme, which we began to implement in the second half of 2018, is designed to deliver sustainable mid to high single-digit revenue growth and mid-20s adjusted operating margins over time. The 5-year programme is not about a fundamental reinvention of Rotork, but rather refining how we do things, building on our strong foundations, through people, processes and systems.

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

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

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

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

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

### Did you know?

**ESG is integrated into innovation and New Product Development at Rotork.**

**An early step in the Growth Acceleration Programme was the overhaul of how we manage product development. New products are now developed with ESG at the forefront.**

**Our new Development & Launch Process consists of seven phases from discovery to launch. We incorporate the voice of the customer in the process and target four key sustainability performance features, as follows:**

- Energy usage reduction
- Emissions reduction
- Enabling the use of renewable energy
- Safety systems

**In this way, sustainability considerations are fully integrated into new product design. We track sustainability outcomes achieved. Each element attracts an equal score our evaluation. We are committed to continuous innovation, thinking differently and finding smarter ways to design our products. We want to help customers reduce emissions, reduce energy usage, and make greater use of renewable energy.**

 **Read more on page 14**

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

**Financial performance**

Order intake decreased 14.7%, or 12.4% on an OCC basis, largely reflecting COVID-19 related order delays in the first half. Orders were down 8.9% OCC year-on-year in the second half. Revenues declined 9.7% year-on-year, 7.4% on an OCC basis. The fall reflected several factors including subdued large project activity, customer site access issues at Rotork Site Services and disruption to production and logistics.

Adjusted operating margins improved 100bps to 23.6% benefiting from continued execution of our Growth Acceleration Programme, cost mitigation actions, reduced discretionary spend and mix. Flowthrough of lower revenue to adjusted operating profit from 2019 was limited to just 12%, demonstrating improved cyclical resilience. It was a good year for cashflow with cash conversion of 130%. Return on capital employed remained at a high level 31.9% (2019: 31.8%), with lower operating profit offset by a reduction in capital employed courtesy of net working capital reduction and asset disposals.

A measure that is important to me, and I know is to our shareholders, is our productivity. This continued on the right track despite lower activity in the year. After having fallen year-on-year for seven years to 2017, adjusted operating profit per employee improved from £34.3k in 2017 to £40.5k in 2020.



**Rotork Running Club**

The Rotork Running Club was established in 2017 as a social activity for employees in our Bath (UK) office. In March 2020, the club entered a team into the Bath Half Marathon, raising almost £8,000 for local charity Great Western Air Ambulance. In light of the COVID-19 pandemic, it has now become a virtual running club. This has allowed employees around the world to get involved. Almost 100 people have taken part in our 5km

‘time trial’ series, with the results communicated on a monthly basis to encourage members’ fitness and confidence. Bath employee Dave Coales, who organises the Club, was recently interviewed on BBC radio. The Club was identified as a great example of how people can come together for group activities despite the COVID-19 restrictions.



**External environment**

The economic situation in which we found ourselves in 2020 was very different to what we and others had anticipated at the start of the year. Whilst the second half saw improving momentum in some countries (particularly China), global GDP is expected to have fallen by 4.0% year-on-year in 2020, the greatest decline seen since the Second World War.

**Capital deployment strategy**

Rotork remains a highly cash generative business and our net cash balance increased to £178m at year end. Our cash position provides us with considerable financial flexibility in uncertain times. The priorities for our cash remain unchanged: organic development (new markets, new product development); our progressive dividend policy; followed by targeted acquisitions. If we decide at any point that we have surplus cash, we would look to return it to shareholders.

**Kevin Hostetler**  
Chief Executive  
1 March 2021

# Chief Executive's Q&A

How Rotork is managing the COVID-19 situation

1

How has Rotork fared during the COVID-19 pandemic?

2

What actions has the business taken in response to COVID-19?

3

Have there been any changes to the Growth Acceleration Programme or your strategy?

The last year has been extremely challenging for everyone. Unsurprisingly, there have been a lot of questions regarding the COVID-19 pandemic. How it has effected Rotork as a business, how have we responded and what the future holds? Here, Kevin Hostetler, our CEO, gives his view on the current situation and what might be next.



# A

1

**The pandemic has been a real-life extreme test of Rotork’s ‘crisis planning’ and I am pleased to report that the Group has fared well and demonstrated its improved resilience.** I put our success down to several things. Firstly, we already had a detailed crisis plan which we were able to refresh right at the start of the year having seen events unfurling in Asia. Secondly, we started putting this plan into place early, in many cases before countries started locking down. Thirdly, our people responded quickly and positively, demonstrating great behaviours, meaning we were able to maintain a good level of customer service whilst at the same time adjusting our work patterns.

2

**Our first actions were to undertake a series of comprehensive COVID-19 risk assessments and to form our COVID-19 Committee.** Our risk work assessed not just our facilities but also our supply chains, logistics providers and our own systems. The Committee worked with local operational management, monitored day-to-day developments and ensured best practice was shared quickly across the Group. In the early months of the pandemic this team ‘virtually’ met daily.

With these risk assessments well under way, we were well prepared when lockdown came. We ensured the colleagues that could work from home were quickly able to do so. We made the

required changes to our factory layouts and work patterns to make these as safe as possible during a health crisis and restricted all but essential access to our facilities. We stepped up our all-staff communications and wellbeing initiatives, recognising the difficulties that changes in working practices and routines can present. We worked with our supply chain and logistics partners to understand their situations and made dynamic sourcing plan changes where necessary.

In March, when the outlook was at its most uncertain, we took a number of extremely difficult decisions which we believed were required to ensure Rotork’s future viability under a worst-case scenario. These decisions included ones on cost – postponing salary increases, limiting recruitment, restricting discretionary spend and drawing on government wage replacement schemes – as well as ones on liquidity. The latter included the decision to withdraw the recommendation to pay the 2019 final dividend and to secure eligibility for the UK Government’s Covid Corporate Financing Facility.

I am pleased to report that this worst-case scenario did not, and does not appear likely to, play out. We therefore repaid the small amounts we claimed under government wage replacement schemes where this was possible, resumed selective recruiting, and in September paid the withdrawn dividend. We announced in early December that our colleagues will receive salary increases in 2021 and we have brought the award date forward by three months to January 1st.

3

**We remained focused on the implementation of GAP throughout the year and made good progress despite the significant additional work required to navigate and manage the pandemic.** There were adaptations to the Programme, however it is important to recognise that some changes would have happened with or without the pandemic as it is a dynamic and flexible plan.

There are a few examples to mention. We brought forward some restructuring actions that we had planned for the latter years of the Growth Acceleration Programme. A key one was the simplification of our regional back offices. This action will remove complexity whilst improving our customer-centricity. We accelerated our factory footprint optimisation programme, closing two facilities in the second half of the year. Responding to the practical difficulties presented by COVID-19 and in agreement with our IT supplier we deferred deployment of the first ERP system to 2021.

Our strategic objective remains the same – sustainable accelerated growth and increased margins. The pandemic – and the subsequent economic recession – has demonstrated our improved cyclical resilience, although it has delayed us achieving our target of accelerated sales growth. I remain confident that our salesforce realignment, initiatives to make us easier to do business with and our improved new product development focus will benefit revenues in 2021. We would, in addition, expect to make progress with our acquisition agenda.

## Our Growth Acceleration Programme

# Delivering resilience, investing for growth

**Despite a challenging economic environment, our Growth Acceleration Programme continues to deliver planned benefits and is set to accelerate as it moves into its third year.**

Our Growth Acceleration Programme is designed to deliver sustainable mid to high single-digit revenue growth and mid-20s adjusted operating margins over time. The programme is about building on Rotork's strong foundations and refining how we do things through our people, processes and systems. The programme's initiatives are grouped into four pillars – Commercial Excellence, Operational Excellence, Talent & Culture and IT & Core Business Processes.

The momentum of the programme continues to build. Highlights of the year were further margin improvement, encouraging cash generation and the progress made in implementing our new integrated systems platform and simplifying the ways of working across the Group. We continue to evolve the programme and added several new initiatives during the year. Our efforts to accelerate sales growth through focused innovation and accelerated new product development continued.



Year One



Year Two



Year Three



Colleagues in Shanghai at their daily meeting to review SQDCP (Safety, Quality, Delivery, Cost and People) metrics and drive improvements

## Commercial Excellence

- Sales force re-alignment – shifting to an end-market orientation
- Value Selling training
- Innovation and new product development
- Site Services expansion

## Operational Excellence

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

## Talent & Culture

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

## IT and Core Business Processes

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

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

Growth

Margin enhancement

Key enablers

Our Growth Acceleration Programme continued

Growth

# Commercial Excellence

Our objective is to supply the products and services our customers require whilst being simple and easy to do business with.



### Always innovating

We successfully launched the IQT Shutdown Battery in 2020. The patented explosion-proof battery technology enables site configurable operation of the IQT electric actuator on loss of power. It is an alternative to energy inefficient fluid power actuators and is targeted at the customers of all three Rotork divisions.

### New products

Number of launches in 2020

10

### Performance:

- In the first quarter of 2020, we delivered our plan to re-align our Americas sales teams from a product division to an end market structure. This completed the global transition that enables our team members to provide One Rotork solutions to customers. These changes have been supported by a greater emphasis on key account management, end user engagement and a continued commitment for Rotork to be easier for customers to do business with. Our customer and sales team engagement surveys assure us that these changes have been positively received and are leading to new upselling and cross-selling opportunities.
- Strong progress has been made in strengthening our internal training capability and shifting the delivery method from in-person to online.
- We have continued to improve our ideation and innovation processes whilst sharpening our focus on accelerating the most promising and profitable products in our pipeline. During the second half of the year we started to roll out a learning programme that will improve how we capture the voice of our customers in our innovation processes.
- We launched 10 new products in 2020, many of which are helping customers meet their energy and emissions reduction challenges and reduce operating costs through leveraging the latest control systems.
- Rotork Site Services continued to develop its offering. We launched our revised Lifetime Management Programme and Rotork Reliability Services in the first half. Later in the year we launched our Intelligent Asset Management system (“iAM”) which we discuss further on page 29.

### Our priorities for 2021 are:

- Drive sales growth through deeper customer intimacy, value selling and the adoption of sales enablement technologies.
- Ongoing engagement with customers and sales team to ensure structural changes continue to be successful.
- Leverage our unrivalled installed base, including through Lifetime Management programmes, and through our spare parts initiative.
- Roll-out our Voice of the Customer (“VOC”) training, complete VOC projects for a selection of hypotheses and integrate outputs into our innovation and ideation processes.
- Accelerate new product development launches, maintaining our focus on the most promising and profitable opportunities.

# Operational Excellence

Our objective is to improve our operational efficiency (return on sales and capital employed) and our cyclical resilience.



### Stronger together

Water & Power and Rotork Site Services colleagues together pitched their combined offerings to a major Australian water utility to whom Rotork has historically been a second supplier. The team's pitch was well received and we were thrilled to be awarded principal supplier status for 5-years.

**Rapid Improvement Events**  
Completed in 2020 across 25 locations

# >260

### Performance:

- We continued to embed Rotork mixed-model lean in our factories and subsidiaries, with over 260 Rapid Improvement Events being held across 25 locations during the year. These events delivered direct labour cost reductions as well as releasing space to enable future site consolidations. We continued to build lean competency across the Group by delivering 12 virtual training events to circa 2,000 associates.
- We have continued to deliver our review of manufacturing locations and closed a further two sites during the year, bringing the total to 20 and reducing our footprint by 33% since the programme's 2018 inception.
- In parallel, we continued to invest in the expansion and modernisation of key sites. Our largest project this year was the on time and budget expansion of our Rochester site in the US. This project involved the doubling of the site footprint, the addition of office space, transferring 50% of the site's electricity demand to hydro power from nearby Niagara Falls and installing chargers for electric forklifts.
- Our procurement teams worked incredibly hard during the year to successfully maintain supply during COVID-19 disruptions. However, a combination of logistics cost increases and an overall drop in purchased volumes limited the level of year-on-year procurement savings.
- The rollout of Rotork's inventory optimisation tool enabled our operations teams to identify further opportunities to reduce inventory levels and plan the level of safety stocks needed for Brexit. This led to a further inventory reduction of £13m year on year, a total reduction of £31m since programme inception.
- We took the opportunity to accelerate some of our future Growth Acceleration Programme actions, including the simplification of our regional back office structures, and made significant progress.
- Rotork has a well-deserved reputation for quality products but in our assessment associated costs could be lower. Therefore, we have initiated a new project to review, prioritise and address the cost of quality.

### Our priorities for 2021 are:

- Expanding the roll-out of lean techniques to functions and continue to systematically drive efficiency savings.
- Ongoing optimisation of our manufacturing footprint.
- Deliver the first year of our multi-year plan to reduce the cost of quality.
- Drive procurement savings through ongoing policy compliance, category strategy execution and a reduced number of strategic suppliers.
- Deliver year on year reductions in inventory levels through more detailed Rotork inventory optimisation analysis.

Our Growth Acceleration Programme continued

Key enablers

## Talent & Culture

Our objective is to have the team, culture and performance management approach to achieve our goals and aspirations.



### Keeping the world flowing

Our products and services are relied upon to keep things flowing – things which ultimately make the modern world so fantastic such as food and drink, heat and light, and transport – but also to flow in a safe, efficient and sustainable way.

Employees Globally

# 3,400

### Performance:

- The strength and resilience of Rotork’s people has been extraordinary in the challenging time we experienced in 2020. Our people are truly living our purpose, ‘keeping the world flowing for future generations’ and embracing our Values ‘Stronger Together’, ‘Always Innovating’ and ‘Trusted Partner’. We discuss our new recognition scheme on page 58. The scheme encourages team members to show appreciation to those colleagues who have ‘lived’ the values at and away from work.
- Like many other organisations, the operational challenges of COVID-19 have meant that our people have had to adapt quickly to new ways of working, with large numbers at home. Our rollout of Microsoft Teams this year was instrumental in accelerating our transition to a new normal and helping our people connect to each other, our customers and our suppliers.
- The wellbeing of our people has been especially important and we launched a virtual wellbeing programme to support staff in managing their physical and mental welfare. In addition, we provided virtual learning programmes covering a wide variety of topics that help our people with their personal and professional development including project management, understanding and adapting to change, successful remote and virtual working and people management.
- To ensure we track the development of our extended leadership team and high potential employees, each of them has a personal profile including a development plan which has been reviewed by the Plc Board and the Executive Team.
- All managers globally have now attended a Performance and Reward workshop discussing how our performance and reward systems link together and reinforce each other. Our Fair Pay Framework confirms our commitment further, linking our approach to our culture.

### Our priorities for 2021 are:

- The launch of our values-linked leadership programme.
- A culture and values audit to understand our current status and areas for further work.
- Progress on ethnicity initiatives alongside our diversity and inclusion focus.
- A people insights scorecard indicating where our strategy, goals, values and reward mechanisms are aligning and where more work is required.
- Continued focus on wellbeing.
- Our return to the workplace plan for those who have been working remotely and for when it is appropriate to do so.

# IT and Core Business Processes

Our objective is Group-wide IT systems and business processes that improve our way of working and increase our commercial and operational efficiency.



### Trusted partner

We launched our Intelligent Asset Management system "iAM" towards the end of the year. iAM is a cloud-based real time asset management system for intelligent actuators and the flow control equipment they operate. Our advanced analytics help customers to reduce unplanned downtime and improve their operational performance.

### ERP roll-out

First factory deployment

# H2 2021

### Performance:

- The development of our new IT system continues at pace and to plan. In early 2020, we rolled out a new Customer Relationship Management (CRM) solution to our sales teams and are seeing the benefits from improved performance management of the global sales pipeline and the increased collaboration across sales teams to secure new project wins. We continue to evolve the functionality of the system to deliver additional benefits.
- We have implemented further releases to our global Human Resources (HR) platform during the year, activating employee self-service and enhancing line management functionality.
- The development of the core ERP solution continues to plan with a series of cross-functional workshops validating the D365 application blueprint and the successful completion of construction phases. The practical difficulties presented by COVID led us to take the decision to defer our first factory deployment until 2021.
- In readiness for the first factory deployment, we have designed and built a single, cloud-based instance of our chosen Product Data Management solution.

### Our priorities for 2021 are:

- Successful delivery of our first factory deployment including Product Data Management go-live.
- Roll-out of further CRM and HR system enhancements.
- The launch of a new Rotork website.

# Our strategy

## Our strategic objectives

**1**

### Accelerated growth

Deliver accelerated year-on-year growth in revenues and profits through a combination of organic growth and acquisitions.

[Read more on page 32](#)

**2**

### Increased margins

Deliver sustainably higher margins through simplifying our core business, targeted manufacturing improvements and development of our global supply chain.

[Read more on page 33](#)

**3**

### Sustainability

Rotork's approach to sustainability is embedded in our Purpose: 'keeping the world flowing for future generations'.

[Read more on pages 34-35](#)





## Our strategy continued

1

# Accelerated growth

Deliver accelerated year-on-year growth in revenues and profits through a combination of organic growth and acquisitions.

### Strategic initiatives

- **Targeted geographic expansion** – Drive share in high growth regions including China, India and South East Asia with focused commercial activities. Additionally, work to optimise our go-to-market and channel alignment in key geographies.
- **Commercialise innovative new products** – Accelerate our new product development processes whilst concentrating our resources on the most promising, profitable opportunities.
- **Help improve customers' environmental performance** – Support our customer base reducing their emissions, improving their water recovery, recycling and treatment, and lowering their energy consumption.
- **Capture exciting new markets** – Build on our existing position in high potential but early-stage markets such as hydrogen and carbon capture, utilization and storage.
- **Accelerate our digital future** – Leverage our unrivalled installed base through our digital offerings such as the recently launched iAM. Deliver digital infrastructure solutions utilizing connected actuation technologies.
- **Rotork Site Services** – Aftermarket and service is a major opportunity for us. Our priority is to increase the number of actuators under annual service agreement, leveraging our growing installed base.
- **Acquisitions** – we have the management bandwidth and the balance sheet strength to grow by acquisition and are looking to acquire high quality businesses in the flow control area.

### Progress in 2020

- Sales were 7% lower, reflecting the weakness in first half order intake and site access issues.
- We launched 10 new products, including the IQT Battery Backup, and iAM.
- Rotork Site Services invested in service personnel and in its lifetime management offerings.
- The number of actuators under annual maintenance contract rose by 8%.
- New energy sales activity grew (including hydrogen electrolysers).
- Our M&A pipeline is building and we have continued to have conversations and cultivation meetings with a number of potential targets.



#### Living our values

### Always Innovating

Rotork's operations in high-growth regions such as Asia Pacific performed well in 2020.



2

# Increased margins

Deliver sustainably higher margins through simplifying our core business, targeted manufacturing improvements and development of our global supply chain.

## Strategic initiatives

- **Footprint optimisation and continuous improvement** – Our ambition is to have world class manufacturing facilities. To achieve this, we will continue to optimise our footprint, with our aim being to have more flexible, larger facilities. We will also continuously improve our processes, using mixed-model lean to raise efficiencies.
- **Supply chain and global sourcing** – We target significant supply chain improvements. We aim to rationalise our supply base and concentrate our spend with strategic supply partners. To drive this change we have contracted third party help and made personnel changes. We also rolled out training and development to category managers.
- **Global business systems deployments** – We are in the process of a major management systems upgrade. Once complete this will improve the efficiency of our operations.

## Progress in 2020

- Adjusted operating profit margins increased by 100 basis points to 23.6% (from 22.6% in 2019).
- Our footprint optimisation plans remain on track and we closed two manufacturing sites during the year. We completed our Rochester (US) expansion.
- We continued our lean roll out.
- We achieved our purchasing savings target and delivered cost savings of £2.3m from sourcing initiatives (despite increased logistics costs).
- Our inventory reduction programme is on track, with encouraging results to date. Average stock turn increased.



## Living our Values Stronger Together

We completed our Rochester, US, expansion during the year. This multi-million pound investment adds over 50,000 square feet of space to the facility.

## Our strategy continued

3

# Sustainability

Rotork's approach to sustainability is embedded in our Purpose: 'keeping the world flowing for future generations'. We have sharpened our focus on our sustainability agenda this year, recognising its potential to support a competitive advantage and create sustainable value for all of our stakeholders.

### Strategic initiatives

- **ESG Committee formed.** We established a formal Environmental, Social and Governance Board Committee and appointed our first Head of ESG and Sustainability.
- **Adoption of the UN SDGs.** We adopted the United Nations Sustainable Development Goals to help guide our sustainability strategy.
- **Sustainability framework put in place.** We developed a framework around priority sustainability issues and selected SDGs, having undertaken a 'materiality' assessment (see opposite and page 57 for details).
- **SDGs chosen.** We will target five main SDGs (6, 7, 9, 12 & 13) where we have greatest potential to make a difference. We have also adopted Goals 5 & 8 to help drive progress on these issues.

### Progress in 2020

- People & Environment Report published.
- We further embedded sustainability considerations in our Innovation and New Product Development processes.
- Reduced our scope 1 & 2 carbon emissions by 18% and water consumption by 4.8%.
- Globally across our workforce, women make up 21.8% of our people (37.5% of our Board).
- Our employees gave time and money to charities and good causes all around the world.
- We committed to a Real Living Wage Policy.
- We delivered four employee 'pulse' surveys with an average engagement score of 7.1.



Living our Values

### Trusted Partner

Early in 2021 we sought stakeholders' views on our priority sustainability topics and subsequently selected the Sustainable Development Goals we will target.



# Our sustainability framework

Our new sustainability framework is based on three strategic pillars: Operating Responsibly; Enabling a Sustainable Future; and, Making a Positive Social Impact. It covers the way we run our business, the impact we can have through our products and services, and the way we engage with our people and communities. Our new sustainability framework has been developed around our chosen UN Sustainable Development Goals.

We have adopted five main SDGs, aligned to the sustainability topics where we have the greatest potential to support the transition to a better and more sustainable future for all. These will guide where we focus our efforts to continue to create sustainable, shared value for all of our stakeholders. Our ESG Committee also chose to adopt two further SDGs, to help drive progress on these issues: Goals 5 and 8.

### Operating responsibly

**We aim to run safe, efficient and sustainable operations.**

We will strive for the highest levels of safety and efficiency within the business and throughout our supply chain and play our part in the journey to net-zero carbon emissions, in line with our Purpose, Values and ethics.

**Key areas of focus**

- Playing our part in the transition to a net-zero carbon future
- Driving health & safety excellence for our people and our wider stakeholders
- Maximising the benefits created in our supply chain for us and those working in our supply chain
- Living our Purpose and Values and acting ethically in the way we do business




### Enabling a sustainable future

**We want to help drive the transition to a cleaner future where environmental resources are used sustainably.**

We will seek out opportunities in energy, water, power and industrial markets, and innovate to provide new products and services, to support a green economy and a cleaner more sustainable future.

**Key areas of focus**

- Innovating to develop new products and applications to support customers' sustainability objectives
- Assisting the global energy sector's shift from fossil-fuel based systems to renewable sources
- Providing products and services that deliver reliable, energy efficient solutions
- Contributing to the roll-out and modernisation of critical infrastructure (e.g. for water and energy)





### Making a positive social impact

**We aim to support fair, resilient and thriving societies.**

We recognise the relationship between business growth, quality employment, and wider social impact. We want to be a great place to work with a diverse and inclusive workforce, providing equal opportunity and fair pay and rewards.

**Key areas of focus**

- Attracting, developing and retaining talented people by providing fair and equal pay and demonstrating our commitment to diversity and inclusion
- Supporting customers' health and safety initiatives, by helping to protect their employees
- Proactive and transparent engagement with all stakeholders
- Supporting communities' development and resilience to adverse situations





**Added by ESG Committee**

## Aligned to management's incentives for 2021




**Safe and efficient operations**

- Lost time injury rate
- Carbon emissions per £1 million revenue



**Environmental innovation**

- Product focus: greater positive environmental impact
- Customer focus: engagement on sustainability issues



**Culture and engagement**

- Employee engagement score
- % employees who believe Rotork offers an inclusive culture

See page 56 for more details about the approach we took to define our key focus areas and develop our sustainability strategy, including how we engaged with external stakeholders to gather their views. A materiality matrix, mapping stakeholders' priorities against those of the business, is set out on page 57. See page 136 for further detail about how our sustainability objectives are being integrated into management compensation for 2021. We will publish our first Sustainability Report later this year. It will provide further details about our aims and objectives under each strategic pillar. It will also report on progress to date.

## Risk management

# How we manage risk

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

### In this section

#### Risk management

We describe the Company's risk management process

[Read more on page 38](#)

#### Risk appetite framework

We describe how we review and apply our risk appetite framework to the management of our risks

[Read more on page 39](#)

#### Principal Risks and Uncertainties

We outline the Principal Risks and uncertainties for Rotork and the approach taken to managing the risks associated with COVID-19, climate change and emerging risks

[Read more on page 40](#)

#### Principal Risks – detail

We describe in detail, the Principal Risks, mitigations and the movement from last year

[Read more on pages 43 to 45](#)



# Risk management

## Managing business risks

As with all businesses, there are certain risks and uncertainties that may impact Rotork’s ability to achieve our objectives. The risk management process is an established way of identifying and managing risk and is part of our governance framework as set out in our Corporate Governance report, see page 90. The continuous improvement and execution of a comprehensive and robust risk management system is of paramount importance.


We have made a number of enhancements during 2020: supporting the business in responding to the risks associated with COVID-19, aligning our risk management reviews to changes in our structure, continuing the focus on risk mitigations and development of risk responses in line with our risk appetite.

In 2020, the Board received regular updates on a range of key areas including cybersecurity, supply chain and Health and Safety.

The Board reviewed Health and Safety risks and mitigating actions in detail and the output of assurance work carried out in this area.

Key risk indicators (KRIs) have also been kept under review during 2020. KRIs are presented on a quarterly basis to the Board and in 2020, formed an important tool to measure the effectiveness of management actions in light of the global pandemic.

## Risk management process



**Top down risk assessment**

Ongoing risk mitigation reviews and controls testing



**Bottom up risk assessment**

Divisions and functions identify, manage and monitor risks



### Rotork PLC Board

- The Rotork Plc Board is responsible for:
- Risk management and internal controls
  - Defining risk appetite, statements and preferences
  - Promoting a risk-aware culture that emphasises integrity at all levels of business operations
  - Determining our Principal Risks and considering emerging risks, ensuring that risk management is embedded within the core processes of the Group



### Audit Committee

- The Audit Committee is responsible for:
- Reviewing the risk management policy
  - Reviewing the effectiveness of internal controls
  - Approving the internal audit assurance plans



### Rotork Management Board (RMB)

- The RMB is responsible for:
- The identification, consolidation, reporting and management of Principal and Key Risks
  - Reporting to the Board on the management of our Principal and Key Risks



- Functional Management are responsible for:
- Identifying current and emerging risks specific to the relevant function/business unit
  - Implementing risk management within their designated area of accountability



### Group Risk & Internal Audit

- Group Risk & Internal Audit are responsible for:
- Supporting the delivery of effective risk management across the Group
  - Monitoring risks and providing reporting to management
  - Providing independent assurance to the Audit Committee over internal control effectiveness



# Risk appetite framework

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

The risk appetite framework provides qualitative and quantitative insight on risks and supports proactive mitigation planning.

## Risk appetite

Rotork's Purpose, 'keeping the world flowing for future generations', is reflected in how we review risks. We are committed to generating stakeholder value through innovation and sustainable growth and will only take considered risks that fulfil our strategic objectives and do not risk our Values or financial stability. Upholding Rotork's core Values and maintaining the resilience shown during 2020 will be key drivers of our future success.

## Risk appetite framework

The Board sets the Group's risk appetite preference, stating whether we are tolerant, neutral or averse to a particular risk. These preferences guide our approach to managing risk. The risk appetite statements provide guiding principles to support decision making at both a Board level and throughout the Group.

During 2020, the Board reviewed and updated the risk appetite framework to reflect changes to the nature of Rotork's business and our operating environment, including during the response to the risks associated with COVID-19.

The Board have also reviewed the application of risk appetite statements and preferences through the monitoring of Key Risk Indicators throughout the year.



# Principal risks and uncertainties

Our risk management processes are dynamic. We continue to assess and prioritise the risks related to the Growth Acceleration Programme and their impact on the Principal Risks detailed below. These risks are the result of the robust top down and bottom up risk assessment process previously described. These risks include those that would threaten the Group’s business model, future performance, solvency or liquidity. We have also provided some additional information on how COVID-19 has impacted our risk management activities and described some of the key areas where COVID-19 has affected our people and operations most.

### Emerging risks and opportunities:

Our risk management process includes consideration of risks and opportunities that may impact Rotork in the future. Emerging risks are risks that are unlikely to materialise in the short term, risks that cannot be fully assessed yet, or risks that we are not aware of but that could have a significant impact on our ability to achieve our strategy. We identify, manage and monitor emerging risks dependent on the information available and put in place plans to monitor or manage the risk. In 2020, we reviewed the potential impact of a number of new and emerging risks and developed a framework to support our analysis of those risks. Emerging risks are identified throughout the year, investigated in detail at our divisional and functional risk

workshops, and with the Rotork Management Board and Plc Board twice a year. We believe our ability to identify those risks and opportunities that may pose a future impact to Rotork and our stakeholders as being fundamental to our successful risk management process.

### Brexit

Throughout 2020, the risks associated with Brexit were monitored and mitigating actions put in place to minimise any potential impact. Following the UK departure, the impact has been well within our expectations and the actions taken by management are currently mitigating the risk. Going forward, we will continue to monitor potential risks in relation to trade, logistics and supply chain in particular.



## Climate change

Climate-related risks, alongside other types of ESG risks and opportunities, are assessed and managed throughout our business and across our Principal Risks where they arise.

We recognise the complex global challenges in relation to climate change, whilst also understanding that there are various opportunities for Rotork to support our customers to reduce emissions, waste and increase efficiencies. The identification of climate related risks is embedded in the Group’s risk management framework. Risks are identified throughout the normal course of business and captured in detailed risk registers. This includes assessment of the physical risks of climate change and the risks related to the transition to a low carbon economy. The assessment of the risks associated with climate change

has also identified the opportunities that arise to help our customers reduce emissions and increase efficiencies.

The energy transition is the global energy sector’s move from fossil-fuel based systems such as oil and coal through to the use of biofuels and hydrogen and then to renewable sources like wind and solar energy. In order to understand the impact that an acceleration in energy transition may have on our business, including the identification of risks and opportunities, a study was commissioned to review how the energy transition may impact the markets which we serve, looking at a range of energy transition scenarios. The risks and opportunities identified will support the development of our strategy.



Physical risk

### Extreme weather events

Risks	Mitigating factors
Rotork operates in a diverse number of geographies which may be impacted by different forms of extreme weather events	<ul style="list-style-type: none"> <li>Major incident plans are in place with specific provisions for areas most exposed to potential risks (Flood, fires, hurricanes etc).</li> <li>Geographic spread of the business limits the impact to our customers</li> </ul>
Our supply chain is geographically diverse and may be exposed to extreme weather events in the future	<ul style="list-style-type: none"> <li>Our sourcing strategy takes into account risks associated with our key critical suppliers</li> </ul>



Transition risk

### Energy transition

Risks	Mitigating factors
The traditional markets which we serve may be exposed to an accelerated change in energy transition.	<ul style="list-style-type: none"> <li>Supporting our customers to reduce emissions and increase efficiency</li> <li>Rotork is well placed to take advantage of opportunities in new and alternative markets</li> </ul>
Our business may face increased scrutiny arising from the business we conduct and markets in which we operate	<ul style="list-style-type: none"> <li>Demonstrating that our products support our customers to reduce emissions and increase efficiency</li> <li>Clear articulation of Rotork’s Purpose supported by the actions that we take</li> </ul>

An ESG Committee was established during the year. As part of its remit, the Committee will help define and support Rotork’s approach to managing climate and environment related risks and opportunities. See page 102 for more information about the Committee and its mandate.



## Response to COVID-19

In early 2020 our sites in China reported that due to COVID-19, they would remain closed following Chinese New Year holidays. As events unfolded globally, Rotork management set up a daily call to review the situation, take action and plan as required. We assessed and managed COVID-19 risks within our existing risk profiles to capture how the pandemic impacted those business risks to varying degrees. This has allowed us to monitor the effectiveness of controls and management actions. The three key areas which required most attention were:



### Health and Safety

The Health and Safety of our people is of paramount importance and risk assessments on a site by site basis were carried out to make sure that appropriate procedures were put in place to safeguard our colleagues.



### Supply chain distribution

Our supply chain partners were impacted by availability of materials and local intervention from governments. Our supply chain teams worked with suppliers to reduce any delays, which included early and frequent communication.



### IT systems and cyber

Cyber risk has increased globally with all companies facing an increase in cyberattacks. Threat intelligence has played a key role in the mitigation of this risk. Systems resilience is continuously monitored especially during the transition from office work to home working.

### Control effectiveness

The effectiveness of controls were monitored through the period and where relevant, independent assurance was provided through our internal audit function.

### Board

The Plc Board and Rotork Management Board reviewed the specific risks associated with COVID-19 and the impact that COVID-19 was having on our Principal Risks throughout the year.

Risk appetite was reviewed in light of the impact of COVID-19 and the key risk indicators were kept under review.

### Scenario planning

Towards the end of March 2020, as the UK entered lockdown, we carried out a scenario-planning exercise to examine the potential impact of a range of outcomes from COVID-19. These scenarios modelled impacts to our people and facilities, our supply chain and logistics channels and the knock-on impact to the end markets we serve. We also considered a range of possible working capital and funding assumptions. We continue to monitor these scenarios as circumstances change, see the Viability section on page 49 for more information. The Group will continue to monitor the impact of the pandemic on our risk profile. See Principal Risks on pages 40 to 45.



# Principal risks

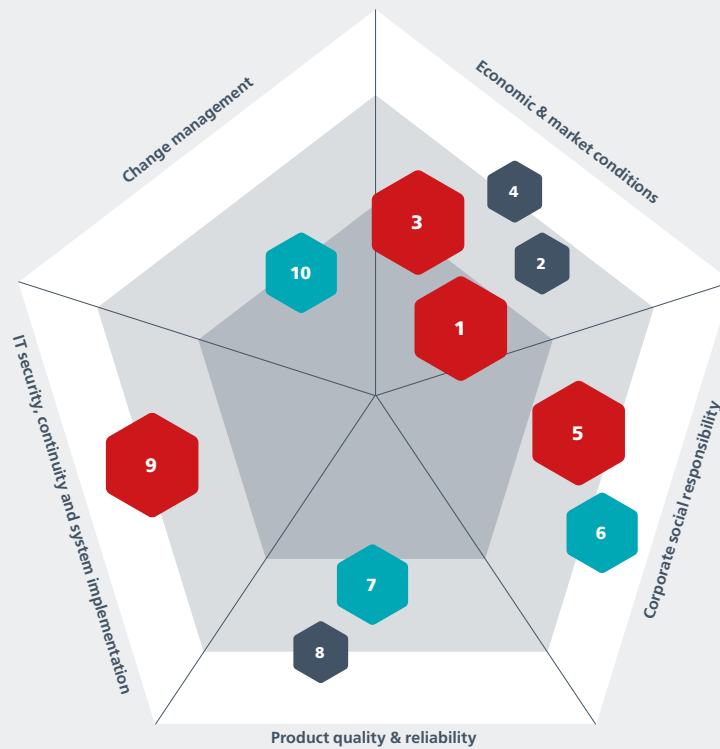
### Focus for 2021:

In 2021 we will continue to monitor the risks associated with COVID-19 and how they may impact our business. We intend to build on the framework to analyse emerging risks that was introduced in 2020. Following the formation of the ESG Committee, see page 102, we will analyse the management for the most relevant ESG risks for the Group.

### Update on 2020 Principal Risks:

A number of the Principal Risks show an increase from 2019 due to COVID-19, see pages 41 to 45 for more details. The short term uncertainty in the market increases risk and we expect that as certainty returns to the market and business normalises, we will see a reduction in our risks. The longer term legacy of the pandemic on our customers, our suppliers and the economies of the countries we operate in is largely unknown.

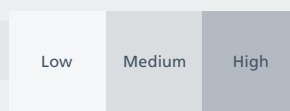
The risks that have been most impacted by COVID-19 are risks relating to Health and Safety, Supply Chain disruption and Cybersecurity. Whilst risk increased at a gross level due to global uncertainty the effect on our net risk has been managed successfully demonstrating the resilience of our business and our people.



### Principal risks

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

### Likelihood



### Impact



## Economic and market conditions

Principal risk	Description	Update	Key mitigating actions	Risk appetite statement
<p><b>1. Decline in market confidence</b></p> <p><a href="#">Link to strategy</a></p> <p>1 2</p> <p>Trend ↑</p>	<p>A decline in government and private sector confidence and spending will lead to cancellations of expected projects or delays to existing expenditure commitments. This lower investment in Rotork's traditional market sectors would result in a smaller addressable market, which in turn could lead to a reduction in revenue from that sector.</p>	<p>This risk has increased due to uncertainty in the markets in which we operate largely driven by COVID-19, however the majority of Rotork's activity is driven by customers' operational rather than capital expenditure and customers continue to spend on automation, environmental projects as well as maintenance and refurbishment.</p>	<ul style="list-style-type: none"> <li>Product development and innovation to address new markets and new applications in existing markets.</li> <li>Geographic and end market diversification provides resilience to a reduction in any one geographic area but may not fully mitigate a change in the larger end markets.</li> <li>Small to mid-sized orders are generally less likely to come under pressure during uncertain economic times. We estimate that 75% of Rotork orders by value are small to mid-sized, i.e. less than £100k.</li> <li>Increased focus on service offerings, to capitalise on increased demand for product maintenance.</li> </ul>	<p>We will in the long term move to increase the addressable markets which we serve.</p>
<p><b>2. Increased competition</b></p> <p><a href="#">Link to strategy</a></p> <p>1 2</p> <p>Trend ↔</p>	<p>Increased competition on price or product offering leading to a loss of sales globally or market share.</p>	<p>This risk remains unchanged from the prior year. Whilst it is an undoubtedly challenging market at the moment, Rotork has continued to remain competitive from a price and product perspective. Investment in R&amp;D and innovation continued throughout the year to manage future risk.</p>	<ul style="list-style-type: none"> <li>R&amp;D investment and organic product development, or acquisition of companies with new products, to maintain differentiation from the competition both in terms of the features and quality of our products and the services we provide.</li> <li>Global Strategic Sourcing team secure lower prices and efficiencies despite difficult market.</li> <li>Rotork has production or sales and service operations in many low cost countries.</li> </ul>	<p>We will invest in R&amp;D in order to retain a differentiated product portfolio and will support this by providing a leading service element to our offering. We will invest in new products and technologies where there is evidence of market opportunity.</p>
<p><b>3. Geopolitical instability</b></p> <p><a href="#">Link to strategy</a></p> <p>1 2</p> <p>Trend ↑</p>	<p>Increasing social and political instability, including Brexit, results in disruption and increased protectionism in key geographic markets. Business disruption would impact our sales and might ultimately lead to loss of assets located in the affected region.</p>	<p>This risk has increased as a result of the uncertainty, driven by COVID-19, in the key geographic markets in which Rotork operates. The impact of Brexit has been within expectations. The actions put in place by management to deal with Brexit have mitigated the risk.</p>	<ul style="list-style-type: none"> <li>Regular review of global markets considering social and political risks and contingency plans. Market exit strategies developed and implemented as required.</li> <li>Key Risk Indicator monitoring the percentage of revenue from high risk markets reported quarterly to the Board.</li> <li>The geographic spread of Rotork's operations and customers limits the impact of any one market on the results of the Group as a whole.</li> <li>Group Treasury policy sets cash limits for overseas businesses, restricting our exposure to any one market. The Treasury Committee assesses compliance with these limits on a monthly basis.</li> <li>A Brexit Committee was set up and external support was sought to consider and put in place the necessary response to the risks associated with Brexit.</li> </ul>	<p>We will continue to operate a geographically diverse business and actively pursue opportunities and efficiency of our global supply chain.</p>
<p><b>4. Failure of an acquisition to deliver value</b></p> <p><a href="#">Link to strategy</a></p> <p>1</p> <p>Trend ↔</p>	<p>Failure of an acquisition to deliver the growth or synergies anticipated, either due to unforeseen changes in market conditions or failure to integrate an acquisition effectively. Significant financial under performance could lead to an impairment write down of the associated intangible assets.</p>	<p>This risk is unchanged. Rotork continues to monitor markets for suitable partners.</p>	<ul style="list-style-type: none"> <li>Forecast market conditions are considered during the due diligence process.</li> <li>Due diligence processes provide information to assist management and minimise likelihood of any surprises.</li> <li>During the due diligence process a 100 day plan is prepared to manage the important initial stages of integration.</li> <li>Careful consideration and negotiation of acquisitions by senior management to ensure the purchase price represents value for money.</li> <li>Effective integration and communication of Rotork's policies and procedures.</li> </ul>	<p>We will pursue acquisition opportunities that are in line with our growth agenda and review each on its individual merits and expected benefits.</p>

### Link to strategy

- 1 Accelerated growth
- 2 Increased margins
- 3 Sustainability

Principal risks continued

Corporate social responsibility

Principal risk	Description	Update	Key mitigating actions	Risk appetite statement
<p><b>5. Health, Safety and the Environment</b></p> <p><b>Link to strategy</b> 1 2 3</p> <p><b>Trend</b> ↑</p>	<p>The nature of Rotork’s core business and geographical locations involves potential risks to the Health and Safety of our employees or other stakeholders. A failure of our products or internal processes could have an impact on the environment.</p>	<p>This risk has increased due to COVID-19, specifically the risks associated with our people becoming ill, the wellbeing of our people and compliance with H&amp;S regulations. A wide range of controls and measures have been put in place to respond to the increased COVID-19 risks as well as variety of improvements in our day to day Health and Safety processes and procedures.</p>	<ul style="list-style-type: none"> <li>– Compliance with relevant legislation and codes of best practice.</li> <li>– Robust Health and Safety policy and training included in all staff inductions, in addition to regular refresher training.</li> <li>– Refresh of the global Health and Safety standards.</li> <li>– Regular Health and Safety audits, site checks and reporting.</li> <li>– Appropriate training is provided for known safety risks.</li> <li>– Regular communications about accidents at work and visible key risk indicators.</li> <li>– Engagement of a third party to provide international support and travel advice in all markets and geographies.</li> <li>– Proactive culture of ‘safety spots’ introduced to help reduce safety issues.</li> <li>– Internal audit assurance reviews conducted during the year.</li> <li>– Monitoring of our energy usage and emissions of our sites and implementation of more energy efficient solutions.</li> </ul>	<p>We are fully committed to ensuring the Health and Safety of all our employees and other stakeholders and we are committed to reducing any negative impact of our environmental footprint.</p>

<p><b>6. Compliance with laws and regulations</b></p> <p><b>Link to strategy</b> 2 3</p> <p><b>Trend</b> ↑</p>	<p>Failure of our staff or third parties who we do business with to comply with law or regulation or to uphold our high ethical standards and Values.</p>	<p>This risk has increased due to the increased compliance risks associated with COVID-19.</p>	<ul style="list-style-type: none"> <li>– A ‘no tolerance’ culture, supported by a tone from the top, reinforcing our high ethical standards and Values.</li> <li>– Anti-bribery and corruption training is provided to all relevant staff.</li> <li>– Due diligence procedures in place for agents and acquisition targets before engaging in business relationships.</li> <li>– Availability and promotion of the ‘Speak Up’ policy and hotline.</li> <li>– We are committed to reduce our environmental impact and comply with all legal and regulatory requirements.</li> <li>– Monitoring of changes in legislation, including sanctions, with appropriate safeguards put in place.</li> <li>– We continue to specifically assess the modern slavery risks arising in our business and identify appropriate steps to address any risks identified.</li> </ul>	<p>We have zero tolerance for non-compliance with relevant laws and regulations in the markets in which we operate.</p>
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Product quality and reliability

<p><b>7. Major in-field product failure</b></p> <p><b>Link to strategy</b> 1 2</p> <p><b>Trend</b> ↔</p>	<p>Major in-field failure of a new or existing Rotork product potentially leading to a product recall, major on-site warranty programme or the loss of an existing or potential customer.</p>	<p>This risk of a failure of a new or existing Rotork product has not increased. The ability of our service engineers to access customer sites continued for any priority service actions.</p>	<ul style="list-style-type: none"> <li>– An established product design review process pre-launch, using Rotork’s extensive product launch experience.</li> <li>– Fitting and commissioning products wherever possible by Rotork engineers to ensure correct operation when first used.</li> <li>– Comprehensive set of quality control procedures over suppliers. These include supplier visits, audits and a scorecard system to measure their performance.</li> <li>– Global service coverage ensures that any product failure issues should be dealt with quickly and efficiently to minimise any reputational impact.</li> </ul>	<p>We will maintain robust quality control procedures over components purchased and over our finished products in all of our manufacturing locations.</p>
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<p><b>8. Supply chain disruption</b></p> <p><b>Link to strategy</b> 2</p> <p><b>Trend</b> ↑</p>	<p>Supply chain disruption which may arise such as a tooling failure at a key supplier, logistics issue, severe weather events impacting key suppliers which would cause disruption to manufacturing at a Rotork factory.</p>	<p>The availability of key components and the logistical challenges to source key components has increased this risk. During the year, a number of our key suppliers located globally were impacted by COVID-19, specifically the temporary closures of factories in our tier 1 and tier 2 suppliers. The measures and mitigations taken by the business have managed the risks over the period.</p>	<ul style="list-style-type: none"> <li>– Dual sourcing for key components wherever possible provides mitigation for key suppliers or a tooling failure.</li> <li>– A Key Risk Indicator measures single sourced critical components and is reported quarterly to the Board.</li> <li>– Maintaining safety stock levels sufficient to protect against short term disruption.</li> <li>– Regular monitoring and replacement of our tooling at all suppliers reduces the risk of a tooling failure.</li> <li>– Identification of our critical suppliers and components, and improvements in supply.</li> <li>– Supply chain due diligence and monitoring of supplier quality.</li> <li>– Strengthening of our risk monitoring processes, including the ways we identify and respond to early warning signs of potential supplier failure.</li> </ul>	<p>We will use our purchasing power to optimise our vendor base, ensure value for money and reduce lead times whilst maintaining quality.</p> <p>We will maintain robust quality control procedures over components purchased and over our finished products in all our manufacturing locations.</p>
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## IT security, continuity and system implementation

Principal risk	Description	Update	Key mitigating actions	Risk appetite statement
<p><b>9. Critical IT system failure and cybersecurity</b></p> <p><b>Link to strategy</b>  </p> <p><b>Trend</b>  </p>	<p>Failure to provide, maintain and update the systems and infrastructure required by the Rotork business. Failure to protect Rotork operations, sensitive or commercial data, technical specifications and financial information from cybercrime.</p>	<p>Cyber risk has increased globally with all companies facing a huge increase in ever more convincing spam. Threat intelligence has played a key role in the mitigation of this risk. Additional bandwidth for our network was brought in so that the increase in proportion of our people working from home could be supported.</p>	<ul style="list-style-type: none"> <li>Established security controls, policies and procedures. Dedicated security team using monitoring and defence tools.</li> <li>Third party cyber maturity assessments performed regularly.</li> <li>Continuously raising cybersecurity awareness through regular training and simulated phishing attacks.</li> <li>All new GAP IT services are designed with a 'cloud first' approach to improve security, resilience and availability.</li> <li>All IT services are patched in accordance with vendor support contracts and external advice.</li> <li>A disaster recovery solution (supported by third party service level agreements) is in place for all critical systems.</li> <li>Increased security and authentication controls implemented for all IT users.</li> <li>Key risk indicators and a cybersecurity report submitted on a quarterly basis to the Board.</li> </ul>	<p>We will continue to review current external and internal cyber threats and respond to them to ensure that we have appropriate processes and controls in place.</p>

## Change management

<p><b>10. Growth Acceleration Programme</b></p> <p><b>Link to strategy</b>  </p> <p><b>Trend</b>  </p>	<p>The Growth Acceleration Programme and other change projects lead to business disruption or have a negative effect on day-to-day operations.</p>	<p>Despite the underlying macro environment, and challenges posed by COVID-19, the Growth Acceleration Programme continued to deliver throughout the year demonstrating the resilience of our business.</p>	<ul style="list-style-type: none"> <li>Growth Acceleration Programme workstreams are managed by a dedicated project management office, with a mix of Rotork operational and specific project management experience.</li> <li>There is a defined benefits tracking process to monitor outcomes against the initial objectives of projects, including monitoring any impact on day-to-day operations.</li> <li>Metrics are in place to predict and monitor capacity concerns across all workstreams.</li> <li>Regular governance forums are in place to deal with risks and issues in a timely manner.</li> </ul>	<p>We will ensure that management capacity is sufficient to implement our strategy and that business decisions do not negatively influence our day-to-day business.</p>
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### Link to strategy

-  Accelerated growth
-  Increased margins
-  Sustainability

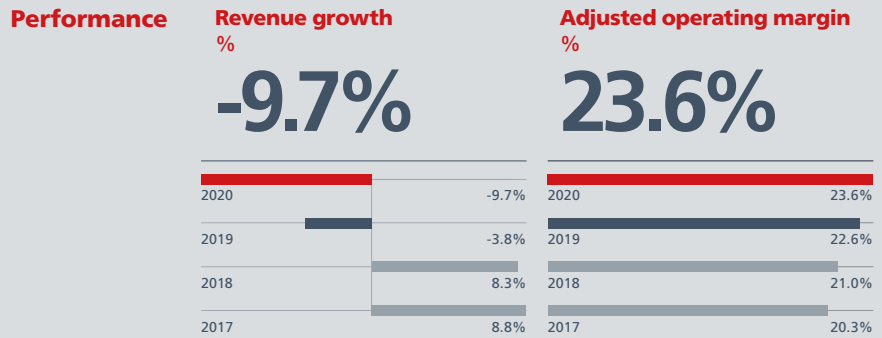
# Key performance indicators

## Financial KPIs

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

### Link to strategy

- 1 Accelerated growth
- 2 Increased margins
- 3 Sustainability



<b>Reasons for choice</b>	Revenue is a key driver for the business and is reported in detail for each division, end market and geography. The measure enables us to track our overall success and our progress in increasing our market share by product and by region.	This measure brings together the combined effects of pricing, volume and procurement as well as the leveraging of our operating assets. It is also an important check on the quality of revenue growth.
<b>How we calculate</b>	Increase in revenue year-on-year divided by prior year sales revenue.	Adjusted operating profit shown as a percentage of revenue. We use adjusted operating profit as this aids comparison year to year.
<b>Comments on results</b>	Group revenue was 9.7% lower. Water & Power sales grew year-on-year, with both end markets ahead. The division reported an encouraging performance, with sales driven by water sector infrastructure investment as well as power sector refurbishment activity.	Margins increased by 100bps, despite revenues being down year-on-year, benefiting from the ongoing GAP initiatives to improve Rotork's cyclical resilience and temporary cost savings (such as travel and entertainment).
<b>Link to strategy</b>	1	2 3





Performance	Cash conversion %	Return on capital employed %	Adjusted EPS growth %																								
	<b>129.5%</b>	<b>31.9%</b>	<b>-3.8%</b>																								
	<table border="1"> <tr><td>2020</td><td>129.5%</td></tr> <tr><td>2019</td><td>131.4%</td></tr> <tr><td>2018</td><td>110.7%</td></tr> <tr><td>2017</td><td>109.1%</td></tr> </table>	2020	129.5%	2019	131.4%	2018	110.7%	2017	109.1%	<table border="1"> <tr><td>2020</td><td>31.9%</td></tr> <tr><td>2019</td><td>31.8%</td></tr> <tr><td>2018</td><td>29.2%</td></tr> <tr><td>2017</td><td>24.9%</td></tr> </table>	2020	31.9%	2019	31.8%	2018	29.2%	2017	24.9%	<table border="1"> <tr><td>2020</td><td>-3.8%</td></tr> <tr><td>2019</td><td>3.2%</td></tr> <tr><td>2018</td><td>18.9%</td></tr> <tr><td>2017</td><td>6.0%</td></tr> </table>	2020	-3.8%	2019	3.2%	2018	18.9%	2017	6.0%
2020	129.5%																										
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2020	-3.8%																										
2019	3.2%																										
2018	18.9%																										
2017	6.0%																										

<b>Reasons for choice</b>	Our cash conversion demonstrates our operational efficiency and enables us to fund future growth. We consider 85% conversion as a base level of achievement. This measure is one of the constituent parts of the senior management reward system.	We use this KPI to monitor the efficiency of our capital allocation. We also use this ratio internally, to help Group management monitor efficiency within Rotork's divisions.	Growth in EPS is a measure of our profit performance, taking into account all aspects of the income statement including the management of our capital structure, treasury and the Group's tax rate.
<b>How we calculate</b>	Cash flow from operating activities before tax outflows, restructuring payments and the pension charge to cash adjustment, as a percentage of adjusted operating profit.	Adjusted operating profit as a percentage of average capital employed. Capital employed is defined as shareholders' funds less net cash held, with the pension fund deficit net of related deferred tax asset added back. See calculation on page 162.	Increase in adjusted basic EPS (based on adjusted profit after tax) year-on-year divided by the prior year adjusted basic EPS.
<b>Comments on results</b>	The drive to reduce inventory generated £12.6m whilst a reduction in trade receivables generated a further £13.1m. Trade receivables measured as days' sales outstanding reduced from 57 to 56 days.	Return on capital employed increased by 10 basis points. The increase reflects a 6% reduction in average capital employed.	Adjusted earnings per share was 3.8% lower year-on-year, slightly less than the 5.6% decline in adjusted operating profits.
<b>Link to strategy</b>			

Key performance indicators continued



**Non-financial KPIs**

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

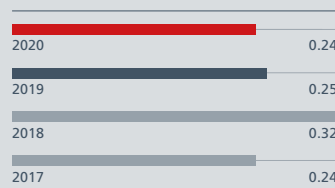
**Link to strategy**

- 1** Accelerated growth
- 2** Increased margins
- 3** Sustainability

**Performance**

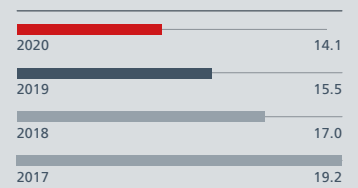
**Lost times injury rates  
LTIR**

**0.24**



**Carbon emissions  
TnCO<sub>2</sub>e**

**14.1**



**Reasons for choice**

LTIR is used as one measure of the effectiveness of our Health and Safety procedures.

Scope 1 & 2 carbon emissions (CO<sub>2</sub>e) per £1m reported revenue. This KPI is a broad measure of our environmental efficiency.

**How we calculate**

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

Energy usage data (Scopes 1 & 2) is converted to equivalent tonnes of CO<sub>2</sub>e and reported as a function of revenue. 2019 data has been restated; we emitted 15.5 tonnes per £1m revenue in 2019. See page 71 for more detail.

**Comments on results**

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

Further consolidation of sites and upgrades in some of our facilities, alongside COVID-19 related office closures, resulted in an 18% reduction in our Scope 1 and Scope 2 emissions last year. Emissions per £1m reduced 9.5%.

**Link to strategy**



# Viability statement

## Assessment of Prospects

The Group Strategy (see pages 24 to 35) and Principal Risks (see pages 40 to 45) are well documented. The Group works closely with its customers on projects ranging from several weeks to several years, discussing operational plans and longer-term capital expenditure programmes. The Growth Acceleration Programme, which has progressed well during the year, is expected to reduce the Group's cost base and improve the Group's longer-term operational and financial performance and financial position.

Whilst the Board has no reason to believe the Group will not be viable over a longer period, the directors have assessed the viability of the Group over a three year period taking account of the Group's current position and the potential impact of the principal risks.

Three years is considered an appropriate period over which a reasonable expectation of the Group's longer-term viability can be evaluated and is aligned with our planning horizon at both Group and divisional level. The Board has considered whether it is aware of any specific relevant factors beyond the three year horizon and confirmed that there are none.

## Assessment of Viability

A robust assessment of the principal risks facing the business was conducted through the year with the review of the risk appetite framework and risk dashboards contributing to a fuller consideration of those risks which might impact the business model or future performance. The assessment has been completed on a same state basis, and therefore principal risk 4, Failure of an acquisition to deliver value has been excluded. The directors have considered each of the remaining principal risks, individually and some in combination, and the potential impact they could

have in severe but plausible scenarios. The scenarios contained significant one off financial shocks and significant profit erosion impacting the Group's revenue. In particular, the scenarios cover different potential impacts associated with the COVID-19 virus, Brexit, the increasing political protectionism in respect of trade tariffs, failure of the Growth Acceleration Programme and lower investment in the oil and gas markets. The potential impact to Rotork from a Brexit could be a loss of revenue due to logistics issues or permanent cost increase, supply chain disruption or permanent cost increases as a result of increased tariffs. These events occurring individually or at once have been considered in the modelling of the different scenarios.

Financial scenario modelling was carried out to assess the impact of these risks on the Group's three year plan, including a reverse stress test. Assumptions were made concerning market activity levels, the impact of the scenarios on working capital cycles and the mitigating actions that could be taken to reduce the cash and financial impact of the stress-test scenarios. Further mitigating actions not modelled that could be taken if needed include curtailment of dividends or capital asset investment.

In coming to this view, the Board has considered the inherent volatility in exchange rates and oil prices, the nature of the industry and the business cycles involved.

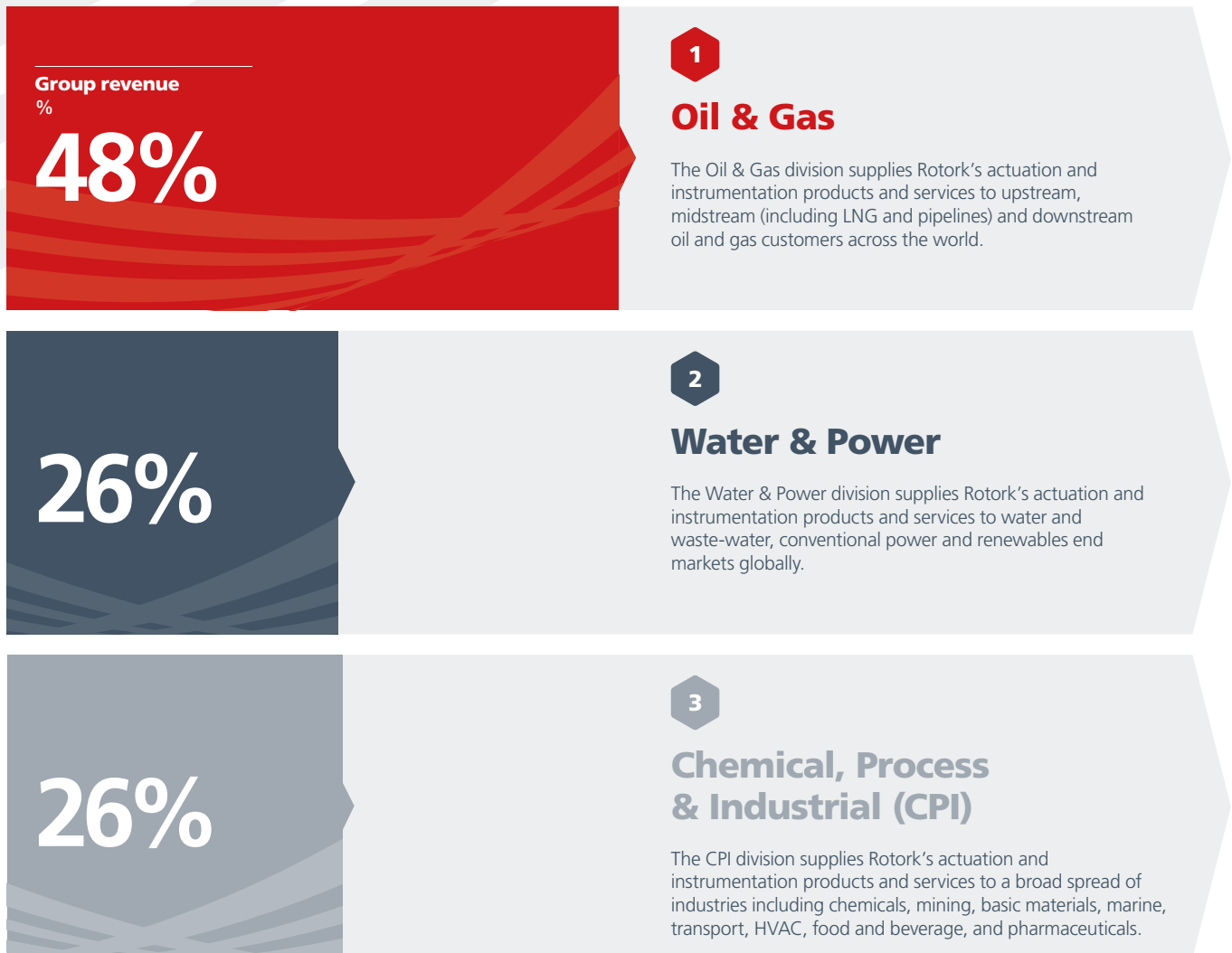
Given the current position of the Group and the likely effectiveness of any mitigating actions, the Board has assessed the impact these would have on the business model, future performance, solvency and liquidity over the period and have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over a three year period.

Scenario modelled	Link to Principal Risks
<b>Scenario 1: Revenue decline</b> The Board considered events that would result in a gradual erosion of revenue and gross margin which would ultimately reduce operating cash generation	Decline in market confidence Increased competition Critical IT system failure and cybersecurity
<b>Scenario 2: One off costs</b> Impact of a one off cost due to a specific issue, followed by a reduction or downturn in a specific end market.	Geopolitical instability Health, Safety and the Environment Compliance with laws and regulations Supply chain disruption Growth Acceleration Programme
<b>Scenario 3: Loss of profitability</b> One off cash costs as a result of a specific issue and a permanent loss of subsequent profitability which affects operating cash generation	Major in-field product failure Growth Acceleration Programme
<b>Scenario 4: Reverse stress test</b>	Multiple concurrent risks

## Divisional review

# Our new market-aligned structure

One of the most important Growth Acceleration Programme initiatives was our move from a product-focused to an end market segment focused structure that more closely meets customer needs.





**Divisional highlights**

- EMEA sales were modestly lower year-on-year
- Asia Pacific returned to growth in the second half
- Americas revenues saw the greatest decline
- Adjusted operating profit margins increased to 23.3%

1

# Oil & Gas

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

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

Divisional revenues fell 11.5% year-on-year (10.1% OCC) with the greatest decline seen in the Americas. EMEA sales were modestly lower with upstream, midstream and downstream declining. Asia Pacific sales were similarly down, but grew in the second half, benefiting from increased downstream activity. Americas revenues fell despite progress in Latin America. Adjusted operating profits were £67.9m, 10.1% lower year-on-year. Adjusted margins rose 40

basis points to 23.3%, benefiting from mix, lower headcount and reduced discretionary expenses.

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

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

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

**Strategy**

We are the market leading actuator supplier to the oil & gas sector, with the broadest product offering in the industry and the largest site services team.

We aim to outgrow our market through leveraging our installed base, focusing on higher growth geographies and targeted new product development.

We believe we are well placed to help our customers to deliver on their ESG targets.

**Strong returns**  
Adjusted operating margin

# 23.3%

Divisional review continued



**Divisional highlights**

- In APAC, revenue grew in both sectors with China water strong
- Americas higher benefiting from power refurbishment work
- EMEA sales were higher on desalination market demand
- Margins up 70bps to 29.8% benefiting from cost control

2

# Water & Power

Water & Power made encouraging progress during the year. Whilst the division is not totally immune from COVID-19 related disruption, its products and services and those of its customers are generally considered essential, meaning activity largely continued without any significant delays.

The outlook for the division is positive. We are now seeing the benefits of our transition to an end-market alignment and of our re-focused new product development. Additionally, the world's governments have identified water infrastructure investment as a priority, not only for population health and safety reasons but also for economic development. The division is well placed to support these efforts.

Revenues increased 1.9% year-on-year (4.0% OCC) with higher sales in all geographic regions on an OCC basis. In Asia Pacific the water segment saw strong growth, particularly in China. Activity in India, including that related to the National Rural Drinking Water Programme ("NRDWP"), was impacted by COVID-19 and sales were lower. In the Americas, power

sales were higher due to refurbishment work, which was won in 2019, whilst water sales were largely unchanged. The growth in EMEA sales was driven by desalination projects in Iberia and a recovery in business with UK water utilities. For the division, both water and power sales were ahead year-on-year.

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

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

**Growth strategy**

The water market is forecast to grow 4-5% a year long-term. There are good upgrade and service opportunities in power.

We are increasingly focused on specific areas we have identified as offering the greatest growth opportunity, such as digital.

We are working to further optimise our go-to-market, including through benchmarking and developing the indirect channel.

**Sales growth**

OCC revenue growth in 2020

**4.0%**

3

# Chemical, Process & Industrial (CPI)

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

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

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

other focus segments, chemical revenues grew, whilst industrial sales were lower.

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

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

CPI aims to outgrow its markets through focusing on high growth regions and sectors, optimising its channel coverage and developing the aftermarket. The division is targeting key sectors including HVAC, chemicals, and basic materials. Across all of these, the drive to lower CO<sub>2</sub> emissions is gaining momentum. The decarbonisation trend presents a key opportunity for CPI – through the electrification of actuation and the substitution of high maintenance and inefficient compressed air valve systems. New energy technologies such as hydrogen are exciting medium-term opportunities, and our project pipelines are building.



## Divisional highlights

- EMEA revenues down but less than the division overall
- APAC similarly lower due to COVID-19 logistics challenges
- Americas sales double-digits down, in part due to the disposal of a distribution business at the end of 2019
- Margins rose 170bps (OCC) despite lower revenue

## Strategy

We target niche applications where intelligent flow control and process automation are critical to maximising operational reliability, efficiency and growth for our customers.

Growth drivers include technology (electrification, automation and digitalisation) and geography (Asia Pacific economic growth, clean air legislation in EMEA and Americas).

Our focus markets include petrochemical, HVAC, new energy technologies and decarbonisation.

## Margin improvement

Change in 2020 adjusted margin

# 210bps

## Operating responsibly

# We are focused on delivering sustainable stakeholder value

Sustainability is embedded in our Purpose: 'keeping the world flowing for future generations'. Our Purpose is underpinned by our strategy, Values and culture. We recognise that effective management of environmental, social and governance (ESG) issues can result in significant benefits and competitive advantage and create value for all of our stakeholders.





## About this section

This section includes updates on information reported in previous Annual Reports. We report under the main areas of People and Culture, Health & Safety, and Environment. Performance narrative and data sets in these sections cover the period 1 January to 31 December 2020.

We also include details of work completed in early 2021 (outside of the reporting period). In January 2021, we sought stakeholders' views on our selected UN Sustainable Development Goals (SDGs), and priority sustainability issues across our value chain. Stakeholders' views informed the development of the framework for our new sustainability strategy, which has been built around our chosen SDGs and material sustainability risks and opportunities. The strategic framework, our chosen SDGs and our materiality matrix are therefore also presented here. Future reporting will be aligned to this new framework.

## Operating responsibly continued

### Governance and management

The Board receives regular updates on our sustainability performance, on topics such as Health and Safety and stakeholder engagement. In 2020, we further strengthened our governance with the introduction of a Board Committee for Environmental, Social and Governance (ESG) matters. The Committee will oversee the Company’s sustainability strategy, performance and disclosures. ESG Committee members include non-executive directors Ann Christin Andersen (Chair) and Tim Cobbold, as well as executive directors Kevin Hostetler (CEO), Kathy Callaghan (Group HR Director) and Vijay Rao (Strategy and M&A Director). It is also attended by the Investor Relations team, which is responsible for managing the implementation of the sustainability strategy and reporting on performance, both internally and externally. The Committee met once during the year. Its first report can be found on pages 102 to 103.

### Reporting on progress

We currently report progress against our objectives under the main areas of People and Culture, Health & Safety, and Environment. In 2020, we published our first ‘People and Environment’ report. It provides more granular data and greater transparency about our safety, health and environment performance. It also includes case studies illustrating how our products and services support our customers’ safety, efficiency and environmental objectives. This is a key area of focus for us. We recognise we have huge potential to support the transition to a more sustainable future through the products and services that we provide.

We will build on this progress by publishing our first Sustainability Report in summer 2021. The report will be aligned to the Global Reporting Initiative (GRI) Standards and the SASB reporting framework, to ensure it meets all of our stakeholders’ requirements.

We are committed to being open and transparent about our business. We have a comprehensive suite of sustainability policies. These are published at the following address: [www.rotork.com/ESG](http://www.rotork.com/ESG)

Our reporting meets the requirements of the EU’s Non-Financial Reporting Directive. It also meets our reporting obligations as a signatory to the United Nations Global Compact.

### Priority sustainability issues

The ESG Committee endorsed Rotork’s adoption of the Sustainable Development Goals (UN SDGs) in 2020 to help guide us on sustainability matters. We subsequently undertook an in-depth analysis of the UN SDGs, using an established methodology as a guide, to identify opportunities for creating value for both the business and society (“shared value”). We then undertook a materiality assessment, involving both internal and external stakeholders, to test our assessment of relevant SDGs and gather their views on material sustainability issues across Rotork’s value chain.

We completed our materiality assessment in January 2021. We conducted one-to-one interviews with Rotork’s management board members, and other senior leaders with responsibility for key elements of our sustainability agenda. We discussed i) the key current and future sustainability trends that are impacting, or are likely to impact, our business and sector; ii) the risks and opportunities these trends might present for Rotork; and iii) how Rotork could play a role in driving transformational change towards a more sustainable future for all, including any business opportunities that could exist in doing so. We also undertook desk-based research and horizon scanning of sustainability issues, supported by the specialist sustainability consultancy, Corporate Citizenship. Following this, we engaged with customers, suppliers, employees, charities, shareholders and analysts, and government and other partners. We asked them to complete a sustainability survey and provide feedback on the SDGs we had identified as having highest relevance to Rotork. We also asked them to rank identified sustainability issues in terms of their relative importance. We received 100 responses, from representatives covering each of our main stakeholder groups across the world.

### Our materiality matrix

Our materiality matrix, shown on page 57, maps stakeholders’ priorities against those of the business. Those issues which have been identified as most important to both groups – and where we have greatest potential to create shared value – will be given higher priority in our sustainability strategy and reporting. Over time, the specific prioritisation of issues can change, due to their potential impact on the business, our success in managing them, or growing public awareness of their importance.

We regard all of the issues set out in the matrix as being important for us to address. We will cover each of them in our Sustainability Report later this year. The materiality process and its outcomes have been checked by Corporate Citizenship.

### Our strategic framework

The materiality process, its outcomes, and final selection of the SDGs was discussed and ratified by the ESG Committee in February 2021. The ESG Committee endorsed targeting five main SDGs, aligned to topics where the Company has greatest potential to support the transition to a better and more sustainable future for all. These are Goals 6, 7, 9, 12 and 13. The Committee also endorsed targeting two additional SDGs, committing to progress under Goals 5 & 8. A new strategic framework, based on three pillars, has been developed around our chosen SDGs and priority sustainability topics.

### Our strategic framework aligns to our chosen SDGs as follows:

#### Operating Responsibly:

- 12. Responsible consumption and production
- 13. Climate action

#### Enabling a Sustainable Future:

- 6. Clean water and sanitation
- 7. Affordable and clean energy
- 9. Industry, innovation and infrastructure

#### Making a Positive Social Impact:

- 5. Gender equality
- 8. Decent work and economic growth

We already make a significant contribution towards advancing these Goals. The actions we have taken and our performance across these topics are covered throughout this report, and in particular over the following pages. Our new strategic framework will help guide our future activity to ensure we continue to create sustainable, shared value for all of our stakeholders.

## Priorities for 2021






- We will publish a standalone Sustainability Report in summer 2021, aligned to the Global Reporting Initiative (GRI) Standards and SASB reporting frameworks.
- We will develop a series of goals and targets under each of the three pillars of our new sustainability strategy (Operating Responsibly, Enabling a Sustainable Future and Making a Positive Social Impact).
- We will align our climate reporting to the Task Force for Climate-Related Financial Disclosures (TCFD) framework and undertake a scenario analysis to help inform our future policy.
- We will develop a net-zero carbon emissions reduction target.

**Our sustainability strategy**

Our new sustainability strategy is based on three strategic pillars: Operating Responsibly; Enabling a Sustainable Future; and, Making a Positive Social Impact. It covers the way we run our business, the impact we can have through our products and services, and the way we engage with our people and communities. Our strategic framework has been

developed around our chosen SDGs and our priority sustainability topics. The main SDGs we target will guide where we focus our efforts to continue to create sustainable, shared value for all of our stakeholders. We have also committed to progress under two additional Goals. We will publish details of ambitions and targets under each pillar in our Sustainability Report in summer 2021.

<b>Operating responsibly</b>	<b>Enabling a sustainable future</b>	<b>Making a positive social impact</b>
<p><b>We aim to run safe, efficient and sustainable operations.</b></p> <hr/> <p>We will strive for the highest levels of safety and efficiency within the business and throughout our supply chain and play our part in the journey to net-zero carbon emissions, in line with our Purpose, Values and ethics.</p> <hr/> <p><b>Topic areas:</b></p> <ul style="list-style-type: none"> <li>— Climate change</li> <li>— Safety, health and wellbeing</li> <li>— Supply chain management</li> <li>— Culture, ethics &amp; governance</li> </ul> <hr/> <p>The full set of topics included in this pillar are coloured blue in the matrix below.</p>	<p><b>We want to help drive the transition to a cleaner future where environmental resources are used sustainably.</b></p> <hr/> <p>We will seek out opportunities in energy, water, power and industrial markets, and innovate to provide new products and services, to support a green economy and a cleaner more sustainable future.</p> <hr/> <p><b>Topic areas:</b></p> <ul style="list-style-type: none"> <li>— Innovation (products and applications)</li> <li>— Global energy transition</li> <li>— Environmental benefits of products</li> <li>— Infrastructure (e.g. for water and energy)</li> </ul> <hr/> <p>The full set of topics included in this pillar are coloured green in the matrix below.</p>	<p><b>We aim to support fair, resilient and thriving societies.</b></p> <hr/> <p>We recognise the relationship between business growth, quality employment, and wider social impact. We want to be a great place to work with a diverse and inclusive workforce, providing equal opportunity and fair pay and rewards.</p> <hr/> <p><b>Topic areas:</b></p> <ul style="list-style-type: none"> <li>— Talent and diversity</li> <li>— Safety benefits of products</li> <li>— Stakeholder engagement</li> <li>— Social contribution</li> </ul> <hr/> <p>The full set of topics included in this pillar are coloured orange in the matrix below.</p>
		 <p><b>Added by ESG Committee</b></p>

Aligned management incentives and decision-making processes. Enhanced measurement reporting and disclosure.

**Materiality matrix**



Operating responsibly continued



# Our people and culture

Rotork strives to be a great place to work. Engaged, committed people are key to the successful delivery of our Growth Acceleration Programme and sustainable business growth. We are committed to nurturing an inclusive and respectful culture. We want our people to be themselves at work, to feel they belong and can deliver at their best.

### One Rotork

We work to a common Purpose, 'keeping the world flowing for future generations'. Our Purpose and Values – Stronger Together, Always Innovating and Trusted Partner – define the way we work. Our Values were chosen by our people and apply to everyone across our global operations. We seek to safeguard and promote these attributes, which are deeply rooted in our culture. They help us make Rotork a great place to work and give us our competitive edge.

Our people are key to our sustained growth and success. We focus on ensuring our people approaches, systems and policies are linked to our Values. They are aimed at engaging and motivating our people and protecting their rights. We strive to provide fair and equitable treatment, as well as opportunities to grow, learn and progress. As a global Company, we embrace the importance of connecting with the communities in which we operate, to help make a difference.

We came 32nd (out of 250) in Britain's Most Admired Companies and ranked 4th for product quality. We were ranked 4th in our sector (Engineering and Machinery).

### Our Culture

Our Values are embedded in our Code of Conduct. We expect everyone working for us, and with us, to follow the Code and act with integrity at all times.

Our Values are also embedded in our Respect at Work and Equal Opportunities policies. These aim to ensure that fair and objective treatment is promoted across recruitment and employment regardless of age, race, nationality, ethnic origin, disability, gender, sexual orientation, religious belief or marital status or any other protected characteristic. All employees have a responsibility to ensure the policy is successfully implemented. We work with occupational health experts to overcome any obstacles for employees, including those with disabilities, by making appropriate adjustments, wherever possible.

Our Code of Conduct also includes guidance on the identification of potential modern slavery risks. The Code aims to raise awareness among employees and empowers them to 'Speak Up' if they identify any area of concern. We work with the external company SafeCall, to allow concerns to be raised confidently and confidentially via its whistleblowing helpline.

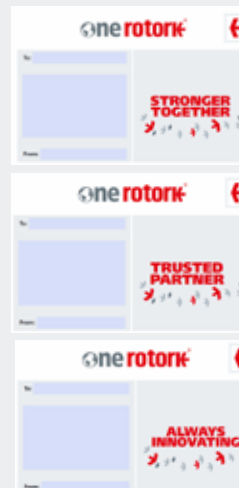
In 2020, we launched our Recognition Scheme, linked to our Values. We continue to align our culture with our approach to performance and reward mechanisms so they contribute towards delivering our strategy.

### Our Values

**STRONGER TOGETHER**

**TRUSTED PARTNER**

**ALWAYS INNOVATING**



**Supporting a fairer society**

We are committed to apprenticeships and early careers programmes. We believe apprenticeships in particular provide an excellent career foundation. This year, as we have not been able to fully utilise our UK apprenticeship levy, we donated unused funds to small and medium-sized enterprises working in childcare and education. This will enable young people to develop new skills and capabilities, and in turn, to support the communities where they live and work. We are also a member of the Manufacturers Standardization Society (MSS), which offers undergraduate and graduate scholarships in relevant disciplines.

In 2020, we established Rotork Benevolent Support, a charity to provide short-term financial support to employees, and ex-employees, and their families facing financial hardship, especially as a result of the COVID-19 crisis.



**Fair Pay Framework and a Real Living Wage**

We believe that all colleagues should be appropriately and fairly rewarded for their contribution. In 2020, we launched a Fair Pay Framework. This reflects our wider vision to reduce inequality and contribute to a fairer society more broadly. It includes five areas of focus to guide our reward policies, procedures, systems and

decision-making to support fair and competitive remuneration. Our Framework includes a commitment to pay a living wage (rather than the minimum wage) where this exists in a country. We were accredited as a Living Wage Employer in 2020 by the Living Wage Foundation.

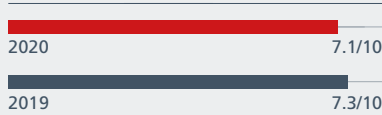
**We have defined five Framework areas to meet our Fair Pay goals.**



Our people and culture continued



Employee engagement



We seek employee feedback on a regular basis. This enables us to consider their views in decisions made at Board and management level. It also means we can respond to any concerns in a timely manner. Each employee ‘pulse’ survey has a specific theme, but some questions do not change: rating Rotork as a place to work, rating the pace of change, and rating our leaders as role models.

Our new HR system launched fully in 2020, allowing ‘self-service’ for all managers and employees globally, including on mobiles. It provides greater insight relating to our employees to support better decision-making.

We are proud to have so many long serving employees. 37% of our people have worked at Rotork for more than 10 years. We consider this a good indicator of our culture and colleagues’ engagement in the Company. Similarly, 37% of colleagues have been with Rotork for less than five years.

Global Service Years as at 31 December 2020

Service (years)	%
0-4	37
5-9	26
10-14	17
15-19	8
20-24	5
25+	7

We believe the mix of Rotork experience and new external experience is integral for the success of our Growth Acceleration Programme.

During 2020, one of our ‘pulse’ surveys focused on environment and sustainability. As a result of the survey, we have allocated renewed focus on environmental issues on our sites, such as saving energy, reducing plastics and increasing recycling.

We have delivered team briefings online this year, as it has not been possible to have face-to-face town hall events as in previous years. We have also made use of webinars to engage and inform our people. Our working@rotork email address enables any colleague globally to raise questions regarding HR topics, to comment on our internal communications or to contact our non-executive director for Workforce Engagement, Tim Cobbold. We also have an “AskKevin” email so that colleagues can contact the CEO directly.

We introduced virtual induction sessions for all new joiners this year. These were attended by CEO Kevin Hostetler, members of the Rotork Management Board and Tim Cobbold, NED for Workforce Engagement. We held eight sessions for new joiners to introduce themselves, network with other new people, find out more about the Company and ask questions.

We are proud that a majority of our employees hold shares in the Company. Colleagues in many of our locations receive a gift of Rotork shares each year, wherever it is practicable to do so, and have the opportunity to purchase additional Rotork shares through our schemes. This gives our people an additional personal and financial stake in our success.

All employees also participate in the Rotork bonus scheme. We link performance to reward, ensuring we recognise those who make the greatest contribution, whilst living our Values. We benchmark our rewards and benefits arrangements externally in every country we operate, taking into account cost considerations. We also provide pension arrangements, based on local laws and practices.

Engagement ‘pulse’ surveys in 2020

Q2 Wellbeing and COVID-19 survey – 700+ responses

- 8.8/10 (score) ‘How well has Rotork responded to the current crisis’
- 97% Awareness among respondents of wellbeing activities put in place
- 3% Employees globally who were working from home had experienced IT issues
- 93% Said they received sufficient communication on key issues

Q3 Environment and Sustainability Survey – 1,500+ responses

- 7.4/10 (score) ‘Rotork cares about the environment’
- 7.1/10 ‘How likely would you recommend Rotork as a place to work?’
- 7.4/10 ‘Rotork offers an inclusive culture’
- Employee feedback from this survey helped inform our ESG plans

Q4 Survey to inform 2021 plans – 1,700+ responses

- 8.2/10 (score) ‘How would you rate Rotork’s response to the COVID-19 pandemic’
- 7.1/10 ‘How do you rate Rotork as a place to work’
- 7.0/10 ‘To what extent do senior leaders role model our Values’

Q4 Ethnicity and Disability survey – 1,000+ responses

This information helped Rotork to complete an Ethnicity Pay Gap report

**Collective bargaining**

We are a signatory to the UN Global Compact and are working to meet its Principles. As part of this, we uphold colleagues' freedom of association and recognise their right to collective bargaining. There are collective bargaining arrangements in place in several sites and countries in which we operate. We are committed to open and constructive engagement with our unions and employees.

**Protecting our people during COVID-19**

The safety of our people during the COVID-19 pandemic has been our utmost priority. Our COVID-19 Steering Committee, attended by our CEO and key members of our management team, met almost 100 times in 2020, to ensure the ongoing safety of our colleagues, customers and their friends and families. At all times, we have followed the latest advice from governments and health authorities.

We have employed a range of new measures for colleagues working onsite and at home. Ways of working in our production facilities have been revised. Colleagues have been grouped into small 'bubbles', with separate facilities for each bubble. We check employees' temperatures upon arrival and encourage regular hand washing. We have also revised the layout and walkways inside our sites, introduced screens and partitions, and provided personal protective equipment, such as face coverings.

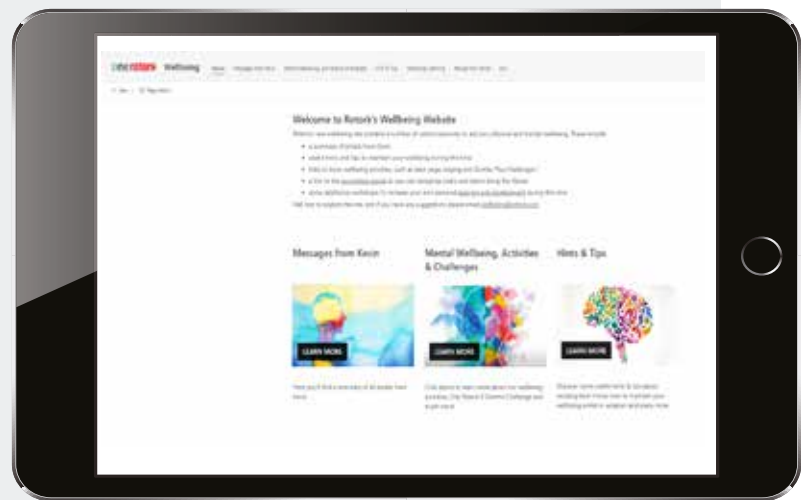
We have deployed similar changes and measures in our office sites, where these are open around the world, to protect employees and visitors. For those working from home, managers ensure that colleagues are supported with the equipment they need in order to do their jobs safely and effectively.

We are extremely proud of the resilience and compassion our people have shown during the pandemic. Rotork engineers have used their technical expertise to produce face shields and reusable visors to help protect people from the virus. Many thousands of items of protective equipment have been delivered to places such as hospitals, air ambulances and care homes around the world.



**Employee wellbeing**

We have also introduced a new suite of wellbeing tools to support colleagues' mental, physical and financial health during these difficult times. Our new wellbeing portal on our colleague intranet site includes messages from our CEO Kevin Hostetler, as well as activities and tips on a range of topics such as managing stress, sleep, nutrition and mindfulness. We also introduced opportunities for colleagues round the world to get together virtually and join wellbeing activities such as desk yoga, Zumba, guided meditation, Pilates and collective singing. Around a third of all employees participated in at least one of these activities.



We continued to recognise World Wellbeing Week this year, albeit in a more virtual capacity. We also launched two Rotork Global Challenges: one to climb the world's eight biggest peaks by ascending stairs; and another to 'visit' every Rotork site globally, walking the distance in steps. Our aim was to promote our value of 'Stronger Together' through team activity and encouraging fitness and wellbeing.

We also launched a wellbeing@rotork email address so that colleagues around the world could get in touch about wellbeing issues, enabling us to provide any further support.

## Our people and culture continued



### Talent and Learning

We recognise the importance of attracting, recruiting and developing talented people. As part of our approach to performance management, employees have regular, structured performance and development conversations with their line managers. We look to fill all roles internally where possible. Around half of our senior leaders have been promoted into their current roles from within Rotork.

Our talent review process is completed twice a year, with outputs reviewed by both the Rotork Management Board and the plc Board. We review the top three management levels, in addition to identifying future talent from across the whole organisation, for succession planning. Linked to this, each of our top 100 leaders has a specific personal and development profile that is also reviewed by our Management and plc Board. This process allows us to understand our talent pipeline for senior roles and ensure the right development is in place for key individuals.

This year we have continued to close skills gaps in our commercial, sales, product management and IT teams.

- We adapted a number of our courses to a virtual environment in 2020 and introduced new courses such as remote working, change and project management. A fifth of our global colleagues attended one of our new workshops in 2020.
- 480 managers have completed our Performance and Reward workshops which discuss the link to both results and Values in how we make decisions, along with how a performance culture operates and links with reward.
- Alongside our restructure to end market segments, our sales teams have completed sales development training based on value selling techniques. To date, two thirds have completed the programme.

### Diversity and inclusion

We recognise the importance of fostering an inclusive and diverse workforce, and valuing different perspectives and contributions. This is embedded in one of our behaviours within our Stronger Together Value: we're open and honest, welcoming diversity and difference.

We continue to drive our commitment to diversity and inclusion and build this into the way we work. We actively review decisions around performance, talent and remuneration to ensure fairness. Our Board considers diversity as part of talent and succession reviews. In one of our pulse surveys this year, employees scored Rotork as 7.4/10 in believing we offer an inclusive culture.

We review our age profile to assist workforce and succession planning. We intend to refocus efforts on a revised young talent and apprentices programme post COVID-19.

We are committed to increasing the number of women in our organisation at all levels. Globally across our workforce, females make up 21.8% of our people.

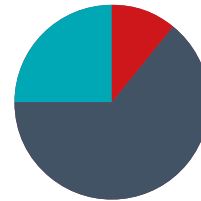
Our 2019/20 Gender Pay Report showed continued progress towards our goals. The mean gender pay gap for women versus men across Rotork in the UK changed from 8.8% to -4.9% whilst median average pay for our female employees in the UK is 8.7% lower than for our men, compared to the UK's national gender pay gap of 17.3%. Our full Gender Pay Report is published at the following address: [www.rotork.com/en/careers/diversity-and-inclusion](http://www.rotork.com/en/careers/diversity-and-inclusion)

We are a member of the 30% Club, which aims to achieve at least 30% representation of all women on all boards and C-suites globally. In addition, we participate in the Bloomberg Gender Reporting Framework, a voluntary disclosure of gender-related metrics, demonstrating our commitment to transparency and the pursuit of gender equality.



### Age Profile

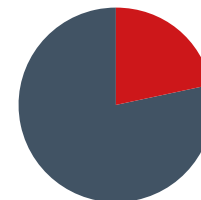
(Group, as of 31st December 2020)



Age Bracket	Employees
Under 30	11%
30 to 49	65%
50 and over	24%

### Gender Profile

(Group, as of 31st December 2020)



Female	21.8%
Male	78.2%

We are also a partner of the Women in Engineering Society (WES) charity, which aims to inspire women to achieve as engineers, scientists and as leaders. In 2020, Ann Christin Andersen, one of Rotork's non-executive directors and Chair of our ESG Committee, helped judge the annual Top 50 Women in Engineering awards.

We are proud to have achieved the target set out in the Hampton-Alexander review of 33% female representation on our Board. In the Industrial Engineering sector of the Review, Rotork was placed 2nd out of 7 in 2020.



During 2020, we undertook our first global survey of ethnicity and disability, to better understand our workforce. We achieved a 32% response rate. We used this to calculate an ethnicity pay analysis for the year 2020/21, using the same approach as for gender pay reporting. We have also retrospectively calculated ethnicity pay figures for the year 2019/20, generating two years of data for us to refer to. Our gender and ethnicity pay reports are published at www.rotork.com. We will use the outcomes of our survey and pay analysis to design a programme of work around supporting our BAME employees.

We welcome the Parker Review target for all FTSE 250 boards to have at least one member from an ethnic minority background by 2024. Our Board diversity policy is available at: www.rotork.com/en/careers/diversity-and-inclusion

**Gender pay reporting:**

All Rotork employees in the UK

At 5 April 2020	2020	2019	2018
Mean Gender Pay Gap actions all Rotork employees in the UK	-12.9%	-4.9%	-8.8%

Median Gender Pay Gap across all Rotork employees in the UK	2020	2019	2018
	2.8%	8.7%	6.3%

**Ethnicity pay reporting:**

All UK survey respondents

	2020	2019
Mean Ethnicity Gap across all UK survey respondents	11.2%	-0.5%

Median Ethnicity Gap across all UK survey respondents	2020	2019
	-3.4%	-12.3%

**Gender diversity at senior levels:**

	2018	2019	2020
Women on Boards	28.6%	37.5%	37.5%
Executive Committee and Direct Reports	17.4%	23.1%	23.1%

Our % of women to men at Board and Executive Committee and Direct Reports levels were unchanged in 2020.

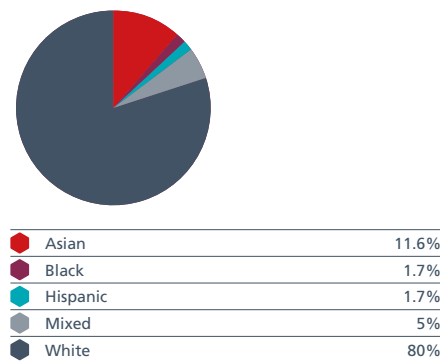
**Supporting change**

Our Growth Acceleration Programme continues to drive change both culturally and structurally in pursuit of higher growth and margins. Our people are key to the successful delivery of the Growth Acceleration Programme.

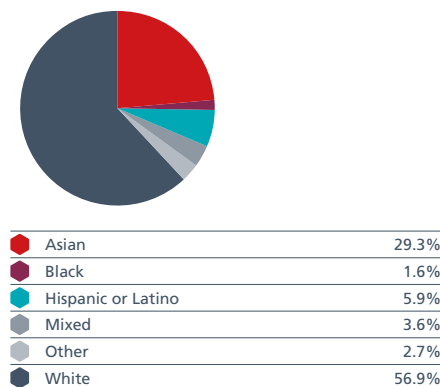
We believe in engaging all colleagues in our change programmes and ensuring their views are heard. We provide change workshops locally before embarking on each programme. We use two cycles of a change diagnostic tool to understand how change is embedding and how our colleagues feel about it.

Around a third of all global colleagues were invited to respond to a change diagnostic survey in 2020. The results enable us to put action plans in place around key areas of focus. We also assess colleagues' comfort with the pace of change through our quarterly pulse surveys. This has remained steady throughout the Growth Acceleration programme at between 6.1/10 and 6.5/10 points.

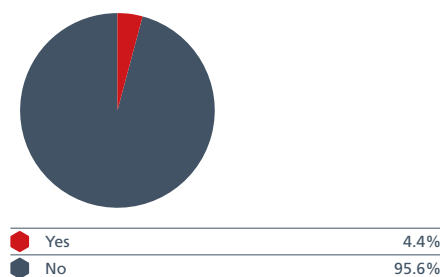
**Senior Leaders Ethnicity Split (includes RMB and their direct reports levels) Ethnicity %**



**Ethnic origin (Responders, representing 32% of the Group) Ethnicity %**



**Registered disability (Responders, representing 32% of the Group) Recognised disability %**



**Our approach to cybersecurity**

Our cybersecurity strategy is directed by our Chief Executive Officer and managed by our Chief Information Officer. The strategy is aligned to best-practice cybersecurity frameworks and built on four major pillars and our core Values:

**Visibility**

- Our core cybersecurity team, alongside our 'Trusted Partners', provide a comprehensive view of the threat landscape. This is monitored 24/7 by our Security Operations Centre and Managed Threat Detection and Response teams.

**Protection**

- We implement proactive measures to ensure the confidentiality, integrity and availability of our information, including the delivery of regular user awareness training for all our people, to help them recognise and avoid cyberattacks on our business, making us 'Stronger Together'.

**Resilience**

- We are 'Always Innovating' to develop our Cyber Incident Response Plan and Disaster Recovery capabilities, meaning that we are able to respond and recover quickly from any cyber incident, minimising any impact to the business.

**Governance**

- We align our strategy and security posture with internationally-recognised cybersecurity frameworks, including the National Institute of Standards and Technology (NIST) and the Information Assurance for Small and Medium Enterprises (IASME). This continual alignment ensures our standards, processes and practices secure the organisation against cyberthreats and remain aligned to our business goals. We also work closely with internal and external audit partners to ensure that cybersecurity risks are regularly reviewed, managed and reported to the board on a regular basis.

Operating responsibly continued



# Health & safety



## First aid injuries (number)

147

2020	147
2019	190
2018	202
2017	290
2016	207

The health, safety and wellbeing of our people, visitors and contractors is our number one priority. We want our colleagues to go home every day in the same or better condition than when they arrived at work. Safety involves everyone and everything we do.

There are many challenges when maintaining Health and Safety in workplaces globally. It requires vigilant awareness of many shifting factors. In 2020 the COVID-19 pandemic set us the toughest safety and health challenge that we have ever experienced.



### Our global COVID secure response

We set out two main objectives for our defence against the virus. The first was to ensure that our employees were safe and protected against the threat of virus spread at our facilities and at our customers' facilities. The second, to protect the business by successfully managing the threat and delivering on commitments made to our customers.

To meet our objectives we established the COVID-19 Steering Committee to ensure the ongoing safety of colleagues, customers and their families. The global HSE team produced a standardised approach to COVID-19 Risk Assessment and control. Our seventy-seven point control plan has helped us protect our employees when at work and protect our customers, maintaining excellent business performance. We have kept continual improvement in mind, by frequently auditing the control plan at a facility level. This has helped us react to the changing virus developments when required.

### Health, Safety and Environment Management System

#### Improving our H&S data analysis

Creating an effective workplace safety strategy begins with accountability, root cause analysis and constant review against performance. At Rotork we recognize the role that data collection and analysis can play in helping us continually improve our health & safety performance.

In 2020 we started the development of our new HSE Management System (HSE MS) software package using Microsoft Dynamics 365 (D365). The system will capture all required HSE data, including lagging and leading indicators. The system will use Power BI to develop EHS Performance dashboards and reports. This will give our business leaders and HSE teams a powerful new way to look at trends and to examine the main causes of injuries, illnesses and other EHS incidents at our facilities. The system was implemented in February 2021.

#### Refreshing our Global Standards

We continue to perform well against our main lagging indicator KPI. Our LTIR rate has reduced for the last three years. That doesn't stop identifying improvement opportunity so we can maintain that year on year LTIR reduction trend.

We are currently refreshing our Global Standards and developing an updated set of Rotork Life Saving Rules (RLSR). As part of this program we completed a Gap Analysis of our current systems, using other internationally recognized best practice systems as a guide and benchmark. Training against the new RLSR's will be completed by June 2021.



## Delivering safety solutions to our customers

Rotork products have an important role to play in helping our customers with their Health & Safety performance. There are many great examples of Rotork products that have been developed with safety in mind, including:

1

### Remote Hand Station ('RHS')

The RHS enables the safe monitoring and control of Rotork IQ3 actuators installed in inaccessible and/or hazardous locations (for example in traditional power stations). The RHS can be installed up to 100 metres from the actuator using standard data cable.

2

### Emergency Shutdown (ESD)

Intelligent actuators such as the IQ3 range offer Emergency Shutdown (ESD) functionality, to prevent or minimise consequences of failure and to stop the flow of a product through the valve. ESD within IQ actuators can be configured to open, close or stay put depending on process requirements. This is a key safety related duty. IQ actuators are certified for safety applications (SIL2/3).

### Hazard identification, risk assessment & incident reporting

H&S hazards are identified and risk assessments are performed in a collaborative manner. The assessment process identifies prevention and mitigation strategies to reduce risks within our operational environments.

We encourage employee engagement and empowerment to hazard identification through our Safety Spot system. The system proactively drives awareness and continual improvement by capturing hazards, minor near miss events and behavioural requirements before they result in an incident. We measure our performance against the system and the system is one of our three main leading indicators.

Our HSE Investigation procedure is our global standard for all our businesses to follow. It directs our businesses to have trained personnel to report, classify, and investigate EHS Events (i.e. near misses and incidents). It also requires all employees to report all EHS Events promptly to their line management, so that an appropriate and timely response can be made.

As part of the Microsoft D365 HSE MS, we built a new incident investigation process using the eight disciplines problem solving format (8D). The new process was rolled out as part of the release in February 2021.

### Wellbeing (Worker Health)

Employee wellbeing is a particular area of focus for Rotork, particularly in these difficult times. We support employees' wellbeing by driving awareness, providing support options and tools, and promoting healthy choices, with the aim of supporting employees to have a successful and balanced workplace wellbeing lifestyle.

Our wellbeing platform provides access to wellbeing communications from Kevin Hostetler – our CEO who champions workplace wellbeing – along with a dedicated area for Mental Wellbeing, Activities and Challenges and a "Hints and Tips" section where employees can discover a number of useful pieces of information including areas such as working from home and how to maintain wellbeing whilst in isolation.

### Performance

Tragically, we suffered our first ever workplace fatality in July 2020. One of our Rotork Site Services employees was fatally injured when completing a maintenance task at a customer's facility. We thoroughly investigated the accident to determine the root cause and identify any lessons to be learned. Our investigation was discussed by the Board. We are deeply saddened by the loss and we continue to work towards eliminating injuries at work.

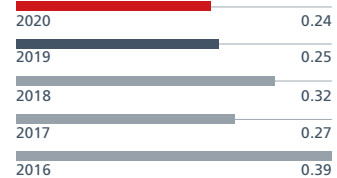
We continue to use a mixture of leading (proactive) and lagging (reactive) indicators to assess the Health and Safety performance of our organisation. We monitor and record Health and Safety leading indicators at a site level and hold our businesses accountable for improving their leading indicator performance. Currently we have three such KPIs. Our focus on these helped to improve our accident performance in 2020.

Our main lagging indicator is our Lost Time Injury Rate ('LTIR') and we delivered an improvement from 0.25 in 2019 to 0.24 in 2020. The number of first aid injuries also fell significantly. In 2019 we had 198 first aid injuries and in 2020 there were 147 first aid injuries.

Moving forward, we will work to continuously improve our safety performance and further develop our leading indicator philosophy.

### LTIR (lost time injury rate)

0.24



### Leading indicators:

#### Safety Gemba Walks:

Gemba is a lean term for the place where the value is created. From a safety perspective it means that we go to where the work takes place and test how our safety requirements are followed. In 2020 we completed 1,557 Safety Gemba Walks across all Rotork facilities (2019: 902).

#### Safety Spots:

The Safety Spot system is part of our drive towards safety awareness, participation, hazard identification and engagement with our employees.

We actively encourage our co-workers to identify potential safety issues as part of their day-to-day role. In 2020 we raised 6,646 Safety Spots across all Rotork facilities, which is a percentage increase from the 2019 performance of 52%.

#### Global annual audit programme:

This programme provides an analysis of how each of our facilities perform against our standard Health, Safety and Environmental requirements. The programme is used as a key driver to continually improve our HSE performance. By the close of December 2020, 56 Rotork sites completed internal audits which resulted in 436 completed audit actions throughout 2020.

Operating responsibly continued

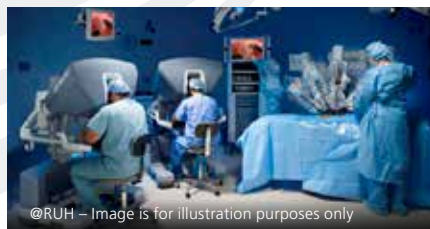


# Engaging with our communities

Rotork considers it important to contribute to and engage with the communities in which we operate around the world. We regard this as part of our ongoing responsibilities as a good corporate citizen. This directly links to our Values and underlying behaviours and enables us to make a beneficial impact on our communities.

Our target is to contribute 0.1% of profits to nominated international charities, and a similar percentage to local charitable causes around the world. Local charity committees in each site support charitable causes that are important to their local communities, such as volunteering, fundraising and donations. In keeping with our Values, local teams are empowered and encouraged to decide how to distribute funds and support their local communities.

## Local community highlights



@RUH – Image is for illustration purposes only



Rotork donated £5,000 to The Forever Friends Appeal towards a Surgical Robot for the Royal United Hospital in Bath, UK. Over the years, huge advances in surgical techniques has led to a shift from open surgery to more minimally invasive methods, which have fewer complications and a shorter recovery time.

At Christmas our UK colleagues donated to the KidsOut Giving Tree, raising money for children who have escaped domestic abuse and are living in refuges. We supported this in Bath in 2019, and our Employee Forum were keen to extend support nationally.

In Germany, Rotork donated €7,500 to the Children's Hospital in Fürth. With this donation, we provided start-up assistance for the financing of a video laryngoscope that will be used in the paediatric intensive care unit.

In Malaysia our staff raised money towards a local orphanage.

In India, our colleagues assisted with various local community projects. We donated to several schools, provided clean water drinking facilities in Mattiyur, planted trees on world environment day, helped with environmental efforts in Porur lake, and donated to flood relief in Gujurat.

In Rochester, US, we donated \$1,500 to Foodbank a non-profit organisation who provide emergency food to communities in need.

Our Winston-Salem, US, office donated \$3000 to a local Food Bank and another \$3000 to The Salvation Army.

In Canada, colleagues raised over \$2,000 towards the awareness of men's health during November, which Rotork match-funded.



This year some of our community support was channelled away from our traditional focus on the Arts, museums and education towards the fight against COVID-19. Colleagues around the world played their part in supporting hospitals and their local communities.



Our UK Engineering team designed and 3D printed face shield frames to provide as vital equipment for the National Health Service, distributing frames and shields to the Royal United Hospital in Bath. Face shields were also delivered to hospitals in Chippenham and Leeds.



Employees at Rotork Midland, UK, recognised how difficult the Christmas period was going to be for many families facing additional hardship as a result of the COVID-19 situation and organised a collection of food and toiletries to be donated to the local foodbank.



Colleagues in Langenzenn, Germany supported FabLab, a volunteer organisation, and used a 3D printing techniques to produce a holding bracket for face shields to assist medical personnel.

The team in Lucca, Italy, donated protective equipment used by our paint staff to the local hospital to assist front-line medical staff in the fight against COVID-19.

In the US, our design engineers partnered with local manufacturers to deliver over 5,000 assembled frames for face shields with contributors from all over the US. Both transparencies and elastic material holding the frames in place were provided by Rotork and this helped local hospitals in the fight against COVID-19.

For over 50 years Fairchild in the US has designed and manufactured precision pressure control devices, used in a wide variety of applications. Fairchild worked with six manufacturers to fill the need for precision pressure control regulators. They supplied regulators to assist in the dual-use of ventilators which allows for one ventilator to serve two patients simultaneously.



Colleagues in India donated £10,700 to the Prime Minister Relief Fund to fight COVID-19. Half of this was raised by employees agreeing to donate one day's pay, while the other half was donated from the Rotork India CSR fund. With help from local vendors, the team produced 5,000 face shields for health workers, which were delivered to the office of the Chief of State's Medical Centre. Our colleagues also took part in food collections to poor communities and donations to food banks.



Engaging with our communities continued



**International charity partners**

International charities must align closely with Rotork’s Purpose and Values. Charities are identified and reviewed using four parameters:

1

Accountability requirements. How will donations be used, how readily are accounts available, what proportion reaches recipients?

2

Fit. Do key causes align and what’s the global reach. How can we engage effectively with the charity, what value does our funding bring?

3

Demonstrating & learning from achievements. Have there been concerns with how the charity is run, has the charity faced notable issues and how were they dealt with?

4

Learning about funding practice. How will the funding help us meet our own strategic aims?



@Cara Treasure, Pump Aid



**Pump Aid and Rotork have worked together to transform the lives of children and community members in rural Malawi.**

At two pre-schools, Pump Aid has provided water points, child-friendly toilets, handwashing stations, and hygiene behaviour education, as well as nutritious meals using crops grown in kitchen gardens. As a result, 260 children and 1,600 community members now have access to clean water and improved sanitation. Rather than suffering ill health, children are able to attend school and thrive, with higher cognitive performance and dramatically improved life chances. Community members are seeing improved health and reduced distances walked in order to draw water. In addition, Pump Aid’s self-supply programme develops the skills of local pump mechanics in order to restore water functionality for communities and households, and to provide irrigation to small-scale farmers. In 2020, this brought clean, safe water to over 200,000 people in rural Malawi.



**Contribution**  
Pump Aid

**£40,000**



@Renewable World



@WeForest



**Funds donated by Rotork to Renewable World have contributed to the development and delivery of a solar water pumping programme in Nepal.**

Three solar water pumping projects in Nepal will benefit a total of 26,500 people. Through the SolarMUS III project, Renewable World were able to install ten solar water pumps, benefitting those in Nepal's remote hills where communities face increasing pressure generating an income from agriculture due to unreliable water access. Thanks to this programme, 5,000 people gained access to a household tap for the first time.

**In our 3Q environment and sustainability survey (see page 60), Rotork colleagues told us they wanted us to focus on planting trees to help the environment.**

Through a new partnership with WeForest, Rotork is supporting the construction of natural infrastructure solutions to halt desertification in Ethiopia and to secure water resources for 18,000 families. This involves the planting and conservation of 49 million trees, digging water-harvesting infrastructures and the deployment of ambitious schemes in 14 rural villages, transforming the lives of these communities. As the seedlings grow, the roots bind the soil to reduce erosion, improving soil health. WeForest works with farmers to build dams, micro-basins and water harvesting ponds to retain rainwater, improve infiltration and increase water access.



**Contribution**  
Renewable World

**£40,000**



**Contribution**  
WeForest

**£24,000**



**Match funded**  
Rotork Benevolent Support fund

**£22,000**



**In addition, Rotork match funded £22,000 to the Rotork Benevolent fund.**

This is a charity Rotork has set up to provide short-term financial support to employees, and ex-employees, and their families facing financial hardship, especially as a result of the COVID-19 crisis.

Operating responsibly continued



# Environment

Despite a challenging year, when the Health and Safety of our colleagues, contractors and visitors has been our number one priority, we have been able to make significant progress in reducing our environmental impact.

Climate change is an increasing risk for the world. As part of Rotork's journey to achieve our environmental goals, in 2020 we built a new environmental data collection process using Power App. The system develops data for Power BI to produce reports and analysis, to help us identify strategic reduction opportunities at site and corporate levels.

The system will be tested and rolled out in early 2021.



## Our approach to environment

**We are working on developing a new set of aspirations and targets to further reduce our environmental impact. As part of our approach, we are committed to reducing our emissions, energy, water usage and waste.**

### GHG Emissions & Energy

- We will develop a net-zero carbon target. We will implement energy reduction projects at our manufacturing facilities, improve data collection, and review additional ways to reduce our carbon emissions.

### Waste

- We will review our approach to waste management, recycling and waste supplier selection, and work to develop a new target for waste reduction.

### Water

- We will conduct regular analysis to identify our locations in water-stressed areas. We will also develop our measurement analysis, leak detection and water recycling and water saving approaches.

**We will develop a net-zero carbon target.**



# Emissions

Reduction in scope 1 & 2 GHG emissions vs 2019 %

18%

Intensity: emissions (scopes 1 and 2) per £1m of revenue for 2020 tCO<sub>2</sub>e

14.1 tonnes CO<sub>2</sub>e/£1m

## Performance Energy & emissions

Our total CO<sub>2</sub>e emissions (scopes 1, 2 and 3) reduced by 8.4% last year. Scope 1 and 2 emissions reduced by 18% in 2020, or 9.5% per £1 million of revenue. We emitted 14.1 tonnes of CO<sub>2</sub>e per £1 million of revenue in 2020, compared with 15.5 tonnes in 2019.

We achieved an 7.5% reduction in electricity usage (kWh) compared with 2019 and a 18.4% reduction from the 2017 baseline.

We were also able to demonstrate a gas usage performance reduction of 16.3% (m<sup>3</sup>) from 2019, a decrease against the 2017 baseline of 15.2%.

In 2020, we completed a number of footprint rationalisations which contributed to the reduction in our annual energy consumption. We transferred assembly operations from Dallas (USA) to Rochester. Operations at Petaluma (USA) have been moved to both Rochester and Houston. We also closed three sales offices in Lutterworth (UK), Chelmsford (UK) and Lutzenberg (Switzerland). In addition, we completed several energy reduction projects during the year as part of the Rotork Management Operating System (RMOS), including delivering LED lighting improvements, better data collection processes and systematic analysis of energy usage. The closure of our offices due to COVID-19 also made a modest contribution. To note, our office network typically constitutes around 11% of our electricity usage.

Reduction in electricity usage vs 2019 %

7.5%

Reduction in electricity usage since 2017 baseline %

18.4%

Targeted annual electricity and gas reduction %

3%

Reduction in gas usage vs 2019 %

16.3%

## Total GHG Emissions

Our total Greenhouse Gas emissions were 8.4% lower year-on-year and 22.2% lower than the 2017 baseline year. The Group has no other GHG emissions (such as methane, N<sub>2</sub>O, Sulphur hexafluoride, HFCs or PFCs) to report.

Energy		Unit of Measure	2020	2019	2018	2017
Electricity used	KWh		13,409,310	14,501,917	16,194,145	16,438,473
Gas used	Cubic Metres		961,545	1,149,779	1,165,313	1,134,506
Emissions		Unit of Measure	2020	2019	2018	2017
Scope 1	Metric tonnes					
	CO <sub>2</sub> e		3,217	4,575	5,597	5,644
Scope 2	Metric tonnes					
	CO <sub>2</sub> e		5,286	5,833	6,286	6,682
Scope 3*	Metric tonnes					
	CO <sub>2</sub> e		40,630	43,234	49,739	50,792
GHG Total (Scope 1+2+3)	Metric tonnes					
	CO <sub>2</sub> e		49,133	53,642	61,623	63,120

\* Scope 3 emissions include those associated with water usage and waste water treatment, as well as well-to-tank emissions for our energy sources.

We report our carbon emissions in line with the DEFRA Environmental Reporting Guidelines. These include guidance on compliance with the Streamlined Energy and Carbon Reporting (SECR) regulations. Rotork Plc classifies GHG emissions into three 'scopes'. Scope 1 emissions are direct emissions from sources that are owned or controlled by Rotork, including combustion of fuel and operation of facilities. Scope 2 emissions are indirect emissions from the purchase of electricity, heat, steam and cooling purchased for own use. Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain. For Rotork, Scope 3 emissions include those associated with water usage and waste water treatment, as well as well-to-tank emissions for our energy sources. Annual energy consumption (kWh) is obtained from both actual (invoices and meter readings) and estimated (some office energy rates included in monthly charge) sources. Where conversion of units to kWh is required, the latest conversion factors from the UK Government are used; source [www.gov.uk/government/collections/government-conversion-factors-for-company-reporting](http://www.gov.uk/government/collections/government-conversion-factors-for-company-reporting) In line with the SECR requirement to disclose the proportion of carbon emissions and energy associated with the United Kingdom, we estimate that 17.6 per cent of emissions and 25.2 per cent of energy usage relates to our UK operations.

**INDEPENDENT VERIFICATION:** Electricity, gas and GHG emissions data for 2020 presented here has been independently verified by Make UK. Some data for 2019 has also been restated following this independent verification.

**Environment** continued



**Water**

Whilst our own operations are not large users of water, Rotork plays a major part in managing this scarce resource. In fact, the most common application of Rotork’s products and services across all our end markets is the control and management of water.

Our customers are, with our help, making significant efforts to manage their environmental impact, including the recovery, recycling and treating of water.

We complete a water stress risk assessment for our operations on an annual basis. The assessment identifies our locations that fall in high water stress areas. We use information from the assessment to identify if there is opportunity to implement practical water use reduction projects in those areas and ease the burden on already stressed water basins.

Water consumption across the majority of our sites is relatively small and limited to domestic supply used for drinking and sanitary facilities. A few of our sites use water for production purposes though this is limited to oil/water mixes, water for cleaning products prior to painting and pressure testing of units. Where water discharges occur into drainage systems, this is from toilets and sinks and goes into sewerage for treatment at a local facility. Where contamination could occur from cleaning processes, this water is removed by licensed and authorised contractors for pre-treatment prior to disposal. Oil/water mixes are treated as hazardous waste and are disposed of in line with local regulations.

Our water withdrawal fell by 4.8% year-on-year in 2020, equivalent to a 18.6% reduction against the 2017 baseline. The biggest driver of the reductions was the completion of environmental projects identified by the Rotork Management Operating System (‘RMOS’). Water is usually sourced from domestic suppliers. In Chennai (India) we harvest rainwater.

	Unit of Measure	2020	2019	2018
Total water withdrawal	Cubic metres	<b>36,876</b>	38,738	44,463

**Waste**

We encourage all of our locations to minimise or eliminate the amount of waste that they produce, and we use the RMOS system to identify projects that drive performance improvement.

	Unit of Measure	2020	2019	2018
Total waste	Metric tonnes	<b>2,205</b>	2,273	3,592
Waste recycled	Metric tonnes	<b>1,654</b>	1,579	2,471
Sent to landfill	Metric tonnes	<b>295</b>	592	820
<i>Of which hazardous</i>	<i>Metric tonnes</i>	<i><b>67</b></i>	<i><b>264</b></i>	<i><b>360</b></i>
Sent to energy recovery	Metric tonnes	<b>255</b>	102	301

In 2020, we achieved a reduction in total waste of 68 metric tonnes year-on-year, a 26% reduction versus the 2017 baseline year. Our factory footprint optimisation initiatives contributed to the improved performance.

We recycled 75% of our waste in 2020, up from 69.5% the prior year. Wood and steel represented just over two-thirds of our recycled waste in 2020 (by weight). We achieved a significant reduction in the amount of waste we sent to landfill in 2020; 50% less than in 2019.

**Case study**  
**Rochester (US)**

Rotork held a groundbreaking celebration on October 30, 2019 for new manufacturing and office space as well as a state of the art customer experience centre. The expansion project was successfully completed and turned over on October 28, 2020, less than 12 months after breaking ground. The manufacturing and office expansion will create an additional 55 jobs locally over the next 5 years, while retaining a workforce of one hundred and twenty employees.

We completed the project with a “Build Green” philosophy. We took into consideration the impact on the environment by employing a fleet of energy efficient electric forklifts; supplementing their existing



and projected electric energy source with a renewable energy supply by incorporating 50% hydropower from Niagara Falls; implementing a storm water management system; implementing high efficient lighting, HVAC and equipment, and adding greenspace landscaping features.

## Task Force for Climate-related Financial Disclosures aligned summary

### Managing climate-related risks and opportunities

We are working to implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). TCFD aims to standardise companies' reporting of climate-related risks and opportunities, in line with the four thematic areas, strategy, risk management and targets and metrics. We provide a summary of Rotork's management of climate-related risks and opportunities below. We anticipate augmenting our TCFD-aligned disclosure in our Sustainability Report, which will be published later this year. We will also undertake a TCFD-aligned scenario analysis this year, to better understand the potential financial impacts of risks and opportunities facing our business. The scenario analysis will be published in our 2021 Annual Report & Accounts.

### Governance

The Rotork plc Board has overall accountability for oversight of effective risk management. As part of this, the Board oversees the Company's management of climate and environment-related risks and opportunities. It is included as an agenda item at Board meetings. Our Board members bring deep sectoral and engineering expertise, including climate and environment-related competency. Given the significance of climate change risks and opportunities, the Board, and the newly-formed ESG Committee, will participate in deep dive sessions on the topic, as well as other pertinent ESG issues, as part of a rolling programme going forward. The Board is supported by the ESG Committee, the Audit Committee and the Rotork Management Board. Our Group Risk & Internal Audit function is responsible for the day-to-day delivery of effective risk management across the group, including maintaining our risk register. ESG performance – including management of climate change issues – is linked to senior leaders' remuneration. For 2021, it will become 10% of the bonus opportunity.

### Strategy

Sustainable use of natural resources is a commercial imperative, as well as an environmental one. We recognise that there are significant operational, financial and competitive benefits in addressing environmental issues. Environmental considerations are therefore a key part of our Growth Acceleration Programme. This programme focuses on simplifying our core business, delivering manufacturing improvements and developing our global supply chain. It also targets sustainable growth through innovation, by broadening the application of existing products and accelerating new product development, with a particular focus supporting

our customers' sustainability and net zero objectives. Our capital management processes include climate-related considerations. For example, we consider energy and resource efficiency, and emissions reduction, as part of investments in our property estate. See the case study on page 72 about our new facility in Rochester, US, as an example of this.

We identify material risks and opportunities through our Group risk management framework. We also input views and contributions from our key external stakeholders, including customers, suppliers and investors. We augmented our stakeholder engagement in January 2021 with the introduction of a materiality process. In this year's process, environmental matters, including climate change, ranked among the most material topics identified. Stakeholders' inputs were discussed by the ESG Committee in February 2021. See pages 54 to 55 for more detail about our materiality assessment and its outcomes.

We set out our approach to managing the environmental impacts of our operations on pages 68 to 70. We have committed to developing a net-zero carbon target. As mentioned above, we will also undertake a detailed analysis during 2021, in line with TCFD recommendations, to better understand the potential financial impact and our resilience to different climate change scenarios.

### Risk management

Climate-related risks and opportunities are assessed and managed using the Company's overarching risk management framework. The Group's established risk management framework incorporates both a 'top down' and 'bottom up' risk identification process. 'Top down' risk identification is performed at the Board and management level. 'Bottom up' risk identification process is carried out at departmental, regional and divisional levels. Risks are identified continually during the year, with formal reviews at mid-year and full year to assess current and emerging risks. We also hold dedicated risk sessions on specific topics, such as the potential impact of the energy transition, climate change or other environmental changes that may impact Rotork in the future. We also incorporate stakeholder feedback into our assessment. For example, our Sales teams are in regular dialogue with customers, and, through this, gain insights into customers' environmental targets and issues beyond our own operations. The most significant risks are consolidated and reported at Group level onto our Principal Risk register.

We monitor climate risk closely given its significance internally and externally. In line with the TCFD's recommendations, we consider both physical risks, such as extreme weather events, and transitional risks, such as the global energy sector's shift from fossil-fuel based systems to renewable sources. We also consider opportunities that may arise. This could include, for example, new opportunities for growth in supporting our customers' transition to a low carbon economy. See page 40 for details of our risk management approach and identified physical and transitional climate change risks.

### Metrics and targets

As detailed on page 70, we are working on developing a new set of aspirations and targets to further reduce our environmental impact. As part of our approach, we are committed to reducing our emissions, our energy and water usage, and waste. We have committed to developing a net-zero carbon target. Our scopes 1, 2 and 3 emissions for 2020 are reported on page 71. Overall, we achieved a reduction of 8.4% in our total greenhouse gas emissions compared to the prior year (scopes 1, 2 and 3). Scope 1 and 2 emissions reduced by 18% in 2020, or 9.5% per £1million of revenue. We report emissions in line with the Greenhouse Gas Protocol Corporate Standard. Going forward, we will report progress against our environment targets, and details of the environmental initiatives we are undertaking, in a dedicated Sustainability Report, as well as in our Annual Report.

**Water withdrawal reduction year-on-year in 2019**

%  
**4.8%**

**Waste recycled in 2020**

%  
**75%**

## Financial review

**Jonathan Davis**  
Group Finance Director



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

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

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

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

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

### Growth Acceleration Programme

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

Within the Operational Excellence pillar the focus on managing our factories through COVID-19 redirected efforts that might otherwise have been spent on driving GAP initiatives. The global strategic sourcing (GSS) team had to focus on managing our supply base, as COVID-19 affected suppliers to varying degrees throughout the year,

to ensure we maintained the supply of components required to meet customer deliveries. The challenges were both the situations at our suppliers' facilities and the logistics of getting the components to our factories. In spite of this the GSS team delivered incremental net savings of £2.3m in the year. Similarly the continuous improvement and lean initiatives continued throughout the year with ~300 lean events completed. Nearly half of these delivered financial benefits which delivered £1.5m of savings in the year. Lastly the footprint optimisation programme continued with a further two factories closed during the year. The benefits of these closures and the carry forward from 2019 closures delivered £2.3m of incremental benefits.

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

### Adjusted items

Adjusted profit measures are presented alongside statutory results as the Directors believe they provide a useful comparison of business trends and performance from one period to the next.

The statutory profit measures are adjusted to exclude amortisation of acquired intangibles and other items, comprising the net restructuring costs resulting from the Growth Acceleration Programme.

### Adjusted earnings reconciliation

£m	Statutory results	Amortisation	Restructuring costs	Adjusted results
Operating profit	122.6	14.1	5.9	142.5
Profit before tax	122.0	14.1	5.9	142.0
Tax	(28.7)	(3.0)	(1.5)	(33.2)
<b>Profit after tax</b>	<b>93.3</b>	<b>11.1</b>	<b>4.4</b>	<b>108.8</b>

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

### Organic constant currency results

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

£m	2020 as reported	Constant currency adjustment	2020 at 2019 exchange rates	Organic business at 2019 exchange rates	2019 <sup>2</sup>
Revenue	604.5	7.5	612.0	612.0	661.2
Cost of sales	(320.2)	(4.8)	(325.0)	(325.0)	(351.7)
Gross profit	<b>47.0%</b>	284.3	287.0	287.0	309.5
Overheads	<b>23.5%</b>	(141.8)	(142.6)	(142.6)	(159.4)
<b>Adjusted operating profit<sup>1</sup></b>	<b>23.6%</b>	142.5	144.4	144.4	147.1

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

2 As a result of business disposals and closures the 2019 comparatives have been restated to enable the OCC business growth to be calculated. This reconciliation is shown in note 2.

## Financial review continued

### Currency

In 2020 we experienced an overall currency headwind. The major currencies impacting the income statement are the US\$ and the euro. The US\$/£ average rate of \$1.28 (2019: \$1.28) was unchanged whilst the euro/£ average rate was €1.12 (2019: €1.14), a 2 cent tailwind. With the average sterling rate across the basket of currencies, particularly India, Russia and Mexico, being stronger than 2020 this has resulted in a £7.5m or 1.2% headwind reported in revenue.

The impact of currency on the Group is both translational and transactional. Given the locations in which we have operations and the international nature of our supply base and sales currencies, the impact of transaction differences can be very different from the translation impact. We are able partially to mitigate the transaction impact through matching supply currency with sales currency, but ultimately we are still net sellers of both US dollars and euros. It is the net sale of these currencies which we principally address through our hedging policy, covering up to 75% of net trading transactions in the next 12 months and up to 50% between 12 and 24 months.

In order to estimate the impact of currency, at the current exchange rates we consider the effect of a 1 cent movement versus sterling. A 1 euro cent movement now results in approximately a £250,000 (2019: £300,000) adjustment to profit and for US dollar, and dollar related currencies, a 1 cent movement equates to approximately a £700,000 (2019: £700,000) adjustment.

### Return on capital employed (ROCE)

Our capital-efficient business model and strong profit margins mean Rotork generates a high ROCE. Our definition of ROCE is based on adjusted operating profit as a return on the average net assets excluding net cash and the pension scheme liability, net of the related deferred tax. The average capital employed decreased 6.0% over the year to £446.4m as there were no acquisitions during 2020 and we increased our net cash position. This resulted in an increase in ROCE despite the reduction in adjusted operating profit to 31.9% (2019: 31.8%).

### Taxation

The Group's headline effective tax rate decreased from 24.1% to 23.5%. Removing the impact of the non-recurring adjustments provides a more reliable measure and on this basis, the adjusted effective tax rate is 23.4% (2019: 23.5%), principally because of a reduction in the deferred tax liability relating to unremitted earnings from India as a result of a decrease in Indian withholding tax rates from 1 April 2020. The Group expects its adjusted effective tax rate to remain higher than the standard UK rate due to higher rates of tax in China, the US, South Korea, Germany, India, and Australia.

The Group's approach to tax continues to be to operate on the basis of full disclosure and co-operation with all tax authorities and, where possible, to mitigate the burden of tax within the local legislation.

### Cash generation

Our strong cash generation resulted in a net cash position of £178.1m at the end of the year (2019: £106.1m). Our cash conversion KPI shows a conversion of 129.5% of adjusted operating profit into cash which is slightly lower than the 131.4% reported in 2019. The Group invested £25.3m in capital expenditure in 2020, an increase of £8.0m, as we continue to invest in our IT infrastructure and operating footprint as part of the Growth Acceleration Programme. Our Research and Development (R&D) cash spend has decreased 2% to £12.9m which represents 2.1% of revenue (2019: £13.2m and 2.0%). The most significant spend was associated with the development of Pakscan 4 but the focus in 2019 was largely on reorganising the R&D team before accelerating spend on new developments. Dividends of £33.9m, which was only one payment in the year, and tax payments of £30.8m were the two other major outflows.

Control of working capital as defined in the cash flow statement, using average exchange rates and excluding disposals, is key to achieving our cash generation KPI. The drive to reduce inventory generated £12.6m whilst a reduction in trade receivables generated a further £13.1m. Trade receivables measured as days' sales outstanding reduced from 57 to 56 days. Net working capital in the balance sheet decreased to 21.0% of revenue compared with 24.2% in December 2019 and generated an £18.7m inflow in the cash flow statement.

### COVID-19, Brexit and geopolitical risk

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

In the second quarter, when uncertainty regarding the pandemic was at its height, we carried out a series of risk assessments in order to plan for a range of scenarios. These mirrored some of the scenarios we include in our annual viability statement which can be found on page 49. Due to the level of uncertainty, and out of an abundance of caution, we took the decision in March to withdraw the recommendation to pay a 2019 final dividend which had been declared in the 2019 preliminary results announcement. We also applied to the UK Government's Covid Corporate Funding Facility, although we decided not to complete the process so didn't utilise the facility, and replaced our committed revolving credit facility which was due to expire mid-2020. At the same time we took advantage of a number of government backed schemes, such as furlough in the UK, to temporarily reduce the cost to the business of non-productive employees. Over the next few months, as the situation stabilised, we repaid all UK government support and were left with an immaterial benefit from other similar schemes globally. The benefit of these is included in the assessment of temporary saving shown above. At the mid-year we also decided to pay a 3.9p per share interim dividend, equivalent to the 2019 final dividend that had been proposed and then withdrawn. At the same time we undertook to pay a dividend in respect of the whole of 2020 in May 2021.

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

The more severe scenarios we considered in our exercise in the second quarter did not transpire for 2020. The dedication of all our employees, whether working from home or continuing to go to work, has meant we have been able to deliver a resilient set of results. The early actions to mitigate costs, combined with the momentum in our Growth Acceleration Programme, has driven an increase in adjusted operating margins once again despite a reduction in revenue.

We entered 2020 expecting to see the final stages of the Brexit negotiations and the terms on which the UK would trade with other countries from 1 January 2021. The UK's decision to leave the EU led to

a higher level of uncertainty surrounding trading conditions, particularly between the UK and the EU. Rotork established a Brexit steering group following the referendum which assessed and monitored the potential impact on the Group and it still continues to manage the implementation of mitigation plans and assess ongoing risks.

The following Brexit risks were identified as having a potential impact on our business:

- Economic conditions: Increased uncertainty including the specific impacts on growth, inflation, interest and currency rates.
- Laws and regulations: Potential changes to UK and EU-based law and regulation including product approvals, patents, duties and import/export tariffs.
- Short term supply chain disruption: Potential changes in customer buying patterns, delays in Customs for products shipped to and from the EU and the rest of the world and border clearances and uncertainty over UK and EU product approvals.

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

As a global business we continue to monitor the trade position between China and the US, and between all locations where we are based or have customers or have suppliers, and have considered the potential impact of additional trade barriers between these countries. We will take steps where necessary to mitigate any such changes but continue to believe they will not materially impact the Group's results. We have included scenarios in the viability assessment which models the impact of all of these current uncertainties. The viability statement can be found on page 49.

### Credit management

The Group's credit risk is primarily attributable to trade receivables, with the risk spread over a large number of countries and customers, and no significant concentration of risk. Creditworthiness checks are undertaken before entering into contracts or commencing trade with new customers and in companies where insurance cover operates, the authorisation process works in conjunction with the insurer, taking advantage of their market intelligence. We maintained coverage of the credit insurance policy during the year and have cover in place for virtually all of our companies at an aggregate of 90% of receivables. This level of coverage was retained despite the challenges faced in the credit market as a result of COVID-19. Where appropriate, we use trade finance instruments such as letters of credit to mitigate any identified risk.

### Treasury

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

The Group uses financial instruments where appropriate to hedge significant currency transactions, principally forward exchange contracts and swaps. These financial instruments are used to reduce volatility which might affect the Group's cash or income statement.

In assessing the level of cash flows to hedge with forward exchange contracts, the maximum cover taken is 75% of net forecast flows. The Board receives treasury reports which summarise the Group's foreign currency hedging position, distribution of cash balances and any significant changes to banking relationships.

The Group has one committed £60m revolving credit facility expiring in June 2022. At year end this was undrawn, resulting in £60m being available.

### Retirement benefits

The Group accounts for post-retirement benefits in accordance with IAS 19, Employee Benefits. The balance sheet reflects the net deficit of these schemes at 31 December 2020 based on the market value of the assets at that date, and the valuation of liabilities using year end AA corporate bond yields. We closed both the main defined benefit pension schemes to new entrants; the UK scheme in 2003 and the US scheme in 2009 in order to reduce the risk of volatility of the Group's liabilities. In 2018 we further reduced the risk of volatility when we completed the closure to future accrual of both the UK and US schemes. Members of the defined benefit schemes were transferred onto the relevant defined contribution plan operating in their country.

The most recent triennial valuation of the UK scheme took place at 31 March 2019 and showed an actuarial deficit of £28.7m and a funding level of 86%. A recovery plan was agreed with the Trustees as part of the 2019 valuation, resulting in required annual contributions from the Company of £6.8m with effect from 1 April 2020. The annual update to the actuarial valuation at 31 March 2020 showed the deficit had grown to £45.9m and funding level decreased to 78%. This was due to the continued reduction in gilt yields and the reduced value of assets at what was the start of the first COVID-19 lockdown (asset values have since recovered strongly).

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

The accounting deficit is different to the actuarial deficit as on an accounting basis we are required to use AA-rated corporate bond yields to value the liabilities. The UK scheme's actuarial valuation uses gilt yields since this most closely matches the investment strategy which is designed in part to hedge the interest rate and inflation risks borne by the scheme. Cash contributions are driven by the actuarial valuation.

### Dividends

The Board is proposing a final dividend of 6.3p per share. The 3.9p per share dividend paid in September 2020 was the same as the 2019 proposed final dividend which was withdrawn in March 2020 as a result of the uncertainty arising from COVID-19. Had that dividend been paid as originally proposed, the full year dividend in respect of 2019 would have been 6.2p per share and would have been 2.1 times covered based on adjusted earnings per share. Compared with that, the 6.3p proposed final dividend represents a 1.6% increase and is 2.0 times covered based on adjusted earnings per share.

### Jonathan Davis

Group Finance Director  
1 March 2021

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

# Non-financial information statement

The Non-Financial Reporting Requirements in sections 414A and 414CB of the Companies Act 2006 are addressed in this statement using cross references to indicate pertinent sections within this report.

This report refers to a range of policies that support our performance across environment, social and governance topics. The majority of the policies are available to read on our website at [www.rotork.com](http://www.rotork.com)

## Environmental information

Where material information can be found in the strategic report	Material policies	How we monitor the effectiveness of policies
Our approach to managing our environmental impacts is set out on pages 70 to 73. We target reductions for carbon, energy, waste and water. We report progress against them in our Annual Report and Accounts, and other publications such as our People & Environment Report.	<p><b>Environment &amp; Energy Policy</b> This sets out our commitment to protecting the environment, ecosystems and biodiversity; continually improving our environmental and energy performance; and complying with all applicable environmental and energy regulations. It applies to the whole Group, including subsidiaries.</p>	We measure performance against key environmental metrics and report this publicly. We also include environmental obligations in our agreements with suppliers and monitor performance.

## The Company's employees

Where material information is located	Material policies	How we monitor the effectiveness of policies
Our approach to People and Culture is set out on pages 58 to 65. Our employee engagement approach is also covered in our Section 172 Statement on pages 80 to 81. Related principal risks, on page 44, are Health, Safety and the Environment and Change Management.	<p><b>Board Diversity &amp; Inclusivity Policy</b> Sets out the Board's approach to diversity and inclusion and provides the framework for the Board's approach to diversity and inclusion in senior management roles.</p> <p><b>Code of Conduct</b> Outlines our values – Stronger Together, Always Innovating and Trusted Partner – and the standards of behaviour we expect of our employees.</p> <p><b>Health &amp; Safety Policy</b> Sets out our commitment to the planning and management of health &amp; safety for reducing accidents and cases of work-related ill-health. It applies groupwide, including to all subsidiary businesses and persons working for or on behalf of the Company.</p> <p><b>Whistleblowing Policy</b> Outlines our commitment to conducting our business with openness, integrity and fairness, and encouraging people to report suspected wrongdoing as soon as possible and without fear of detrimental treatment as a result of raising a concern. It applies to all individuals working within, for, or with Rotork, including suppliers.</p>	Our quarterly 'Pulse' employee surveys assess engagement levels and employees' views of Rotork as a place to work. They include questions on diversity and inclusion and the pace of change. We conduct audits of our health & safety system. We track colleague diversity at different levels within the organisation, reviewing gender, ethnic and age diversity among others. We also monitor the number of contacts made through our whistleblowing lines and the outcomes of any investigations.

## Social and community matters

Where material information is located	Material policies	How we monitor the effectiveness of policies
Our contribution to the communities in which we operate, including charitable giving, is covered on pages 66 to 69. Our approach to supplier management is covered in our People & Environment Report.	<p><b>Supplier Code of Conduct</b> This code covers our expectations on ethical behaviours and compliance with applicable laws; including promoting equal opportunities, human rights, freedom of association, labour rights, good environmental practices, and our zero-tolerance approach to bribery and corruption. It applies to suppliers globally and is published in seven different languages.</p> <p><b>Worldwide Charity Support Policy</b> This policy sets out how we implement charitable giving, in line with our corporate responsibility aims. Our target is to contribute 0.1% of profits to nominated international charities, and a similar percentage to local charitable causes around the world.</p> <p><b>Group Tax Strategy</b> Our overall tax strategy is for full disclosure and cooperation with all tax authorities. We consider reputational, financial and operational risks in our approach to tax planning. We are committed to creating an open and transparent working relationship with tax authorities in the jurisdictions in which we operate, and to abiding by all applicable laws.</p>	We audit high risk suppliers, as required, to ensure compliance with our Supplier Code of Conduct. We capture and report data on our charitable giving and assess the impact we have made.



## Respect for human rights

Where material information is located	Material policies	How we monitor the effectiveness of policies
Our approach to diversity and inclusion is covered on page 62. Our Modern Slavery Statement is published on our group website. As set out on page 61, we are a member of the UN Global Compact. We commit to meeting its Principles, including supporting and respecting the protection of internationally proclaimed human rights.	<b>Modern Slavery Statement</b> This covers our policy on working to ensure that slavery and human trafficking is not occurring in any part of our business or supply chain.	We provide awareness training to employees about conflict minerals via an e-learning module. We exercise due diligence based on the "Responsible Minerals Initiative" guidance, by mapping our supply chain using their reporting templates for tantalum, tin, tungsten and gold, and following up any concerns raised via a corrective action management process.  We also review our suppliers for modern slavery risks. Our initial focus has been on suppliers with enhanced risk profiles. We engage an independent intelligence provider to help analyse our supply base. We follow up with audits when necessary.  We monitor the number of calls made to the Speak Up line and the outcomes of any investigations.
	<b>Code of Conduct</b> Outlines the values and standards of behaviour we expect from employees, including our approach to protecting human rights and empowering staff to 'Speak Up' if they have a concern.	
	<b>Respect at Work and Equality of Opportunity</b> Sets out our commitment to the principle of equal opportunities to ensure that no employee or job applicant receives less favourable treatment based on their age, race, nationality, ethnic origin, disability, sex, sexual orientation, religion or belief or marital status.	
	<b>Conflict Minerals Policy</b> This policy sets out the Company's commitment to not using tantalum, tin, tungsten and gold that directly or indirectly finances or benefits armed groups in the Democratic Republic of the Congo or adjoining countries.	

## Anti-bribery and corruption

Where material information is located	Material policies	How we monitor the effectiveness of policies
Principal Risks, page 44, Corporate Governance, page 90 & 104, and our People & Environment Report.	<b>Code of Conduct</b> This sets out our zero-tolerance approach, setting the standards of behaviour expected to minimise the risk of bribery, including gifts and hospitality. This is supported by a more detailed, dedicated gifts and hospitality policy.	Employees are required to complete anti-bribery and corruption courses on a regular basis. We track training completion rates. We regularly screen suppliers for instances of corruption.
	<b>Anti-bribery and Corruption Policy</b> We take a zero-tolerance approach to bribery and corruption. Our policy and related guidance helps employees understand how bribery can impact individuals and the company and how to report a potential breach.	
	<b>Supplier Code of Conduct</b> Outlines our zero-tolerance policy to extortion, bribery and corruption and never offering, paying, soliciting or accepting bribes in any form.	

Further information can be found in our People & Environment Report 2019/20, published at the following address:  
<https://www.rotork.com/uploads/documents-versions/45536/1/pub000-241-00-1120.pdf>.

We also participate in the Climate Change and CDP Water disclosure platforms; see  
<https://www.cdp.net/en/responses?utf8=%E2%9C%93&queries%5Bname%5D=Rotork>  
<https://www.cdp.net/en/responses?utf8=%E2%9C%93&queries%5Bname%5D=Rotork>

A standalone Sustainability Report will also be published later in 2021, additional information about our approach and performance in relation to our customers, our people and our environment.

## Non-financial information

Non-financial information	Section	Pages
Business model	Business model	16 to 17
Key non-financial performance indicators	Key performance indicators Operating responsibly	46 to 48 54 to 73

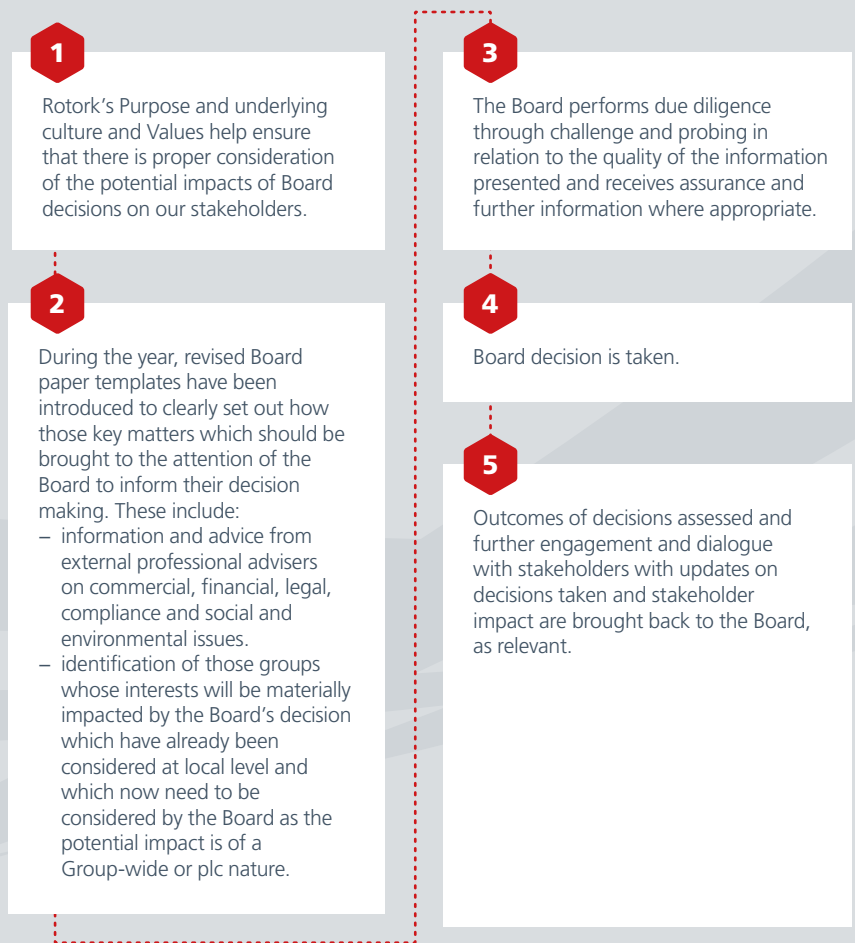
## Our stakeholders

# Engaging with our stakeholders & section 172

### Our Section 172 Approach

The interests of our stakeholders have informed the Board’s decision making throughout 2020. It is recognised that it is not always possible to provide positive outcomes for all stakeholders and the Board sometimes has to make decisions which balance the competing priorities of stakeholders. Key decisions relating to our strategy and its implementation in relation to all Group companies are taken by the Board under its Matters Reserved schedule. Those decisions delegated to the CEO and his senior leadership team are taken by the Rotork Management Board which meets monthly and is responsible for implementing the strategy. Decisions made by our subsidiaries are aligned with the strategy set by the Board and the operational decisions made by the Rotork Management Board.

### Our approach to making Board decisions under Section 172 is set out below:



## Section 172 Statement

As a Board, we have a duty to promote the success of Rotork for the benefit of our members. In doing so, we must have regard for the interests of our people, the success of our relationships with suppliers and customers, the impact of our operations on the community and the environment, and the desirability of maintaining a reputation for high standards of business conduct.

These stakeholder relationships are fundamental to our business and strategic direction. We have in excess of 3,700 shareholders and nearly 3,400 employees. We serve customers in more than 173 countries and enjoy a global supply base. All these stakeholders are material to the long term success of the business and strategic direction. Relationships with our stakeholders support the generation and preservation of value in the Group, as well as our culture and Values of ‘Stronger Together; Always Innovating and Trusted Partner’.

Stakeholder considerations are woven throughout all Board discussions and decisions. The table on pages 94 to 95 in the Corporate Governance Report sets out our key stakeholder groups and how they were engaged with, both directly and indirectly, by the Board throughout the year on those matters which the directors understand are important to each group. Examples of decisions taken by the Board and how stakeholder views and inputs, as well as other Section 172 considerations have been taken into account in its decision making, are set out on pages 93 to 94 of the Corporate Governance Report. These are incorporated by reference into this Section 172(1) Statement.

Further information on how these duties have been applied can be found throughout the Annual Report:

Section 172 duties	Key Examples	Page
<b>Consequences of decisions in the long term</b>	Our strategy	30
	Our business model	16
	Board activities	91
	Strong balance sheet	7
	Going concern and viability statement	49
	Principal risks	40
<b>Interests of employees</b>	Our people	60
	Our culture and Values	58
<b>Fostering business relationships with suppliers, customers and others</b>	Our customers	26
	Our supply chain	95
	Divisional review	50
<b>Impact of operations on the community and the environment</b>	Engineering, technology and innovation	26
	Production	72
	Environment	70
	Engaging with our communities	66
<b>Maintaining high standards of business conduct</b>	Our culture and Values	64
	Our Code of Conduct	78
	Health & Safety policy	64
	Anti-Bribery and Corruption policy	79
	Modern Slavery statement	79
<b>Acting fairly between members</b>	Shareholder engagement	117

The Strategic Report was approved by the Board on 1 March 2021 and signed on its behalf by:

**Kevin Hostetler**  
 Chief Executive  
 1 March 2021

# Corporate Governance

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



## Corporate Governance

- 84** Chairman's governance overview
- 86** Corporate governance report
- 88** Board of directors
- 102** Environmental, Social and Governance ('ESG') Committee report
- 104** Audit Committee report
- 108** Nomination Committee report
- 110** Directors' Remuneration Report
- 138** Directors' Report



# Chairman's governance overview

## In this section



### Audit Committee report

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

[Read more on page 104](#)



### Nomination Committee report

The Committee evaluates and examines the skills and characteristics needed to ensure the Board and its senior management team have the right balance, knowledge and attributes to operate effectively to deliver the long-term success of the Company.

[Read more on page 108](#)



### Environmental, Social and Governance Committee report

The Committee provides oversight and direction to ensure that environmental, social and governance concerns are an integral part of the Company's strategy and culture from the top down.

[Read more on page 102](#)



### Directors' remuneration report

The Committee's primary function is to recommend to the Board an overall strategy for the remuneration of executive directors and senior management and, within the agreed strategy, determine a remuneration policy for executive directors which is aligned to the long-term success of the Company and its shareholders.

[Read more on page 110](#)



On behalf of the Board, I am pleased to introduce Rotork's Corporate Governance Report for 2020. The aim of this report is to provide a clear explanation of Rotork's governance framework and the practical application of the principles of good corporate governance. As a Board, we consider that strong governance underpins the successful management of the Group and enables us to focus on the key strategic issues.

Promoting the long-term sustainable success of the Company, generating value for stakeholders and supporting the Rotork Management Board in developing the Company's strategies will continue to be the focus of the Board.

### Introduction

I am pleased to introduce this report which describes the activities of your Board during the year, together with our governance arrangements.

As Chairman, my primary role is to provide leadership to the Board and create the right environment to enable each director and the Board as a whole to perform effectively for the benefit of the business and its stakeholders. I consider that the Board is highly effective and am confident that we have in place a strong team of non-executive directors with a rich blend of skills, experience and perspectives.

### Board response to COVID-19

This year, Board activities and considerations have been dominated by COVID-19 and the challenges it has presented to our business. The Board's priority continues to be the health and safety of our colleagues and their families, our customers, and suppliers. In April, given the level of uncertainty faced at the time, the Board took decisive steps to mitigate the impact of COVID-19 on our business. Actions taken across the Group included a recruitment freeze, postponing salary increases, including those for the Board, restricting discretionary spending and drawing on flexibility within the workforce. These disciplined and timely actions meant we were able to repay the small amounts we claimed under government wage replacement schemes where this was possible. In recognition of the exceptional set of circumstances and the mitigating actions taken within the business, the Board believed it was appropriate to withdraw the recommendation to pay the final dividend for 2019 until the financial position became clearer at the half-year when the Board took the decision to pay the deferred dividend of 3.9p per share as an interim dividend in September. I am pleased to report that the Board will be recommending a final dividend of 6.3p per share for the full-year in recognition of the current confidence in the resilience of the business.

In addition to the actions the Board took to reduce the impact of COVID-19, we have maintained focus and oversight of the Growth Acceleration Programme which not only continues to drive cost benefits from procurement, site improvement, continuous improvement and lean initiatives but also sets the foundation for higher growth through more effective R&D and better organisational alignment with our customers and end markets. The Board remains confident in the aims of the Programme as a demonstration of Rotork's resilience and ability to act from a position of strength to successfully navigate the current challenges and to be a stronger business going forward.

### Changes to the Board and Committee Membership

The Board keeps its balance of skills, knowledge, experience, independence and diversity under regular review. As a result, there have been a number of changes since the last Annual Report. Appointments have been subject to a formal process overseen by the Nomination Committee.

On 30 September 2020 Lucinda Bell stepped down from the Board following six years' service. Lucinda has made a significant contribution to the Rotork Board, especially in her role of Audit Committee Chair and we have benefited greatly from her knowledge, experience and wise counsel. On the recommendation of the Nomination Committee, the Board appointed Sally James, the Company's Senior Independent Director and a member of the Audit Committee to the role of Audit Committee Chair from 1 October until such time as we were in a position to appoint a new independent non-executive director to this role.

We welcomed Janice Stipp to the Board on 1 December 2020 who became a member of the Audit, Remuneration and Nomination Committees from the same date. Janice will take over from Sally James as Chair of the Audit Committee following the Company's 2021 AGM. Janice brings a highly relevant sectoral background and international financial expertise to the mix of skills and knowledge on the Board, together with a global perspective, particularly in Asia.

Sally James will be retiring from the Board at the conclusion of the AGM on 30 April 2021, having completed nine years' service. On behalf of the Board, I would like to take this opportunity to thank Sally for her very significant contribution to Rotork over the past nine years. She leaves us with our gratitude and best wishes. I am very pleased to say that Peter Dilnot will take over the role of Senior Independent Director effective from 30 April 2021.

### Stakeholder engagement

We continued to seek to balance the needs of all our stakeholders throughout the year, whether they are our employees, customers, suppliers, shareholders, the governments and communities in which we operate alongside our commitments to making a positive contribution in support of a healthy and sustainable planet. As a trusted partner, working together with all our stakeholders to understand their different perspectives during this challenging year has been crucial for the Board as we seek to set a sustainable strategic plan and oversee its effective implementation.

Details of the ways we have engaged with stakeholders to understand their views can be found on pages 93 to 95. A statement on how the directors have had regard to the matters set out in section 172 of the Companies Act 2006 can be found on page 81.

### Environmental, Social and Governance (ESG)

During the year, a Board-level Environmental, Social and Governance Committee was constituted with oversight of the Group's sustainability and societal impact. This high level strategic committee, chaired by Ann Christin Andersen, provides oversight, direction and target setting, thereby helping Rotork to operate responsibly, be environmentally sustainable and contribute positively to society. The Committee will ensure that ESG is an integral part of the Company's strategy and culture from the top down. Further details of the remit of the ESG Committee and its activities can be found on page 102.

### Compliance with the 2018 UK Governance Code ('Code') and other requirements

Throughout the year, we have applied the principles of the Code to our decision making and have ensured that there is good co-operation within the Group to enable us to discharge our governance responsibilities effectively. We continue to communicate our Purpose, Values and strategy across the business with the CEO engaging with employees in virtual town halls across the globe on our Purpose, 'keeping the world flowing for future generations', which reflects our commitment to being a sustainable long term business.

### Martin Lamb

Chairman  
1 March 2021

# Corporate governance report

## Governance at a glance

Over the next few pages we look at the Board, its role, performance and oversight of matters reserved for its decision. We provide detail on Board activities, discussions and how we take into account the impact of Board decisions on our stakeholders. We also provide insight on the effectiveness of the Board and the findings of our internal Board evaluation. We have used the key themes of the Code to articulate the Board's activities during the year.

## Corporate Governance compliance statement

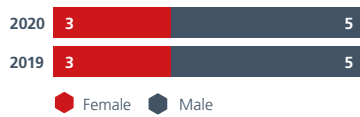
Throughout 2020, Rotork complied with the relevant provisions of the 2018 UK Corporate Governance Code which is applicable for the year under review with the exception being Provision 38 and the alignment of pension contribution rates for executive directors being aligned with those available to the workforce. An explanation of how this departure from the Code is being addressed to ensure compliance by the end of 2022 is set out on pages 113 and 118 of the Directors' Remuneration Report.

The Code is publicly available on the website of the Financial Reporting Council at [www.frc.org.uk](http://www.frc.org.uk).

Over the next few pages we set out how we have applied the principles set out in the Code, the actions we have taken and the resulting outcomes.

## Highlights at a Glance

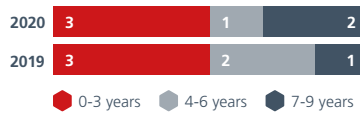
### Gender as at 31 December 2020



Female Male

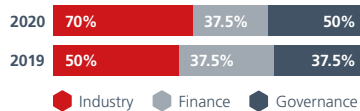
This exceeds the Hampton-Alexander review target of 33% female representation on boards by 2020

### Tenure as at 31 December 2020 (non-executives, including Chairman)



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

### Sector Experience as at 31 December 2020



Industry Finance Governance

## Our Governance Framework

### Shareholders



### Chairman



Responsible for the leadership of the Board and for ensuring that it operates effectively through productive debate and challenge.



Sally James, Chair

### Audit Committee

To assist the Board with the discharge of its responsibilities in relation to financial reporting, including reviewing the Group's annual and half-year financial statements and accounting policies, internal and external audits and controls.

Read more on page 104



### Chief Executive



Responsible for the day-to-day running of the Group's business and performance and the development and implementation of strategy.

### The Board



Accountable to shareholders for the long-term sustainable success of the Group. This is achieved through setting priorities and overseeing their delivery in a way that enables sustainable long-term growth, whilst maintaining a balanced approach to risk within a framework of effective controls and taking into account the interests of a diverse range of stakeholders.

### Board Committees



The terms of reference of each Committee are documented and agreed by the Board. The Committees' terms of reference are reviewed annually and are available in the Governance section on Rotork's website www.rotork.com. Their key responsibilities are set out below.

### Rotork Management Board

Led by the Chief Executive, the Rotork Management Board comprises the Company's senior leadership team below Board level and facilitates the execution of the strategy through running the day-to-day operations and providing functional support.



N

**Martin Lamb, Chair**

#### Nomination Committee

To keep under review the composition, structure and size of, and succession to, the Board and its Committees.  
To oversee succession planning for senior executives and the Board, leading the process for all Board appointments.  
To evaluate the balance of skills, knowledge, experience and diversity on the Board.

[Read more on page 108](#)



R

**Tim Cobbold, Chair**

#### Remuneration Committee

To recommend the Group's policy on executive remuneration, determining the levels of remuneration for executive directors, the Chairman and the Rotork Management Board.  
To oversee remuneration and workforce policies and take these into account when setting the policy for directors' remuneration.

[Read more on page 110](#)



E

**Ann Christin Andersen, Chair**

#### Environmental, Social & Governance Committee

To recommend the overarching ESG vision to the Board to ensure that ESG priorities are anchored at the top of the Company  
To identify the relevant ESG priorities that most significantly impact the operations of the Company and its stakeholders, its reputation and public interest role.

[Read more on page 102](#)

# Board of directors

## Chairman



**Martin Lamb** (61)  
Chairman



**Appointed to the Board**  
June 2014

### Skills, competencies and experience

Martin has extensive experience in the global engineering sector having served as Chief Executive of IMI plc for 13 years and has held many senior management roles over 34 years. He was a non-executive director of Severn Trent plc and Spectris plc and served on the boards of a variety of engineering businesses in a non-executive capacity, both in the public and private equity arena.

### External appointments

- Chairman of Evoqua Water Technologies Corporation

## Executives



**Kevin Hostetler** (52)  
Chief Executive



**Appointed to the Board**  
February 2018

### Skills, competencies and experience

Kevin served as the Chief Executive Officer of FDH Velocitel, an engineering and construction business serving the telecommunications and infrastructure industries in North America. Prior to this, Kevin was an executive advisor to several private equity firms. His roles included Chief Executive Officer of a speciality valve manufacturer and executive chairman of an engineered high-pressure vessel company serving the cryogenics and LNG industries. From 2005 to 2012, Kevin held various senior executive roles at the publicly traded IDEX Corporation, where he led the fluid and metering technologies segment and their Asia and emerging markets businesses. Before that, Kevin held several business leadership positions and senior strategic and business development roles at Ingersoll Rand.

### External appointments

- None



**Jonathan Davis** (54)  
Group Finance Director



**Appointed to the Board**  
April 2010

### Skills, competencies and experience

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

### External appointments

- None

## Non-executives



**Sally James** (72)  
Senior Independent  
Non-executive director



**Appointed to the Board**  
May 2012 (appointed as  
Senior Independent Director in  
February 2017)

### Skills, competencies and experience

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

### External appointments

- Non-executive director of Moneysupermarket.com Group plc
- Non-executive director of Bank of America Europe DAC
- Non-executive director of Hermes Fund Managers Limited

**Directors' ages as at 1 March 2021**

**Composition as at 31 December 2020**

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

- N** Nomination Committee
- A** Audit Committee
- R** Remuneration Committee
- E** ESG Committee
- None
- Denotes Chair



**Peter Dilnot** (51)  
Non-executive director



**Appointed to the Board**  
September 2017

**Skills, competencies and experience**

Peter joined Melrose Industries Plc as Chief Operating Officer in 2018 and became Interim Chief Executive Officer of GKN Aerospace, which is part of the Melrose Group, in October 2020. He was appointed to the Board of Melrose Industries plc as an Executive Director on 1 January 2021. Prior to this, Peter spent seven years as Chief Executive Officer of Renewi plc (previously Shanks Group plc), an international recycling company. Peter has an engineering background and was a senior executive at Danaher Corporation, a leading global industrial business listed on the NYSE. His earlier career included six years at the Boston Consulting Group (BCG) based in both London and Chicago.

**External appointments**

- Executive director of Melrose Industries plc
- Interim Chief Executive Officer of GKN Aerospace Services Limited



**Ann Christin Andersen** (54)  
Non-executive director



**Appointed to the Board**  
December 2018

**Skills, competencies and experience**

Ann Christin Andersen is a non-executive director with more than 30 years' experience of the oil and gas industry. An engineer by profession, she has been Chief Digital Officer for TechnipFMC, Managing Director and held SVP/ Vice President roles for Projects and Products. She has served as chair and non-executive director on a number of companies over the past several years. She currently serves on the boards of Maersk Drilling and Ferrexpo plc and chairs the board of municipality-owned Glitre Energi.

**External appointments**

- Non-executive director of The Drilling Company of 1972 AS ('Maersk Drilling')
- Non-executive director of Ferrexpo PLC
- Non-executive Chair of Glitre Energi AS



**Tim Cobbold** (58)  
Non-executive director



**Appointed to the Board**  
December 2018

**Skills, competencies and experience**

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

**External appointments**

- Non-executive director of TI Fluid Systems plc



**Janice Stipp** (61)  
Non-executive director



**Appointed to the Board**  
December 2020

**Skills, competencies and experience**

Janice brings highly relevant sectoral and financial expertise to the Rotork Board, together with a global perspective, particularly in Asia. Janice was formerly Senior Vice President and Chief Financial Officer of Rogers Corporation, a US specialty engineered materials technology and manufacturing company. Prior to this, Janice held senior financial positions in various international manufacturing and engineering companies.

**External appointments**

- Non-executive director of Sappi Ltd
- Non-executive director of Commercial Vehicle Group Inc
- Non-executive director pf ArcBest Corporation

# Corporate governance report

## The role of the Board

The Board is responsible for determining the Company’s strategy, Purpose, culture and Values, reflecting in particular on the role Rotork plays in ensuring that the earth’s resources keep flowing for future generations. It oversees the execution of its strategy by management whilst having oversight of the governance and control framework underpinning the Company.

This year’s strategy meeting held in July examined Rotork’s strategy through to 2025. Our strategy and business model is covered on pages 16 to 17 of the Strategic Report. The Board is confident that the necessary resources are in place for the business to meet its strategic objectives.

The Board is also responsible for the review and oversight of the effective management of risk, whilst delegating oversight of the controls framework to the Audit Committee. The Board rigorously challenges strategy, performance, responsibility and accountability to ensure that every decision we make is of the highest quality.

In its duty to promote the long-term success of Rotork, the Board recognises that its responsibilities extend not only to the creation of value for its shareholders but also to the Company’s wider stakeholders, including employees, customers, suppliers, the governments and communities in which it operates, as well as the planet. In so doing, the Board has also sought to understand the views of these other key stakeholders. Pages 93 to 95 describe how their interests have been considered at Board level discussions. Tim Cobbold is the designated non-executive director dedicated to improving employee engagement and details of the work he has undertaken in fulfilment of this role can be found on page 96.

## Our Purpose

The Board believes Rotork’s Purpose is to keep the world flowing for future generations through providing innovative, high quality engineered solutions and services for our customers. Our Purpose helps guide our culture and our three Values as described below. The way that Rotork uses its resources to fulfil its Purpose is set out in our business model on pages 16-17.

## Our culture, Values and behaviours

The Board has responsibility for reviewing, monitoring and developing Rotork’s culture and ensures that this aligns with the strategy. Rotork promotes an open culture in the workplace, where we all act with trust and respect for our colleagues.

## Our three Values

### Stronger Together

**We put people first, we collaborate, inspire and support each other to win as One Rotork.**

### Always Innovating

**We’re committed to continuous improvement, thinking differently and improving for the future.**

### Trusted Partner

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

Our Code of Conduct, which applies to all permanent employees, temporary workers and contractors, sets out the principles that underpin and guide the way we conduct business. A high level summary of our Code is set out on pages 78-79.

The Board aims to ensure that our Values are integrated into decision making and that policies and procedures, such as the Code of Conduct and our Anti-Bribery and Corruption Policy maintain these expected behaviours. Where this is not the case, the Board and management team take appropriate action. This is achieved through regular updates to the Board on, for example, compliance investigations and reports received through our ‘Speak Up Helpline’ on suspected wrongdoing with actions agreed to be taken to prevent a reoccurrence. The regular employee surveys also help identify areas where employees feel that there is a divergence between stated culture and expected behaviours and reality.

The Board is satisfied that the Company’s Purpose, Values, strategy and culture are aligned and promote the long-term success of the Company, generating value to shareholders and other stakeholders.

**Board activities**

The Chairman, Chief Executive and Company Secretary agree a structured agenda ahead of each Board meeting. Throughout the year, the Board has received regular in-depth progress reports and presentations on current trading and financial performance and presentations from the Chief Executive Officer, Group Finance Director and from the wider executive management team, particularly relating to progress on the Growth Acceleration Programme and the development of our people. Other regular reports have included health and safety, legal, compliance and governance updates, investor relations activities and risk management reviews. The Board meets six times a year, with calls held in other months for updates on key matters relating to trading and financial performance.

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

<b>Strategy and Company performance</b>	<b>Trading and business</b>	Considered trading performance, business updates and discussed operational issues arising from across the Group's businesses.	3 4 6
	<b>Strategy</b>	Set the Group's strategy and vision of 'keeping the world flowing for future generations' and monitored the progress in achieving this.	1 2 3 4 6
	<b>Culture and Values</b>	As part of our continued monitoring of our culture, the Board reviewed the results of the pulse employee feedback surveys and considered suggested improvements and set out an implementation plan.	2 5 6
	<b>Growth Acceleration Programme (GAP)</b>	Regularly monitored progress made against set targets in the Growth Acceleration Programme.	1 2 3 4 5 6
<b>Financial</b>	<b>Financial performance</b>	Received regular financial performance updates across the Group and discussed any issues.	1 3
	<b>Budget</b>	Reviewed and considered actual and forecast trading performance against the agreed budget and implications on long-term performance. Considered and approved the budget for 2021.	1 2 3 4 5
	<b>Trading updates</b>	Considered year-end results, half-year and trading updates and, upon the recommendation of the Audit Committee, approved such reports and updates.	1 3 4
	<b>Cash flow and dividend</b>	In the light of the impact of COVID-19 on the business, reviewed and considered finance performance, cash flow, liquidity and other factors and, given the economic uncertainty, agreed to defer the final dividend for FY19 until September 2020.	1
	<b>Risk</b>	Conducted a full year risk review and, in the light of the Group's risk appetite, discussed the principal and emerging risks, including the impact of COVID-19 and climate-related risks.	1 2 3 4 5 6
	<b>Cybersecurity</b>	Received regular updates on the implementation of the Group's cybersecurity strategy which is directed by the Chief Executive. The strategy is aligned to best practice relating to cybersecurity frameworks and governance.	1 2 3 4
	<b>Insurance Review</b>	Reviewed the Group's 2021/22 insurance renewal strategy, taking into account the current state of the insurance market, principal uninsured risks, premiums paid at renewal in March 2020 and notable claims activity.	1 2 3 4 5 6
	<b>Brexit</b>	Considered the potential impact on our international operations and discussed impact assessments, scenario planning and preparations.	2 3 4 5

- 1 Shareholders
- 2 Employees
- 3 Suppliers
- 4 Customers
- 5 Community
- 6 The Planet/Environment

Corporate governance report continued

**Governance and legal**

<b>Health and Safety</b>	Received regular updates and agreed initiatives to enhance health and safety systems and increase awareness. Commissioned an in depth internal and external review into the circumstances surrounding the tragic fatality of one of our service engineers in India, and reviewed and agreed a comprehensive set of actions to mitigate future risk.	2 6
<b>Whistleblowing and compliance investigations</b>	Received regular updates on reports received through the 'Speak Up' hotline and follow-up investigations and actions. In addition to Whistleblowing, the Board also receives reports on compliance investigations.	2
<b>Board action planning</b>	Monitored progress of Board action against the Board rolling agenda which details Board actions and set the action plan for 2021.	1
<b>Board evaluation</b>	Carried out an internal evaluation of the Board's effectiveness, composition and methods of acting on feedback to ensure suggested improvements were implemented. Further details are set out on page 99.	1
<b>Board succession and diversity</b>	Reviewed the Board's composition and diversity and considered the succession plan.	1 2
<b>Annual General Meeting</b>	Reviewed feedback and issues raised by private and institutional shareholders throughout the year to be addressed in the meeting.	1 5
<b>ESG Committee</b>	Established a Board-level Environmental, Social and Governance Committee to provide strategic direction on ESG matters.	1 2 3 4 5 6
<b>Board Committees' terms of reference and Matters Reserved schedule</b>	To ensure continued best practice, each Committee reviewed its own terms of reference which were approved by the Board. The schedule of matters reserved for decision by the Board was also reviewed by the Board in December.	1 5
<b>Dealing with directors' conflicts of interest</b>	In December 2020, in line with the directors' interest provision in the Companies Act 2006 and the Company's Articles of Association, the Board followed its procedure for the consideration and authorisation of directors' conflicts or possible conflicts with the Company's interests. It was concluded that these were managed effectively in the year.	1 5

- 1 Shareholders
- 2 Employees
- 3 Suppliers
- 4 Customers
- 5 Community
- 6 The Planet/Environment

## Section 172 – how we listen and respond to our stakeholders at Board level

Our section 172 Statement and an explanation of our approach is given on pages 80-81.

To add more colour to our section 172 Statement, the following pages provide an insight into how we interact with our stakeholders and how we consider their interests when making key decisions. Stakeholder considerations are woven throughout all Board discussions and decisions. Like any business, sometimes we have to take decisions that adversely affect one or more of these groups and, in such cases, we always look to ensure that those impacted are treated fairly.

### Examples of how the Board has considered the various factors set out in Section 172

In relation to decisions taken during the year, we set out below three examples of how the Board has considered the various factors set out in section 172(1) (a) to (f) and the impact on our stakeholders.

Board Decision	Section 172 Factor	Impact on Stakeholders
<b>New Debt Facility</b>	<b>Consequences of decisions in the long term</b>	The financing, being a £60m committed revolving credit facility with HSBC (with £30m uncommitted accordion option), secured the liquidity required both to provide additional headroom, given the short term uncertainties arising from COVID-19, and for the Company to execute its long-term strategic plans.
	<b>Fostering Business Relationships</b>	The refinancing enabled the Company to develop a lending relationship with a new lender to the Group.
	<b>Acting Fairly between Shareholders</b>	The decision to secure a debt facility meant that there was no impact on the fairness between the shareholders of the Company.
<b>COVID-19: commitment to mitigating actions to protect the business in the face of the COVID-19 pandemic.</b>	<b>Consequences of decisions in the long term</b>	The conservation of balance sheet strength and the liquidity of the Group together with the retention of substantial and increased financial headroom, ensured the ability to absorb a downturn in trading as a consequence of COVID-19.
	<b>Acting Fairly between Shareholders</b>	The decision to suspend the final dividend was taken with a balance in mind between the dividend income interests of our investors and the longer-term need to preserve cash and liquidity in the face of the uncertain trading environment during the COVID-19 pandemic. Once the position became clearer at the half year, the deferred final dividend was subsequently paid in September as an interim dividend.
	<b>Interests of Employees</b>	<p>Our key priority throughout the pandemic has been the continued safety and wellbeing of our people. A series of comprehensive COVID-19 risk assessments was undertaken in the early days of the crisis with a COVID-19 Steering Committee being formed which worked with local operational management, monitored day-to-day developments and ensured that best practice was shared across the Group.</p> <p>Rotork's wellbeing website was launched offering support and a number of useful resources to our employees during the COVID-19 crisis to aid their physical and mental wellbeing.</p> <p>In 2020, Rotork established Rotork Benevolent Support, a charity to provide short-term financial support to employees, ex-employees, and their families facing financial hardship, especially as a result of the COVID-19 crisis.</p> <p>Protection and support for colleagues through enhanced health and safety safeguards in our production facilities and adaption of processes and ways of working to manage the situation over a sustained period.</p> <p>Provision of support for office-based employees to work from home wherever possible.</p>
<b>Fostering Business Relationships</b>	<p>Pro-actively engaged with customers to understand their priorities as they were impacted by COVID-19, and flexed our deliveries to meet their expectations.</p> <p>Undertook proactive engagement with suppliers in understanding the short to medium term effect on our suppliers imposed by the pandemic to ensure we could have in place continuous production in our facilities.</p>	
<b>Community</b>	Our people from across the world have taken pro-active steps to help their local communities. Examples include production of personal protective equipment for hospitals, as well as for use in care homes and the provision of food collections for the less fortunate, in many of the countries in which we operate.	
<b>Reputation</b>	In line with our Purpose, current events have reinforced the recognition of the vital role our people play in partnering with stakeholders to keep the world flowing in this challenging time.	

## Corporate governance report continued

Board Decision	Section 172 Factor	Impact on Stakeholders
<b>Establishment of Environmental, Social and Governance Committee</b>	<b>Consequences of decisions in the long term</b>	Investors are looking for companies that prioritise the environment, are committed to diversity and inclusion and have robust ESG commitment and compliance policies. A key objective of the ESG Committee is to ensure that ESG is an integral part of the Company's strategy and culture from the top down.  ESG performance is also an important part of the executive directors' personal strategic objectives and features in the annual bonus scheme for senior leaders.
	<b>Fostering Business Relationships</b>	We continue to work with our customers to reduce their carbon footprint. Our comprehensive product and services portfolio and industry knowledge mean that customers rely on us to help them deliver reliable, energy efficient solutions that minimise their environmental impact.
	<b>Acting Fairly between shareholders</b>	Ensuring a balance between running responsible and profitable operations, improving health and safety for our employees, and safeguarding the environment.
	<b>Community</b>	Investing in job creation, utilising local talent and supply chains. Helping to support and grow the communities in which we operate at the grassroots-level and establishing Rotork as a global company with local roots.
	<b>Environmental Impact</b>	Promoting energy efficiency – both in our own and our customers' operations. Reducing emissions through defining and implementing our decarbonisation strategy.
	<b>Reputation</b>	Demonstrating ethical behaviour and high levels of integrity.

### How we listen and respond to our key stakeholders when taking Board decisions

#### Shareholders

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

All shareholders, whether they are individual or institutional, are treated fairly. They have equal access to information. We endeavour to provide a complete view of our business in the Annual Report and Accounts which is available in electronic form to shareholders on our corporate website and also in hardcopy form. In October 2020, we published our first 'People and Environment Report' which outlines the steps we are taking to reduce our impact on the environment as well as highlighting how Rotork's products and services are used to benefit the environmental performance and safety of our customers. Our corporate website also contains a variety of resources for investors including current webcasts, presentations and press releases, as well as annual and interim reports.

At our 2020 AGM all proposed resolutions were passed. Votes in favour ranged from 87.37% to 100%, including overwhelming support for our new Remuneration Policy at 95.97%. Due to the impact of COVID-19 and the Company's need to comply with the Government's 'Stay at Home Measures' in place at the time to safeguard shareholders' and employees' health, our 2020 AGM was held with the minimum attendance necessary to form a quorum. However, the Board put in place a dial-in facility for shareholders to listen to the AGM proceedings and provided a link for shareholder questions to be submitted in advance.

We enjoy an active dialogue with our investors, advisers and the investment community. Our Chief Executive, Group Finance Director and our Investor Relations Director regularly communicate with our major shareholders, and over the course of the year have engaged with investors representing over half of our issued share capital. In 2020, despite the restrictions imposed by COVID-19, they attended over 90 meetings (over video from mid-March) with over 40 separate institutions and have also participated in analyst hosted webcasts and attended virtual shareholder events. In October the Board engaged an external consultant to conduct research with Rotork top shareholders to better understand perceptions of the Group and any potential room for improvement. The results of this review were presented to the Board in December and key recommendations will be followed up throughout 2021.

The views expressed by investors are shared with the full Board at each Board meeting, via an investor relations update and the Board takes these views into account in its wider decision making.

In addition, at the beginning of 2021, Tim Cobbold as Remuneration Committee Chair, wrote to our top 20 institutional shareholders holding 56% of our issued share capital, to update them on executive remuneration ahead of our 2021 AGM. Further details on this shareholder engagement programme can be found on page 117.



## Employees

Both the Chief Executive's report provided for each Board meeting and the People updates presented by the HR Director at certain times during the year, touch on the views of our employees and wider workforce. These views are expressed not only via our employee forums, pulse surveys, town halls and 'Ask Kevin' direct communications and management line but also through our designated non-executive director for employee engagement, Tim Cobbold who also brings the employee's voice into the Boardroom. Tim has continued to engage in employee matters during the year, despite the practical challenges due to COVID-19. This included participating in new starter inductions, reviewing our staff engagement surveys, responding to emails and attending employee forums, albeit remotely by video conference. Further details on Tim's engagement with employees during 2020 are set out below.

## Customers

The way in which we interact with our customers, and customer satisfaction, remains a key topic in Board discussions. As part of our Growth Acceleration Programme we have focused on further aligning our business with our customers' needs. A significant change we have made is the realignment of our sales structure to focus on our key end markets allowing our sales teams to deliver valued solutions to our customers. We have also invested in our value selling programme and continue to roll this out throughout our organisation to ensure our teams maximise the benefits that our products and solutions bring to our customers' applications. Additionally, we have ongoing programmes to optimise our order fulfilment process that will allow us to improve on our quote accuracy and response times as well as being more responsive to customer enquiries which, in turn, will help improve the experience our customer will feel when dealing with Rotork.

## Community

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

Rotork supports charitable giving at both local and global level. The local charity committees at each of the Rotork sites support charitable causes that are important to the employees locally. In addition to local sponsorship programmes, Rotork partners with three global charities: Renewable World, Pump Aid and WeForest. Between them, these charities serve to emphasise Rotork's commitment to the environment and assist communities. Further details can be found on pages 66 to 69.

Our newly established charity, Rotork Benevolent Support, provides short-term financial support to employees, ex-employees, and their families facing financial hardship, especially as a result of the COVID-19 crisis.

## Suppliers

We continue to invest in our supplier relationships as these relationships are vital to our success.

During the year we completed the tiering and categorisation of our supply base to identify those suppliers who are the most critical to the performance of Rotork and enabling us to exceed the expectations of our customers. During 2021, we will continue with the programme of work to continue to secure long term agreements with these suppliers

We continually review our global supply chain and operations to ensure that we are working to prevent modern slavery in these areas. Details of the efforts we have made to combat modern slavery are detailed in our 2020 Modern Slavery Statement which can be found on the Rotork corporate website at <https://www.rotork.com/en/investors/modern-slavery-statement>.

We have a Supplier Code of Conduct which sets out our core Values and we require that all of our suppliers of goods and services comply with it. This can be found at [www.rotork.com/en/about-us/terms-and-conditions/suppliers/supplier-code-of-conduct](http://www.rotork.com/en/about-us/terms-and-conditions/suppliers/supplier-code-of-conduct)

## The Planet and Environment

In recognition of the increasing importance of ESG and sustainability matters, both within the business and across our key stakeholder groups, a Board level ESG Committee was established during the year. The Committee assists the Board in defining and executing the Company's sustainability strategy which includes soliciting and understanding the views of stakeholder groups (including customers, employees, suppliers, investors and local communities) on ESG matters and ensuring that ESG priorities are an integral part of the Company's corporate strategy. It will also oversee and challenge management's performance against the Company's long-term ESG goals, targets, initiatives and commitments. Further details on how the Committee will provide leadership and direction on these key issues can be found on page 102.

## Corporate governance report continued

### A message from Tim Cobbold, designated non-executive director for workforce engagement

The Board recognises that it has a key role to ensure that a healthy culture, embodied by our Values, is in place to underpin the Group's strategy and drive long-term sustainable value for our shareholders, whilst contributing appropriately to the needs of the business's other stakeholders.

In particular, the Board works with the Group's senior management to create and maintain an inclusive, innovative, dynamic workplace in which colleagues can develop with the business. The impact on and views of our employees are taken into account in our decision-making processes.

I was delighted to have been appointed as Rotork's designated non-executive director (NED) for workforce engagement and to be able to work with Kevin Hostetler, the Rotork Management Board and many others in improving the ways in which the views and opinions of our people are built into Board and management processes and decision making. This role combines well with my responsibilities as Chair of the Remuneration Committee, providing a valuable linkage and insight between the workforce and remuneration matters at all levels across the business and also helping the Remuneration Committee fulfil its responsibilities of oversight of pay and remuneration across Rotork's wider workforce.

#### Purpose of the role

I see the purpose of my role to strengthen the links between the Board and our people throughout the business, with the key aims being:

- to enable the Board to better take into account our employees' views as it considers proposals, discusses issues and makes decisions
- to develop and improve the two-way communication between employees and the Board so there is a reliable mechanism for the workforce to share their views directly with the Board and for the Board to confirm how we have considered their feedback

#### Framework

During late 2019 and early 2020, in agreement with Kevin Hostetler, and conscious of the risk of blurring existing management lines of responsibility and communication, we designed a framework to complement established channels whilst not restricting the scope of the role. Rotork has a significant number of operational sites/offices in 40 countries, speaking numerous languages and on different timezones, so a conventional approach built around a Group-level Employee Forum with elected employee representation was, in our view, unlikely to be highly effective and likely to be difficult to operate in practice – in short it wouldn't have fulfilled the purpose of the role. We would not have been able to cover the whole range of global employees in a meaningful way.

The framework we designed takes account of the dispersed nature of Rotork's workforce and comprises three streams of activities:

- **Direct Line of Communications** – between employees and myself as the designated NED to allow direct communication outside existing lines of communication
- **Face to face meetings** – with employees and members of the Board, including the designated NED, to allow for more personal interactions and to help create a level of intimacy between Board members and the individual employees
- **Group Employee Surveys** – to inform, in a data driven way, the view of the workforce on specific topics in a repeatable manner, with response rates indicating the degree of engagement

Of course, the impact of COVID-19 from March 2020 meant that employee engagement has never been more important, but it also necessitated that we adapt the framework to take into account remote working and social distancing, particularly around face-to-face meetings. Once restrictions are eased post-COVID, I and the rest of the Board are keen to re-address this to include again face-to-face meetings with Rotork colleagues.

- **Direct Lines of Communications.** On several occasions during the year, I contacted all employees (with access to email) inviting them to contact me whenever they had views they wished to express. A particular email address is also in place to enable this. In March 2020, in the light of COVID-19, I contacted all employees assuring them of the Board's commitment to the health and safety of everyone who works in, and with, Rotork. I also highlighted the role of the COVID-19 Steering Committee in making appropriate business decisions and in following the guidelines of the relevant governments and putting preventative measures in place to keep everyone safe. During the year, I received many emails from employees on topics ranging from our ESG performance, to the business' approach to diversity, to the holiday arrangements during lockdowns, through to the constructive views of one individual who was leaving the business. I replied personally and on an individual basis to every email received and followed up on requisite action as appropriate. Where appropriate, I took up issues raised by employees in their direct communications with me, with senior management and/or the Board.
- **Face to Face Meetings.** As part of developing the framework for this role, in September 2019, I attended, in Bath, a local Employee Forum and the launch event for the new company Values. This reinforced my view that building a level of intimacy between members of the Board and the workforce was a vital and key element of engaging with and understanding what was important, to people in Rotork. Prior to COVID-19, our plan was to have a 'grid' of Board visits right across the business during 2020. Commensurate with this plan, in January 2020, I visited the Rotork facility in Manchester and, in early March 2020, I visited the Rochester, New York facility. Both visits included factory tours, one on one sessions with key personnel and round table discussions with a cross section of employees from that facility (without members of local senior management). In both cases, there were many questions covering the Board, how the Board makes decisions as well as on remuneration processes and investment opportunities for their site. I found these two-way discussions both interesting and revealing and they helped me to develop a sense of the issues that were important to our people. After each visit, I debriefed the Group's senior management and the Board as appropriate. Of course, COVID-19 meant that these types of interactions had to be suspended but they will continue once it is safe to do so. In their place, during the rest of the year, I attended and presented at a number of virtual induction sessions aimed at new joiners to Rotork, many of whom had not visited a Rotork facility since they joined because of COVID-19. These sessions were led by Kevin Hostetler to welcome new starters, explain the Group's strategy, explain the role of the Board and the role of the designated NED for workforce engagement and to allow new employees to ask questions. They were well received.
- **Employee Surveys.** During 2020 we conducted three surveys to all employees globally gathering their views on a range of topics including Rotork's response to COVID-19, Environment and Sustainability, and Planning for 2021. Response rates on surveys were good, averaging 40-50% of employees. This indicates a high level of engagement and desire to engage and give feedback. Before the launch of each survey, I had the opportunity to review independently the survey questions so as to contribute directly to this aspect of engaging with our employees. Similarly, I review independently the results of the survey ahead of them being shared with the Board by Kevin Hostetler. There is no doubt in my mind that these surveys provide the Board with valuable insight into the views of employees and so inform decision making. Greater detail on the findings of the surveys can be found on page 60.

I feel we have made good progress in strengthening the engagement between the Board and the workforce. This progress reflects the professionalism and commitment of the Rotork Management Board towards workforce engagement and the support and collaboration of the HR and Communications teams, led by Kathy Callaghan, Group HR Director. By working together, we have started to introduce new and effective ways of engaging with our employees and bringing a clearer employee voice to the Boardroom in Rotork. As we emerge from the restrictions imposed by COVID-19, I expect to deepen further the engagement between the Board and the workforce.

## Division of Responsibilities

### Roles and responsibilities

All the non-executive directors have the appropriate skills, experience in their respective disciplines and characteristics to bring independence and objective judgement to Board discussions. As well as chairing the Board meetings, Martin Lamb chairs the Nomination Committee. Sally James is the Senior Independent Director and provides a sounding board for the Chairman in addition to acting as an intermediary for other directors and shareholders. In December 2020, she met with other non-executive directors, without the Chairman present, to appraise the Chairman's performance.

Until her retirement from the Board on 30 September 2020, Lucinda Bell chaired the Audit Committee with Sally James taking over as Audit Committee Chair from 1 October 2020. Janice Stipp, who was appointed to the Board as an independent non-executive director in December 2020, will become Audit Committee Chair upon the conclusion of the 2021 AGM. Ann Christin Andersen chairs the Environmental, Social and Governance Committee, which was established during the year. Tim Cobbold chairs the Remuneration Committee as well as being the designated non-executive director responsible for supporting increased engagement with employees and for bringing the voice of the workforce into the boardroom.

All non-executive directors constructively challenge executive management at Board meetings and are entitled to unfettered access to information and management across the Group. Rotork's executive directors understand the distinction between their roles as executive managers and as Board directors.

To provide constructive challenge, strategic guidance and oversight, Board members engage directly with management. As well as regularly receiving presentations from the Rotork Management Board in formal meetings, the Board typically meets with them at least twice a year for dinner, although due to the restrictions imposed by COVID-19, only one such engagement was held in June 2020 and only limited other informal opportunities have been possible during 2020. Once restrictions are eased post-COVID, opportunities will be sought for the Board and management to engage on a more informal basis outside the Boardroom setting.

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

The roles of the Chairman, Chief Executive Officer, Senior Independent Director, Group Finance Director as well as the members of the Rotork Management Board are set out in the table below.

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

### Meeting attendance in 2020

The Board held six scheduled meetings and five calls during the year. Individual attendance is set out below.

The Chairman meets privately with the Senior Independent Director and with the non-executive directors on a regular basis.

In response to the findings of last year's external Board evaluation, members of the Rotork Management Board have been invited to attend at least one Board meeting, by videoconference, either in part or in its entirety during the year. Further opportunities for the Rotork Management Board to present at Board meetings are planned for 2021.

### Board meeting attendance and director responsibilities in 2020

Member	Number of meetings/ calls attended	Independent	Responsibility
<b>Martin Lamb</b> Non-Executive Chairman	11/11		Leading the Board and setting its agenda; setting high standards of integrity and ensuring effective governance is maintained; supporting and guiding the CEO; overseeing Company performance; representing the Group and liaising with shareholders when required.
<b>Kevin Hostetler</b> Chief Executive Officer	11/11		Managing the Group and providing leadership; developing and proposing the Group strategy, leading the Group structure and operations, business development, growth opportunities; influencing and developing succession planning; managing Investor Relations.
<b>Jonathan Davis</b> Group Finance Director	11/11		Reports to the Board on the Group financial performance; supports the CEO in developing the Group strategy and in managing investor relations; implements Board decisions; responsible for compliance with financial policy and controls.

## Corporate governance report continued

Member	Number of meetings/ calls attended	Independent	Responsibility
<b>Non-executive directors</b>			
<b>Sally James</b> Senior Independent Director	<b>11/11</b>		Assisting the Chairman with shareholder communications; being available to other non-executive directors if necessary and leading the annual performance evaluation of the Chairman alongside other non-executive directors.  Non-executive directors provide independent oversight, judgement and challenge to the executive directors on delivery of the Company strategy within the agreed control framework and governance structure.
<b>Lucinda Bell<sup>(i)</sup></b>	<b>8/8</b>		
<b>Tim Cobbold</b>	<b>11/11</b>		
<b>Peter Dilnot</b>	<b>11/11</b>		
<b>Ann Christin Andersen</b>	<b>11/11</b>		
<b>Janice Stipp<sup>(ii)</sup></b>	<b>1/1</b>		
<b>Attended by invitation</b>			
<b>Kathy Callaghan</b>	<b>4</b>		The Rotork Management Board comprises the Company's senior leadership team below Board level and facilitates the execution of the strategy through running the day-to-day operations and functional support. Members of the Rotork Management Board attend Board meetings by invitation to update the Board on operational matters of importance.
<b>Kiet Huynh</b>	<b>1</b>		
<b>Vijay Rao</b>	<b>3</b>		
<b>Neil Manning</b>	<b>3</b>		
<b>Mark Nevin</b>	<b>2</b>		
<b>Andrew Carter</b>	<b>5</b>		Investor relations director.

(i) Lucinda Bell retired from the Board in September 2020 having attended all meetings up until that date

(ii) Janice Stipp joined the Board in December 2020

### Non-executive director independence

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

The Company maintains clear records of the terms of service of the Chairman and non-executive directors to ensure they meet the requirements of the Code. Neither the Chairman nor any non-executive director have exceeded their nine-year recommended term of service set out in the Code. Sally James is now in her ninth full year of service and will not be seeking re-election at the Company's AGM on 30 April 2021.

The Board considers all non-executive directors, Tim Cobbold, Peter Dilnot, Ann Christin Andersen, Sally James and Janice Stipp to be independent in character and judgement. Martin Lamb, Chairman, was considered to be independent on appointment.

### Composition, succession and evaluation

The Board consists of eight Board members, six of whom are non-executive directors. Female representation on our Board is currently 37.5%.

The Board members come from a variety of professional backgrounds including engineering, manufacturing, management, legal and finance, and collectively possess significant managerial experience, as well as experience of being executive directors of other public limited companies. A more detailed analysis of Board composition, skills and experience can be found on pages 88 to 89.

The Board has Nomination, Audit and Remuneration Committees as well as an Environmental, Social and Governance Committee which was established during 2020. Each Committee has formal, written terms of reference which are available to download from the Rotork website at [www.rotork.com](http://www.rotork.com). All Committees have at least three independent non-executive directors within their composition, with the exception of the ESG Committee which has at least three Board directors (two being independent non-executive and one being the Chief Executive) and two members of the Rotork Management Board (being the Strategy and M&A Director and the Group HR Director). The Company Secretary acts as secretary to the Committees. The number of Board meetings can be found on page 97. The number of meetings of the Audit, ESG, Nomination and Remuneration Committees can be found on pages 104, 102, 108 and 110 respectively.

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

## Time Commitment

All directors are expected to attend all meetings of the Board and any committees on which they serve. They are also expected to attend the AGM and Board away days. Directors are also expected to devote sufficient time to prepare for each Board and Committee meeting.

By accepting their appointment each non-executive director has confirmed that they are able to allocate sufficient time to the Company to discharge their responsibilities effectively. In accordance with the Code, directors are also required to seek prior approval of the Board before accepting additional external appointments.

The Chairman, through the Nomination Committee under its terms of reference, monitors the time commitment of non-executive directors with no issues having been identified during the year.

## Induction and ongoing professional development

Following appointment, each director receives a comprehensive and formal induction to familiarise them with their duties and Rotork's business operations and risk and governance arrangements. The induction programme, which is co-ordinated by the Company Secretary, includes briefings on industry and regulatory matters relating to Rotork, site visits and meetings with senior management and different teams within the business.

In order to facilitate greater awareness and understanding of Rotork's business and the environment in which it operates, directors are given regular updates on changes and developments in the business. Over the course of the year, directors will continually update and refresh their skills and knowledge and seek independent professional advice when required.

## Annual Board evaluation

In accordance with the Code, the Board undertakes a formal and rigorous annual evaluation of its own performance and that of its Committees and directors. The purpose of the evaluation is to ensure key areas such as the Board's composition, expertise, interaction, management, key decision-making processes and meeting focus and prioritisation continue to be assessed and developed.

## 2019 External Board Evaluation (conducted by Independent Audit Limited)

Areas identified for development	What we have done in 2020
Greater focus on longer-term strategy and emerging risks, ensuring that acquisition opportunities, the 'digital' future and the energy transition are given sufficient time within the boardroom.	The Board has implemented an action plan to increase the Board's long-term strategic focus whilst continuing to drive the transformation forward and focusing on its Purpose, culture and Values.
Increasing the access of Rotork's management to the Board and increased employee engagement with non-executive directors	Several members of the Rotork Management Board have attended Board meetings (either in part or in their entirety) during the year. Such attendance and access allows the non-executive directors to get a feel for the culture and is also a valuable opportunity for senior management to understand the perspective of the Board.
Audit Committee to focus on enhancing the internal control framework	This area has been a regular item for review and discussion at the Audit Committee meetings during the year.

## 2020 Internal Board Evaluation

This year the process was conducted internally to assess progress against the actions recommended by the 2019 external evaluation.

During 2020, led by the Chairman and with guidance and support provided by the Company Secretary, an internal evaluation of the performance and effectiveness of the Board and its Committees was conducted. The process was undertaken in November 2020 by way of questionnaires targeted at the agreed key action areas and requiring all Board members to provide input.

The Company Secretary collated and analysed the results, discussing them with the Chairman prior to feedback being provided to the December 2020 Board meeting. Subsequently, the Board agreed an action plan for implementation in the year ahead as set out below.

Areas identified for development	What we will do in 2021
Increased focus on succession planning for Board, RMB and senior management level (including talent management, diversity)	Prioritise and allocate specific time on the agendas of both the Board and Nomination Committee to facilitate the regular review (comprising at least an annual deep dive) of succession plans for each of the identified categories.
Facilitate more effective debate on strategy/M&A	Continue to focus the Board's attention on agreeing the strategic plan, its implementation and longer term sustainability issues.
Bring more external views into Board meetings	Allocate agenda time for external presentations, liaising with relevant parties to be covered and material to be presented meetings to ensure the Board's expectations are met.
Continue the work to increase the access of Rotork's management to the Board and further develop employee engagement with non-executive directors	Post-COVID, events to be arranged to facilitate opportunities for RMB, RMB-1 members and High Potentials to meet with the Board.

## Chairman's performance evaluation

Led by Sally James as the Senior Independent Director, a review of the Chairman's performance was undertaken separately, by means of a questionnaire and private meetings held between Sally and the non-executive and executive directors. The outcome was then shared with the Chairman. The Chairman continues to be highly regarded and is considered to exhibit a leadership style which promotes effective decision making and constructive debate to ensure the Board works as a team.

## Audit, Risk and Internal Control

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

The established risk review process was updated this year to reflect the new divisional structure with functional areas now separately considered to create a 'bottom up' assessment of the risks facing the Group. These are consolidated before a 'top down' review is performed by management and then by the Board to ensure the risk population is complete and adequately assessed.

## Corporate governance report continued

A risk dashboard is presented to the Board on a quarterly basis. This includes a set of Key Risk Indicators which provide a means of monitoring the Group's risk exposures and highlights areas where the Group exceeds, or will potentially exceed, risk appetite. Quarterly reporting is supplemented, as necessary, by more detailed monthly reporting to the Board by the executive management team on new or evolving risks, the effectiveness of existing mitigations and plans to further strengthen mitigations.

Throughout 2020, the co-source arrangement with PwC to provide risk and internal audit services supported by an in-house team has continued, with the function being led by an experienced Head of Risk and Internal Audit from PwC.

The Audit Committee was chaired by Lucinda Bell, who has recent and relevant financial experience, until 30 September 2020. From 30 September onwards Sally James has taken the role of Audit Committee Chair. Tim Cobbold has been on the Committee throughout the year and was joined by Janice Stipp in December; both have recent and relevant financial experience. The Board is satisfied that the main roles and responsibilities of the Audit Committee, as set out in Provisions 25 and 26 of the Code are included in its Terms of Reference, following relevant updates in December 2020. Further details of how the roles and responsibilities of the Audit Committee have been discharged are on pages 104-107.

The Board is required to carry out a robust assessment of the Company's emerging and principal risks. A summary of the assessment undertaken by the Board and a description of the principal risks and procedures in place to identify and manage the emerging risks can be found on pages 40-45.

### How the Board operates effectively Risk management and internal controls

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

During 2020 the Board and Audit Committee regularly considered matters relating to the Group's risk management and internal control systems. This year three areas which received particular focus were energy transition, COVID-19 and health and safety which were each discussed at several meetings during the year.

Energy transition, and the risks and opportunities to Rotork from the increased focus on ESG matters by all our stakeholders, has been on the Board agenda for some time. Early in 2020, we commissioned a study to focus on the impact the move away from fossil fuels might have on our end markets. This has been used subsequently to inform our strategy in a number of areas.

Throughout the year the Board received reports on the impact of COVID-19 and the management response to the pandemic as it affected our own people, our customers and our suppliers. With the establishment of a COVID-19 Steering Committee in March, the level of reporting to the Board increased as the committee managed the risk assessments and social distancing measures introduced within our facilities, the impact on our supply chain and logistics partners and the changing requirements of our customers. Factory operating levels and employee sickness varied across the countries in which we operate as the impact of the pandemic rose and fell within those countries. The COVID-19 Steering Committee continues to meet and report to the Board.

Health and Safety is always high on the agenda but following the fatality of one of our service engineers on a customer site which unfortunately occurred mid-year, a review was instigated of the process and procedures in this area. As work has progressed, this has been discussed at each Board and Audit Committee meeting.

Further details of reports undertaken and reviewed are set out in the Audit Committee report on pages 104-107.

The systems which were in place for the year under review, and up to the date of approval of the report, are in accordance with the Code and the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

### Main features of the Group's risk management process

The Board is responsible for determining the nature and extent of risks the Group is willing to take in achieving its strategic objectives.

This is expressed through a number of risk dimensions against which risk appetite is defined and risks are monitored and reported. A risk dashboard is presented to the Board on a quarterly basis. It constitutes a set of Key Risk Indicators, which provide a means of monitoring the Group's risk exposures and focuses the Board on risks where the Group exceeds, or will potentially exceed, risk appetite. As part of the monthly reporting process the Board receives reports on any specific new or emerging risks and any actions planned in mitigation.

An established divisional and functional risk review process results in a 'bottom-up' assessment of Group risks. These are consolidated before the top-down evaluation is performed by management and then reviewed by the Board. The bottom up assessment process includes a review with all central functions, a focus on risk mitigation reporting, and development of plans to respond to risks in accordance with risk appetite.

Further details of the Group's internal control and risk management systems and the process for identifying, evaluating and managing the principal risks faced by the Group during 2020, emerging risks, and the Board's risk appetite, are covered on pages 40-45.

### Main features of the Group's internal control systems

All Board members receive Audit Committee papers and meeting minutes, which contain the Audit Committee's annual review of the assessment of the effectiveness of the Group's risk management and internal control systems. All non-executive directors are members of the Audit Committee and the Chairman and executive directors attend Audit Committee meetings.

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

- The Rotork Values and behaviours as part of defining One Rotork.
- A Code of Conduct supported by Group-wide policies and procedures, including authority levels and division of responsibilities.
- Training of staff on policies and procedures relevant to their roles.
- Ongoing monitoring of business performance, including Key Risk Indicators.
- A formal schedule of reserved matters for the Board, including responsibility for reviewing Group strategy.
- A formal whistleblowing policy, with an external whistleblowing hotline, the results of which are reported to each Board meeting.
- Defined controls and assurance processes over financial reporting and health and safety procedures.

During 2019 a programme of work was initiated to enhance controls and create a more formal three lines of defence model. This also incorporated the creation of a vision for the broader development of finance. A number of the longer term improvements are aligned to the investment in a new Enterprise Resource Planning (ERP) system. The workstreams underway at the start of the year have progressed through 2020 and in the second half of the year been consolidated into a broader finance transformation programme. The second phase of the financial business control framework project was due to start in March 2020 but was delayed due to travel restrictions caused by the onset of COVID-19.

However, the programme was restarted mid-year using a variety of remote working practices and is now on track to complete in 2021. This programme will improve the quality and consistency of controls across all locations. The development of the new ERP system has continued in 2020 despite a brief pause due to COVID-19. The ERP will automate and enforce processes and controls, strengthening the overall control environment.

The finance transformation programme will shape the way finance operates in Rotork to deliver against the finance vision which was defined in 2019. The focus was initially on three key development areas: governance and controls (incorporating the business control framework), business partnering and finance talent. In 2020 the finance target operating model has been developed to provide a framework for all finance developments in the coming years relating to people, process and technology. Progress on these improvements, the ERP development and creation of the three lines of defence model have been regularly reported to the Audit Committee and Board.

### **Remuneration**

The responsibility for determining remuneration arrangements for the Chairman and executive directors as well as oversight over all aspects of workforce remuneration has been delegated to the Remuneration Committee, chaired by Tim Cobbold. Six meetings of the Remuneration Committee took place in 2020.

Rotork's remuneration policies and practices are designed to support its strategy and promote the long-term sustainable success of the Company. A description of the work undertaken by the Remuneration Committee in 2020 can be found at pages 110-137.



# Environmental, Social and Governance ('ESG') Committee report

**Ann Christin Andersen**  
Chair of the ESG Committee

I am pleased to present the first of our Environmental, Social and Governance ('ESG') Committee Reports. The Committee was established during the year, recognising the increasing importance of ESG and sustainability matters, both within the business and across our key stakeholder groups. The Committee will assist the Board in defining and executing the Company's ESG and sustainability strategy. This includes soliciting and understanding the views of stakeholder groups (including customers, employees, suppliers, investors and local communities) on sustainability matters and ensuring that ESG priorities are an integral part of the Company's corporate strategy. It will also oversee and challenge management's performance against the Company's ESG goals, targets, initiatives and commitments. I welcome the creation of this Committee to allow us to accelerate our ESG journey ahead.

### Committee composition and meetings

The Committee currently comprises two independent non-executive directors (including myself as Chair), the Chief Executive, the Strategy and Mergers & Acquisitions Director and the Group HR Director. The Investor Relations Director and Head of ESG & Sustainability also attend by invitation. The Deputy Company Secretary acts as secretary to the Committee. The first meeting of the Committee took place in October 2020. The Committee will normally meet three times a year. Details of the Committee members and their attendance at the meetings held during the year are set out below. The Head of ESG & Sustainability, having joined Rotork on 4 January 2021, attended her first meeting in February 2021. The Chair reported to the Board on the key issues covered at its first meeting.

Member	Eligible Meetings (max: 1)	Attendance
Ann Christin Andersen, Chair	1	1
Tim Cobbold, Non-executive Director	1	1
Kevin Hostetler, Chief Executive	1	1
Vijay Rao, Strategy and Mergers & Acquisitions Director	1	1
Kathy Callaghan, Group HR Director	1	1
Andrew Carter <sup>1</sup> (Investor Relations Director)	1	1

<sup>1</sup> By invitation



### The ESG Committee is responsible for:

- recommending the overarching ESG vision to the Board in order to ensure that ESG priorities are anchored at the top of the Company and, in so doing, agree the annual plan and targets relating to ESG matters; this includes setting ESG performance targets as part of the executive directors' personal strategic objectives;
- agreeing a process for determining which goals are material and significant for the business and take on board management's views on what is considered to be the key, meaningful areas to progress across the business;
- acting as a focal point to gather and discuss relevant insights from a variety of sources on ESG matters for onward sharing with the Rotork Management Board and the business;
- ensuring development of, and regular updates to, a suitable transformation map and dashboard that measures progress on the annual targets (informed by, and aligned to, the Remuneration Committee targets and incentive arrangements);
- reviewing the Company's performance against its annual plan and ESG targets including challenging management's performance against the Company's long-term ESG goals, targets (including KPIs), initiatives and commitments;
- guiding the Company's ESG communication strategy and reviewing the detail of external communications on ESG matters on behalf of the Board; and,
- ensuring that ESG priorities are reflected in the Company's culture through its Purpose, vision, Values and behaviours as well as its Code of Conduct.



## Activities of the Committee during the year

Following its establishment, the Committee met once during the year. During this formative meeting, the Committee agreed its terms of reference which were subsequently approved by the Board in October 2020 and are available on Rotork's website at [www.rotork.com](http://www.rotork.com).

During the meeting, Committee members shared their views on how the Committee should be best positioned to influence Rotork's ESG agenda. The Committee remains mindful of providing direction to management on ESG matters, whilst always keeping in mind our Purpose and Values.

The Committee also reviewed and approved for publication Rotork's first People and Environment Report. This provides disclosures on GHG emissions as well as detailed coverage on people and health and safety issues. It also explains how Rotork's products can improve customers' environmental performance (available at: <https://www.rotork.com/en/environmental-social-governance/environment>).

The Committee also approved the adoption of the United Nations' Sustainable Development Goals (SDGs) framework to guide Rotork's sustainability agenda. It subsequently oversaw a mapping exercise to identify the SDGs that are most relevant for Rotork to support and a formal materiality assessment, involving internal and external stakeholders, to gather their views on priority sustainability issues. A materiality matrix, set out on page 57, plots stakeholders' priorities against those of the business. Those topics identified as most material to all parties, and where the Company has the greatest potential to create shared value, will be the focus of our sustainability agenda.

At its meeting in February 2021, outside the reporting period, the ESG Committee endorsed adopting five main SDGs, aligned to topics where the Company has the greatest potential to support the transition to a better and more sustainable future for all. These are as follows: (6) Clean water and sanitation; (7) Affordable and clean energy; (9) Industry, innovation and infrastructure; (12) Responsible consumption and production and (13) Climate action. The Committee also endorsed targeting two additional SDGs, committing to progress under Goals (5) Gender equality and (8) Decent work and economic growth.

A new sustainability framework has been developed around our chosen SDGs and priority sustainability topics. The framework is based on three pillars: Operating Responsibly; Enabling a Sustainable Future; and Making a Positive Social Impact. It covers the way we run our business, the impact we can have through our products and services, and the way we engage with our people and communities. It aligns to our chosen SDGs as follows:

### Operating Responsibly

- 12. Responsible consumption and production
- 13. Climate action

### Enabling a Sustainable Future

- 6. Clean water and sanitation
- 7. Affordable and clean energy
- 9. Industry, innovation and infrastructure

### Making a Positive Social Impact

- 5. Gender equality
- 8. Decent work and economic growth

The Company's main adopted SDGs will guide where we focus our efforts to continue to create superior, shared value for all of our stakeholders. A roadmap of ESG ambitions and targets, in alignment with our strategic framework, is now under development. A standalone Sustainability Report, to be published in summer 2021, will provide further detail and an update on progress.



Further details about management's SDG mapping exercise and stakeholder engagement can be found on pages 56-57. The new strategic framework is laid out in more detail on page 34. As part of its remit to review external communications on ESG matters on behalf of the Board, the Committee approved the key ESG themes and messages for the 2020 Annual Report.

In order to increase the alignment of incentives with the business strategy, the Committee reviewed the element of the annual bonus structure for executive directors relating to ESG targets and measures. For 2021, the annual bonus has been adjusted to include 10% of the maximum opportunity based on ESG performance, with measures aligned to the strategic pillars and SDGs as set out above. More details can be found within the Directors' Remuneration Report on page 136.

### Looking Ahead

I am delighted that Rotork has committed to set the bar high and deliver on our ESG promises to customers, employees and society at large. The SDGs will help Rotork play its role in driving transformational change over the next decade. I look forward to overseeing the development of Rotork's strategy to address these urgent sustainability challenges and, at the same time, identify opportunities for sustainable business growth.

I would like to thank members of the ESG Committee and Rotork management for their constructive inputs and personal commitment to this crucial agenda.

### Ann Christin Andersen

Chair of the ESG Committee  
1 March 2021



# Audit Committee report

**Sally James**  
Chair of the Audit Committee

### Committee membership & meeting attendance

All Audit Committee members are independent non-executive directors. On 30 September 2020 Lucinda Bell, who had served as a member of the Committee since her appointment to the Board in 2014 and as Chair of the Audit Committee since 2017, resigned from the Board. Sally James was appointed Chair of the Audit Committee from 30 September 2020. Janice Stipp joined the Audit Committee on 1 December 2020 and it is intended that she take over the role of Chair of Audit Committee following the conclusion of the 2021 AGM. There have been no other changes to the membership of the Committee during the year.

Member	Eligible Meetings (max:4)	Attendance
Lucinda Bell <sup>(i)</sup>	2	2
Sally James, Chair	4	4
Peter Dilnot	4	4
Ann Christin Andersen	4	4
Tim Cobbold	4	4
Janice Stipp <sup>(ii)</sup>	1	1

(i) Lucinda Bell resigned on 30 September 2020 and accordingly only attended in February and July 2020.  
 (ii) Janice Stipp joined on 1 December 2020 and accordingly only attended in December 2020.

Lucinda Bell, Tim Cobbold and Janice Stipp hold a professional accounting qualification and are deemed to have recent and relevant financial experience. Tim Cobbold, Peter Dilnot, Ann Christin Andersen and Janice Stipp have experience of working in complex global industrial products businesses, a number of which share common end-markets with Rotork. Biographies of each member of the Audit Committee can be found on pages 88-89.

The Audit Committee operates under formal terms of reference which are reviewed annually and were last updated in December 2020. A copy of the terms of reference is available on the Rotork website at [www.rotork.com/en/investors/corporate-governance.committees](http://www.rotork.com/en/investors/corporate-governance.committees).



### The Audit Committee is responsible for:

#### Financial reporting

- Reviewed the Annual Report & Accounts (including whether they are fair, balanced and understandable), the Corporate Governance Report and draft results announcement.
- Reviewed the material judgements and estimates, going concern assumption and viability statement in the Annual Report & Accounts.
- Reviewed the half year accounts including material judgements, estimates and draft half year results announcement.
- Reviewed the external auditor’s report on the year end accounts and the proposed full year external audit scope, key risks, materiality and year end issues.

#### Internal controls and risk management

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

### External audit

- Reviewed and approved the external audit plan and scope of the external auditors' work
- Considered and reported to the Board on the external auditor's independence, objectivity and effectiveness.
- Reviewed the external auditor's representation letter, views on the control environment and fraud risk management.
- Meetings with the external auditor without management present.
- Reviewed and approved non-audit services undertaken by the external auditor and the policy on non-audit work.
- Considered audit fees and engagement terms.
- Considered re-appointment of the external auditor.

### Internal audit

- Reviewed and approved the internal audit programme.
- Reviewed the maturity and effectiveness of internal audit, its remit and resourcing.
- Reviewed the policy on independence of the internal auditor
- Approved the Internal Audit Charter
- Discussed and monitored progress on implementing recommended actions, including overdue actions.
- Meetings with the Head of Risk and Internal Audit without management present.

### Other work

- Reviewed the work to define a finance target operating model and the development of a finance transformation programme.
- Reviewed Audit Committee effectiveness and terms of reference.
- Reviewed the whistleblowing, gifts and hospitality and risk management policies.
- Approved the Audit Committee's schedule of work for 2021.
- Reviewed reports on legal compliance and on compliance investigations.

I am pleased to present the report of the Audit Committee for the year ended 31 December 2020. This year the key areas of focus for the Audit Committee, in addition to its usual schedule of work, have been:

- Reviewing progress with the business control framework project and plans to develop a stronger second line of defence. Activities in 2020 comprised a combination of immediate actions to mitigate risks and planning for longer term improvements aligned with implementation of the new ERP system.
- Reviewing the impact of COVID-19 on the control environment and assessing the effectiveness of controls whilst large numbers of people have moved to working from home at various times. In addition to the regular financial compliance audits, a compliance questionnaire, tailored to focus on the risks which are heightened when remote working, was used to assess the impact on the control environment. The findings from this were reviewed by the Committee.

- Reviewing the ongoing progress to strengthen the finance function and develop a new target operating model for finance. This project is a multi-year programme which will leverage the benefits of the new ERP system, together with a new reporting toolset, to enhance the quality and consistency of financial analysis provided to the business whilst at the same time improving the efficiency of the finance function. The Audit Committee has actively engaged during the year in the formulation of this programme and supported the finance transformation plans.

### Principal responsibilities and governance

The principal responsibilities of the Audit Committee are to review and report to the Board on the:

- Integrity of financial reporting.
- Application of significant accounting policies and judgements.
- Internal audit programme, its remit, resourcing and effectiveness.
- Adequacy and effectiveness of the Company's internal controls and risk management systems.
- Appointment, independence and remuneration of the external auditor.
- Effectiveness of the external audit process.

The Audit Committee maintains an annual schedule of work which is kept under review and forms the basis of its principal meetings throughout the year. The annual schedule is supplemented by consideration of specific issues as and when they arise.

The Audit Committee met four times during the year. Details of attendance are set out on page 104. The Chairman, Chief Executive, Finance Director, Group Financial Controller, Head of Risk and Internal Audit, Risk and Internal Audit Manager and representatives of the external auditor (including the lead audit partner) also attend meetings by invitation.

As Chair of the Committee, I additionally hold regular meetings with the Finance Director, the external audit partner, the Head of Risk and Internal Audit and other members of the management team, as Lucinda did during her tenure. These meetings provide us with a better understanding of key issues and identify those matters which require meaningful discussion at Audit Committee meetings.

During the year, the Audit Committee received reports from management, the internal audit team and the external auditors. Through face to face discussions and detailed written reports the Committee is able to challenge, scrutinise and ask questions where clarification or discussion is required. Further details of the work undertaken by the Audit Committee during 2020 is set out on pages 104-105.

### Financial reporting

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

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

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

## Audit Committee report continued

The principal matters of judgement and estimation considered by the Audit Committee in relation to the 2020 accounts and how they were addressed were:

- Goodwill impairment testing. The year end balance sheet includes goodwill of £224m (29% of the Group's assets). The Audit Committee discussed the appropriateness of the assumptions used in assessing the value in use of each cash generating unit and were satisfied with the approach taken by management which resulted in no impairment being made in 2020. The Audit Committee also considered whether any reasonable change would result in an impairment in any cash generating unit. The Audit Committee reviewed the sensitivities and impairment disclosures in note 10 and were satisfied these are balanced and fair.
- Retirement benefit schemes. At 31 December 2020, the Group operated two defined benefit retirement plans, both of which are now closed to future accrual. The valuations are prepared by an independent qualified actuary. The Audit Committee considered the report from the Group Financial Controller and were satisfied the assumptions used were appropriate. The detailed disclosure for these schemes under IAS19 is shown in note 24 and the Audit Committee is satisfied they are complete and accurate.

### External auditor

The year under review marks the seventh year during which Deloitte LLP has been the Group's external auditor following a formal tender process in 2014. The 2020 year end audit will be the second year that David Griffin has acted as Deloitte LLP's lead audit partner for Rotork. Whilst the opportunities for David and the Deloitte senior team to visit Rotork locations this year to familiarise themselves with Rotork has been limited, they have been able to do this in the past having been part of the audit team for a number of years and have also utilised technology to communicate with and supervise the broader team.

The Audit Committee assesses the effectiveness of the external audit process, the scope of the Group audit and the quality of the audit work throughout the year. The assessment considers:

- Any issues arising from the prior year external audit.
- The proposed external audit plan, including identification of risks specific to Rotork.
- External audit scope and materiality thresholds.
- Matters arising during the external audit and the communication of these to the Audit Committee.
- Private meetings with the external auditor without management being present.
- The independence, objectivity and scepticism of the external auditor including the level of challenge provided to management.
- The FRC audit quality review report on selected audits undertaken by Deloitte.

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

Consideration was given to the possibility of re-tendering the external audit during the year but as the Committee is satisfied with the work of Deloitte, the decision was made not to re-tender. The Audit Committee has recommended that Deloitte LLP be re-appointed auditors for the 2021 financial year and Deloitte's continuing appointment will be subject to shareholder approval at the 2021 AGM. This is the seventh year end since Deloitte took over as external auditors and we will re-tender our external audit service provider after 10 years have been completed at the latest.

### Statement of compliance

The Company confirms that it has complied with terms of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 (the 'Order') throughout the year.

### Non-audit services

In order to safeguard the independence and objectivity of the external auditor, the Board has adopted a policy on non-audit services, which restricts the work and fees available to the external audit firm. The Audit Committee reviews the policy annually to ensure it remains appropriate. The policy has been revised this year to reflect the FRC's Revised Ethical Standard 2019 on permitted non-audit services.

The policy permits the use of the external auditor only for services identified on the list contained in the Revised Ethical Standard. Prior to commencing any activity the external auditor will assess whether it meets the requirements of their independence checks. If those checks are satisfied the Chair of the Audit Committee will then have the delegated authority to approve or reject each activity. Any work that is approved is reported at the next Audit Committee.

An analysis of fees paid to Deloitte, including the split between audit and non-audit is included in note 8 of the Report & Accounts.

### Internal controls, internal audit and risk management

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

As set out in the Strategic Report, the continuous improvement and execution of a comprehensive and robust system of risk management is a high priority for Rotork. Many of the principal risks are aligned with areas of accelerated growth and in a number of areas the risks increased as a result of the impact of COVID-19. The work started in prior years to improve accountability, consistency and the development of a stronger second line of defence has progressed through the year. Aspects of the work which required physical access to sites were delayed until methods of remote working were established but it is now progressing once again. Towards the end of the year a Head of Finance Transformation was appointed to lead activities to deliver the finance vision including the transition to a new finance target operating model.

The Audit committee received reports at each meeting on progress with the work, including reports from the external auditor. Plans were approved by the Audit Committee in December 2020 and progress will be monitored in the coming year.

Strengthening the Finance, risk and compliance functions is central to improving the control environment. Revised finance reporting lines, so that finance reports through the finance team throughout the world, were implemented early in the year and are now fully operational. The finance leadership team meets regularly and is responsible for designing and implementing all aspects of the finance transformation programme supported by the newly-appointed Head of Finance Transformation.

PwC continued to provide internal audit services throughout 2020. The function is led by an experienced Head of Risk and Internal Audit from PwC supported by an in-house Risk and Internal Audit Manager. The Group continues to use Rotork staff supported by the dedicated in-house team and staff from PwC to undertake internal audits. Quality assurance procedures ensure consistency both in terms of audit approach and proposed recommendations. Staffing of the central risk and internal audit team will be kept under review during 2021. In the coming year we expect to restructure the risk and internal audit functions to create a more distinct second line of defence and these plans were approved by the Audit Committee in December 2020.

Internal audit has delivered financial audit reports for 27 of our global locations during 2020. The majority of these were undertaken remotely because COVID-19 prevented international travel. Guidance is provided to auditors about the nature and extent of testing to be undertaken, including this year how to manage the process remotely, and to ensure auditors focus their efforts in key areas of risk, tailored by site. Investment has also been made to improve the quality and consistency of reporting of issues.

A further nine risk-based internal audit reviews have been completed during 2020, covering the following areas:

- Design of overall Health and Safety arrangements
- Health and Safety – site engineer documentation and travel risk
- IT (patch management, change and release management and the response to COVID-19)
- Service bulletins (measures related to product quality)
- Travel and expenses systems
- Senior accounting officer processes
- Modern Slavery arrangements

The Audit Committee continues to receive reports at the main meetings on internal audit activity, any significant matters arising and the management response. During the year, the internal audit team made recommendations for improvement to controls, which management is charged with implementing. The status and effectiveness of actions are monitored by internal audit and regularly reported to the Audit Committee. During 2020, rigorous processes for internal audit 'follow up' of agreed management actions have been followed and more actions have been completed within the agreed timeframes. Overdue internal audit action points were reported to the Board monthly and have reduced compared with prior years. This will remain a focus area for the Audit Committee in 2021.

The internal audit team continue to administer the process for sites to confirm the operation of key financial controls. This process provides insight into key areas of risk and is verified during the internal audit visits. A separate confirmation process was developed in early 2020 to assess the impact on the control environment of new practices, such as the move to working from home. A controls self-assessment was performed in November 2020 in advance of year end. This process will now be paused as the business controls framework is rolled out and once that has been completed we anticipate a new confirmation process will be introduced.

Other means of assessing the internal control systems include the risk assessment process and annual letters of assurance from the divisional leadership team. These controls sit alongside our system of governance, including key committees that monitor our processes and controls, such as the Audit Committee and CSR Committee.

During the year, the Audit Committee also considered reports on anti-bribery and corruption procedures as well as other compliance processes and procedures.

The Risk Management Policy was updated extensively in 2019 and has been refreshed in 2020. It documents the Group's risk management processes and the connections between those various processes and the day-to-day operations of the Group. In 2020, those members of the executive team who are designated risk owners have produced detailed 'get to green' plans to respond to risks in accordance with risk appetite. Work on these plans will continue in 2021.

The 2021 internal audit programme has been scoped to include a number of risk-based audits as well as financial audits across a wide range of locations. Sites to be audited are selected based on a thorough assessment using a number of relevant risk factors. The Audit Committee reviewed and approved the 2021 programme at its December 2020 meeting.

### Other matters

In accordance with its terms of reference, the Audit Committee carried out a review of its effectiveness including how it discharged its responsibilities. In 2019, Independent Audit, as the appointed external board evaluator, interviewed the Committee members, Board members, members of Rotork's management team, the co-sourced internal auditors and external advisors as part of this process. In 2020 an internally-facilitated questionnaire was used to reflect on progress in the year from the previous work and the output from this was presented with further recommendations in December.

Throughout the year, the Audit Committee also considered relevant accounting and corporate governance developments, in addition to those in relation to risk and internal controls discussed above.

### Areas of focus for 2021

Key areas of focus for the coming year are:

- To manage an effective transition to a new Audit Committee Chair.
- To review ongoing progress with the finance transformation programme and creation of a separate second line of defence.
- To review development and implementation of the ERP system and the integration of controls within its design to enhance the control environment and drive consistency between locations.
- To review the implications for Rotork of developments in the external audit process and regulation.
- To review the implications for Rotork of the Taskforce on Climate-related Financial Disclosure reporting requirements that commence in 2021.

Finally I would like to thank Lucinda for her excellent leadership of this Committee over the last three years. It has been a time of much change at Rotork and progress has been made in many of the areas of responsibility of the Audit Committee.

### Sally James

Chair of the Audit Committee  
1 March 2021



## Nomination Committee report

**Martin Lamb**  
Chair of the Nomination Committee

### Committee membership & meeting attendance

The Committee, under the chairmanship of Martin Lamb, currently comprises a majority of independent non-executive directors. Together, they bring a diverse and complementary range of backgrounds, personal attributes and experience to discharge the Committee's duties effectively. The skills and experience of the Committee members are set out on pages 88-89. Details of the Committee members and their attendance at the meetings held during the year are set out below. In December 2020, Janice Stipp joined the Committee following her appointment to the Board. She will attend her first meeting in 2021. The Chief Executive, Group Finance Director and Group Human Resources Director also attend the meetings by invitation.

Member	Eligible Meetings (max:4)	Attendance
Martin Lamb, Chair	4	4
Lucinda Bell <sup>(i)</sup>	2	2
Sally James	4	4
Peter Dilnot	4	4
Ann Christin Andersen	4	4
Tim Cobbold	4	4
Janice Stipp <sup>(ii)</sup>	N/A	N/A

(i) Lucinda Bell stepped down from the Board with effect from 30 September 2020 and accordingly only attended in April and June 2020.

(ii) Janice Stipp was appointed to the Board with effect from 1 December 2020 and will attend her first meeting in February 2021.

The terms of reference of the Nomination Committee were reviewed in October 2020. A copy of the revised terms of reference are available on Rotork's website at [www.rotork.com/en/investors/corporate-governance](http://www.rotork.com/en/investors/corporate-governance).



### The Nomination Committee is responsible for:

- Leading the process for Board appointments and making recommendations for appointments to the Board.
- Ensuring succession planning is in place for appointments to the Board and senior management.
- Reviewing the structure, size and composition and balance of the Board, including its balance of skills, diversity, knowledge and experience, and making recommendations as appropriate.
- Making recommendations to the Board on the composition of the Board's Committees.
- Making recommendations to the Board concerning the annual reappointment by shareholders of any directors and separately assessing each year whether non-executive directors continue to be independent.

## The role of the Committee

The Committee evaluates and examines the skills and characteristics needed to ensure the Board has the right balance, knowledge and attributes to operate effectively in the execution of its business strategy and in the delivery of the long-term success of the Company. Board and Committee composition is formulated to ensure that business is conducted with the utmost integrity and in full alignment with the Company's culture, Purpose and Values. It also reviews the succession needs of the Company and puts in place the appropriate processes for nominating, training and evaluating directors, taking into account the need for diversity.

## Activities of the Nomination Committee during the year

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

### Non-executive appointment

On 30 September 2020 Lucinda Bell stepped down from the Board following six years' service. Lucinda made a significant contribution to the Rotork Board, especially in her role of Audit Committee Chair and we have benefited greatly from her knowledge, experience and wise counsel.

On the Committee's recommendation, the Board appointed Sally James, the Company's Senior Independent Director and a current member of the Audit Committee, to the role of Audit Committee Chair with effect from 1 October 2020, pending the appointment of Janice Stipp as described below.

With the need for an additional non-executive director with strong international financial experience having been identified for recruitment during the year, Lygon Group were engaged to act as Rotork's search consultants for this role. Lygon has no other connection with the Company. The Committee considered a list of potential candidates provided by Lygon and took into account the balance of skills, knowledge, independence, diversity and experience of the Board, together with an assessment of the time commitment expected. The preferred candidate was interviewed individually by all members of the Committee. Following this process the Committee recommended to the Board that Janice Stipp be appointed as a non-executive director with effect from 1 December 2020 and that she become a member of the Audit, Remuneration and Nomination Committees from the same date. Janice will take over from Sally James as Chair of the Audit Committee at the conclusion of the Company's 2021 AGM. Janice's other public commitments were disclosed to the Board before her appointment and are provided on page 89. Janice brings a highly relevant sectoral background and international financial expertise to the Board together with a global perspective, particularly in Asia.

Sally James is in her ninth full year of service and will not be seeking re-election at the AGM on 30 April 2021. The search for an additional non-executive director will commence during 2021. I am pleased to report that Peter Dilnot will take over the role of Senior Independent Director from Sally effective from 30 April 2021.

### Succession planning

Succession planning for the Board and senior management is continuous. During the year, the Nomination Committee considered the need to maintain an appropriate balance of skills and experience within the Company to ensure progressive refreshing of the Board and senior management. For example, at its October meeting, in fulfilment of its role to oversee the talent review and executive succession process, the Committee considered the personal profiles for those high potential successor candidates identified for key future roles within Rotork, focusing on the key leadership roles required to take the business forward, such as those of the Managing Director of the Oil & Gas division and the Group Engineering Director.

## Diversity and Inclusion

The Board Diversity and Inclusion Policy ([www.rotork.com/en/documents/publication/24261](http://www.rotork.com/en/documents/publication/24261)) provides a high level indication of the Board's approach to diversity and inclusion in senior management roles which is governed in greater detail through the Group's policies.

The Committee is committed to succession planning for the Board and senior management team to ensure the right diverse mix of skills, experience, knowledge and background is achieved. There has been progressive discussion about talent management, succession planning and diversity of the Board and at senior management level during the year. In considering diversity, gender plays an important role but the Board also takes into account social and ethnic background, and other cognitive and personal strengths. The Committee is conscious of the recommendations of the McGregor-Smith and the Parker Reviews concerning ethnic diversity on the Board.

New appointments are made on merit, and take into account what is required from a diversity and inclusion perspective to ensure a rounded Board and considering the diversity benefit each candidate can bring. Recruitment and selection for Board members ensures equality of opportunity for all applicants and an unbiased approach will be taken when interviewing. Objectives on diversity are set by the Board on a regular basis and the policy is reviewed annually.

The Board is committed to the terms of the 30% Club, of which it is a member, and to the aspirations of the Hampton-Alexander objective of 33% female representation by, or as soon as possible after, the target date of 2020. The Group also notes the objectives of the Parker review for at least one BAME Board member by, or as soon as possible after, the target date of 2021.

As at 31 December 2020, there were three female directors at Board level, equating to 37.5% female Board representation, which exceeds the measure recommended by the Hampton-Alexander Review. Details of the percentage of women in senior leadership positions and within the Group can be found on page 62.

### Internal Board Evaluation Process

During the year an evaluation of the Board, its Committees and the Chairman was undertaken in line with the Committee's terms of reference. The evaluation process was internally facilitated by the Company Secretary and details can be found on page 99.

### Re-election of Directors

The Committee has satisfied itself as to the individual skills, relevant experience, contributions and time commitment of the non-executive directors, taking into account their other offices and interests held.

The Board is recommending the election or re-election to office of all continuing directors at the 2021 AGM. Details of the service agreements for the executive directors and letters of appointment for the non-executive directors are set out in the Director's Remuneration Report on page 124.

### Nomination Committee Evaluation

The Committee carried out an internally facilitated review of its performance as part of the overall Board evaluation in 2020 and its outcomes were discussed by the Board. It concluded that the Committee continued to fulfil its duties effectively with its key strengths being effective chairmanship, a clear focus on priorities and strong support from management. It was also recognised that the Committee was now serving a broader remit, with a clearer window on talent and succession below Board level.

### Martin Lamb

Chair of the Nomination Committee  
1 March 2021



## Directors' Remuneration report

**Tim Cobbold**  
Chair of the Remuneration Committee

### Rotork's key remuneration principles



**The Remuneration Committee is committed towards remuneration being:**

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



**The Remuneration Committee is responsible for:**

- Within the approved policy, determining individual remuneration packages for the executive directors, Chairman and, on the advice of the Chief Executive, the RMB.
- Selecting the measures and setting the performance criteria for the annual bonus and LTIP; and, at the end of their performance periods, evaluating performance against these criteria and considering whether any discretion should be applied in determining the level of payment.
- Agreeing the terms and conditions to be included in service agreements for executive directors, including termination payments.
- Selecting, appointing and setting terms of reference with any remuneration consultants who may advise the Remuneration Committee.
- Monitoring the principles and structures of remuneration across the Group and ensuring there is consistency and procedures to monitor fairness of application. In this regard, the Remuneration Committee reviews internal relativities, pay ratios and gender pay gaps, and invites the Group HR Director to its meetings to provide a full picture of pay across the Group.
- Taking into account guidance issued by shareholders, their representative bodies and proxy agencies (including the Investment Association, Institutional Shareholder Services and Glass Lewis).
- Taking into consideration any views expressed by shareholders during the year (including at the AGM) and encouraging an open dialogue with its largest shareholders. Major shareholders are consulted in advance about changes to the Policy Report or any significant proposed changes to the way in which it is implemented.



## Statement from the Chair of the Remuneration Committee

### Dear Shareholder

There can be no doubt that 2020 was an exceptional year and the impact of the COVID-19 pandemic affected nearly every aspect of all our lives, both personally and professionally. It therefore comes as no surprise that it also had a significant impact on the work of the Remuneration Committee throughout 2020.

The Committee recognises that the pandemic has led to changes in the definition, nature and characteristics of strong performance in 2020 (and possibly into 2021) and that this will likely lead to a more challenging external environment for the justification of remuneration outcomes. However, it also appreciated that it is at difficult times that the value and impact of strong leadership and high performing management teams is greatest and that this benefits all stakeholders. The Committee also recognises that COVID-19 has accelerated many pre-existing trends in the way the appropriateness of remuneration, especially for executive directors and senior managers, is judged. The Committee expects the remuneration arrangements for executive directors and senior managers to be viewed more through the lens of equity with the wider workforce and in the light of the shareholder experience than previously. The Committee understands that equity and fairness matter in the same way that business performance matters.

Therefore, throughout the year my colleagues and I on the Remuneration Committee have sought to find the right, equitable approach to remuneration in which employees' contributions are recognised fairly whilst also recognising the critical role of the senior management team, including the executive directors, in delivering performance from which shareholders demonstrably benefit. I am pleased and grateful that the Committee was actively supported by both Kevin Hostetler and Jonathan Davis in the development of this approach and their leadership reflects the equitable culture within Rotork. The detail of, and rationale for, our approach and the specific decisions we have taken are laid out in this letter.

In addition to dealing with the consequences of COVID-19, the Committee was active in many other areas through the year. The priorities and activities of the Remuneration Committee in 2020 included:

- During the first half of 2020, the Committee completed the consultation with shareholders regarding the new Remuneration Policy in a process that was extended by COVID-19. Further details are provided later in this statement.
- In the July 2020 meeting, the Committee appointed Korn Ferry as its remuneration adviser.
- The Committee continued to develop its work on its broader remit to consider more holistically the pay and remuneration culture in the business with particular attention to the use of ESG metrics (aligned to the strategy), fair pay, the gender pay gap, the ethnicity pay gap, pensions and other benefits. Further details are provided below.

### The Committee's approach to Remuneration in 2020

The Committee's approach to remuneration in 2020 across Rotork in general and for the executive directors and senior managers, for whom the Committee is explicitly responsible, was guided by Rotork's Key Remuneration Principles which are restated above. In particular, the approach was based on a sensitive appreciation of the business's performance (in all the circumstances), the experience of shareholders during the period, the employee experience during the year and the level of Government support for the business. The Committee's specific considerations are described below.

### Business Performance

In the Committee's view, Rotork has navigated the COVID-19 storm well. The Growth Acceleration Programme continued to deliver in line with plan and, in particular, demonstrated the resilience that is now a feature of the business model.

- On a reported basis, 2020 EBITA was £142.5m only 5.6% down on 2019 with revenues 9.7% lower. On a constant currency basis, 2020 EBITA was only 3.8% below 2019. The operating margin rose by 1.0 percentage point to 23.6% despite the lower revenues as a result of the exceptionally low flowthrough of sales shortfalls at 12%.
- The book to bill ratio was highly creditable at 0.98 which positions the business well, in the circumstances, for 2021 and confirms that 2020 performance was not achieved at the expense of 2021.
- Operating cashflow was strong with operating cash conversion at 129.5%
- Working capital efficiency (capital/revenue) improved from 24.2% to 21.0%.
- The balance sheet, which is run prudently, strengthened further during the year and the net cash position increased to £178m up £71m on the start of the year.
- A new bank facility was negotiated to replace one which was due to expire in mid-2020.

On nearly all measures the operating performance has been good during a year of unprecedented challenge and has contributed positively to the experience of shareholders during the year.

The Committee noted that the strong operating performance was not delivered at the expense of further strategic progress. The Growth Acceleration Programme continued to be implemented with the reorganisation from product to market facing divisions implemented as planned and investment in the new IT system is on track, albeit to a slightly revised timetable. Footprint optimisation and pre-COVID-19 planned headcount reductions were implemented in accordance with the roadmap.

## Directors' Remuneration report continued

### Shareholder Experience

Initially, COVID-19 impacted the stock market valuation of Rotork. However, this impact was relatively short-lived with the reductions of March and April largely recovered by the end of the year. The average share price in December 2020 was 309.8p, compared with the average December 2019 price of 332.9p and, at the time of writing, has recovered further.

The Committee regarded the resilience demonstrated by the business during the year as a vindication of the strategy and of the Growth Acceleration Programme. Both were introduced following the arrival of Kevin Hostetler and their ongoing successful implementation reflects well on the actions of everyone in Rotork. Consultations with shareholders have confirmed that this increased resilience is recognised and valued. The Committee believes that it is important to continue to support the ongoing success of the strategy and Growth Acceleration Programme in its approach to remuneration.

The Committee knows that dividends are an important part of the investment case for many shareholders and that, although the Board suspended the payment of the 2019 final dividend in March as part of cash conservation measures (which was supported by shareholders at the time), since then the business performance has allowed the 2019 dividend to be reinstated and it was paid in September 2020. Looking forward, the Committee noted that the Board has reconfirmed the dividend policy and is recommending the payment of a dividend of 6.3p in respect of the whole of 2020 at the AGM in line with that policy. Assuming this dividend is approved, shareholders will not have suffered any loss of dividend value as a result of COVID-19, albeit that payments were delayed by six months or so.

In the Committee's view, in relative terms the shareholder experience has been positive and, in absolute terms, it certainly hasn't been negative. In many ways the response to the COVID-19 pandemic has provided the opportunity for the business to demonstrate its resilience which shareholders have recognised.

### Employee Experience

The Committee recognises that, for all employees, 2020 has been a difficult year that has required them to adapt whilst still delivering for customers and, at the same time, accommodating material changes to their lives and the lives of their families and friends. Across Rotork, the response of all employees has been excellent and had a material impact on the performance of the business, particularly its resilience.

Led by the Board and senior management, Rotork's approach has been to protect the health (including mental health) and financial well-being of employees through this period, mindful of obligations to other stakeholders. Specifically, the Committee agreed, with the support of the Board including the executive directors, that the wider workforce would receive a more favourable remuneration treatment than the executive directors.

- Whilst the 2020 salary review due in April 2020 was cancelled, where possible, for all Rotork personnel, including all directors, following the good business performance in 2020, the 2021 annual salary review, which would have been due ordinarily in April 2021, was brought forward to 1 January 2021 for all employees other than directors.
- The income of furloughed employees was topped up by the business to 100% of normal pay so that employees did not suffer a loss of pay during the pandemic. All furlough support received from the UK Government has been repaid.
- All employees in Rotork continued to participate in a bonus scheme with targets based on combinations of the performance of their local business and the performance of the Group. For reasons explained in the section on 'Remuneration in 2020' below, the implementation of the Annual Bonus Plan for all employees (including executive directors) was delayed to June 2020 with targets for all employees set in the light of COVID-19 to make them meaningful and credible.
- The business took a range of steps to support the physical and mental health of employees through the pandemic. Stringent, clearly communicated COVID-19 safe polices were implemented very early on including the provision of PPE, working from home and site by site safety at work procedures where necessary. Mental health has been similarly supported with online activities including desk yoga and walk the world initiatives.
- Rotork Benevolent Support, to which Rotork contributes, was established to support employees, ex-employees and their families through hardship, particularly those impacted by COVID-19.
- Internal pulse surveys of the workforce were consistently highly favourable of the business' response to COVID-19.

In addition, in recognition of our responsibility to help reduce inequality and to contribute to a fairer society more broadly, Rotork committed to a Real Living Wage Policy in 2020, ensuring that no employee is paid below this level where it exists in a country. Rotork is now accredited as a Living Wage Employer.

A Fair Pay Framework has also been introduced and communicated to all employees globally. The Framework guides Rotork's reward policies, procedures, systems and decision making globally in support of the commitment to deliver fair and competitive remuneration in line with the remuneration principles. This provides assurance that processes are non-discriminatory and operate to help reduce any gender or ethnicity pay gaps we are aware of.

Overall, the Committee's assessment of the employee experience is that Rotork has acted responsibly towards all employees and has proactively supported their health (including mental health) and financial wellbeing during 2020 as well as introducing frameworks and approaches that support wider societal expectations.

## Government Support

Conscious of concerns that Government support should not enable inappropriate or unfair remuneration outcomes, the Committee noted that Rotork has not been a material net beneficiary of support from Governments around the world and has not benefitted from any support from the UK Government. For the avoidance of doubt, Rotork made no use of any government backed loans or facilities, all furlough support received from the UK Government has been repaid and Rotork received no UK Government business rates relief for any of its UK facilities.

## Remuneration in 2020

Rotork entered 2020 with a clear strategy and good momentum in the business. The focus for remuneration was the development of a new Remuneration Policy bringing practices and levels in line with the prevailing market, standards and expectations. The consultations with shareholders, which began in July 2019, continued into January 2020 and resulted in amendments to the original proposals and a new policy proposal was published in the 2019 Annual Report.

In early 2020 the process for setting the Annual Bonus targets followed the usual course, with targets for the executive directors, the senior management and the wider workforce, approved by the Remuneration Committee at the late February 2020 meeting. These were detailed in the Remuneration Report in the 2019 Annual Report.

The arrival of COVID-19 in early March 2020 caused these 'normal' Remuneration arrangements to be revisited.

## Impact of COVID-19 on 2020 Remuneration Arrangements – New Remuneration Policy

The arrival of COVID-19 shortly after the publication of the Annual Report focused sensitivities around remuneration in the UK and consequently further consultation on the proposed new Remuneration Policy with shareholders and proxy advisers took place in the time between the publication of the Annual Report and the AGM. As a result of these consultations, further amendments were made to the immediate implementation of the proposed policy and I was pleased that shareholders approved the new policy, with 96% voting in favour.

As a reminder, the key elements of the new policy are outlined below, together with any implementation decisions that affected 2020.

- **Pension Allowances** – Pension contributions (or cash in lieu) for new executive directors was capped at the level for the majority of the workforce which is equivalent to 9% of salary. Pension contributions for the incumbent executive directors will be frozen at the values paid in 2019 for two years and then reduced to 20% for the CEO and 15% for the GFD and then, for both, to the level of the workforce by 31 December 2022.
- **Variable Opportunity** – the maximum opportunity for Annual Bonus and LTIP was increased by 25% and 50% (of salary) respectively, effective 2021. The increase in variable opportunity was accompanied by more demanding targets which were implemented in 2020 despite the delay in the increase in opportunity until 2021. The Committee believes that the targets regime, established at the time the new policy was approved, remains appropriate for Rotork in 2021.
- **Shareholding Guidelines and Post Cessation Requirements** – the shareholding guideline was increased to the maximum annual variable pay opportunity, currently 350% and 300% of salary for the CEO and GFD respectively, to be built up within five years and a post cessation holding requirement of 200% of salary, applicable only to share based awards made after the approval of the policy, was introduced. To ensure adherence to the post cessation holding requirements executive directors will, as a condition of receiving any and each share-based award, formally accept the post cessation requirements in writing and reconfirm the same each year, also in writing.

## Impact of COVID-19 on 2020 Remuneration Arrangements – 2020 Annual Bonus Plan

The implementation of the 2020 Annual Bonus Plan for all employees was delayed when COVID-19 'struck' in March 2020, though the targets for the Plan for executive directors and senior management had been approved by the Committee in late February. These targets also form the basis of the profit incentives for all other employees. As the impact of the pandemic became clearer, the focus for the business during the rest of March, April and May was rightly on addressing the immediate challenges of COVID-19, particularly the health and safety of employees.

However, this delay in implementing the Annual Bonus Plan meant that employees (including executive directors and senior managers) were not participating in a bonus plan at a time when, in the view of the Committee, the interests of all stakeholders were best served by a highly motivated workforce. The Group is in a period of transformation with each business unit able and required to take decisions that impact the Group's performance. Ensuring that the business units' profit based bonuses (which all employees participate in) were achievable was, in the Committee's view, critical to ensuring that momentum in the transformation was maintained. So, by June, once the Group's COVID-19 Plan had been approved by the Board, the Committee decided to implement the delayed Annual Bonus Plan for all employees (including executive directors and senior management) to support delivery of the COVID-19 Plan. However, it was clear that the profit element of the incentives for all employees (including executive directors and senior management) could not be based credibly on the targets approved, but not implemented, by the Committee in late February. The Committee decided that targets for the profit element of bonus schemes for all employees (including executive directors and senior management) should be based on the COVID-19 Plan. For the executive directors and senior management, the profit element represents 60% of the maximum annual bonus opportunity and targets were set for the 'threshold' and 'on-target' targets but with the 'stretch' target being kept at the level approved in February.

The Committee was satisfied that these targets would be more challenging than those previously approved but not implemented, given the circumstances at the time. For executive directors and senior management, other than small revisions to refocus personal objectives in the light of COVID-19, the targets approved in February for the non-profit related elements of the annual Bonus Plan (Cash Generation, Health and Safety, Personal Objectives), which cover 40% of their maximum opportunity, were retained.

The Committee decided that it was not appropriate to scale back the opportunity for any employees (including executive directors and senior management) given the challenging nature of the targets and the extraordinary circumstances that were prevailing. However, the Committee expressly noted, for executive directors, that to the extent that the targets resulted in a higher bonus than would have been due under those approved in February, the Committee would consider, depending on the outcome, scaling the 'additional' bonus back and/or awarding some or all of the excess as deferred shares.

## Directors' Remuneration report continued

### Remuneration Outcomes for 2020

#### Salary Review

In light of COVID-19, the 2020 planned salary review for all Rotork employees and directors, including the executive directors, was initially suspended and subsequently cancelled where this was possible. Other than those that were contractually committed, legally required or reflected promotions, there were no salary reviews for any employees in 2020. However, in December 2020 it was decided to bring forward the 2021 salary review which was planned to be effective from 1 April 2021 to 1 January 2021 for all employees, except directors.

#### Annual Bonus

The Annual Bonus targets for 2020 were based on annual profit (EBITA), cash generation, lost time injury rate (LTIR) and individual personal objectives. Although the profit targets were set in the light of COVID-19, other than small changes to specific personal objectives to reflect COVID-19, no changes were made to the LTIR and Cash targets approved in February. The Committee was conscious that both these targets had been made more challenging in the light of the increase in Annual Bonus opportunity (the implementation of which was subsequently deferred into 2021) in the new Remuneration Policy approved by shareholders.

As reported elsewhere, very sadly one of Rotork's employees died whilst undertaking his duties during 2020. This happened despite several years of improving health and safety metrics in the business, a trend that continued into 2020. This good progress resulted in the targets within the health and safety element of the Annual Bonus Scheme, which accounts for 5% of maximum opportunity, being met in full.

In the Committee's view, it would not be appropriate to pay a maximum health and safety based bonus in a year in which a Rotork employee had died at work and therefore the Committee decided to reduce all Health and Safety bonus related payments, for all employees, by 50%. The Committee felt that it was important to continue to recognise the significant progress that has been made across the business in improving the Health and Safety record in recent years by retaining an element of the bonus. More information on the Health and Safety activities and performance in the business is provided on pages 64-65.

After adjusting for the reduction in Health and Safety bonus, on a formulaic basis the 2020 Annual Bonus Plan would have resulted in a payout of 77.4% of maximum opportunity for the executive directors and senior management. After careful consideration, the Committee felt that the performance of the business (in all the circumstances) had been good and warranted this level of bonus outturn for the senior management and the wider workforce.

However, in considering the executive directors, the Committee, conscious that targets had been set in June in the light of COVID-19, noted that the level of payout (also on a formulaic basis) had the targets approved in February been applied, would have been 51.7%. Therefore, absent any action by the Committee, the delayed Annual Bonus Plan would have led to a payout higher by 25.7% of maximum opportunity, equivalent to 32.1% and 25.7% of salary for Kevin Hostetler and Jonathan Davis respectively. The Committee's view was that this degree of 'additional' bonus, whilst reflective of performance, should be moderated.

The Committee therefore decided:

- To exercise downward discretion to reduce the 'additional' bonus by 33%;
- To require that 33% of the 'additional' bonus should be paid in shares deferred for three years under the Deferred Share Bonus Plan to the extent not required by the Remuneration Policy; and
- That 33% of the 'additional' bonus should be paid in cash.

As a result of these decisions, the level of payout for the executive directors was reduced to 68.9% of maximum opportunity. In approving this level of payout, the Committee noted that at this level:

- The 2020 payout results in a bonus award 15% lower than in 2019 on profits (EBITA) down 3.8% on a constant currency basis but with operating margin up 1% point.
- The 2020 payout for employee groups in the wider workforce, for whom no discretion (other than for Health and Safety) has been applied, is an average of 80% of maximum opportunity, higher than for the executive directors. The Committee viewed this disparity in treatment as appropriate, conscious that income levels vary in the business.

Under the Remuneration Policy any bonus awarded to executive directors greater than 60% of maximum opportunity is deferred in shares for three years under the Deferred Share Bonus Plan. In the light of the overall performance of the business notwithstanding the delayed Annual Bonus Plan and after careful consideration, the Committee decided not to require any further deferrals of the bonus beyond that required by the policy on the basis that the combination of strong performance and downward discretion had resulted in an appropriate, fair and proportionate outcome.

The Committee's view is that the incentivisation created throughout the whole business by having a relevant and meaningful, albeit delayed, bonus plan materially influenced the profit performance in the year, especially given that the salary review had been cancelled. Without this delayed plan, the Committee's view was that the results achieved would not have been as strong as they were. This is one of the strengths of Rotork's 'all employee' bonus arrangements; everyone is incentivised to make a positive difference and this is reflected in the levels of award, as a percentage of maximum opportunity, made to all employees.

As a result, the bonus for Kevin Hostetler and Jonathan Davis for 2020 paid out at 86.1% and 68.9% of salary respectively. In 2019 the corresponding payments were 102.5% and 81.5% of salary respectively. Of the bonus award, 11.13% and 8.9% of salary for each of Kevin Hostetler and Jonathan Davis respectively will be deferred in shares for three years under the Deferred Share Bonus Plan.

## LTIP

The Committee decided that for all inflight LTIP awards (2018, 2019 and 2020) there would be no COVID-19 related adjustments to targets.

The outturn for the 2018 LTIP award, which vests in 2021 is based equally on growth in basic earnings per share (EPS) in 2020 compared with 2017, total relative shareholder return (TSR) over three years and the rate of growth in economic profit (a capital returns measure) over the three years to December 2020.

The 2017 basic EPS was depressed by an impairment charge related to a then recent acquisition which had the effect of making the target growth rates easier to achieve. In October 2020, the Committee decided that this was not appropriate and exercised its discretion to add back the impairment charge thereby making the target harder to achieve. Despite this adjustment, basic EPS grew by 39%. Economic profit growth (growth in profit ahead of the return demanded by the weighted average cost of capital) was good at 4.4% CAGR. Relative TSR performance in the period was in the second quartile reflecting the strong recovery in performance following the change in leadership and the implementation of the new business strategy and the Growth Acceleration Programme. As a result, 84.4% of the award to the executive directors and other members of the senior management team vested.

In April 2020, an LTIP award was made to the executive directors, a group of senior managers and a number of more junior, high performing and talented employees. The structure of the performance conditions was consistent with the 2019 award with no COVID-19 related adjustment to targets. The targets were made more challenging in the light of the increase in the LTIP opportunity for executive directors (the implementation of which was subsequently deferred into 2021) in the new Remuneration Policy approved by shareholders.

At the time, the Committee satisfied itself that although the award was made at a share price reduced by COVID-19, having regard to both the good share performance in the previous 12 months and a decline in the share price of less than 25%, that it was not appropriate to scale back the award and that explicit windfall provisions would not be necessary. However, the Committee will, at vesting, as part of its normal review of formulaic remuneration outcomes, explicitly look at the value of these awards relative to the shareholder and employee experience over the same period. All recipients accepted this in writing, as a condition of receipt of the award.

The Committee carefully considered the extent to which the overall remuneration outturn for executive directors, taking the salary review, Annual Bonus Plan and 2018 LTIP outturns together, reflected the substantive performance of the business and both the shareholder and employee experience in the year. The Committee was satisfied that the overall outcome was fair, appropriate and proportionate and in line with the pay culture and approach within Rotork.

Full details of the targets and performance against those targets for both the Annual Bonus Plan and the 2018 LTIP are set out on pages 127-130. Steps have been taken to expand this section further to improve transparency in response to the feedback from shareholders.

## Remuneration in 2021

The structure of remuneration in 2021 will be consistent with 2020 but with an adjustment for the greater strategic focus on ESG in the business following the establishment of the Board's ESG Committee of which I am a member. In order to increase the alignment of incentives with the business strategy, the weighting on ESG measures for 2021 will increase by 5% points of maximum opportunity to 10% (including the Health and Safety performance measure (LTIR) of 5%), with a corresponding decrease in the weighting of personal objectives to 15%. ESG performance measures and targets will be agreed by both the ESG Committee and the Remuneration Committee. The weighting for profit (60% of opportunity) and cash generation (15% of opportunity) will be unchanged. The ESG weighting may increase in future years to reinforce further alignment of incentives with the business's strategy.

In addition, the Committee has, after careful consideration, decided to implement the increase in variable opportunity (Annual Bonus and LTIP) that was approved in the 2020 Remuneration policy. The Committee considered that it was appropriate to do so having regard to the corresponding tougher targets that were implemented in 2020 (and which will be carried forward into 2021), that there will be no COVID-19 related adjustments to the process of setting targets and that it completes the process of bringing the executive directors much closer to market normal levels of reward.

## Salary Review

Executive directors will receive a basic salary increase of 2.6%, in line with the level awarded to the wider workforce, but effective from 1 April 2021, three months later than the wider workforce. This is in line with the Remuneration Policy commitment that salaries will normally only increase in line with the wider workforce. The fee for the Chairman will also increase by 2.6%, with the Board base fee and supplementary fees for the Committee Chairs and workforce engagement director increasing by 2.5%, all effective from 1 April 2021.

## Directors' Remuneration report continued

### Annual Bonus

The maximum opportunity available to executive directors will increase by 25% of salary. The maximum opportunity for Kevin Hostetler and Jonathan Davis will therefore be 150% and 125% respectively.

- EBITA Performance (60% of opportunity) – the bonus plan is based on the 2021 Budget approved by the Board and takes into account the continuing COVID-19 related uncertainty around the world by adopting a broader range between threshold and maximum targets. The challenging nature of the targets will be maintained by ensuring that the growth rate required to achieve the stretch target remains the same as was applied before COVID-19.
- Cash Generation (15% opportunity) – the target to achieve maximum outturn will remain at 110% (it was increased to this level in 2020) reflecting the importance of the sustained focus on cash generation. The Growth Acceleration Programme is funded from Rotork's own cash resources.
- ESG (10% of opportunity) – measures will be aligned to the three pillars of the ESG strategy. Half of the opportunity will continue to be based on Health and Safety (LTIR) with a target set on the basis of 2020 performance and a maximum that requires maintaining the historical improvement in LTIR. In this first year, an additional 5% will be split across quantitative targets set to cover normalised carbon emissions (scopes 1 and 2); culture and engagement scores (including inclusivity); and qualitative targets focusing on environmental innovation, particularly in relation to products and on customer engagement on sustainability issues.
- Strategic Personal Objectives (15% of opportunity) – these will be set for both executive directors with a focus on the continued strategic development of the business with a continued focus on the Growth Acceleration Programme, including leveraging the new sector-based organisation, and on the new IT System and control environment development and implementation.

In accordance with the Remuneration Policy, any pay out in excess of 60% of the maximum opportunity will be deferred in shares under the Deferred Share Bonus Plan.

As is usual, executive directors will be invited to participate and must agree in writing to all the conditions pertaining to the Annual Bonus Plan, including those relating to the post cessation of employment shareholding arrangements that will apply to any bonus deferred in shares.

### LTIP

The maximum opportunity available to Executive Directors will increase by 50% of salary. The maximum opportunity for Kevin Hostetler and Jonathan Davis will therefore be 200% and 175% of salary respectively.

The structure of the 2021 LTIP performance conditions will be the same as in 2020 and targets will be unchanged as follows:

- TSR (33% of opportunity) – in line with market standards for this measure the maximum opportunity will be achieved if TSR is in the upper quartile relative to the constituents of the FTSE 350 Industrial Goods and Services Sector.
- Adjusted EPS (33% of opportunity) – the threshold and maximum set at 9% and 35% growth over the 2020 adjusted EPS by 2023 respectively.
- Economic profit (33% of opportunity) – performance will be measured against the latest long-term plan for the business. Maximum award will require a growth in the economic profit over the period of 7.9% CAGR, equivalent to growth of more than 11% CAGR in profit after tax.

These awards will be made in the normal course following the publication of the results and will be made subject to the executive directors agreeing in writing to all the conditions under which awards are made including to the post cessation of employment shareholding arrangements that will apply to these awards.

### Wider Workforce Remuneration Matters

In my view there is a good pay culture at Rotork. Our Key Remuneration Principles provide the foundation and this has self-evidently been reflected in our approach to pay and remuneration during the COVID-19 pandemic. It is, for example, unusual in my experience, for all employees to participate in and benefit from a bonus scheme, as is the case in Rotork.

We look to apply the Key Remuneration Principles along with our new Fair Pay Framework, introduced in 2020, consistently through the business and we seek to ensure there is consistency in how we structure pay so that performance measures and incentives reinforce the right behaviours in the business. If specific actions are necessary to satisfy governance expectations or are required under the Directors' Remuneration Policy, these are made once the right remuneration structure for the business has been set.

Our Fair Pay Framework in 2020 helps ensure standards are met throughout our operations globally, including ensuring our approaches and decisions are non-discriminatory.

The Committee keeps the business's performance on any potentially discriminatory factors under regular review. Whilst there has been no evidence of deliberate or wilful discrimination, the Committee will continue to monitor the potential consequences of bias in remuneration decision making. In Rotork this process is most advanced relating to gender although work has now progressed in the ethnicity arena. The Gender Pay Gap metrics are reviewed each year before they are published as is the gender-based distribution of pay rises, promotions and bonus awards. We are for the first time also publishing our Ethnicity Pay Gap following an ethnicity and disability capture survey of all our employees globally. Recruitment processes are being reviewed to remove any bias in order to give the business access to all talent and to ensure no bias to all potential employees.

Notwithstanding the considerable progress that has been made, we set ourselves high standards and so some of this remains work in progress. There should however be no doubt about Rotork's commitment to doing the right thing. More details are provided in the People and Culture section on pages 58-63.

### Bringing the employee voice into the Boardroom

In addition to my role as Chair of the Remuneration Committee, I am the designated non-executive director for workforce engagement which provides a useful linkage to the now wider remit of the Remuneration Committee itself. Details on how I have engaged with Rotork's employees during the course of the year are set out on page 96.

### Remuneration Adviser

Following AON's withdrawal from the market and in line with the Committee's wish to receive a fresh perspective on Remuneration, the Committee conducted an extensive process to select a new adviser. From a shortlist of three, and after a process involving written submissions, multiple interviews and reference taking, Korn Ferry were appointed as the Group's remuneration adviser in July.

### Ongoing engagement with shareholders

Since assuming the role of Chair of the Remuneration Committee, I have been keen to maintain a high level of engagement with shareholders. We consulted extensively with our major shareholders and the proxy agencies in the development of the new Remuneration Policy between July 2019 and the AGM in 2020.

In early January 2021 we contacted our 20 largest shareholders representing over 56% of our issued share capital, as well as the Investment Association, ISS and Glass Lewis, to share with them the key decisions the Committee took in 2020 and the principles of the approach for determining 2020 outturns and setting 2021 targets. A small number of shareholders responded and all were supportive of the approach we have taken except one who preferred to wait for the publication of this report. The proxy agencies largely reiterated their guidance, reserving judgement until they had reviewed the Remuneration Report.

It is my intention to continue this higher level of engagement to maintain an ongoing and transparent dialogue with our major shareholders. The inherent challenge with such consultations is that shareholders have differing opinions on specific aspects of remuneration, especially at a time that executive remuneration has never been under greater scrutiny. Nevertheless, all these opinions are valuable and, combined with the feedback from the proxy agencies if available, do inform the Committee's decision making. Together with the Committee, I seek to navigate a path that delivers Remuneration approaches that we are sure are right for the business in the long-term and are recognised and supported as such by a significant majority of our shareholders. So, I am grateful to shareholders for contributing to these consultations and trust they recognise our willingness to both listen to, and act on, the views they expressed.

### Composition of the Committee

Lucinda Bell retired as a member of both the Board and Committee in September 2020 and I would like to record here my thanks to Lucinda for her valuable work and counsel on the Committee. Janice Stipp joined the Committee in December 2020. She brings, in addition to her manufacturing, engineering and financial experience, a US perspective to remuneration which will complement Ann Christin Andersen's European perspective, both of which are important given the international nature of Rotork's business. Sally James, who will have served nine years on the Board and the Committee during 2021, will be retiring from the Board at the conclusion of the 2021 AGM. I am pleased that Peter Dilnot will be joining the Committee effective from 30 April 2021. In addition, with Peter also becoming Senior Independent Director, it is appropriate for him to become a Committee member; he will bring a strengthened knowledge of the UK remuneration environment to our discussions.

### Committee performance

In accordance with the good governance, the Committee evaluated its performance during 2020. As is usual, opportunities for improvement were identified, particularly following the appointment of a new remuneration adviser and the dynamic nature of remuneration practices. However, noting the extremely challenging nature and extent of the Committee's work this year, it is very pleasing to report that the Committee is regarded as operating effectively and to a high level.

### Tim Cobbold

Chair of the Remuneration Committee  
1 March 2021

## Remuneration at a glance

### Our Remuneration Policy in 2020

Purpose	Element	Kevin Hostetler (Chief Executive)	Jonathan Davis (Group Finance Director)
Attract and retain high-calibre executive directors	<b>Salary<sup>(i)</sup></b>	£608,000	£351,000
	<b>Benefits</b>	Standard benefits plus relocation arrangements agreed in connection with his appointment	Standard benefits
	<b>Pension</b>	Pension allowances fixed from 1 January 2020 at their 2019 absolute values, i.e. £152,100 and £70,119 for the Chief Executive and Group Finance Director respectively. These allowances will fall to 20% and 15% of salary respectively in 2022 and, by the end of 2022, will align with the 9% contribution available to the majority of the workforce.	
Drive and reward short-term performance	<b>Annual bonus<sup>(i)</sup></b>	150% of salary maximum (90% salary on-target)	125% of salary maximum (75% salary on-target)
		Based on profit, cash generation, safety and personal targets (including strategic and environmental). Any bonus above 60% of maximum is deferred in shares for three years.	
Incentivise long-term value creation and provide alignment with shareholders	<b>Long term incentive plan (LTIP)<sup>(i)</sup></b>	200% salary performance share award	175% of salary performance share award
		Based on adjusted earnings per share (EPS), relative total shareholder return (TSR) and growth in economic profit assessed over a three-year performance period. A two-year post-vesting holding period also applies.	
Provide alignment with shareholders	<b>Shareholding requirements</b>	350% of salary	300% of salary
		Executive directors are required to build a shareholding equal to their variable pay opportunity within five years of appointment. A requirement to hold 200% of salary in shares will apply for two years after cessation of employment (but does not apply to shares held which were purchased with the executive's own funds) subject to the shares having been acquired from share awards made after the approval of the 2020 remuneration policy.	
<b>Total remuneration opportunity at on-target performance (£'000)</b>		£1,517,000	£780,000
<b>Actual total remuneration for 2020 (£'000)</b>		£2,203,000	£1,095,000

(i) In response to the COVID-19 crisis, the executive directors agreed to the delayed introduction of the 25% and 50% of salary increases in bonus and LTIP opportunity and the cancellation of the 2.5% salary rise that were set out in last year's report. The more demanding targets that had been set for these plans and the increased shareholding requirement remained, however.

### Performance outcomes for the 2020 financial year

The table below sets out how the annual bonus and LTIP awards have vested in the year based on performance against target.

			Kevin Hostetler	Jonathan Davis
2020 annual bonus	Profit (60%)	32.9% achieved	68.9% of maximum awarded	68.9% of maximum awarded
	Cash generation (15%)	15.0% achieved		
	LTIR (5%)	2.5% achieved		
	Personal and strategic (20%)	KH:18.5% achieved JD:18.5% achieved		
2018 LTIP award	EPS growth (33%)	100.0% of maximum	84.4% of maximum vesting	84.4% of maximum vesting
	TSR (33%)	94.2% of maximum		
	Economic profit (33%)	59.0% of maximum		



### How our Remuneration Policy supports Rotork's strategy

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

Our aim is to deliver strong and sustainable margins, consistent year-on-year growth in revenues and profit and a high return on capital which, combined with our asset-light model, delivers strong cash generation. The financial measures in our incentive plans reflect these priorities and our long-term financial objectives. The introduction of explicit ESG measures reflects the strategic importance of ESG in Rotork.

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

### Performance measures

Performance measures are used to determine the extent of any awards made under the variable elements of the executive directors' remuneration, both annual bonus and LTIP. The performance measures are selected because of their use as Key Performance Indicators (KPIs) to assess Company performance and to align the interests of the directors to those of the shareholders. Non-financial KPIs constitute part of the annual bonus award and these are selected to ensure that performance measured by financial KPIs is not delivered at the expense of important non-financial considerations, specifically ESG.

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

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

## Overview of the Policy report

This section sets out an overview of Rotork's directors' Remuneration Policy which was approved by shareholders in a binding vote at the AGM held on 24 April 2020 and became effective on that date. The Committee's intention is that the current policy will operate for the three-year period to the AGM in 2023, unless approval for a new policy is sought sooner.

A copy of the directors' Remuneration Policy is set out in full within the 2019 Annual Report and can be found online at [www.rotork.com/en/documents/publication/24348](http://www.rotork.com/en/documents/publication/24348)

Element of remuneration	Purpose and how it supports the strategy	How the element operates	Maximum amounts payable	Framework used to assess performance
<b>Base salary</b>	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 Remuneration 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 February, with any changes effective from 1 April).</p>	<p>Details of the current salaries of the executive directors are set out in the Annual Report on Remuneration.</p> <p>Normally, future salary increases will be no higher than the average increase (as a percentage of salary) applied to the UK workforce. However, the Remuneration Committee retains the discretion to award higher increases if appropriate (for example, to reflect progression in the role or increased experience of the individual).</p>	N/A
<b>Benefits</b>	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 Remuneration Committee after taking into account local market practice in the country where the executive director is based.</p> <p>Standard benefits for executive directors' benefits comprise a car and fuel (or car and fuel allowance), personal accident insurance, private medical insurance and life assurance. Additional benefits may be provided, as appropriate, including travel benefits for executives working away from their home country.</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>Any reasonable business related expenses may be reimbursed (including any tax if determined to be a taxable benefit).</p>	There is no prescribed maximum level, but the Remuneration Committee monitors the overall cost of the benefit provision to ensure that it remains appropriately proportionate.	N/A

Element of remuneration	Purpose and how it supports the strategy	How the element operates	Maximum amounts payable	Framework used to assess performance
<b>Pension</b>	To provide a market competitive remuneration package to enable the recruitment and retention of executive directors.	The Company may fund contributions to a director's pension as appropriate. This may include contributions to a money purchase scheme and/or payment of a cash allowance where appropriate.	For executive directors appointed after the 2020 AGM: no higher than the percentage of salary available to the majority of the workforce.  For directors appointed prior to the 2020 AGM an amendment to service contracts will provide that: in 2020 and 2021, contribution capped at the level paid to them in 2019; in 2022, no higher than 20% of salary for the Chief Executive and 15% of salary for the Group Finance Director; and by the end of 2022, pension contributions will be aligned with that available to the majority of the workforce in which the executive is located.	N/A
<b>Annual bonus</b>	Drives and rewards performance against annual financial and operational goals which are consistent with the medium to long term strategic needs of the business.	Bonus up to 60% of the maximum opportunity is paid in cash. Any bonus awarded in excess of 60% of the maximum is deferred into shares for three years.  Dividend equivalents may be paid on the deferred shares on vesting. The Remuneration Committee retains discretion to adjust the number of deferred shares in the event of a variation in the capital of the Company and/or to settle the award in cash.	The maximum annual bonus opportunity is 150% of salary.  Details of the current annual opportunity are set out in the Annual Report on Remuneration.  For each measure, normally a sliding scale of stretching targets is set by the Remuneration Committee. The threshold level of bonus under each financial measure varies but accounts for no more than one third of the maximum bonus opportunity under any single measure.	The annual bonus is focused on the delivery of strategically important performance measures. These include demanding financial and non-financial measures. Financial measures will account for the majority.  Under the terms of the bonus plan, the Remuneration Committee has the discretion, in exceptional circumstances, to amend previously set targets or to adjust the proposed pay-out to ensure a fair and appropriate outcome.
<b>LTIP</b>	To incentivise long term value creation and alignment with shareholder interests.	The LTIP permits an award of shares to be granted which vests subject to performance and continued employment. The LTIP awards will be granted in accordance with the rules of the plan, which were approved by shareholders in 2019, and the discretions contained therein.  Awards under the LTIP may be granted in the form of conditional shares, forfeitable shares, nil-cost options or cash (where the award cannot be settled in shares).  For awards granted from 2017 onwards, the directors must retain any shares vesting (net of tax) until the fifth anniversary of grant.	The maximum LTIP opportunity is 200% of salary.  Details of the current award levels are set out in the Annual Report on Remuneration.	Awards under the LTIP are subject to performance conditions, measured over three financial years, currently being adjusted EPS, economic profit and TSR. Different measures may be used for future award cycles.  A sliding scale of targets is set for each measure with no more than 25% of the award (under each measure) vesting for achieving the threshold performance hurdle.  The performance targets are set prior to the grant of each award. Different measures, targets and/or weightings between measures may be set for future award cycles.  Under the LTIP rules approved by shareholders, the Remuneration Committee has the discretion to amend the targets applying to existing awards in exceptional circumstances providing the new targets are no less challenging than originally envisaged. The Remuneration Committee also has the power to adjust the number of shares subject to an award in the event of a variation in the capital of the Company.

## Overview of the Policy report continued

Element of remuneration	Purpose and how it supports the strategy	How the element operates	Maximum amounts payable	Framework used to assess performance
<b>Shareholding guideline</b>	To provide alignment with shareholders by requiring executives to build and maintain a meaningful shareholding in Rotork.	<p>The executive directors are also subject to a requirement during their period of employment to build and maintain a shareholding in Rotork equivalent to the combined annual award opportunity under their bonus and LTIP. It is expected that this requirement will be achieved within five years of appointment.</p> <p>Following the cessation of their employment, executive directors are required to retain for a further two years any shares held that have vested to them under the Group's share plans after the adoption of this Policy (subject to a maximum holding requirement of 200% of final salary).</p>	N/A	N/A
<b>Chairman and non-executive directors' fees</b>	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 Remuneration Committee taking into account views of the Chief Executive.</p> <p>The fees for the non-executive directors comprise a basic Board fee, with additional fees paid to the Senior Independent Director Committee chairs and other similar Board responsibilities. Additional fees may be paid for additional temporary responsibilities.</p> <p>Any reasonable business-related expenses may be reimbursed (including tax thereon if determined to be a taxable benefit).</p>	<p>The maximum aggregate fee level is as specified in the Group's Articles of Association (currently £700,000).</p> <p>The fee levels are set by reference to rates in companies of comparable size and complexity. The fee levels are reviewed periodically taking into account the responsibilities of the role and the time commitment of the individual.</p>	N/A

### Clawback and malus

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

The Remuneration Committee has similar power in respect of the LTIP and may exercise discretion to reclaim some, or all, of a vested LTIP award in exceptional circumstances (the specified situations being the same as for the annual bonus plan). The Remuneration Committee may also lapse or reduce an award prior to vesting where the participant is found to be guilty of serious misconduct.

### Differences between the Policy Report and the policy on employee remuneration

We use the same principles (as set out at the start of this report) to determine pay for our executives and everyone else who works at Rotork. We recognise that it is appropriate for a significant proportion of executive directors' remuneration to be contingent on the performance of the Group, and that such remuneration is at risk subject to the satisfaction of stretching performance conditions. Executive directors and other senior managers are invited to participate in the LTIP under which shares are awarded subject to performance conditions over a three-year period. We are also widening participation in our share-based long-term incentive schemes within the organisation. Executive directors and other senior managers are also invited to participate in the annual bonus scheme which will result in a bonus payment being made if targets are achieved, part of which for executive directors may be deferred in shares.

Employees share in the success of the Group through a profit-based bonus plan which is linked to the performance of their business unit, Group performance and their own individual performance. This is coupled with the opportunity, for eligible employees, to receive free shares from the Company, paid from the Company's profits.

### Approach to recruitment remuneration

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

The structure and level of the ongoing variable pay element will be in accordance with the Policy. Different performance measures may be set initially for the annual bonus, taking into account the responsibilities of the individual, and the point in the financial year that the executive joined.

In the case of an external hire, it may be necessary to buy out certain elements of remuneration from an executive's previous employer which would be forfeited on leaving that employer. Where we do this, it will always be subject to the principal consideration that making such a buy-out is in the best interests of the Group. Any such payment would be structured to take into account the form (cash or shares), timing and expected value (i.e. likelihood of meeting any existing performance criteria) of the remuneration being forfeited. Replacement share awards, if used, may be granted using Rotork's existing share plans to the extent possible, although awards may also be granted outside of these schemes if necessary and as permitted under the Listing Rules.

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

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

### Service contracts and policy on payments for loss of office

Under the executive directors' service contracts, up to 12 months' notice of termination of employment is required by either party. Should notice be served, the executive directors can continue to receive basic salary, benefits and pension for the duration of their notice period during which time the Company may require the individual to continue to fulfil their current duties or may assign a period of garden leave. The Company applies a general principle of mitigation in relation to termination payments and the service contracts expressly include the use of monthly phased payments following termination in lieu of notice which can be reduced to the extent that alternative remunerated employment is found.

The service contracts also enable the Company to elect to make a payment in lieu of notice equivalent in value to 12 months' base salary only.

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

Any unvested shares held under the deferred annual bonus plan will ordinarily vest on the normal vesting date, save where the departure is as a result of summary dismissal, in which case the awards will lapse on cessation of employment. The Remuneration Committee may also determine that the shares shall vest on an earlier date (including the date of cessation) if the Remuneration Committee, in its discretion, considers that the circumstances of the cessation merit early vesting of the awards.

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

Outplacement services and reimbursement of legal costs may be provided where appropriate. Any statutory entitlements or sums to settle or compromise claims in connection with a termination would be paid as necessary.

Any legacy benefits under the Company's defined benefit pension schemes will be allowed to be paid under the terms of those schemes and as set out in the Policy Report.

Outstanding share awards would ordinarily vest early on a change of control of the Company. In the case of unvested awards under the LTIP, performance would be measured to the date of control with a pro-rata reduction to reflect the proportion of the vesting period served.

The Chairman and non-executive directors do not have service contracts; they serve under letters of appointment and are subject to annual re-election by shareholders at the AGM. The term of appointment for non-executive directors and the Chairman is three years and their appointments are subject to termination on three months' notice (up to 12 months for the Chairman). In the event of the termination of their position, they are entitled to reimbursement of any outstanding fees and expenses due.

## Overview of the Policy report continued

### Executive directors' service contracts

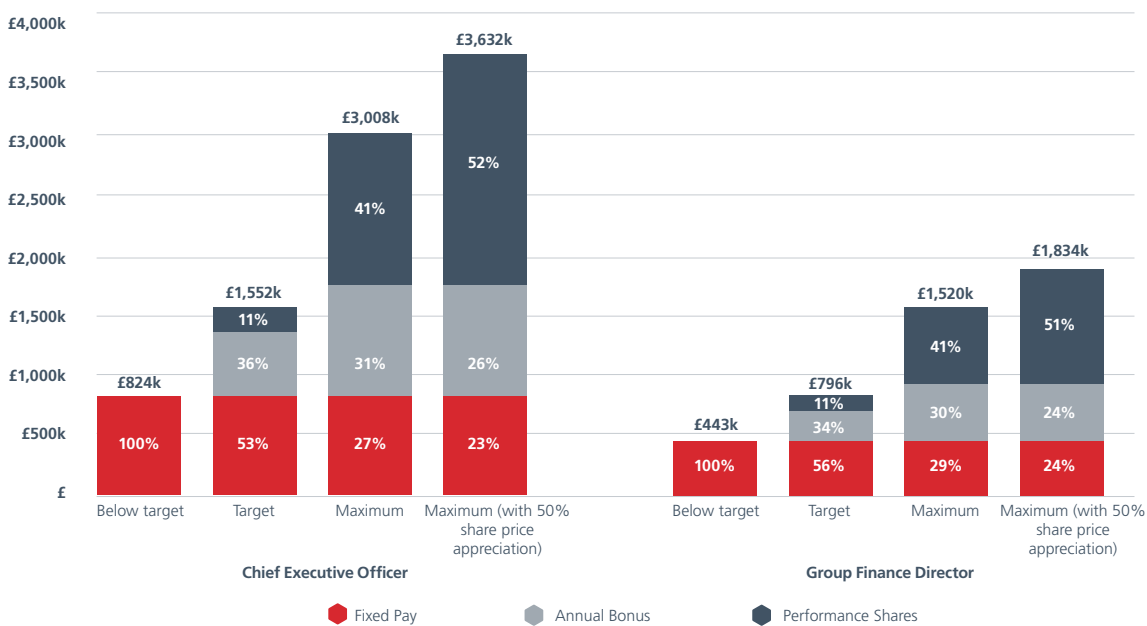
Name	Date of appointment to Board	Date of service contract	Notice period
Kevin Hostetler	12 February 2018	1 January 2018 as amended by a Deed of Variation dated 4 March 2020	12 months by either party
Jonathan Davis	1 April 2010	19 November 2009 as amended by a Deed of Variation dated 4 March 2020	12 months by either party

### Non-executive directors' terms of engagement

Name	Date of appointment to the Board	Date of most recent letter of appointment
Martin Lamb (Chairman)	2 June 2014	3 April 2019
Ann Christin Andersen	1 December 2018	16 November 2018
Tim Cobbold	1 December 2018	9 November 2018
Peter Dilnot	1 September 2017	1 September 2017
Sally James	11 May 2012	3 April 2019
Janice Stipp	1 December 2020	24 November 2020

### Illustration of the application of the Policy

The charts below illustrate how the Remuneration Policy would function for minimum, on-target and maximum performance for 2021 for each executive director. In addition, the fourth bar illustrates the value of total remuneration in the event both the annual bonus and LTIP pay out in full with the shares also being subject to 50% share price appreciation over the relevant period.



Salary levels (and consequently the other elements of the remuneration package which are calculated as a percentage of salary) are based on those intended to apply in 2021. Taxable benefits are shown as the cost to the Company of supplying the benefits for the year ending 31 December 2020.

On-target performance, for illustrative purposes, assumes achievement of 60% of the maximum available bonus and threshold LTIP vesting (13.3% of the maximum).

Maximum performance assumes achievement of the maximum bonus and full vesting of the LTIP shares.

The LTIP grant level is shown as 200% for Kevin Hostetler and 175% for Jonathan Davis. No share price growth has been assumed (other than for the fourth scenario, as described above), and for simplicity the benefit derived from participating in the Company's SIP has been excluded.

# Annual Report on Remuneration

This part of the report has been prepared in accordance with Part 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations (as amended) and Rule 9.8.6 of the Listing Rules. The Annual Statement and Annual Report on Remuneration will be put to a single advisory vote at the AGM on 30 April 2021.

## Committee Membership and Governance

The Committee currently comprises four independent non-executive directors, namely, Tim Cobbold (Chair) Ann Christin Andersen, Sally James and Janice Stipp who joined the Board on 1 December 2020. Lucinda Bell was also a Committee member until her retirement from the Board on 30 September 2020. The Company Secretary acts as secretary to the Remuneration Committee. The Remuneration Committee met six times during 2020 with attendance set out as follows.

Member	Eligible Meetings (max:6)	Attendance
Tim Cobbold, Chair	6	6
Lucinda Bell <sup>(i)</sup>	4	4
Sally James	6	6
Ann Christin Andersen	6	6
Janice Stipp <sup>(ii)</sup>	1	1

- (i) Lucinda Bell stepped down from the Board with effect from 30 September 2020.  
(ii) Janice Stipp was appointed to the Board with effect from 1 December 2020.

The Remuneration Committee is keen to ensure that its deliberations and decisions are undertaken in the fullest context of the business and taking into account how employees across the Group are rewarded, as well as ensuring that its decisions are made in the most transparent manner possible. To that end, the Committee invites the Group HR Director to its meetings to provide this wider context and to ensure that all its decisions remain aligned with Rotork's Values and culture, which we seek to nurture within the business. The Chairman is also invited to attend meetings. The Chief Executive and Group Finance Director are invited to attend parts of certain meetings but are not present when their own remuneration is considered. The Committee also considers it valuable to listen to the views of a serving UK executive director during its deliberations and for that reason Peter Dilnot, is invited to attend Committee meetings, subject to his availability.



## Role of the Remuneration Committee

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

The full terms of reference of the Remuneration Committee can be found on the Company's website at [www.rotork.com/en/investors/corporate-governance](http://www.rotork.com/en/investors/corporate-governance)

## Priorities and activities of the Remuneration Committee during 2020

### Considering the impact of COVID-19 on the remuneration arrangements in 2020 and 2021

- Developed the approach to remuneration outcomes in 2020 and the structure for 2021
- Consulting with shareholders on the above

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

- Set pay principles.
- Reviewed all elements of the directors' Remuneration Policy to ensure that it is globally relevant, remains fit for purpose and aligns with, and supports, Rotork's Values and culture, and fits with our pay principles.
- Oversaw the implementation of the revised 2020 Remuneration Policy following shareholder approval on 24 April 2020.
- Considered corporate governance developments, guidance from institutional investors and external remuneration trends to ensure our remuneration structures reflect evolving good practice.
- Conducted a thorough process to select a new remuneration adviser, leading to the appointment of Korn Ferry.

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

- Reviewed the pay arrangements for employees across the Group and considered how these related to those for our senior leaders.
- Reviewed the implementation of a Fair Pay Framework which guides Rotork's reward policies, procedures, systems and decision making globally in support of the commitment to deliver fair and competitive remuneration in line with the remuneration principles.
- Set basic salary for executive directors and members of the RMB for 2021.
- Reviewed the fee payable to the Chairman.

## Annual Report on Remuneration continued

### Priorities and activities of the Remuneration Committee during 2020 continued

#### Determining pay outcomes that are performance-driven...

- Determined bonus performance against targets and approved 2019 bonus payments.
- Determined LTIP performance against targets and approved 2017 vesting.
- Reviewed incentive plan outcomes and evaluated whether discretion should be applied.

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

- Reviewed the terms of both bonus and LTIP plans to ensure they remain fit-for-purpose and in line with developing best practice.
- Selected the measures and set the performance ranges for executive directors and other members of senior management's bonus scheme for 2020.

- Approved executive directors' personal objectives for 2020.
- Set LTIP performance targets and award levels for executive directors and other members of senior management for the 2019 LTIP.

#### Maintaining transparency and clarity in everything we do

- Consulted with shareholders on the changes to our Directors' Remuneration Policy.
- Approved the Directors' Remuneration Report 2020.

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

The tables below set out the single figure remuneration for the directors of Rotork for the year ended 31 December 2020.

#### Executive directors

Name	Salary <sup>(i)</sup>		Benefits <sup>(ii)</sup>		Annual bonus <sup>(iii)</sup>		LTIP <sup>(iv)</sup>		Pension and related benefits <sup>(v)</sup>		Total remuneration		Total fixed pay		Total variable pay	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Kevin Hostetler	608	604	48	48	524	619	871	–	152	151	2,203	1,422	656	652	1,547	770
Jonathan Davis	351	348	14	14	242	284	418	377	70	70	1,095	1,191	365	362	730	829

(i) The slight rise in salary is due to the 2019 increase in salary being applied in July 2019.

(ii) The benefit value consists of a car and fuel (or a car and fuel allowance), private medical insurance and the cash value on allocation of SIP free share awards as appropriate.

(iii) Of the maximum bonus opportunity, the following applied: for Kevin Hostetler, £456,300 was paid in cash with £67,685 deferred into shares for three years; for Jonathan Davis, £210,357 was paid in cash with £31,203 deferred into shares for three years.

(iv) The 2020 figure relates to the vesting of the 2018 LTIP award based on performance to 31 December 2020. These awards are not eligible to vest until 7 March 2021 and, as such, an indicative share price of 303.2p (being the average closing share price over the three-month period to 31 December 2020) has been used for the purpose of valuing these awards. This value will be restated in next year's report. Of the £871,000 and £418,000, 13% relates to an increase in the value of the underlying shares over the period. The 2019 figure relates to the vesting of the 2017 LTIP award based on performance to 31 December 2019. This value has been restated from last year's report to reflect the value of the award on the date of vesting, based on the closing share price of 254.8p. Of the £377,075, 6% relates to an increase in the value of the underlying shares over the period.

(v) See below for further details.

#### Total pension entitlements (audited)

Director	Normal retirement age	Total accrued pension in the defined benefit scheme as at 31 December 2020 (£ per annum)	Value of pension related benefits (£) during Company financial year to:					
			31 December 2019	31 December 2020				
			Defined benefit scheme	Cash in lieu of pension	Total	Defined benefit scheme	Cash in lieu of pension	Total
Kevin Hostetler	65	–	–	151,000	151,000	–	152,100	152,100
Jonathan Davis	65	–	–	69,600	69,600	–	70,119	70,119

#### Notes:

- The amounts above have been calculated in accordance with Statutory Instrument 2013 No 1981 – The Large and Medium-sized Companies and Groups (Account and Reports) (Amendment) Regulations 2013.
- The total accrued pension in the defined benefit scheme as at 31 December 2020 is that which would be paid annually on retirement from normal pension age. Jonathan Davis was a member of the defined benefit scheme until he opted out with effect from 30 April 2017. During 2019, Mr Davis elected to remove his accrued benefits from the defined benefit scheme and place them in a private pension scheme. This transaction, which is an option open to any scheme member in a similar situation, was conducted based on independent actuarial advice and overseen by the Chair of the Trustees of the pension scheme. The amount of the transfer was an accrued pension of £37,717 per annum and as a result Mr Davis has no remaining financial interest in the defined benefit scheme. Kevin Hostetler is not a member of the defined benefit scheme.
- Kevin Hostetler receives an annual cash allowance in lieu of pension contributions which has been capped at a maximum annual value of £152,100.
- Jonathan Davis receives an annual cash allowance in lieu of pension contributions which has been capped at a maximum annual value of £72,169.



## Payments to former directors and for loss of office

No payments were made to former directors or for loss of office during the year.

### Other directors (£000s)

Name	Base fees		Additional fees/remuneration		Total remuneration	
	2020	2019	2020	2019	2020	2019
Lucinda Bell <sup>(i)</sup>	42	56	8	10	50	66
Ann Christin Andersen	56	56	5	–	61	56
Tim Cobbold	56	56	17	6	73	62
Peter Dilnot	56	56	–	–	56	56
Janice Stipp <sup>(ii)</sup>	5	–	–	–	5	–
Sally James	56	56	13	10	69	66
Martin Lamb	234	234	–	234	234	234

(i) Retired from the Board on 30 September 2020.

(ii) Joined the Board on 1 December 2020

The additional fees referred to above are the supplementary fees paid in cash to the Chairs of the Audit, Remuneration and ESG Committees, the Senior Independent Director and the non-executive director responsible for workforce engagement. All directors have confirmed that, save as disclosed in the single figures of remuneration table above, they have not received any other items in the nature of remuneration.

### Annual bonus for 2020

Bonuses in 2020 were based 60% on annual profit, 15% on cash generation, 5% on lost time injury rate and 20% on personal strategic objectives. Details of performance achieved against the targets set are shown below. These targets were set in anticipation of the 25% of salary increase in opportunity that was described in last year's annual report.

	Performance required to trigger bonus payment	Performance required at maximum	% payable* at maximum performance	Performance outcome	% bonus awarded*
Annual profit target	£114m	£171m	60%	£143m	32.9%
Cash generation	85%	110%	15%	130%	15.0%
Lost time injury rate	<0.30	<0.25	5%	0.24	2.5%
Total			80%		50.4%

\* % of maximum bonus. The score for the lost time injury rate was reduced from the maximum of 5% in consideration of the fatality.

Personal strategic objectives, which accounted for 20% of the bonus opportunity, were set at the start of the year. The Remuneration Committee set specific and measurable targets covering a range of the Company's strategic priorities and assigned each an individual weighting.

Due to the onset of COVID-19 and the need for leadership's focus on a coordinated global response, it was agreed to realign specific personal objectives of the executive directors' objectives for the full year which was done in conjunction with the preparation of Rotork's COVID-19 Response Plan. Small changes were made to the objectives mid-year in response to the level of leadership required to steer the Group through the COVID-19 crisis. Performance against each of the defined targets was assessed by the Remuneration Committee with input from the Chairman and other non-executive directors.

## Annual Report on Remuneration continued

The objectives for both executive directors and the performance against them are summarised in the table below. Small changes were made to the objectives mid-year with the original weightings shown in brackets.

<b>Kevin Hostetler</b>	<b>Performance summary</b>	<b>% payable* at maximum</b>	<b>% bonus awarded*</b>
<b>Business strategy &amp; vision</b> – Continue to drive execution on previously identified strategic initiatives, including opportunities arising from decarbonisation and the digital future. – Develop roadmap for M&A. – Develop horizon scanning.	Implementation of strategic initiatives, including decarbonisation and digital strategies.  The M&A roadmap developed and maintained.  ESG Strategy development commenced.  Horizon scanning paused for 2020 due to COVID-19.	3.0% (4.0%)	3.0%
<b>Growth Acceleration Programme:</b> – IT Systems Deployment.	Achieved alignment of IT, operations, commercial and functional support teams in preparation to deploy next generation IT solution set, to schedule and budget.	12.0% (16.0%)	10.5%
– Talent Management, Culture and Diversity.	Embedded Culture and Values.  Further progress on gender and ethnic diversity programmes.  Strong rhythm of communications leading to high levels of engagement through COVID-19.		
– Innovation, R&D and Sustaining Engineering.	Maintained Innovation Funnel, NPD Initiatives & Core NPD Process and KPIs development.  Net NPD incremental revenues were only partially achieved due to lower market volumes.		
– Operational Improvement Plan (including driving the ESG agenda).	Operational improvement plan continued successfully.  Achieved targeted reductions in energy and water usage.		
– Route to market – switch from product to sector facing businesses.	Switch to end market sectors completed on-time with positive interim survey results.		
<b>Mid-year adjustments</b> – COVID-19 response plan – focus on H&S and business disruption. – COVID-19 Financial Plan. – O&G Plan to address rapid sector decline in 2020.	COVID-19 Response plan presented to Board in March 2020 and successfully implemented.  COVID-19 Financial Plan approved in June 2020. Plan exceeded.  Communications plan prepared and executed throughout 2020.  O&G Plan developed and successfully implemented.	5.0% (0%)	5.0%
<b>Total</b>		<b>20.0%</b>	<b>18.5%</b>

Jonathan Davis	Performance summary	% payable* at maximum	% bonus awarded*
<b>Development and implementation of financial systems, including:</b>	The new reporting framework was completed on schedule to support the switch to an end market facing business.	17.0% (20.0%)	15.5%
– Realignment of financial reporting to match end market structure.	Related investor communications well received.		
– Finance transformation.	New target operating model concept developed and corresponding financial control environment defined.  New ERP finance structure designed in line with the broader ERP programme.  COVID-19 impacted schedule.		
– Business Control Framework enhancement.	New control framework developed and documented.  Gap analysis performed across all regions.  Implementation of first phase interim solutions on track to a post COVID-19 plan.  COVID-19 impacted schedule.		
– Internal Audit Process Improvement.	Clear progress delivered in responsiveness to recommendations.		
– Finance function development.	“Lines of Defence” structure and approach defined and agreed.  A new finance team structure was implemented and regional teams strengthened.  Finance talent and succession planning review completed – implementation underway.		
– Development of Management/Board reporting in line with Board expectations/requirement.	Marked improvement to insight in and analysis of business trends with enhancements to key management reporting.		
– Driving the ESG agenda.	Achieved targeted reductions in energy and water usage.		
<b>Mid-year adjustments</b>	New credit facilities in place by June 2020 with tenor extended.	3.0% (0%)	3.0%
Replace existing committed facilities and enhance liquidity forecasting.	Forecasting significantly more granular.		
<b>Total</b>		<b>20.0%</b>	<b>18.5%</b>

\* % of maximum bonus.

Following the publication of the 2019 annual report and, as the business was starting to be impacted by the effects of COVID-19, both of the executive directors agreed to postpone the increase in bonus opportunity of 25% of salary that shareholders then approved at the 2020 AGM.

After adjusting for the reduction in Health and Safety bonus, on a formulaic basis the 2020 Annual Bonus Plan, would have resulted in a payout of 77.4% of maximum opportunity for the executive directors and senior management. After careful consideration, the Committee felt that the performance of the business (in all the circumstances) had been good and warranted this level of bonus outturn for the senior management and the wider workforce.

However, in considering the executive directors, the Committee, conscious that targets had been set in June in the light of COVID-19, noted that the level of payout (also on a formulaic basis) had the targets approved in February been applied, would have been 51.7%. Therefore, absent any action by the Committee, the delayed Annual Bonus Plan would have led to a payout higher by 25.7% of maximum opportunity, equivalent to 32.1% and 25.7% of salary for Kevin Hostetler and Jonathan Davis respectively. The Committee’s view was that this degree of ‘additional’ bonus, whilst reflective of performance, should be moderated. The Committee therefore decided to exercise downward discretion to reduce the ‘additional’ bonus by 33%; to require that 33% of the ‘additional’ bonus should be paid in shares deferred for three years under the Deferred Share Bonus Plan to the extent not required by the Remuneration Policy; and that 33% of the ‘additional’ bonus should be paid in cash.

As a result of these decisions, the level of payout for the executive directors was reduced to 68.9% of maximum opportunity. In approving this level of payout the Committee noted that at this level the 2020 payout results in a bonus award 15% lower than in 2019 on profits (EBITA) down 3.8% on a constant currency basis but with operating margin up 1% point. The 2020 payout for employee groups in the wider workforce, for whom no discretion (other than for Health and Safety) has been applied, is an average of 80% of maximum opportunity, higher than for the executive directors. The Committee viewed this disparity in treatment as appropriate, conscious that income levels vary in the business.

As a result, the bonus for Kevin Hostetler and Jonathan Davis for 2020 paid out at 86.1% and 68.9% of salary respectively. Of the bonus award, 11.1% and 8.9% of salary for each of Kevin Hostetler and Jonathan Davis will be deferred in shares for three years under the Deferred Bonus Share Plan and subject to no further performance conditions. Of the above amounts, Kevin Hostetler will defer £67,685 and Jonathan Davis will defer £31,203; the balance is paid in cash.

## Annual Report on Remuneration continued

### Deferred Share Bonus Plan (DSBP) awards (audited)

Any bonus earned above a threshold of 60% of the maximum is deferred into share awards under the Deferred Share Bonus Plan, vesting on the third anniversary of grant. No further performance conditions apply; DSBP awards are subject to continued employment only and dividend equivalents may be paid on the deferred shares on vesting.

The following DSBP awards were made on 3 March 2020 (based on performance in relation to the 2019 financial year):

	Share awards granted	Basis on which awards made	Face value of awards (£) <sup>(i)</sup>	Vesting date
Kevin Hostetler	59,362	27.5% of salary	166,000	3 March 2023
Jonathan Davis	26,744	21.5% of salary	75,000	3 March 2023

(i) The share price used to determine the number of shares under the award was 279.9p being the share price immediately prior to the date of the award.

### LTIP awards vesting based on performance to 31 December 2020 (audited)

The LTIP rewards performance against the principal measures of Rotork's long-term financial success. Performance is measured over a three-year period using a combination of basic EPS, TSR compared to a comparator group and economic profit growth. The economic profit measures the post-tax profitability of the Group after a charge has been taken for the combined capital used (both debt and equity) within the business. The charge is calculated using the weighted average cost of capital based on average capital employed in the period. In determining capital employed, cumulative amortised goodwill and long-term pensions liabilities are adjusted for. In determining the economic profit, adjustments are made for restructuring costs and benefits and also, when material, for M&A activity and exchange. The target is set by using the latest long-term financial plan approved by the Board. It targets a rate of growth of the average economic profit over the three years of the plan over the three years preceding the plan period. The measure captures the extent to which the business has earned a return above the cost of capital. It has been shown in many other capital-intensive businesses to drive improved decision making, particularly when evaluating large-scale investment decisions, and was introduced at Rotork in 2017.

The LTIP awards granted on 7 March 2018 were based on performance to 31 December 2020 and were subject to the following performance targets:

Measure	Weighting	Performance period	Threshold target	Stretch target	Performance outcome
Earnings per share <sup>1</sup>	33%	01/01/2018 – 31/12/20	9% (15% vesting)	35% (100% vesting)	EPS performance of 39.0% was above the stretch target resulting in 100% vesting for this part of the award.
TSR relative to the constituents of the FTSE 350 Industrial Goods and Services Sector <sup>1</sup>	33%	01/01/2018 – 31/12/20	Median ranking	Upper quartile ranking or above	TSR growth of 73.0% was above the threshold target resulting in 94.2% vesting for this part of the award.
Economic profit growth	33%	01/01/2018 – 31/12/20	0% growth on three times the 2017 economic profit	32.6% growth on three times the 2017 economic profit	Economic profit performance of 13.7% growth was above the threshold target resulting in 59.0% vesting for this part of the award.

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

The 2017 basic EPS was depressed by an impairment charge relating to the Bifold acquisition which had the effect of making the target growth rates easier to achieve. In October 2020, the Committee decided that this was not appropriate and exercised their discretion to add back the impairment charge thereby making the target harder to achieve. Despite this adjustment, basic EPS grew by 39%. Economic profit growth (growth in profit ahead of the return demanded by the weighted average cost of capital) was good at 4.4%. Relative TSR performance in the period was top quartile reflecting the strong recovery in performance following the change in leadership and the implementation of the new business strategy and the Growth Acceleration Plan. The Remuneration Committee, therefore, approved the vesting of 84.4% of the shares awarded under the 2018 LTIP cycle as follows:

	Grant date	Number of Shares <sup>(i)</sup> under award	Number of shares vesting	Number of shares lapsing	Vesting date
Kevin Hostetler	March 2018	340,393	287,291	53,102	7 March 2021
Jonathan Davis	March 2018	163,461	137,961	25,500	7 March 2021

(i) Awarded as nil-cost options. For Kevin Hostetler only, the nil-cost options were re-designated as conditional share awards effective from 18 December 2019 as permitted under the 2010 LTIP Rules.

## Share awards granted in 2020 (audited)

### LTIP awards (audited)

The following LTIP awards were made to the executive directors on 7 April 2020. These grants are at lower levels than were anticipated in last year's Directors' Remuneration Report, reflecting the decision to postpone the 50% of salary increase in award level that shareholders then approved at the 2020 AGM.

	Share awards made during 2020 <sup>(i)</sup>	Basis on which awards made	Face value of award (£) <sup>(ii)</sup>	Percentage vesting for minimum performance <sup>(iii)</sup>	End of performance period	Vesting date
Kevin Hostetler	412,941	150% of salary	912,600	13.3%	31 December 2022	7 April 2023
Jonathan Davis	198,300	125% of salary	438,244	13.3%	31 December 2022	7 April 2023

(i) Awards to Kevin Hostetler were made as conditional share awards; awards to Jonathan Davis were made as nil-cost options.

(ii) The share price used to determine the number of shares under the awards was 221p, being the average share price over the five dealing days immediately prior to the date of the award.

(iii) Vesting if the minimum performance EPS, TSR and capital return (economic profit) conditions are achieved. The three equally-weighted performance measures are:

- Earnings per share – EPS growth must be at least 9% for 15% vesting, increasing on a straight-line basis to full vesting for EPS growth of 35% and above;
- Total shareholder return – measured relative to the constituents of the FTSE 350 Industrial Goods and Services Sector, 25% vesting for median performance, increasing on a straight-line basis to full vesting for upper quartile performance and above; and
- Economic profit – measures the profitability of the group after a charge for the overall level of capital (based on the total capital used and calculated using the weighted average cost of capital) is subtracted. It is measured on a cumulative basis, over the three-year performance period. No payout will be received for a negative economic profit. The threshold target requires average economic profit over the three-year period to exceed that generated in 2019 and the maximum target has been set such that it will require double digit growth in post-tax profits alongside improved balance sheet efficiencies. Details of the exact targets are considered by the Remuneration Committee to be commercially sensitive. However, full details of the targets and how economic profit has been calculated will be disclosed on vesting.

The structure of the performance conditions was consistent with the 2019 award with no COVID-19 related adjustment to targets. The Committee believes the targets were made more challenging in light of the increase in the LTIP opportunity (the implementation of which was subsequently deferred into 2021) in the new Remuneration Policy approved by shareholders.

At the time the Committee satisfied itself that although the award was made at a share price reduced by COVID-19, having regard to both the good share performance in the previous 12 months and a decline in the share price of less than 25% (which was widely regarded at the time as the threshold for considering scaling back of awards or other similar measures), that it was not appropriate to scale back the award and that explicit windfall provisions would not be necessary. However, the Committee will, in 2023, as part of its normal review of formulaic remuneration outcomes, explicitly look at the value of these awards relative to the shareholder and employee experience over the same period. All recipients accepted this in writing, as a condition of receipt of the award.

### SIP share awards (audited)

In common with all eligible employees, UK based executive directors receive an entitlement to ordinary shares under the SIP. Under the SIP, an aggregate total of up to 5% of profits are distributed to employees each year in the form of ordinary shares. The distribution is calculated by reference to years of service and basic salary. Details of free share awards under the SIP made to executive directors in 2020 are set out below.

	Free share awards made during the year			Face value of award
	Date of grant	Number	Basis on which award made	
Kevin Hostetler	29 May 2020	1,367	Non-performance based	£3,600
Jonathan Davis	29 May 2020	1,367	Non-performance based	£3,600

The executive directors are also eligible to purchase monthly partnership shares under the SIP to a maximum of £150 per month.

## Annual Report on Remuneration continued

## Summary of outstanding share awards held by executive directors (audited)

	Awards held at 31 December 2019	Granted in the year	Lapsed in the year	Option awards exercised in the year	Awards held at 31 December 2020	Performance period	Exercise price	Date of grant	Vesting date/end of holding period
<b>Kevin Hostetler</b>									
LTIP	340,393	–	–	–	340,393	1 Jan 2018-31 Dec 2020 <sup>(i)</sup>	–	7 March 2018	7 March 2021
LTIP	315,015	–	–	–	315,015	1 Jan 2019-31 Dec 2021 <sup>(ii)</sup>	–	16 May 2019	16 May 2022
LTIP	–	412,941	–	–	412,941	1 Jan 2020-31 Dec 2022 <sup>(iii)</sup>	–	7 April 2020	7 April 2023
DSBP	71,783	–	–	–	71,783	N/A	–	5 March 2019	5 March 2022
DSBP	–	59,362	–	–	59,362	N/A	–	3 March 2020	3 March 2023
SIP	–	1,367	–	–	1,367	N/A	–	6 April 2020	6 April 2023
SAYE	7,058	–	–	–	7,058	N/A	255p	1 October 2019	1 June 2023
<b>Total</b>	<b>734,249</b>	<b>473,670</b>	<b>–</b>	<b>–</b>	<b>1,207,919</b>				
<b>Jonathan Davis</b>									
LTIP	175,135	–	27,146	147,989	–	1 Jan 2017-31 Dec 2019 <sup>(i)</sup>	–	6 March 2017	6 March 2020
LTIP	163,461	–	–	–	163,461	1 Jan 2018-31 Dec 2020 <sup>(ii)</sup>	–	7 March 2018	7 March 2021
LTIP	151,274	–	–	–	151,274	1 Jan 2019-31 Dec 2021 <sup>(iii)</sup>	–	16 May 2019	16 May 2022
LTIP	–	198,300	–	–	198,300	1 Jan 2020-31 Dec 2022 <sup>(iii)</sup>	–	7 April 2020	7 April 2023
DSBP	14,697	–	–	–	14,697	N/A	–	7 March 2018	7 March 2021
DSBP	36,790	–	–	–	36,790	N/A	–	5 March 2019	5 March 2022
DSBP	–	26,744	–	–	26,744	N/A	–	3 March 2020	3 March 2023
SIP	1,440	–	–	1,440	–	N/A	–	6 April 2017	6 April 2020
SIP	1,274	–	–	–	1,274	N/A	–	6 April 2018	6 April 2021
SIP	1,204	–	–	–	1,204	N/A	–	8 April 2019	8 April 2022
SIP	–	1,367	–	–	1,367	N/A	–	6 April 2020	6 April 2023
<b>Total</b>	<b>545,275</b>	<b>226,411</b>	<b>27,146</b>	<b>149,429</b>	<b>595,111</b>				

(i) Subject equally to EPS performance (9% to 35% growth), TSR performance relative to the FTSE 350 Industrial Goods and Services Sector (median to upper quartile) and capital return (economic profit) performance over the three-year performance period. As described in last year's report, the TSR target was achieved, while the EPS and capital return (economic profit) were partially met. Accordingly, 147,989 shares vested in March 2020. These vested awards are subject to a two-year post-vesting holding period during which time they may not be sold.

(ii) Subject equally to EPS performance (9% to 35% growth), TSR performance relative to the FTSE 350 Industrial Goods and Services Sector (median to upper quartile) and capital return (economic profit) performance over the three-year performance period. Any vesting awards will also be subject to a two-year post-vesting holding period during which time they may not be sold. As described above, the EPS target was met in full with the TSR and capital return (economic profit) targets achieved at above threshold. Accordingly, for Kevin Hostetler, 287,291 shares will become eligible to vest and, for Jonathan Davis, 137,961 shares will become eligible to vest in March 2021.

(iii) Subject equally to EPS performance (9% to 35% growth), TSR performance relative to the FTSE 350 Industrial Goods and Services Sector (median to upper quartile) and capital return (economic profit) performance over the three-year performance period. Any vesting awards will also be subject to a two-year post-vesting holding period during which time they may not be sold.

### Statement of directors' shareholding and share interests (audited)

The table below shows total shareholdings of the current directors and former directors as at 31 December 2020.

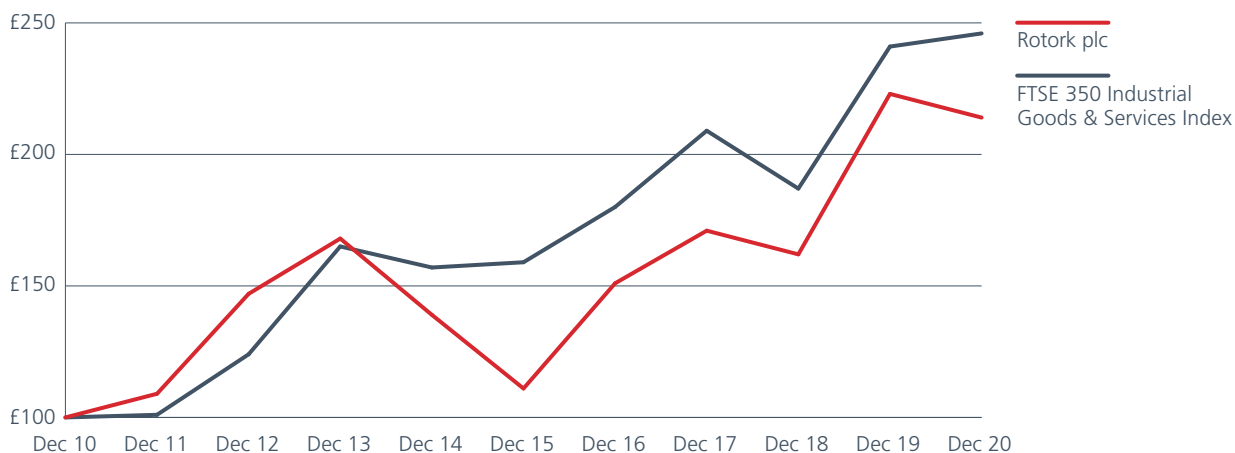
	Unconditionally owned shares <sup>(i)</sup>	Unvested DSBP Awards <sup>(ii)</sup>	SIP <sup>(iii)</sup>	% of salary shareholding achieved <sup>(iv)</sup>	Unvested LTIP awards	SAYE
<b>Executive directors</b>						
Kevin Hostetler	131,388	71,230	1,367	96%	1,068,349 <sup>(v)</sup>	7,058
Jonathan Davis	367,283	42,711	3,845	337%	513,035 <sup>(vi)</sup>	–
<b>Non-executive directors</b>						
Ann Christin Andersen	–	–	–	N/A	–	–
Tim Cobbold	–	–	–	N/A	–	–
Peter Dilnot	–	–	–	N/A	–	–
Janice Stipp	–	–	–	N/A	–	–
Sally James	13,031	–	–	N/A	–	–
Martin Lamb	152,414	–	–	N/A	–	–

- (i) Includes shares held by connected persons, SIP partnership shares, SIP free shares released from the three-year trust period and vested LTIP awards which are subject to the two-year holding period.
- (ii) DSPB awards (shown net of estimated tax and national insurance) attract an entitlement to accrued dividends during the holding period but are only available upon release. The satisfaction of the entitlement can be in shares or cash as determined by the Remuneration Committee at the time of the release confirmation.
- (iii) SIP free awards held in the three-year trust period.
- (iv) The share price used to determine the percentage of the shareholding of salary achieved is 286.2p, being the 12 month average share price as at 31 December 2020. The shareholding guideline for the executive directors is 350% of salary for the Chief Executive and 300% of salary for the Group Finance Director to be achieved within five years. A post cessation holding requirement of 200% of salary was introduced under the policy and is applicable only to share based awards granted after the approval of the policy on 24 April 2020. In order to ensure adherence to the post cessation holding requirements executive directors will, as a condition of receiving any and each share-based award, formally accept the post cessation requirements in writing.
- (v) An LTIP award over 412,941 shares was granted to Kevin Hostetler on 7 April 2020.
- (vi) An LTIP award over 198,300 shares was granted to Jonathan Davis on 7 April 2020.

There has been no change in the directors' interests in the ordinary share capital of the Company between 31 December 2020 and 1 March 2021, except in the case of Jonathan Davis's and Kevin Hostetler's monthly purchases of partnership shares under the SIP.

### TSR performance graph

This graph shows the value, by 31 December 2020, of £100 invested in Rotork plc on 31 December 2010, compared with the value of £100 invested in the FTSE 350 Industrial Goods & Services Index on the same date. This index has been chosen as a comparator as it represents companies with similar business operations to the Company, and is an index of which Rotork is a constituent.



## Annual Report on Remuneration continued

## Historic Chief Executive remuneration table

Year	Chief Executive	Chief Executive single figure remuneration (£000s)	Annual cash bonus as a percentage of maximum opportunity	LTIP vesting rate as a percentage of maximum opportunity
2020	Kevin Hostetler	2,203	69.7%	84.4%
2019	Kevin Hostetler	1,422	82.0%	N/A
2018	Kevin Hostetler <sup>(i)</sup>	1,193	90.9%	N/A
2018	Martin Lamb <sup>(ii)</sup>	353	N/A	N/A
2017	Martin Lamb <sup>(ii)</sup>	282	N/A	N/A
2017	Peter France <sup>(iii)</sup>	681	72.0%	0%
2016	Peter France	835	45.5%	0%
2015	Peter France	696	23.4%	0%
2014	Peter France	1,092	66.0%	37.0%
2013	Peter France	1,452	94.4%	67.0%
2012	Peter France	1,539	91.3%	75.5%
2011	Peter France	1,182	88.9%	30.0%
2010	Peter France	1,288	91.9%	94.4%

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

(ii) Martin Lamb held the role of Executive Chairman from 28 July 2017 to 12 March 2018 and received an additional fixed remuneration of £55,000 per month on top of his annual Chairman's fee during this period.

(iii) Peter France resigned as Chief Executive and stood down from the Board on 27 July 2017.

## Percentage change in remuneration of directors

The table below shows the percentage change in remuneration (based on salary, benefits and bonus) between 2019 and 2020 of the directors in the Group compared to the percentage change for the average UK employee. As the salary increase for 2019 was given to both Kevin Hostetler and Jonathan Davis in July 2019, their change in base salary shows an increase of 0.7%. Kevin Hostetler's benefit increase was due to his eligibility to participate in the SIP for the first time. Janice Stipp was appointed to the Board in December 2020.

	Change in base salary %	Change in benefits %	Change in annual bonus %
All permanent employees	0.3	3.7	1.0
Kevin Hostetler	0.7	7.5	-15.3
Jonathan Davis	0.7	0.0	-14.8
Ann Christin Andersen	0.0	N/A	N/A
Tim Cobbold	0.0	N/A	N/A
Peter Dilnot	0.0	N/A	N/A
Sally James	0.0	N/A	N/A
Martin Lamb	0.0	N/A	N/A
Janice Stipp	N/A	N/A	N/A

## Relative importance of spend on pay

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

	2020	2019	Percentage change
Employee remuneration (£000s)	<b>134,747</b>	153,879	-12.4%
Dividends (£000s) <sup>(i)</sup>	<b>33,926</b>	52,287	-35.1%

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



## CEO pay ratio disclosure

The table below sets out Rotork's CEO pay ratio for the 2018, 2019 and 2020 financial years.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2020	Option B	45:1	37:1	28:1
2019	Option B	48:1	43:1	27:1
2018	Option B	49:1	45:1	33:1

Option B has been used for the calculation of the pay ratio. Under this method, the latest gender pay gap data has been used to identify on an indicative basis three UK employees at 25th, median and 75th percentile. This methodology has been chosen as the data is readily available and avoids the challenge in collecting and verifying accurately the variable pay elements for all UK employees across many subsidiaries.

To provide further context, the table below shows the CEO and the employee percentile pay used to determine the 2020 pay ratios.

Year	CEO £000	25th percentile £000	Median £000	75th percentile £000
Total salary <sup>1</sup>	608	25	30	41
Total remuneration (single figure) <sup>1</sup>	2,203	30	36	48

<sup>1</sup> Full time equivalent.

## Statement of voting at general meeting

The Committee is committed to ongoing shareholder dialogue and takes an active interest in voting outcomes. Where there are substantial votes against resolutions in relation to Directors' remuneration, the Company seeks to understand the reasons for any such vote and will report any actions in response to it. The following table sets out actual voting at the AGM held on 24 April 2020 in respect of the Remuneration Policy and Annual Report on Remuneration for the year ended 31 December 2019.

Resolution	Votes cast 'for'	%	Votes cast 'against'	%	Votes 'withheld'	%
To approve the Remuneration Policy	682,875,938	95.97	28,701,772	4.03	8,566,067	0
To approve the Annual Report on Remuneration	693,950,567	96.83	22,686,190	3.17	3,506,020	0

## Advisers to the Remuneration Committee

Korn Ferry currently acts as advisor to the Committee, having been appointed by the Remuneration Committee in July 2020 following a competitive tender process. Korn Ferry is a member of the Remuneration Consultants' Group and a signatory to its Code of Conduct. Prior to this, the Committee was advised by the executive remuneration practice of Aon plc. Another subsidiary of Aon plc remains the scheme actuary for the Group's USA pension plan and, up to and including their ceasing to be an adviser, Aon had procedures in place to ensure that no conflict of interest would arise. The Committee keeps the independence of the advice provided under review and remains satisfied that Korn Ferry is sufficiently independent to act as remuneration advisor to the Remuneration Committee. Korn Ferry provides additional advice to the Company.

In 2020, the Company paid £102,948 (2019: £189,730) to Aon for services to the Remuneration Committee and £40,887 to Korn Ferry (2019: nil). Figures exclude VAT and disbursements.

## Annual Report on Remuneration continued

### How we will operate the Policy in 2021

<b>Salary</b>	<p>Executive directors' salaries will increase effective from 1 April 2021 by 2.6% as follows:</p> <ul style="list-style-type: none"> <li>– Kevin Hostetler – £624,000</li> <li>– Jonathan Davis – £360,000</li> </ul> <p>The average increase for the UK workforce in 2021 is 2.63%.</p>
<b>Benefits</b>	Benefits comprise car and fuel (or car and fuel allowance), personal accident and private medical insurance and life assurance. In addition, Kevin Hostetler receives travel benefits to his home country of the United States.
<b>Pension</b>	<p>A commitment has been made to align existing executive directors' pensions to the level of the majority of the workforce, 9%, by the end of 2022. Until then, executive directors receive a cash allowance in lieu of pension contributions, the value of which, for 2021, will remain fixed at the level paid in 2019, as follows:</p> <ul style="list-style-type: none"> <li>– Kevin Hostetler – £152,100</li> <li>– Jonathan Davis – £70,119</li> </ul>
<b>LTIP</b>	<p>The LTIP award levels for 2021 will be 200% of salary for Kevin Hostetler and 175% of salary for Jonathan Davis. This implements the postponed increases envisaged and described in last year's report. The awards will be subject to the following performance conditions:</p> <ul style="list-style-type: none"> <li>– 33% will be based on relative TSR performance with 25% vesting at median increasing to full vesting for upper quartile performance or above.</li> <li>– 33% will be based on adjusted EPS. Adjusted EPS growth must be at least 9% for 15% vesting, increasing on a straight line basis to full vesting for adjusted EPS growth of 35% and above. The targets will be based on adjusted EPS (i.e. excluding the impact of any material restructuring costs). However, the Committee will use its discretion to increase the targets as appropriate, to take into account the Board's expected return on any restructuring investment during the period.</li> <li>– 33% will be based on economic profit. No payout will be received for a negative economic profit. The threshold target will require the cumulative economic profit over the three-year period to exceed that generated in the three year period to 2020 and the maximum target has been set such that it will require double digit growth in post-tax profits alongside improved balance sheet efficiencies. Similar to EPS targets, these targets may be adjusted upwards to take into account the Board's expected return on any restructuring investment during the period. Details of the exact targets are considered by the Remuneration Committee to be commercially sensitive at the current time. However, full details of the targets and how economic profit has been calculated will be disclosed on vesting.</li> </ul> <p>The awards will be granted following the publication of the results and will be made subject to executive directors agreeing in writing to all the conditions under which the awards are made, including the post cessation of employment shareholding arrangements that will apply to these awards. The executive directors will be required to retain any shares vesting under the awards (net of tax) until the fifth anniversary of grant.</p>
<b>Annual bonus</b>	<p>The maximum opportunity available to executive directors will increase by the postponed 25% of salary envisaged and described in last year's remuneration report. Therefore, the maximum opportunity for Kevin Hostetler and Jonathan Davis will be 150% and 125% respectively. Any bonus earned above 60% of the maximum opportunity will be deferred in shares for three years. Bonuses will be based on:</p> <ul style="list-style-type: none"> <li>– EBITA Performance (60% of opportunity) – the plan is based on the 2021 Budget approved by the Board and the challenging nature of the target will be maintained by ensuring that the growth rate required to achieve both the on target and stretch elements remains the same as was approved in the original 2020 plan, prior to COVID-19.</li> <li>– Cash Conservation (15% opportunity) – the target to achieve maximum outturn will remain at 110%, having been increased to this level in 2020, reflecting the value of a sustained focus on cash generation. The Growth Acceleration Programme is funded from Rotork's own cash resources.</li> <li>– ESG (10% of opportunity) – measures will be aligned to the three pillars of the ESG strategy. Half of the opportunity will continue to be based on Health and Safety (LTIR) with a target set on the basis of 2020 performance and a maximum that requires maintaining the historical improvement in LTIR. In this first year, an additional 5% will be split across quantitative targets set to cover normalised carbon emissions (scopes 1 and 2); culture and engagement scores (including inclusivity); and qualitative targets focusing on environmental innovation, particularly in relation to products and on customer engagement on sustainability issues.</li> <li>– Strategic Personal Objectives (15% of opportunity) – these will be set with a focus on the continued strategic development of the business with a focus on the Growth Acceleration Plan including leveraging the new sector-based organisation and on the new IT System and control environment development and implementation.</li> </ul> <p>The specific targets relating to the bonus have not been disclosed as they are considered by the Remuneration Committee to be commercially sensitive but full details will be given on a retrospective basis in next year's report. The executive directors will be invited to participate and must agree in writing to the conditions pertaining to the Annual Bonus Plan, including those relating to the post cessation of employment shareholding arrangements that will apply to any bonus deferred in shares.</p>

<b>Shareholding guidelines</b>	The executive directors are required to build and maintain a shareholding equivalent to their total variable pay opportunity (being 350% and 300% for the Chief Executive and Group Finance Director respectively) to be achieved within five years.
	From 2020, a requirement to hold shares for a period of two years post-cessation will apply, as described in the Policy, and is applicable only to share based awards made after Policy which was approved on 24 April 2020. In order to ensure adherence to the post cessation holding requirements, executive directors will, as a condition of receiving any and each share-based award, formally accept the post cessation requirements in writing going forwards.
<b>Non-executive director fees</b>	<p>In line with the salary increase for the wider workforce, an increase of 2.6% to the Chairman's fee and an increase of 2.5% to the base Board fee have been approved as follows:</p> <ul style="list-style-type: none"> <li>- Chairman: £240,000, effective 1 April 2021;</li> <li>- Base Board fee: £57,400, effective 1 April 2021.</li> </ul> <p>Similarly, an increase of 2.5% has been approved to the supplementary fees payable to those directors with additional responsibilities, effective from 1 April 2021:</p> <ul style="list-style-type: none"> <li>- Additional fee for chairing the Audit Committee £10,250;</li> <li>- Additional fee for chairing the Remuneration Committee £10,250;</li> <li>- Additional fee for the role of Senior Independent Director £10,250;</li> <li>- Additional fee for chairing the ESG Committee £7,175; and</li> <li>- Additional fee for undertaking the role of workforce engagement director £7,175.</li> </ul>

On behalf of the Board

**Tim Cobbold**

Chair, Remuneration Committee  
1 March 2021

# Directors' report

The directors present their report which incorporates the management report required under the Disclosure Guidance and Transparency Rules (DTRs) for listed companies and the audited accounts for the year ended 31 December 2020 as set out on pages 152-196. In compiling this report, the directors have consulted with the management of the Group.

## Information required in the Report of the Directors set out in the Strategic Report

Information relating to the likely future developments of the Company and its subsidiaries, and information relating to the research and development activities of the Company and its subsidiaries, is set out in the Strategic Report on pages 10-81.

## Corporate Governance Statement

Under Rule 7 of the DTRs, a requirement exists for a corporate governance statement to be included in this Directors' Report. The corporate governance statement explaining how Rotork complies with the Governance Code is set out on page 86. A description of the composition and operation of the Board and its Committees is set out on pages 86-89.

## Disclosures

The Strategic Report can be found on pages 10-80, and encompasses our corporate responsibility report. A complete list of the Group's subsidiaries has been included on pages 193 to 195 to comply with section 409 of the Companies Act 2006.

## Listing Rule 9.8.4R Disclosures

Listing Rule Statement	Detail	Page reference
9.8.4R(4)	Details of long-term incentive schemes	Note 25 to the financial statements and the Directors' Remuneration Report on pages 130-131
9.8.4R(12)	Shareholder waivers of dividends	Note 17 to the financial statements
9.8.4R(13)	Shareholder waivers of future dividends	Note 17 to the financial statements
9.8.4R(1-2), (5-11) and (14)	Not applicable	N/A

## Principal Activity

The Company manufactures industrial flow control equipment and instrumentation for oil and gas, water and wastewater, power, chemical, process and industrial applications. It operates globally serving customers in 173 countries through a network of offices and manufacturing facilities. The Company employs 3,400 employees worldwide and is headquartered in Bath, UK.

## Registered Office

Rotork plc is incorporated as a public limited company and is registered in England with the registered number 00578327. Its registered office is Rotork House, Brassmill Lane, Bath, BA1 3JQ. Our registrars are Equiniti Limited, located at Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA.

## Results

The results for the year ended 31 December 2020 are set out in the financial statements on pages 152-155.

## Dividend

The directors recommend a final dividend of 6.3p per ordinary share (2019: nil) for the year, payable on 21 May 2021 to shareholders on the register on 9 April 2021. The recommendation to pay a final dividend in respect of 2019 was withdrawn on 31 March 2020 in response to the uncertainty arising from the COVID-19 pandemic. The Board subsequently decided to pay this dividend and declared an interim dividend for the year ended 31 December 2020 of 3.90p per ordinary share (2019: 2.30p) which was payable to shareholders on the register on 21 August 2020 and paid on 25 September 2020.

## Directors

The directors in office at the date of this report (all of who served during the year) and their biographies and other details, are set out on pages 88-89.

## Directors' indemnification and insurance

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

## Powers of the directors

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

## Appointment and removal of directors

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

In addition to any power of removal conferred by the Companies Act 2006, the Company may by ordinary resolution remove any director before the expiration of their period of office and may, subject to the articles of association, by ordinary resolution appoint another person who is willing to act as a director in their place.

## Committed to the highest standards of ethical behaviour

High ethical standards are fundamental to the way in which we do business. Respecting internationally proclaimed human rights, promoting an open and honest culture, having a zero tolerance approach to bribery and corruption worldwide, and selecting suppliers with sound reputations in the marketplace are important principles that the Group adheres to.

## Code of Conduct

The latest version of our Code of Conduct was introduced in 2019 and sets out the standards of behaviour that Rotork expects from anyone acting on Rotork's behalf. The policies that sit beneath the Code of Conduct, covering Confidentiality, Conflicts of Interest, Speak-Up, Fair Competition, Gifts and Hospitality, Anti Bribery and Corruption, Data Protection and Trade Sanctions were last updated in 2019. A high level summary of the main policy is set out on pages 78-79.

Our Suppliers' Code of Conduct can be viewed on our website at <https://www.rotork.com/en/about-us/terms-and-conditions/suppliers/code-of-conduct> and is available in our six core languages.

## Whistleblowing

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

All Speak-Ups are investigated thoroughly, however communicated. At each meeting of the Board, directors review any Speak-Up concerns the Company has received.

## Anti-Bribery and Corruption

Rotork has a zero tolerance policy to bribery and corruption worldwide, irrespective of country or business culture. Both our Code of Conduct and Anti-Bribery and Corruption Policy make it clear that our employees will never offer, pay or solicit bribes in any form. Our Group Gifts and Hospitality Policy clarifies where gifts and hospitality are acceptable and the actions that our staff are required to take when they intend to give or receive them.

In 2020, we continued to implement our plan to reduce the number of agents that we engage. We have a thorough process for their appointment, the terms under which they operate and stringent ongoing monitoring requirements.

## Modern Slavery Act

The current Modern Slavery Act Statement, can be found on the Rotork website at <https://www.rotork.com/en/investors/modern-slavery-statement>.

## Benchmarking

Rotork plc is a constituent of the FTSE4Good equity index series which is designed to facilitate investment in companies that meet globally recognised corporate social responsibility standards. We continue to meet the standards set by FTSE4Good. More detail regarding our corporate responsibility is given on pages 54-73 of the Strategic Report.

## Charitable Donations

Rotork supports its chosen charities, Pump Aid, Renewable World and WeForest. In addition, a variety of local donations are made to charitable causes relevant to communities around Rotork's operating sites. Donations are also made to the Rotork Benevolent Support, a charity that was established to provide short-term financial support to employees, and ex-employees, and their families facing financial hardship, especially as a result of the COVID-19 crisis. Further details are given on pages 66-69.

## 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.

## 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.

## 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 2020 are summarised in note 17 of the financial statements. Ordinary shares of 0.5p each represent over 99.9% of the Company's total share capital and £1 non-redeemable 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 24 April 2020, 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 2021 AGM and appropriate renewals will be sought. The Company did not acquire any of its own shares under this authority in 2020.

During the year, ordinary shares were acquired and held in trust for the benefit of directors and employees for future payments under the Company's share schemes. Further details can be found in note 25.

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

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

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

## Amendments to the Company's articles of association

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

## Significant agreements – change of control

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

## Greenhouse gas emissions

The disclosures concerning greenhouse gas emissions required by law are set out in the key performance indicators on page 71.

## Disabled persons and employee engagement

The disclosures concerning the Group's policies on the employment of disabled persons and how we engage with our employees are set out on pages 58-63.

## Directors' report continued

### Engagement with Suppliers and Customers

For details on how we have engaged with our suppliers and customers, see page 95.

### Relations with shareholders

The Board supports the aims of the Code and the UK Stewardship Code to promote engagement and interaction between listed companies and their major shareholders.

The Board welcomes the opportunity for investors and shareholders to engage directly with the Chairman and Senior Independent Director and also with the Chief Executive and Group Finance Director. A range of online and virtual investor relations events following the publication of the full-year and half-year results has been scheduled for 2021.

### Substantial shareholders

As at 31 December 2020, the following notifiable interest in issued share capital had been received by the Company under the Disclosure Guidance and Transparency Rules (DTR 5) of the FCA. Since 31 December 2020, Fiera Capital has made two further notifications to the Company, one being a disclosure of a decrease in its holding to below the 5% threshold followed by a notification of an increase in holding to 5.03%. There were no other interests in shares notified between 31 December 2020 and 1 March 2021.

Identity	Number of voting rights (direct and indirect)	% of voting rights
Fiera Capital Corporation	44,073,449	5.05

### Disclosure of information to auditors

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

### 'Going concern' basis of preparation

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

### Viability Statement

In line with the Code, the directors have carried out a rigorous review of the prospects of the current business, and its ability to meet its liabilities through to at least the end of December 2023. For further information, see page 49.

### Post-balance sheet events

There have been no important post-balance sheet events.

### Annual General Meeting

The AGM will be held on 30 April 2021.

Full details of the resolutions to be proposed at the AGM as well as shareholders' rights with respect to attendance, participation in the meeting and the process for submission of proxy votes in advance of the meeting, are set out in the Notice of AGM.

Additional information for shareholders can be found on the Rotork website at [www.rotork.com](http://www.rotork.com).

### External auditor

Upon the recommendation of the Audit Committee and approval of the Board, a resolution to appoint Deloitte LLP as auditor, and to authorise the Audit Committee to determine their remuneration, are to be proposed at the forthcoming AGM.

The Directors' Report was approved by the Board on 1 March 2021.

By order of the Board

### Sandra Forbes

Group General Counsel and Company Secretary (Interim)  
1 March 2021

## Statement of directors' responsibility for preparing the Annual Report and financial statements

### Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

### Directors' Responsibility statement pursuant to the Disclosure Guidance and Transparency Rules

Each of the directors, whose names and functions are listed on pages 88-89 confirm that, to the best of each person's knowledge and belief:

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

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

### Kevin Hostetler

Chief Executive  
1 March 2021

# Financial Statements





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

## Report on the audit of the financial statements

### 1. Opinion

In our opinion:

- the financial statements of Rotork plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flows; and
- the related notes 1 to 30, and (a) to (i).

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, international accounting standards in conformity with the requirements of the Companies Act 2006, and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

### 2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group and parent company for the year are disclosed in note 8 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### 3. Summary of our audit approach

<b>Key audit matters</b>	The key audit matter that we identified in the current year was: <ul style="list-style-type: none"> <li>– The timing of revenue recognition.</li> </ul>
<b>Materiality</b>	The materiality that we used for the group financial statements was £6.0 million which was determined on the basis of profit before tax adjusted for 'Other adjustments', defined in note 4.
<b>Scoping</b>	Our audit scope covered 79% of group revenue, 86% of group profit before tax, and 87% of net assets.
<b>Significant changes in our approach</b>	Our component scoping has been revised and now includes a number of additional components on which we have performed specified audit procedures, with work being performed by the Group audit team. This change was made in order to retain appropriate coverage of revenue. There have been no other significant changes to our approach in the year.

#### 4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- Evaluation of the available financing facilities including the nature of facilities, and repayment terms as well as relevant covenants, set out in note 26;
- Assessment of whether the cash flow forecasts over the outlook period are reasonable including consideration of the potential impact of COVID-19;
- Evaluation of the headroom forecast by management over both liquidity positions and covenant compliance;
- Assessment of the sufficiency of the sensitivity analysis performed by management;
- Evaluation of the forecast impacts of COVID-19 on the group and the extent to which these are considered in the prepared sensitivity analyses;
- Testing of the clerical accuracy of those forecasts and assessment of the historical accuracy of forecasts prepared by management; and;
- Assessment of the adequacy of the disclosure provided in note 1.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

#### 5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

##### 5.1. Timing of revenue recognition

###### Key audit matter description

The group earned revenues of £605 million during the year (2019: £669 million) relating to the manufacture and delivery of products and services. Revenue growth is a key performance indicator for the business. In applying IFRS 15 Revenue from Contracts with Customers there is judgement required in determining the timing of the transfer of control of products and services to customers, which impacts the amount of revenue recognised in the group's financial statements. This judgement could be the subject of management bias and so we considered that the timing of the cut-off of revenue recognition represents a key audit matter, and a risk of potential fraud in respect of revenue recognition.

The determination of whether control of products has passed to a customer requires the consideration of a number of factors, which include the delivery terms of the arrangement and whether specific criteria have been met to evidence the passing of control. The circumstances where most judgement is required are when the products are yet to be despatched to the customer (known as bill-and-hold sales).

Further details are included within the Audit Committee report on page 104, and note 1 to the financial statements.

###### How the scope of our audit responded to the key audit matter

In response to the identified key audit matter we have performed the following procedures:

- obtained an understanding of the relevant controls in place at each component to address the risk of inappropriate revenue cut off;
- determined an appropriate sample of third party transactions exhibiting particular risk characteristics around the year end identified from populations relevant to the terms and shipping destinations of each business; and
- determined an appropriate sample of intercompany transactions shipped direct to customers from manufacturing locations, to evaluate whether the accounting for the third party transaction is appropriate.

For those samples of transactions we have performed the following:

- inspected purchase orders, invoices, despatch notes, shipping terms and delivery notes as required to assess whether the timing of revenue recognition is appropriate based on the status of products at year end. This included a challenge of whether control has passed in line with the requirements of IFRS 15; and
- specifically in the case of bill-and-hold sales, amongst other things, assessed the extent to which there is evidence the customer has accepted ownership before year-end and if there is a substantive reason for continuing to hold the products.

###### Key observations

We are satisfied that the timing of revenue recognition is appropriate.

## Independent auditor’s report to the members of Rotork Plc continued

### 6. Our application of materiality

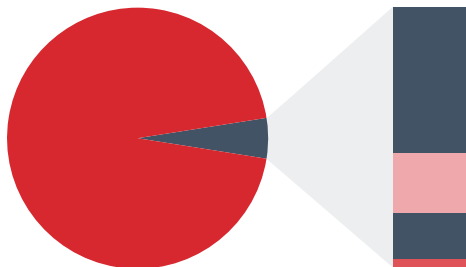
#### 6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
<b>Materiality</b>	£6.0 million (2019: £6.4 million)	£2.1 million (2019: £2.2 million)
<b>Basis for determining materiality</b>	5% of profit before tax adjusted for ‘Other adjustments’.  In the year ended 31 December 2020 the adjustments we make to statutory pre-tax profit are consistent with those presented in Note 4. This basis is consistent with the year ended 31 December 2019.	Parent company materiality equates to less than 1% of net assets, which is capped at 50% of group performance materiality. This basis is consistent with that applied at the year ended 31 December 2019.
<b>Rationale for the benchmark applied</b>	Adjusted profit before tax reflects the manner in which business performance is reported and assessed by external users of the financial statements.  Consistent with last year we have adopted this measure, as defined above, as it provides a consistent year on year basis for determining materiality.	Net assets are considered to be an appropriate benchmark for the parent company given that it is mainly a holding company.

PBT adjusted for ‘Other adjustments’  
**£127.9m**



Group materiality **£6m**

Component materiality range **£1.9m to £2.5m**

Audit Committee reporting threshold **£0.3m**

- PBT adjusted for ‘Other adjustments’
- Group materiality

### 6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
<b>Performance materiality</b>	70% (2019: 70%) of group materiality	70% (2019: 70%) of parent company materiality
<b>Basis and rationale for determining performance materiality</b>	<p>In setting performance materiality we considered:</p> <ul style="list-style-type: none"> <li>– The quality of the control environment in the Group and in the component finance teams and the extent to which this has been impacted by COVID-19;</li> <li>– The low number of corrected and uncorrected misstatements identified in previous audits; and</li> <li>– The level of consistency in key management personnel.</li> </ul> <p>We have not identified any significant changes in the above assessment which results in a consistent performance materiality determination in 2020 and 2019.</p>	

### Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.3 million (2019: £0.3 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## 7. An overview of the scope of our audit

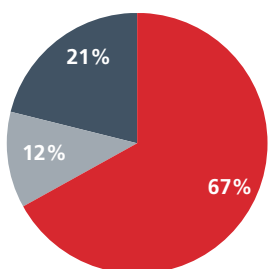
### 7.1. Identification and scoping of components

Our group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at a group level. Based on that assessment, we focused our group audit scope primarily on the audit work at 16 components (2019: 16) which were subject to a full scope audit and on a further five components (2019: 2) which were subject to specified audit procedures.

The 21 components (2019: 18 components) represent the principal business units within the Group’s three reportable segments across 14 countries and account for 79% of the Group’s revenues (2019: 81%) and 86% of profit before tax (2019: 87%) and 87% of net assets (2019: 87%). They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at these components was executed at levels of materiality applicable to each individual entity, which were lower than Group materiality ranging from £1.9 million to £2.5 million (2019: £2.0 million to £2.7 million). The increased number of components included within our audit scope reflects the inclusion of three additional components on which the group audit team performed specified audit procedures. This change was made in order to retain appropriate coverage of revenue.

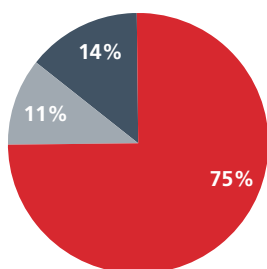
At the group level, we also tested the consolidation process and carried out analytical procedures to re-confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to full scope audit. None of these components represented more than 3% of revenue or profit before taxation individually.

Revenue



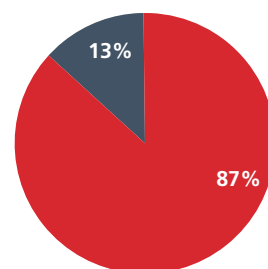
- Full audit scope
- Specified audit procedures
- Review at group level

Profit before tax



- Full audit scope
- Specified audit procedures
- Review at group level

Net assets



- Full audit scope
- Specified audit procedures
- Review at group level

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

### 7.2. Our consideration of the control environment

The group operates a diverse IT infrastructure globally. With the involvement of our IT specialists we obtained an understanding of the relevant IT environment including in some instances performance of general IT control ("GITC") testing. We did not place reliance on those controls for the purposes of our substantive audit procedures.

For all components we obtained an understanding of the relevant controls associated with the financial reporting process, key audit matters, and in relation to significant accounting estimates. In some locations we were able to take a controls reliance approach over the revenue and trade receivables, inventory, cost of sales and payables, and payroll account balances.

### 7.3. Working with other auditors

Due to the significance to the group audit of the components' operations subject to full scope audits, we exercised oversight over our component audit teams. In light of the travel restrictions and widespread lockdowns resulting from the COVID-19 pandemic we were not able to complete our normal programme of planned visits in the year. In response to the restrictions we have transitioned to a remote oversight approach through a number of measures, as appropriate to each component, including more frequent dialogue and increased usage of video conferencing and screen sharing facilities. Where necessary we have ensured that we have local language expertise within the group audit team. In December 2019 and January 2020, senior members of the group engagement team visited component audit teams in the USA, China, and Italy, as well as across the UK.

## 8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## 9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

## 10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## 11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

### 11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the group's own assessment of the risks that irregularities may occur either as a result of fraud or error;
- results of our enquiries of management, internal audit, and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team including significant component audit teams and relevant internal specialists, including tax, valuations, pensions, IT, and impairment specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

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

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

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

### 11.2. Audit response to risks identified

As a result of performing the above, we identified the timing of revenue recognition as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC ; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

### Report on other legal and regulatory requirements

#### 12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

#### 13. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 140;
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on page 49;
- the directors' statement on fair, balanced and understandable set out on page 105;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 100;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 106; and
- the section describing the work of the Audit Committee set out on page 104.

#### 14. Matters on which we are required to report by exception

##### 14.1. Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

##### 14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.



## 15. Other matters which we are required to address

### 15.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board on 2 June 2014 to audit the financial statements for the year ending 31 December 2014 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 7 years, covering the years ending 31 December 2014 to 31 December 2020.

### 15.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

## 16. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**David Griffin** FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

1 March 2021

## Consolidated income statement

For the year ended 31 December 2020

	Notes	2020 £000	2019 £000
<b>Revenue</b>	3	<b>604,544</b>	669,344
Cost of sales		<b>(320,234)</b>	(357,718)
<b>Gross profit</b>		<b>284,310</b>	311,626
Other income	5	<b>1,581</b>	2,875
Distribution costs		<b>(5,271)</b>	(6,408)
Administrative expenses		<b>(157,336)</b>	(180,434)
Other expenses	5	<b>(710)</b>	(649)
Adjusted operating profit	2,3	<b>142,543</b>	151,005
Adjustments			
– Amortisation of acquired intangible assets	3	<b>(14,110)</b>	(18,841)
– Other adjustments	4	<b>(5,859)</b>	(5,154)
<b>Operating profit</b>	2,3	<b>122,574</b>	127,010
Finance income	7	<b>2,394</b>	2,087
Finance expense	7	<b>(2,931)</b>	(5,040)
<b>Profit before tax</b>	8	<b>122,037</b>	124,057
Income tax expense	9	<b>(28,709)</b>	(29,957)
<b>Profit for the year</b>		<b>93,328</b>	94,100
Basic earnings per share	18	<b>10.7p</b>	10.8p
Adjusted basic earnings per share	18	<b>12.5p</b>	13.0p
Diluted earnings per share	18	<b>10.7p</b>	10.8p
Adjusted diluted earnings per share	18	<b>12.5p</b>	13.0p

## Consolidated statement of comprehensive income

For the year ended 31 December 2020

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

# Consolidated balance sheet

At 31 December 2020

	Notes	2020 £000	2019 £000
<b>Non-current assets</b>			
Goodwill	10	223,537	222,052
Intangible assets	11	25,145	40,848
Property, plant and equipment	12	100,620	89,062
Deferred tax assets	13	16,624	14,582
<b>Total non-current assets</b>		<b>365,926</b>	366,544
<b>Current assets</b>			
Inventories	14	61,467	73,905
Trade receivables	15	112,565	129,390
Current tax	15	7,180	4,830
Derivative financial instruments	23	1,582	2,196
Other receivables	15	25,868	27,558
Assets classified as held for sale	15	1,119	–
Cash and cash equivalents	16	187,204	117,612
<b>Total current assets</b>		<b>396,985</b>	355,491
<b>Total assets</b>		<b>762,911</b>	722,035
<b>Equity</b>			
Issued equity capital	17	4,370	4,363
Share premium		16,826	14,521
Other reserves		20,934	24,859
Retained earnings		540,400	495,657
<b>Total equity</b>		<b>582,530</b>	539,400
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	19	5,396	6,791
Employee benefits	20	42,846	33,576
Deferred tax liabilities	13	8,705	10,745
Derivative financial instruments	23	–	124
Provisions	21	1,720	1,964
<b>Total non-current liabilities</b>		<b>58,667</b>	53,200
<b>Current liabilities</b>			
Interest bearing loans and borrowings	19	3,754	4,752
Trade payables	22	33,560	41,195
Employee benefits	20	23,645	24,734
Current tax	22	14,765	13,270
Derivative financial instruments	23	168	52
Other payables	22	41,334	40,581
Provisions	21	4,488	4,851
<b>Total current liabilities</b>		<b>121,714</b>	129,435
<b>Total liabilities</b>		<b>180,381</b>	182,635
<b>Total equity and liabilities</b>		<b>762,911</b>	722,035

These financial statements were approved by the Board of Directors and authorised for issue on 1 March 2021 and were signed on its behalf by:

**KG Hostetler** and **JM Davis**  
Directors

## Consolidated statement of changes in equity

	Issued equity capital £000	Share Premium £000	Translation Reserve £000	Capital redemption reserve £000	Hedging Reserve £000	Retained Earnings £000	Total £000
Balance at 31 December 2018	4,358	13,024	34,930	1,644	(1,153)	460,825	513,628
Profit for the year	–	–	–	–	–	94,100	94,100
<b>Other comprehensive income</b>							
Foreign exchange translation differences	–	–	(12,643)	–	–	–	(12,643)
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	2,548	–	2,548
Actuarial loss on defined benefit pension plans	–	–	–	–	–	(8,058)	(8,058)
Tax on other comprehensive income	–	–	–	–	(467)	1,353	886
Total other comprehensive income	–	–	(12,643)	–	2,081	(6,705)	(17,267)
Total comprehensive income	–	–	(12,643)	–	2,081	87,395	76,833
<b>Transactions with owners, recorded directly in equity</b>							
Equity settled share-based payment transactions	–	–	–	–	–	(1,011)	(1,011)
Tax on equity settled share-based payment transactions	–	–	–	–	–	(8)	(8)
Share options exercised by employees	5	1,497	–	–	–	–	1,502
Own ordinary shares acquired	–	–	–	–	–	(5,287)	(5,287)
Own ordinary shares awarded under share schemes	–	–	–	–	–	6,030	6,030
Dividends	–	–	–	–	–	(52,287)	(52,287)
Balance at 31 December 2019	<b>4,363</b>	<b>14,521</b>	<b>22,287</b>	<b>1,644</b>	<b>928</b>	<b>495,657</b>	<b>539,400</b>
Profit for the year	–	–	–	–	–	93,328	93,328
<b>Other comprehensive income</b>							
Foreign exchange translation differences	–	–	(3,913)	–	–	–	(3,913)
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	6	–	6
Actuarial gain on defined benefit pension plans	–	–	–	–	–	(18,570)	(18,570)
Tax on other comprehensive income	–	–	–	–	(18)	3,734	3,716
Total other comprehensive income	–	–	(3,913)	–	(12)	(14,836)	(18,761)
<b>Total comprehensive income</b>	–	–	(3,913)	–	(12)	78,492	74,567
<b>Transactions with owners, recorded directly in equity</b>							
Equity settled share-based payment transactions	–	–	–	–	–	(306)	(306)
Tax on equity settled share-based payment transactions	–	–	–	–	–	(65)	(65)
Share options exercised by employees	7	2,305	–	–	–	–	2,312
Own ordinary shares acquired	–	–	–	–	–	(3,645)	(3,645)
Own ordinary shares awarded under share schemes	–	–	–	–	–	4,193	4,193
Dividends	–	–	–	–	–	(33,926)	(33,926)
<b>Balance at 31 December 2020</b>	<b>4,370</b>	<b>16,826</b>	<b>18,374</b>	<b>1,644</b>	<b>916</b>	<b>540,400</b>	<b>582,530</b>

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 2020

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

# Notes to the Group financial statements

For the year ended 31 December 2020

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

Rotork plc is a public company limited by shares, registered and domiciled in England. The consolidated financial statements of the Company for the year ended 31 December 2020 comprise the Company and its subsidiaries (together referred to as the Group). The accounting policies contained below in note 1 and the disclosures in notes 2 to 30 all relate to the Group financial statements. The Company balance sheet, accounting policies and applicable notes can be found following note 30.

## 1. Accounting policies

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

### Basis of preparation

The consolidated financial statements of Rotork plc have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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

### New accounting standards and interpretations

#### i. Amendments

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

### New standards and interpretations not yet adopted

#### i. Amendments

Further narrow scope amendments have been issued which are mandatory for periods commencing on or after 1 January 2021. The application of these amendments will not have any material impact on the disclosures, net assets or results of the Group.

### Adjustments to profit

Adjustments to profit are items of income and expense which, because of the nature, size and/or infrequency of the events giving rise to them, merit separate presentation. These specific items are presented on the face of the income statement to provide greater clarity and a better understanding of the impact of these items on the Group's financial performance. In doing so, it also facilitates greater comparison of the Group's underlying results with prior periods and assessment of trends in financial performance. This split is consistent with how underlying business performance is measured internally.

Adjustments to profit items may include but are not restricted to: costs of significant business restructuring, significant impairments of intangible or tangible assets, adjustments to the fair value of acquisition related items such as contingent consideration, acquired intangible asset amortisation and other items due to their significance, size or nature, and the related taxation.

### Going concern

After carrying out a detailed review of the viability of the business, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. In forming this view, the on-going impact of COVID-19 on the Group has been considered. The directors have reviewed: the current financial position of the Group, which has net cash of £178m and unused committed debt facilities of £60m as at the period end; the significant order book, which contains customers spread across different geographic areas and industries; and the trading and cash flow forecasts for the Group. The directors have reverse stress tested the forecasts and are satisfied that the downside scenarios are considered remote and that the Group would continue to have headroom on existing facilities. The Group also has a number of mitigating actions that it can take at short notice to preserve cash, for example reduction in capital programmes, dividend deferral and reductions in discretionary spend.

### Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year to 31 December 2020. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. Intra-Group balances and any unrealised gains or losses or income and expenses arising from intra-Group transactions are eliminated in preparing the consolidated financial statements.

### Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purposes of the consolidated financial statements, the results and financial position of each Group company is expressed in sterling, which is the functional currency of the company, and the presentational currency for the consolidated financial statements.

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

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

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

## Revenue

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control of a product or service to a customer and is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. The transaction price is determined and known at the point of initial sale.

Revenue from the sale of actuators, gearboxes and flow control products is recognised in the income statement when control of the goods has transferred, generally at a point of time on despatch of goods, in line with the International Chamber of Commerce International Commercial terms (incoterms). This is the agreed point in time when the customer has accepted and has legal title to the goods, there is a present right to payment for the goods, and they can determine its future use and location.

The Group provides service and support through preventative maintenance contracts, on-site and workshop service, retrofit solutions and the client support programme. Revenue in respect of on-site and workshop service and retrofit solutions is recognised on completion of the work and after all performance obligations have been completed. Revenue in respect of preventative maintenance contracts and the client support programme is recognised as the services are performed in line with the contractual terms. The stage of completion is assessed by reference to the transfer of control over time, which usually corresponds to the contractual agreement with each separate customer and the costs incurred on the contract to date in comparison with the total forecast costs of the contract. The directors have assessed that these contracts are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Group.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated completion costs, the possible return of goods or continuing management involvement with the goods.

The Group has applied the practical expedient in IFRS 15.121 and therefore not disclosed the information in IFRS 15.120 regarding unsatisfied (or partially unsatisfied) performance obligations on contracts with a duration of one year or less.

## Business combinations

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

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

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

When the excess is negative, a bargain purchase gain is recognised immediately in the income statement. The fair value of the assets and liabilities assumed are provisional for a 12 month period. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

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

Goodwill is stated at cost or deemed cost less any impairment losses. Goodwill is not amortised but is reviewed for impairment annually. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash generating units (CGUs) expected to benefit from the synergies of the combination. An impairment loss is recognised whenever the carrying value of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in the income statement.

## Intangible assets

### i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement in the period in which it is incurred. Development costs incurred after the point at which the commercial and technical feasibility of the product 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 up to five years and is written off on a straight-line basis.

## Notes to the Group financial statements continued

### For the year ended 31 December 2020

#### 1. Accounting policies continued

##### Intangible assets continued

##### ii) Other intangible assets

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

Brands	4 to 10 years
Customer relationships	2 to 8 years
Other – product design patents	4 to 8 years
Other – order backlog	3 months to 1 year

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

##### Property, plant and equipment

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

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

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses.

##### Leases

##### i) The Group as a lessee

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'.

To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

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

##### ii) Measurement and recognition of leases as a lessee

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

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

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

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

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

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

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

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



### Interest-bearing loans and borrowings

Obligations for loans and borrowings are recognised when the Group becomes party to the related contracts and are measured initially at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### Taxation

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

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

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

### Inventory and work in progress

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

### Cash and cash equivalents

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

### Equity

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

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

### Provisions

#### i) Warranties

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

#### ii) Contingent consideration

The terms of an acquisition may provide that the value of the purchase consideration, which may be payable in cash at a future date, depends on uncertain future events. The amounts recognised in the financial statements represent a fair value estimate at the balance sheet date of the amounts expected to be paid.

## Notes to the Group financial statements continued

### For the year ended 31 December 2020

#### 1. Accounting policies continued

##### Employee benefits

###### i) Pension plans

Where the Group operates a defined benefit pension scheme, contributions are made in accordance with the schedule of contributions agreed with the Trustees. In respect of all actuarial gains and losses that arise in calculating the Group's obligation in respect of the plans, these are recognised in other comprehensive income. The retirement benefit obligation recognised in the consolidated balance sheet represents the deficit in the Group's defined benefit pension schemes. Interest on pension scheme liabilities has been recognised within financing expenses.

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

###### ii) Share-based payment transactions

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

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

The Overseas profit linked share plan (OPLSS) and the share incentive plan (SIP) are discretionary profit linked share schemes based on the prior year profit of the participating Rotork companies. The value of the award to each employee is based on salary and the length of service, the value of the awards can be up to £3,600. Shares awarded under these schemes are issued by the trustee at the cost of purchase. The costs of providing these plans are recognised in the income statement over the period to which the employee has earned the award.

###### iii) Long term service leave

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

###### iv) Other employee benefits

The Group offers a number of discretionary bonus schemes to employees around the world. The costs of these schemes are recognised in the income statement as incurred.

##### Derivative financial instruments

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

At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

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

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

## Dividends

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

## Critical accounting estimates and judgements

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

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

### i) Critical accounting judgements

There are no critical accounting judgements requiring evaluation.

### ii) Key sources of estimation uncertainty

#### *Retirement benefits*

The Group's financial statements include costs in relation to, and provisions for, retirement benefit obligations. Management is required to estimate the future rates of inflation, salary increases, discount rates and longevity of members, each of which may have a material impact on the defined benefit obligations that are recorded. Sensitivities to changes in key estimates affecting the pension schemes' liabilities are shown in note 24.

## 2. Alternative performance measures

The Group uses adjusted figures as key performance measures in addition to those reported under adopted IFRS, as management believe these measures facilitate greater comparison of the Group's underlying results with prior periods and assessment of trends in financial performance.

The key alternative performance measures that the Group use include adjusted profit measures and organic constant currency (OCC). Explanations of how they are calculated and how they are reconciled to IFRS statutory results are set out below.

### a. Adjusted operating profit

Adjusted operating profit is the Group's operating profit excluding the amortisation of acquired intangible assets and other adjustments that are considered to be significant and where treatment as an adjusted item provides stakeholders with additional useful information to assess the trading performance of the Group on a consistent basis. Further details on these adjustments are given in note 4.

### b. Adjusted profit before tax

The adjustments in calculating adjusted profit before tax are consistent with those in calculating adjusted operating profit above.

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

## Notes to the Group financial statements continued

For the year ended 31 December 2020

### 2. Alternative performance measures continued

#### c. Adjusted basic and diluted earnings per share

Adjusted basic earnings per share is calculated using the adjusted net profit attributable to the ordinary shareholders and dividing it by the weighted average ordinary shares in issue (see note 18). Adjusted net profit attributable to ordinary shareholders is calculated as follows:

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

Diluted earnings per share is calculated by using the adjusted net profit attributable to ordinary shareholders and dividing it by the weighted average ordinary shares in issue adjusted to assume conversion of all potentially dilutive ordinary shares (see note 18).

#### d. Adjusted dividend cover

Dividend cover is calculated as earnings per share divided by dividends per share. Adjusted dividend cover is calculated as adjusted earnings per share as defined in note 2c above divided by dividends per share.

#### e. Total shareholder return

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

#### f. Return on capital employed

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

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

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

#### g. Working capital as a percentage of revenue

Working capital as a percentage of revenue is monitored as control of working capital is key to achieving our cash generation targets. It is calculated as inventory plus trade receivables, less trade payables, divided by revenue.

#### h. Flowthrough

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

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

### i. Organic constant currency (OCC)

OCC results remove the results of businesses acquired or disposed of during the period that are not consistently presented in both periods' results. The 2020 results are restated at 2019 exchange rates. There are no disposals or acquisitions in 2020 that are not consistently presented in both periods.

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

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

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

### 3. Operating segments

As described on page 50, the Group has chosen to move from a product focused structure to an end market segment focused structure that more closely meets customer needs. The three identifiable operating segments where the financial and operating performance is reviewed monthly by the chief operating decision maker are as follows:

- Oil & Gas
- Water & Power
- Chemical, Process & Industrial

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

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

Unallocated expenses comprise corporate expenses and remain the same as they were under the previous product division structure.

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

### Geographic analysis

Rotork has a worldwide presence in all three operating segments through its subsidiary selling offices and through an agency network. A full list of locations can be found at [www.rotork.com](http://www.rotork.com).

## Notes to the Group financial statements continued

For the year ended 31 December 2020

### 3. Operating segments continued

#### Analysis by operating segment:

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

	Oil & Gas 2019	Water & Power 2019	Chemical, Process & Industrial 2019	Unallocated 2019	Group 2019
Revenue from external customers	330,049	154,880	184,415	–	669,344
Adjusted operating profit*	75,544	45,095	41,976	(11,610)	151,005
Amortisation of acquired intangible assets	(10,739)	(2,638)	(5,464)	–	(18,841)
Segment result	64,805	42,457	36,512	(11,610)	132,164
Other adjustments					(5,154)
Operating profit					127,010
Net finance expense					(2,953)
Income tax expense					(29,957)
Profit for the year					94,100

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

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

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

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

## Geographical analysis:

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

	UK 2020	Europe 2020	USA 2020	Other Americas 2020	Rest of World 2020	Group 2020
Non-current assets:						
– Goodwill	61,342	66,940	52,830	728	41,697	223,537
– Intangible assets	19,392	1,877	2,355	–	1,521	25,145
– Property, plant and equipment	40,173	29,884	12,376	1,225	18,081	101,739

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

## 4. Other adjustments

The other adjustments are adjustments that management consider to be significant and where separate disclosure enables stakeholders to assess the underlying trading performance of the Group on a consistent basis.

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

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

### Redundancy and executive change costs

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

### Gain on disposal of business

The gain on disposal of £2,539,000 in 2019 relates to the sale of the Pittsburgh business. The assets of £1,639,000 disposed of included goodwill (£452,000) and working capital (£1,187,000). Other costs incurred totalled £93,000. Proceeds of £4,271,000 were contractually agreed and included in other receivables at the 2019 balance sheet date. The cash proceeds were received in 2020.

### Other restructuring costs

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

### Income statement disclosure

All adjustments are included in administrative expenses, with the exception of the gain on disposal of business in 2019 which is included in other income and the 2019 loss on disposal of property is included in other expenses. The adjustments are taxable or tax deductible in the country in which the expense is incurred.

## Notes to the Group financial statements continued

For the year ended 31 December 2020

### 5. Other income and expense

	2020	2019
Gain on disposal of business (note 4)	–	2,539
Gain on disposal of property, plant and equipment	80	178
Other	1,501	158
<b>Other income</b>	<b>1,581</b>	<b>2,875</b>
	2020	2019
Loss on disposal of property, plant and equipment	226	599
Other	484	50
<b>Other expense</b>	<b>710</b>	<b>649</b>

### 6. Personnel expenses

	2020	2019
Wages and salaries (including bonus and incentive plans)	134,747	153,879
Social security costs	18,798	20,947
Pension costs (note 24)	6,895	7,363
Share-based payments (note 25)	3,685	4,702
Increase in liability for long term service leave	32	632
	164,157	187,523

	2020 Number	2019 Number
Average monthly number of employees during the year:		
Sales, marketing and market focused staff		
– Oil and Gas	109	112
– Water and Power	75	77
– Chemical, Process and Industrial	69	71
Manufacturing and other shared functions	3,254	3,352
	3,507	3,612
UK	909	971
Overseas	2,598	2,641
	3,507	3,612

### 7. Finance Income and Expense Recognised in the income statement

	2020	2019
Interest income	1,517	1,803
Foreign exchange gains	877	284
<b>Finance income</b>	<b>2,394</b>	<b>2,087</b>
	2020	2019
Interest expense	(872)	(2,686)
Interest expense on lease liabilities	(499)	(431)
Interest charge on pension scheme liabilities (note 24)	(609)	(750)
Foreign exchange losses	(951)	(1,173)
<b>Finance expense</b>	<b>(2,931)</b>	<b>(5,040)</b>



**Recognised in other comprehensive income**

	2020	2019
Effective portion of changes in fair value of cash flow hedges	<b>1,131</b>	1,125
Fair value of cash flow hedges transferred to income statement	<b>(1,125)</b>	1,423
Foreign currency translation differences for foreign operations	<b>(3,913)</b>	(12,643)
	<b>(3,907)</b>	(10,095)
Recognised in:		
Hedging reserve	<b>6</b>	2,548
Translation reserve	<b>(3,913)</b>	(12,643)
	<b>(3,907)</b>	(10,095)

**8. Profit before tax**

Profit before tax is stated after charging the following:

	Notes	2020	2019
Depreciation of property, plant and equipment:			
– Owned assets	i	<b>11,629</b>	11,924
– Assets held under lease contracts	i	<b>4,684</b>	4,435
Amortisation:			
– Other intangibles	iii	<b>14,110</b>	18,841
– Development costs	iii	<b>2,967</b>	2,873
Impairment of development cost assets	iii	<b>525</b>	–
Impairment of property, plant and equipment	iii	–	1,935
Inventory write downs recognised in the year	ii	<b>2,718</b>	3,102
Research and development expenditure	iii	<b>11,673</b>	11,272
Exchange differences realised	iv	<b>73</b>	889
Audit fees and expenses paid to Deloitte:			
– Audit of the Group financial statements		<b>1,002</b>	886
– Audit of financial statements of subsidiaries of the Company		<b>268</b>	268
		<b>1,270</b>	1,154
Other auditors of financial statements of subsidiaries of the Company		–	10
Total audit fees and expenses		<b>1,270</b>	1,164
Amounts paid to Deloitte and its associates in respect of:			
– Other assurance services		<b>58</b>	56
		<b>58</b>	56
Total fees		<b>1,328</b>	1,220

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

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

## Notes to the Group financial statements continued

For the year ended 31 December 2020

### 9. Income tax expense

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

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

The effective tax rate for the year is 23.5% (2019: 24.1%). The adjusted effective tax rate is 23.4% (2019: 23.5%) and is lower than the effective tax rate for the year principally because of the tax treatment of expenses included in exceptional items.

The adjusted effective tax rate has fallen from 23.5% in 2019 to 23.4% in 2020, principally because of a reduction in the deferred tax liability relating to unremitted earnings from India as a result of a decrease in Indian withholding tax rates from 1 April 2020. The consequent fall in the adjusted effective tax rate has been partially offset by an increase in the proportion of the Group profits arising in higher tax jurisdictions internationally. The Group expects its adjusted effective tax rate to continue to move in line with the trends in corporate tax rates in the jurisdictions where Rotork operates. However, the adjusted effective tax rate will still be higher than the standard UK rate due to higher rates of tax in China, the US, South Korea, Germany, India and Australia.

There is an unrecognised deferred tax liability for temporary differences associated with investments in subsidiaries. Rotork plc controls the dividend policies of its subsidiaries and the timing of the reversal of the temporary differences. The value of temporary differences associated with unremitted earnings of subsidiaries for which deferred tax has not been recognised is £256,554,000 (2019: £312,364,000).

## 10. Goodwill

	2020	2019
<b>Cost</b>		
At 1 January	243,696	251,848
Derecognised on disposal of business	–	(452)
Exchange adjustments	1,417	(7,700)
At 31 December	245,113	243,696
<b>Provision for impairment</b>		
At 1 January	21,644	21,691
Exchange adjustments	(68)	(47)
At 31 December	21,576	21,644
<b>Net book value</b>	<b>223,537</b>	222,052

### Cash generating units

Goodwill acquired through business combinations has been allocated to groups of cash-generating units (CGUs) that are expected to benefit from that business combination. For the Group, these are considered to be the Oil and Gas, Water and Power, and Chemical, Process and Industrial divisions. This is different to the prior year, with goodwill reallocated following the transition to the Group's end-market focused divisional structure. The 2019 impairment tests were re-run with consideration of the new CGU groupings. On this basis, the value in use calculations exceeded the CGU carrying values after applying sensitivity analysis.

Cash generating unit	Discount rate (2020)	2020	2019
Oil and Gas	11.8%	89,936	86,621
Water and Power	12.1%	16,369	16,077
Chemical, Process and Industrial	12.1%	117,232	117,354
<b>Total Group</b>		<b>223,537</b>	222,052

### Impairment testing

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

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

#### i) Discount rates

The discount rates for the significant CGUs presented above are pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU for which the future cash flows have not been adjusted. Discount rates are based on estimations that market participants operating in similar sectors to Rotork would make, using the Group's economic profile as a starting point. For each CGU we adjusted the risk premium on a weighted average basis to reflect the region in which the CGU carries out the majority of its business, applied a premium based on the size of the CGU and applied a market participant tax rate in the region the CGU operates. In calculating the discount rates, consideration was given to exclude risks that were not relevant or which had already been reflected in the cash flows.

#### ii) Growth rates

Value in use calculations are used to determine the recoverable amount of goodwill allocated to each of the CGUs. These calculations use cash flow projections from management forecasts which are based on the budget and the Group's three year strategic plan. The three year plan is a bottom up process which takes place as part of the annual budget process. Once the budget for the next financial year is finalised, years two and three of the three year plan are prepared by each reporting entity's management reflecting their view of the local market, known projects and experience of past performance. The Group annual budget and the three year plan are reviewed and approved by the Board each year. The compound annual revenue growth forecast for the Group during years one to three, used within the impairment models, is 6.4% (2019: 5.5%).

In the period after the three year plan growth rates are forecast at 4% (2019: 5%) per annum for the next two years and at 2% (2019: 2%) for the long-term growth rate. The 4% rate reflects a realistic market forecast for the flow control market up until 2025.

## Notes to the Group financial statements continued

For the year ended 31 December 2020

### 10. Goodwill continued

#### Sensitivity analysis

The Group has conducted an analysis of the sensitivity of the impairment test to changes in the key assumptions used to determine the recoverable amount for each of the CGUs to which goodwill is allocated.

For all CGUs the sensitivity analysis shows that if pre-tax discount rates are raised by 1%; short term growth rates are lowered by 10% in years one to three; or long term growth rates are lowered by 1% then no impairment would arise. Each of these sensitivities are considered to be a reasonably possible change.

There are no reasonably possible changes in assumptions that would lead to an impairment.

### 11. Intangible assets

	Development costs	Acquired intangible assets			Total
		Brands	Customer relationships	Other	
<b>Cost</b>					
31 December 2018	21,707	52,599	120,191	22,513	217,010
Internally developed	1,937	–	–	–	1,937
Disposals	(3,114)	–	–	–	(3,114)
Exchange Adjustments	(128)	(1,727)	(3,498)	(643)	(5,996)
<b>31 December 2019</b>	<b>20,402</b>	<b>50,872</b>	<b>116,693</b>	<b>21,870</b>	<b>209,837</b>
Internally developed	1,262	–	–	–	1,262
Exchange adjustments	105	210	100	197	612
<b>31 December 2020</b>	<b>21,769</b>	<b>51,082</b>	<b>116,793</b>	<b>22,067</b>	<b>211,711</b>
<b>Amortisation</b>					
31 December 2018	12,598	37,591	86,712	18,592	155,493
Charge for the year	2,874	6,035	10,767	2,039	21,715
Disposals	(3,114)	–	–	–	(3,114)
Exchange Adjustments	(61)	(1,479)	(2,960)	(605)	(5,105)
<b>31 December 2019</b>	<b>12,297</b>	<b>42,147</b>	<b>94,519</b>	<b>20,026</b>	<b>168,989</b>
Charge for the year	2,442	3,212	9,579	1,319	16,552
Impairment charge	525	–	–	–	525
Exchange adjustments	43	169	92	196	500
<b>31 December 2020</b>	<b>15,307</b>	<b>45,528</b>	<b>104,190</b>	<b>21,541</b>	<b>186,566</b>
<b>Net book value</b>					
31 December 2019	8,105	8,725	22,174	1,844	40,848
<b>31 December 2020</b>	<b>6,462</b>	<b>5,554</b>	<b>12,603</b>	<b>526</b>	<b>25,145</b>

Other acquired intangible assets represent order books and intellectual property.

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

## 12. Property, plant and equipment

	Land and buildings	Plant and equipment	Total
<b>Cost</b>			
31 December 2018	73,902	117,156	191,058
Additions	2,557	17,066	19,623
Disposals	(163)	(7,385)	(7,548)
Exchange adjustments	(1,862)	(4,043)	(5,905)
31 December 2019	74,434	122,794	197,228
Additions	8,484	20,475	28,959
Disposals	(500)	(5,157)	(5,657)
Assets classified as held for sale	(1,365)	(134)	(1,499)
Exchange adjustments	336	986	1,322
<b>31 December 2019</b>	<b>81,389</b>	<b>138,964</b>	<b>220,353</b>
<b>Depreciation</b>			
31 December 2018	19,099	80,327	99,426
Charge for the year	4,882	11,477	16,359
Disposals	(128)	(6,101)	(6,229)
Impairment Charge	1,883	52	1,935
Exchange adjustments	(868)	(2,457)	(3,325)
31 December 2019	24,868	83,298	108,166
Charge for the year	4,903	11,410	16,313
Disposals	(376)	(4,812)	(5,188)
Assets classified as held for sale	(335)	(45)	(380)
Exchange adjustments	15	807	822
<b>31 December 2020</b>	<b>29,075</b>	<b>90,658</b>	<b>119,733</b>
<b>Net book value</b>			
31 December 2019	49,566	39,496	89,062
<b>31 December 2020</b>	<b>52,314</b>	<b>48,306</b>	<b>100,620</b>

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

	2020	2019
Land	<b>6,957</b>	7,060
Buildings	<b>45,357</b>	42,506
Net book value at 31 December	<b>52,314</b>	49,566

It is the Group's policy to test assets for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The impairment charge of £1,935,000 in 2019 arose as a result of the ongoing review of the global footprint (note 4).

Included in the net book value of plant and equipment are assets in the course of construction, which are not depreciated, with a cost of £16,601,000 (2019: £6,050,000). Depreciation of these assets will commence when the assets are ready for their intended use.

## 13. Deferred tax assets and liabilities

	Assets 2020	Liabilities 2020	Net 2020	Assets 2019	Liabilities 2019	Net 2019
Property, plant and equipment	504	(1,539)	(1,035)	618	(1,072)	(454)
Intangible assets	3	(5,555)	(5,552)	3	(7,970)	(7,967)
Employee benefits	10,040	–	10,040	7,723	–	7,723
Inventory	4,930	–	4,930	4,648	–	4,648
Other items	3,006	(3,470)	(464)	4,344	(4,457)	(113)
Net tax assets/(liabilities)	<b>18,483</b>	<b>(10,564)</b>	<b>7,919</b>	17,336	(13,499)	3,837
Set off of tax	<b>(1,859)</b>	<b>1,859</b>	–	(2,754)	2,754	–
	<b>16,624</b>	<b>(8,705)</b>	<b>7,919</b>	14,582	(10,745)	3,837

## Notes to the Group financial statements continued

For the year ended 31 December 2020

### 13. Deferred tax assets and liabilities continued

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

	2020	2019
Balance at 1 January	3,837	1,615
(Charged)credited to the income statement	(179)	1,086
Charged directly to equity in respect of share-based payments	(65)	(8)
Impact of rate change	1,019	–
Credited directly to equity in respect of pension schemes	3,734	1,353
Charged directly to hedging reserves in respect of cash flow hedges	(18)	(467)
Exchange differences	(407)	258
Balance at 31 December	7,919	3,837

A deferred tax asset of £16,624,000 (2019: £14,582,000) has been recognised at 31 December 2020. The directors are of the opinion, based on recent and forecast trading, that the level of profits in the current and future years make it more likely than not that these assets will be recovered.

A deferred tax asset has not been recognised in relation to capital losses of £7,632,000 (2019: £7,632,000). This asset may be recovered if sufficient capital profits are made in future in the companies concerned. There is no expiry date in relation to this asset.

### 14. Inventories

	2020	2019
Raw materials and consumables	46,101	58,153
Work in progress	3,630	3,751
Finished goods	11,736	12,001
	61,467	73,905

Included in cost of sales was £210,098,000 (2019: £196,265,000) in respect of inventories consumed in the year.

### 15. Trade and other receivables including assets held for sale

	2020	2019
<b>Current assets:</b>		
Trade receivables	117,253	135,333
Less provision for impairment of receivables	(4,688)	(5,943)
Trade receivables – net	112,565	129,390
Corporation tax	7,180	4,830
Current tax	7,180	4,830
Other non-trade receivables	3,348	7,674
Other taxes and social security	13,629	13,373
Prepayments	8,891	6,511
Other receivables	25,868	27,558
Land and buildings	1,030	–
Plant and equipment	89	–
Assets held for sale	1,119	–

As at 31 December 2020, non-current assets relating to a property in Pittsburgh, US were classified as held for sale. The assets have subsequently been sold following the year end with completion taking place in January 2021.

### 16. Cash and cash equivalents

	2020	2019
Bank balances	95,740	78,560
Cash in hand	49	108
Short term deposits	91,415	38,944
Cash and cash equivalents	187,204	117,612
Bank overdraft	–	–
Cash and cash equivalents in the consolidated statement of cash flows	187,204	117,612

## 17. Capital and reserves

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

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

The Group received proceeds of £2,312,000 (2019: £1,501,000) in respect of the 1,417,104 (2019: 912,549) ordinary shares issued during the year: £7,000 (2019: £5,000) was credited to share capital and £2,305,000 (2019: £1,497,000) to share premium. Further details of the share awards are shown in note 25.

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

Within the retained earnings reserve are own shares held. The investment in own shares held is £2,937,000 (2019: £3,485,000) and represents 997,000 (2019: 1,136,000) ordinary shares of the Company held in trust for the benefit of directors and employees for future payments under the Share Incentive Plan and Long Term Incentive Plan. The dividends on these shares have been waived.

### Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

### Capital redemption reserve

The capital redemption reserve arises when the Company redeems shares wholly out of distributable profits.

### Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments that are determined to be an effective hedge.

### Dividends

The following dividends were paid in the year per qualifying ordinary share:

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

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

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

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

## Notes to the Group financial statements continued

For the year ended 31 December 2020

### 18. Earnings per share

#### Basic earnings per share

Earnings per share is calculated for both the current and previous years using the profit attributable to the ordinary shareholders for the year. The earnings per share calculation is based on 871.7m shares (2019: 871.0m shares) being the weighted average number of ordinary shares in issue (net of own ordinary shares held) for the year.

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

#### Adjusted basic earnings per share

Adjusted basic earnings per share is calculated for both the current and previous years using the profit attributable to the ordinary shareholders for the year after adding back the after tax impact of the adjustments. The reconciliation showing how adjusted net profit attributable to ordinary shareholders is derived is shown in note 2.

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

#### Diluted earnings per share

Diluted earnings per share is based on the profit for the year attributable to the ordinary shareholders and 873.3m shares (2019: 873.6m shares). The number of shares is equal to the weighted average number of ordinary shares in issue (net of own ordinary shares held) adjusted to assume conversion of all potentially dilutive ordinary shares. The Company has two categories of potentially dilutive ordinary shares: those share options granted to employees under the Sharesave plan where the exercise price is less than the average market price of the Company's ordinary shares during the year and contingently issuable shares awarded under the Long Term Incentive Plan (LTIP).

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

#### Adjusted diluted earnings per share

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



## 19. Interest bearing loans and borrowings

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

	2020	2019
<b>Non-current liabilities</b>		
Preference shares classified as debt	40	40
Bank loans	728	762
Lease liabilities	4,628	5,989
	<b>5,396</b>	<b>6,791</b>
<b>Current liabilities</b>		
Bank loans	69	66
Lease liabilities	3,685	4,686
	<b>3,754</b>	<b>4,752</b>

### Terms and debt repayment schedule

The terms and conditions of outstanding bank loans and preference shares were as follows:

	Currency	Interest rates	Year of maturity	2020	2019
Non-redeemable preference shares	Sterling	9.5%	–	40	40
Bank loans	Euro	2.35%	2032	797	828
				<b>837</b>	<b>868</b>

### Repayment profile

Bank loans are payable as follows:

	Principal 2020	Interest 2020	Minimum payments 2020	Principal 2019	Interest 2019	Minimum payments 2019
Bank loans less than one year	69	18	87	66	19	85
Bank loans more than one and less than five years	728	99	827	762	105	867
Bank loans more than five years	–	–	–	–	–	–
	<b>797</b>	<b>117</b>	<b>914</b>	<b>828</b>	<b>124</b>	<b>952</b>

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

## 20. Employee benefits

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

Defined benefit pension scheme disclosures are detailed in note 24.

## Notes to the Group financial statements continued

For the year ended 31 December 2020

### 21. Provisions

	Contingent consideration	Warranty provision	Restructuring provision	Total
Balance at 1 January 2020	285	5,951	579	6,815
Exchange differences	13	(24)	3	(8)
Charge to the income statement	–	1,329	2,765	4,094
Provisions utilised during the year	(115)	(2,043)	(2,535)	(4,693)
<b>Balance at 31 December 2020</b>	<b>183</b>	<b>5,213</b>	<b>812</b>	<b>6,208</b>
<b>Maturity at 31 December 2020</b>				
Non-current	–	1,720	–	1,720
Current	183	3,493	812	4,488
	183	5,213	812	6,208
Maturity at 31 December 2019				
Non-current	–	1,964	–	1,964
Current	285	3,987	579	4,851
	285	5,951	579	6,815

The warranty provision is based on estimates made from historical warranty data associated with similar products and services. The provision relates mainly to products sold during the last 12 months and the typical warranty period is 18 months.

The restructuring provision relates to amounts outstanding in respect of redundancy and other restructuring costs associated with the Growth Acceleration Programme.

### 22. Trade and other payables

	2020	2019
Trade payables	33,560	41,195
Corporation tax	14,765	13,270
Current tax	14,765	13,270
Other taxes and social security	10,086	11,101
Payments on account	9,779	6,587
Other payables and accrued expenses	21,469	22,893
Other payables	41,334	40,581

### 23. Derivative financial instruments

	2020 Assets	2020 Liabilities	2019 Assets	2019 Liabilities
Forward foreign exchange contracts – cash flow hedges	1,235	168	1,275	176
Foreign exchange swaps – cash flow hedges	347	–	921	–
Total	1,582	168	2,196	176
<i>Less non-current portion:</i>				
Forward foreign exchange contracts – cash flow hedges	–	–	–	(124)
Current portion	1,582	168	2,196	52

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

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

The hedged forecast transactions denominated in foreign currency are expected to occur at various dates. Gains and losses in respect of these derivatives recognised in the hedging reserve in equity at 31 December 2020 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 – the Rotork Pension and Life Assurance Scheme (UK Scheme) and the Rotork Controls Inc. Pension Plan (US Pension Plan). On retirement, leaving service or death, the Schemes provide benefits based on final salary and length of service. Whether measured by assets or liabilities, the UK Scheme is more than 90% of the overall value of the two defined benefit Schemes.

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

The UK Scheme is managed by a Trustee, with directors appointed in part by the Group and part from elections by members of the Scheme. The Trustee has responsibility for obtaining valuations of the fund, administering benefit payments and investing the Scheme's assets. The Trustee delegates some of these functions to its professional advisers where appropriate. The UK Scheme which was closed to new entrants in 2003 was closed to future accrual from 1 April 2018.

The US Pension Plan is subject to the ERISA funding requirements. A valuation of the Plan is carried out annually to ensure the Funding Objective is met under ERISA by contributing at least the Minimum Required Contribution. As part of this process the Company must contribute to the Plan enough contributions to ensure at least the Minimum Contribution is deposited in the Trust to pay for the accrual of benefits. The US Pension plan which was closed to new entrants in 2009 was closed to future accrual on 31 December 2018.

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

- Investment risk – the Schemes hold investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term the short-term volatility can cause additional funding to be required if a deficit emerges. The Schemes have a relatively balanced investment in equities, debt instruments and property. Due to the long-term nature of the plan liabilities, the Trustees of the pension funds consider it appropriate that a reasonable portion of the plan assets should be invested in equities and in property to leverage the return generated by the funds.
- Interest rate risk – the Schemes' liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Schemes hold assets such as equities the value of the assets and liabilities may not move in the same way. A decrease in the bond interest rate will increase the Schemes' liabilities but this will be partially offset by an increase in the return of the Schemes' debt investments.
- Inflation risk – a significant proportion of the benefits under the UK Scheme is linked to inflation. Although the UK Scheme's assets are expected to provide a good hedge against inflation over the long term, movements over the short-term could lead to deficits emerging.
- Mortality risk – in the event that members live longer than assumed a deficit will emerge in the Schemes.

The High Court judgements in October 2018 and November 2020 for Lloyds Banking Group clarified that pension benefits under the UK Scheme (including for those who have transferred out) need to be equalised between men and women for the effects of their unequal GMPs. The impact of GMP equalisation was estimated to be a 0.5% addition to liabilities in 2018 and was introduced as a past service cost in the 2018 income statement. This allowance has been retained and, at the 2020 year-end, has been judged sufficient to allow for the equalisation of previous transfers out.

### Movements in the present value of defined benefit obligations

	2020	2019
Liabilities at 1 January	223,222	207,021
Administration costs	223	330
Interest cost	4,882	5,984
Benefits paid	(7,136)	(15,951)
Actuarial loss	32,727	26,527
Currency gain	(959)	(689)
Liabilities at 31 December	252,959	223,222

## Notes to the Group financial statements continued

For the year ended 31 December 2020

### 24. Pension schemes continued

#### i) Defined benefit pension schemes continued

##### Movements in fair value of plan assets

	2020	2019
Assets at 1 January	193,646	179,728
Interest income on plan assets	4,273	5,234
Employer contributions	10,308	6,622
Benefits paid	(7,136)	(15,951)
Return on plan assets, excluding interest income on plan assets	14,157	18,469
Currency loss	(806)	(456)
Assets at 31 December	214,442	193,646

##### Expense recognised in the income statement

	2020	2019
Administration costs	223	330
Net interest cost	609	750
	832	1,080

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

	2020	2019
Cost of sales	84	112
Administrative expenses	139	218
Other income	–	–
Net finance expense	609	750
	832	1,080

##### Remeasurements over the year

	2020	2019
Experience adjustments on plan assets	14,157	18,469
Experience adjustments on plan liabilities	4,985	(3,926)
Actuarial loss from changes to financial assumptions	(36,808)	(23,586)
Actuarial gain/(loss) from changes to demographic assumptions	(904)	985
Experience adjustments on currency	153	233
	(18,417)	(7,825)

##### Reconciliation of net defined benefit obligation

	2020	2019
Net defined benefit obligation at the beginning of the year	29,576	27,293
Current service costs	–	–
Administration costs	223	330
Net financing expense	609	750
Remeasurements over the year	18,417	7,825
Employer contributions	(10,308)	(6,622)
	38,517	29,576

### Liability for defined benefit obligations

The principal actuarial assumptions at 31 December 2020 (expressed as weighted averages):

	UK scheme (% per annum)		US scheme (% per annum)		Weighted average (% per annum)	
	2020	2019	2020	2019	2020	2019
Discount rate	<b>1.3</b>	2.1	<b>2.7</b>	3.4	<b>1.4</b>	2.2
Rate of increase in salaries	<b>n/a</b>	n/a	<b>n/a</b>	n/a	<b>n/a</b>	n/a
Rate of increase in pensions (post May 2000)	<b>2.8</b>	2.8	<b>0.0</b>	0.0	<b>2.5</b>	2.5
Rate of increase in pensions (pre May 2000)	<b>4.6</b>	4.6	<b>0.0</b>	0.0	<b>4.2</b>	4.1
Rate of inflation	<b>2.9</b>	2.9	<b>n/a</b>	n/a	<b>2.9</b>	2.9

In the UK the Retail Price Index is used as the rate of inflation as it is a requirement of the UK Scheme's rules.

The split of the Schemes' quoted assets were as follows:

	2020 Fair value	2019 Fair value
Equities	<b>37,042</b>	35,588
Targeted return	<b>53,155</b>	50,409
Property	<b>5,238</b>	11,683
Corporate bonds	–	47,526
Multi-asset credit (quoted)	<b>19,316</b>	–
LDI/absolute return bonds	<b>81,615</b>	31,940
US deposit administration contract	<b>18,076</b>	16,500
<b>Total</b>	<b>214,442</b>	193,646
Actual return on the Schemes' assets	<b>18,430</b>	23,703

The UK Scheme has a strategic asset allocation which was agreed after considering its liability profile, funding position, expected return of the various asset classes and the need for diversification. The level of interest rate and inflation hedging is being increased by the use of liability driven investment (LDI) funds. Currently the Scheme has hedged around 50% of the interest rate risk and 44% of the inflation risk of its liabilities, as measured on a low risk gilts basis, and this will automatically increase each year (targeting 65% for both by 31 March 2022). A series of triggers have also been agreed so that, if gilt yields rise, the pace of hedging will be accelerated.

The only change made to the demographic assumptions at the 2020 year-end is that future improvements in mortality are now based on the CMI\_2019 projection model (2019: CMI\_2018).

By way of example the respective mortality tables indicate the following life expectancy:

Current age	2020 Life expectancy at age 65		2019 Life expectancy at age 65	
	Male	Female	Male	Female
65	<b>23.0</b>	<b>23.5</b>	22.9	23.3
45	<b>24.4</b>	<b>25.0</b>	24.2	24.8

## Notes to the Group financial statements continued

For the year ended 31 December 2020

### 24. Pension schemes continued

#### i) Defined benefit pension schemes continued

##### Sensitivity analysis on the Schemes' liabilities

Adjustments to assumptions	Approximate effect on liabilities
<b>Discount rate</b>	
Plus 1.0% pa	(45,000)
Minus 1.0% pa	55,600
<b>Inflation</b>	
Plus 0.5% pa	14,900
Minus 0.5% pa	(14,100)
<b>Life expectancy</b>	
Decrease mortality rates by a factor of 10%	8,700
Increase mortality rates by a factor of 10%	(7,400)

The above sensitivities are approximate and only show the likely effect of an assumption being adjusted whilst all other assumptions remain the same.

For the life expectancy sensitivity we have increased/decreased the mortality rates by a factor of 10%. Broadly speaking this decreases/increases the assumed life expectancy by slightly less than one year.

The sensitivity analysis shown above was determined using the same method as per the calculation of liabilities for the balance sheet disclosures, but using assumptions adjusted as detailed above.

##### Effect of the Schemes on the Group's future cash flows

The Group is required to agree a Schedule of Contributions with the Trustee of the UK Scheme following a valuation which must be carried out at least once every three years. Following the valuation of the UK Scheme as at 31 March 2019, the Group is paying deficit contributions of £6,800,000 a year, agreed to March 2025. The next valuation will be carried out with an effective date of 31 March 2022.

The Group estimates that cash contributions to the Group's defined benefit pension schemes during 2021 will be £7,620,000 (2020: £10,308,000).

The weighted average duration of the defined benefit obligation for the UK Scheme is approximately 21 years.

#### ii) Other pension plans

The Group makes a contribution to a number of defined contribution plans around the world to provide benefits for employees upon retirement. Total expense relating to these plans in the year was £6,895,000 (2019: £7,363,000).

## 25. Share-based payments

The Group awards shares under the Long Term Incentive Plan (LTIP), the Save As You Earn scheme (Sharesave plan), the Overseas profit linked share plan (OPLSS) and the share incentive plan (SIP). The equity settled share-based payment expense included in the income statement for each of the plans can be analysed as follows:

	2020	2019
Sharesave plan (a)	482	577
Long Term Incentive Plan (b)	1,140	1,513
OPLSS/SIP profit linked share scheme (c)	2,063	2,612
<b>Total expense recognised as employee costs (note 6)</b>	<b>3,685</b>	<b>4,702</b>

### 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	
	2020	2019	2020	2019
Grant date	<b>9 October</b>	10 October	<b>10 October</b>	10 October
Share price at grant date	<b>298p</b>	300p	<b>298p</b>	300p
Exercise price	<b>243p</b>	255p	<b>243p</b>	255p
Shares granted under scheme	<b>674,240</b>	658,746	<b>216,320</b>	184,145
Vesting period	<b>3 years</b>	3 years	<b>5 years</b>	5 years
Expected volatility	<b>33.0%</b>	29.0%	<b>33.0%</b>	29.0%
Risk free rate	<b>(0.07)%</b>	0.34%	<b>(0.02)%</b>	0.32%
Expected dividends expressed as a dividend yield	<b>1.31%</b>	2.00%	<b>1.31%</b>	2.00%
Probability of ceasing employment before vesting	<b>2%</b>	2%	<b>2%</b>	2%
Fair value	<b>84p</b>	70p	<b>95p</b>	77p

Movements in the number of share options outstanding and their weighted average prices are as follows:

	2020		2019	
	Average option price per share	Options	Average option price per share	Options
At 1 January	<b>149p</b>	<b>3,691,109</b>	189p	4,082,962
Granted	<b>243p</b>	<b>890,560</b>	255p	840,492
Exercised	<b>161p</b>	<b>(1,417,104)</b>	166p	(912,549)
Forfeited	<b>248p</b>	<b>(254,891)</b>	199p	(319,796)
<b>At 31 December</b>	<b>103p</b>	<b>2,909,674</b>	149p	3,691,109

Of the 2,909,674 outstanding options (2019: 3,691,109), 334,000 are exercisable (2019: 121,000).

The Group received proceeds of £2,312,000 in respect of the 1,417,104 options exercised during the year: £7,000 was credited to share capital and £2,305,000 to share premium. The weighted average share price at date of exercise was 300p (2019: 279p).

The weighted average remaining life of 1,735,589 (2019: 1,743,456) awards outstanding under the 3 year plan is 1.9 years. The weighted average remaining life of 1,174,085 (2019: 1,947,653) awards outstanding under the 5 year plan is 2.2 years.

#### b) Long Term Incentive Plan

The Long Term Incentive Plan (LTIP) is a performance share plan under which shares are conditionally allocated to selected members of senior management at the discretion of the Remuneration Committee on an annual basis. Following shareholder approval of the LTIP at the Company's AGM on 18 May 2000, awards over shares are made to executive directors and senior managers each year.

## Notes to the Group financial statements continued

### For the year ended 31 December 2020

#### 25. Share-based payments continued

##### 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. From 2017 onwards, a third of these awards vested under a TSR performance condition, a third under an EPS performance condition and a third under a Return on Invested Capital (ROIC) performance condition.

TSR measures the change in value of a share and reinvested dividends over the period of measurement. The actual number of shares transferred will be determined by the number of shares initially allocated multiplied by a vesting percentage. The actual number of shares transferred will be 25% at the 50th percentile rising to 100% at the 75th percentile.

The EPS performance condition is satisfied with 15% of the awards vesting if the EPS growth is 9% over the vesting period up to a maximum of 100% vesting if EPS growth exceeds 35%.

Vesting of awards under the ROIC condition is determined by calculating the growth in ROIC, on a cumulative basis, over the performance period. For the 2018, 2019 and 2020 awards, the awards will vest by comparing the average ROIC over the performance period against a set of pre-defined targets.

The performance period for the 2017 awards ended on 31 December 2019. Messrs. PricewaterhouseCoopers LLP as independent actuaries certified to the Remuneration Committee that there was an 84.4% vesting of this award as the Company was in the 73rd percentile relative to the comparator group, the Group's EPS growth was 39.6% over the performance period and the Group's growth in economic profit was 14.3%. These awards vested during 2020.

The performance period for the 2018 awards ended on 31 December 2020. Messrs. PricewaterhouseCoopers LLP as independent actuaries certified to the Remuneration Committee that there was an 84.4% vesting of this award as the Company was in the 73rd percentile relative to the comparator group, the Group's EPS growth was 39.0% over the performance period and the Group's growth in economic profit was 13.7%. These awards will vest during 2021.

	2020	2019
Grant date	<b>07 April 2020</b>	16 May 2019
Share price at grant date	<b>239p</b>	292p
Shares granted under scheme	<b>1,726,334</b>	1,354,671
Vesting period	<b>3 years</b>	3 years
Expected volatility	<b>35.8%</b>	27.3%
Risk free rate	<b>(0.1)%</b>	0.7%
Expected dividends expressed as a dividend yield	<b>0.0%</b>	0.0%
Probability of ceasing employment before vesting	<b>5% p.a.</b>	5% p.a.
Fair value of awards under TSR performance conditions	<b>176p</b>	147p
Fair value of awards under EPS and ROIC performance conditions	<b>318p</b>	292p

	Outstanding at start of year	Granted during year	Vested during year	Lapsed	Outstanding at end of year
2017 Award	690,301	–	(583,292)	(107,009)	–
2018 Award	987,057	–	–	(5,853)	<b>981,204</b>
2019 Award	1,250,581	–	–	(31,692)	<b>1,218,889</b>
2020 Award	–	1,726,334	–	(38,776)	<b>1,687,558</b>
	2,927,939	1,726,334	(583,292)	(183,330)	<b>3,887,651</b>

The weighted average remaining life of awards outstanding is one year.

##### c) Overseas profit linked share plan (OPLSS) and the share incentive plan (SIP)

These discretionary profit linked shares schemes are annual schemes based on the prior year profit of participating Rotork companies. The value of the award to each employee is based on salary and length of service and can be up to £3,600.



## 26. Financial instruments

### Financial risk and treasury policies

The Treasury department maintains liquidity, identifies and manages foreign exchange risk, manages relations with the Group's bankers and provides a treasury service to the Group's businesses. Treasury dealings such as investments, borrowings and foreign exchange are conducted only to support underlying business transactions.

The Group has clearly defined policies for the management of credit, foreign exchange and interest rate risk. The Group Treasury department is not a profit centre and, therefore, does not undertake speculative foreign exchange dealings for which there is no underlying exposure. Exposures resulting from sales and purchases in foreign currency are matched where possible and the net exposure may be hedged.

#### a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash on deposit with financial institutions.

Management has a credit policy in place and exposure to credit risk is both monitored on an ongoing basis and reduced through the use of credit insurance covering over 80% of trade receivables at any time. Credit evaluations are carried out on all customers requiring credit above a certain threshold, with varying approval levels set around this depending on the value of the sale. At the balance sheet date there were no significant concentrations of credit risk.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim.

The Group maintains an allowance for impairment in respect of non-insured receivables where recoverability is considered doubtful.

The Group Treasury Committee meets regularly and reviews the credit risk associated with institutions that hold a material cash balance. As well as credit ratings, counterparties and instruments are assessed for credit default swap pricing and liquidity of funds.

#### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2020	2019
Trade receivables	<b>112,565</b>	129,390
Other receivables	<b>27,480</b>	27,558
Cash and cash equivalents	<b>187,204</b>	117,612
	<b>327,249</b>	274,560

Other receivables consist principally of tax receivables and prepayments. These items do not give rise to significant credit risk.

The maximum exposure to credit risk for trade receivables at the reporting date by currency was:

	Carrying amount	
	2020	2019
Sterling	<b>16,618</b>	17,910
US dollar	<b>21,697</b>	30,948
Euro	<b>38,164</b>	43,395
Other	<b>36,087</b>	37,137
	<b>112,566</b>	129,390

#### Provisions against trade receivables

The following table shows the expected credit loss (ECL) that has been recognised for trade receivables:

	Gross 2020	Provision 2020	Gross 2019	Provision 2019
Not past due	<b>82,849</b>	<b>(3)</b>	98,833	(20)
Past due 0–30 days	<b>18,481</b>	–	17,738	(7)
Past due 31–60 days	<b>6,314</b>	<b>(94)</b>	7,035	–
Past due 61–90 days	<b>3,468</b>	<b>(42)</b>	3,467	(59)
Past due more than 91 days	<b>6,142</b>	<b>(4,549)</b>	8,260	(5,857)
	<b>117,254</b>	<b>(4,688)</b>	135,333	(5,943)

## Notes to the Group financial statements continued

### For the year ended 31 December 2020

#### 26. Financial instruments continued

##### Provisions against trade receivables continued

##### 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 £5,000,000 uncommitted overdraft facility (2019: £7,000,000) on which interest would be payable at base rate plus 1.35% and a €5,000,000 uncommitted overdraft facility (2019: €5,000,000) on which interest would be payable at base rate plus 1.1%.

During 2020 the Group cancelled a £60,000,000 committed Revolving Credit Facility and arranged a new £60,000,000 committed Revolving Credit Facility which matures in June 2022. At year end this committed facility was fully undrawn, resulting in £60,000,000 being available.

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

31 December 2020	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	797	914	85	85	744	–
Lease liabilities	8,302	9,612	4,236	2,832	2,427	117
Trade and other payables	74,894	74,894	74,894	–	–	–
Contingent consideration	183	183	183	–	–	–
Foreign exchange contracts	168	168	168	–	–	–
Non-redeemable preference shares	40	40	–	–	–	40
	<b>84,384</b>	<b>85,811</b>	<b>79,566</b>	<b>2,917</b>	<b>3,171</b>	<b>157</b>

31 December 2019	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	828	953	85	84	784	–
Finance lease liabilities	10,675	11,641	5,185	3,103	3,069	284
Trade and other payables	81,776	81,776	81,776	–	–	–
Contingent consideration	285	285	285	–	–	–
Foreign exchange contracts	176	176	176	–	–	–
Non-redeemable preference shares	40	40	–	–	–	40
	<b>93,780</b>	<b>94,871</b>	<b>87,507</b>	<b>3,187</b>	<b>3,853</b>	<b>324</b>

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 £111,546,000 (2019: £168,714,000) and the gross inflow is £112,960,000 (2019: £170,735,000).

##### c) Market risk

Market risk arises from changes in market prices, such as currency rates and interest rates, and may affect the Group's results. The objective of market risk management is to manage and control market risk within suitable parameters.

##### i) Currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the business unit's functional currency. The currencies primarily giving rise to this risk are the US dollar and related currencies and the euro. The Group hedges up to 75% of forecast US dollar or euro foreign currency exposures using forward exchange contracts. In respect of other non-sterling monetary assets and liabilities the exposures may also be hedged up to 75% where this is deemed appropriate.

As part of the Group's cash management some of the overseas subsidiaries have loan and deposit balances where their intra-group counterparty is in the UK. The balances are typically in local currency for the subsidiary so the UK holds a foreign currency current asset or liability which is usually hedged through the use of foreign exchange swaps. At the balance sheet date only the 'forward' part of the swap remains and this is designated as a cash flow hedge to match the currency exposure of the intercompany loan asset.

The Group classifies its forward exchange contracts (that hedge both the forecast sale and purchase transactions and the intercompany loan and deposit balances) as cash flow hedges and states them at fair value. The net fair value of foreign exchange contracts used as hedges at 31 December 2020 was a £1,414,000 asset (2019: £2,020,000 asset) comprising an asset of £1,582,000 (2019: £2,196,000) and a liability of £168,000 (2019: £176,000). Forward exchange contracts in place at 31 December 2020 mature in 2021.

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 2020 of £250,000 (2019: £300,000) and a change of one cent in the value of US dollar against sterling would have had an impact on the Group's operating profit for the year ended 31 December 2020 of £700,000 (2019: £700,000). Larger changes would have a linear impact on operating profit. 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	
	2020	2019	2020	2019
US dollar	<b>1.28</b>	1.28	<b>1.37</b>	1.31
Euro	<b>1.12</b>	1.14	<b>1.12</b>	1.17

*ii) Interest rate risk*

The Group does not undertake any hedging activity in this area.

All cash deposits are made at prevailing interest rates and the majority is available with same day notice, though deposits are sometimes made with a maturity of no more than three months. The main element of interest rate risk concerns sterling, US dollar, euro and renminbi deposits, all of which are on a floating rate basis.

The interest rate profile of the Group's financial liabilities (excluding leases) at 31 December was as follows:

	2020	2019
Fixed rate financial liabilities	<b>40</b>	40
Floating rate financial liabilities	<b>797</b>	828
	<b>837</b>	868

The fixed and floating rate financial liabilities comprise preference shares and bank loans. The floating rate obligations bear interest at rates determined by reference to the relevant LIBOR or equivalent rate.

The weighted average interest rate of the fixed rate financial liabilities is 9.5% (2019: 9.5%).

The maturity profile of the Group's financial liabilities (excluding leases) at 31 December was as follows:

	2020	2019
In one year or less	<b>69</b>	66
In more than one year but not more than two years	<b>69</b>	66
In more than two years but not more than five years	<b>659</b>	696
In more than five years	<b>40</b>	40
Total	<b>837</b>	868

## Notes to the Group financial statements continued

For the year ended 31 December 2020

### 26. Financial instruments continued

#### Provisions against trade receivables continued

##### d) Capital risk management

The primary objective of the Group's capital management is to ensure it maintains sufficient capital in order to support its business and maximise shareholder value. The Group has an asset-light business model and uses cash generated from operations to either invest organically or by acquisition. The Group manages its capital structure and makes adjustments to it in light of changes in economic and market conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares.

The Group defines capital as net debt plus equity attributable to shareholders. There are no externally imposed restrictions on the Group's capital structure. The reconciliation of the Group's definition of capital employed is shown in note 2. The Group's reconciliation of net debt to net cash is shown below.

	Notes	2020	2019
Total borrowings including lease liabilities	19	(9,150)	(11,543)
Total cash and cash equivalents	16	187,204	117,612
Group net cash		178,054	106,069
<b>Reconciliation of changes in assets and liabilities arising from financing activities</b>			
Repayment of borrowings		69	60,013
Net decrease/(increase) in lease liabilities		2,452	(10,673)
Effect of exchange rate fluctuations		(128)	2,247
Changes in financial liabilities arising from financing activities		2,452	51,587
Net increase in cash and cash equivalents		69,592	10,874
Net increase in net cash		71,985	62,461
Net cash at start of year		106,069	43,608
Net cash at end of year		178,054	106,069

##### 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 2020	Fair value 2020	Carrying amount 2019	Fair value 2019
<b>Loans and receivables</b>				
Trade receivables	112,565	112,565	129,390	129,390
Other receivables	25,868	25,868	27,558	27,558
<b>Financial assets</b>				
Cash and cash equivalents	187,204	187,204	117,612	117,612
<b>Designated cash flow hedges</b>				
Foreign exchange contracts:				
Financial assets	1,582	1,582	2,196	2,196
Financial liabilities	(168)	(168)	(176)	(176)
<b>Financial liabilities at amortised cost</b>				
Bank loans	(797)	(797)	(828)	(828)
Trade and other payables	(74,894)	(74,894)	(81,776)	(81,776)
Contingent consideration	(183)	(183)	(285)	(285)
Preference shares	(40)	(40)	(40)	(40)
Lease liabilities	(8,313)	(8,313)	(10,675)	(10,675)
	242,824	242,824	182,976	182,976

##### Fair value hierarchy

The fair value of the Group's outstanding derivative financial assets and liabilities consisted of foreign exchange contracts and swaps and were estimated using year end spot rates adjusted for the forward points to the appropriate value dates, and gains and losses are taken to other comprehensive income estimated using market foreign exchange rates at the balance sheet date. All derivative financial instruments are categorised at Level 2 of the fair value hierarchy.

The other financial instruments are classified as Level 3 in the fair value hierarchy and are valued as follows:

#### i) Trade and other receivables/payables

As the majority of receivables/payables have a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

#### ii) Contingent consideration

As all the contingent consideration is contractually due for payment within 12 months (2019: 12 months), the carrying amount is equal to the fair value. Further information on the contingent consideration is shown in note 21.

### 27. Leases

The Group leases many assets including land and buildings, vehicles, machinery and IT equipment. Information about leases for which the Group is a lessee is presented below.

#### Right-of-use assets

The right-of-use assets are disclosed as a non-current asset and are part of the property, plant and equipment balance of £101,739,000 at 31 December 2020.

2020	Land and buildings	Plant and equipment	Total
Balance at 1 January	6,987	3,110	10,097
Depreciation charge for the year	(3,024)	(1,660)	(4,684)
Additions to right-of-use assets	1,790	772	2,562
Right-of-use assets disposed of	(77)	(113)	(190)
Foreign exchange differences	53	229	282
<b>Balance at 31 December</b>	<b>5,729</b>	<b>2,338</b>	<b>8,067</b>

#### Lease liabilities

	2020	2019
Maturity analysis – contractual undiscounted cash flows		
Less than one year	4,236	5,185
One to five years	5,259	6,172
More than 5 years	117	284
<b>Total undiscounted lease liability at 31 December</b>	<b>9,612</b>	<b>11,641</b>
Interest cost associated with future periods	(1,299)	(966)
<b>Lease liabilities included in statement of financial position at 31 December</b>	<b>8,313</b>	<b>10,675</b>
Current	3,685	4,686
Non-current	4,628	5,989

#### Amounts recognised in profit and loss

The Group has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred.

	2020	2019
<b>Leases under IFRS16</b>		
Interest on lease liabilities	499	431
Impairment of right-of-use assets	–	695
Expenses relating to short-term leases and leases of low-value assets	1,821	1,910
Depreciation of right-of-use assets	4,684	4,435

#### Amounts recognised in statement of cash flows

	2020	2019
<b>Total cash outflow for leases</b>	<b>6,505</b>	<b>7,058</b>

### 28. Capital commitments

Capital commitments at 31 December for which no provision has been made in these accounts were:

	2020	2019
Contracted	7,699	8,225

## Notes to the Group financial statements continued

For the year ended 31 December 2020

### 29. Contingencies

	2020	2019
Performance guarantees and indemnities	<b>5,261</b>	9,695

The performance guarantees and indemnities have been entered into in the normal course of business. A liability would only arise in the event of the Group failing to fulfil its contractual obligations.

### 30. Related parties

The Group has a related party relationship with its subsidiaries and with its directors and key management. A list of subsidiaries is shown on page 193 of these financial statements. Transactions between two subsidiaries for the sale and purchase of products or the subsidiary and parent Company for management charges are priced on an arm's length basis.

Evoqua Water Technologies LLC is a related party of Rotork plc by virtue of Martin Lamb's non-executive chairmanship. Sales to subsidiaries and associates of Evoqua Water Technologies LLC totalled £nil during the year (2019: £2,000), and there was no outstanding debt at 31 December 2020 (2019: £nil).

All transactions are on an arm's length basis and on standard business terms.

### Key management emoluments

The emoluments of those members of the Rotork Management Board, including directors, who are responsible for planning, directing and controlling the activities of the Group were:

	2020	2019
Emoluments including social security costs	<b>4,680</b>	4,242
Post-employment benefits	<b>25</b>	71
Pension supplement	<b>466</b>	344
Share-based payments	<b>747</b>	941
	<b>5,918</b>	5,598

# Rotork plc Company balance sheet

At 31 December 2020

	Notes	2020 £000	2019 £000
<b>Non-current assets</b>			
Property, plant and equipment	c	–	–
Investments	d	43,205	43,205
Deferred tax assets	e	503	283
		<b>43,708</b>	43,488
<b>Current assets</b>			
Amounts owed by Group undertakings		366,950	264,212
Other receivables	f	588	816
Cash and cash equivalents		2,464	1,695
		<b>370,002</b>	266,723
<b>Total assets</b>		<b>413,710</b>	310,211
<b>Equity</b>			
Share capital	i	4,370	4,363
Share premium		16,826	14,521
Capital redemption reserve		1,644	1,644
Retained earnings		376,709	277,957
		<b>399,549</b>	298,485
<b>Non-current liabilities</b>			
Preference share capital		40	40
		<b>40</b>	40
<b>Current liabilities</b>			
Trade payables		316	601
Current tax		2,276	1,449
Amounts owed to Group undertakings		6,574	5,089
Other payables	g	4,955	4,547
		<b>14,121</b>	11,686
<b>Total equity and liabilities</b>		<b>413,710</b>	310,211

The Company reported a total comprehensive income for the financial year of £132,436,000 (2019: £107,775,000).

These Company financial statements, company number 00578327, were approved by the Board of Directors on 1 March 2021 and were signed on its behalf by:

**KG Hostetler** and **JM Davis**  
Directors

# Rotork plc Company statement of changes in equity

At 31 December 2020

	Share capital £000	Share premium £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
Balance at 31 December 2018	4,358	13,024	1,644	222,737	241,763
Total comprehensive income for the year	–	–	–	107,775	107,775
Equity settled share-based payment transactions	–	–	–	(1,011)	(1,011)
Share options exercised by employees	5	1,497	–	–	1,502
Own ordinary shares acquired	–	–	–	(5,287)	(5,287)
Own ordinary shares awarded under share schemes	–	–	–	6,030	6,030
Dividends	–	–	–	(52,287)	(52,287)
<b>Balance at 31 December 2019</b>	<b>4,363</b>	<b>14,521</b>	<b>1,644</b>	<b>277,957</b>	<b>298,485</b>
Total comprehensive income for the year	–	–	–	132,436	132,436
Equity settled share-based payment transactions	–	–	–	(306)	(306)
Share options exercised by employees	7	2,305	–	–	2,312
Own ordinary shares acquired	–	–	–	(3,645)	(3,645)
Own ordinary shares awarded under share schemes	–	–	–	4,193	4,193
Dividends	–	–	–	(33,926)	(33,926)
<b>Balance at 31 December 2020</b>	<b>4,370</b>	<b>16,826</b>	<b>1,644</b>	<b>376,709</b>	<b>399,549</b>



# Notes to the Company financial statements

## a) Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements. Notes a to i relate to the Company rather than the Group. Except where indicated, values in these notes are in £000.

### Basis of preparation

The financial statements have been prepared under the historical cost convention.

The Company has applied Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) issued by the Financial Reporting Council (FRC) incorporating the Amendments to FRS 101 issued by the FRC in July 2015, and the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015. In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital and tangible fixed assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

The Company produces consolidated financial statements which are prepared in accordance with International Financial Reporting Standards. As the consolidated financial statements of the Company include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of Group settled share based payments; and
- The disclosures required by IFRS 7 and IFRS 13 regarding financial instrument disclosures have not been provided.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee. The Company accounts for intra-Group cross guarantees under IAS 37.

As permitted by s408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account or statement of comprehensive income for the year. The profit attributable to the Company is disclosed in the footnote to the Company's balance sheet.

### Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

### Investments in subsidiaries

Investments are measured at cost less any provision for impairment and comprise investments in subsidiary companies.

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Plant and machinery is depreciated by equal annual instalments by reference to their estimated useful lives and residual values at annual rates of between 10% and 33%. Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

### Post-retirement benefits

The Company participates in a UK Group pension scheme providing benefits based on final pensionable salary. The assets of the scheme are held separately from those of the Company. The sponsoring employer for the Group pension scheme is Rotork Controls Ltd. No contractual agreement or policy is in place for charging to individual Group entities the net defined benefit cost for the plan as a whole. As a result, in accordance with IAS 19, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

### Classification of preference shares

In line with the requirements of IFRS 9, Financial Instruments, the cumulative redeemable preference shares issued by the Company are classified as long term debt. The preference dividends are charged within interest payable.

### Share-based payments

The Company has adopted IFRS 2 and its policy in respect of share-based payment transactions is consistent with the Group policy shown in note 1 to the Group financial statements. Costs in relation to share-based awards made to other Group company employees are recharged to each subsidiary company.

## Notes to the Company financial statements continued

### a) Accounting policies continued

#### Deferred taxation

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

#### Dividends

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

#### Critical accounting estimates and judgements

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

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

There are no critical accounting estimates or judgements requiring evaluation.

### b) Personnel expenses in the company profit and loss account

	2020	2019
Wages and salaries (including bonus and incentive plans)	5,521	5,122
Social security costs	690	786
Pension costs	111	101
Share-based payment charge	183	717
	<b>6,505</b>	6,726

During the year there were 28 (2019: 23) employees of Rotork plc plus the two (2019: two) executive directors.

Disclosures required by paragraph 1 of schedule 5 of SI2008/410 are set out in the director's remuneration report on pages 110 to 137.

#### Share-based payments

The share-based payment charge relates to employees of the Company participating in the Long Term Incentive Plan (LTIP). The disclosures required under IFRS 2 can be found in note 25 to the Group Financial Statements. The table below sets out the movement of share options under the LTIP for employees of the Company.

	Outstanding at start of year	Granted during year	Vested during year	Lapsed	Outstanding at end of year
2017 Award	232,404	–	(196,381)	(36,023)	–
2018 Award	540,421	–	–	–	<b>540,421</b>
2019 Award	504,714	–	–	–	<b>504,714</b>
2020 Award	–	701,514	–	–	<b>701,514</b>
	1,277,539	701,514	(196,381)	(36,023)	<b>1,746,649</b>

The weighted average remaining life of awards outstanding at the year end is one year.

**c) Property, plant and equipment in the Company balance sheet**

	Plant and equipment	Total
<b>Cost</b>		
At 1 January 2020	221	221
<b>At 31 December 2020</b>	<b>221</b>	<b>221</b>
<b>Depreciation</b>		
At 1 January 2020	221	221
Charge for year	–	–
<b>At 31 December 2020</b>	<b>221</b>	<b>221</b>
<b>Net book value</b>		
<b>At 31 December 2020</b>	<b>–</b>	<b>–</b>
At 31 December 2019	–	–

**d) Investments in the Company balance sheet****Shares in Group companies**

	2020	2019
At 1 January and 31 December	<b>43,205</b>	43,205

The Company has the following investments in wholly owned subsidiaries:

Subsidiary	Incorporated in	Registered address
<b>100% owned by Rotork plc</b>		
GH Chaplain & Co (Engineers) Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Rotork Analysis Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Rotork Cleaners Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Rotork Control and Safety Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Rotork Instruments Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Rotork Nominees Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Widcombe (Developments) Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Rotork Controls Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Rotork Overseas Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
<b>100% owned by Rotork Controls Limited</b>		
Rotork Actuation (Shanghai) Co Limited	China	Building G, No.260 Liancao Road, Minhang District, Shanghai, PRC 201108
Rotork Trading (Shanghai) Co Limited	China	Room 1177, No.400, Middle Zhejiang Road, HuangPu District, Shanghai, China
Rotork Controls (India) Private Limited	India	28B, Ambattur Industrial Estate (North Phase), Ambattur, Chennai 600 098, India
Rotork UK Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Valvekits Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Rotork Americas Holdings Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
<b>100% owned by Rotork Overseas Limited</b>		
Rotork Australia Pty Limited	Australia	Level 26, 181 William Street, Melbourne, VIC, 3000, Australia
Rotork Controls Comercio De Atuadores LTDA	Brazil	Rodovia SP 73, 4509 – Armazem Modulo 14 – NR Cond., Indaiatuba – SP, Brazil
Rotork Controls (Canada) Limited	Canada	#4-2850 Argentia Road, Mississauga, Ontario, L5N-8G4, Canada
Rotork Chile SpA	Chile	Rotork es Presidente Kennedy 4700, Oficina 1001, Vitacura, Chile
Bifold Group Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Rotork Midland Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Rotork Motorisation SAS	France	75, rue Rateau 93126 La Courneuve Cedex, France
Rotork Controls (Deutschland) GmbH	Germany	Siemensstr. 33, 40721 Hilden, Germany

## Notes to the Company financial statements continued

**d) Investments in the Company balance sheet continued****Shares in Group companies** continued

Subsidiary	Incorporated in	Registered address
Rotork Germany Holdings GmbH	Germany	Mühlsteig 45, 90579 Langenzenn, Germany
Rotork Limited	Hong Kong	Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
Eltav Wireless Monitoring Limited	Israel	15 Hata'asia St. Ra'anana, Israel 4365408
Rotork Italy Holdings Srl	Italy	Corso di Porta Vittoria 9 (Milano) Italy
Rotork Japan Co Limited	Japan	2-2-24 Sengoku, Koto-ku, Tokyo, 135-0015 Japan
Rotork Middle East FZE	Jebel Ali Free Zone	PUB-LC 07, near R/A 08, PO Box 262903, Jebel Ali Free Zone, Dubai, United Arab Emirates
Rotork (Malaysia) Sdn Bhd	Malaysia	1-17-1, Menara Bangkok Bank, Berjaya Central Park, No 105, Jalan Ampang, 50450 Kuala Lumpur, Malaysia
Rotork Actuation Sdn Bhd	Malaysia	No 32, Jln anggerik Mokara 31/47, Kota Kemuning, 40460 Shah Alam, Malaysia
Rotork BV	Netherlands	Mandenmakerstraat 45, 3194 DA Hoogvliet, The Netherlands
Rotork Gears Holding BV	Netherlands	Nijverheidstraat 25, 7581 PV Losser, The Netherlands
Robusta Miry Brook BV	Netherlands	Strawinskylaan 3127, 8th floor, 1077 ZX Amsterdam, The Netherlands
Rotork Norge AS	Norway	Ormahaugvegen 3, 5347 Ågotnes, Norway
Rotork Polska zoo	Poland	Tarnogórska 241, 44-100 Gliwice, Poland
Rotork Rus Limited	Russia	Offices 203-205, ul. Otradnaya 2B, bld. 3, 127273 Moscow, Russia
Rotork Controls (Singapore) Pte Limited	Singapore	426 Tagore Industrial Ave, Singapore 787808
Rotork Africa (Pty) Limited	South Africa	136 Kuschke Street, Meadowdale Ext3, Germiston, 1601 South Africa
Rotork Controls (Korea) Co Limited	South Korea	509, 5th Floor Leader's Bldg 342-1, Yatap-Dong, Bundang-gu, Seong-nam si, Gyeonggi-do, South Korea 463-828
Young Tech Co Limited	South Korea	81, Hwanggeum-ro, 89beon-gil, Yangchon-eup, Gimpo-si, Gyeonggi-do, Korea 10048
Rotork Controls (Iberia) SL	Spain	Larrondo Beheko Etorbidea, Edificio 2 – 48180 Loiu (Bizkaia) Spain
Rotork Sweden AB	Sweden	Box 80, 791 22 Falun, Sweden
Rotork AG	Switzerland	Fuchsacker 678, 9426 Lutzenberg, Switzerland
Rotork Inc	USA	The Corporation Trust Company, Corporation Trust Center, 1209 Orange St., Wilmington, DE 19801 USA
Rotork Controls de Venezuela SA	Venezuela	Av. Casanova Torre banco plaza, piso 3 Ofic. 3D. Sabana Grande. Caracas – Venezuela
Rotork Turkey Akış Kontrol Sistemleri Ticaret Limited Şirketi	Turkey	Aydinli Mahallesi Melodi Sok. Bilmo Küçük Sanayi Sitesi No:35/2 Tuzla, Turkey
<b>100% owned by Valvekits Limited</b>		
Circa Engineering Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
<b>100% owned by Rotork Trading (Shanghai) Co Limited</b>		
Centork Trading (Shanghai) Co. Ltd	China	Room C-02, 1/F, West Area No. 2 Building, No. 29 Jiatai Road, Free Trade Zone, Shanghai, China
Rotork Instruments Chengdu Co. Ltd	China	Room 1201, 12/F, Unit no.1, Building No. 1, Building I, 88 Shenghe No.1 Road, High Tech Zone, Chengdu, Sichuan, China 610041
<b>100% owned by Rotork UK Limited</b>		
Prokits Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Flowco Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
<b>100% owned by Rotork Italy Holdings Srl</b>		
Rotork Controls Italia Srl	Italy	Viale Europa n.17 – 20090 Cusago (Milano) Italy
Rotork Instruments Italy Srl	Italy	Viale Europa n.17 – 20090 Cusago (Milano) Italy
Rotork Fluid Systems Srl	Italy	Via Padre Jacques Hamel, 138/B – 55016 Porcari (Lucca) Italy
Rotork Gears Srl	Italy	Viale Europa n.17 – 20090 Cusago (Milano) Italy
<b>100% owned by Rotork Gears Holding BV</b>		
Rotork Gears BV	Netherlands	Nijverheidstraat 25, 7581 PV, Overijssel, The Netherlands

Subsidiary	Incorporated in	Registered address
<b>100% owned by Rotork Inc</b>		
Rotork (Thailand) Limited	Thailand	35/8 Soi Ladprao124(Sawasdikarn) Ladprao Road, Plubpla, Wangtonglang, Bangkok 10310 Thailand
Rotork Controls Inc	USA	675 Mile Crossing Blvd., Rochester, NY 14624, USA
Remote Control Inc	USA	77 Circuit Dr. North Kingstown, RI 02852, USA
Ranger Acquisition Corporation	USA	The Corporation Trust Company, Corporation Trust Center, 1209 Orange St., Wilmington, DE 19801 USA
<b>100% owned by Rotork Controls Inc</b>		
Rotork Pittsburgh LLC	USA	6005 Enterpirise Drive, Export, PA 15632, USA
6005 Enterprise Drive LLC	USA	6005 Enterpirise Drive, Export, PA 15632, USA
<b>100% owned by Ranger Acquisition Corp</b>		
Fairchild Industrial Products Company	USA	3920 West Point Blvd, Winston-Salem, NC 27103, USA
Rotork Tulsa Inc	USA	4433 W 49th Suite D, Tulsa, OK 74017, USA
<b>100% owned by Fairchild Industrial Products Company</b>		
Fairchild Industrial Products (Sichuan) Company Limited	China	Room 1201, Complex Square, No.88 West Shenghe No.1 Road, High Tech Zone, Chengdu, Sichuan, China. 610041
Fairchild India Private Limited	India	56-C/BB, Janakpuri, New Delhi-110058
<b>100% owned by Bifold Group Limited</b>		
Bifold Fluidpower (Holdings) Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
<b>100% owned by Bifold Fluidpower (Holdings) Limited</b>		
Bifold Fluidpower Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
MTS Precision Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Marshalsea Hydraulics Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Bifold Company (Manufacturing) Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
<b>100% owned by Bifold Fluidpower Limited</b>		
Fluidpower (Stainless Steel) Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
<b>100% owned by Rotork Germany Holdings GmbH</b>		
Max Process GmbH	Germany	Rastenweg 10, 53489 Sinzig
Schischek GmbH	Germany	Mühlsteig 45, 90579 Langenzenn
Rotork GmbH	Germany	Mühlsteig 45, 90579 Langenzenn
<b>100% owned by Rotork AG</b>		
Schischek Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Schischek EURL	France	49 avenue du Président Salvador Allende, 77100 Meaux, France
Schischek Srl	Italy	Ranica (BG) – Via Adelasio 22, Italy
<b>100% owned by Schischek GmbH (Germany)</b>		
Schischek Sales Europe Ltd	England and Wales	Mühlsteig 45, 90579 Langenzenn
<b>100% owned by Robusta Miry Brook BV</b>		
Rotork Servo Controles de Mexico S.A de C.V	Mexico	Centeotl 223, Col. Industrial San Antonio, C.P. 02760, Azcapotzalco, Ciudad de Mexico, Mexico
<b>100% owned by Rotork Controls (Iberia) SL</b>		
Actuation Iberia S.L	Spain	C/ Ercilla, 21. , 48009 , Bilbao (Vizcaya), Spain
Centork Valve Control S.L	Spain	Pol. Ind. Ipintza 110, Txatxamendi 24-26 – 20100 Lezo (Gipuzkoa) – Spain

## Notes to the Company financial statements continued

### e) Deferred tax assets and liabilities in the Company balance sheet

Deferred tax assets and liabilities are attributable to the following:

	Assets 2020	Liabilities 2020	Net 2020	Assets 2019	Liabilities 2019	Net 2019
Tangible fixed assets	8	–	8	10	–	10
Provisions	495	–	495	273	–	273
	<b>503</b>	<b>–</b>	<b>503</b>	<b>283</b>	<b>–</b>	<b>283</b>

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

	2020	2019
Balance at 1 January	283	293
(Debited)/credited to the income statement	220	(10)
	<b>503</b>	<b>283</b>

There is an unrecognised deferred tax liability for temporary differences associated with investments in subsidiaries. Rotork plc controls the dividend policies of its subsidiaries and subsequently the timing of the reversal of the temporary differences. The value of temporary differences associated with unremitted earnings of subsidiaries for which deferred tax has not been recognised is £256,554,000 (2019: £312,364,000).

### f) Other receivables in the Company balance sheet

	2020	2019
Prepayments	524	256
Other receivables	64	560
	<b>588</b>	<b>816</b>

### g) Other payables in the Company balance sheet

	2020	2019
Other taxes and social security	154	152
Other payables	3,317	3,043
Accruals	1,484	1,352
	<b>4,955</b>	<b>4,547</b>

The Company has a £17,000,000 gross overdraft facility (2019: £17,000,000) and is part of a UK banking arrangement, see note h.

### h) Contingencies in the Company

The UK banking arrangements are subject to cross-guarantees between the Company and its UK subsidiaries. These accounts are subject to a right of set-off. The performance guarantees and indemnities have been entered into in the normal course of business. A liability would only arise in the event of the Group failing to fulfil its contractual obligations.

During 2020 the Company cancelled a £60,000,000 committed Revolving Credit Facility and arranged a new £60,000,000 committed Revolving Credit Facility which matures in June 2022. The facilities are available to the Company, Rotork Controls Limited and Rotork Overseas Limited. At year end this committed facility was fully undrawn, resulting in £60,000,000 being available.

### i) Capital and reserves in the Company balance sheet

Details of the number of ordinary shares in issue and dividends paid in the year are given in note 17 to the Group financial statements.

## Ten year trading history

	2020 £000	2019 £000	2018 £000	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000
Revenue	<b>604,544</b>	669,344	695,713	642,229	590,078	546,459	594,739	578,440	511,747	447,833
Cost of sales	<b>(320,234)</b>	(357,718)	(384,253)	(358,090)	(328,410)	(296,944)	(309,280)	(304,066)	(272,199)	(236,359)
Gross profit	<b>284,310</b>	311,626	311,460	284,139	261,668	249,515	285,459	274,374	239,548	211,474
Overheads	<b>(161,736)</b>	(184,616)	(188,542)	(198,167)	(167,891)	(145,129)	(143,232)	(135,109)	(115,081)	(99,474)
Operating profit	<b>122,574</b>	127,010	122,918	85,972	93,777	104,386	142,227	139,265	124,467	112,000
Adjusted* operating profit	<b>142,543</b>	151,005	146,015	130,162	120,588	125,272	157,167	151,412	131,866	115,921
Amortisation of acquired intangible assets	<b>(14,110)</b>	(18,841)	(20,284)	(27,183)	(26,811)	(20,886)	(14,940)	(12,147)	(7,399)	(3,921)
Disposal of property	<b>–</b>	–	–	–	–	–	–	–	–	–
Other adjustments	<b>(5,859)</b>	(5,154)	(2,813)	(17,007)	–	–	–	–	–	–
Operating profit	<b>122,574</b>	127,010	122,918	85,972	93,777	104,386	142,227	139,265	124,467	112,000
Net interest	<b>(537)</b>	(2,953)	(2,170)	(5,386)	(2,707)	(2,517)	(1,062)	(1,268)	(273)	550
Profit before taxation	<b>122,037</b>	124,057	120,748	80,586	91,070	101,869	141,165	137,997	124,194	112,550
Tax expense	<b>(28,709)</b>	(29,957)	(29,004)	(24,973)	(23,897)	(27,012)	(37,963)	(38,488)	(34,879)	(32,149)
Profit for the year	<b>93,328</b>	94,100	91,744	55,613	67,173	74,857	103,202	99,509	89,315	80,401
Dividends	<b>33,926</b>	52,287	48,288	45,218	43,876	43,765	42,702	38,735	33,924	49,534
Basic EPS	<b>10.7p</b>	10.8p	10.5p	6.4p	7.7p	8.6p	11.9p	11.5p	10.3p	9.3p
Adjusted* EPS	<b>12.5p</b>	13.0p	12.6p	10.6p	10.0p	10.4p	13.2p	12.5p	10.9p	9.6p
Diluted EPS	<b>10.7p</b>	10.8p	10.5p	6.4p	7.7p	8.6p	11.9p	11.4p	10.3p	9.3p

\* Adjusted is before the amortisation of acquired intangible assets, the disposal of property and other adjustments.

## Share register information

The tables below show the split of shareholder and size of shareholding in Rotork plc

Ordinary shareholder by type	Number of holdings	%	Number of shares	%
Individuals	2,958	78.0	22,374,048	2.6
Bank or nominees	778	20.5	846,268,342	96.8
Other company	33	0.9	2,674,395	0.3
Other corporate body	22	0.6	2,546,906	0.3
	<b>3,791</b>	<b>100.0</b>	<b>873,863,691</b>	<b>100.0</b>

Range	Number of holdings	%	Number of shares	%
1-1,000	1,222	32.2	518,955	0.1
1,001-2,000	451	11.9	676,180	0.1
2,001-5,000	621	16.4	2,077,515	0.2
5,001-10,000	439	11.6	3,198,849	0.3
10,001-50,000	606	16.0	13,212,031	1.5
50,001-100,000	117	3.1	8,468,996	1.0
100,001 +	335	8.8	845,711,165	96.8
	<b>3,791</b>	<b>100.0</b>	<b>873,863,691</b>	<b>100.0</b>

Source: Equiniti

### Dividend information

The table below details the amounts of interim, final and additional dividends declared in respect of each of the last five years.

	Interim dividend (p)	Final dividend (p)	Total dividends (p)
2020*	3.90	6.30	10.20
2019*	2.30	–	2.30
2018	2.20	3.70	5.90
2017	2.05	3.35	5.40
2016	1.95	3.15	5.10

\* On 31 March 2020, the Board decided to withdraw the recommendation to pay the 2019 final dividend of 3.90p per share. This was to reflect the exceptional set of circumstances imposed by COVID-19 at the time. The Board subsequently decided to pay the 3.90p per share in full in September 2020 as an interim dividend.

### Financial calendar

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



# Corporate directory

## Company Secretary (Interim)

Sandra Forbes

## Registered Office

Rotork plc  
Rotork House  
Brassmill Lane  
Bath BA1 3JQ

## Company Number

00578327

## Registrars

Equiniti  
Aspect House  
Spencer Road  
Lancing  
West Sussex BN99 6DA

## Stockbrokers

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25 Bank Street  
Canary Wharf  
London E14 5JP

Morgan Stanley  
20 Bank Street  
Canary Wharf  
London E14 4AD

## Financial Advisers

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J.P. Morgan Cazenove  
25 Bank Street  
Canary Wharf  
London E14 5JP

Morgan Stanley  
20 Bank Street  
Canary Wharf  
London E14 4AD

## Auditors

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## Financial Public Relations

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# Notes



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