rotork®

GROWTH

RESPOND

QUALITY

DELIVER

INNOVATE

GLOBAL

GROWTH • SUSTAINABILITY • INNOVATION • OPERATIONAL EXCELLENCE •

KEEPING THE WORLD FLOWING

SINCE 1957

ANNUAL REPORT AND ACCOUNTS 2014

Every day our lives are impacted by Rotork. When you turn on a tap or switch on a light, turn on a kettle or put fuel in your car, a flow control product is being used somewhere in the process of delivering that service. Rotork is trusted to keep the world flowing. The Company's flow control products can be found in diverse industries such as peanut butter manufacture to nuclear power generation. However, the demand on the products is the same. Our customers demand quality and reliability.

CONTROLS
GEARS
INSTRUMENTS
FLUID SYSTEMS

2014 Highlights

- Record order intake, revenue and profit
- Operating margin* increased 20 bps to 26.4%
- Continued expansion of product portfolio
- Three acquisitions completed in the year for £81.3m
- Full year dividend 50.1p up 4.3%

REVENUE

£594.7m +2.8%

OPERATING PROFIT*

£157.2m +3.8%

PROFIT BEFORE TAX

£141.2m +2.3%

EARNINGS PER SHARE

119.0p +3.7%

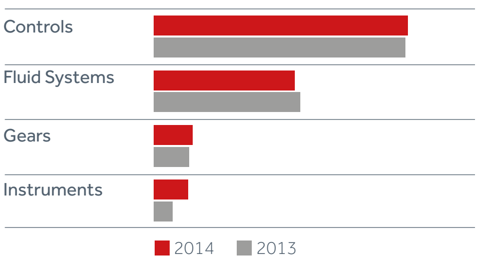
* References to adjusted profit throughout this document are defined as the IFRS profit, whether operating profit or profit before tax, with £14.9m (2013: £12.1m) of amortisation of acquired intangibles added back.

KEEPING THE WORLD FLOWING

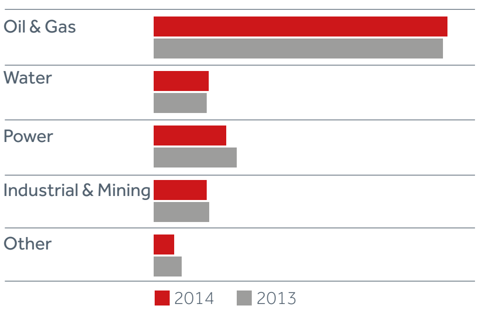
Rotork is a leading, global designer and manufacturer of actuators and flow control equipment. We pride ourselves on keeping the world flowing. The production of virtually everything that contributes to our lifestyle and improved environment – from clean water to petrol, electricity and pollution free beaches – relies on Rotork's innovative flow control products somewhere in the process.

Rotork is active in all the main strategic markets – power, oil & gas, water and waste water, marine, mining and process industries. However, Rotork operates in any market where the flow of liquids or gases needs to be controlled.

REVENUE BY DIVISION



REVENUE BY END-USER MARKET



OUR DIVISIONS

ROTORK CONTROLS

Rotork Controls design and manufacture electric actuators for valve applications and network control systems serving a wide variety of end-markets. Rotork Controls has manufacturing facilities in the UK, USA, Germany, Spain, China, Malaysia and India.

Operating profit*
£104.7m (-0.7%)

Revenue

£324.5m
+0.8%

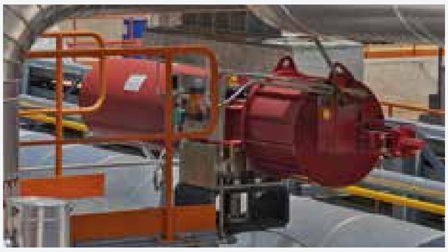
OUR END-USER MARKETS

OIL & GAS

Rotork products are used on upstream, midstream and downstream activities ranging from offshore production facilities through refining and processing to transportation of finished products via pipelines or vessels.

* References to adjusted profit throughout this document are defined as the IFRS profit, whether operating profit or profit before tax, with £14.9m (2013: £12.1m) of amortisation of acquired intangibles added back.

ROTORK FLUID SYSTEMS



Rotork Fluid Systems design and manufacture pneumatic, hydraulic and electro-hydraulic actuators and control systems. Our manufacturing facilities are located in Germany, Italy, Sweden, China, UK and USA.

Operating profit*
£31.2m (+0.5%)

Revenue

£180.3m
-3.6%

ROTORK GEARS

Rotork Gears design and manufacture gearboxes, adaptations and accessories to the international valve and actuator industry with manufacturing facilities in the UK, Netherlands, Italy, China, USA and India.

Operating profit*
£13.0m (+0.3%)

Revenue

£57.8m
+3.2%

ROTORK INSTRUMENTS

Rotork Instruments design and manufacture products for flow control, pressure control, flow measurement and pressure measurement wherever there is a need for high precision and reliability. It has manufacturing facilities in the USA, Italy, Korea and UK.

Operating profit*
£14.4m (+84.3%)

Revenue

£46.0m
+84.4%

WATER

Clean and dirty water treatment and distribution are major markets for Rotork. With climate change affecting the availability of water in many areas of the world, there is an increasing need for processes which will maximise existing resources such as desalination plants and water re-use projects.

POWER

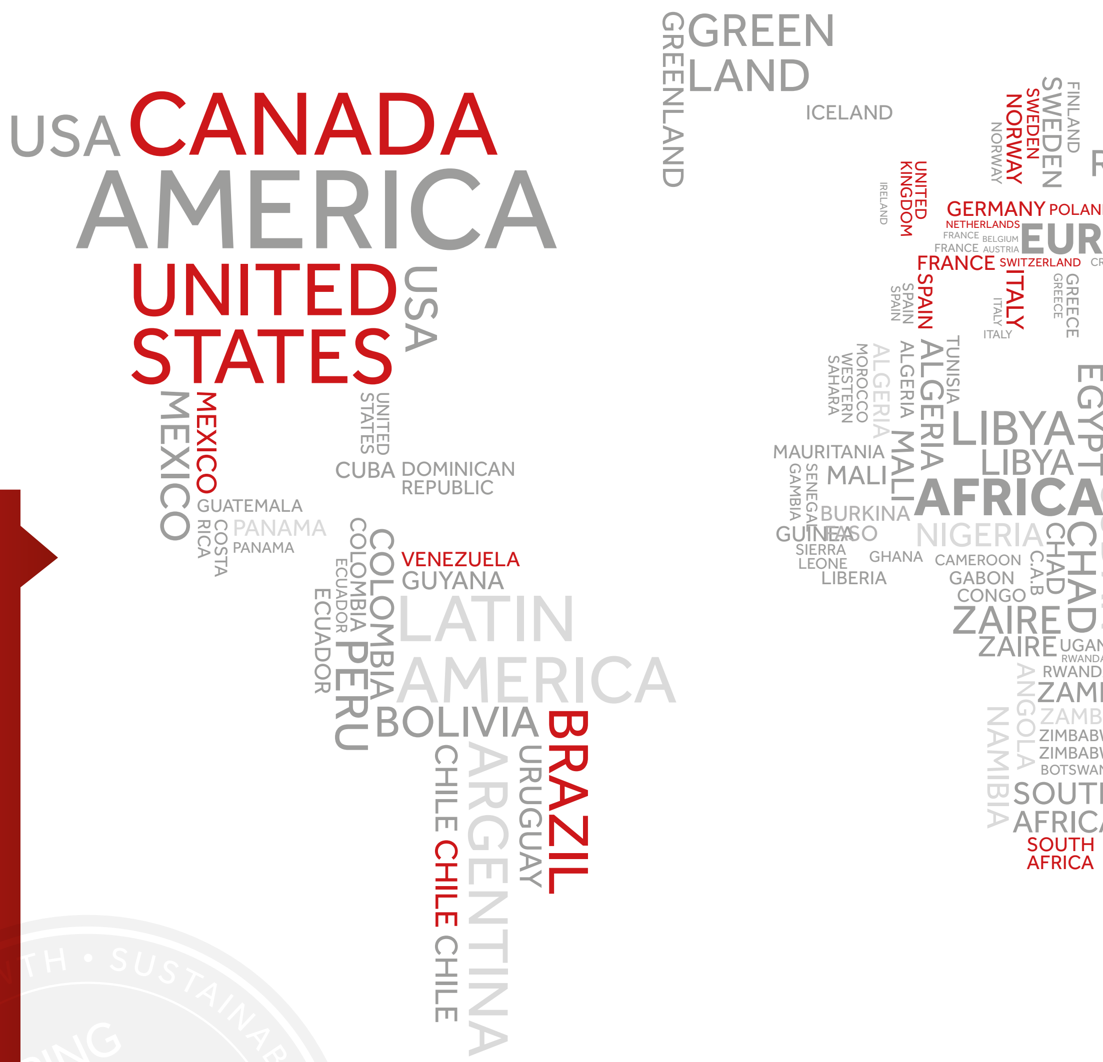
As well as traditional power stations, applications for Rotork products are found on renewable energy generation such as thermal solar plants and on CO_2 emission reduction processes such as flue gas desulphurisation, carbon capture and storage.

INDUSTRIAL & OTHER

Other industries served by Rotork include surface and underground processing applications for the mining industry, the ship building industry, heating, ventilating and air conditioning, pulp and paper, food and beverage, medical equipment and tyre manufacturing.

OUR GLOBAL LOCATIONS

Knowing how to attract new customers and service and support our existing customers is key to our continued success. We realise that remaining close to our customers, and focusing on their needs, drives innovation. To enable closer customer ties Rotork has always been committed to a global presence, supporting operations in some of the most remote and challenging environments across the globe.



AMERICAS

During the year we opened two offices, one in Denver (USA) and set up a new subsidiary in Santiago (Chile). In 2015 we plan to open one new office and expand an existing one.

MANUFACTURING FACILITIES
8

EMPLOYEES
809

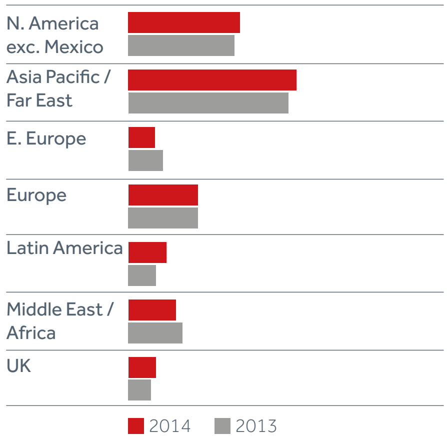
OFFICES
14

Customers buy our products in the knowledge that the Rotork service network will provide world-class support whether life-of-plant maintenance, repairs or upgrade services from a local facility wherever they are in the world.

Rotork recognises the contribution of the 3,500 employees in maintaining our high reputation for excellence in innovation and quality of products and services.

Planning, developing and delivering actuation facilities across the globe, Rotork now has 27 established manufacturing facilities in 11 countries which, together with our own global network of local offices, regional *Centres of Excellence* and agents, provide over 800 Rotork outlets worldwide.

GROUP REVENUE BY END USER DESTINATION



ASIA & AUSTRALIA

With the acquisition of Young Tech Co. (YTC) in Seoul (Korea), the number of manufacturing sites has increased by one to stand at five. New offices in Xi'an (China) and Newcastle (Australia) were opened as well as the expansion of our office in Upper Thomson (Singapore). In 2015 we plan to open three new offices.

MANUFACTURING FACILITIES
5

EMPLOYEES
867

OFFICES
27

EUROPE, MIDDLE EAST & AFRICA

Following the acquisitions made in 2014, we have two additional manufacturing sites in Valduggia (Italy) and Wolverhampton (UK), and a new factory in Leeds (UK). Two new offices were opened in Irkutsk and Volgograd (Russia), one in Gliwice (Poland) and we expanded the Spanish office in Bilbao. In 2015 we plan to move into a new factory in Lucca (Italy) and open three new offices and expand one facility.

MANUFACTURING FACILITIES
14

OFFICES
24

EMPLOYEES
1,793

MARKET OVERVIEW

Rotork's products are used in many structural growth markets with long-term investment cycles which provide infrastructure to the global economy. Growing populations require water, food and energy all of which require new infrastructure, with an increased focus on automation, to drive improved productivity and better decision-making systems to protect and secure assets.

OUR MARKET SHARE

Rotork addressable market
£3.6bn

Flow control market
£40bn

	Controls	Fluid Systems	Gears	Instruments
Addressable Market	£1,754m	£960m	£300m	£553m
Market Share by Division	18.5%	18.8%	15.3%	7.9%
Opportunities for Growth	• Water, power and industrial markets • Eastern Europe and Latin America • Midstream and downstream oil & gas market • Rotork Site Services	• Marine market • New product introduction • Geographic expansion • New facility in Italy	• Increased R&D investment • Product range expansion • Geographic expansion	• Global manufacturing expansion • Sales channel development • Rotork synergies

Market share based on competitors' revenue, published market reports and Rotork internal data.

MARKET DRIVERS

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

Urbanisation
Rapid urbanisation in emerging markets, and growth of urban areas in developed economies, will be the biggest driver of infrastructure spending over the next few decades. That growth is, in turn, creating huge demand for private and public sector infrastructure development such as power stations, electricity grids, water supply and water treatment plants.

Automation
Automation advances in industry continue to demand high-value customer alerts and real-time monitoring, to provide greater efficiency with improved safety and performance.

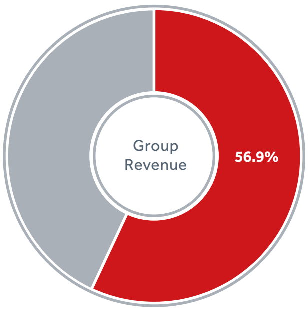
Population growth
The world's population is growing and placing stress on the world's supply of water, food and energy. We need water to grow food and generate energy and we need energy to move and treat water and process food.

New technologies
The 'new normal' requires efficiency built on technological innovations enabling businesses and organisations to simultaneously drive cost savings, improve productivity and reliability.

SHARE OF END-USER MARKET

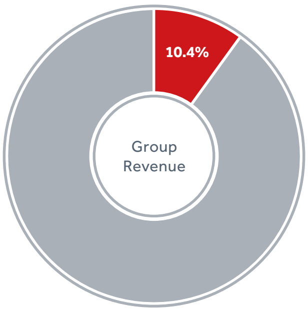
Oil & Gas

- Onshore & offshore production
- Refining & petrochemicals
- Distribution & storage
- Pipelines
- LNG liquefaction & regasification



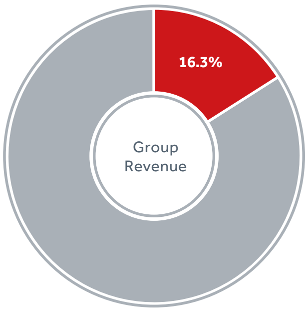
Water

- Sludge & sewage treatment
- Water treatment, desalination & re-use
- Environmental control
- Dams, reservoirs & irrigation



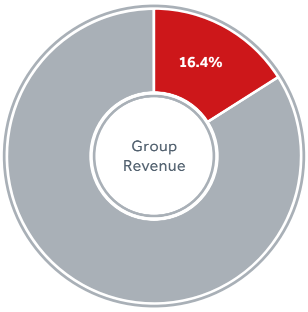
Power

- Fossil fuels
- Nuclear energy
- Concentrating solar power
- Geothermal and other renewables



Industrial & Other

- Chemicals
- Pulp & paper
- Mining
- Marine
- HVAC
- Industrial
- Tunnels
- Food & beverage



BUSINESS MODEL & STRATEGY

VISION

Rotork's vision is to be the leader in our targeted segments of the global flow control market.

BUSINESS MODEL

As a recognised leader in the flow control market, Rotork is committed to continuing to harness the collective strength of our global presence to satisfy the growing global demand for innovative products; offering improved performance and reducing environmental impact to support our customers' needs around the world. Rotork's products are employed in mission-critical environments where safety is paramount and so we constantly strive to improve quality and performance. In pursuit of excellence, Rotork continues to innovate through its products, technology and people seeking to enhance our core capabilities and expand market leadership.

Rotork has a 'family' culture where we seek to pursue excellence together, working as a global team to respond rapidly to changing business environments, introduce new technologies, pioneer new markets and identify business opportunities. Our global network of offices and manufacturing sites expands each year to ensure our support is local to our customers. The Rotork culture of respect and excellence is a core philosophy which we share with new offices and acquired businesses, which themselves have often been purchased from an owner-manager, to ensure our customers receive consistently high quality service throughout the world. We operate an asset-light business model, with most of our manufacturing sites purchasing components in a finished form and then assembling to order.

The majority of our business in Controls and Fluid Systems is focused on winning projects. These projects are tracked, sometimes for years, as they evolve from an outline plan through to a fully detailed and costed set of tender packages against which the valvemakers quote. We talk with the end-user, design consultant and EPC all through this process selling the benefits of a Rotork solution. In these larger projects actuators are usually sold in combination with the valve and Rotork sells to the valvemaker. Whilst Gears and Instruments have some project sales, they more often sell direct to end-user or in some cases through distribution channels. In each case, only when we receive an order which is a contractual commitment do we report this as order intake. Our orderbook at any point in time represents the sum of order intake which has not yet been satisfied by a delivery of the required product or service. Once the product or service is delivered it is recognised as revenue and then removed from the order book.

GROWTH

SUSTAINABILITY

INNOVATION

OPERATIONAL EXCELLENCE

Growth

Further develop our global sales and service network providing local support to our customers around the world. Grow the Company both organically and through acquisitions, whilst maintaining the focus on profitability and return on sales.

Read more on page 10

Innovation

Work with our customers and provide them with the benefits of innovative, technically advanced, high quality products and associated services.

Read more on page 11

Sustainability

Be a fair, equal opportunities employer with high ethical standards aiming to provide safe working conditions across our businesses worldwide. Be a good corporate citizen, supporting the local community, acting with integrity and honesty whilst always considering ways of improving our operational impact on the environment.

Read more on page 10

Operational Excellence

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

Read more on page 11

COMPETITIVE STRENGTHS

Technological Leadership

Our innovative company is built on talented people who drive our technological leadership with passion to ensure we continue to reinforce our core competencies in technical and performance standards, and develop new technologies to provide solutions to our customers' most pressing needs.

Global Footprint

Rotork's worldwide geographic footprint provides a resilient business portfolio. Expanding our brand's global presence and strengthening our local partnerships with customers are key to our continued business success. In many countries around the world, Rotork is considered a local company by our customers. Local relationships with customers not only means that Rotork has clear sight of value generation in the long-term, but also the ability to recognise customers' evolving requirements. Our global footprint allows us to closely follow and manage complex global projects, which account for the majority of our sales and to support customers in the field.

Rotork Site Services work with our customers by installing and commissioning our actuators and by meeting their service requirements.

Diverse End-Market Exposure

Our broad market exposure and participation in diverse industries means that wherever fluids or gases are being moved and the process requires automation, or to operate failsafe controls, Rotork actuators and flow control products are required. Our actuators and flow control instrumentation are used most intensively in the oil & gas, power and water markets, but we are proud to serve many other markets.

Breadth of Product Portfolio

Through product development and acquisitions we have built up the broadest range of actuators on the market. We are also expanding our range of flow control devices. This ensures we have the appropriate product for the widest range of applications within a site or project.

Asset-Light Business Model

Over 85% of our products are built using an outsourced manufacturing model, with our workforce assembling components and configuring products to match customer orders. We have developed a global network of suppliers who manufacture the components to our designs. Leveraging our agile and international supply chain allows us to achieve and maintain profitable growth while supporting new market entry.

Quality

Rotork stands for technological excellence, quality and reliability: meeting or exceeding international technical and performance standards. Our products are used in demanding environments and can be employed in mission-critical applications where consistency of performance and safety is paramount. Customers expect Rotork products to be reliable and our demanding quality control procedures, which extend to cover our supply chain, are central to delivering this.

STRATEGIC PRIORITIES

Based on a customer-centric approach and understanding, we seek to deliver a high return on capital with strong and sustainable margins and consistent year-on-year growth in revenues and profit which combined with our asset-light model will continue to deliver strong cash generation.

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

GROWTH

Strategic Priorities	Achievements 2014	Objectives 2015
Organic Sales Growth Deliver profitable sales growth by focusing on the customer, increasing our international coverage, continuing to broaden our end-markets and growing the global sales of our recent acquisitions.	Moved into the new factory in Leeds (UK) and opened new offices in Chile, Denver (USA), Russia, China, Australia and Poland and expanded existing offices in Singapore and Spain.	Introduce a regional management structure to explore market opportunities including the establishment of a direct presence. Drive revenue synergies from recent acquisitions using our extensive salesforce.
Acquisitions Acquisitions are a core part of our growth strategy. Each acquisition will deliver a new product, a new geographic market or a new market sector or some combination of these.	Acquired YTC (March), Rotork Midland (July), which expands Instruments product portfolio, and Masso (December) which adds to Fluid Systems product range and brings access to the marine market.	Execute acquisition plan of identified opportunities.
Service Growth Expand our global service coverage and capability including the Client Support Programme (CSP).	Launched the CSP which offers tailor-made service of planned preventative maintenance aimed at the prevention of breakdowns and failures. New workshops were opened in Poland and Chile and we increased the number of service engineers by 7%. Introduced a regional service management team.	Continue to develop the sales channels for delivering service support and further expand the service team. Establish new workshops where there is customer demand.

SUSTAINABILITY

Strategic Priorities	Achievements 2014	Objectives 2015
Employee Development We will invest in our people and encourage internal development to support our future growth plans. We recognise the benefits of diversity amongst our employees and will promote this both through external appointments and internal development.	We have increased gender diversity at all levels of the organisation through the year. We have introduced a new leadership training programme and expanded our online training courses delivered through the Group.	Continue the rollout of the leadership training programme and further expand the training opportunities throughout the Group. Continue to promote diversity.
Corporate Social Responsibility (CSR) Communicate best practice throughout the Group, training those responsible and, where appropriate, verifying adoption in each subsidiary.	Our CSR sub-committees continued to promote improvements in health and safety, monitor initiatives to reduce CO_2 emissions and provide training on ethical behaviour and our employees gave their time and money to many charities around the world.	Continue to drive safety improvement and deliver the CSR strategy. The CSR report is on pages 40 to 51 of this report.

OPERATIONAL EXCELLENCE

Strategic Priorities	Achievements 2014	Objectives 2015
Manufacturing Excellence Continue to develop world-class manufacturing.	Significant progress was made throughout the course of the year in implementing new business processes to achieve improved delivery, reliability and productivity.	In conjunction with the development of a manufacturing version of our global business system, we will carry out a review of our procedures in order to share best practice within the Group.
Supply Chain Management Rotork's outsourced manufacturing model means that material costs are the most significant component of direct costs. Managing these costs has been a key driver to improve margins across all our manufacturing sites.	Sourcing initiatives succeeded in both improving the performance of local suppliers and driving down costs of components during the year.	Continue to look for opportunities to take cost out of all our products through sourcing or product development. Our proven sourcing capabilities will be supported with increased resources as we focus on recently acquired businesses.
Global Business Systems We are moving from having a wide range of systems around the world to adopting a global standard ERP system.	Rollout and enhancement of our sales and service office system progressed during the year and development of the manufacturing system has moved to the next phase of the project.	Continue the rollout through the sales and services offices and continue development of the manufacturing system.

INNOVATION

Strategic Priorities	Achievements 2014	Objectives 2015
New Product Capitalise on our industry knowledge to develop and introduce solutions to customer problems.	There were a number of product launches and expansion of product ranges / certifications during the year in all divisions. Spend on R&D increased 18% in the year to £9.9m.	A number of product launches are scheduled this year in-line with the product roadmap established for each division. Development continues in other areas, including nuclear and within the recently acquired businesses.

ROTORK STRATEGY

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

A REPUTATION FOR INNOVATION

INNOVATION

At every stage in the Company's history, Rotork's engineers have focused on solving customer challenges, and developing new solutions - with levels of engineering skill and creativity that satisfy our customers' requirements. Our products are often mission-critical devices that require high quality and reliable solutions. Customer approval and industry certification is also necessary for some applications.

CASE STUDY

Pakscan™ wireless is perfect fit for tank farm automation

The Rotork Pakscan wireless network control system establishes a secure wireless mesh network used to control actuators and other field devices throughout the plant, gathering important operating data for asset management and preventative maintenance.

To provide robust on-site communications, the wireless option operates a meshing system which ensures that all nodes have the facility of at least two routes back to the master station. This means that if the normal traffic route is blocked, the network will find another way to route the messages. The security of data is ensured by using encryption facilities.

In 2011, a client began building a single product tank farm consisting of six 100,000 barrel tanks and four booster pumps to serve nearby truck and ship loading terminals. Originally, the facility was designed for a single hydrocarbon product and the specification did not require any automated valves to isolate the individual storage tanks.

The client then decided to upgrade and introduce the capability to handle a second product, which necessitated the requirement of isolating the tanks to avoid cross-contamination. To achieve this, they specified Rotork electric valve actuation under centralised control. The explosionproof Rotork IQ non-intrusive intelligent actuators were supplied and are monitored and controlled by a Rotork Pakscan P3 digital system. This Rotork proprietary system is designed specifically for valve actuation duties and the environments associated with hazardous area petrochemical plants.

For this project, the client was able to take advantage of additional functionality and benefits through the introduction of Pakscan with a wireless field network. Wireless Pakscan eliminates virtually all the costs associated with the installation of network cabling, whilst enabling an increased level of information from the actuators to be communicated over the wireless network.

Shelley Pike, Rotork's Systems Sales Manager, explains: "The customer didn't want to add a lot of new conduit and wiring to control the actuators, so the wireless Pakscan system was a perfect fit.

"The installation consists of 16 Rotork IQ40 non-intrusive intelligent actuators, one Pakscan P3 wireless master station and three network repeaters, which are used to overcome radio black spots and ensure the redundancy of the network. As far as start-ups go, this was by far the easiest of any type of control system.

Some pre-commissioning of the wireless system was performed at the Rotork factory prior to delivery and, once in the field, the engineer installed the wireless antennas on each actuator and gave each unit its unique address. The master station was powered up and all sixteen actuators populated the network within a few minutes. The customer was very impressed."

WE'RE GROWING AND DRIVING FORWARD

GROWING

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

CASE STUDY
Young Tech Co. leads the way in tough applications

Process industries often depend on high performance valve actuation in harsh environments. Despite the difficult surroundings, process plants demand the latest technology, such as smart positioners, which allow technicians to use auto-calibration and simple diagnostics to commission and monitor their entire system at the push of a button. In many cases, the valve, actuator and smart positioner package is exposed to extreme temperatures, dirty conditions and other challenges such as high vibration.

Young Tech Co. (YTC) has developed two smart positioner products that thrive under these harsh conditions and which have paved the way to expansion and growth in tough process control applications.

Remote sensing unit positioners
The YT-3301 introduced the concept of isolating and detaching the sensing feedback portion of the positioner from the main control housing. The sensing unit accurately detects the position of the valve stem and provides a feedback signal to the main housing. This dual unit design allows the operator to locate the precision electronics elements at a considerable distance from the valve environment, providing the best of both worlds – precision engagement at the point of valve movement and a clean, dry and ambient temperature for the electronics. This also facilitates mounting multiple control housings in close proximity for convenient and time saving monitoring and adjustment of valves in the plant.

Triple module remote positioners
Remotely mounting the sensing unit provides dramatically improved reliability and performance, but at longer distances between the sensing unit and the control housing pneumatic signal loss may occur. In extreme situations this could lead to hunting and oscillation of the electronics and reduced valve and actuator positional stability.

To assure superior performance in these difficult applications, in 2014 YTC developed the YT-3302 positioner. With this product, a third module, housing the driving components of the pilot valve and torque motor assembly, is mounted at an intermediate location between the remote sensing unit and the main control unit. This configuration delivers higher performance with dramatically increased positional accuracy.

Added benefits include the ease of maintenance for each of the modules and the ability to gang mount modules at convenient locations. Standardisation of modules and components also facilitates spare part simplification and inventory cost reduction.

The flexibility of modular smart positioners will enable the Instruments business to grow by offering more user friendly solutions and simplifying end-users' valve control and maintenance tasks. The increasing requirement for smart positioners in the markets that we serve mean that we are well placed to increase our presence in this market.

3
COMPANIES ACQUIRED IN 2014:
YTC, KOREA
ROTORK MIDLAND, UK
MASSO, ITALY

KEEPING THE WORLD FLOWING SINCE 1957
OPERATIONAL EXCELLENCE • GROWTH • SUSTAINABILITY • INNOVATION •

CHAIRMAN'S STATEMENT

2014 was another successful year for Rotork. We continued to grow by implementing our strategy of broadening our product portfolio, end-market exposure and geographic coverage whilst remaining focused on our targeted segments of the flow control market.

Roger Lockwood
Chairman

30.9p
PER SHARE FINAL DIVIDEND
MAKING A 4.3% INCREASE IN THE TOTAL DIVIDEND

Financial Highlights
Currency remained a headwind throughout the year. On an organic constant currency basis, order intake grew by 4.0% and revenue grew by 3.8%. Adjusted* operating profit was 5.7% higher resulting in a record margin of 26.7%, 50 basis points higher than 2013. We still showed growth on a reported basis on all these measures as the positive contribution from the acquisitions made in the year went someway to offset the impact of currency.

Rotork has a strong track record of making acquisitions and then taking these businesses to their next phase of growth. This year we acquired the Korean based Young Tech Co. (YTC) in March and a UK subsidiary of Xylem Inc, which we have renamed Rotork Midland, in July. Both of these businesses now sit within the Instruments division and bring additional products that enhance Rotork's product portfolio. Integration of both businesses is progressing as planned and they made a good contribution in their first year in Rotork. In December we acquired Masso Ind s.p.a., a small Italian designer and manufacturer of pneumatic and hydraulic actuators and control systems for use in the marine industry and in February 2015 the sales and service operations of our former agent in Turkey.

I would like to thank all of our employees for their continued high level of commitment and professionalism. It is as a result of their hard work that we have been able to deliver a record set of results once again.

Board Composition
I am announcing today that I intend to retire as Chairman at the close of the Annual General Meeting in April after working with Rotork for 27 years, 17 of which as Chairman. It has been a great privilege to play a part in the Group's strong progress over that period and see it truly flourish. We are also announcing today that Martin Lamb will take over as Chairman when I retire. Martin was appointed a non-executive director in June 2014 and brings a wealth of relevant experience from his 33 years at IMI plc. I wish him every success in the role.

We were pleased to welcome two new non-executive directors during the year. As mentioned above Martin Lamb joined in June and Lucinda Bell joined the Board in July. Lucinda is the Finance Director of The British Land Company plc and her financial experience in an unrelated industry brings a different perspective to the Board.

Last April we announced that Graham Ogden, Group Research & Development Director, would retire at the end of this month. I would like to thank Graham personally for his contribution since joining Rotork in 1985 and his appointment as an executive director in 2005. During this period Graham has been closely involved and latterly led the team in many key product developments including all three evolutions of the award-winning IQ series.

The Board is compliant with the Corporate Governance Code at the present time and will remain so following the changes noted above. At the close of the AGM there will be three executive directors, four independent non-executive directors and Martin Lamb as Chairman. In addition, 25% of the Board are women compared with 11% at the same time last year.

Board Performance

The evaluation of Board effectiveness was once again conducted by a third party this year. The process of appointing new non-executive directors, a new Chairman and new auditors were all considered in the evaluation and overall comments received were generally positive. The strong feeling of mutual respect and trust which have been consistent characteristics of the Board was found to be undiminished. The directors remain aware of the challenges the growth of the business brings and the importance of managing the change carefully in order to preserve the strengths of the business and to continue to deliver shareholder value. The Board was broadly united in its views on all the matters raised in the process and, crucially, in its focus for 2015 and beyond.

Reviewing the strategy for achieving growth in the current economic climate, the evolution of the internal control environment, risk assessment processes, succession planning and talent development within the executive management are among the key areas for the coming year. Overall, I am satisfied that there is an appropriate balance of skills, experience, independence and knowledge of the Company to enable the directors to discharge their duties and responsibilities effectively.

Corporate Governance

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

Dividend

The Board recommends a final dividend of 30.9p per share, a 3.0% increase over the 2013 final dividend. Taken with the 2014 interim dividend, the total dividend is 50.1p per share (2013: 48.05p), representing a 4.3% increase in the total dividend on 2013. The final dividend will be payable on 18 May 2015 to shareholders on the register on 10 April 2015.

Outlook

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

Whilst our end-markets in the upstream oil & gas sector may become more challenging in the near term, our other global markets remain active. Our geographic reach, end-market exposure and diverse product portfolio provide the Board with confidence of achieving further progress in the coming year.

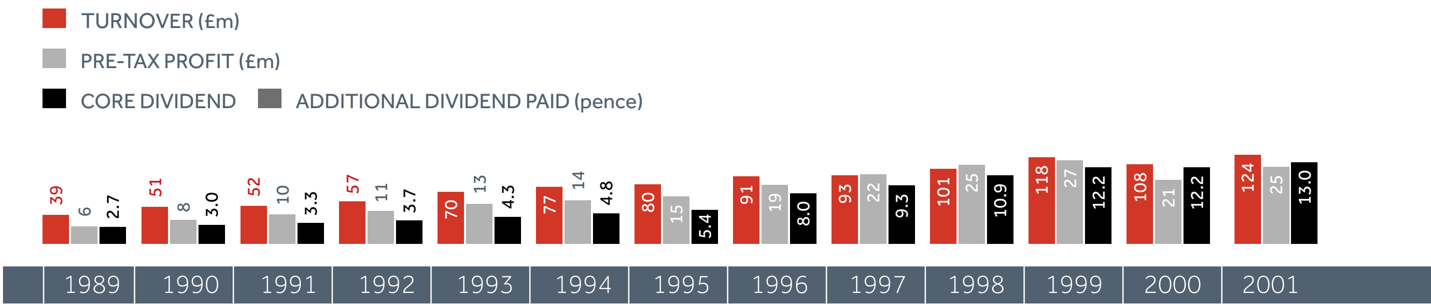
Roger Lockwood
Chairman
2 March 2015

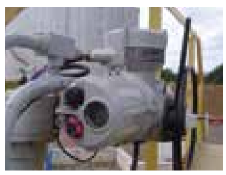
* References to adjusted profit throughout this document are defined as the IFRS profit, whether operating profit or profit before tax, with £14.9m (2013: £12.1m) of amortisation of acquired intangibles added back.

OCC Organic constant currency results are the 2014 figures restated at 2013 exchange rates and with the incremental contribution from acquisitions removed.

Water treatment plant in Spain

CELEBRATING ROGER LOCKWOOD'S TIME AT ROTORK





1988

Roger Lockwood joins the Rotork Board.

1993

Launch of the first IQ non-intrusive, intelligent electric actuator; commissioning without removing electrical covers.

1995

Dedicated Fluid Power division launched. Operating from the UK, USA and Singapore.

1998

Roger Lockwood becomes Chairman of Rotork's Board.

1999

Rotork acquires Fluid System Srl, situated in the heart of the Italian valvemaking industry at Lucca.

2000

The IQ Mark 2 actuator launched, keeping Rotork at the Vanguard of intelligent valve actuation and the Skilmatic electro-hydraulic product range is acquired.

Roger joined the Board in 1988 as one of two non-executive directors. In the subsequent 27 years Roger has seen Rotork grow and establish itself as a global leader in flow control equipment.

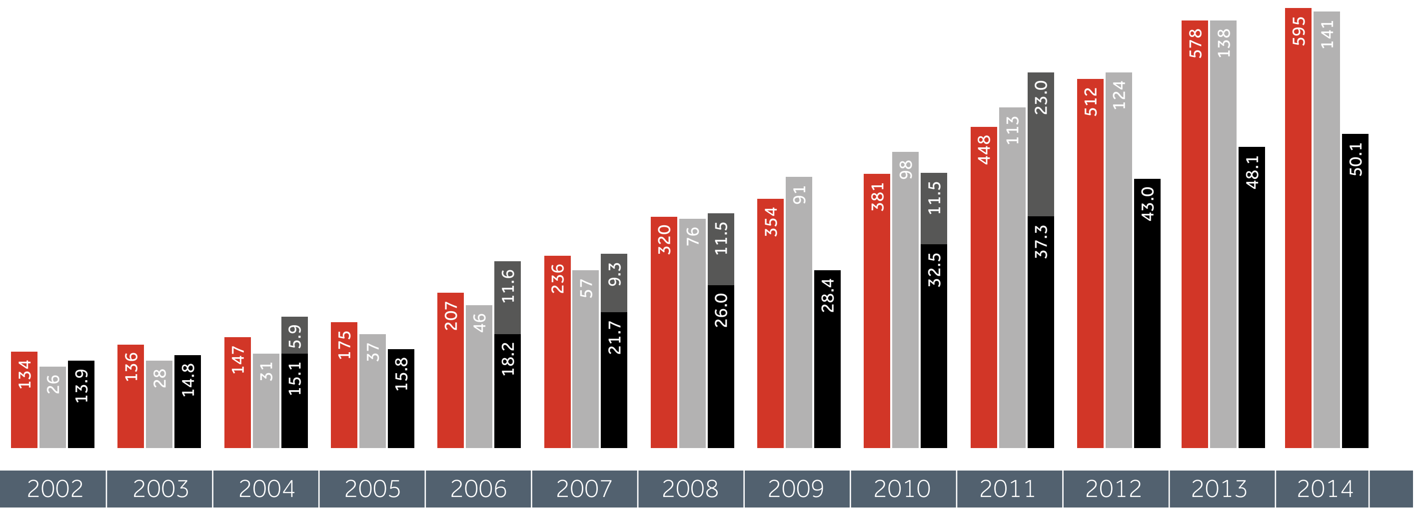
In 1988 Rotork's turnover was £34.1m and had an operating profit of £4.5m. The business was operating in 12 countries and had 584 employees. During the subsequent 10 years in Roger's term as a non-executive director, the Group grew substantially, initially under the leadership of Tom Eassie as CEO and then under Bill Whiteley.

In 1998 Roger was asked to become Chairman. At this time the Board composition was similar to 1988, with two non-executive directors and three executive directors. In 1997 revenue had increased to £92.8m and the operating profit was £20.4m with 812 staff in 19 countries.

As Chairman, Roger has been a central part of the team that has continued to drive Rotork forward, making it the Company it is today. Roger has set high standards and is passionate about the culture, style, and integrity of the business and its people. He has promoted diversity and Board performance, and the Board has been strengthened during his tenure. It now comprises five independent non-executive directors, four executive directors and the Chairman. Roger leaves the Group in a strong position, both financially and operationally. In 2014 the Group had direct operations in 37 countries with 3,469 staff, revenue of £594.7m and operating profit of £142.2m.

Roger will retire from the Company at the conclusion of the AGM on 24 April. In the history of Rotork there have only ever been four CEOs and Roger has worked with three of them. On behalf of them, the Board and Rotork employees past and present, I would like to wish him the best for the future and on a personal note, I would like to thank Roger for the guidance and support he has given me over the years.

Peter France
Chief Executive






2003
Fluid Systems relocates in Lucca to factory four times larger than the previous one.

2004
The IQT quarter-turn version of the IQ launched. Dramatic growth prevalent in electric actuator business.

2006
IQ*Pro*, third generation intelligent actuator and Rotork Site Services created to provide lifetime support for all Rotork and other manufacturers' products.

2008
Launch of the CVA actuator, born out of IQ technology and offering expansion into new process industry sectors and Smart Valve Monitoring (SVM) technology added to Fluid Systems product range.

2010
Wireless version of Pakscan launched, keeping the product at the forefront of valve control technology.

2012
Introduction of IQ3, third generation intelligent actuator, maintaining Rotork predominance of non-intrusive actuator technology. Launch of CMA, compact modulating electric actuator complementing the successful CVA range of process valve actuators.

CHIEF EXECUTIVE'S STATEMENT

The continued expansion of our product portfolio, international sales channels and our broad end-market exposure enabled us to achieve record results in 2014.

Peter France
Chief Executive

"Excluding the impact of acquisitions and currency, the adjusted operating margin was 26.7%."*

Oil refinery in The Netherlands

Order intake for the year was £595.6m, up 2.9% on the prior year. Currency was a headwind during the year and on an organic constant currency (OCC) basis order intake was 4.0% ahead of 2013.

As in prior years, the fourth quarter was a record in terms of shipments. Revenue for the full year was £594.7m, up 2.8% on the prior year and up 3.8% on an OCC basis. The adjusted* operating profit margin was 26.4%, a 20 basis point improvement on 2013. Excluding the impact of acquisitions and currency, the adjusted* operating margin was 26.7%.

During the year, through both organic development and acquisitions, we have expanded our international presence and now have 27 manufacturing sites, 65 national offices and 85 regional locations in 37 countries. In total we have over 800 sales channels in 99 countries. Building a strong international sales network to support our customers remains a key element of our strategy.

In 2014, we invested £81.3m in acquisitions to drive further growth and strengthen our market position. Through the acquisitions of YTC, Midland, Masso and the operations of our sales agent in Turkey, acquired in February 2015, we extended our product range in attractive segments and increased and strengthened our geographic reach. We will continue to pursue acquisition opportunities in 2015 to enhance and expand our offering to customers. We also opened seven new sales and service offices during the year, completed the expansion of our facilities in Singapore and relocated to larger premises in Spain. In addition, we opened a new world-class factory in Leeds (UK) and purchased a larger factory in Lucca (Italy) which we will move into during 2015. These key investments will ensure that Rotork continues to be best placed to benefit from the anticipated growth of the global flow control market.

Our Markets

The world economy is being shaped by long-term global trends that include population growth, urbanisation and automation. These trends are driving heightened demand for flow control products and services to deliver cleaner energy, greater fuel efficiency and improved resource utilisation. The Group benefits from market-leading flow control expertise and remains well positioned to support these growth opportunities.

Another positive trend is the increased focus by our customers on cost reduction and stricter environmental regulations. As a result, we are seeing good demand for energy efficient products across all our end-markets. As manufacturers focus on improved operational performance and cost efficiencies, they are investing in automation and more complex processes. Flow control, and valves in particular, are key elements of this investment process. Given our broad geographic exposure, participation in diverse industries and broad product and service offering, Rotork is best placed to meet our customers' needs as they make these investments. Whilst our actuators and flow control instruments are used most intensively in the oil & gas, power and water markets, the expansion of our product portfolio means that we are increasingly able to address a widening range of end-markets.

The long-term global trends described above and opposite are all positive for Rotork, however during the latter part of 2014, global energy markets experienced a sharp decline in the oil price. Whilst we have yet to see any noticeable impact in customer order activity, we believe that the increased uncertainty created by this decline will present Rotork with a more challenging market backdrop in the oil & gas sector. Oil & gas represents 57% of Group revenue with downstream the largest element at 27% and upstream and midstream both at 15%.

We remain focused on responding quickly to any changes in activity in our oil & gas related business but we are confident that our resilient competitive position, broad end-market exposure, and global sales and servicing coverage will continue to provide us with opportunities to grow.

Research and Development (R&D)

Our investment in R&D increased further in the year, up 18.3% to £9.9m. All divisions introduced new products or extended product ranges to expand our product portfolio. Our design teams have been working with the business development teams on future products and developing product road maps, and these activities support continued investment in our infrastructure and engineers. Projects to which we dedicated significant development time during the year included the nuclear product range and the introduction of the Centork electric actuator.

Rotork Site Services (RSS)

We launched our Client Support Programme (CSP) in 2014 which offers a tailor-made service of planned preventative maintenance aimed at the prevention of breakdowns and failures. The primary goal of our CSP is to prevent the failure of equipment before it occurs. This includes equipment checks, replacement of worn components and partial or complete overhauls at specified periods.

Planned preventative maintenance is a much better alternative to risking a potentially damaging breakdown of equipment, and enables our customers to realise the full potential of their business by ensuring the maximum reliability and availability of our products. Wherever our customers are in the world, Rotork is able to support them. We have workshops strategically located around the world, with trained staff and full test and maintenance facilities.

As part of the CSP, customers have 24/7 access to the Rotork Support Centres, with priority technical assistance, backed by comprehensive website resources and priority software support. With over 370 directly employed engineers and more service technicians employed by our agents worldwide, we have the infrastructure required to effectively support all of our customers' needs.

Corporate Social Responsibility

Creating a growing and successful company takes more than just delivering financial results, which is why we pay particular attention not just to what we do, but how we do it. Rotork's success depends upon being a company with whom our customers want to do business and for whom our employees want to work. As such, Rotork places key importance on our reputation, ethical conduct and our approach to health, safety and environmental matters.

We want to continue to be a business that our staff are proud to work for and that serves our customers well over the short, medium and long-term. We do this in part through the social and economic contribution our business makes, and through our commitment to act responsibly day to day.

During the year we supported two global charities and donated £60,000 to both Wateraid and Sightsavers. I am also very pleased by the fact that many of our employees are involved in charitable endeavours in their local communities. The Group has contributed a further £175,000 to support these causes bringing the total Group contributions to £295,000 (2013: £254,000).

For more information of the work carried out by the CSR committee please refer to pages 40 to 51.

Our People

Rotork is recognised by the majority of staff as a great place to work. We foster an open and honest culture based on employee involvement. Our annual employee satisfaction survey was completed by the highest number of employees in its history although the response rate slightly declined from the high of last year 79% to 75% this year. The overall satisfaction score remained the same as last year at 3.6. The global results showed that people continue to value the quality of our products and services; our approach and concern for their wellbeing in terms of health and safety, our open culture and ability to discuss issues with management and job security.

The Rotork family continues to grow and during 2014 our staff numbers increased by 412 to 3,469. 191 joined us as part of the YTC, Midland and Masso acquisitions and the rest were recruited as part of our organic growth in various locations around the world.

During the year there have been a number of changes to our management team. Unfortunately Alex Busby, Divisional Managing Director (DMD) for Rotork Fluid Systems (RFS), who has been instrumental in the growth of the division over the last few years, had to step down from his role on health grounds. Everyone at Rotork wishes him well as he focuses on returning to full health. David Littlejohns has been appointed as DMD for RFS. David joined Rotork in 1986 and has most recently been in charge of the Gears division. Pamela Bingham will take over from David as DMD Gears. Pamela joined the company in 2012 as Group Business Development Director and has been heavily involved in a number of acquisitions since joining. David and Pamela will continue to be members of the Rotork Management Board.

Last year we also announced that Graham Ogden would be retiring in March after 30 years of service. Graham was the first electronics manager employed by Rotork and was instrumental in the development of the electric actuator and especially in the introduction of the IQ range of electric actuators that revolutionised the market. In the last few years Graham was a member of the Rotork Management Board and a PLC director. His contribution to the success of the Company cannot be underestimated and he has left a strong legacy and a highly capable team to carry on his work. On behalf of all the staff I would like to thank Graham for his contribution to the Company and wish him all the best in retirement.

The success of Rotork continues to be driven by the dedication and hard work of our staff. I would like to take this opportunity to personally thank each of them for their contribution and for making Rotork the world-class company it is.

Peter France
Chief Executive
2 March 2015

* References to adjusted profit throughout this document are defined as the IFRS profit, whether operating profit or profit before tax, with £14.9m (2013: £12.1m) of amortisation of acquired intangibles added back.

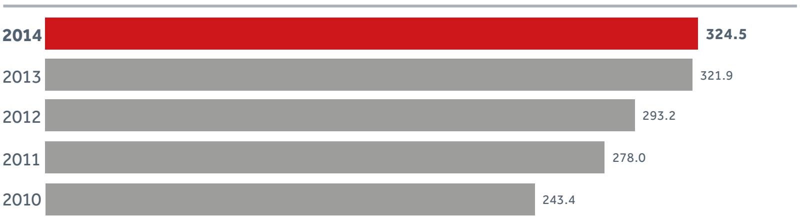
OCC Organic constant currency results are the 2014 figures restated at 2013 exchange rates and with the incremental contribution from acquisitions removed.

BUSINESS REVIEW: CONTROLS

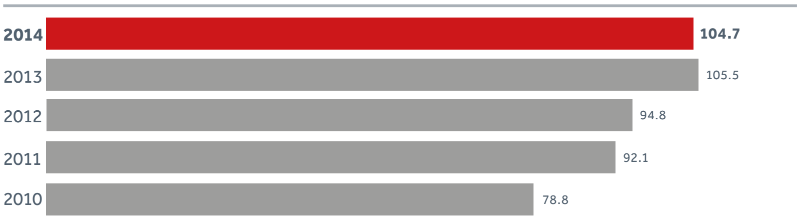
Grant Wood
Managing Director
Rotork Controls

"Over the course of 2014 some of the division's end-markets were challenging but we responded by enhancing our global capability and further strengthening our customer relationships."

REVENUE
(£m)



ADJUSTED* OPERATING PROFIT
(£m)



Controls delivered another year of growth in 2014. On an organic constant currency (OCC) basis, order intake grew 7.1%, revenue by 6.4% and adjusted* operating profit by 5.6%. Acquisitions made only a small contribution to the division during the year. The much greater effect on the reported results came from currency, which was felt throughout the year, and which resulted in a headwind equating to around 6% of order intake, revenue and profit. This meant reported order intake increased by 1.3% to £320.4m, revenue by 0.8% to £324.5m and adjusted* operating profit declined by 0.7% to £104.7m. Adjusted* operating margin reduced by 30 basis points to 32.5% on an OCC basis and a further 20 basis points as a result of currency.

Over the course of 2014 some of the division's end-markets were challenging but we responded by enhancing our global capability and further strengthening our customer relationships. Looking at the end destination of our products, North America and Latin America both showed strong growth. Whilst the Far East declined in total, within this region China performed very well but Australia was lower following a strong comparable period of activity last year when we delivered a number of coal bed methane projects. In North America and Latin America oil & gas remains our largest end-market, with downstream the largest sub-sector. This contrasts with the Far East where our exposure is much more balanced and power, led by China, is larger than oil & gas.

The division continues to pursue geographic expansion, capitalising on our core competences and the strength of our brand to move into new markets. We are focused on delivering long-term profitable growth which we will achieve by expanding and deploying our market leading flow control expertise in end-markets where we can achieve leading positions and where there is long-term demand for our products and services. Even in our more mature markets the increased drive towards automation, with a requirement for increased asset management information, provides opportunities to grow.

During the year we invested in a number of facilities, the largest of which was the new factory in Leeds (UK). This multi-division site houses the headquarters of our UK sales subsidiary, where our northern UK service team is based. We also relocated our sales subsidiary in Bilbao (Spain) to a new larger facility having outgrown the previous one due to the growth of our retrofit and factory fit activities. In Poland we opened a new office and workshop to serve and grow our customer base in Eastern Europe and towards the end of the year we set up a small subsidiary in Chile. Both these new offices are in locations where we have previously operated through an agent but where we have now decided that the time is right to have a direct presence.

Meanwhile, we continued to focus on technological advancements and innovation. During the year we launched our new Centork product range, Rotork's specialist offering for the water, industrial and power markets. The product range features modularity, easy selection, setting and mounting. We continue to anticipate strong growth in the water and waste water industries, driven by increased urbanisation in developing countries and increased environmental and scarcity concerns globally.

We expect the recent fall in the oil price to mainly affect the upstream sector of the oil & gas industry. Whilst 51% of the division's sales are into the oil & gas industry, our market exposure is diversified across various sub-sectors: large numbers of our actuators are supplied into both midstream and downstream applications, which have been more shielded from the recent soft pricing environment. A significant proportion of our supply is also retrofit, upgrade or replacement work, where spend is less sensitive to oil spot prices.

CASE STUDY

Rotork IQ3 valve actuators were selected to replace actuators from another manufacturer after a chamber flooded with hot water at the Metropolitan Copenhagen Heating Transmission Company (CTR).

Although the problem was quickly rectified, all the electric valve actuators installed in the chamber had been completely submerged in the water. Subsequent inspection revealed that the robust double-sealed design of the installed Rotork IQ actuators had protected them from any damage and maintained the integrity of their standard IP68 temporarily submersible enclosure specification. By comparison, the actuators from the other manufacturer had been badly damaged by the effects of the hot water reaching internal electric and electronic components.

OPPORTUNITIES

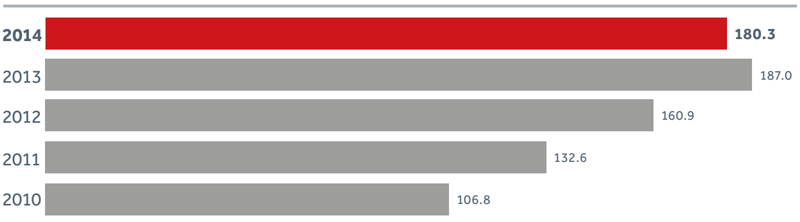
- Water, power & industrial markets
- Eastern Europe & Latin America
- Midstream and downstream oil & gas market
- Rotork Site Services

BUSINESS REVIEW: FLUID SYSTEMS

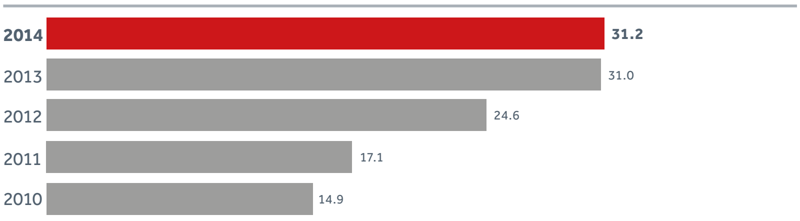
David Littlejohns
Managing Director
Rotork Fluid Systems

"Whilst oil & gas is the largest end-market, it has diminished 5% compared with 2013 as our exposure to water, general industrial and particularly the power end-markets has increased."

REVENUE
(£m)



ADJUSTED* OPERATING PROFIT
(£m)



Following three years of double digit growth, 2014 was a year of consolidation at Rotork Fluid Systems (RFS). There were no major acquisitions during the year but the integration of recent acquisitions, product development and a drive on key component sourcing initiatives all made good progress. The work we have undertaken on sourcing was one of the key factors behind the 70 basis point improvement in adjusted* operating margin we achieved in 2014.

Revenue was £180.3m, 3.6% lower than 2013 on a reported basis. However, reversing the 5.4% currency headwind and adjusting for the part year contribution from acquisitions in 2013, this decline is reduced to 0.7% on an organic constant currency (OCC) basis. Order intake was similarly impacted, with the £184.6m being 4.7% below 2013 or 1.8% below the prior year excluding currency and acquisitions. Although the currency headwind was even greater on profit, the benefits of sourcing initiatives and an improved product mix resulted in reported adjusted* operating profit of £31.2m compared with £31.0m in 2013. This gave a margin of 17.3%, which was 70 basis points higher than last year. On an OCC basis, this difference increased to 130 basis points and a 17.9% margin.

OPPORTUNITIES

- Marine market
- New product introduction
- Geographic expansion
- New facility in Italy

Oil & gas remains the largest end-market for RFS, representing 72% of the division's revenue in the year with the overall split between upstream, midstream and downstream relatively even. This is spread across many different applications within oil & gas and across many geographic regions, ranging from shale in North America to gas condensate projects in Central Asia. We continued to see good business in the year on safety systems for tank storage applications in the downstream market. Whilst oil & gas is the largest end-market, it has diminished 5% compared with 2013 as our exposure to water, general industrial and particularly the power end-markets has increased. The acquisition of Masso, based in Valduggia (Italy), in December 2014 introduces a further element of diversification to RFS. Masso designs and manufactures hydraulic actuators and control systems for use in shipboard applications and brings with it a range of products and customers new to the division.

Mexico continued to be an important market where we won several significant orders. We received a large order in June for the next phase of the SCADA pipeline project, the first phase of which was won in 2013. In addition, K-Tork, based in Dallas (USA), won a large power project for their Type K damper drive application. Both these orders have multi-year delivery periods. Overall, Latin America was the end destination which reported the strongest growth within RFS, partly due to the completion of deliveries on the first phase of the SCADA project. In contrast, Eastern Europe was the region which reported the sharpest decline and this was driven by a combination of project timing and, in the latter part of the year, the impact of sanctions and the weaker rouble on Russian business. The £6m impact we reported in the third quarter is higher than the expected ongoing impact but this will remain a headwind into 2015.

We also continued to invest in our regional infrastructure to ensure that we provide support locally to our customers, with upgraded facilities in Leeds (UK), and Bilbao (Spain), and the new offices in Poland and Chile all having an RFS capability. We also invested in a new factory in Lucca (Italy), near our existing leased facility. Not only will this recently purchased facility provide us with security of tenure for the future but it will also allow us to modify our production processes and bring greater efficiency to our largest factory.

We achieved an improved margin this year mainly as a result of a number of sourcing initiatives across the world. Volumes within the division have risen rapidly in recent years which has now made sourcing from low cost regions viable for some of our components. For example, we reviewed the supply chain of our small scotch yoke actuators manufactured in Sweden and the rack and pinion range we acquired with GTA as they are able to share certain components. Similar initiatives in the USA and Italy have already delivered benefits and they will continue to do so in 2015.

We continued to invest in R&D and this is reflected in the launch of our third generation of the SI actuator planned for 2015, aimed at safety related Emergency Shutdown (ESD) and Remotely Operated Shutoff Valve (ROSoV) duties. We also worked on extending the K-Tork range ready for launch in 2015 and together with the GT and RC ranges this has widened our portfolio aimed at the industrial, power and petrochemical industries. We look forward to further penetration of these markets in 2015.

CASE STUDY

Mining presents some of the most arduous valve actuation applications. Slurry pipelines transporting tailings – waste product from ore processing – are particularly challenging. These environments suit the balanced design of Rotork RHQ heavy duty rack and pinion actuators.

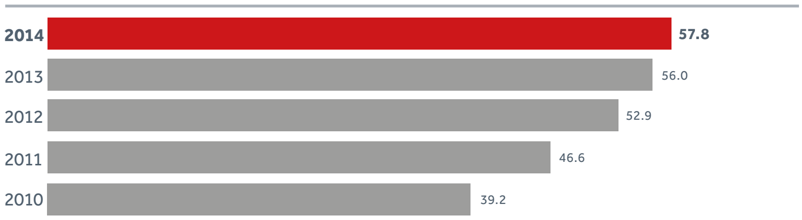
An RHQ actuator on a 36 inch severe service ball valve helps to provide critical flow control on the tailings pipeline pump station at a copper mine in the Andes. The actuator is operated by an HPU (Hydraulic Power Unit) manufactured by Flow-Quip. The HPU incorporates local controls and stored energy to operate the actuator when electrical power is not available. Precise flow control is essential, if the abrasive slurry moves too quickly it can destroy the pipeline from the inside. If it moves too slowly it can separate out and cause a blockage.

BUSINESS REVIEW: GEARS

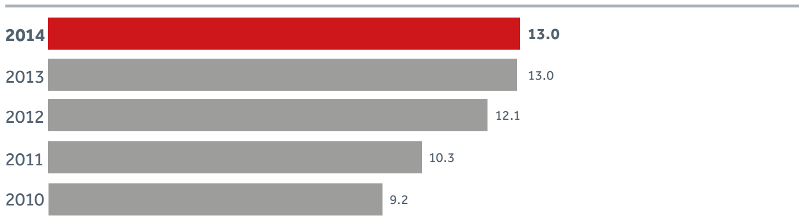
Pamela Bingham
Managing Director
Rotork Gears

"Central to our successful long-term track record are our world-class sales and engineering teams, who provide our customers with the latest innovative gearing technology using leading-edge design methods."

REVENUE
(£m)



ADJUSTED* OPERATING PROFIT
(£m)



Gears made good progress in order intake, revenue and profit throughout the year. Our performance continues to demonstrate the benefit of our industry-leading expertise, gained over several decades working at the forefront of manual and motorised gear technology for the valve industries in the many market sectors that we serve.

Revenue of £57.8m was 3.2% higher than 2013 despite a 4.3% currency headwind. On an organic constant currency (OCC) basis revenue grew by 5.0% with the acquisition of Renfro in 2013 accounting for 2.5% of the growth. Order intake was similarly affected by currency with reported growth of 0.2%, which at constant currency and with the benefit of the acquisition increased to 1.9%. Adjusted* operating profit was £13.0m, 0.3% ahead of 2013 which resulted in a 60 basis point reduction in operating margin to 22.5%. On an OCC basis the growth in adjusted* operating profit was 4.1% and the margin 22.9%. Each of the Gears factories improved margins in the year, with the exception of the Leeds (UK) operation, which was affected by the costs of moving into the new facility and an increase in more competitive larger project sales had a negative effect on margins in the period.

Central to our successful long-term track record are our world-class sales and engineering teams, who provide our customers with the latest innovative gearing technology using leading-edge design methods. The sales process in Gears differs from Controls and Fluid Systems and whilst there are project sales, often in conjunction with other Rotork divisions, more typically we sell directly to the valvemaker on an ongoing basis. Accordingly, our objective is to build a relationship with the valvemaker so that they use our gearboxes in conjunction with their valves when the package is not being automated.

This year, following strong growth in the Far East, there was a reasonably even spread of revenue across the key regions of the Americas, Far East and Western Europe, although Western Europe remained the largest, accounting for 37% of sales. Our factories are located in these areas so that we are close to our customers. The Middle East and Africa was the only region to report a marked reduction in sales but this was after an unusually strong performance in 2013. The end-market exposure of Gears is, like the Group as a whole, weighted to oil & gas, which accounts for 57% of sales, but these are spread across all segments of this market. Water and waste water is the second largest end-market, where small manual valves account for the majority of sales.

In line with our aim to become our customers' preferred partner, we have a strong commitment to improving the efficiency of our operations and those of our customers and suppliers. That aim was a key factor in our move to a new state-of-the-art manufacturing facility in Leeds during the year. The larger facility has given us the opportunity to increase the dedicated research and development team who are engaged in every aspect of new product design and development, from concept to customer.

CASE STUDY

Rotork's IB bevel gearboxes have been installed at Malaysia's Pengerang Terminal to help operate gate valves on flow control applications at the import jetty and storage tank facilities.

The five million cubic metre capacity terminal is a part of the country's Economic Transformation Programme. With the completion of Phase 1A of the project, 274 explosionproof IQ3 actuators fitted with the IB bevel gearboxes have been installed.

The actuators are monitored and controlled by eight Pakscan P3 120-channel hot/standby master stations, situated on-site in three cabinets and linked to a centralised Yokogawa SCADA system.

Gears provides innovative solutions that meet the individual requirements of our valve gearbox and valve accessory customers by drawing upon our unrivalled range of market-leading products. During the year we strengthened our wide portfolio of gearboxes with the launch of our new manual HOB multi-turn product range. This range offers our customers a more comprehensive solution for multi-turn manual applications. Our new Leeds facility also has extensive test facilities, including a comprehensive set of test rigs for testing multi-turn and quarter-turn gearboxes across a wide range of torques. Our R&D remains focused on developing cost effective and innovative solutions that will continue to provide Gears with access to new customers and new market sectors.

OPPORTUNITIES

- Increased R&D investment
- Product range expansion
- Geographic expansion

BUSINESS REVIEW: INSTRUMENTS

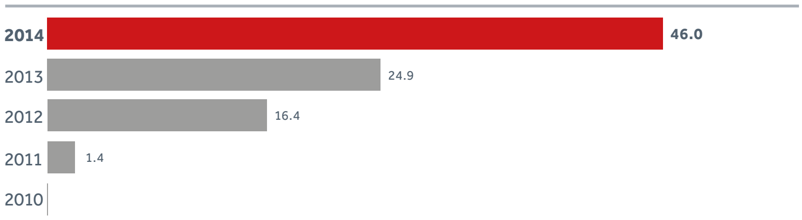
Alan Paine
Managing Director
Rotork Instruments

"YTC has a wide range of positioners and smart positioners which are complementary to Rotork's existing portfolio of products."

This was a year of strong growth for the Instruments division, which saw the number of businesses double in 2014 following the completion of two important acquisitions. We focused on delivering our key priorities: continuing to widen our offering in flow control and pressure control products by acquiring or developing new technologies close to the actuator; the integration of acquisitions; leveraging global sales synergies; and delivering cost reduction and productivity improvements. In March we acquired Young Tech Co. (YTC), a Korean based manufacturer of valve positioners and accessories mainly associated with pneumatic valve actuation. YTC has a wide range of positioners and smart positioners which are complementary to Rotork's existing portfolio of products. This acquisition not only enlarged our range of instrumentation products and our addressable market but also provided Instruments with a platform and sales channels in the important Asia-Pacific market.

In July we acquired Xylem Flow Control based in Wolverhampton (UK). This added the established brands of Midland-ACS, Alcon and Landon Kingsway into Instruments, under what we now call Rotork Midland. This business brought with it a strong reputation for delivering innovative solutions for a wide range of applications, including control systems for pneumatic and hydraulic control valves, electro-pneumatic and electro-hydraulic actuators, local control panels, manifolds and components such as solenoid valves, level controls, gas detection and firefighting equipment.

REVENUE
(£m)



ADJUSTED* OPERATING PROFIT
(£m)

OPPORTUNITIES

- Global manufacturing expansion
- Sales channel development
- Rotork synergies

The financial results for the year were heavily influenced by these acquisitions, both of which performed in line with our expectations. Reported revenue increased by 84.4% despite a 5.1% currency headwind but on an organic constant currency (OCC) basis the increase was still 8.6%. The results for order intake were very similar, in what is generally a short lead-time division, with the headline increase of 83.0% reduced to 8.7% for Fairchild and Soldo at constant currency. Adjusted* operating profit rose 84.3% to £14.4m, a margin of 31.4%, the same as 2013. Unlike the other divisions, currency improved reported margins for Instruments because prior to the acquisition of Midland the division had no sterling costs. Whilst acquisitions were accretive in total, OCC adjusted* operating margin declined to 29.6%, a 180 basis point reduction. This is largely due to the expansion of the divisional executive team which has been required to support this pace of growth and to ensure that the benefits of the acquisitions are delivered.

The Midland product range, now within Instruments, complements the high-precision pneumatic control devices and motion control equipment manufactured by Fairchild, the Soldo range of control accessories for valve automation, and YTC's market leading range of valve positioners and accessories. We also have Instruments companies located in Europe, the USA, and the Far East, and we are integrating our international sales networks to support sales of products of all four companies. By training our sales forces on all of the new products and by using cross-selling techniques with customers, we have been successful in penetrating new geographic markets with our growing product portfolio.

Similarly, we have been using our strategically located facilities to ensure local assembly and inventory management for the entire range of our products, ensuring fast, on-time delivery for our customers. For instance, we are now using our Soldo facility in Italy as the European hub for YTC products, whilst our Fairchild facility is ensuring access to the USA market for the Soldo and YTC product ranges. Work to qualify the full range of products to meet various national and international certification standards is underway and 2015 will see completion of this for the key products. This not only supports our third party customers but also allows us to support the local Rotork offices and factories where there are opportunities to use a wide range of Instruments' products in automating pneumatic and hydraulic actuators. Each of the businesses have their own product development plans and work has started to align these and create a single divisional plan. Each business brings a level of expertise in its own product lines and often complementary skills. During the year each business has launched new variants of products and extensions to existing ranges, either broadening the range of materials for a product or the industries and applications for which it can be used.

CASE STUDY

A Rotork Midland custom designed and built dual regulation manifold has eliminated severe corrosion problems suffered by instrumentation equipment previously used for an arduous offshore application.

The end-user manufactures umbilical reeling equipment for offshore subsea applications including ROV operations and cable laying. Existing air preparation units that feed air to pneumatic powered gear motors were found to be corroding badly in offshore conditions, leading to reliability problems.

Due to the resultant short operational life of these units, the end-user sought a stainless steel solution from Rotork Midland's customer.

FINANCIAL REVIEW

Jonathan Davis
Finance Director

"The acquisition in March of Young Tech Co. (YTC) for up to £64m is Rotork's largest single acquisition to date."

This year we have achieved growth in order intake, revenue and profit, all of which increased both on a reported and an organic constant currency (OCC) basis and a record adjusted* operating margin.

Our 2014 results were heavily influenced by the strength of sterling compared with 2013. Whilst the currency headwind diminished in the second half, revenue was £33.0m or 5.7% lower than it would have been at 2013 exchange rates. Acquisitions had a positive effect, adding £27.4m to revenue and partially offsetting the currency impact. Reported revenue of £594.7m was 2.8% higher than the comparable period and 3.8% higher on an OCC basis.

Adjusted* operating profit grew ahead of the rate of revenue, up 3.8% to £157.2m delivering a margin of 26.4% compared with 26.2% last year. Growth on an OCC basis was 5.7%. Divisional mix was a positive influence on Group margins, with the higher margin divisions growing and Fluid Systems revenue declining, albeit delivering improved margins. On an OCC basis the margin was a further 30 basis points higher at 26.7% as currency had a dilutive effect on margins due to the higher proportion of sterling costs than revenues within the Group. The effect of acquisitions on margin was negligible as the average margin of the acquired businesses was close to the Group average.

The net finance charge reduced by £0.2m to £1.1m. The effect of the higher level of loans required during the year following the acquisitions was offset by a reduction in the interest charge related to the pension schemes. The impact of this and the lower effective tax rate meant earnings per share increased by 3.7% or, when based on adjusted* profit, by 5.4% to 131.6p.

Acquisitions

We spent more on acquisitions in 2014 than in any previous year. The acquisition in March of Young Tech Co. (YTC) for up to £64m is Rotork's largest single acquisition to date. The purchase of Xylem's UK based flow control subsidiary, now renamed Rotork Midland, in July and Masso Ind. s.p.a. in December increased the total spend in the year to £81.3m. In addition, there is a further potential £4.4m contingent consideration in relation to the three acquisitions made in 2014. Rotork has a strategy of growing through a combination of organic expansion and acquisitions and we expect this to continue. Acquisitions are made on the basis that they will provide a new product, improve our access to a geographic or end-user market or some combination of these objectives. Each of this year's acquisitions met one or more of these criteria.

Taking all three acquisitions together, £32.4m of the consideration was attributed to intangible assets which will be amortised and £45.1m is goodwill which will be subject to an annual impairment review. The increased value of acquisitions this year and last year has led to a rise in the amortisation charge related to acquired intangible assets to £14.9m (2013: £12.1m). In order to adjust the income statement to show a like-for-like period for each acquisition, 2014 revenue has to be reduced by £27.4m and adjusted* operating profit by £7.6m. The profit margin in the acquired business was slightly accretive in aggregate, at 28.0%, with YTC the key contributor to this.

Currency

The relative strength of sterling throughout the year led to a marked headwind for the reported results. The impact was most significant in the first half of the year with revenue reduced by £20.4m (7.4%) compared with a £12.6m (4.2%) reduction in the second half. This was partly driven by the comparatives, as the US dollar weakened progressively through that year. In 2014 whilst the US dollar reversed the trend of 2013, and strengthened from mid-year onwards, it was the euro's turn to weaken steadily through the year. The average rate for both US dollar and euro was 5.3% weaker than 2013 but by year-end the US dollar was 6.2% stronger than it had started 2014 whilst the euro was 6.3% weaker. These two currencies had the most significant impact on our results with US dollar representing 41% of revenue and the euro 31%. Sterling was 11% of revenue and various other currencies made up the remaining 17%. Amongst the other 19 currencies that are home currencies for one of our subsidiary offices, 9 weakened by more than 10% when the average rate is compared with that for 2013.

The impact of currency is both in the form of translation and transaction differences. 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 to partially mitigate the transaction impact through matching supply currency with sales currency but ultimately we are still net sellers of both US dollar and euros. It is the net sale of these currencies which we principally address through our hedging policy, covering up to 75% of trading transactions in the next 12 months and up to 50% between 12 and 24 months. Net of these mitigating actions operating profit was £10.6m (7.0%) lower than it would have been at 2013 rates.

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 £325,000 adjustment to profit and for US dollar, and dollar related currencies, a 1 cent movement equates to approximately a £550,000 adjustment.

Return on Capital Employed (ROCE)

Our asset-light business model and high 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. This means that as we make acquisitions our capital base grows when the associated intangible assets and goodwill are recognised. During the year intangibles and goodwill increased by a net £63m in total which, after allowing for the related deferred tax, accounts for more than 60% of the increase in capital employed, which rose 35% to £379m. As a result of this, ROCE reduced to 47.6% despite the improved profit margin and growth in revenue this year.

Taxation

This year the Group's effective tax rate reduced from 27.9% to 26.9%. The mix of where profits are generated from within the 37 countries in which we have a presence has a major impact on the Group effective tax rate. Where we pay tax the national effective rates vary from 17% to 35%. There are also changes to tax within some jurisdictions which are large enough to impact the Group effective rate. The reduction of Chinese withholding tax rates, from 10% to 5% was one such influence in the year, as was the impact of the patent box reliefs in the UK. These two items accounted for a reduction of 120 basis points with geographic mix accounting for a 20 basis point increase. Our approach to tax continues to be to operate on the basis of full disclosure and co-operation with all tax authorities and, where possible, to mitigate the burden of tax within the local legislation.

FINANCIAL REVIEW CONTINUED

Organic Business Growth

£m		2014 as reported	Constant currency adjustment		2014 at 2013 exchange rates	Remove acquisitions		Organic business at 2013 exchange rates		2013 as reported
Revenue		594.7	33.0		627.7	(27.4)		600.3		578.4
Cost of sales		(309.2)	(16.1)		(325.3)	16.4		(308.9)		(304.0)
Gross profit	**48.0%**	285.5	16.9	**48.2%**	302.4	(11.0)	**48.5%**	291.4	**47.4%**	274.4
Overheads	**21.6%**	(128.3)	(6.4)	**21.5%**	(134.7)	3.4	**21.8%**	(131.3)	**21.2%**	(123.0)
Adjusted operating profit*	**26.4%**	157.2	10.5	**26.7%**	167.7	(7.6)	**26.7%**	160.1	**26.2%**	151.4
Net financial expenses		(1.1)	-		(1.1)	-		(1.1)		(1.3)
Adjusted profit before tax*	**26.2%**	156.1	10.5	**26.6%**	166.6	(7.6)	**26.5%**	159.0	**26.0%**	150.1

* Adjusted is before the amortisation of acquired intangible assets.

Cash Generation

Net cash balances finished the year at £46.8m, £22.1m lower than the start of the year. The three largest categories of cash expenditure were, £81.3m on acquisitions, £43.0m of tax paid and £42.7m of dividends paid. The increase in acquisition spend, from £43.5m last year, was the largest increase and was partly funded by a £19.4m net increase in loans during the year. Capital expenditure was higher than the previous year with the completion of the Leeds (UK) site project and the purchase of a new factory in Lucca (Italy) being the two largest items. The Lucca factory cost £3.4m and will be developed during 2015 for the business to move into late in the year.

Our cash generation KPI shows a conversion of 97.4% of operating profit into operating cash. Control of working capital is key to this performance and this year working capital increased to 28.5% of revenue compared with 24.7% in December 2013. The weighting of revenue to the last quarter of the year, which culminated in December 2014 being a record monthly revenue, led to a £22.5m increase in trade receivables between balance sheet dates of which acquisitions accounted for £6.0m. Looking at this as days' sales outstanding, this measure increased by 4 days to 60 days. The high revenue had a positive impact on inventory which only increased £2.2m on an OCC basis but with a further £4.8m from acquisitions year-end inventory was £81.1m which represented 13.6% of annual revenue compared with 13.0% in 2013.

Credit Management

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

Treasury

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

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

During the year we spent £81.3m on acquisitions. In order to fund these acquisitions we restructured our borrowing facilities. We started the year with one facility for up to £75m although only £15m of the facility was being utilised at that time. Mid-year this facility was renewed and the expiry date extended from January 2015 to June 2016. An additional one year committed facility for £20m was also entered into in May 2014.

Dividends

The Board is proposing a 3.0% increase in the final dividend to 30.9p per share. When taken together with the 19.2p interim dividend paid in September, this represents a 4.3% increase in dividends over the prior year. This gives dividend cover of 2.4 times (2013: 2.4 times). Our dividend policy is to grow core dividends in line with earnings and supplement core dividends with additional dividends when the Board considers it appropriate to do so having considered the near-term expected cash requirements of the Group.

Share Capital

Given the rise in the Company's share price over recent years, the Directors consider that it is now appropriate to sub-divide the shares into smaller units. At the forthcoming AGM in April the Board is proposing a sub-division of the Company's share capital to make the Company's shares more accessible, particularly to small shareholders and our own employees. A sub-division may also improve the liquidity and reduce the bid/offer spread of the Company's ordinary shares. Therefore a 10 for 1 share split will be proposed at the AGM which will mean the existing 5 pence ordinary shares will become 0.5 pence ordinary shares.

Retirement Benefits

The Group accounts for post-retirement benefits in accordance with IAS19 Employee Benefits. The balance sheet reflects the net deficit of these schemes at 31 December 2014 based on the market value of the assets at that date, and the valuation of liabilities using year end AA corporate bond yields. We have closed both the main defined benefit pension schemes to new entrants; the UK scheme in 2003 and the US one in 2009, in order to reduce the risk of volatility of the Group's liabilities.

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

During the year the deficit on the schemes increased from £20.2m to £36.1m and the funding level reduced from 87% to 81%. Although the company paid a total of £8.1m in contributions, the gain on scheme assets and the lower inflation rate were not enough to offset the effect from the reduction in the discount rate.

* References to adjusted profit throughout this document are defined as the IFRS profit, whether operating profit or profit before tax, with £14.9m (2013: £12.1m) of amortisation of acquired intangibles added back.

OCC Organic constant currency results are the 2014 figures restated at 2013 exchange rates and with the incremental contribution from acquisitions removed.

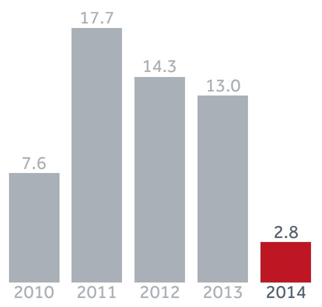
KEY PERFORMANCE INDICATORS

FINANCIAL KPIs

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

Sales Revenue Growth

2.8%



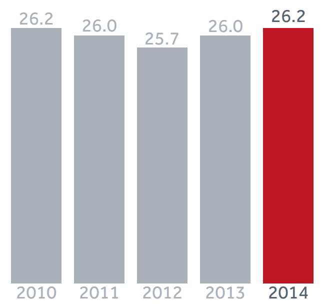
Reasons for choice
This is reported in detail for operating segments and is a key driver for the business. This measure enables us to track our overall success in specific project activity and our progress in increasing our market share by product and by region.

How we calculate
Increase in sales revenue year-on-year divided by prior year sales revenue.

Comments on results
The 2.8% growth in revenue was achieved despite our largest end-market, oil & gas, declining 1.6% compared with 2013. Growth in the power, industrial and other end-markets was sufficient to deliver growth overall. On a constant currency basis growth was 8.5% reflecting the strong currency headwinds we faced this year.

Return on Sales

26.2%



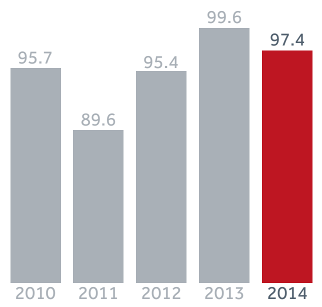
Reasons for choice
This measure brings together the combined effects of procurement costs and pricing as well as the leveraging of our operating assets. It is also a check on the quality of revenue growth but is heavily influenced by divisional mix.

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

Comments on results
The improvement in margins within Fluid Systems, growth in Instruments (with margins higher than the Group average) and a positive divisional mix impact all contributed to the 20 basis point improvement in the year, equalling the record for this measure set in 2010.

Cash Generation

97.4%



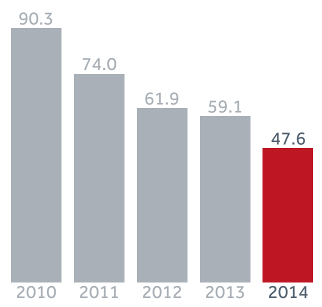
Reasons for choice
This is used as a measure of performance where a target of 85% is regarded as a base level of achievement. Cash generation is also one of the constituent parts of the senior management reward system.

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

Comments on results
Cash conversion remained high despite the record monthly revenue in December which led to a rise in trade receivables at the year end.

Return on Capital Employed

47.6%



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

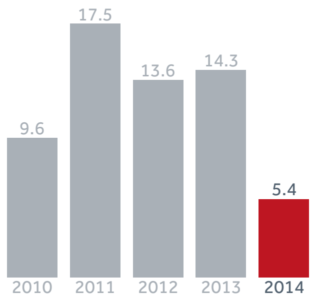
How we calculate
Adjusted operating profit* as a percentage of average capital employed. Capital employed is defined as shareholders' funds less net cash held, with the pension fund deficit net of related deferred tax asset added back. The calculation is shown on page 119.

Comments on results
Average capital employed rose by 29% due to the 2013 and 2014 acquisitions, whose value on our balance sheet includes the intangible assets associated with their acquisition. This KPI remains at sector leading levels.

* References to adjusted profit throughout this document are defined as the IFRS profit, whether operating profit or profit before tax, with £14.9m (2013: £12.1m) of amortisation of acquired intangibles added back.

Earnings per Share Growth

5.4%



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

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

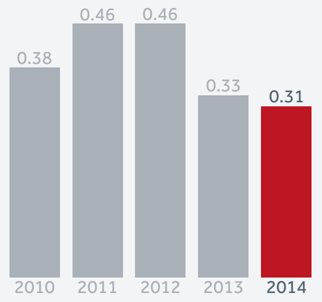
Comments on results
The lower tax rate in the UK and the international mix of where our profits were generated led to a further reduction in the effective tax rate and therefore EPS growth ahead of the underlying profit growth.

NON-FINANCIAL KPIs

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

Accident Frequency Rate

0.31



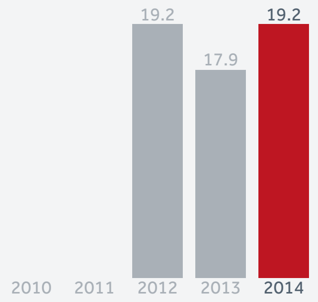
Reasons for choice
The Accident Frequency Rate (AFR) is used as one measure of the effectiveness of our health and safety procedures.

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

Comments on results
The investment in health and safety training, audits to monitor compliance with procedures and initiatives to embed safe working practices led to a further reduction in this KPI this year.

Carbon Emissions

+7.3%



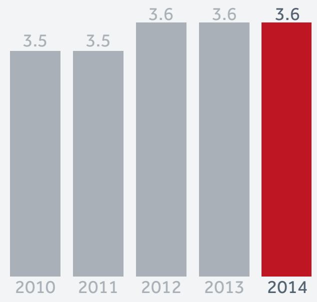
Reasons for choice
This KPI compares this year's carbon emissions stated as a function of revenue with last years and is a broad measure of our impact on the environment.

How we calculate
Energy usage data (scope 1 and 2) is collected and converted to equivalent tonnes of CO_2 and then reported as a function of millions of revenue. Further detail is contained in the Corporate Social Responsibility report.

Comments on results
The slower revenue growth and colder winter in early 2014 meant a reversal of the year 1 gains. Whilst already a low energy consumer by virtue of our outsourced manufacturing model, we are looking at ways of reducing energy consumption further with a focus on lighting and our higher energy usage locations.

Employee Satisfaction

3.6

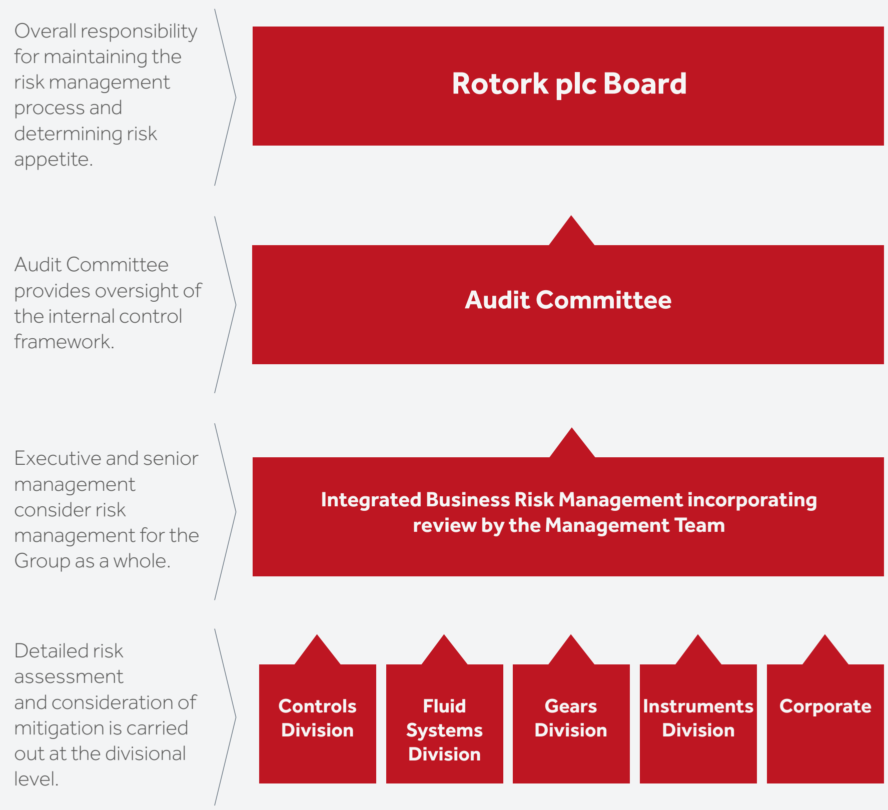


Reasons for choice
The survey as a whole enabled the Group to get feedback from across the businesses on how we relate to our employees and what we can do better.

How we calculate
Employees scored their responses directly into a prepared survey with 1 being very dissatisfied and 5 being very satisfied.

Comments on results
The number of employees completing the survey rose to 2,386, a 75% response rate. The highest scoring questions were those on employees planning on staying at least another year with Rotork and being proud of the products and services we provide our customers. The latter point was also the most improved score.

HOW WE MANAGE RISK



Managing Business Risks

The assessment and management of risk is the responsibility of the Board, and the development and execution of a comprehensive and robust system of risk management is a high priority in Rotork. Managing the risks to our business is essential to the long-term success and sustainability of the Group and our approach to risk is intended to protect the interests of shareholders and all interested parties. The risk management process is an established way of identifying and managing risk, first at divisional board level, and then for the Group as a whole and it works within our governance framework set out in our Corporate Governance Statement, see page 54.

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

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

Determining Risk Appetite

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

Risk Management Process

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

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

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

Classification of Key Risks

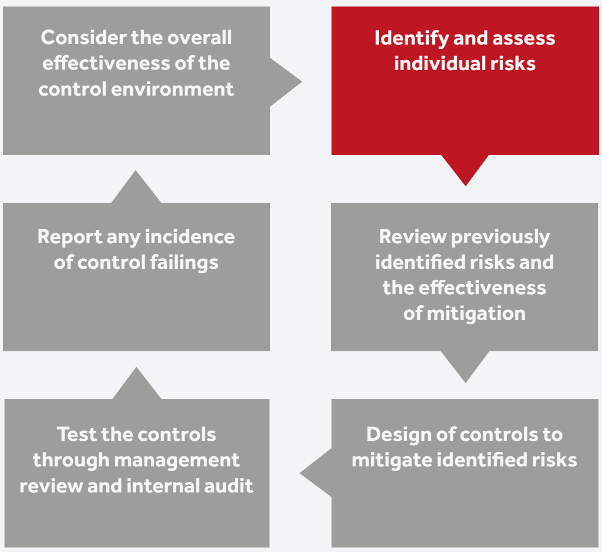
We identify three main risk types:

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

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

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

The risks considered during the process cover all aspects of the Group's activities and cover a far wider range of areas including environmental, reputational and ethical risks as well as product, competitor or financial risks, but not all of these areas are represented in the top 10 risks which are listed on pages 38 and 39. These are categorised by the three main risk areas identified above. Mitigation, where possible, is shown for each risk area identified.



PRINCIPAL
RISKS AND UNCERTAINTIES

STRATEGIC RISKS

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

OPERATIONAL RISKS

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

FINANCIAL RISKS

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

CORPORATE SOCIAL RESPONSIBILITY

EMPLOYEES WORLDWIDE

3,469

DIRECT PRESENCE IN

37

COUNTRIES

Rotork believes that being a responsible business leads to being the best business, which can benefit operational effectiveness, develop industry leading products, grow the business and build on the trust of stakeholders.

Sustainability lies at the heart of our business and Rotork is dedicated to making a positive impact around the world to ensure the Group continues to be successful in the long-term. The ongoing commitment to embed Corporate Social Responsibility (CSR) across all processes and the way it operates is something that Rotork is proud of.

This report sets out our policies, procedures and systems on how we manage our impact on the environment, how we conduct our business, how we provide a safe working environment and how we work with the local community in which we operate.

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

The Environment

Rotork is fully committed to reducing its impact on the environment by preventing pollution in all territories in which it operates, and to make sure it is compliant with any relevant legal or regulatory requirements. By complying it contributes to help sustain the environment, and it brings cost savings by reducing the consumption of energy, water, waste and recycling. The environmental programme is described in more detail on pages 42 to 45.

Ethics and Values

Ethics and values 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 aspects for the Group to adhere to. More details of the Group's ethics and values can be found on pages 46 to 47.

Health and Safety

The health and safety of all employees and contractors is of paramount importance in providing a safe working environment. Our fundamental principle, 'if you cannot do a job safely, we will not do the job', is actively promoted to everyone. This ensures that our people remain safe and we enhance the effectiveness of our workforce by reducing the risk of injury and costs associated with injury or illness. The Group's approach to health and safety can be found on pages 48 to 49.

Community Involvement

The Group considers it important to contribute and engage positively in the communities it operates in, to be a good community neighbour around the world and as a corporate entity, community involvement is part of that responsibility. One of our corporate values is to produce a positive and beneficial impact in the areas in which we operate and more details on community involvement can be found on pages 50 to 51.

The Group understands that shareholders are becoming increasingly focused on CSR issues so we take into account the Guidelines on Social Responsibility issued by the Association of British Insurers. The Group has been a member of the UN Global Compact since 2003 and continues to be included in the FTSE4Good index.

Rotork believes that the approach it takes to CSR helps to meet the expectations of our stakeholders and contributes to the success of our corporate strategy by promoting an effective and sustainable business.

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

The diagram below sets out our CSR structure.

CORPORATE SOCIAL RESPONSIBILITY CONTINUED

Leeds (UK) charity race to raise money for Jane Tomlinson appeal.

ENVIRONMENT

Introduction

Rotork is fully committed to the prevention of pollution, to comply with all relevant legal or regulatory requirements and to reduce our environmental footprint by targeting key areas such as energy consumption, water consumption and waste. We continue with our assembly only philosophy in the majority of our business units where we utilise specialist suppliers for most of our manufactured components and assemblies. This philosophy has resulted with the majority of our energy being used on lighting, heating and cooling and IT systems, and a small amount of energy is used on machining processes. As a responsible global entity we continue to influence the environmental performance of our supply chain through our supplier assessment programme.

Corporate Objectives

There is a corporate objective of a 3% reduction in tonnes of CO_2 generated in Scope 1 and Scope 2 emissions per £m turnover. Scope 1 and Scope 2 emissions have increased from 17.9tnCO_2e in 2013 to 19.21tnCO_2e in 2014, an increase of 7.3%. This increase is due to electricity and gas consumption at our new acquisitions and additional consumption at our existing facilities.

Progress

The baseline year remains at 2012. A number of new acquisitions occurred during 2013 and 2014 that have affected overall energy consumption but like-for-like figures have been published to show the underlying trends in the organisation.

Energy Consumption

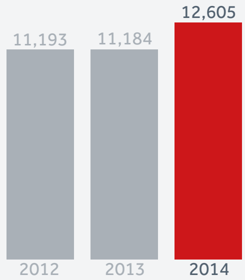
Due to the growth of the organisation during 2014 absolute electricity consumption increased 12.7% on the 2013 figures and was also a 12.6% increase on the baseline year. Absolute gas consumption showed a slight increase of 1.1% on the previous year but was a significant increase of 29.5% on the baseline year. This can be directly linked to weather conditions which have driven up gas usage in the USA since 2012. Absolute Liquid Petroleum Gas (LPG) consumption showed a decrease of 55.5% on 2013 and a decrease of 14.3% on the baseline year.

On sites excluding new acquisitions, during 2014 electricity showed an increase of 4.4% based on 2013 but a 2% decrease on the baseline year. Gas showed a 4.7% decrease on 2013 but a 13.9% increase on the baseline year. LPG showed a 22% decrease on 2013 and a 15% decrease on the baseline year.

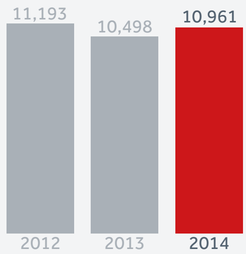
There are a number of energy related projects that are currently underway or have recently been completed which will start to show benefits in 2015. Some of the energy projects include installing energy efficient lighting in our Nottingham (UK), Melle (Germany) and Rochester (USA) facilities. The changes will reduce our energy consumption by approximately 50% per fixture. This has allowed some of our more energy intensive sites, such as Rochester (USA) to cut electricity consumption by up to 30%. Projects like this not only offer reduced energy consumption and the associated reduction in carbon emissions, but also provide a reduction on operating costs for the lighting and reduced maintenance costs.

As we develop new sites or upgrade our existing sites we will be introducing energy efficient solutions into the building design. This will help to reduce the environmental impact of our business in the future.

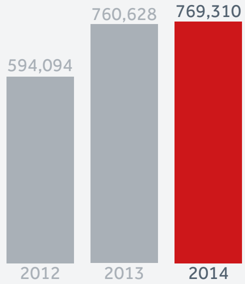
ELECTRICITY CONSUMPTION (MWh)
(ABSOLUTE)



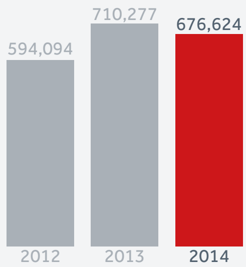
ELECTRICITY CONSUMPTION (MWh)
(EXCLUDING NEW ACQUISITIONS)



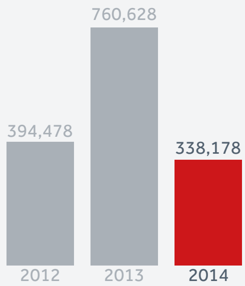
GAS CONSUMPTION (kwh)
(ABSOLUTE)



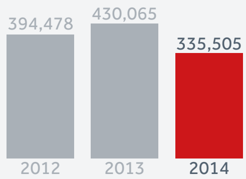
GAS CONSUMPTION (kwh)
(EXCLUDING NEW ACQUISITIONS)



LPG CONSUMPTION (lt)
(ABSOLUTE)



LPG CONSUMPTION (lt)
(EXCLUDING NEW ACQUISITIONS)



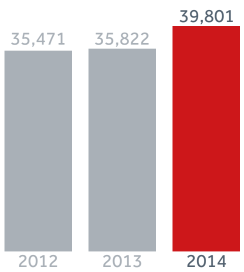
Houston (USA) donates funds and non-perishable items to the local food bank.

CORPORATE SOCIAL RESPONSIBILITY CONTINUED

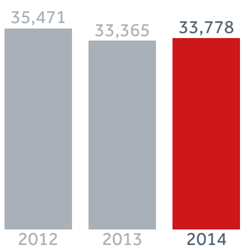
ENVIRONMENT

Water Consumption
Absolute water consumption across the Group has increased by 11.1% on 2013's consumption and 12.2% on the baseline year. On like-for-like sites the consumption remained fairly static with a 1% increase on 2013 consumption but a 5% decrease on the baseline year. The majority of water consumption is for domestic purposes only, though there are some additional requirements related to process water in a small number of our sites. Any reduction in these processes are not expected to have a significant impact on the overall water consumption.

WATER CONSUMPTION (m^3)
(ABSOLUTE)

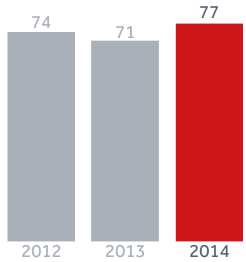


WATER CONSUMPTION (m^3)
(EXCLUDING NEW ACQUISITIONS)



Waste and Recycling
There are a number of local programmes in place to promote recycling and reduce waste. Our facility at Houston (USA) ran an event in November to separate different types of scrap metals, this has improved our recycling and given a higher return from the waste that was produced. Similar projects have yielded an overall recycling rate of 76.6% during 2014, compared to a recycling rate of 71.4% in 2013 and 73.6% in 2012.

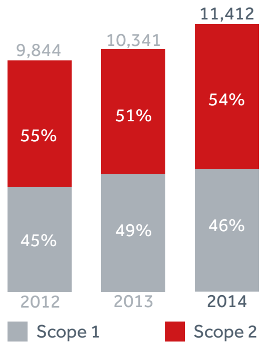
WASTE RECYCLING (%)



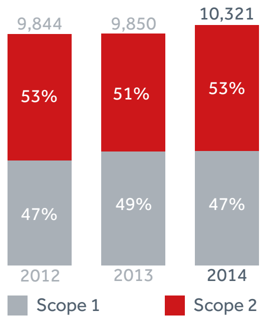
Environmental Incidents
There have been no reportable environmental incidents during 2014. Systems are in place to address any environmental incident that occurs at our facilities and the robustness of these emergency systems are included as part of our internal audit system.

Greenhouse Gas Reporting
In January 2015 EEF undertook an assurance audit of the Greenhouse Gas Emissions (GHG) report. The business reports on GHG Emissions in line with the GHG Emissions Protocol developed jointly by the World Business Council for Sustainable Development and the World Resource Institute. Highlights from the audit will be detailed in the Annual Environmental Report that will be published during 2015 and available on Rotork.com.

SCOPE 1 AND 2 EMISSIONS (TnCO_2e)
(ABSOLUTE)



SCOPE 1 AND 2 EMISSIONS (TnCO_2e)
(EXCLUDING NEW ACQUISITIONS)



Greenhouse gas is measured across three different scopes:

Scope 1: Emissions that are direct GHG emissions from sources that are owned or controlled by Rotork, these include emissions from fossil fuels burned on site, emissions from owned or leased vehicles, and other direct sources.

Scope 2: Emissions are indirect GHG emissions resulting from the generation of electricity, heating and cooling, or steam generated off-site but purchased for heating.

Scope 3: Emissions include indirect GHG emissions from sources not owned or directly controlled by the entity but related to the entity's activities. Scope 3 GHG emission sources currently required for GHG reporting include transmission and distribution (T&D) losses associated with purchased electricity and steam and well-to-tank emissions for all energy, business travel and transport.

There has been an increase of absolute emissions across scopes 1 and 2 by 10.4% on 2013's rates and an increase of 15.9% on the absolute emissions in the baseline year. When excluding new acquisitions scope 1 and 2 emissions increase by 3.8% on 2013 and 3.8% on the baseline year.

Summary of progress

Though the emissions have increased as the size of the business has increased there are a number of projects that will start to show benefit through 2015. The like-for-like sites have remained fairly static in electricity consumption and decreases in gas and LPG consumption based on last year.

Years 2012 and 2013 were utilised to understand the data that was available to the business. In 2014 projects were formulated and started to be implemented and during 2015 should start to show a reduction in our GHG emissions. Further projects are planned during 2015 to assist in the reduction of GHG emissions.

Changes in temperature can account for some of the increase in utility consumption. Changes in the 'GHG Conversion Factors for Company Reporting' which is published by the Department of Energy and Climate Change (DECC) can account for some of the increase in GHG emissions. In some regions that Rotork operates there was an increase of 10% on the emission factors compared to the previous year.

2015 Targets

A number of projects will be targeted at our highest GHG emission sites whilst some behavioural projects will be rolled out across the business to assist in achieving a target of a 3% reduction in Scope 1 and 2 GHG emissions normalised by turnover.

CASE STUDY

NEW MANUFACTURING FACILITY IN LEEDS

Energy saving is paramount within Rotork's facilities, and the Rotork UK site in Leeds is a prime example of this consideration.

Lighting provides a significant saving opportunity, so throughout the factory and offices the new facility has been fitted with occupancy sensing luminaires that dim automatically as natural light levels increase. Fresh air supplied to the office is tempered by energy recovered from the extracted air; saving energy in both winter and summer.

Natural ventilation in the factory utilises automatic roof and wall louvres to provide cooling air movement in summer months. All these are controlled by a Building Management System for optimal comfort and minimum energy use.

CORPORATE SOCIAL RESPONSIBILITY CONTINUED

Bath (UK) took part in 'It's a Knockout' to raise money for WaterAid.

ETHICS AND VALUES

Overview

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

Human Rights and Ethical Business

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

The Group recognises that an open and honest culture is key to understanding concerns within the business and promises to uncover and investigate any potential wrongdoing. The Group has a whistleblowing policy with an independent external whistleblowing hotline to facilitate the reporting of any concerns of wrongdoing confidentially.

Employees

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

Rotork has an objective and fair recruitment process which promotes equal opportunities across the Group in-line with the 'Respect at Work and Equality of Opportunity' policy. Rotork is committed to the principle of equal opportunities in employment to ensure that no employee or job applicant receives less favourable treatment on their age, race, nationality, ethnic origin, disability, sex, sexual orientation, religion, belief or marital status. All employees therefore have responsibilities to ensure that the policy is successfully implemented including ensuring that selection for hiring, promotion, training and work allocation is carried out in a non-discriminatory manner.

Employee views and direct communication are part of our values and we run employee suggestion schemes, an annual Group wide Employee Satisfaction Survey (ESS) and several locations have employee forums where employees can raise issues to be further considered by management.

Employees are briefed by management on various matters including the Company's performance at regular intervals as well as the employee bonus performance which is profit related. Most locations participate in the Company's employee profit linked share schemes.

Rotork has built a strong partnership with the Institute of Mechanical Engineers (IMechE) to support its engineers in gaining Incorporated and Chartered accreditation and Rotork continues to work with IMechE. Leeds has an IMechE Industrial Liaison team who support members of the institution and they help to promote it internally and to the wider engineering community.

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

Full details of Rotork's diversity policy and targets can be found in the corporate governance report on page 58.

Bribery and Corruption

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

The Group's whistleblowing policy, which can be found on Rotork's website, gives whistleblowers a platform to alert senior management, anonymously if the employee wishes, to any suspected bribery or corruption, through an independent, external hotline if necessary. The Group has an open culture which allows employees to raise concerns to management in various ways, as set out in the whistleblowing policy. All whistleblowing concerns however received are investigated and reported to the Audit Committee. During 2014 the hotline received five calls covering issues related to health and safety and employment issues. All were resolved satisfactorily. The ESS for 2014 showed an increased understanding of how to raise a wrongdoing concern using the whistleblowing hotline. During the year further steps were then taken to publicise and promote the hotline.

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

The Group has developed and delivered anti-bribery and corruption training including an assessment to all employees working in sales and purchasing roles as well as to senior accountants, all managers and directors (including executive and non-executive directors). The anti-bribery and corruption training is delivered as an e-learning module. The course has been made available in numerous languages and almost 100% of employees required to complete the course have done so within the required period, including those in new acquisitions.

Suppliers

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

The supplier assessment programme includes CSR themed questions associated with equal rights and equal pay, anti-bribery and corruption policies, charitable giving, environmental impact and anti-compulsory or child labour practices. These surveys consider current and prospective suppliers. The assessments are discussed directly with the suppliers and any corrective action plan is agreed between the Company and the supplier.

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

Progress

- A further 16 existing suppliers and all new suppliers to Rotork's Bath manufacturing facility were assessed;
- A FTSE4Good score of 3.8 out of 5 was achieved;
- Presentations relating to bribery and corruption were given by senior management and the Group's legal department to Group accountants, internal auditors, general managers and sales managers;
- The whistleblowing policy was communicated to all employees in every edition of the internal Rotork e-newsletter; and
- Bribery and corruption training was rolled out to relevant employees in French, Italian, Japanese, Portuguese, Russian and Thai, in addition to English, Korean, German, Spanish and Chinese.

2015 Targets

- Further increasing awareness of bribery and corruption issues by circulating information to agents in the form of a tailored booklet;
- Continue to make progress in increasing diversity across the Group;
- Ensure the Group diversity policy in its broadest sense is communicated across the Group; and
- Continue to communicate the whistleblowing policy regularly through the Rotork e-newsletter.

CORPORATE SOCIAL RESPONSIBILITY CONTINUED

Dallas (USA) 'Toys for Tots' campaign.

HEALTH AND SAFETY

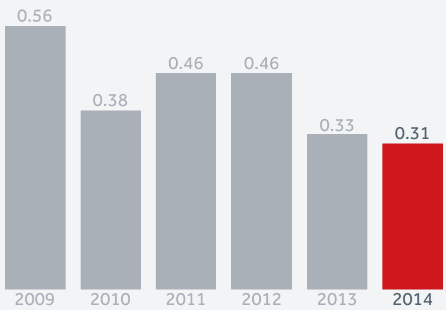
Overview
Rotork is fully committed to the health and safety of its employees and contractors. We ensure compliance to all relevant legal and regulatory requirements and strive to continuously improve our health and safety performance.

Policies, procedures and systems of safe working are in place, supported with training to ensure the health, safety and welfare of our employees during their working day. The Health and Safety Policy was reviewed and approved in February of 2014 by the Chief Executive.

Fundamental Principles
As the business continues to grow both organically and through acquisition, the fundamental principle of 'If we cannot do a job safely, we will not do the job' is maintained and communicated to all those who work for or on behalf of Rotork.

Progress
The target for 2014 was to have an Accident Frequency Rate (AFR) below 0.42. The actual AFR for 2014 was 0.31 which is a decrease of 6% on the previous year and a decrease of 44% since 2009.

ACCIDENT FREQUENCY RATE (AFR)



The AFR is a calculation of accidents resulting in over three days lost time, divided by the average hours worked, multiplied by 100,000.

The number of days lost due to workplace injuries decreased by 33% but the number of minor accidents has increased by 24% on the previous year.

Occupational Health

There have been no occupational diseases reported during 2014.

Case Study Examples

Gears – Houston

A Lean Six Sigma project introduced '7S' standards that involved a detailed review of the operational workspace that assessed and made improvements on layouts, general housekeeping, cleaning routines, scheduled preventative maintenance and all associated training. This programme will support other work that is ongoing to reduce the risk of injury and help maintain a healthy workplace.

Controls – Singapore

A number of activities to reduce the risk of fire were carried out including upgrading electrical systems, fire extinguisher exercises for all employees, improvements in housekeeping standards that included a designated outside smoking area with a safety bin and improved storage of combustible materials.

Awards and Recognition

To ensure high standards of health and safety performance, a number of businesses within the Rotork Group have gained or have maintained certification to OHSAS18001. These include facilities in Leeds (UK), Wolverhampton (UK) and Singapore.

Houston (USA) supports the Court Appointed Special Advocates for Children (CASA).

Assurance Activities

During 2014 compliance audits were conducted at 62 of our facilities. On equivalent sites there was a slight decrease in the score achieved from 86% to 85%, this is believed to be down to the interpretation of different auditors. Our newly acquired sites scored a lower average of 80%. Where sections of the business do not perform to the required standard corrective actions are identified and tracked to closure. During 2014 there were no actions raised that would require immediate attention by the local management teams.

A proposal to re-balance the audit protocol to ensure a greater consistency in scoring and to focus on risk management processes and control was agreed by the CSR committee in December of 2014.

Employee Satisfaction Survey

During 2014 75% of the workforce completed an employee satisfaction survey. The question, "I believe that Rotork cares about my health and safety", had overall satisfaction of 80%, a slight increase of 1% on the previous year. The question, "In the last year, I have seen actions taken to maintain safety at my workplace", saw an increase from 77% to 79%.

Summary of Progress

Throughout the year we continued to keep health and safety as a priority for employees and contractors as can be seen by the positive results in the employee satisfaction survey. We must continue to learn from events, audits and inspections to continually improve our health and safety performance. As we move forward we will be looking to improve our processes and will look at innovative practices to improve our health and safety performance.

2015 Targets

The method adopted to set the AFR target is the calculated average of the previous three years AFR results, this sets the AFR target for 2015 as 0.36.

CORPORATE SOCIAL RESPONSIBILITY CONTINUED

CASE STUDY

SIGHTSAVERS

Rotork is supporting Sightsavers' work to eliminate river blindness, lymphatic filariasis (LF) and trachoma in Ghana and help them achieve their goal of eliminating Neglected Tropical Diseases (NTDs) by 2020.

Joseph Baidoo is a 64 year old cocoa farmer who lives in Brekrom in the Juabeso district of the Western Region of Ghana. Joseph lives close to the Bia River and during October and November, when the rain is the heaviest, black flies come in droves.

Joseph has been taking Mectizan® for the past four years to prevent and control river blindness.

COMMUNITY INVOLVEMENT

Overview

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

Local community involvement highlights from the year include:

- Langenzenn (Germany) donated towards new equipment at their local primary school;
- Falun (Sweden) donated to local charity Makalosa Foraldrar, who actively support single parents in Falun by organising fun activities to give both the children and parents a break from everyday life;
- Employees from our Rochester and Winston-Salem (USA) offices raised significant funds to support the charity United Way who focus on education, income, and health of the local communities they engage in;
- Shanghai (China) donated to the Educational Development Fund of South China University of Science & Technology; and
- Tulsa (USA) employees produced overwhelming responses to clothing and food drives in 2014. The food drive, hosted prior to Thanksgiving, resulted in turkeys and side dishes being donated to 10 families through the Community Food Bank of Eastern Oklahoma.

Apprenticeships are increasingly being developed throughout Rotork's global network of subsidiaries. Bath's apprenticeship scheme has run since the Company began nearly 60 years ago and similar established programmes now exist at several Rotork locations. Rotork values its apprentices and believes in investing in its own talent in order to succeed. For example, in Melle (Germany), it is the combination of technical training at a local college, with the valuable experience within commercial departments that makes the apprenticeship programme unique. As a result, the apprentices will emerge from the apprenticeship as all-rounders with the capability to pursue several different career paths within Rotork. Other Rotork locations that have run an apprenticeship programme during 2014 include: Bayswater and Ballarat (Australia), Langenzenn (Germany), Losser (The Netherlands), and Bilbao (Spain).

In addition to local charitable and educational activities, the Group has supported two major charities in 2014, WaterAid and Sightsavers. A specific WaterAid project is supported and the Group receives regular updates throughout the year on the progress of this project.

WaterAid uses the Group's support to help fund the Metu-Hurumu Woreda WaSH Project in Ethiopia, situated in the same area of Ethiopia as the completed Jeldu Woreda Project previously supported by the Group. This project targets 10 villages and provides over 128,000 people with safe water and sanitation. The project is a combination of water supply provision, water resource management and livelihood improvement and it has been identified that this approach is of critical importance to improve the wellbeing of the communities in the Keber watershed. Since work commenced in August 2014, the project has provided 3,422 people with water, 4,196 people with toilets, and 1,913 people with hygiene education. Rotork will continue to support the development of this key project throughout 2015.

In addition to our ongoing support for WaterAid, the Group also supports Sightsavers, an international charity that works with partners in the developing world to combat avoidable blindness. Sightsavers is part of a high profile global initiative to eliminate the world of neglected tropical diseases (NTDs) in the next 10 years, diseases which currently affect over 1.4 billion of the world's poorest people. Rotork's support is focused on Ghana, and is split between the trachoma and lymphatic filariasis (LF) / river blindness programmes that helped to protect millions of people against these devastating diseases in 2014. Rotork's support has aided Sightsavers to take another step towards their aim of eliminating NTDs in Ghana by 2020.

Progress

- £60,000 contributed by the Group to WaterAid;
- £60,000 contributed to Sightsavers; and
- Variety of donations made to charitable causes relevant to the local communities of Rotork's operating sites.

2015 Targets

To increase donations to charitable causes. The Group will:

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

CASE STUDY

WATERAID

Rotork continues to support WaterAid and the donation made in 2014 has helped local communities in ten villages with clean water, improved sanitation and hygiene wash (WASH).

Working in seven Kebeles (villages) of the Hurumu Woreda (district), in the Oromia Region of Ethiopia, WaterAid and their local partner followed an integrated approach to WASH services - capacity building at both community and institutional level and water resource and natural resource management through conservation of the area's wetlands. This has helped to combat the severe degradation of wetlands in the most ecologically important area of Ethiopia, where many rivers contributing to the Nile Basin originate.

Contacts and feedback

The Group welcomes and values feedback. If you have any comments regarding this CSR report or any aspect of the Group's CSR programme, please contact Stephen Jones, Company Secretary, by writing to him at the Rotork plc registered office, full details of which can be found in the corporate directory on page 131.

DIRECTORS

1. PETER FRANCE
CHIEF EXECUTIVE

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

APPOINTED TO THE BOARD

2006

EXTERNAL APPOINTMENTS

Chairman of the Bath Education Trust

COMMITTEE MEMBERSHIP

Nomination

2. ROGER LOCKWOOD
CHAIRMAN

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

APPOINTED TO THE BOARD

1988

EXTERNAL APPOINTMENTS

Chairman of Hydro International plc

COMMITTEE MEMBERSHIP

Nomination (Chairman)

3. JOHN NICHOLAS
SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

John was appointed as Senior Independent Director of Rotork plc on 20 June 2014. Formerly, John was Group Finance Director of Tate & Lyle plc and Kidde plc.

APPOINTED TO THE BOARD

2008

EXTERNAL APPOINTMENTS

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

COMMITTEE MEMBERSHIP

Audit, Nomination and Remuneration

4. GARY BULLARD
NON-EXECUTIVE DIRECTOR

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

APPOINTED TO THE BOARD

2010

EXTERNAL APPOINTMENTS

Founder and CEO of Catquin Ltd
Chairman of New Model Identity Ltd

COMMITTEE MEMBERSHIP

Remuneration (Chairman)
Audit and Nomination

5. SALLY JAMES
NON-EXECUTIVE DIRECTOR

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

APPOINTED TO THE BOARD

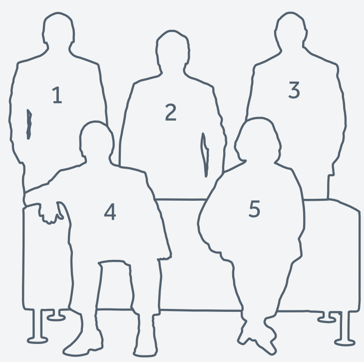
2012

EXTERNAL APPOINTMENTS

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

COMMITTEE MEMBERSHIP

Audit (Chair), Remuneration and Nomination



6. LUCINDA BELL
NON-EXECUTIVE DIRECTOR

Lucinda is a Chartered Accountant with over 20 years of industry experience and has held a range of finance roles in the real estate industry. Lucinda has served on the board of The British Land Company plc since March 2011 and became Finance Director in May 2011.

APPOINTED TO THE BOARD

2014

EXTERNAL APPOINTMENTS

Finance Director of The British Land Company plc

COMMITTEE MEMBERSHIP

Audit, Nomination and Remuneration

7. BOB ARNOLD
PRESIDENT OF ROTORK CONTROLS INC.

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

APPOINTED TO THE BOARD

2001

8. MARTIN LAMB
NON-EXECUTIVE DIRECTOR

Martin has an engineering background and worked for IMI for over 33 years, where he held a number of senior management roles. He served on the IMI plc board from 1996 until May 2014 and held the position of Chief Executive of IMI plc from 2001 to 2013.

APPOINTED TO THE BOARD

2014

EXTERNAL APPOINTMENTS

Chairman of Evoqua Water Technologies LLC
Senior independent director of Severn Trent plc
Non-executive director of Mercia Technologies plc
Member of the European Advisory Board of AEA Investors (UK) Ltd

COMMITTEE MEMBERSHIP

Audit, Nomination and Remuneration

9. JONATHAN DAVIS
FINANCE DIRECTOR

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

APPOINTED TO THE BOARD

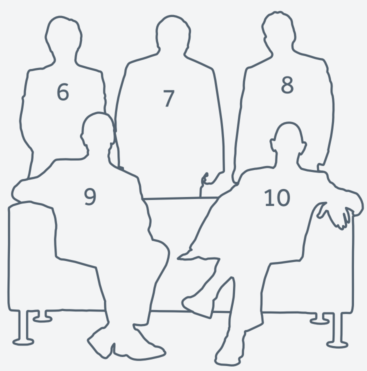
2010

10. GRAHAM OGDEN
RESEARCH AND DEVELOPMENT DIRECTOR

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

APPOINTED TO THE BOARD

2005



CORPORATE GOVERNANCE

Statement from Chairman

Roger Lockwood
Chairman

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

Our corporate governance report is set out on pages 54 to 63 and describes the roles, accountabilities and expectations for our directors and Board structures. We are subject to the UK Corporate Governance Code (the Code) and whilst ensuring we provide detailed reporting, we have sought to place emphasis on explaining how the principles of the Code are applied across our Group. A summary of the business the Board considered during 2014 is also set out opposite. I am pleased to report that throughout 2014, the Company complied with the Code in all respects.

Corporate governance highlights for 2014 include the progressive refreshing of the Board and its Committees by the appointment of two new independent non-executive directors, LM Bell and MJ Lamb and change in the roles of JE Nicholas (Senior Independent Director) and SA James (Chairman of the Audit Committee), which followed the retirement of IG King from the Board. Throughout the year, the Nomination Committee has held a number of additional meetings to consider Board composition and succession planning and, in particular, recommending to the Board the appointment of two new independent non-executive directors and a new Chairman.

The Audit Committee conducted a tender for the appointment of our external auditor and, following this process, appointed Deloitte LLP on 2 June 2014 as the Group's external auditors, replacing KPMG Audit plc.

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

Summary of 2014 Board Business

Month	Business
February	– Performance and business review including a review of prospective acquisitions. – Investor relations report from Chief Executive. – Approval of the overall level of insurance for the Group. – Consideration of the Audit Committee recommendation to approve the 2013 financial statements for presentation to the shareholders for their approval at the Annual General Meeting (AGM). – Consideration of the 2013 financial statements and potential final dividend amount. – Receipt of a presentation from the Chief Executive and Finance Director of the preliminary announcement of the 2013 financial results. – Review of 2013 top objectives. – Presentation from the Group Human Resources Director, Group Operations Director and Group Legal Director on Corporate Social Responsibility.
March	– Performance and business review including a review of prospective acquisitions. – Investor relations report from Chief Executive. – Presentations from the Group Business Development Director and Group Research and Development Director.
April (2 meetings)	– Consideration of the Audit Committee recommendation to approve the Interim Management Statement.
	– Performance and business review including a review of prospective acquisitions. – Investor relations report from Chief Executive. – Consideration of the AGM proxy returns and reports and consideration of the AGM arrangements. – Review of Third Annual Review of Women on Boards report by Lord Davies. – Presentation by Divisional Managing Director of Rotork Fluid Systems.
May	– Approval of appointment of MJ Lamb as a non-executive director, following a Nomination Committee recommendation. – Approval of JE Nicholas as Senior Independent Director and SA James as Audit Committee Chairman. – Approval of appointment of Deloitte LLP as external auditor from 2 June 2014, following an Audit Committee recommendation.
June (meeting held at Rotork's plant in Winston-Salem, USA)	– Performance and business review including a review of prospective acquisitions. – Investor relations report from Chief Executive and report from Chairman on meeting with institutional investors. – Discussion of the half year interim dividend. – Group Risk Review. – Group strategy presentation by Chief Executive and Board discussion on strategy. – Presentation from the Divisional Managing Director of Rotork Instruments and local management.
July	– Approval of appointment of LM Bell as a non-executive director, following a Nomination Committee recommendation.
August	– Performance and business review including a review of prospective acquisitions. – Investor relations report from Chief Executive. – Receipt of a presentation from the Chief Executive and Finance Director of the half year results. – Consideration and approval of half year report and consideration of interim dividend. – Strategy discussion.
September (meeting held at Rotork's plant in Leeds, UK)	– Performance and business review including a review of prospective acquisitions. – Investor relations report from Chief Executive. – Consideration of legal and corporate governance developments. – Presentation from the Divisional Managing Director of Rotork Gears.
November (2 meetings)	– Consideration of the Audit Committee recommendation to approve the Interim Management Statement.
	– Performance and business review including a review of prospective acquisitions. – Investor relations report from Chief Executive. – Consideration of risk appetite. – Review of the 2015 budget. – Consideration and approval of revised employment of former employees of the external auditor policy. – Consideration of legal and corporate governance developments, including the requirements of the UK Corporate Governance Code 2014. – Presentations from the Divisional Managing Director of Rotork Controls and the Managing Director of Rotork Site Services.
December	– Performance and business review including review of prospective acquisitions. – Investor relations report from Chief Executive. – Discussion of potential 2014 final dividend amount. – Review of effectiveness of risk management and internal control systems. – Consideration of corporate governance developments. – Consideration of board performance evaluation. – Approval of Directors' situational conflicts of interests disclosures. – Review of risk management and internal control systems including consideration of the Board's additional responsibilities under the UK Corporate Governance Code 2014 and associated guidance. – Approval of 2015 corporate objectives. – Approval of the 2015 budget.

CORPORATE GOVERNANCE CONTINUED

UK Corporate Governance Code Compliance Statement
The following section on pages 56 to 63 is a summary of the system of corporate governance adopted by Rotork. Throughout the year ended 31 December 2014, Rotork plc fully complied with the UK Corporate Governance Code (the Code). The Code is available to download at www.frc.org.uk.

The Board of Directors
The Board has a duty to promote the long-term success of Rotork for its shareholders; accomplished by entrepreneurial leadership, within a framework of prudent and effective controls. Its role therefore includes approval of strategy, risk reviews, finance matters and internal control and risk management including major contract approvals.

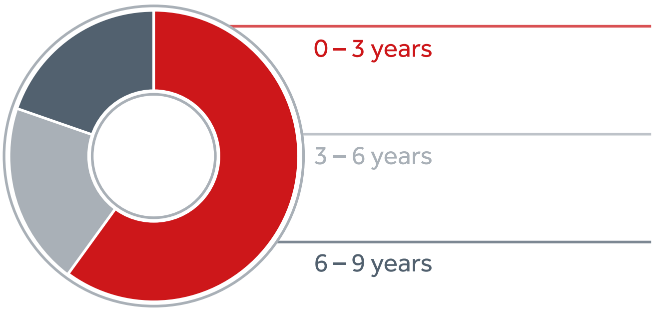
The terms and conditions of appointment of directors are available for inspection during business hours at the registered office of Rotork plc and at the AGM.

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

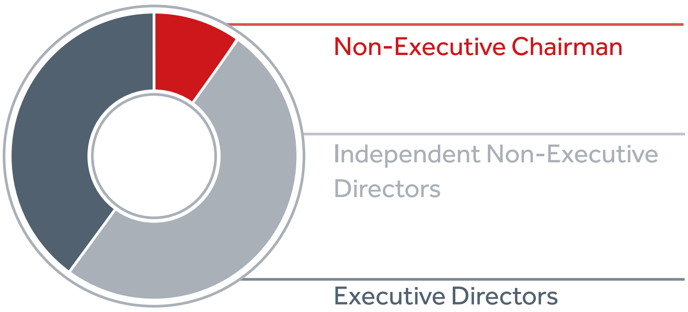
The biographies of the directors and details of Board committee membership are set out on pages 52 to 53.

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

LENGTH OF TENURE OF INDEPENDENT NON-EXECUTIVE DIRECTORS
AS AT 31 DECEMBER 2014



BALANCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS AND EXECUTIVE DIRECTORS
AS AT 31 DECEMBER 2014



Directors' attendance at Board and Committee meetings during 2014:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
No. of meetings	**12**	**6**	**3**	**4**
RH Arnold	12	3[i]	N/A	N/A
JM Davis	12	6[i]	N/A	N/A
PI France	12	6[i]	3[i]	4
GM Ogden	11	3[i]	N/A	N/A
LM Bell[ii]	2	1	1	0
GB Bullard	11	6	3	4
SA James	12	6	3	4
IG King[iii]	5	3	1	1
MJ Lamb[iv]	5	3	2	1[v]
RC Lockwood	12	6	3	4
JE Nicholas	12	6	3	4

(i) By invitation
(ii) LM Bell was appointed to the Board on 10 July 2014
(iii) IG King retired from the Board on 20 June 2014
(iv) MJ Lamb was appointed to the Board on 2 June 2014
(v) MJ Lamb did not attend November Nomination Committee meeting where he was being considered as a candidate for the upcoming Chairman vacancy

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

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

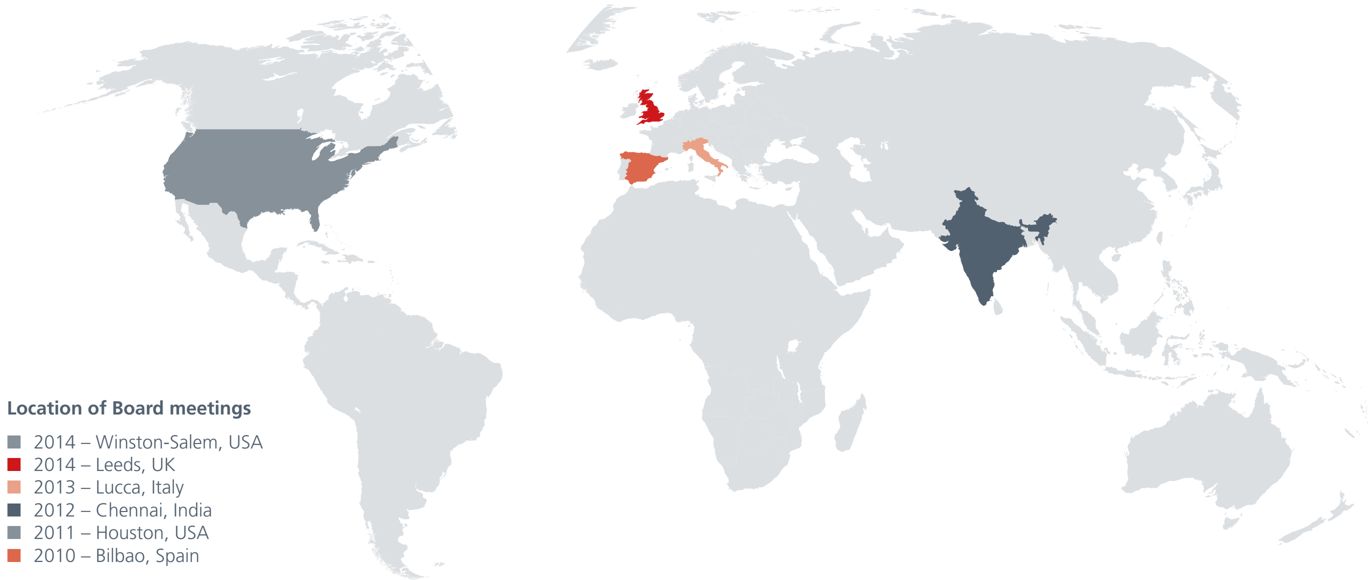
How the Board Operates Effectively
Board Activities
As part of Rotork's Board effectiveness, day-to-day responsibility for the running of the Company is delegated to executive management. However, there are a number of matters where it is not considered appropriate to do this. The Board therefore has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

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

In 2014, the Board met 10 times at scheduled meetings and twice at additional meetings.

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

At least once annually, the Board travels to and meets at one of Rotork's locations other than its head office in Bath. This allows the Board, and in particular the non-executive directors, the opportunity to gain a deeper understanding of overseas businesses and their markets and to interact with local management and staff, as well as to view new capital investments and acquisitions. In 2014, the Board visited Rotork's manufacturing facility in Winston-Salem (USA) and its new manufacturing plant in Leeds (UK). The Board met with and received presentations from local management.



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

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

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

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

Induction and Development

New Board members receive a suitable and tailored induction. This is facilitated by the Company Secretary under the direction of the Chairman. In 2014 LM Bell and MJ Lamb were appointed as independent non-executive directors. They both received a suitable induction which in addition to documentary content included arrangements for product training as well as visits to various Rotork sites and meetings with management.

Directors are encouraged to continually update their professional skills and knowledge. During 2014, development and induction activities for the directors included participation in external training seminars covering accounting and corporate governance developments and internal Rotork related training.

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

CORPORATE GOVERNANCE CONTINUED

Performance Evaluations

During 2014 the Board undertook a detailed review of its performance, based on a written questionnaire which was designed after consultation with the Chairman and Company Secretary by Vivienne Cassley of Useful Thinking, an independent external consultancy, who also provided an analysis on the responses.

The feedback from the review was positive and the Board is satisfied that progress continues to be made as the Group expands. Although the structure of the Board has changed during the past two years, the level of trust and respect between members remains high, and there is a spirit of constructive challenge.

The review considered matters raised in 2013, and identified progress in most areas. For example, during 2014 the processes governing internal controls were further strengthened and the Board's diversity was further increased.

Board members identified key areas for focus in 2015, including:
- Ensuring that new organisational structures across the Group are well implemented and supported;
- Accelerating organic growth; and
- A continued focus on longer term strategy.

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

Diversity on the Board

Rotork recognises the benefits that gender diversity can bring to the Boardroom and to the Group as a whole. Having met its first published target of achieving 25% female representation in its independent non-executive directorate in 2012, Rotork responded to Lord Davies' call for action in the Second Annual Review of Women on Boards in 2013 by announcing the future action it will take to improve diversity in senior management and throughout the organisation. Rotork has made progress towards its published targets. Rotork has also published a diversity policy which covers diversity on the Board and throughout the organisation. Details of this policy are set out in the report of the Nomination Committee on page 63.

Internal Controls and Risk Management

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

The system covers controls which enable Rotork to respond appropriately to financial, operational, compliance and any other risks. The system accords with the Turnbull Guidance, Internal Control – Guidance for Directors on the Combined Code, and key elements include:
- Robust assurance processes and controls over financial reporting procedures;
- A formal schedule of reserved matters for the Board including responsibility for reviewing Group strategy;
- Clearly defined levels of authority and a division of responsibilities throughout the Group;
- Formal documentation procedures;
- A formal whistleblowing policy with an external whistleblowing hotline; and
- An internal audit function made up of accountants from head office and across subsidiaries supported by training in internal audit, best practice and control procedures to monitor and identify weaknesses in internal controls.

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

There is a continuous process for identifying, evaluating and managing the significant risks faced by Rotork, details of which can be found on pages 36 to 39.

The Group continually learns from its experiences with internal controls and risk management which serves to further enhance the robustness of the internal controls and risk management in place around the Group. In 2014, the annual review of the system of internal control identified no significant internal control failings or weaknesses.

In 2014 the Board considered the UK Corporate Governance Code 2014 and the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (both applicable to the Company from 1 January 2015) in order to comply with the revised requirements, including those related to internal controls and risk management, from the next financial year. The Board has planned a workshop on internal control and risk management procedures in 2015 to consider the Company's internal control and risk management procedures and the requirements of the UK Corporate Governance Code 2014 and associated guidance.

The Group's key risks change during the year under review and details of processes to manage these risks, including the Board's approach to the significant risks the Group is willing to take, ie. 'risk appetite', in achieving its specific objectives, can be found on pages 36 to 39.

Relations with Shareholders

Communication with shareholders is a priority for Rotork and the Company maintains a regular dialogue with its major shareholders. Rotork recognises the value of the UK Stewardship Code. In 2014 the Board, and in particular the Chief Executive and Finance Director, have met with the shareholders in a number of ways including:

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

The Chairman ensures that all directors are made aware of major shareholder issues and concerns by ensuring the Board receives reports from the Chief Executive on meetings with analysts and fund managers as well as shareholders.

During 2014, the Chairman and Company Secretary met with institutional investors at the invitation of the Corporate Governance Director of a major shareholder to discuss various corporate governance issues after a response to a letter from the Company Secretary on behalf of the Board seeking feedback on the level of contact they received from the Board and in particular the Chairman and the independent non-executive directors. All responses received were positive and confirmed that the level of contact provided was satisfactory.

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

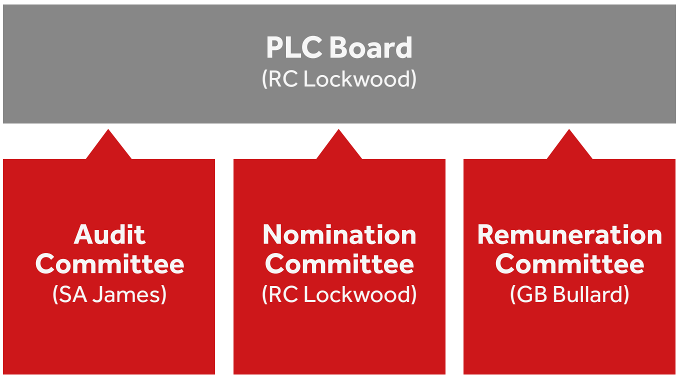
Rotork also maintains a comprehensive investor relations section on its website which provides a variety of resources for investors including current webcasts, presentations and press releases. The website can be accessed at www.rotork.com/en/investors.

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

Board Committees

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

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



CORPORATE GOVERNANCE CONTINUED

Audit Committee

SA James
Chairman
Members: LM Bell, GB Bullard, MJ Lamb, JE Nicholas

During 2014, embracing its role of protecting the interests of shareholders, the Committee focused on the integrity of the Group's financial reporting and the effectiveness of internal and external audit. The Committee conducted a tender for the external audit contract and, on 2 June 2014, following a robust review and tender process, the Board appointed Deloitte LLP as the Group's external auditor, following a recommendation from the Committee. During 2014, Chairmanship of the Committee changed and following JE Nicholas' appointment as Senior Independent Director, SA James was appointed as Chairman of the Committee on 20 June 2014. The Committee has also monitored changes in governance requirements, including those relating to internal controls and risk management.

All Committee members are independent non-executive directors. LM Bell and JE Nicholas hold professional accounting qualifications and the Board considers both to have recent and relevant financial experience. Biographies of each member of the Committee can be found on pages 52 to 53. The Chairman, Chief Executive, Finance Director, Group Financial Controller, internal audit co-ordinator and external auditor also regularly attend meetings by invitation.

The Committee operates under formal terms of reference which are reviewed annually. A copy of the terms of reference is available on the Rotork website at www.rotork.com. Principal responsibilities are to review and report to the Board on:
The integrity of financial reporting;
- Significant accounting policies and judgements;
- Internal control and risk management systems including monitoring the effectiveness of internal audit;
- The appointment, independence and effectiveness of the external auditor, including the policy relating to non-audit work and policy relating to employment of former staff of the external auditor;
- The external auditor's remuneration; and
- The whistleblowing policy.

Activities of the Audit Committee during the year
The Committee met six times during the year. A summary of its principal activities is set out opposite:

Summary of 2014 Audit Committee Business

Month	Principal activities
February	– Review of the full year accounts including material judgments and estimates, the draft Annual Report 2013, governance reports and draft results announcements. – Internal controls and risk management review including consideration of processes and procedures for risk management, effectiveness of internal controls and fraud risk. – Review of internal audit reports, the internal audit programme, its remit, resourcing and effectiveness, and of the need for a separate internal audit function. – Consideration of and reporting to the Board on the external auditor's independence, objectivity and effectiveness including the annual audit. The auditor's representation letter, views on the control environment and fraud risk management; and reappointment of the external auditor, including whether it is appropriate to put the external audit contract out to tender. – Meeting with the external auditor without the presence of management. – Consideration of accounting and corporate governance developments. – Review of non-audit services undertaken by the external auditor.
April	– Interim Management Statement review.
May	– Recommendation to the Board that Deloitte LLP be appointed external auditor.
August	– Review of the half year accounts including material judgments, estimates and draft results announcements. – Internal controls and risk management review including reviewing policies and procedures for preventing bribery and corruption and consideration of significant internal audit reports. – Review of external auditor's report on the half year accounts and the proposed full year external audit scope, key risks, materiality and year end issues. – Review of non-audit services undertaken by the external auditor. – Meeting with the external auditor without the presence of management. – Consideration of accounting and corporate governance developments.
November (2 meetings)	– Interim Management Statement review.
	– Internal controls and risk management review including key risks and mitigating controls; processes and procedures for risk management and consideration of significant internal audit reports. – Review of the policy on employment of former audit staff and policy on and extent of non-audit services provided by the external auditor. – Consideration of the external auditor's fees, engagement letter and risk of them leaving the market. – Review of whistleblowing policy and hotline. – Annual review of Audit Committee effectiveness and Terms of Reference. – Consideration of accounting and corporate governance developments including the requirements of the UK Corporate Governance Code 2014 and associated guidance. – Consideration of the Audit Committee Schedule of Work 2015.

Financial Reporting

A key role of the 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; and
- Upon request of the Board, advising the Board on whether the annual report and financial statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance as a whole.

To assist the Committee, the Group Finance Director and Group Financial Controller present a detailed report at each meeting outlining significant matters and the external auditor presents a report on the work they have undertaken on the half year and year end financial statements.

The principal matters of judgement considered by the Committee in relation to the 2014 accounts and how they were addressed were:

- Goodwill impairment testing. The year end balance sheet includes Goodwill of £149.7m, this represents approximately 25.9% of the Group assets. The Committee reviewed the carrying value of Goodwill by examining a report from the Group Financial Controller which set out the values attributable to each cash generating unit, the expected value in use, based on projected cash flows and the key economic assumptions related to growth and discount rates. The Committee also considered the work undertaken by Deloitte in testing the assumptions. The Committee discussed the appropriateness of the assumptions used and compared expected growth rates to historical averages and the discount rate to the Group weighted average cost of capital and appropriate risk premiums. The Committee also considered whether it was possible that a reasonable change in assumptions might indicate impairment. Following discussion, the Committee were satisfied that the approach taken by management was appropriate and that there was no requirement to record any impairments in the accounts.

- Acquired intangible assets. During 2014, the Group acquired three businesses, the largest of these was Young Tech Co Ltd which was acquired in March. The Committee reviewed the accounting and reporting in relation to these acquisitions, in particular the determination and valuation of intangible assets prepared by the Group Financial Controller. The Committee considered this report together with comments from Deloitte; it also examined the disclosures in the report and accounts and concluded the judgements made were reasonable and that the reporting was accurate.

- Retirement benefit schemes. The Group operates two defined benefit retirement plans which are still open to future accrual. The valuations are prepared by independent actuaries and are reviewed by Deloitte. The Committee considered the report and the comments by Deloitte and was satisfied the assumptions used were appropriate. The detailed disclosure for these schemes under IAS19 are shown in note 24 and the Committee is satisfied they are complete and accurate.

- Valuation of inventory. The Group has £81m of inventory which is spread across all of the Group's global locations. The provisions made to write down slow-moving and obsolete inventory are based on an assessment of market developments and on an analysis of historic and projected usage. The calculation of the provisions requires application of judgement by management. Management confirmed to the Committee that there have been no significant changes to the approach used to estimate inventory provisions compared with the prior year. Deloitte explained the work that they have performed and confirmed that based on this work no material inconsistencies or misstatements were found. Following discussion, the Committee was satisfied that the judgments that had been exercised and valuation methodology were appropriate and that the provisions were appropriately stated at year end.

External Auditor

KPMG and its predecessor firms had been auditor to the Group for over fifty years and during this time a tender had not been conducted. During 2013, the Committee considered how to achieve a high quality audit for the Group as a whole and decided to bring all external audit work under one firm and considered it appropriate to offer all the external audit work for tender. The decision to tender also followed regulatory developments relating to external audit tendering.

The Committee invited a number of external audit firms with the requisite capability to tender for the external audit contract and the Audit Committee consulted the Financial Reporting Council's Notes on Best Practice for Audit Tenders. KPMG, being the Company's former external auditor, was not invited to tender. Following the conclusion of the audit tender process, Deloitte LLP was appointed as the Group's external auditor on 2 June 2014 and will undertake all external audit work for the Group. Deloitte's continuing appointment will be subject to shareholder approval at the 2015 AGM.

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

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

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 and the policy is reviewed by the Committee annually to ensure it remains appropriate and in line with applicable requirements.

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

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

CORPORATE GOVERNANCE CONTINUED

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

An analysis of fees paid to Deloitte, including the split between audit and non-audit is included in note 8 of the report and accounts. The total non-audit fees for 2014 represent 27% of the total Deloitte audit fee. The majority of the Deloitte non-audit fees were earned prior to their appointment as Group auditor.

Internal Controls and Risk Management

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

During the year, the Committee considered reports on internal control from the Group Finance Director as well as reports on procedures to prevent bribery and corruption from the Company Secretary. The Committee was satisfied with the arrangements in place. During 2014 the Committee considered the 2014 UK Corporate Governance Code and the Financial Reporting Council's Guidance on Internal Controls, Risk Management and Related Financial Reporting (applicable to the Company from 1 January 2015) to the extent it relates to the Committee. The Committee commenced work with the Board in 2014 which will continue into 2015 to review internal controls and risk management procedures in order to comply with these revised requirements.

The Group does not have a separate independent internal audit function but does have a well established internal audit approach of using staff from one division to undertake audits in a different division. This arrangement encourages the sharing of best practice and provides career development for the staff involved. During 2014, the Company appointed an internal audit co-ordinator whose duties include managing the internal audit programme, reviewing internal audit reports and, when invited, attending Audit Committee meetings. External resource is used to supplement the internal team where specific technical or language expertise is required. The Committee receives a report at each meeting on the activities of internal audit, any significant matters arising and the management response. The Committee reviews each year, the internal audit arrangements including the annual audit plan and staffing. It also considers whether a separate internal audit function is required. The Committee is satisfied with the effectiveness of the internal audit arrangements at this time.

The Group has operated a risk management process for several years. The process starts with divisional management considering and assessing the risks in each of their businesses. This leads in due course to a Group meeting at which the principal risks, mitigation and management of those risks are reviewed. All Committee members are invited to this meeting and in 2014 all members attended. The Committee gains a detailed understanding of the risk management process and considers the process effective.

Other Matters

In accordance with its terms of reference, the Committee, led by the Chairman, carried out a review of its effectiveness by way of questionnaire, including how it discharged its responsibilities and terms of reference.

The Committee's activities were also reviewed as part of the Board evaluation process referred to on page 58.

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

Nomination Committee

RC Lockwood
Chairman
Members: LM Bell, GB Bullard, PI France, SA James, MJ Lamb, JE Nicholas

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

Activities of the Nomination Committee during the year
The Committee met four times during the year. A summary of principal activities is set out below:

Summary of 2014 Nomination Committee Business

Month	Principal activities
February	– Consideration of candidates for additional independent non-executive director appointments.
March	– Ongoing succession planning discussions. – Further consideration of candidates for additional independent non-executive director appointments. – Recommendation to the Board that MJ Lamb be appointed an independent non-executive director.
July	– Recommendation to the Board that LM Bell be appointed an independent non-executive director.
November	– Ongoing discussions and search relating to the succession of the Chairman.

During the year the Committee led the search for and recommended to the Board the appointment of two additional independent non-executive directors, LM Bell and MJ Lamb, having considered the balance of skills, experience and diversity (including gender diversity) on the Board. The Committee engaged Korn Ferry, an external search consultancy, to search for suitable candidates for both appointments in conjunction with the Committee; Korn Ferry has no other connection with the Company. LM Bell is a chartered accountant and she is the Finance Director of The British Land Company plc, a FTSE 100 company. MJ Lamb is an experienced director and recently retired as Chief Executive of IMI plc, an international FTSE 100 engineering company. In line with all other directors, LM Bell and MJ Lamb will stand for election to the Board by the shareholders at the 2015 AGM.

The Committee also considered succession planning in order to satisfy itself that plans are in place for an orderly succession for appointments to the Board and senior management to maintain an appropriate balance of skills and experience within the Group and to ensure progressive refreshing of the Board. In particular, the Committee considered succession planning for the position of Chairman which will be vacated when RC Lockwood retires following the Company's AGM in 2015 and recommended to the Board that MJ Lamb be appointed as Chairman of the Board at the conclusion of the Company's AGM in 2015. The Chairman did not chair the Committee and MJ Lamb did not attend Committee meetings while business relating to the successor Chairman was considered. Following the recommendation to the Board it was resolved that MJ Lamb be appointed as Chairman of the Board at the conclusion of the Company's AGM in 2015. On appointment, MJ Lamb will step down from membership of the Audit and Remuneration Committees.

Diversity Policy
As part of it's commitment to maintaining an appropriate balance of skills, knowledge and experience on its Board, the Board seeks to attain a diverse mix of skills, experience, knowledge and background. In considering diversity, gender will play an important role but the Board will take account of ethnicity, nationality, background, profession and personality.

Following the appointment of LM Bell, female representation in the Company's independent non-executive directorate is 40%.

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

The Board's Diversity Policy also applies more generally throughout the Group and sets out other actions the Group will take to contribute to a more diverse pool of talent.

Remuneration Committee
The work of the Remuneration Committee is described in the Remuneration Report on pages 64 to 77 of the Report of the Directors.

DIRECTORS' REMUNERATION REPORT

Statement from the Chairman of the Remuneration Committee

GB Bullard
Chairman
Members: LM Bell, SA James, MJ Lamb, JE Nicholas

The Directors' Remuneration Report is split into two parts:

- The Policy Report, which sets out the Company's Policy on directors' remuneration. The Policy was approved by shareholders at the 2014 AGM for a period of three years; and
- The Annual Report on Remuneration which discloses the payments and awards made to the directors under the Policy and shows the link between remuneration and the Group's performance.

The Policy Report is not subject to a shareholder vote this year. The Annual Report on Remuneration together with this introductory statement is subject to an advisory shareholder vote at the 2015 AGM.

During 2014, the Remuneration Committee (Committee) continued to monitor developments relating to remuneration. Throughout the year the Committee has considered updates on best practice from relevant providers of corporate governance guidance including the Investment Association (formerly the Association of British Insurers), the National Association of Pension Funds (NAPF) and Institutional Shareholder Services/ Research, Recommendation and Electronic Voting (ISS/RREV). The Group supports the continued drive for improvement of best practice and for greater focus on transparency, moderation, simplicity and a closer alignment of the interests of the directors with those of the shareholders.

In accordance with the UK Corporate Governance Code 2014, which the Company is required to comply with from 1 January 2015, the Long Term Incentive Plan (LTIP) and bonus scheme have clawback provisions allowing the Committee to recover sums paid or withhold the payment of other sums in circumstances where financial results have been materially misstated, an award was based on erroneous, inaccurate or misleading information or where an individual ceases to be an employee or director of the Group as a result of misconduct on the part of that individual. The LTIP and bonus scheme also permit the Committee to lapse all or part of an award in similar circumstances to the clawback.

As set out in the Annual Report on Remuneration, the Company performed well in a challenging year against 2014 incentive targets resulting in an annual cash bonus payout of 66% of the maximum bonus opportunity available and a LTIP vesting rate of 37% for the 2012 award (which vests based on performance to 31 December 2014). At the end of 2014 the share price, and consequently the total shareholder return element of the LTIP, was impacted by the oil price fall and so did not vest. However, growth in earnings per share ensured a vesting of 37% of the total 2012 award. 2014 profit growth and cash flow ensured a bonus payout of 66%.

Details of how the Policy will be applied in 2015 are detailed on page 76. The Committee continues to be mindful of employee remuneration conditions around the Group and salary increases for executive directors will be 1.8% (except for JM Davis who received 2.5%), which is broadly in line with the typical increase for other UK employees. The annual bonus and LTIP will operate in a similar format to 2014. Under the approved policy, LTIP awards worth up to 150% of salary may be granted. The Committee does not intend to make LTIP awards of more than 100% of basic salary to any executive, except the Chief Executive who will receive an award of 125% of salary in 2015. The maximum bonus potential remains 125% of salary for the Chief Executive and 100% of salary for other executive directors.

During 2015, the Committee intends to review the remuneration policy to ensure that it continues to support the business strategy, appropriately incentivises and rewards the Directors for their role in the long-term success of the Group and is aligned to the interests of shareholders. The outcome of this review will be communicated in next year's remuneration report, with any changes to the Policy (if required) submitted to shareholders for approval at the AGM in 2016. Any significant changes will be subject to prior consultation with major shareholders.

Activities of the Remuneration Committee during the year

The Committee met four times during the year.

Summary of 2014 Remuneration Committee Business

Month	Principal activities
February (2 meetings)	– Approval of LTIP award levels and bonus opportunity for 2014 for executive directors and other members of senior management. – Approval of the Remuneration Report 2013. – Consideration on executive remuneration principles of NAPF and others.
August	– Review of LTIP performance. – Consideration of legal and corporate governance developments. – Consideration of remuneration market trends.
December	– Approval of the Committee's schedule of work for 2015. – Consideration of current investor guidance from Investment Management Association on remuneration. – Consideration of corporate governance developments including the UK Corporate Governance Code 2015. – Consideration of a paper from NBS on executive remuneration as at December 2014. – Review of NBS paper on Chairman fees. – Setting of basic salary for executive directors. – Approval of LTIP awards for the Chief Executive of 125% of basic salary.

Remuneration Report

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

Policy Report

This report sets out the policy of the Company on the remuneration of the directors. This Policy Report was approved by shareholders at the AGM of the Company held on 25 April 2014 and took effect from that date. The Policy Report is not subject to a shareholder vote this year but has been reproduced here for ease of reference. The charts on page 70 have been updated to reflect the current salaries of executive directors.

Role of the Remuneration Committee

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

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

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

Consideration of conditions elsewhere in the Company

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

Consideration of shareholder views

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

DIRECTORS' REMUNERATION REPORT CONTINUED

Overview of the directors' Remuneration Policy

Directors' future policy table

Element of remuneration	Purpose and how it supports the strategy	How the element operates (including maximum amounts payable)	Framework used to assess performance
Base salary	To attract and retain executive directors of the right calibre and provide a core level of reward for the role.	Salary levels (and subsequent salary increases) are set after taking into account the responsibilities of the role, the value of the individual in terms of skills, experience and personal contribution, company performance, internal relativities and pay conditions, and external market data (benchmarked against companies of a similar size and complexity and other companies in the same industry sector). The Committee also considers the impact of any increase to salaries on the total remuneration package. Salaries are paid monthly and reviewed annually (salaries are normally reviewed in December, with any changes effective from 1 January). Details of the current salaries of the executive directors are set out in the Annual Report on Remuneration. Any salary increase will ordinarily be in line with the typical increase (as a percentage of salary) applied to the UK workforce. However, the Committee retains the discretion to award a higher increase if appropriate. For example, where there is a change in responsibility, progression in the role or to reflect the increased experience of the individual.	N/A
Benefits	To attract and retain executive directors of the right calibre by providing a market competitive level of benefit provision.	The range of benefits that may be provided is set by the Committee after taking into account local market practice in the country where the executive is based. The executive directors' benefits currently comprise a car and fuel, or car and fuel allowance, personal accident insurance for UK executive directors only and private medical insurance. Additional benefits may be provided, as appropriate. 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. There is no prescribed maximum level, but the 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 (including maximum amounts payable)	Framework used to assess performance
Annual Cash Bonus	Drives and rewards performance against annual financial and operational goals which are consistent with the medium to long term strategic needs of the business.	The maximum annual bonus potential is 125% of salary for the Chief Executive and 100% of salary for other Executive Directors. Bonuses are paid in cash.	The executive annual bonus is focused on the delivery of strategically important performance measures. These include demanding financial and non-financial measures. The financial measures (which account for the majority of the bonus potential) are currently based on annual profit target, three year profit growth, earnings per share and cash generation. The non-financial measures currently include the accident frequency rate and CO_2 emissions. However, the Committee may use different measures and/or weightings for future bonus cycles to take into account changes in the strategic needs of the business. For each measure, normally a sliding scale of stretching targets is set by the Committee, which apply from the beginning of each financial year. The threshold level of bonus under each financial measure varies but accounts for no more than one third of the maximum bonus opportunity under any single measure. Under the terms of the bonus plan, the Committee has the discretion, in exceptional circumstances, to amend previously set targets or to adjust the proposed payout to ensure a fair and appropriate outcome.
Long Term Incentive Plan (LTIP)	To incentivise long term value creation and alignment with shareholder interests.	The LTIP permits an annual grant of shares which vest subject to performance and continued employment. The LTIP awards will be granted in accordance with the rules of the plan, which were approved by shareholders in 2010, and the discretions contained therein. A copy of the rules is available on request from the Company Secretary. Under the rules of the LTIP, the maximum award size is 150% of salary. Details of the proposed award level for 2015 are set out in the Annual Report on Remuneration. Awards under the LTIP may be granted in the form of conditional shares, forfeitable shares, nil-cost options or cash (where the award cannot be settled in shares). Awards are currently structured as nil-cost options. The executive directors are also subject to a shareholding requirement to build and maintain a shareholding in Rotork equivalent to 150% of salary.	Awards under the LTIP are currently subject to two performance conditions. Half of the awards are subject to an earnings per share performance condition and half of the awards are subject to a relative total shareholder return (TSR) performance condition, each measured over three financial years. The TSR performance condition is also subject to an underpin relating to underlying financial performance. A sliding scale of targets is set for each measure with no more than 25% of the award (under each measure) vesting for achieving the threshold performance hurdle. The performance targets are set prior to the grant of each award. Different targets and/or weightings between measures may be set for future award cycles. Under the LTIP rules approved by shareholders, the Committee has the discretion to amend the targets applying to existing awards in exceptional circumstances providing the new targets are no less challenging than originally envisaged. The Committee also has the power to adjust the number of shares subject to an award in the event of a variation in the capital of the Company.

DIRECTORS' REMUNERATION REPORT CONTINUED

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

Performance measures

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

Clawback and malus

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

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

Pension policy

PI France and JM Davis are active members of the Rotork Pension and Life Assurance Scheme (a defined benefit pension scheme). If they remain active members of this pension scheme until their normal retirement age of 60 and 65 respectively, PI France will be entitled to a pension of 66.7% of the earnings cap and JM Davis will be entitled to a pension of 47.5% of the earnings cap (which is set at £145,800 per annum for 2015) but may increase in line with inflation. These figures ignore any benefits transferred from another pension arrangement and the tax implications of remaining in the Rotork Pension scheme until normal retirement age. In addition, they receive a cash allowance on salary above the cap (22.5% for PI France and 18% for JM Davis). GM Ogden is a preserved member of the Rotork Pension and Life Assurance Scheme and now receives a cash allowance of 44% of salary in lieu of pension. RH Arnold is a member of the Rotork Controls Inc. pension scheme and a supplementary executive retirement plan, which in aggregate are targeted to provide a pension of 60% of uncapped basic salary at age 65. The Company's defined benefit pension schemes in the UK and USA are closed to new entrants. The pension arrangement that would be offered to a new executive director would be limited to a maximum 25% of salary cash allowance or contribution to one of the Company's defined contribution schemes and/or continued participation in a defined benefit scheme if the executive is an existing member of one of the schemes.

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

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

Approach to recruitment remuneration

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

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

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

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

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

Service contracts and policy on payments for loss of office

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

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

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

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

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

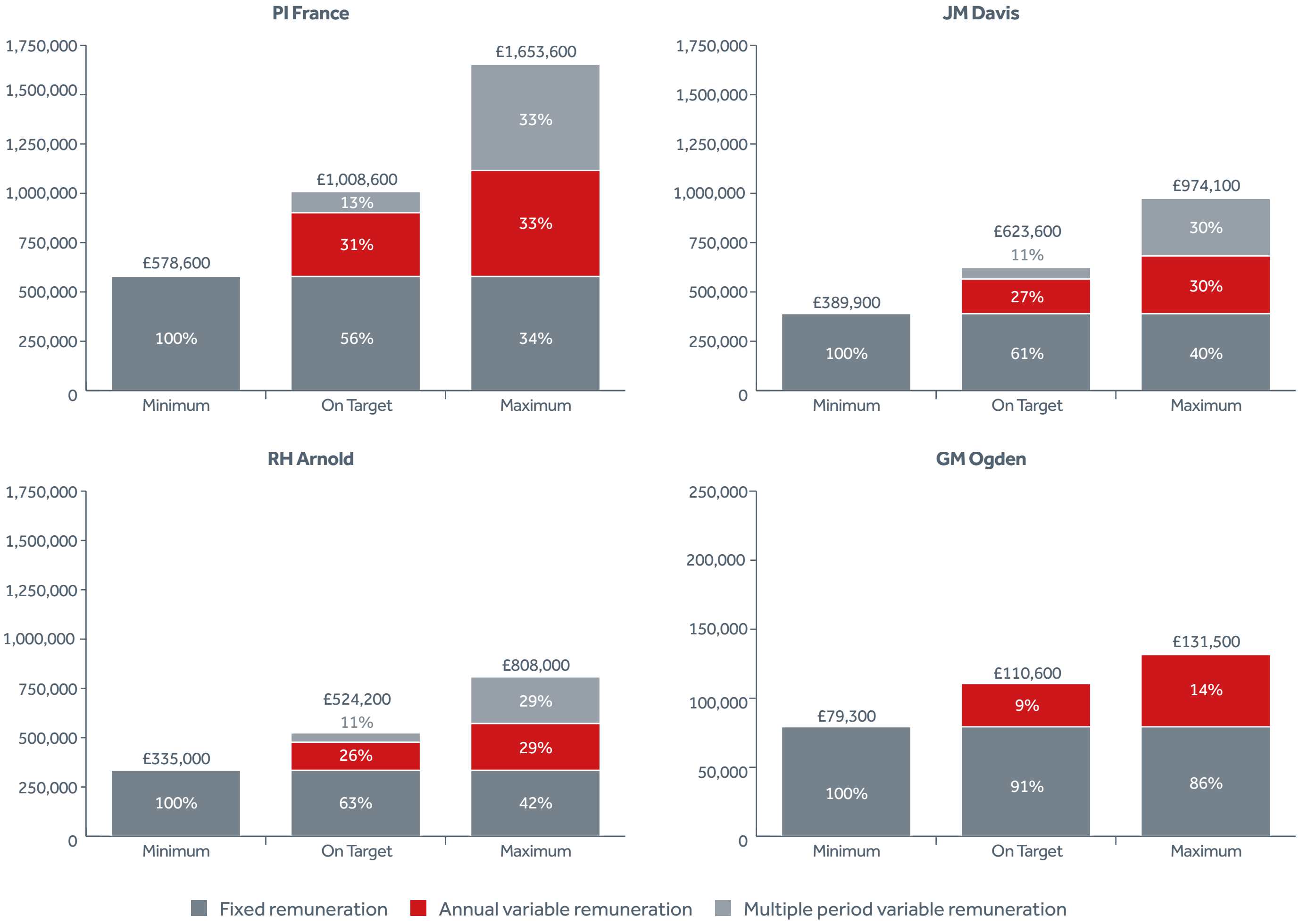
Outplacement services and reimbursement of legal costs may be provided where appropriate.

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

DIRECTORS' REMUNERATION REPORT CONTINUED

Illustration of the application of the remuneration policy

The charts below illustrate how the remuneration policy would function for minimum, on target and maximum performance for 2015 for each executive director.



Footnote to charts:
Salary levels (and consequently the other elements of the remuneration package which are calculated as a percentage of salary) are based on those applying on 1 January 2015. Taxable benefits are shown as the cost to the Company of supplying those benefits for the year ending 31 December 2014. On target performance, for illustrative purposes, assumes achievement of 60% of the maximum available bonus and threshold LTIP vesting (20% of the maximum). Maximum performance assumes achievement of the maximum bonus and full vesting of the LTIP shares. The LTIP grant level for all executives is 100% of salary, except for PI France who from 2015 is granted 125% of salary. No share price growth has been assumed and for simplicity, the benefit derived from participating in the Company's all employee SIP or OPLSS have been excluded. GM Ogden is retiring in 2015 and will not receive an LTIP award for 2015 and the annual cash bonus will be awarded on a pro-rata basis.

Annual Report on Remuneration

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

Executive directors

Name	Salary 2014	Salary 2013	Benefits(i) 2014	Benefits(i) 2013	Annual cash bonus 2014	Annual cash bonus 2013	LTIP(ii)(iv) 2014	LTIP(ii)(iv) 2013	Pension and related benefits 2014	Pension and related benefits 2013	Total remuneration 2014	Total remuneration 2013
RH Arnold(iii)	**232**	240	**17**	17	**153**	226	**99**	235	**84**	32	**585**	750
JM Davis	**285**	270	**18**	18	**188**	255	**113**	262	**80**	116	**684**	921
PI France	**422**	412	**18**	18	**348**	486	**173**	410	**131**	126	**1,092**	1,452
GM Ogden	**205**	200	**18**	17	**135**	189	**84**	203	**90**	88	**532**	697

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

(ii) The 2014 figures relate to the vesting of the 2012 LTIP award which vests based on performance to 31 December 2014. The award vested at 37% and has been valued using the average share price for the period 1 October to 31 December 2014. The award will vest in March 2015

(iii) RH Arnold is paid in US Dollars

(iv) The 2013 figures have been updated to reflect the actual share price on vesting of the 2011 LTIP award

Directors not performing an executive function

Name	Base fees 2014	Base fees 2013	Additional fees 2014	Additional fees 2013	Total remuneration 2014	Total remuneration 2013
LM Bell(i)	**20**	–	**–**	–	**20**	–
GB Bullard	**43**	40	**7**	6	**50**	46
SA James (ii)	**43**	40	**4**	–	**47**	40
IG King(iii)	**20**	40	**3**	7	**23**	47
MJ Lamb(iv)	**25**	–	**–**	–	**25**	–
RC Lockwood	**140**	140	**–**	–	**140**	140
JE Nicholas	**43**	40	**8**	8	**51**	48

(i) LM Bell was appointed as a director of the Company on 10 July 2014

(ii) SA James was appointed as Chairman of the Audit Committee on 20 June 2014

(iii) IG King retired as a director of the Company on 20 June 2014

(iv) MJ Lamb was appointed as a director of the Company on 2 June 2014

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

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

Annual Cash Bonus for 2014

The annual cash bonus is calculated according to targets which total 80% and which are allocated to directors at 100% of basic salary, except for the Chief Executive where the allocation is 125% of basic salary. The targets, weightings and achievement in relation to performance in 2014 are as follows:

	Performance required to trigger bonus payment	Performance required at target	% payable at target performance	Performance required at maximum	% payable at maximum	Performance outcome	% bonus awarded
Accident Frequency Rate	<0.42	<0.42	5%	<0.42	5%	0.31	5.0%
CO_2 reduction	<0.0%	-1.5%	5%	-1.5%	5%	7.3%	0.0%
Cash generation	85%	100%	10%	100%	10%	97.5%	8.3%
EPS growth	>124.9p	137.4p	10%	137.4p	10%	131.6p	5.4%
Three year profit growth	>£134.1m	£161.0m	15%	£178.8m	25%	£157.7m	13.1%
Annual profit target	>£143.8m	£153.4m	15%	£159.7m	25%	£157.2m	21.0%
Total			**60%**		**80%**		**52.8%**

Overall this resulted in the following bonus payments:

- RH Arnold – £153,000 (66.0% of salary)
- JM Davis – £188,000 (66.0% of salary)
- PI France – £348,000 (82.5% of salary)
- GM Ogden – £135,000 (66.0% of salary)

DIRECTORS' REMUNERATION REPORT CONTINUED

Long Term Incentive Plan

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

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

	Note	Year of grant	Awards at 1 January 2014	Awards granted during the year	Awards vesting during the year	Awards lapsed during the year	Awards at 31 December 2014	Vesting Date
RH Arnold	(i)	2011	12,904	–	(8,645)	(4,259)	–	6 March 2014
	(ii)	2012	11,114	–	–	–	11,114	5 March 2015
	(iii)	2013	8,362	–	–	–	8,362	3 March 2016
	(iv)	2014	–	8,308	–	–	8,308	7 March 2017
			32,380	**8,308**	**(8,645)**	**(4,259)**	**27,784**	
JM Davis	(i)	2011	14,076	–	(9,430)	(4,646)	–	6 March 2014
	(ii)	2012	12,654	–	–	–	12,654	5 March 2015
	(iii)	2013	9,292	–	–	–	9,292	3 March 2016
	(iv)	2014	–	10,356	–	–	10,356	7 March 2017
			36,022	**10,356**	**(9,430)**	**(4,646)**	**32,302**	
PI France	(i)	2011	21,994	–	(14,735)	(7,259)	–	6 March 2014
	(ii)	2012	19,314	–	–	–	19,314	5 March 2015
	(iii)	2013	14,182	–	–	–	14,182	3 March 2016
	(iv)	2014	–	15,344	–	–	15,344	7 March 2017
			55,490	**15,344**	**(14,735)**	**(7,259)**	**48,840**	
GM Ogden	(i)	2011	10,888	–	(7,294)	(3,594)	–	6 March 2014
	(ii)	2012	9,412	–	–	–	9,412	5 March 2015
	(iii)	2013	6,984	–	–	–	6,984	3 March 2016
	(iv)	2014	–	7,460	–	–	7,460	7 March 2017
			27,284	**7,460**	**(7,294)**	**(3,594)**	**23,856**	

(i) The 2011 awards were based on TSR and EPS performance to 31 December 2013 (each condition accounting for 50% of the award). The overall vesting of the awards was 67% and the total number of shares vesting in respect of all Executives was therefore 40,104. The shares vested on 6 March 2014. The share price on that date was £27.81.

(ii) The 2012 awards were based on TSR and EPS performance to 31 December 2014 (each condition accounting for 50% of the award). TSR was measured relative to the FTSE 250 index (excluding all financial services, insurance companies and investment trusts). For the EPS condition, EPS growth must be at least RPI + 10% for 25% vesting, increasing on a straight-line basis to full vesting for EPS growth of RPI + 25% and above. Rotork's actual TSR performance was 48% resulting in 0% of the TSR element of the award vesting. Rotork's actual EPS growth was 28% resulting in 73.9% of the EPS element of the award vesting. The overall vesting of the awards was 37% and the total number of shares vesting in respect of all Executives was therefore 19,394. The shares will vest in March 2015.

(iii) The performance conditions for the 2013 awards are based on performance to 31 December 2015. The targets are the same as for the 2012 awards.

(iv) The 2014 awards were granted on 7 March 2014 and are subject to the same performance targets as the 2013 awards (albeit based on performance to 31 December 2016). Further details on the awards are set out in the table below.

LTIP awards made during the year (Audited)

	Share awards made during 2014	Basis on which award made	Face value of award	Number of shares vesting for minimum performance[i]	Number of shares vesting for maximum performance	End of performance period
RH Arnold	8,308	100% of salary	£228,636	1,661	8,308	31 December 2016
JM Davis	10,356	100% of salary	£284,997	2,071	10,356	31 December 2016
PI France	15,344	100% of salary	£422,267	3,068	15,344	31 December 2016
GM Ogden	7,460	100% of salary	£205,299	1,492	7,460	31 December 2016

(i) Vesting if the minimum performance EPS and TSR conditions are achieved (20% of the maximum award). The share price used at the date of award (6 March 2014) was £27.52.

Free SIP and OPLSS Share Awards (Audited)

In common with all eligible employees, UK based executive directors receive an entitlement to ordinary shares under the SIP which is approved by Her Majesty's Revenue and Customs (HMRC). Under the SIP and the OPLSS an aggregate total of up to 5% of profits are distributed to employees each year in the form of ordinary shares. The distribution is calculated by reference to years of service and basic salary. Details of free share awards under the SIP and OPLSS made to executive directors in 2014 are set out below. Free shares awarded to all three UK executive directors under the SIP are subject to the HMRC upper limit of £3,600 by value. This limit also applies to the OPLSS for the year under review.

	Date of Grant	Free share awards made during the year	Basis on which award made	Face value of award
RH Arnold	8 April 2014	136	Non-performance based	£3,574
JM Davis	8 April 2014	136	Non-performance based	£3,574
PI France	8 April 2014	136	Non-performance based	£3,574
GM Ogden	8 April 2014	136	Non-performance based	£3,574

The share price used for the award was £26.28.

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

Partnership SIP Share Awards (Audited)

In line with all eligible UK based employees, UK based directors are entitled to purchase monthly Partnership Shares under the SIP to a maximum of £150 per month. Interests in Partnership Shares as at 31 December 2014 are shown in the table below:

	Partnership share interest as at 31 December 2014
RH Arnold	N/A
JM Davis	748
PI France	263
GM Ogden	0

Sharesave Options Granted to Executive Directors (Audited)

In common with all eligible UK employees, UK based executive directors are entitled to participate in the HMRC approved Rotork Sharesave scheme. Under the Sharesave scheme, employees are permitted to save up to £500 per month for a term of three or five years, after which the employee is allowed to exercise the share option. The option price is determined in accordance with the HMRC approved Sharesave Scheme Rules and is calculated by taking an average of the share price over the five days preceding the invitation date.

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

	Shares under option	Basis on which award made	Option price	Duration	Date of grant	Date of vesting
JM Davis	410	Non-performance based	£21.94	3 years	30 September 2013	1 December 2016
JM Davis	402	Non-performance based	£22.36	3 years	30 September 2014	1 December 2017
PI France	1,179	Non-performance based	£13.10	5 years	5 October 2010	1 December 2015
PI France	677	Non-performance based	£22.36	5 years	30 September 2014	1 December 2019
GM Ogden	410	Non-performance based	£21.94	3 years	30 September 2013	1 December 2016
GM Ogden	402	Non-performance based	£22.36	3 years	30 September 2014	1 December 2017

DIRECTORS' REMUNERATION REPORT CONTINUED

Statement of directors' shareholding and share interests (Audited)

The table below shows total beneficial shareholdings of the directors as at 31 December 2014.

	Beneficial shares held 2014	Beneficial shares held 2013	Outstanding LTIP awards 2014	Outstanding options 2014	% Shareholding of salary achieved[i] 2014
RH Arnold	**38,703**	33,161	**27,784**	**–**	**381%**
JM Davis	**18,572**	17,371	**32,302**	**812**	**152%**
PI France	**61,391**	59,382	**48,840**	**1,856**	**338%**
GM Ogden	**38,871**	38,735	**23,856**	**812**	**440%**
LM Bell	**–**	–	**–**	**–**	**N/A**
GB Bullard	**3,506**	2,799	**–**	**–**	**N/A**
SA James	**1,050**	1,050	**–**	**–**	**N/A**
IG King[ii]	**7,013**	7,013	**–**	**–**	**N/A**
MJ Lamb	**2,000**	–	**–**	**–**	**N/A**
RC Lockwood	**500**	500	**–**	**–**	**N/A**
JE Nicholas	**500**	500	**–**	**–**	**N/A**

(i) The share price used to determine the percentage of the shareholding of salary achieved is £23.26 being the share price as at 31 December 2014.
(ii) IG King retired as a director of the Company on 20 June 2014.

Share retention policy statement

All executive directors are required to maintain a shareholding of at least 150% of basic salary. The policy requires the use of shares vesting under the LTIP to achieve this requirement. All executive directors have met this requirement. There has been no change in the directors' interests in the ordinary share capital of the Company between 31 December 2014 and 3 March 2015.

Total pension entitlements (Audited)

			Value of pension related benefits (£) during company financial year to:					
			31 December 2013			**31 December 2014**		
Director	Normal Retirement Age	**Total accrued pension in the defined benefit scheme as at 31 December 2014 (£)**	Defined benefit scheme	Cash in lieu of pension	Total	**Defined benefit scheme**	**Cash in lieu of pension**	**Total**
RH Arnold	65	**128,622**	38,280	–	32,280	**83,250**	**–**	**83,250**
JM Davis	65	**27,767**	91,920	23,858	115,778	**53,900**	**25,290**	**79,820**
PI France	60	**61,246**	63,660	61,785	125,445	**67,360**	**63,293**	**130,653**
GM Ogden	60	**99,013**	–	88,129	88,129	**–**	**90,332**	**90,332**

Notes:

1. 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.
2. The total accrued pension in the defined benefit scheme as at 31 December 2014 is that which would be paid annually on retirement from normal pension age, based on service to 31 December 2014, except for GM Ogden who became a preserved member of the Rotork Pension and Life Assurance Scheme on 5 April 2012. GM Ogden's total benefit as at 31 December 2014 includes deferred revaluation applied to that date.
3. The value of benefits in the defined benefit pension scheme is based on the increase in accrued pension over the year incorporating an increase for Consumer Prices Index (CPI) inflation.
4. GM Ogden became a preserved member of the Scheme as at 5 April 2012 and so did not accrue any additional pension during 2014. He receives a cash allowance of 44% of basic salary in lieu of this pension benefit, which we have calculated amounted to £90,332 in 2014.
5. The Pensionable Salary used to calculate benefits in the defined benefit scheme for PI France and JM Davis is restricted to a scheme-specific earnings cap which was £141,000 for 2014. In consideration of this limitation on their benefits under the scheme they receive a monthly cash sum equal to 22.5% and 18% respectively of their basic salary above the Scheme's specific cap.
6. The figures shown for RH Arnold are in respect of his membership of the Rotork Controls Inc. pension scheme and a supplemental executive retirement plan so that, in aggregate, the pension arrangements for RH Arnold are targeted to provide a pension of at least 60% of uncapped basic salary at age 65. The valuations of the benefits are affected by movements in the US dollar relative to sterling and are therefore not directly comparable with the directors in the UK scheme.
7. The accrued pension figures for PI France include a fixed transfer-in pension amount of £5,123 which is payable from his normal retirement date at age 60.

Payments to past directors (Audited)

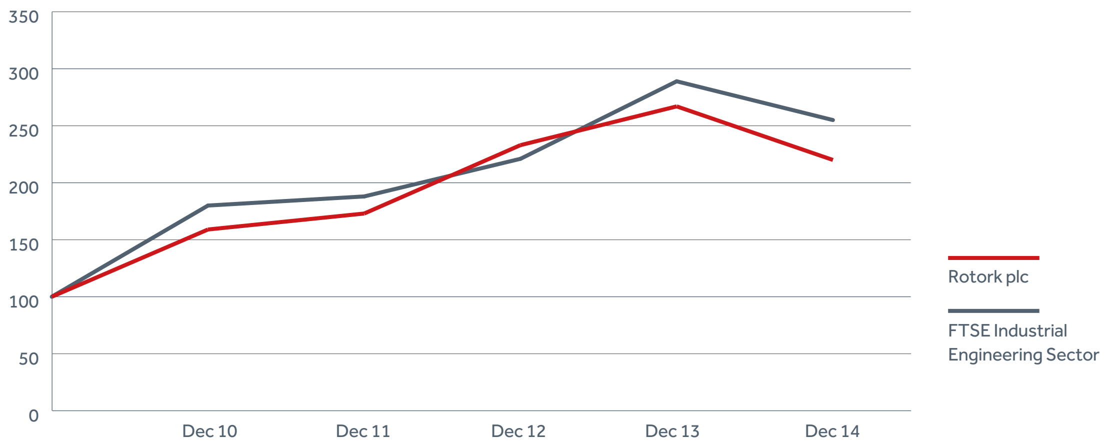
No payments were made to past directors during the year.

Payments for loss of office (Audited)

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

TSR performance graph and historic Chief Executive Remuneration table

Rotork plc Total Return Index vs the Total Return Index of the FTSE Industrial Engineering Sector for the 5 Financial Years ending 31 December 2014 (rebased as at 1 January 2010).



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
2014	PI France	1,092	66.0%	37.0%
2013	PI France	1,452	94.4%	67.0%
2012	PI France	1,539	91.3%	75.5%
2011	PI France	1,182	88.9%	30.0%
2010	PI France	1,288	91.9%	94.4%
2009	PI France	1,062	99.5%	100.0%

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

This shows the percentage change in remuneration (salary, benefits and bonus) between 2013 and 2014 of the Chief Executive, PI France, compared to percentage change for UK employees, being the group against which salary increases are compared, calculated on a per head basis.

The remuneration breakdown varies from country to country so the best comparison should be provided by looking at total remuneration. Total remuneration per employee has reduced year on year by 4.2%. However, this comparison is distorted by currency movements as the average salary increase between 2013 and 2014 for overseas employees was 4.8% and for the UK workforce was 3.0%.

	PI France Chief Executive	Average per UK employee
	2014 % Change from 2013	2014 % Change from 2013
Base Salary	2%	3%
Benefits	0%	5%
Bonus	(28)%	3%

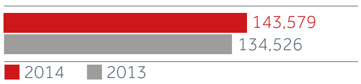
DIRECTORS' REMUNERATION REPORT CONTINUED

Relative importance of spend on pay

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

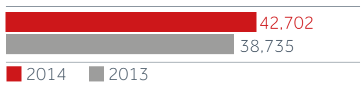
Employee Remuneration (£000s)

+6.7%



Dividends (£000s)

+10%



	2014	2013	Percentage change
Employee Remuneration (£000s)	**143,579**	134,526	6.7%
Dividends (£000s)[(i)]	**42,702**	38,735	10%

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

Statement of implementation of the remuneration policy in 2015

The base salaries for the executive directors were reviewed in December 2014 and the percentage increases shown below (effective from 1 January 2015) were agreed by the Committee. Except for JM Davis, this is consistent with the typical increase for the UK workforce (which was 1.8%). JM Davis received a marginally higher increase reflecting his experience and continued progression in the role.

The salaries from 1 January 2015 are therefore as follows:

- RH Arnold – $389,760 (1.8%)
- JM Davis – £292,125 (2.5%)
- PI France – £430,000 (1.8%)
- GM Ogden – £208,997 (1.8%)

The annual cash bonus for 2015 will be based on annual profit target (25%), three year profit growth (25%), EPS (10%), cash generation (10%), accident frequency rate (5%) and CO_2 emissions (5%). These targets total 80% and are then allocated to executive directors at 100% of basic salary, except for the Chief Executive where the allocation is 125% of basic salary. The specific targets relating to the bonus have not been disclosed as they are considered by the Committee to be commercially sensitive but full details will be given on a retrospective basis in next year's report.

LTIP awards of 100% of salary will be granted, except for the Chief Executive where the LTIP award will be 125%. This is within the maximum policy limit of 150% of salary. The Committee considers that the higher award level for the Chief Executive in 2015 provides a better balance between the short and long-term incentive opportunity for the Chief Executive and is appropriate given the overall potential value of his remuneration package. Consistent with the approach used in previous years, the performance conditions will be subject to TSR and EPS performance conditions (each accounting for 50% of the award). TSR will be measured relative to the FTSE 250 Index excluding all financial services, insurance companies and investment trusts with 25% vesting at median increasing to full vesting for upper quartile performance or above. For the EPS condition, EPS growth must be at least RPI + 10% for 25% vesting, increasing on a straight-line basis to full vesting for EPS growth of RPI + 25% and above. The Committee is satisfied that the EPS targets remain appropriately challenging given the current outlook for the Group.

The fees for the non-executive directors were reviewed in December 2013 and no changes to the fees are proposed. The fee for the Chairman was reviewed in December 2014 as part of the search process for a successor Chairman.

GM Ogden will retire from the Company on 31 March 2015. He will not receive any compensation for loss of office. He will receive a pro-rated annual cash bonus for 2015. The Committee has exercised its discretion in relation to his outstanding LTIP awards for 2013 and 2014 in line with the relevant scheme rules applicable for each award. For the 2013 award there will be a pro rata award based on a hypothetical vesting at the retirement date. For the 2014 award there will be a pro rata vesting in the event that there is any vesting of the award at the end of the relevant performance period. Any outstanding Sharesave or SIP awards will vest in accordance with their terms.

Consideration by the directors of matters relating to directors' remuneration

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

New Bridge Street is remuneration advisor to the Committee and was appointed by the Committee in September 2013 following a retendering process. New Bridge Street is a trading name of Aon plc and a signatory to the Remuneration Consultants' Group Code of Conduct. A subsidiary of Aon plc is also the scheme actuary for the Group's USA pension plan. The Committee is satisfied that New Bridge Street is sufficiently independent to act as remuneration advisor to the Committee.

In 2014, the Company paid £52,068 (2013: £13,333 (part year only)) to New Bridge Street for services to the Committee.

Statement of voting at general meeting

At the 2014 AGM of the Company, the percentages of votes cast 'for', 'against' and 'withheld' in respect of the directors' remuneration report were as follows:

Resolution	Votes cast 'for'	Votes cast 'against'	Votes 'withheld'
To approve the directors' remuneration policy	98.0%	1.4%	0.6%
To approve the directors' remuneration report	96.6%	3.4%	0%

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

REPORT
OF THE DIRECTORS

The directors submit their report which incorporates the management report required under the Disclosure and Transparency Rules for listed companies and the audited accounts for the year ended 31 December 2014 as set out on pages 84 to 128. In compiling this report, the directors have consulted with the management of the Group.

Directors
The names of the directors in office during the year still in office at the year end and their biographies and other details are set out on pages 52 to 53. IG King was a director during the year and resigned from the Board on 20 June 2014.

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

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

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

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

Dividend
The directors recommend a final dividend of 30.9p per ordinary share (2013: 30.0p) for the year, payable on 18 May 2015 to shareholders on the register on 10 April 2015. An interim dividend for 2014 of 19.2p per ordinary share (2013: 18.05p) was paid on 26 September 2014.

Information required in the Directors' report set out in the Strategic Report
Information relating to likely future developments of the Company and its subsidiaries and information relating to research and development activities of the Company and its subsidiaries is set out in the Strategic Report on pages 1 to 51.

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

Post-balance sheet events
There have been no important post-balance sheet events.

Existence of branches outside the UK
The Company has no branches outside of the UK.

Share capital
Details of the Company's share capital including the rights and obligations attached to each class of shares and the ordinary shares issued during 2014 are summarised in note 17 of the financial statements. 5p ordinary shares represent over 99.9% of the Company's total share capital and £1 9.5% cumulative preference shares represent less than 0.1% of the Company's total share capital.

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

At the Company's last AGM held on 25 April 2014, 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 2015 AGM and appropriate renewals will be sought.

The Company did not acquire any of its own shares in 2014.

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

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

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

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

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

Greenhouse gas emissions
The disclosures concerning greenhouse gas emissions required by law are set out in the Corporate Social Responsibility report on page 44.

Disabled persons and employee involvement
The disclosures concerning the Group's policies on the employment of disabled persons and employee involvement are set out in the Corporate Social Responsibility report on page 46.

Substantial shareholders

As at 31 December 2014, the following notifiable interests in issued share capital had been received by the Company under the Disclosure and Transparency Rules (DTR 5) of the UK Listing Authority. It should be noted that these holdings are likely to have changed since notified to the Company. However, notification of any change is not required until an applicable threshold is crossed.

Identity	Size of holding	Nature of holding
AXA Investment Managers S.A.	5.28%	Indirect
APG Asset Management NV	5.01%	Direct
Blackrock Inc	4.86%	Indirect
Mondrian Investment Partners Limited	4.99%(i)	Direct

(i) The Company was informed on 15 January 2015 that Mondrian Investment Partners Limited had increased the size of its holding to 5.01% of the voting capital. No other changes to the above have been disclosed to the Company in accordance with DTR 5 between the end of the financial year and 2 March 2015.

Corporate governance

The Company's corporate governance report can be found on pages 54 to 63.

Disclosure of information to auditors

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

'Going Concern' basis of preparation

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

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

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 such financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by 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

We confirm that to the best of our knowledge:

1. the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
2. the strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
3. 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 strategy.

Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the directors, whose names and functions are listed on pages 52 to 53 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 Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face; and
- Having taken advice from the Audit Committee, the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategies.

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

External auditor

Upon the recommendation of the Audit Committee and approval of the Board, a resolution to appoint Deloitte LLP as auditor, and to authorise the directors to determine their remuneration are to be proposed at the forthcoming AGM.

On behalf of the Board

Stephen Rhys Jones
Company Secretary
2 March 2015

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROTORK PLC

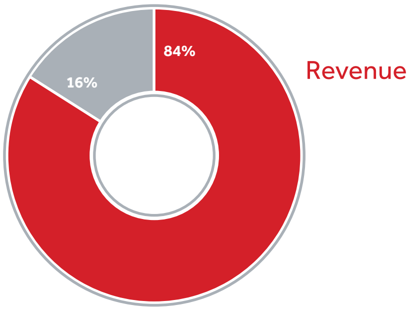
Opinion on financial statements of Rotork plc	In our opinion: • the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2014 and of the Group's and the parent Company's profit for the year then ended; • the Group financial statements have been properly prepared in accordance with 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; and • the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and the related notes 1 to 30. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law 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 (United Kingdom Generally Accepted Accounting Practice).
Going concern	As required by the Listing Rules we have reviewed the directors' statement contained within the Report of the Directors on page 79 that the Group is a going concern. We confirm that: • we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and • we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.
Our assessment of risks of material misstatement	The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. The description of risks opposite should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 61. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.
Our application of 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. We determined materiality for the group to be £6.9m, which is 5% of pre-tax profit. In 2013, the previous auditors set materiality at £9.7m on the basis of 7% of pre-tax profit. We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £138,000 (in 2013 the previous auditor reported on all amounts over £450,000), 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.

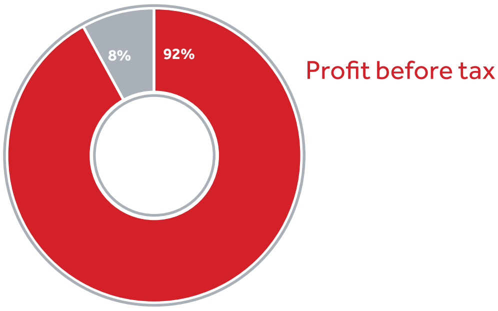
RISK	HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE RISK
Impairment of the carrying value of goodwill The gross carrying value of goodwill at 31 December 2014 was £149.7m. Details of its valuation is included by management in the 'critical accounting estimates and judgements' section on page 92 and note 10 to the accounts. Management perform an impairment review under IAS36 Impairment of Assets on an annual basis and whenever an indication of impairment exists. A significant risk of material misstatement exists as a result of the application of management judgement and estimates in performing the impairment review, in particular in relation to the forecasting of future cash flows and the discount rates used for each cash generating unit (CGU).	We challenged the reasonableness of the assumptions which underpin management's forecasts with reference to recent performance and historical trend analysis. We confirmed the forecasts used had been challenged by the Board and approved by it. We compared the identification and aggregation of the CGUs against how goodwill is monitored within the business. We performed a specific review and challenge, involving internal valuations specialists, of the discount rates applied for each CGU against the Group weighted average cost of capital and third party data relating to premiums applied to take account of cash flows arising in overseas locations. We recalculated management's sensitivity analysis on key assumptions and replaced key assumptions with alternative scenarios e.g. further changes in discount and growth rates.
Accounting for significant acquisitions During the year, the Group has acquired three businesses, YTC, Rotork Midland and Masso. £32.4m of intangible assets have been identified in relation to the acquisitions in the year. Details of their valuation are included by management in the 'critical accounting estimates and judgements' section on page 92 and note 3 to the accounts. The valuation of intangible assets represents a key judgement area based on a number of inputs in the discounted cash flow and royalty relief valuations, which include the discount rates, growth rates and royalty rates. Other provisional fair value adjustments have been made by management in the areas of inventory, trade receivables and warranty provisioning.	Our audit of the acquired intangible assets focused on management's valuation model and compliance with IFRS3, IFRS13 and accepted industry valuation practice regarding discount rates, growth rates and royalty rates. We used our internal valuation specialists to support our assessment of these rates. We challenged the reasonableness of underlying forecast cash flows through discussions with management, results of the business pre and post-acquisition and review of any due diligence work. We evaluated any significant fair value adjustments made to align the historical accounting of the acquired entity with the Group's accounting policies.
Valuation of inventory The Group had inventory of £81.1m at 31 December 2014, held in numerous global locations across several product lines. Details of its valuation is included by management in the 'critical accounting estimates and judgements' section on page 92 and note 14 to the accounts. There are risks surrounding the absorption of labour and overheads and the obsolescence of stock in niche markets and industries where customer demand fluctuates over periods. Both raw materials and finished goods require assessment for provisions based on past and predicted future product usage. There is a risk that local systems can present inconsistent data and/or override occurs.	Our work on provisions included agreeing the provision calculations to inventory usage data and product history. We have recalculated provisions based on this data. We have benchmarked the various manufacturing components within the Group regarding their use of absorption rates and reviewed individual overhead categories against IAS2 criteria.
Defined benefit pension liability valuation The Group has a defined benefit pension liability of £36.1m at 31 December 2014. Details of the valuation of the liability is included by management in the 'critical accounting estimates and judgements' section on page 92 and note 24 to the accounts. There is a risk relating to judgements made by management in valuing the Defined Benefit pension plans as small changes in the key model input assumptions such as the discount rate, mortality assumption and inflation level, can have a significant effect on the valuation of the liability.	We challenged the key assumptions supporting management's valuation of the pension liability. We used our internal actuarial experts to compare the discount, inflation and life expectancy rates against externally derived data. We challenged management to understand the sensitivity of changes in assumptions and quantify a range of reasonable rates that could be used in their calculation. We also considered the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to changes in these key assumptions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROTORK PLC CONTINUED

An overview of the scope of our audit

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 30 components. 22 components were subject to a full scope audit and audit procedures were performed on key account balances at the other 8 locations where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations at those locations.





The 30 locations represent the principal business units within the Group's four reportable segments across 12 countries and account for 84% of the Group's revenues, 92% of profit before tax. 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 locations was executed at levels of materiality applicable to each individual entity which were lower than group materiality ranging from £2.3m to £3.3m.

Due to the significance of the 22 components' operations subject to full scope audits to the group audit, senior members of the group audit team designed and implemented a programme to visit the components. We consider the United Kingdom, Italy, United States of America and China to be key components and we visited these locations in the current year. Our plan is that we will visit these each year. As part of our first year audit we also visited components in Australia, Canada, Germany and Spain. We plan to include these locations in our rotational visit programme going forward.

For each of the businesses included within the programme of planned visits, the group audit team also discusses audit findings with the relevant component audit team throughout the audit engagement and reviews relevant audit working papers. For the remaining locations where full audits were completed, we discuss audit findings with the relevant component audit team, review audit working papers in relation to key issues and discuss key matters with divisional management where considered necessary in forming our group audit opinion. In relation to the locations which were subject to an audit of key account balances, we discuss the results of these businesses and accounting matters arising through our involvement in divisional meetings with management.

At the parent entity level, we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining 24 components not subject to audit or audit of specified account balances. None of these components represented more than 2% of revenue or profit before taxation individually.

Opinion 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; and
- 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.

Matters on which we are required to report by exception

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.

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 arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Nicola Mitchell FCA
(Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
2 March 2015

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2014

	Note	2014 £000	2013 £000
Revenue	2	**594,739**	578,440
Cost of sales		**(309,280)**	(304,066)
Gross profit		**285,459**	274,374
Other income	4	**277**	206
Distribution costs		**(5,466)**	(5,623)
Administrative expenses		**(137,832)**	(129,576)
Other expenses	5	**(211)**	(116)
Operating profit before the amortisation of intangible assets		**157,167**	151,412
Amortisation of acquired intangible assets		**(14,940)**	(12,147)
Operating profit	2	**142,227**	139,265
Finance income	7	**1,421**	1,173
Finance expense	7	**(2,483)**	(2,441)
Profit before tax	8	**141,165**	137,997
Income tax expense	9	**(37,963)**	(38,488)
Profit for the year		**103,202**	99,509
Basic earnings per share	18	**119.0p**	114.8p
Adjusted basic earnings per share	18	**131.6p**	124.9p
Diluted earnings per share	18	**118.5p**	114.3p
Adjusted diluted earnings per share	18	**131.0p**	124.3p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	2014 £000	2013 £000
Profit for the year	**103,202**	99,509
Other comprehensive income		
Items that may be subsequently reclassified to the Income Statement:		
Foreign exchange translation differences	**(869)**	(4,981)
Effective portion of changes in fair value of cash flow hedges net of tax	**(1,810)**	1,274
	(2,679)	(3,707)
Items that are not subsequently reclassified to the Income Statement:		
Actuarial (loss)/gain in pension scheme net of tax	**(15,341)**	5,528
Income and expenses recognised directly in equity	**(18,020)**	1,821
Total comprehensive income for the year	**85,182**	101,330

CONSOLIDATED BALANCE SHEET

At 31 December 2014

	Note	2014 £000	2013 £000
Non-current assets			
Goodwill	10	**149,679**	105,150
Intangible assets	11	**72,270**	53,481
Property, plant and equipment	12	**64,050**	45,871
Derivative financial instruments	23	**–**	804
Deferred tax assets	13	**15,703**	11,778
Other receivables	15	**1,976**	1,532
Total non-current assets		**303,678**	218,616
Current assets			
Inventories	14	**81,090**	75,081
Trade receivables	15	**128,472**	105,976
Current tax	15	**1,962**	1,145
Derivative financial instruments	23	**1,913**	2,933
Other receivables	15	**12,586**	12,152
Cash and cash equivalents	16	**46,816**	68,873
Total current assets		**272,839**	266,160
Total assets		**576,517**	484,776
Equity			
Issued equity capital	17	**4,346**	4,344
Share premium		**9,422**	8,840
Reserves		**3,970**	6,649
Retained earnings		**359,057**	312,246
Total equity		**376,795**	332,079
Non-current liabilities			
Interest bearing loans and borrowings	19	**1,303**	1,678
Employee benefits	20	**38,864**	22,705
Deferred tax liabilities	13	**20,358**	16,920
Provisions	21	**1,913**	2,628
Total non-current liabilities		**62,438**	43,931
Current liabilities			
Interest bearing loans and borrowings	19	**20,274**	532
Trade payables	22	**40,162**	38,019
Employee benefits	20	**16,018**	17,479
Current tax	22	**15,200**	14,836
Derivative financial instruments	23	**1,119**	32
Other payables	22	**35,191**	31,002
Provisions	21	**9,320**	6,866
Total current liabilities		**137,284**	108,766
Total liabilities		**199,722**	152,697
Total equity and liabilities		**576,517**	484,776

These financial statements were approved by the Board of Directors on 2 March 2015 and were signed on its behalf by:

PI France and **JM Davis**, Directors.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued equity capital	Share premium	Translation reserve	Capital redemption reserve	Hedging reserve	Retained earnings	Total
Balance at 31 December 2012	4,340	8,258	7,649	1,644	1,063	246,369	269,323
Profit for the year	–	–	–	–	–	99,509	99,509
Other comprehensive income							
Foreign exchange translation differences	–	–	(4,981)	–	–	–	(4,981)
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	1,598	–	1,598
Actuarial gain on defined benefit pension plans	–	–	–	–	–	7,669	7,669
Tax in other comprehensive income	–	–	–	–	(324)	(2,141)	(2,465)
Total other comprehensive income	–	–	(4,981)	–	1,274	5,528	1,821
Total comprehensive income	–	–	(4,981)	–	1,274	105,037	101,330
Transactions with owners, recorded directly in equity							
Equity settled share-based payment transactions	–	–	–	–	–	143	143
Tax on equity settled share-based payment transactions	–	–	–	–	–	632	632
Share options exercised by employees	4	582	–	–	–	–	586
Own ordinary shares acquired	–	–	–	–	–	(5,601)	(5,601)
Own ordinary shares awarded under share schemes	–	–	–	–	–	4,401	4,401
Dividends	–	–	–	–	–	(38,735)	(38,735)
Balance at 31 December 2013	4,344	8,840	2,668	1,644	2,337	312,246	332,079
Profit for the year	–	–	–	–	–	103,202	103,202
Other comprehensive income							
Foreign exchange translation differences	–	–	(869)	–	–	–	(869)
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	(2,368)	–	(2,368)
Actuarial loss on defined benefit pension plans	–	–	–	–	–	(19,832)	(19,832)
Tax in other comprehensive income	–	–	–	–	558	4,491	5,049
Total other comprehensive income	–	–	(869)	–	(1,810)	(15,341)	(18,020)
Total comprehensive income	–	–	(869)	–	(1,810)	87,861	85,182
Transactions with owners, recorded directly in equity							
Equity settled share-based payment transactions	–	–	–	–	–	2,799	2,799
Tax on equity settled share-based payment transactions	–	–	–	–	–	(274)	(274)
Share options exercised by employees	2	582	–	–	–	–	584
Own ordinary shares acquired	–	–	–	–	–	(6,300)	(6,300)
Own ordinary shares awarded under share schemes	–	–	–	–	–	5,427	5,427
Dividends	–	–	–	–	–	(42,702)	(42,702)
Balance at 31 December 2014	**4,346**	**9,422**	**1,799**	**1,644**	**527**	**359,057**	**376,795**

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 2014

	Note	2014 £000	2014 £000	2013 £000	2013 £000
Cash flows from operating activities					
Profit for the year		103,202		99,509	
Adjustments for:					
Amortisation of intangibles		14,940		12,147	
Amortisation of development costs		1,461		1,214	
Depreciation		7,996		6,801	
Equity settled share-based payment expense		5,160		2,178	
Profit on sale of property, plant and equipment		88		(25)	
Finance income		(1,421)		(1,173)	
Finance expense		2,483		2,441	
Income tax expense		37,963		38,488	
		171,872		161,580	
Increase in inventories		(1,891)		(1,740)	
Increase in trade and other receivables		(16,349)		(10,786)	
Decrease in trade and other payables		(1,327)		(1,778)	
Difference between pension charge and cash contribution		(5,241)		(534)	
(Decrease)/increase in provisions		(1,379)		863	
Increase in employee benefits		2,176		2,621	
		147,861		150,226	
Income taxes paid		(42,992)		(39,866)	
Cash flows from operating activities			104,869		110,360
Investing activities					
Purchase of property, plant and equipment		(17,518)		(10,419)	
Development costs capitalised		(2,676)		(2,033)	
Sale of property, plant and equipment		224		159	
Acquisition of businesses, net of cash acquired	3	(81,263)		(43,235)	
Contingent consideration paid		(1,463)		(250)	
Interest received		1,048		917	
Cash flows from investing activities			(101,648)		(54,861)
Financing activities					
Issue of ordinary share capital		584		586	
Own ordinary shares acquired		(6,300)		(5,601)	
Interest paid		(1,120)		(653)	
Increase/(decrease) in bank loans		19,496		(618)	
Repayment of finance lease liabilities		(36)		(34)	
Dividends paid on ordinary shares		(42,702)		(38,735)	
Cash flows from financing activities			(30,078)		(45,055)
(Decrease)/increase in cash and cash equivalents			(26,857)		10,444
Cash and cash equivalents at 1 January			68,873		59,868
Effect of exchange rate fluctuations on cash held			4,800		(1,439)
Cash and cash equivalents at 31 December	16		46,816		68,873

NOTES TO THE GROUP FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

Rotork plc is a company domiciled in England. The consolidated financial statements of the Company for the year ended 31 December 2014 comprise the Company and its subsidiaries (together referred to as the Group). The accounting policies contained below in note 1 and the disclosures in notes 2 to 30 all relate to the Group financial statements. The Company balance sheet can be found following note 30. As the Company has elected to continue reporting under UK GAAP, the applicable accounting policies are contained in note a, and notes b to k relate to the Company's financial statements.

1. ACCOUNTING POLICIES

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

Basis of preparation

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

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

New accounting standards and interpretations
The following amendments have been applied from 1 January 2014:

- Amendments to IAS32 – Offsetting Financial Assets and Financial liabilities
- Amendments to IAS36 – Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to IAS39 – Novation of Derivatives and Continuation of Hedge Accounting

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

Recent accounting developments

IFRS15 Revenue from contracts with customers has been issued but is not yet effective and has not been adopted as application was not mandatory for the year. The new standard requires the separation of performance obligations within contracts with customers and the contractual value to be allocated to the performance obligations. Once a performance obligation is satisfied revenue should be recognised on that element of the contract. The introduction of the standard is likely to have some impact on Rotork but this is unlikely to be material due to the relatively straightforward contractual terms and conditions with customers. An assessment will be carried to understand the impact of this standard prior to it becoming effective in January 2017.

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

The following narrow scope amendments which were issued as part of the IFRS Annual improvement cycle are effective for the 2015 financial year:

- Amendment to IAS19 Defined benefit plans – Employee contributions
- IFRS2 Share-based payment – Definition of vesting condition
- IFRS3 Business combination – Accounting for contingent consideration
- IFRS8 Operating segments – Aggregation of operating segments and reconciliation of the total of reportable assets
- IFRS13 Fair value measurement – Short-term receivable and payables
- IAS24 Related party disclosure – Key management personnel services

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

Going concern

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

Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year to 31 December 2014. 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.

1. ACCOUNTING POLICIES continued

Foreign currencies

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

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

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

Revenue

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

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

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

Business combinations

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

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the Income Statement.

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

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

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

Intangible assets

i) Research & development

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

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2014

1. ACCOUNTING POLICIES 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 and trademarks	4 to 10 years
Customer relationships	2 to 7 years
Product design patents	5 to 8 years
Order backlog	3 months to 1 year

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

Property, plant and equipment

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

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

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation.

Leases

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

Taxation

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

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

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

Inventory and work in progress

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

Cash and cash equivalents

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

Equity

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

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

1. ACCOUNTING POLICIES continued

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.

Employee benefits

i) Pension plans

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

The Group also operates defined contribution pension schemes. The costs for these schemes are recognised in the Income Statement as incurred.

ii) Share-based payment transactions

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

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

The Overseas Profit Linked Share Scheme (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 Consolidated 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.

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

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

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2014

1. ACCOUNTING POLICIES continued

Dividends

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

Critical accounting estimates and judgements

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

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

i) Impairment of intangible assets

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

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

Factors considered important that could trigger an impairment review of intangible assets include the following:
- significant underperformance relative to historical or projected future operating results;
- significant changes in the use of the acquired assets or the strategy for the overall business; or
- significant negative industry or economic trends.

The key sensitivities in the calculation are the discount rate and growth rates. Explanations of the estimates, judgements and sensitivities in respect of the current year impairment review are detailed in note 10.

ii) Valuation of acquired intangible assets

Acquisitions may result in the recognition of customer relationships, brands and trademarks, product design patents and order backlogs. These are valued using discounted cash flow models or a relief from royalty method. In applying these methodologies certain key judgements and assumptions are made over discount rates, growth rates, royalty rates and tax rates where a group of companies are acquired. Further details of the accounting policies are shown earlier in this note and the valuation of the acquired intangible assets are shown in note 11.

iii) Valuation of inventory

The Group inventory is spread across all of the Group's global locations. The provisions made to write down slow-moving and obsolete inventory are based on an assessment of market developments and on an analysis of historic and projected usage. The calculation of the provisions requires application of judgement by management.

iv) Retirement benefits

The Group's financial statements include costs in relation to, and provisions for, retirement benefit obligations. The costs and the present value of any pension value of any related pension assets and liabilities depend on such factors as life expectancy of the members, salary increases, inflation, the returns that the plan assets will generate and the discount rate to calculate the present value of the liabilities. The Group uses previous experience and impartial actuarial advice to calculate the present value of the liabilities. The estimates and the effects of variances in the key estimates are shown in note 24.

2. OPERATING SEGMENTS

The Group has chosen to organise the management and financial structure by the grouping of related products. The four identifiable operating segments where the financial and operating performance is reviewed monthly by the chief operating decision maker are as follows:

Controls – the design, manufacture and sale of electric actuators
Fluid Systems – the design, manufacture and sale of pneumatic and hydraulic actuators
Gears – the design, manufacture and sale of gearboxes, adaption and ancillaries for the valve industry
Instruments – the manufacture of high precision pneumatic controls and power transmission products for a wide range of industries

Unallocated expenses comprise corporate expenses.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties.

Rotork has a worldwide presence in all four operating segments through its subsidiary selling offices and through an agency network. A full list of locations can be found at www.rotork.com.

Analysis by operating segment

	Controls 2014	Fluid Systems 2014	Gears 2014	Instruments 2014	Elimination 2014	Unallocated 2014	Group 2014
Revenue from external customers	324,539	180,260	45,771	44,169	–	–	594,739
Inter segment revenue	–	–	12,035	1,788	(13,823)	–	–
Total revenue	324,539	180,260	57,806	45,957	(13,823)	–	594,739
Operating profit before the amortisation of intangible assets	104,709	31,180	13,011	14,433	–	(6,166)	157,167
Amortisation of acquired intangible assets	(3,477)	(1,585)	(428)	(9,450)	–	–	(14,940)
Operating profit	101,232	29,595	12,583	4,983	–	(6,166)	142,227
Net finance expense							(1,062)
Income tax expense							(37,963)
Profit for the year							103,202

	Controls 2013	Fluid Systems 2013	Gears 2013	Instruments 2013	Elimination 2013	Unallocated 2013	Group 2013
Revenue from external customers	321,902	186,969	45,353	24,216	–	–	578,440
Inter segment revenue	–	–	10,682	706	(11,388)	–	–
Total revenue	321,902	186,969	56,035	24,922	(11,388)	–	578,440
Operating profit before the amortisation of intangible assets	105,472	31,010	12,972	7,833	–	(5,875)	151,412
Amortisation of acquired intangible assets	(4,363)	(1,920)	(403)	(5,461)	–	–	(12,147)
Operating profit	101,109	29,090	12,569	2,372	–	(5,875)	139,265
Net finance expense							(1,268)
Income tax expense							(38,488)
Profit for the year							99,509

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2014

2. OPERATING SEGMENTS continued

	Controls 2014	Fluid Systems 2014	Gears 2014	Instruments 2014	Unallocated 2014	Group 2014
Depreciation	4,396	2,012	813	715	60	7,996
Amortisation:						
– Other intangibles	3,477	1,585	428	9,450	–	14,940
– Development costs	1,342	20	44	55	–	1,461
Non-cash items: equity settled share-based payments	2,779	1,162	574	181	464	5,160
Net financing expense	–	–	–	–	(1,062)	(1,062)
Acquired as part of business combinations:						
– Goodwill	–	1,753	–	43,301	–	45,054
– Intangible assets	–	1,346	–	31,042	–	32,388
Capital expenditure	6,082	6,820	3,875	613	2	17,392

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

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

Geographical analysis

i) Revenue by location of subsidiary

	2014	2013
UK	57,424	51,027
Italy	66,447	64,861
Rest of Europe	110,790	117,467
USA	144,366	147,039
Other Americas	36,327	38,201
Rest of World	179,385	159,845
	594,739	578,440

This disclosure has been restated to revenue by location of subsidiary because this gives a better reflection of the geographic distribution of where the sale occurred.

ii) Non-current assets

	UK 2014	Rest of Europe 2014	USA 2014	Other Americas 2014	Rest of World 2014	Group 2014
Non-current assets:						
– Goodwill	14,107	53,409	42,565	759	38,839	149,679
– Intangible assets	11,972	21,767	16,824	–	21,707	72,270
– Property, plant and equipment	21,770	18,257	7,265	801	15,957	64,050

	UK 2013	Rest of Europe 2013	USA 2013	Other Americas 2013	Rest of World 2013	Group 2013
Non-current assets:						
– Goodwill	5,691	55,205	40,154	770	3,330	105,150
– Intangible assets	5,538	27,317	20,351	–	275	53,481
– Property, plant and equipment	16,304	15,176	6,706	768	6,917	45,871

3. ACQUISITIONS

i) YTC

On 31 March 2014 the Group acquired 100% of the share capital of Young Tech Co Ltd (YTC) for £68,379,000. YTC is a leading manufacturer and supplier of valve positioners and accessories which are certified for use in international markets, based in Seoul, Korea. The acquired business is reported within the Instruments division. In the nine months to 31 December 2014 YTC contributed £13,873,000 to Group revenue and £5,580,000 to consolidated operating profit before amortisation. The amortisation charge in the 39 week period from the acquired intangible assets was £3,254,000.

If the acquisition had occurred on 1 January 2014 the business would have contributed £17,899,000 to Group revenue, £6,917,000 to Group operating profit and £5,330,000 to profit attributable to equity shareholders.

ii) Other acquisitions

The Group acquired 100% of the share capital of Xylem Flow Control Limited (Midland) for £20,018,000 on 2 July 2014. Midland is a leading manufacturer of solenoid valves and instruments under the Midland-ACS, Alcon Solenoid Valves and Landon Kingsway brands based in Wolverhampton, UK. The acquired business is reported within the Instruments division.

The Group acquired 100% of the share capital of Masso Ind S.p.A. (Masso) for £2,973,000 on 9 December 2014. Masso is a marine valve remote control system manufacturer based in Valduggia, Italy. The acquired business is reported within the Fluid Systems division.

In the period from acquisition to 31 December 2014, Midland and Masso contributed £6,286,000 to Group revenue and £1,202,000 to consolidated operating profit before amortisation. The amortisation charge in respect of these acquisitions during the year was £1,049,000. If these other acquisitions had occurred on 1 January 2014 Midland and Masso would have contributed £14,990,000 to Group revenue, £2,569,000 to Group operating profit and £2,014,000 profit attributable to equity shareholders.

iii) Acquisitions fair value table

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

	YTC			Other acquisitions			Total
	Book value	Adjustments	Provisional fair value	Book value	Adjustments	Provisional fair value	Provisional fair value
Non-current assets							
Property, plant and equipment	7,889	–	**7,889**	1,565	–	**1,565**	**9,454**
Intangible assets	226	23,976	**24,202**	–	8,186	**8,186**	**32,388**
Current assets							
Inventory	3,158	(382)	**2,776**	2,367	(345)	**2,022**	**4,798**
Trade and other receivables	3,311	(254)	**3,057**	5,662	(41)	**5,621**	**8,678**
Cash	4,514	–	**4,514**	1,197	–	**1,197**	**5,711**
Current liabilities							
Trade and other payables	(1,099)	(1,276)	**(2,375)**	(3,197)	(32)	**(3,229)**	**(5,604)**
Employee benefits	(40)	–	**(40)**	(207)	–	**(207)**	**(247)**
Warranty provision	–	(30)	**(30)**	(25)	(132)	**(157)**	**(187)**
Corporation tax	(292)	(53)	**(345)**	(236)	(48)	**(284)**	**(629)**
Non-current liabilities							
Deferred tax liability	–	(6,154)	**(6,154)**	16	(1,908)	**(1,892)**	**(8,046)**
Total net assets	17,667	15,827	**33,494**	7,142	5,680	**12,822**	**46,316**
Goodwill			**34,885**			**10,169**	**45,054**
Purchase consideration			**68,379**			**22,991**	**91,370**
Paid in cash			**64,379**			**22,595**	**86,974**
Contingent consideration			**4,000**			**396**	**4,396**
Purchase consideration			**68,379**			**22,991**	**91,370**
Purchase consideration paid in cash			**64,379**			**22,595**	**86,974**
Cash held in subsidiary			**(4,514)**			**(1,197)**	**(5,711)**
Cash outflow on acquisition			**59,865**			**21,398**	**81,263**

The adjustments shown in the table represent the alignment of accounting policies of the acquired businesses to Rotork Group policies and the fair value adjustments of the assets and liabilities at the acquisition date of each of the businesses. The contingent consideration in respect of YTC is payable in April 2015 dependant on a profit target being achieved.

The goodwill arising from the three acquisitions represents the opportunity to grow by exploiting new routes to market via the Rotork sales network and the technical expertise of the acquired workforce. None of the goodwill recognised is expected to be deductible for income tax purposes.

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

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2014

4. OTHER INCOME

	2014	2013
Gain on disposal of property, plant and equipment	**111**	125
Other	**166**	81
	277	206

5. OTHER EXPENSES

	2014	2013
Loss on disposal of property, plant and equipment	**199**	100
Other	**12**	16
	211	116

6. PERSONNEL EXPENSES

	2014	2013
Wages and salaries (including bonus and incentive plans)	**117,198**	112,497
Social security costs	**14,891**	13,888
Pension costs (note 24)	**6,085**	6,002
Share-based payments (note 25)	**5,160**	2,177
Increase/(decrease) in liability for long term service leave	**245**	(38)
	143,579	134,526

	2014 Number	2013 Number
During the year, the average monthly number of employees, analysed by business segment was:		
Controls	**1,801**	1,701
Fluid Systems	**838**	731
Gears	**354**	322
Instruments	**231**	138
	3,224	2,892
UK	**697**	607
Overseas	**2,527**	2,285
	3,224	2,892

7. FINANCE INCOME AND EXPENSE

Recognised in the Income Statement

	2014	2013
Interest income	**1,057**	917
Foreign exchange gains	**364**	256
Finance income	**1,421**	1,173

	2014	2013
Interest expense	**(1,159)**	(653)
Interest charge on pension scheme liabilities (note 24)	**(788)**	(1,168)
Foreign exchange losses	**(536)**	(620)
Finance expense	**(2,483)**	(2,441)

Recognised in equity

	2014	2013
Effective portion of changes in fair value of cash flow hedges	**667**	3,035
Fair value of cash flow hedges transferred to Income Statement	**(3,035)**	(1,437)
Foreign currency translation differences for foreign operations	**(869)**	(4,981)
	(3,237)	(3,383)
Recognised in:		
Hedging reserve	**(2,368)**	1,598
Translation reserve	**(869)**	(4,981)
	(3,237)	(3,383)

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2014

8. PROFIT BEFORE TAX

Profit before tax is stated after charging the following:

	Note	2014	2013
Depreciation of property, plant and equipment:			
– Owned assets	i	**7,902**	6,699
– Assets held under finance lease contracts	i	**94**	102
Amortisation:			
– Other intangibles	i	**14,940**	12,147
– Development costs	i	**1,461**	1,214
Inventory write downs recognised in the year	ii	**1,825**	1,816
Hire of plant and machinery	i	**1,893**	1,283
Other operating lease rentals	i	**3,512**	2,170
Research & development expenditure	iii	**7,187**	6,361
Exchange differences realised	iv	**172**	364

	2014	2013
Audit fees and expenses paid to Deloitte (2013: KPMG Audit Plc):		
– Audit of these financial statements	**696**	332
– Audit of financial statements of subsidiaries of the Company	**75**	161
	771	493
Other auditors of financial statements of subsidiaries of the Company	**18**	95
Total audit fees and expenses	**789**	588
Amounts paid to Deloitte (2013: KPMG Audit Plc) and its associates in respect of:		
– Taxation compliance services	**8**	144
– Half year review	**45**	40
– Corporate finance services	**157**	–
– Other assurance services	**–**	69
	210	253

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 financing income and expenses.

9. INCOME TAX EXPENSE

	2014	2014	2013	2013
Current tax:				
UK corporation tax on profits for the year	6,122		7,986	
Adjustment in respect of prior years	(766)		156	
		5,356		8,142
Overseas tax on profits for the year	36,283		34,790	
Adjustment in respect of prior years	229		(59)	
		36,512		34,731
Total current tax		41,868		42,873
Deferred tax:				
Origination and reversal of other temporary differences	(3,650)		(4,177)	
Adjustment in respect of prior years	(255)		(208)	
Total deferred tax		(3,905)		(4,385)
Total tax charge for year		37,963		38,488
Effective tax rate (based on profit before tax)		26.9%		27.9%
Profit before tax		141,165		137,997
Profit before tax multiplied by the blended standard rate of corporation tax in the UK of 21.5% (2013: 23.25%)		30,350		32,084
Effects of:				
Different tax rates on overseas earnings		8,841		6,019
Permanent differences		1,444		1,398
Research and development credits		(1,880)		(901)
Utilisation of overseas tax holidays		–		(1)
Adjustments to tax charge in respect of prior years		(792)		(111)
Total tax charge for year		37,963		38,488

A tax expense of £274,000 (2013: credit of £632,000) in respect of share-based payments has been recognised directly in equity in the year.

The reduction in the effective tax rate from 27.9% to 26.9% is primarily due to the withholding tax rate on remitted dividends from China reducing from 10% to 5% and the patent box relief available in the UK being effective for a full year in 2014. The Group continues to expect its effective rate of corporation tax to be higher than the standard UK rate due to higher rates of tax in the USA, Canada, France, Germany, Italy, Japan and India.

A credit of £4,214,000 (2013: £3,611,000) in respect of acquired intangible asset amortisation is included in the deferred tax credit of £3,905,000 (2013: £4,385,000).

There is an unrecognised deferred tax liability for temporary differences associated with investments in subsidiaries. Rotork plc controls the dividend policies of its subsidiaries and subsequently the timing of the reversal of the temporary differences. The value of temporary differences associated with unremitted earnings of subsidiaries for which deferred tax has not been recognised is £292,704,000 (2013: £249,208,000).

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2014

10. GOODWILL

	2014	2013
Cost		
At 1 January	**105,150**	80,729
Acquisition through business combinations (note 3)	**45,054**	24,852
Exchange adjustments	**(525)**	(431)
At 31 December	**149,679**	105,150
Provision for impairment		
At 1 January and 31 December	**–**	–
Carrying amounts	**149,679**	105,150

Cash generating units

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

The carrying value of goodwill is allocated as follows:

	2014	2013
Controls		
Schischek	**17,874**	19,003
Other cash generating units	**9,428**	9,279
	27,302	28,282
Fluid Systems		
Rotork Fluid Systems	**7,143**	7,594
Rotork Sweden	**5,965**	6,796
Other cash generating units	**13,786**	11,978
	26,894	26,368
Gears		
Other cash generating units	**8,991**	9,069
	8,991	9,069
Instruments		
YTC	**35,729**	–
Fairchild	**28,494**	26,722
Soldo	**13,853**	14,709
Midland	**8,416**	–
	86,492	41,431
Total Group	**149,679**	105,150

Impairment testing

Goodwill is not amortised but is tested annually for impairment. Value in use calculations are used to determine the recoverable amount of goodwill allocated to each of the CGUs. These calculations use cash flow projections based on actual operating results and management forecasts. The key assumptions in the annual impairment review which are common to all CGUs are set out below:

i) Management forecasts

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

ii) Long term growth rates

In the period after the three year plan growth rates are forecast at 6% per annum for the first two years and 2% thereafter for each CGU (2013: all years post three year plan were forecast at 2%). The 6% rate reflects a more realistic market forecast for the flow control market up until 2019. These rates are considered to be prudent given the significant organic growth of the business over the last 10 years.

10. GOODWILL continued

iii) Discount rates

Discount rates for each of the CGUs have been based on the geographic area in which the subsidiary is located and these rates range between 9.2% and 10.3% (2013: Group wide discount rate of 10.5%). Applying an area specific discount rate more accurately reflects the risks and rewards for subsidiaries operating in various geographic sectors around the world.

Sensitivity analysis

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

With regard to YTC, which has only been part of the Group for 9 months, downside sensitivities have been assessed. A decrease in the growth rate by 6% in each of the next five years would result in the goodwill being impaired. If the discount factor were to increase by 2% to 12.2%, growth would need to reduce by 1% in each of the next five years for the goodwill to become impaired. It is anticipated that as YTC becomes more established within the Group and leverages the sales network opportunities the long term growth rate should comfortably exceed the growth rates assumed in the forecast.

Schischek downside sensitivities have also been assessed. A decrease in the growth rate of 7% per year over the next five years would be required to result in an impairment. If the discount rate were to increase by 2% to 12.3%, a decrease in the growth rate of 2% in each of the next five years would be required to result in a goodwill impairment.

11. INTANGIBLE ASSETS

		Business combinations acquired intangible assets			
	Research & development costs	Brands	Customer relationships	Other	Total
Cost					
1 January 2013	9,069	21,954	26,722	3,842	61,587
Acquisition through business combinations	–	7,968	12,298	3,972	24,238
Internally developed	2,033	–	–	–	2,033
Exchange adjustments	(6)	(242)	(584)	(84)	(916)
31 December 2013	11,096	29,680	38,436	7,730	86,942
Acquisition through business combinations	226	4,808	22,579	4,775	32,388
Internally developed	2,746	–	–	–	2,746
Exchange adjustments	16	(135)	82	(77)	(114)
31 December 2014	**14,084**	**34,353**	**61,097**	**12,428**	**121,962**
Amortisation					
1 January 2013	4,850	4,110	8,792	3,092	20,844
Charge for the year	1,214	3,816	6,684	1,647	13,361
Exchange adjustments	–	(201)	(456)	(87)	(744)
31 December 2013	6,064	7,725	15,020	4,652	33,461
Charge for the year	1,461	4,188	8,255	2,497	16,401
Exchange adjustments	1	(38)	(121)	(12)	(170)
31 December 2014	**7,526**	**11,875**	**23,154**	**7,137**	**49,692**
Net book value					
31 December 2013	5,032	21,955	23,416	3,078	53,481
31 December 2014	**6,558**	**22,478**	**37,943**	**5,291**	**72,270**

Other acquired intangible assets represent order books and intellectual property.

The amortisation charge is recognised within administrative expenses in the Income Statement.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2014

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and equipment	Total
Cost			
1 January 2013	27,767	51,805	79,572
Additions	2,287	8,033	10,320
Disposals	(12)	(1,530)	(1,542)
Acquisition through business combinations	3,519	1,444	4,963
Exchange adjustments	(508)	(1,078)	(1,586)
31 December 2013	33,053	58,674	91,727
Additions	4,063	13,329	17,392
Disposals	–	(1,883)	(1,883)
Acquisition through business combinations	8,144	1,310	9,454
Exchange adjustments	(383)	(644)	(1,027)
31 December 2014	**44,877**	**70,786**	**115,663**
Depreciation			
1 January 2013	7,750	33,377	41,127
Charge for the year	745	6,056	6,801
Disposals	(11)	(1,405)	(1,416)
Exchange adjustments	(76)	(580)	(656)
31 December 2013	8,408	37,448	45,856
Charge for the year	1,042	6,954	7,996
Disposals	–	(1,577)	(1,577)
Exchange adjustments	(173)	(489)	(662)
31 December 2014	**9,277**	**42,336**	**51,613**
Net book value			
31 December 2013	24,645	21,226	45,871
31 December 2014	**35,600**	**28,450**	**64,050**

The net book value of the Group's plant and equipment includes £18,000 (2013: £61,000) in respect of assets held under finance leases.

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

	2014	2013
Land	**6,004**	2,794
Buildings	**29,596**	21,851
Net book value at 31 December	**35,600**	24,645

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. No impairment was identified in the year.

13. DEFERRED TAX ASSETS AND LIABILITIES

	Assets 2014	Liabilities 2014	Net 2014	Assets 2013	Liabilities 2013	Net 2013
Property, plant and equipment	**162**	**(987)**	**(825)**	282	(1,094)	(812)
Intangible assets	**54**	**(18,383)**	**(18,329)**	–	(14,731)	(14,731)
Employee benefits	**9,487**	**(77)**	**9,410**	5,890	–	5,890
Provisions	**4,551**	**–**	**4,551**	5,535	–	5,535
Other items	**2,915**	**(2,377)**	**538**	1,605	(2,629)	(1,024)
Net tax assets/(liabilities)	**17,169**	**(21,824)**	**(4,655)**	13,312	(18,454)	(5,142)
Set off of tax	**(1,466)**	**1,466**	**–**	(1,534)	1,534	–
	15,703	**(20,358)**	**(4,655)**	11,778	(16,920)	(5,142)

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

	2014	2013
Balance at 1 January	**(5,142)**	(504)
Credited to the Income Statement	**3,905**	4,385
(Charged)/credited directly to equity in respect of share-based payments	**(425)**	188
Acquired as part of business combinations	**(8,046)**	(6,624)
Credited/(charged) directly to equity in respect of pension schemes	**4,491**	(2,141)
Credited/(charged) directly to hedging reserves in respect of cash flow hedges	**558**	(324)
Exchange differences	**4**	(122)
Balance at 31 December	**(4,655)**	(5,142)

A deferred tax asset of £15,703,000 (2013: £11,778,000) has been recognised at 31 December 2014. The directors are of the opinion, based on recent and forecast trading, that the level of profits in the current and future years make it more likely than not that these assets will be recovered.

A deferred tax asset of £1,519,000 (2013: £1,664,000) has not been recognised in relation to capital losses. This asset may be recovered if sufficient capital profits are made in future in the companies concerned. There is no expiry date in relation to this asset.

14. INVENTORIES

	2014	2013
Raw materials and consumables	**58,590**	51,844
Work in progress	**10,088**	8,445
Finished goods	**12,412**	14,792
	81,090	75,081

Included in cost of sales was £206,104,000 (2013: £205,092,000) in respect of inventories consumed in the year.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2014

15. TRADE AND OTHER RECEIVABLES

	2014	2013
Non-current assets:		
Other non-trade receivables	**1,976**	1,532
Other receivables	**1,976**	1,532
Current assets:		
Trade receivables	**130,819**	107,801
Less provision for impairment of receivables	**(2,347)**	(1,825)
Trade receivables – net	**128,472**	105,976
Corporation tax	**1,962**	1,145
Current tax	**1,962**	1,145
Other non-trade receivables	**2,161**	1,833
Other taxes and social security	**6,046**	5,542
Prepayments	**4,379**	4,777
Other receivables	**12,586**	12,152

16. CASH AND CASH EQUIVALENTS

	2014	2013
Bank balances	**23,777**	40,747
Cash in hand	**45**	43
Short term deposits	**22,994**	28,083
Cash and cash equivalents	**46,816**	68,873
Bank overdraft	**–**	–
Cash and cash equivalents in the Consolidated Statement of Cash Flows	**46,816**	68,873

17. CAPITAL AND RESERVES

Share capital and share premium

	5p Ordinary shares Issued and fully paid up 2014	£1 Non-redeemable preference shares 2014	5p Ordinary shares Issued and fully paid up 2013	£1 Non-redeemable preference shares 2013
At 1 January	**4,344**	**40**	4,340	40
Issued under employee share schemes	**2**	**–**	4	–
At 31 December	**4,346**	**40**	4,344	40
Number of shares (000)	**86,928**		86,871	

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 £584,000 (2013: £586,000) in respect of the 57,321 (2013: 62,904) ordinary shares issued during the year: £2,000 (2013: £4,000) was credited to share capital and £582,000 (2013: £582,000) 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 £5,393,000 (2013: £4,520,000) and represents 202,098 (2013: 162,518) 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:

	2014 Payment date	2014	2013
30.0p final dividend (2013: 26.6p)	**19 May**	**26,046**	23,082
19.2p interim dividend (2013: 18.05p)	**26 September**	**16,656**	15,653
		42,702	38,735

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

	2014	2013
Final proposed dividend per qualifying ordinary share		
30.9p	**26,861**	
30.0p		26,061

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2014

18. EARNINGS PER SHARE

Basic earnings per share

Earnings per share is calculated for both the current and previous years using the profit attributable to the ordinary shareholders for the year. The earnings per share calculation is based on 86.7m shares (2013: 86.7m shares) being the weighted average number of ordinary shares in issue (net of own ordinary shares held) for the year.

	2014	2013
Net profit attributable to ordinary shareholders	**103,202**	99,509
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	**86,708**	86,638
Effect of own shares held	**25**	44
Effect of shares issued under Share option schemes/Sharesave plans	**7**	9
Weighted average number of ordinary shares during the year	**86,740**	86,691
Basic earnings per share	**119.0p**	114.8p

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 amortisation charge.

	2014	2013
Net profit attributable to ordinary shareholders	**103,202**	99,509
Amortisation	**14,940**	12,147
Tax effect on amortisation at effective rate	**(4,018)**	(3,388)
Adjusted net profit attributable to ordinary shareholders	**114,124**	108,268
Weighted average number of ordinary shares during the year	**86,740**	86,691
Adjusted basic earnings per share	**131.6p**	124.9p

Diluted earnings per share

Diluted earnings per share is based on the profit for the year attributable to the ordinary shareholders and 87.1m shares (2013: 87.1m 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).

	2014	2013
Net profit attributable to ordinary shareholders	**103,202**	99,509
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares for the year	**86,740**	86,691
Effect of Sharesave options in issue	**112**	103
Effect of LTIP shares in issue	**238**	277
Weighted average number of ordinary shares (diluted) during the year	**87,090**	87,071
Diluted earnings per share	**118.5p**	114.3p

Adjusted diluted earnings per share

	2014	2013
Net profit attributable to ordinary shareholders	**103,202**	99,509
Amortisation	**14,940**	12,147
Tax effect on amortisation at effective rate	**(4,018)**	(3,388)
Adjusted net profit attributable to ordinary shareholders	**114,124**	108,268
Weighted average number of ordinary shares (diluted) during the year	**87,090**	87,071
Adjusted diluted earnings per share	**131.0p**	124.3p

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.

	2014	2013
Non-current liabilities		
Preference shares classified as debt	**40**	40
Bank loans	**1,253**	1,607
Finance lease liabilities	**10**	31
	1,303	1,678
Current liabilities		
Bank loans	**20,259**	502
Finance lease liabilities	**15**	30
	20,274	532

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

	Currency	Interest rates	Year of maturity	2014	2013
Non-redeemable preference shares	Sterling	9.5%	–	**40**	40
Bank loans and overdrafts	Sterling, Euro	0% – 4.5%	2015–32	**21,512**	2,109
Finance lease liabilities	Sterling, Euro & Yen	0% – 5.6%	2015–17	**25**	61
				21,577	2,210

Repayment profile

Finance leases and bank loans are payable as follows:

	Principal 2014	Interest 2014	Minimum payments 2014	Principal 2013	Interest 2013	Minimum payments 2013
Bank loans less than one year	**20,259**	**45**	**20,304**	502	37	539
Bank loans more than one and less than five years	**494**	**87**	**581**	736	105	841
Bank loans more than five years	**759**	**113**	**872**	871	140	1,011
Finance leases less than one year	**15**	**1**	**16**	30	3	33
Finance leases more than one and less than five years	**10**	**1**	**11**	31	2	33
	21,537	**247**	**21,784**	2,170	287	2,457

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2014

20. EMPLOYEE BENEFITS

	2014	2013
Recognised liability for defined benefit obligations:		
– Present value of funded obligations	**187,918**	152,882
– Fair value of plan assets	**(151,786)**	(132,684)
	36,132	20,198
Other pension scheme liabilities	**435**	477
Employee bonuses	**13,105**	14,726
Long Term Incentive Plan	**404**	576
Employee indemnity provision	**1,971**	1,833
Other employee benefits	**2,835**	2,374
	54,882	40,184
Non-current	**38,864**	22,705
Current	**16,018**	17,479
	54,882	40,184

Defined benefit pension scheme disclosures are detailed in note 24.

21. PROVISIONS

	Contingent consideration	Warranty provision	Total
Balance at 1 January 2014	2,809	6,685	9,494
Exchange differences	(85)	36	(49)
Increase as a result of business combinations	4,396	187	4,583
Provisions used during the year	(1,463)	(752)	(2,215)
Credited to the Income Statement	(164)	(416)	(580)
Balance at 31 December 2014	**5,493**	**5,740**	**11,233**
Maturity at 31 December 2014			
Non-current	**–**	**1,913**	**1,913**
Current	**5,493**	**3,827**	**9,320**
	5,493	**5,740**	**11,233**
Maturity at 31 December 2013			
Non-current	400	2,228	2,628
Current	2,409	4,457	6,866
	2,809	6,685	9,494

The warranty provision is based on estimates made from historical warranty data associated with similar products and services. The provision relates mainly to products sold during the last 12 months, the typical warranty period is 18 months.

Contingent consideration relates to amounts outstanding in respect of the acquisitions of YTC, Flowco Limited, GTA Group and Masso Ind S.p.A. All of these amounts are due to be paid during 2015.

22. TRADE AND OTHER PAYABLES

	2014	2013
Trade payables	**40,162**	38,019
Corporation tax	**15,200**	14,836
Current tax	**15,200**	14,836
Other taxes and social security	**8,123**	6,922
Payments on account	**7,617**	7,995
Other payables and accrued expenses	**19,451**	16,085
Other payables	**35,191**	31,002

23. DERIVATIVE FINANCIAL INSTRUMENTS

	2014 Assets	2014 Liabilities	2013 Assets	2013 Liabilities
Forward foreign exchange contracts – cash flow hedges	**1,243**	**576**	3,067	32
Foreign exchange swaps – cash flow hedges	**670**	**543**	670	–
Total	**1,913**	**1,119**	3,737	32
Less non-current portion:				
Forward foreign exchange contracts – cash flow hedges	**–**	**–**	(804)	–
Current portion	**1,913**	**1,119**	2,933	32

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 2014 are recognised in the Income Statement in the period or periods during which the hedged forecast transaction affects the Income Statement.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2014

24. PENSION SCHEMES

i) Defined benefit pension schemes

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

The UK Scheme is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the UK 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 UK Scheme the contributions to be paid to address any shortfall against the Statutory Funding Objective and contributions to pay for future accrual of benefits.

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

The US Pension Plan is subject to the ERISA funding requirements. A valuation of the Plan is 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 two defined benefit pension arrangements expose the Group to a number of risks:

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

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

Movements in the present value of defined benefit obligations

	2014	2013
Liabilities at 1 January	**152,882**	151,501
Current service costs	**2,579**	2,773
Administration costs	**132**	345
Member contributions	**494**	499
Interest cost	**7,035**	6,448
Benefits paid	**(4,291)**	(4,079)
Actuarial loss/(gain)	**27,827**	(4,314)
Currency loss/(gain)	**1,260**	(291)
Liabilities at 31 December	**187,918**	152,882

24. PENSION SCHEMES continued

Movements in fair value of plan assets

	2014	2013
Assets at 1 January	**132,684**	122,802
Interest income on plan assets	**6,247**	5,280
Employer contributions	**8,038**	4,999
Member contributions	**494**	499
Benefits paid	**(4,291)**	(4,079)
Return on plan assets, excluding interest income on plan assets	**7,995**	3,355
Currency gain/(loss)	**619**	(172)
Assets at 31 December	**151,786**	132,684

Expense recognised in the Income Statement

	2014	2013
Current service costs	**2,579**	2,773
Administration costs	**132**	345
Net interest cost	**788**	1,168
	3,499	4,286

The expense is recognised in the following line items in the Income Statement:

	2014	2013
Cost of sales	**962**	972
Administrative expenses	**1,749**	2,146
Net finance expense	**788**	1,168
	3,499	4,286

Remeasurements over the year

	2014	2013
Experience adjustments on plan assets	**7,995**	3,355
Experience adjustments on plan liabilities	**1,063**	589
Actuarial (loss)/gain from changes to financial assumptions	**(27,293)**	1,715
Actuarial (loss)/gain from changes to demographic assumptions	**(1,597)**	2,010
Experience adjustments on currency	**(641)**	119
	(20,473)	7,788

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2014

24. PENSION SCHEMES continued

Reconciliation of net defined benefit obligation

	2014	2013
Net defined benefit obligation at the beginning of the year	**20,198**	28,699
Current service costs	**2,579**	2,773
Administration costs	**132**	345
Net financing expense	**788**	1,168
Remeasurements over the year	**20,473**	(7,788)
Employer contributions	**(8,038)**	(4,999)
	36,132	20,198

Liability for defined benefit obligations

The principal actuarial assumptions at 31 December 2014 (expressed as weighted averages):

	UK scheme (% per annum)		US scheme (% per annum)		Weighted average (% per annum)	
	2014	2013	2014	2013	2014	2013
Discount rate	**3.6**	4.6	**4.3**	5.0	**3.7**	4.6
Rate of increase in salaries	**3.6**	3.9	**3.0**	3.5	**3.5**	3.8
Rate of increase in pensions (post May 2000)	**3.0**	3.3	**0.0**	0.0	**2.7**	3.0
Rate of increase in pensions (pre May 2000)	**4.6**	4.6	**0.0**	0.0	**4.1**	4.2
Rate of inflation	**3.1**	3.4	**3.0**	3.5	**3.1**	3.4

The Retail Price Index is used as the rate of inflation as it is a requirement of the pension scheme rules.

The split of the schemes' assets were as follows:

	2014 Fair value	2013 Fair value
Equities	**71,928**	68,724
Bonds	**59,748**	46,782
Property	**8,717**	7,485
Cash	**1,403**	931
US deposit administration contract	**9,990**	8,763
Total	**151,786**	132,685
Actual return on the schemes' assets	**14,242**	8,636

The mortality assumptions used are the S1NXA year of birth tables with future improvements in mortality based on the CMI_2012 projections (2013: CMI_2012 projections) with a long-term rate of improvement of 1.25% per annum (2013: 1.25%).

24. PENSION SCHEMES continued

By way of example the respective mortality tables indicate the following life expectancy:

	2014 Life expectancy at age 65		2013 Life expectancy at age 65	
CURRENT AGE	Male	Female	Male	Female
65	**22.5**	**25.0**	22.4	24.9
45	**24.2**	**26.9**	24.1	26.8

Sensitivity analysis on the scheme liabilities

Adjustments to assumptions	Approximate effect on liabilities
Discount rate	
Plus 0.5% pa	(18,000)
Minus 0.5% pa	20,100
Inflation	
Plus 0.5% pa	9,200
Minus 0.5% pa	(8,700)
Salary Increase	
Plus 0.5% pa	4,100
Minus 0.5% pa	(3,900)
Life Expectancy	
Decrease mortality rates by a factor of 10%	5,600
Increase mortality rates by a factor of 10%	(5,100)

Note that the above sensitivities are approximate and only show the likely effect of an assumption being adjusted whilst all other assumptions remain the same.

For the life expectancy sensitivity we have increased/decreased the mortality rates by a factor of 10%. Broadly speaking this decreases/increases the assumed life expectancy by slightly less than 1 year.

The sensitivity analysis shown above was determined using the same method as per the calculation of liabilities for the balance sheet disclosures, but using assumptions adjusted as detailed above.

Effect of the Schemes on Groups future cash flows

The Group is required to agree a Schedule of Contributions with the Trustees of the UK Scheme following a valuation which must be carried out at least once every three years. The next valuation of the Scheme will have an effective date of 31 March 2016. In the event that the valuation reveals a larger deficit than expected the Group may be required to increase contributions above those set out in the existing Schedule of Contributions. Conversely, if the position is better than expected, contributions may be reduced.

The Group estimates that cash contributions to the Group's defined benefit pension schemes during 2015 will be £2,900,000 for regular payments (2014: £2,858,000) and £5,500,000 of additional payments in relation to past service (2014: £5,200,000).

The weighted average duration of the defined benefit obligation is 21 years.

ii) Other pension plans

The Group makes a contribution to a number of defined contribution plans around the world to provide benefits for employees upon retirement. Total expense relating to these plans in the year was £3,506,000 (2013: £2,884,000).

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2014

25. SHARE-BASED PAYMENTS

The equity settled share-based payment expense included in the Income Statement can be analysed as follows:

	2014	2013
Sharesave plan (a)	**361**	285
Long Term Incentive Plan (b)	**1,501**	1,892
OPLSS/SIP profit linked share scheme (c)	**3,298**	–
Total expense recognised as employee costs (note 6)	**5,160**	2,177

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	
	2014	2013	2014	2013
Grant date	**30 September**	30 September	**30 September**	30 September
Share price at grant date	**£27.65**	£27.27	**£27.65**	£27.27
Exercise price	**£22.36**	£21.94	**£22.36**	£21.94
Shares granted under scheme	**49,975**	28,822	**72,209**	26,137
Vesting period	**3 years**	3 years	**5 years**	5 years
Expected volatility	**24.0%**	24.9%	**24.6%**	31.5%
Risk free rate	**1.33%**	0.92%	**1.83%**	1.62%
Expected dividends expressed as a dividend yield	**1.8%**	1.6%	**1.8%**	1.6%
Probability of ceasing employment before vesting	**20%**	20%	**20%**	20%
Fair value	**£6.79**	£6.82	**£7.82**	£9.03

Movements in the number of share options outstanding and their weighted average exercise prices are as follows:

	2014		2013	
	Average exercise price in £ per share	Options	Average exercise price in £ per share	Options
At 1 January	**15.28**	**227,963**	12.24	242,830
Granted	**22.36**	**122,184**	21.94	54,959
Exercised	**10.24**	**(57,321)**	8.96	(62,904)
Lapsed	**19.23**	**(6,383)**	15.76	(6,922)
At 31 December	**19.23**	**286,443**	15.28	227,963

Of the 286,443 outstanding options (2013: 227,963), 14,134 are exercisable (2013: 4,562).

The Group received proceeds of £584,000 in respect of the 57,321 options exercised during the year: £2,000 was credited to share capital and £582,000 to share premium. The weighted average share price at date of exercise was £23.57 (2013: £26.51).

The weighted average remaining life of 105,627 (2013: 82,224) awards outstanding under the 3 year plan is two years. The weighted average remaining life of 180,816 (2013: 145,739) awards outstanding under the 5 year plan is three years.

25. SHARE-BASED PAYMENTS continued

b) Long Term Incentive Plan

The Long Term Incentive Plan (LTIP) is a performance share plan under which shares are conditionally allocated to selected members of senior management at the discretion of the Remuneration Committee on an annual basis. Following shareholder approval of the LTIP at the Company's AGM on 18 May 2000, awards over shares are made to executive directors and senior managers each year.

2010 LTIP plan

Following shareholder approval of the 2010 LTIP plan at the Company's AGM on 23 April 2010, awards of shares have been made annually to executive and senior managers. Half of these awards vest under a TSR performance condition and half under an EPS performance condition.

TSR measures the change in value of a share and reinvested dividends over the period of measurement. The actual number of shares transferred will be determined by the number of shares initially allocated multiplied by a vesting percentage. The actual number of shares transferred will be 25% at the 50th percentile rising to 100% at the 75th percentile.

The EPS performance condition is satisfied with 15% of the awards vesting if the EPS growth is RPI + 10% over the vesting period up to a maximum of 100% vesting if EPS growth exceeds RPI +25%.

The performance period for the 2011 awards ended on 31 December 2013. Messrs. PricewaterhouseCoopers LLP as independent actuaries certified to the Remuneration Committee that there was a 67% vesting of this award as the Company was in the 59th percentile relative to the comparator group and the Group's EPS growth exceeded RPI +25% over the performance period. The awards vested during 2014.

The performance period for the 2012 awards ended on 31 December 2014. The TSR element of the award will not vest as the Company was in the 40th percentile relative to the comparator group. The EPS growth was 28.0% over the performance period which exceeded RPI by 20.4%.Messrs. PricewaterhouseCoopers LLP as independent actuaries certified to the Remuneration Committee that there was a 37.0% vesting of this award. These awards will vest during 2015.

	2014	2013
Grant date	**7 March 2014**	7 March 2013
Share price at grant date	**£27.52**	£29.05
Shares granted under scheme	**106,402**	98,832
Vesting period	**3 years**	3 years
Expected volatility	**25.1%**	25.7%
Risk free rate	**1.0%**	0.3%
Expected dividends expressed as a dividend yield	**1.7%**	1.5%
Probability of ceasing employment before vesting	**5% p.a.**	5% p.a.
Fair value of awards under TSR performance conditions	**£12.56**	£17.02
Fair value of awards under EPS performance conditions	**£26.21**	£28.19

	Outstanding at start of year	Granted during year	Vested during year	Lapsed	Outstanding at end of year
2011 Award	124,906	–	(83,672)	(41,234)	**–**
2012 Award	122,695	–	–	–	**122,695**
2013 Award	98,832	–	–	–	**98,832**
2014 Award	–	106,402	–	–	**106,402**
	346,433	106,402	(83,672)	(41,234)	**327,929**

At the date of vesting the 2011 awards were valued at £27.63. The weighted average remaining life of awards outstanding at the year end is one year.

c) Overseas Profit Linked Share Scheme (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, the value of the award can be up to £3,600.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2014

26. FINANCIAL INSTRUMENTS

Financial risk and treasury policies

The Treasury department maintains liquidity, identifies and manages foreign exchange risk, manages relations with the Group's bankers and provides a treasury service to the Group's businesses. Treasury dealings such as investments, borrowings and foreign exchange are conducted only to support underlying business transactions.

The Group has clearly defined policies for the management of credit, foreign exchange and interest rate risk. The Group Treasury department is not a profit centre and, therefore, does not undertake speculative foreign exchange dealings for which there is no underlying exposure. Exposures resulting from sales and purchases in foreign currency are matched where possible and the net exposure may be hedged.

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash on deposit with financial institutions.

Management has a credit policy in place and exposure to credit risk is both monitored on an ongoing basis and reduced through the use of credit insurance covering 80% to 90% of trade receivables at any time. Credit evaluations are carried out on all customers requiring credit above a certain threshold, with varying approval levels set around this depending on the value of the sale. At the balance sheet date there were no significant concentrations of credit risk.

Goods are sold subject to retention of title clauses, so that in the event of non–payment the Group may have a secured claim.

The Group maintains an allowance for impairment in respect of non–insured receivables where recoverability is considered doubtful.

The Group Treasury Committee meets regularly and reviews the credit risk associated with institutions that hold a material cash balance. As well as credit ratings, counterparties and instruments are assessed for credit default swap pricing and liquidity of funds.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2014	2013
Trade receivables	**128,472**	105,976
Other receivables	**14,562**	13,684
Cash and cash equivalents	**46,816**	68,873
Foreign exchange contracts	**1,913**	3,737
	191,763	192,270

The maximum exposure to credit risk for trade receivables at the reporting date by currency was:

	Carrying amount	
	2014	2013
Sterling	**15,207**	13,166
US dollar	**37,750**	30,128
Euro	**45,014**	42,244
Indian rupee	**5,001**	3,528
Other	**25,500**	16,910
	128,472	105,976

Provisions against trade receivables

The aging of trade receivables and the associated provision for impairment at the reporting date was:

	Gross 2014	Provision 2014	Gross 2013	Provision 2013
Not past due	**86,682**	**(93)**	73,493	(225)
Past due 0–30 days	**21,910**	**(105)**	15,873	(56)
Past due 31–60 days	**10,363**	**(40)**	9,117	(68)
Past due 61–90 days	**3,184**	**(275)**	3,107	(143)
Past due more than 91 days	**8,680**	**(1,834)**	6,211	(1,333)
	130,819	**(2,347)**	107,801	(1,825)

26. FINANCIAL INSTRUMENTS 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 £7m overdraft facility (2013: £7m) on which interest would be payable at base rate plus 1.5%.

During 2014 the Group extended its £15m loan facility for a further 18 months to June 2016, increased the committed amount to £55m and renegotiated the margin from LIBOR plus 1.0% to LIBOR plus 0.55%. In May 2014 the Group also negotiated a new 364 day £20m committed loan facility. Interest is payable on this facility at LIBOR plus 0.35%. At year end £20m of the committed facilities were drawn resulting in £55m being available.

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

			Analysis of contractual cash flow maturities			
31 December 2014	Carrying amount	Contractual cash flows	Less than 12 months	1–2 years	2–5 years	More than 5 years
Bank loans and overdrafts	**21,512**	**21,757**	**20,304**	**254**	**327**	**872**
Finance lease liabilities	**25**	**27**	**16**	**10**	**1**	**–**
Trade and other payables	**75,353**	**75,353**	**75,353**	**–**	**–**	**–**
Contingent consideration	**5,493**	**5,493**	**5,493**	**–**	**–**	**–**
Foreign exchange contracts	**1,119**	**1,119**	**1,119**	**–**	**–**	**–**
Non-redeemable preference shares	**40**	**40**	**–**	**–**	**–**	**40**
	103,542	**103,789**	**102,285**	**264**	**328**	**912**

			Analysis of contractual cash flow maturities			
31 December 2013	Carrying amount	Contractual cash flows	Less than 12 months	1–2 years	2–5 years	More than 5 years
Bank loans and overdrafts	2,109	2,391	539	308	533	1,011
Finance lease liabilities	61	66	33	22	11	–
Trade and other payables	69,021	69,021	69,021	–	–	–
Contingent consideration	2,809	2,809	2,409	400	–	–
Forward exchange contracts	32	32	32	–	–	–
Non-redeemable preference shares	40	40	–	–	–	40
	74,072	74,359	72,034	730	544	1,051

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 £144,706,000 (2013: £166,745,000) and the gross inflow is £145,566,000 (2013: £170,588,000).

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2014

26. FINANCIAL INSTRUMENTS continued

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 2014 was a £794,000 asset (2013: £3,705,000 asset) comprising an asset of £1,913,000 (2013: £3,737,000) and a liability of £1,119,000 (2013: £32,000). Forward exchange contracts in place at 31 December 2014 mature in 2015 and 2016.

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 2014 of £325,000 (2013: £325,000) and a change of one cent in the value of US dollar against sterling would have had an impact of the Group's operating profit for the year ended 31 December 2014 of £550,000 (2013: £450,000). The method of estimation, which has been applied consistently, involves assessing the transaction impact of US dollar and euro cash flows and the translation impact of US dollar and euro profits.

The following significant exchange rates applied during the year:

	Average rate		Closing rate	
	2014	2013	**2014**	2013
US dollar	**1.65**	1.56	**1.55**	1.66
Euro	**1.24**	1.18	**1.28**	1.20

ii) Interest rate risk

The Group does not undertake any hedging activity in this area. All cash deposits are made at prevailing interest rates and the majority is available with same day notice, though deposits are sometimes made with a maturity of no more than three months. The main element of interest rate risk concerns sterling, US dollar, euro and renminbi deposits, all of which are on a floating rate basis.

The interest rate profile of the Group's financial liabilities at 31 December was as follows:

	2014	2013
Fixed rate financial liabilities	**512**	1,010
Floating rate financial liabilities	**21,065**	1,200
	21,577	2,210

The fixed and floating rate financial liabilities comprise finance leases, preference shares and bank loans. The floating rate lease obligations bear interest at rates determined by reference to the relevant LIBOR or equivalent rate.

The weighted average interest rate of the fixed rate financial liabilities is 1.7% or 1.9% excluding the zero rate debt (2013: 1.6% or 2.0%). The weighted average period for which (non zero) interest rates on the fixed rate financial liabilities are fixed is 2.5 years.

The maturity profile of the Group's financial liabilities at 31 December was as follows:

	2014	2013
In one year or less	**20,274**	532
In more than one year but not more than two years	**237**	297
In more than two years but not more than five years	**267**	470
In more than five years	**799**	911
Total	**21,577**	2,210

26. FINANCIAL INSTRUMENTS 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 funds and equity attributable to shareholders (see note 17). There are no externally imposed restrictions on the Group's capital structure.

The Group monitors capital using the following indicators:

i) Group net funds

	2014	2013
Total borrowings	**(21,577)**	(2,210)
Cash and cash equivalents (note 16)	**46,816**	68,873
Group net funds	**25,239**	66,663

ii) Return on capital employed

	2014	2013
Operating profit before the amortisation of intangible assets		
Operating profit	**142,227**	139,265
Amortisation of acquired intangible assets	**14,940**	12,147
	157,167	151,412
Capital employed		
Shareholders' funds	**376,795**	332,079
Cash and cash equivalents (note 16)	**(46,816)**	(68,873)
Interest bearing loans and borrowings	**21,577**	2,210
Net cash	**(25,239)**	(66,663)
Pension deficit net of deferred tax	**27,950**	15,552
	379,506	280,968
Average capital employed	**330,237**	256,203
Return on capital employed	**47.6%**	59.1%

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2014

26. FINANCIAL INSTRUMENTS continued

e) Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, were as follows:

	Carrying amount 2014	Fair value 2014	Carrying amount 2013	Fair value 2013
Loans and receivables				
Trade receivables	**128,472**	**128,472**	105,976	105,976
Other receivables	**14,562**	**14,562**	13,684	13,684
Financial assets				
Cash and cash equivalents	**46,816**	**46,816**	68,873	68,873
Designated cash flow hedges				
Foreign exchange contracts:				
– Financial assets	**1,913**	**1,913**	3,737	3,737
– Financial liabilities	**(1,119)**	**(1,119)**	(32)	(32)
Financial liabilities at amortised cost				
Bank loans	**(21,512)**	**(21,512)**	(2,109)	(2,109)
Trade and other payables	**(75,353)**	**(75,353)**	(69,021)	(69,021)
Contingent consideration	**(5,493)**	**(5,493)**	(2,809)	(2,809)
Preference shares	**(40)**	**(40)**	(40)	(40)
Finance lease liabilities	**(25)**	**(25)**	(61)	(61)
	88,221	**88,221**	118,198	118,198

Fair value hierarchy

The fair value of the Group's outstanding derivative financial assets and liabilities consisted of foreign exchange contracts and swaps and were estimated using year end spot rates adjusted for the forward points to the appropriate value dates, and gains and losses are taken to equity estimated using market foreign exchange rates at the balance sheet date. All derivative financial instruments are categorised at Level 2 of the fair value hierarchy.

The other financial instruments are classified as level 3 in the fair value hierarchy and are valued as follows:

i) Trade and other receivables/payables

As the majority of receivables/payables have a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

ii) Contingent consideration

As all the contingent consideration is contractually due for payment within 12 months (2013: 18 months), the carrying amount is equal to the fair value.

27. OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

	2014	2013
Less than one year	**4,785**	4,568
Between one and five years	**8,714**	10,349
More than five years	**518**	988
	14,017	15,905

Of the £14,017,000 (2013: £15,905,000), £10,206,000 (2013: £12,396,000) relates to property and the balance to plant and equipment.

28. CAPITAL COMMITMENTS

Capital commitments at 31 December for which no provision has been made in these accounts were:

	2014	2013
Contracted	**1,037**	4,617

29. CONTINGENCIES

	2014	2013
Performance guarantees and indemnities	**3,735**	5,660

The performance guarantees and indemnities have been entered into in the normal course of business. A liability would only arise in the event of the Group failing to fulfil its contractual obligations.

30. RELATED PARTIES

The Group has a related party relationship with its subsidiaries and with its directors and key management. A list of subsidiaries is shown on pages 125 to 126 of these financial statements. Transactions between two subsidiaries for the sale and purchase of products or the subsidiary and parent Company for management charges are priced on an arms length basis.

MJ Lamb became a non-executive director of Rotork plc during the year. Severn Trent plc is a related party of Rotork plc by virtue of MJ Lamb's non-executive directorship. Sales to subsidiaries and associates of Severn Trent plc totalled £1,352,000 during the year and £226,000 was outstanding at 31 December 2014.

UBS Investment Bank are a related party by virtue of non-executive director SA James's directorship of UBS Limited. UBS Investment Bank provides the Group financial advice and stockbroking services. The current arrangement with UBS Investment Limited is that out of pocket expenses will be reimbursed and no fees will be charged for their regular advisory or broking services. Expenses of £8,000 have been reimbursed in the year (2013: £4,000) and no balance was outstanding at 31 December 2014 (2013: £nil).

Key management emoluments

The emoluments of those members of the management team, including directors, who are responsible for planning, directing and controlling the activities of the Group were:

	2014	2013
Emoluments including social security costs	**4,594**	4,816
Post employment benefits	**298**	287
Pension supplement	**251**	206
Share-based payments	**1,134**	1,465
	6,277	6,774

ROTORK PLC COMPANY BALANCE SHEET

At 31 December 2014

	Note	2014 £000	2013 £000
Fixed assets			
Tangible assets	c	**1,125**	1,183
Investments	d	**43,205**	43,205
		44,330	44,388
Current assets			
Debtors	f	**78,010**	79,411
Cash at bank and in hand	e	**148**	4,277
		78,158	83,688
Creditors:			
Amounts falling due within one year	g	**4,121**	8,045
Net current assets		**74,037**	75,643
Total assets less current liabilities		**118,367**	120,031
Creditors:			
Amounts falling due after more than one year	h	**40**	40
Net assets		**118,327**	119,991
Capital and reserves			
Called up share capital	j	**4,346**	4,344
Share premium account	j	**9,422**	8,840
Capital redemption reserve	j	**1,644**	1,644
Profit and loss account	j	**102,915**	105,163
Equity shareholders' funds		**118,327**	119,991

These Company financial statements were approved by the Board of Directors on 2 March 2015 and were signed on its behalf by:

PI France and **JM Davis**, Directors.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2014

A) ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements. Notes a to k relate to the Company rather than the Group.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK GAAP.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

The Company meets the definition of a qualifying entity under FRS100 issued by the Financial Reporting Council (FRC). Accordingly, in the year ending 31 December 2015 the Company intends to transition to reporting under FRS101 as issued by the FRC. The Company intends to take advantage of the disclosure exemptions available under that standard. Any shareholders who objects to this proposal should write to the company secretary at the Registered Office address as set out at the back of the Annual Report and Accounts.

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the Group includes the Company in its own published consolidated financial statements.

The Company has taken advantage of the exemption available under FRS8 and has not disclosed transactions with entities which are subsidiaries of the Group.

The Group financial statements contain financial instruments disclosures which comply with FRS29 'Financial Instruments: Disclosures'. Consequently, the Company has taken advantage of the exemption in FRS29 not to present separate financial instrument disclosures for the Company.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee. The Company continues to account for intra–group cross guarantees under FRS12.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Investments

Investments are measured at cost less any provision for impairment and comprise investments in subsidiary companies.

Depreciation and amortisation

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

Freehold buildings	2% to 4%
Plant and equipment	10% to 33%

Post-retirement benefits

The Company participates in a UK Group pension scheme providing benefits based on final pensionable salary. The assets of the scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 Retirement benefits, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Classification of preference shares

Following the adoption of the presentation elements of FRS 25, Financial Instruments, the cumulative redeemable preference shares issued by the Company are classified as long term debt. The preference dividends are charged within interest payable.

Share-based payments

The Company has adopted FRS 20 and the accounting policies followed are in all material respects the same as the Group's policy under IFRS 2. This policy is shown in note 1 to the Group financial statements. Costs in relation to share-based awards made to other Group company employees are recharged to each subsidiary company.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2014

A) ACCOUNTING POLICIES continued

Deferred taxation

Deferred tax is provided in full, without discounting, on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date at rates expected to apply when they crystallise based on current tax rates and law, except for the items explained below. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the assets or on unremitted earnings of subsidiaries where there is no commitment to remit those earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Dividends

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

B) PERSONNEL EXPENSES IN THE COMPANY PROFIT AND LOSS ACCOUNT

	2014	2013
Wages and salaries (including bonus and incentive plans)	**3,064**	3,131
Social security costs	**295**	457
Pension costs	**439**	368
Share-based payments	**551**	663
	4,349	4,619

During the year there were 13 (2013: 12) employees of Rotork plc plus the four (2013: 4) executive directors. The personnel costs accounted for within the Company include the full costs of the employees, the Group Finance Director, the Group Chief Executive, but the full costs of the other two executive directors who are reported within the subsidiary where they are based.

Disclosures required by paragraph 1 of schedule 5 of SI2008/410 are set out in the Director's Remuneration Report on pages 64 to 77.

Share-based payments

The share-based payment charge relates to employees of the Company participating in the Long Term Incentive Plan (LTIP). The disclosures required under FRS 20 can be found in note 25 to the Group Financial Statements. The table below sets out the movement of share options under the LTIP for employees of the Company.

	Outstanding at start of year	Granted during year	Vested during year	Lapsed during year	Outstanding at end of year
2011 Award	44,386	–	(29,735)	(14,651)	**–**
2012 Award	43,503	–	–	–	**43,503**
2013 Award	32,616	–	–	–	**32,616**
2014 Award	–	31,692	–	–	**31,692**
	120,505	31,692	(29,735)	(14,651)	**107,811**

At the date of vesting the 2011 awards were valued at £27.63. The weighted average remaining life of awards outstanding at the year end is one year.

C) TANGIBLE ASSETS IN THE COMPANY BALANCE SHEET

	Land and buildings	Plant and equipment	Total
Cost			
At 1 January 2014	1,468	172	1,640
Additions	–	3	3
At 31 December 2014	1,468	175	1,643
Depreciation			
At 1 January 2014	435	22	457
Charge for year	28	33	61
At 31 December 2014	463	55	518
Net book value			
at 31 December 2013	1,033	150	1,183
at 31 December 2014	**1,005**	**120**	**1,125**

	2014	2013
Net book value of land and buildings can be analysed between:		
Freehold land	**60**	60
Freehold buildings	**945**	973
Net book value at 31 December	**1,005**	1,033

D) INVESTMENTS IN THE COMPANY BALANCE SHEET

Shares in Group companies

	2014	2013
At 1 January	**43,205**	43,205
Increased investment in subsidiary undertakings	**–**	–
At 31 December	**43,205**	43,205

A listing of the principal subsidiaries of the Group, all of which are wholly owned, is set out below:

Company and country of incorporation	Nature of business
Rotork Overseas Ltd, England and Wales	Intermediate holding company for the following:
Rotork Inc, USA	Intermediate holding company.
[1]Rotork Controls Inc, USA	Manufacture and sale of actuators.
[1]Remote Control Inc, USA	" "
[1]Flow–Quip Inc, USA	Assemble and distribute fluid power solutions.
[1]Ralph A. Hiller Company, USA	Manufacture and sale of actuators.
[1]Rotork (Thailand) Ltd, Thailand	Sale of actuators.
[1]Ranger Acquisition Corp, USA	Intermediate holding company.
[2]Fairchild Industrial Products Company, USA	Manufacture of high precision pneumatic controls.
[2]K–Tork International Inc, USA	Intermediate holding company.
[2]Rotork Valvekits Inc, USA	Manufacture of valve adaption kits
[3]Rotork Dallas Inc, USA	Manufacture and sale of vane actuators.
Rotork Controls (Iberia) SL, Spain	Sale of valve actuators.
[4]Centork Valve Control SL, Spain	Manufacture and sale of actuators.
Rotork (Actuation) Sdn Bhd, Malaysia	" "
Rotork Controls (Deutschland) GmbH, Germany	" "
Rotork Fluid Systems Srl, Italy	" "
Rotork Sweden AB, Sweden	" "
Rotork Controls (Canada) Ltd, Canada	Sale of actuators.
Rotork Motorisation SAS, France	" "
Rotork BV, Netherlands	" "
Rotork Controls (Singapore) Pte Ltd, Singapore	" "
Rotork Australia Pty Ltd, Australia	" "
Rotork Controls de Venezuela SA, Venezuela	" "
Rotork Ltd, Hong Kong	" "
Rotork (Malaysia) Sdn Bhd, Malaysia	" "

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2014

D) INVESTMENTS IN THE COMPANY BALANCE SHEET continued

Company and country of incorporation	Nature of business
Rotork Controls (Korea) Co. Ltd, South Korea	Sale of actuators.
Rotork Africa (Pty) Limited, South Africa	""
Rotork Japan Co. Ltd, Japan	""
Rotork RUS Ltd, Russia	""
Rotork Controls Comercio de Atuadores LTDA, Brazil	""
Rotork Norge AS, Norway	""
Rotork Middle East FZE, Jebel Ali, Dubai	""
Rotork Servo Controles de Mexico SA de CV, Mexico	""
Rotork Controls Italia Srl, Italy	""
[5]Rotork Gears Srl, Italy	Manufacture and sale of gearboxes for actuators.
Rotork Gears BV, Netherlands	""
Rotork Italy Holdings Srl, Italy	Intermediate holding company.
[6]GT Attuatori Srl, Italy	Manufacturer of pneumatic rack and pinion.
[6]Soldo Srl, Italy	Design & Manufactures control accessories for automation.
[7]Soldo Controls USA Inc, USA	Sale of control accessories.
[7]Soldo Asia Pacific Pte Limited, Singapore	Sale of control accessories.
Masso Ind S.p.A. Italy	Marine valve remote control system manufacturer.
Rotork Germany Holdings GmbH, Germany	Intermediate holding company.
[8]Schischek Produktion Technischer Geräte GmbH, Germany	Manufacturer of explosion-proof electric actuators.
[8]Schischek GmbH, Germany	Sale of explosion-proof electric actuators.
[8]Max Process GmbH, Germany	Manufacturer of pneumatic rack and pinion.
[9]GT Attuatori Europe GmbH, Germany	""
Schischek AG, Switzerland	Sale of explosion-proof electric actuators.
[10]Schischek EURL, France	""
[10]Schischek Srl, Italy	""
[10]Schischek Ltd, England and Wales	""
[10]Schischek Inc, USA	""
Rotork Midland Ltd, England and Wales	Manufacture and sale of solenoid valves and instruments.
Young Tech Co., Ltd, South Korea	Manufacture and sale of valve positioners and accessories.
Rotork Controls Ltd, England and Wales	Manufacture and sale of actuators, and intermediate holding company for the following:
Rotork UK Ltd, England	Manufacture and sale of gearboxes and actuators.
Rotork Actuation (Shanghai) Co. Ltd, China	Manufacture and sale of gearboxes and actuators.
Rotork Trading (Shanghai) Co. Ltd, China	Sale of gearboxes and actuators.
Rotork Controls (India) Private Ltd, India	Manufacture and sale of actuators.

[1]Owned by Rotork Inc, USA
[2]Owned by Ranger Acquisition Corp, USA
[3]Owned by K–Tork International Inc, USA
[4]Owned by Rotork Controls (Iberia) SL, Spain
[5]Owned by Rotork Controls Italia Srl, Italy
[6]Owned by Rotork Italy Holdings Srl, Italy
[7]Owned by Soldo Srl, Italy
[8]Owned by Rotork Germany Holdings GmbH, Germany
[9]Owned by Max Process GmbH, Germany
[10]Owned by Schischek AG, Switzerland

The Company has taken advantage of the exemption under Section 410(2) of the Companies Act 2006 by providing information only in relation to subsidiary undertakings whose results or financial position, in the opinion of the Directors, principally affected the financial statements.

A complete list of subsidiary and associated undertakings is attached to the annual return of Rotork plc filed at Companies House.

E) CASH AT BANK AND IN HAND IN THE COMPANY BALANCE SHEET

	2014	2013
Bank balances	**148**	4,277
Cash at bank and in hand	**148**	4,277

F) DEBTORS DUE WITHIN ONE YEAR IN THE COMPANY BALANCE SHEET

	2014	2013
Amounts owed by Group undertakings	**77,649**	78,377
Other debtors	**35**	39
Prepayments and accrued income	**55**	249
Corporation tax	**–**	474
Deferred taxation	**271**	272
	78,010	79,411

A deferred tax asset of £271,000 (2013: £272,000) has been recognised. This asset principally relates to timing differences in respect of share-based payments. The directors are of the opinion, based on recent and forecast trading that the level of future and current profits make it more likely than not that the asset will be recovered.

G) CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR IN THE COMPANY BALANCE SHEET

	2014	2013
Trade creditors	**151**	80
Amounts owed to Group undertakings	**1,051**	3,653
Other taxes and social security	**43**	39
Corporation tax	**143**	–
Other creditors	**1,817**	3,766
Accruals and deferred income	**916**	507
	4,121	8,045

The Company has a £25m gross overdraft facility (2013: £25m) and is part of a UK banking arrangement, see note i.

H) CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR IN THE COMPANY BALANCE SHEET

	2014	2013
Preference shares classified as debt	**40**	40

This debt is not redeemable at any fixed future date.

I) CONTINGENCIES IN THE COMPANY

The UK banking arrangements are subject to cross-guarantees between the Company and its UK subsidiaries. These accounts are subject to a right of set-off. The performance guarantees and indemnities have been entered into in the normal course of business. A liability would only arise in the event of the Group failing to fulfil its contractual obligations.

During 2014 the Company extended its £15m loan facility for a further 18 months to June 2016, increased the committed amount to £55m and renegotiated the margin from LIBOR plus 1.0% to LIBOR plus 0.55%. In May 2014 the Group also negotiated a new 364 day £20m committed loan facility. Interest is payable on this facility at LIBOR plus 0.35%. These facilities are available to the Company, Rotork Controls Limited, Rotork Overseas Limited and Rotork Controls Inc. Of the committed facility £20m was drawn by one of these companies at year end resulting in £55m being available.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2014

J) CAPITAL AND RESERVES IN THE COMPANY BALANCE SHEET

	Share capital	Share premium	Capital redemption reserve	Retained earnings	Equity shareholders' funds
Balance at 1 January 2014	4,344	8,840	1,644	105,163	119,991
Profit for the year	–	–	–	38,528	38,528
Equity settled share-based payment transactions net of tax	–	–	–	2,799	2,799
Share options exercised by employees	2	582	–	–	584
Own ordinary shares acquired	–	–	–	(6,300)	(6,300)
Own ordinary shares awarded under share schemes	–	–	–	5,427	5,427
Dividends	–	–	–	(42,702)	(42,702)
Balance at 31 December 2014	**4,346**	**9,422**	**1,644**	**102,915**	**118,327**

Details of the number of ordinary shares in issue and dividends paid in the year are given in note 17 to the Group Financial Statements.

Profit for the financial year in the accounts of the Company is £38,528,000 (2013: £55,122,000).

K) CAPITAL RISK MANAGEMENT IN THE COMPANY

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure.

In order to maintain or adjust the capital structure the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The Company's net funds at the balance sheet date were:

	2014	2013
Preference shares	**(40)**	(40)
Cash at bank and in hand	**148**	4,277
Company net funds	**108**	4,237

TEN YEAR TRADING HISTORY

	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Revenue	**594,739**	578,440	511,747	447,833	380,560	353,521	320,207	235,688	206,709	174,839
Cost of sales	**(309,280)**	(304,066)	(272,199)	(236,359)	(199,742)	(187,600)	(176,046)	(127,748)	(115,603)	(95,358)
Gross profit	**285,459**	274,374	239,548	211,474	180,818	165,921	144,161	107,940	91,106	79,481
Overheads	**(143,232)**	(135,109)	(115,081)	(99,474)	(83,094)	(74,384)	(69,272)	(52,553)	(46,017)	(42,951)
Operating profit	**142,227**	139,265	124,467	112,000	97,724	91,537	74,889	55,387	45,089	36,530
Adjusted* operating profit	**157,167**	151,412	131,866	115,921	99,442	92,103	76,014	55,461	45,187	36,709
Amortisation of acquired intangible assets	**(14,940)**	(12,147)	(7,399)	(3,921)	(1,718)	(1,153)	(1,125)	(74)	(98)	(179)
Disposal of property	**–**	–	–	–	–	587	–	–	–	–
Operating profit	**142,227**	139,265	124,467	112,000	97,724	91,537	74,889	55,387	45,089	36,530
Net interest	**(1,062)**	(1,268)	(273)	550	131	(621)	862	1,866	972	127
Profit before taxation	**141,165**	137,997	124,194	112,550	97,855	90,916	75,751	57,253	46,061	36,657
Tax expense	**(37,963)**	(38,488)	(34,879)	(32,149)	(28,334)	(26,884)	(22,331)	(17,957)	(14,728)	(12,043)
Profit for the year	**103,202**	99,509	89,315	80,401	69,521	64,032	53,420	39,296	31,333	24,614
Dividends	**42,702**	38,735	33,924	49,534	35,912	24,102	29,970	24,732	24,140	13,437
Basic EPS	**119.0p**	114.8p	103.1p	93.0p	80.5p	74.2p	62.0p	45.6p	36.4p	28.6p
Adjusted* EPS	**131.6p**	124.9p	109.3p	96.2p	81.9p	74.7p	62.9p	45.7p	36.5p	28.7p
Diluted EPS	**118.5p**	114.3p	102.6p	92.6p	80.2p	73.9p	61.6p	45.2p	36.1p	28.4p

* Adjusted is before the amortisation of acquired intangible assets and the disposal of property.

SHARE REGISTER INFORMATION

The tables below show the split of shareholder and size of shareholding in Rotork plc.

Ordinary shareholder by type	Number of holdings	%	Number of shares	%
Individuals	2,026	67.7	2,578,655	3.0
Bank or nominees	898	30.0	83,236,953	95.8
Other company	43	1.5	130,118	0.1
Other corporate body	24	0.8	983,434	1.1
	2,991	100.0	86,929,160	100.0

Size of shareholding	Number of shareholders	%	Number of shares	%
1 – 1,000	1,856	62.1	623,474	0.7
1,001 – 2,000	364	12.2	541,430	0.6
2,001 – 5,000	314	10.5	989,180	1.1
5,001 – 10,000	134	4.5	937,431	1.1
10,001 – 50,000	168	5.6	3,772,200	4.4
50,001 – 100,000	49	1.6	3,553,083	4.1
100,001 +	106	3.5	76,512,362	88.0
	2,991	100.0	86,929,160	100.0

Source: Equiniti

DIVIDEND INFORMATION

The table below details the amounts of interim, final and additional dividends declared in respect of each of the last five years.

	Interim dividend (P)	Final dividend (P)	Additional interim dividends (P)	Total dividend (P)
2014	19.20	30.90	–	50.10
2013	18.05	30.00	–	48.05
2012	16.40	26.60	–	43.00
2011	14.50	22.75	23.00	60.25
2010	12.75	19.75	11.50	44.00

FINANCIAL CALENDAR

3 March 2015	Preliminary announcement of annual results for 2014
9 April 2015	Ex-dividend date for final proposed 2014 dividend
10 April 2015	Record date for final proposed 2014 dividend
24 April 2015	Annual General Meeting held at Rotork House, Brassmill Lane, Bath, BA1 3JQ
18 May 2015	Payment date for final proposed 2014 dividend
4 August 2015	Announcement of interim financial results for 2015

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Company Secretary
Stephen Rhys Jones

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