Company registration number 00608345

Rotork Controls Limited

Annual Report and Financial Statements

31 December 2018

ROTORK CONTROLS LIMITED

COMPANY INFORMATION

DIRECTORS:	J M Davis
	K G Hostetler (appointed 3 August 2018)
SECRETARY:	H P Barrett-Hague (appointed 14 June 2019)
	S C Parsons (appointed 2 August 2018 and resigned 14 June 2019)
	S R Jones (resigned 2 August 2018)
REGISTERED OFFICE:	Rotork House Brassmill Lane Bath BA1 3JQ
AUDITOR:	Deloitte LLP Statutory Auditor Abbots House Abbey Street Reading United Kingdom RG1 3BD

ROTORK CONTROLS LIMITED

STRATEGIC REPORT

Business review

The principal activities of the Company include the design, manufacture, installation and service of actuators for the power, hydrocarbon, petrochemical and water industries.

Revenue grew 15% during the year, with strong oil and gas growth driven by large downstream projects in the Far East. Profit also grew during the year, with a 38% improvement on 2017. In 2018 we led initiatives focused on lean manufacturing, product line rationalisation and supply chain consolidation. We implemented a new lean assembly methodology which has already delivered quality and efficiency improvements in the year and a new procurement team has been working on both our direct and indirect cost base. Whilst the impact on our 2018 costs is not significant, they have been laying the groundwork for delivery of savings in 2019.

After the completion of consultation processes with members of the UK defined benefit pension scheme, the scheme was closed to future accrual on 31 March 2018. The closure to future accrual of the scheme resulted in a *one off, non-cash curtailment gain of £8,575,000 (2017: £nil) which is included in other income.* The High Court judgement in the case of Lloyds Banking Group on 26 October 2018 clarified that pension benefits under the scheme need to be equalised for the effects of unequal GMPs. An allowance of £920,000 (2017: £nil) has been included as a past service cost in administrative expenses for all such arrears.

The Company finished the year with an order book representing 17% of revenue for the year (2017: 26%). The balance sheet remains in a strong position.

A summary of the results and KPIs for the year is as follows:

	2018 £000	2017 £000
Revenue	**110,096**	95,425
Profit before tax	**46,928**	33,902
Tax expense	**(5,669)**	(2,882)
Profit for the year	**41,259**	31,020
Net assets	**91,184**	74,006

Principal risks and uncertainties

The Company is part of Rotork plc (Rotork Group). The risks and uncertainties relating to the Rotork Group and its subsidiaries are also applicable to the Company and they are disclosed in the Rotork plc annual report and accounts for the year ended 31 December 2018. The directors are of the opinion that there are no other risks and uncertainties specific to the Company which require disclosure. Likewise, environmental and employee matters relating to the Rotork Group also apply to the Company and are disclosed in the Rotork plc annual report and accounts for the year ended 31 December 2018.

STRATEGIC REPORT (Continued)

Going concern

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, being at least for the next twelve months from the approval of these financial statements. For this reason, they continue to adopt the going concern basis in preparing the financial statements. The ultimate parent company going concern position is disclosed in note 1 of the Rotork plc accounts for the year ended 31 December 2018.

By order of the Board

J M Davis
Director
Rotork House, Brassmill Lane, Bath, BA1 3JQ

13 September 2019

DIRECTORS' REPORT

The directors present the annual report and audited financial statements for Rotork Controls Limited for the year ended 31 December 2018 (Company number: 00608345).

Political and charitable contributions

The Company made no political donations or expenditure during the year (2017: £nil). The Company made charitable donations of £6,250 (2017: £5,750) during the year.

Research and development

Total expenditure on research and development in the year was £7,582,000 of which £1,570,000 was capitalised (2017: £6,836,000 of which £1,078,000 was capitalised). The development of new products is important to maintain the Company's market position and we continue to provide innovative solutions to our customers' needs.

Creditor payment policy

While there is no formal code or standard, it is Company policy to settle terms of payment with creditors when agreeing the terms of each transaction and to abide by creditors' terms of payment provided that the supplier is also complying with all relevant terms and conditions. At the end of the period trade creditors were owed the equivalent of 51 days (2017: 45 days) total invoices received for the period as a whole.

Disabled employees

The Company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the Company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

Employee involvement

The Company is committed to consultation with employees on a comprehensive range of topics related to its overall business objectives. Ownership of shares in Rotork plc (the ultimate parent) is encouraged under both the Rotork all employee Sharesave Scheme and the Rotork all employee Share Investment Plan Scheme under which the Company provides employees with free shares on a profit share basis and gives employees the opportunity to purchase partnership shares under the plan.

The Company actively recognises its responsibility under Health and Safety legislation and has conducted extensive training in this area. It also undertakes to discharge its responsibilities for the care of the environment through the integration of environmental issues with its core business strategy.

DIRECTORS' REPORT (Continued)

Future developments

Following double-digit revenue growth in 2018, and mindful of macroeconomic uncertainty, we are planning for slower growth in 2019. Based on our current assessment of project phasing, we expect to deliver modest sales growth in 2019. Margins will benefit from the Group's restructuring plans and the implementation of additional cost saving initiatives. Overall, we expect full year margins to show progress on 2018..

Dividends

A dividend of £30,000,000 was paid in the year (2017: £25,000,000). No further dividend is proposed.

Directors

The directors who served during the year and subsequently are as stated on page 1.

Directors' indemnification

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.

Events after the balance sheet date

There have been no important events after the balance sheet date.

Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

By order of the Board

J M Davis
Director
Rotork House, Brassmill Lane, Bath, BA1 3JQ

13 September 2019

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires directors to prepare financial statements for each financial year. Under that law he has elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"). Under company law 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, directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that 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.

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Rotork Controls Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 24.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Jane Makrakis

Jane Makrakis FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Reading, United Kingdom
13 September 2019

ROTORK CONTROLS LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £000	2017 £000
Revenue	2	**110,096**	95,425
Cost of sales		**(66,061)**	(60,093)
Gross profit		**44,035**	35,332
Distribution costs		**(433)**	(419)
Administrative expenses		**(34,512)**	(31,721)
Other income		**16,552**	9,313
Other expenses		**(85)**	(1,566)
Operating profit		**25,557**	10,939
Income from shares in group undertakings		**18,255**	18,670
Finance income	4	**6,496**	6,796
Finance expense	4	**(3,380)**	(2,503)
Profit before tax	5	**46,928**	33,902
Tax expense on profit	7	**(5,669)**	(2,882)
Profit for the financial year		**41,259**	31,020

All of the results presented are derived from continuing activities.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 £000	2017 £000
Profit for the year	**41,259**	31,020
Other comprehensive income		
Items that may subsequently be reclassified to profit or loss:		
Effective portion of changes in fair value of cash flow hedges net of tax	**(6)**	6,188
Items that will not be reclassified to profit or loss:		
Actuarial gain in pension scheme net of tax	**5,925**	5,892
Other comprehensive income for the period net of tax	**5,919**	12,080
Total comprehensive income for the period attributable to the owners of the Company	**47,178**	43,100

ROTORK CONTROLS LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2018

	Notes	2018 £000	2017 £000
Non-current assets			
Intangible assets	8	**7,004**	7,025
Property, plant and equipment	9	**12,762**	13,095
Investments	10	**4,525**	4,525
Deferred tax assets	11	**1,280**	4,524
		25,571	29,169
Current assets			
Inventories	12	**17,205**	11,950
Trade and other receivables	13	**122,014**	173,287
Derivative financial instruments	18	**308**	3,468
Cash and cash equivalents		**46,820**	9,197
		186,347	197,902
Total assets		**211,918**	227,071
Equity			
Share capital	14	**16,015**	16,015
Capital contribution reserve		**1,844**	1,844
Hedging reserve		**(1,153)**	(1,147)
Retained earnings		**74,478**	57,294
		91,184	74,006
Non-current liabilities			
Bank loans	15	**29,960**	44,879
Employee benefits	21	**20,208**	36,615
Derivative financial instruments	18	**-**	245
Provisions	16	**335**	258
		50,503	81,997
Current liabilities			
Bank loans and overdrafts	15	**29,939**	29,868
Trade and other payables	17	**36,628**	39,154
Derivative financial instruments	18	**2,683**	1,521
Provisions	16	**981**	525
		70,231	71,068
Total equity and liabilities		**211,918**	227,071

The financial statements were approved and authorised for issue by the Board of Directors on 13 September 2019 and were signed on its behalf by:

J M Davis
Director

ROTORK CONTROLS LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Called up share capital £000	Hedging reserve £000	Capital contribution reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2017		16,015	(7,335)	1,844	45,382	55,906
Profit for the year		-	-	-	31,020	31,020
Other comprehensive income						
Effective portion of changes in fair value of cash flow hedges		-	7,546	-	-	7,546
Actuarial gain on defined benefit pension plans	21	-	-	-	7,238	7,238
Tax in other comprehensive income	11	-	(1,358)	-	(1,346)	(2,704)
Total other comprehensive income		-	6,188	-	5,892	12,080
Total comprehensive income for the year		-	6,188	-	36,912	43,100
Transactions with owners						
Dividends paid during the year		-	-	-	(25,000)	(25,000)
Balance at 31 December 2017		16,015	(1,147)	1,844	57,294	74,006
Profit for the year		-	-	-	**41,259**	**41,259**
Other comprehensive income						
Effective portion of changes in fair value of cash flow hedges		-	**(24)**	-	-	**(24)**
Actuarial gain on defined benefit pension plans	21	-	-	-	**6,965**	**6,965**
Tax in other comprehensive income	11	-	**18**	-	**(1,040)**	**(1,022)**
Total other comprehensive income		-	**(6)**	-	**5,925**	**5,919**
Total comprehensive income for the year		-	**(6)**	-	**47,184**	**47,178**
Transactions with owners						
Dividends		-	-	-	**(30,000)**	**(30,000)**
Balance at 31 December 2018		**16,015**	**(1,153)**	**1,844**	**74,478**	**91,184**

Detailed explanations for equity capital, the capital contribution reserve and the hedging reserve can be seen in note 14.

The notes on pages 12 to 35 form part of these financial statements.

1. Accounting policies

The principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

General information

Rotork Controls Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the Company's registered office is shown on page 1.

The nature of the Company's operations and its principal activities are set out in the strategic report on page 2.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates. Except where indicated, these notes are rounded to the nearest thousand pounds (£000).

Basis of preparation

The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the FRC. Accordingly, these financial statements were prepared on the historical cost basis in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework', subject to the items that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the derivative financial instruments accounting policy below.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in respect of the following:

- A cash flow statement and related notes;
- Comparative period reconciliations for share capital;
- Disclosures in respect of transactions with wholly-owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of Rotork plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share-based Payments in respect of group-settled share-based payments; and
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The Company is exempt by virtue of S400 of the Companies Act 2006 from the requirement to prepare group accounts since the Company is itself a wholly-owned subsidiary of an EC parent.

The Company's parent undertaking, Rotork plc, includes the Company in its consolidated financial statements. The consolidated financial statements of Rotork plc are prepared in accordance with International Financial Reporting Standards, are available to the public and may be obtained from the address given on page 1.

1. Accounting policies (continued)

New accounting standards and interpretations

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers (modified retrospective method)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- Annual Improvements to IFRS Standards 2014–2016 Cycle (Amendments to IFRS 1 and IAS 28)

Application of these standards and amendments has not had any material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

Going concern assumption

After making enquiries, the director has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, being at least the next twelve months from the approval of these financial statements. For this reason, they continue to adopt the going concern basis in preparing the financial statements. The going concern position of the ultimate parent company is disclosed in note 1 of the Rotork plc accounts for the year ended 31 December 2018.

Revenue

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control of a product or service to a customer and is shown net of value-added tax, returns, rebates and discounts.

Revenue from the sale of actuators and flow control products is recognised in the income statement when control of the goods has transferred, being when the goods have been shipped to the customer in accordance with the contracted shipping terms.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated completion costs, the possible return of goods or continuing management involvement with the goods.

The Company has applied the practical expedient in IFRS 15.121 and therefore not disclosed the information in IFRS 15.120 regarding unsatisfied (or partially unsatisfied) performance obligations on contracts with a duration of one year or less.

Other income

Sales-based royalties on a licence of intellectual property are not recognised until the relevant product sale occurs.

Foreign exchange

Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated into sterling at the exchange rates ruling on the balance sheet date.

Leasing

Costs under operating leases are charged on a straight-line basis over the term of the lease.

1. Accounting policies (continued)

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement 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 up to five years and is written off on a straight-line basis.

Depreciation

Long leasehold buildings are amortised over fifty years or the expected useful life of the building where this is less than fifty years.

Other assets are depreciated by equal annual instalments by reference to their estimated useful lives at the following annual rates:

Plant and machinery and motor vehicles 20%.

No depreciation is provided on freehold land.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable or receivable on the taxable income or loss 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 on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Expense classification

Cost of sales includes all direct manufacturing costs and related overheads including depreciation. Distribution costs consist of transport costs, but exclude all other overheads. Administrative expenses include costs of product development and all other overheads.

Inventory and work in progress

Inventory and work in progress are valued on a 'first in, first out' basis at the lower of cost and net realisable value. In respect of work in progress, cost includes all production overheads and the attributable proportion of indirect overhead expense.

1. Accounting policies (continued)

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. It is not amortised but is tested annually for impairment.

Investments

Investments in subsidiaries are held at historical cost less any applicable provision for impairment.

Pensions

Defined contribution plans

Obligations for contributions to a defined contribution pension plan are recognised as an expense in the statement of profit or loss in the periods during which services are rendered by employees.

Defined benefit plans

The Company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit pension plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of the benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

The Company is the sponsoring employer of a group wide defined benefit pension plan. As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan is recognised fully by the sponsoring employer, which is the Company.

2. Accounting policies (continued)

Share-based payments

The Sharesave plan and long-term incentive plan grant employees free shares or allow them to acquire shares of the parent company Rotork plc. The fair value of options is recognised as an employee expense with a corresponding increase in amounts owed to Rotork plc. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

The share incentive plan (SIP) is a discretionary profit-linked share scheme based on the prior year profit of the 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. Shares awarded under the scheme are issued by the trustee at the cost of purchase. The cost of providing the plan is recognised in the income statement over the period to which the employee has earned the award.

Financial instruments

The Company recognises financial assets and liabilities on its balance sheet when it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are offset, and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

When financial assets and liabilities are initially recognised, they are measured at fair value, being the consideration given or received plus directly attributable transaction costs. Originated loans and receivables are initially recognised in accordance with the policy stated above and subsequently remeasured at amortised cost using the effective-interest method. Allowance for impairment is estimated on a case-by-case basis.

A financial asset is derecognised when the Group loses control over the contractual rights to the cash flows from the asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired. Originated loans and receivables are derecognised on the date they are transferred by the Company.

The Group assesses at each balance sheet reporting date whether there is any objective evidence that a financial asset, or group of financial assets, is impaired. For trade receivables the Company recognises impairment provisions based on lifetime expected credit losses.

Derivative financial instruments

The Company uses forward foreign 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 Company. In accordance with its Treasury policy, the Company does not hold or issue contracts for trading purposes.

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 high probable forecasted transaction, the effective part of any gain or loss in 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.

Critical accounting judgements and key sources of estimation uncertainty

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

i) Critical accounting judgements

There are no critical accounting judgments in applying the Company's accounting policies.

ii) Key sources of estimation uncertainty

Retirement benefits

The Company's financial statements include costs in relation to, and provisions for, retirement benefit obligations. Management is required to estimate the future rates of inflation, salary increases, discount rates and longevity of members, each of which may have a material impact on the defined benefit obligations that are recorded. Sensitivities to changes in key estimates affecting the pension scheme's liabilities are shown in note 21.

2. Revenue

Revenue represents sales of goods supplied, excluding value added tax and returns and allowances.

The breakdown of revenue by destination is as follows:

	2018 £000	2017 £000
United Kingdom	**9,224**	9,677
Europe	**30,042**	31,050
Americas	**17,059**	14,904
Asia	**47,186**	33,768
Rest of World	**6,585**	6,026
	110,096	95,425

3. Staff numbers and costs

The average monthly number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	2018 No.	2017 No.
Production	**120**	111
Administration	**267**	244
	387	355

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	**21,948**	18,811
Social security costs	**2,383**	1,830
Pension costs	**1,379**	3,514
	25,710	24,155

4. Finance income and expense

Recognised in the income statement

	2018 £000	2017 £000
Interest income	**848**	636
Interest receivable from group undertakings	**5,648**	6,160
Finance income	**6,496**	6,796

	2018 £000	2017 £000
Interest expense	**2,423**	1,310
Interest payable to group undertakings	**317**	55
Interest charge on pension scheme liabilities (see note 21)	**640**	1,138
Finance expense	**3,380**	2,503

Recognised in equity

	2018 £000	2017 £000
Effective portion of changes in fair value of cash flow hedges	**(1,423)**	(1,399)
Fair value of cash flow hedges transferred to income statement	**1,399**	8,945
Recognised in the Hedging reserve	**(24)**	7,546

5. Profit before taxation

Profit before taxation is stated after charging/(crediting) the following:

	2018 £000	2017 £000
Depreciation of tangible fixed assets	**2,840**	2,747
Write down of tangible fixed assets	**17**	1,296
Amortisation of development costs	**1,591**	3,625
Research and development expenditure	**6,012**	5,758
Hire of plant and machinery	**12**	10
Other operating leases	**116**	107
Audit fees payable to the Company's auditor for the audit of the annual accounts	**57**	55
Foreign exchange (gain)/loss	**(391)**	1,566
Share-based payments expense	**1,308**	930

Rotork Controls Limited is exempt from giving an analysis of non-audit fee disclosures. Non-audit fee disclosures are given on a group-wide basis in the financial statements of Rotork plc.

6. Emoluments of directors

The Company receives management and operational recharges for relevant pooled group costs which may include a portion of the directors' emoluments along with numerous other costs. The directors who served during the year are also directors of a number of fellow subsidiaries within the group. It is not practical to make an accurate apportionment of the emoluments in respect of each of the subsidiaries. Accordingly their emoluments are disclosed in the financial statements of Rotork plc, with whom they have their primary employment contracts.

7. Taxation

	2018 £000	2017 £000
Current tax:		
UK corporation tax	**2,620**	1,500
Overseas tax	**1,066**	1,132
	3,686	2,632
Adjustment in respect of prior periods	**(239)**	(512)
	3,447	2,120
Deferred tax:		
Origination and reversal of timing differences	**2,359**	709
Adjustment in respect of prior periods	**(137)**	53
Total deferred tax (note 11)	**2,222**	762
Total tax charge for the year	**5,669**	2,882

The effective rate of corporation tax is lower (2017: lower) than the blended rate of corporation tax in the UK of 19.00% (2017: 19.25%). The differences are explained below:

	2018 £000	2017 £000
Profit before tax	**46,928**	33,902
Profit multiplied by standard effective rate of corporation tax in the UK of 19.00% (2017: 19.25%)	**8,916**	6,526
Effects of:		
Income not taxable	**(3,660)**	(3,863)
Overseas withholding tax suffered	**1,066**	1,132
Deferred tax on unremitted earnings	**700**	278
Amounts not deductible	**(156)**	379
R&D/intellectual property incentives	**(1,126)**	(1,140)
Other timing differences	**305**	29
Adjustments to tax charge in respect of prior periods	**(376)**	(459)
Total tax charge for the year	**5,669**	2,882

The rate of UK corporation tax will reduce from 19% to 17% on 1 April 2020. This will reduce the company's future current tax charge accordingly. The deferred tax asset as at 31 December 2018 has been calculated based on the rate of 17%, being the rate substantively enacted at the balance sheet date.

8. Intangible assets

	Development costs £000	Goodwill £000	Total £000
Cost			
Cost at 1 January 2018	18,313	2,841	21,154
Internally developed during the year	1,570	-	1,570
Disposals in year	(3,879)	-	(3,879)
At 31 December 2018	**16,004**	**2,841**	**18,845**
Amortisation			
At 1 January 2018	14,129	-	14,129
Amortisation in year	1,591	-	1,591
Disposals in year	(3,879)	-	(3,879)
At 31 December 2018	**11,841**	**-**	**11,841**
Net book value			
At 31 December 2018	**4,163**	**2,841**	**7,004**
At 31 December 2017	4,184	2,841	7,025

Development costs have been capitalised in accordance with IAS 38 Intangible Assets and are therefore not treated, for dividend purposes, as a realised loss.

9. Property, plant and equipment

	Assets under construction £000	Land and buildings £000	Plant, machinery and motor vehicles £000	Total £000
Cost				
At 1 January 2018	2,492	6,810	27,258	36,560
Additions	107	39	2,378	2,524
Disposals	-	-	(2,279)	(2,279)
At 31 December 2018	**2,599**	**6,849**	**27,357**	**36,805**
Depreciation				
At 1 January 2018	1,296	3,304	18,865	23,465
Charged in year	-	292	2,548	2,840
Written down in year	17	-	-	17
Disposals	-	-	(2,279)	(2,279)
At 31 December 2018	**1,313**	**3,596**	**19,134**	**24,043**
Net book value				
At 31 December 2018	**1,286**	**3,253**	**8,223**	**12,762**
At 31 December 2017	1,196	3,506	8,393	13,095

The net book value of the land and buildings comprises:

	2018 £000	2017 £000
Freehold land (not depreciated)	**480**	480
Freehold buildings	**2,212**	2,251
Long leasehold buildings	**561**	775
	3,253	3,506

10. Investments

Investments comprise shares in wholly-owned subsidiary undertakings.

	2018 £000	2017 £000
Cost and net book value at 1 January and 31 December	**4,525**	4,525

The Company has the following investments in wholly-owned subsidiaries, all with share capital consisting solely of ordinary shares:

Subsidiary	Incorporated in	Registered address
100% owned by Rotork Controls Limited		
Rotork Actuation (Shanghai) Co Limited	China	Building G, No.260 Liancao Road, Minhang District, Shanghai, PRC 201108
Rotork Trading (Shanghai) Co Limited	China	Room 1177, No.400, Middle Zhejiang Road, HuangPu District, Shanghai, China
Rotork Controls (India) Private Limited	India	28B, Ambattur Industrial Estate (North Phase), Ambattur, Chennai 600 098
Rotork UK Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Valvekits Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
100% owned by Rotork UK Limited		
Prokits Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Flowco Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
100% owned by Rotork Trading (Shanghai) Co Limited		
Centork Trading (Shanghai) Co. Ltd	China	Room C-02, 1/F, West Area No. 2 Building, No. 29 Jiatai Free Trade Zone, Shanghai, China
Rotork Instruments Chengdu Co. Ltd	China	Room 1201, Building I, 88 Shenghe Road, High Tech Zone, Chengdu, Sichuan, China 610041
100% owned by Valvekits Limited		
Circa Engineering Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ

11. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities:

	Assets 2018 £000	**Liabilities 2018 £000**	**Net 2018 £000**	Assets 2017 £000	Liabilities 2017 £000	Net 2017 £000
Property, plant and equipment	**174**	**-**	**174**	125	-	125
Employee benefits	**3,493**	**-**	**3,493**	6,327	-	6,327
Share-based payments	**395**	**-**	**395**	331	-	331
Designated cash flow hedges	**270**	**-**	**270**	252	-	252
Unremitted earnings	**-**	**(2,620)**	**(2,620)**	-	(1,920)	(1,920)
Intangible assets	**-**	**(432)**	**(432)**	-	(591)	(591)
Tax assets/(liabilities)	**4,332**	**(3,052)**	**1,280**	7,035	(2,511)	4,524
Set off of tax	**(3,052)**	**3,052**	**-**	(2,511)	2,511	-
Net tax assets	**1,280**	**-**	**1,280**	4,524	-	4,524

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

	2018 £000	2017 £000
Balance at 1 January	**4,524**	7,990
Charged to the income statement	**(2,222)**	(762)
Charged directly to equity in respect of pension scheme	**(1,040)**	(1,346)
Credited/(charged) directly to equity in respect of designated cash flow hedges	**18**	(1,358)
Balance at 31 December	**1,280**	4,524

Deferred tax assets of £1,280,000 (2017: £4,524,000) have been recognised at 31 December 2018. 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.

There is an unrecognised deferred tax liability for temporary differences associated with investments in subsidiaries. The Company controls the dividend policies of its subsidiaries and the timing of the reversal of the temporary differences. The value of temporary differences associated with unremitted earnings of subsidiaries for which deferred tax has not been recognised is £9,058,000 (2017: £8,629,000).

12. Inventories

	2018 £000	2017 £000
Raw material and purchased components	**15,468**	9,896
Work in progress	**1,737**	2,054
	17,205	11,950

Included in cost of sales was £53,469,000 (2017: £46,763,000) in respect of inventories consumed in the year.

13. Trade and other receivables

	2018 £000	2017 £000
Trade receivables	**362**	460
Amounts owed by Rotork Group undertakings	**118,726**	170,374
Other debtors	**1,343**	1,229
Prepayments and accrued income	**1,583**	1,224
	122,014	173,287

Of the £118,726,000 (2017: £170,374,000) owed by Rotork Group undertakings, £100,675,000 (2017: £144,870,000) are interest-bearing loans, which are repayable upon demand and attract a weighted average interest rate of LIBOR/EURIBOR plus 3.94% (2017: 2.77%). The remaining £18,051,000 (2017: £25,504,000) are trading balances which are settled on normal payment terms.

14. Capital and reserves

	2018 £000	2017 £000
Share capital authorised, allotted, called up and fully paid:		
16,015,000 Ordinary Shares of £1 each (2017: 16,015,000)	**16,015**	16,015

Capital contribution reserve
The capital contribution reserve arose as a result of share based payments being awarded to employees without reimbursement to Rotork plc. From 2010 the company has settled the cost of the award in cash to Rotork plc.

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:

	2018 £000	2017 £000
Equity shares:		
£1.87 interim dividend paid (2017: £1.56)	**30,000**	25,000
	30,000	25,000

15. Loans and borrowings

	2018 £000	2017 £000
Non-current liabilities		
Bank loans	**29,960**	44,879
	29,960	44,879
Current liabilities		
Bank loans	**29,939**	29,868
	29,939	29,868

The Company is part of Rotork plc's Group banking arrangements. During 2018 the Company repaid £15,000,000 of its £60,000,000 term facility and negotiated to extend the remaining facility to August 2020. The Company also has a £60,000,000 Revolving Credit Facility which matures in August 2020. At year end £60,000,000 of the committed facilities were drawn, resulting in £60,000,000 being available. The outstanding borrowings carry variable interest at LIBOR plus 0.8% to 0.85%.

16. Provisions

	Warranty provision £000	Restructuring provision £000	Total £000
Balance at 1 January 2018	783	-	783
Utilised during the year	(129)	(399)	(528)
Recognised in the year	362	699	1,061
Balance at 31 December 2018	**1,016**	**300**	**1,316**
Non-current	335	-	335
Current	681	300	981
	1,016	**300**	**1,316**

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 restructuring provision relates to amounts outstanding in respect of redundancy and other restructuring costs associated with the Rotork group's restructuring programme.

17. Trade and other payables

	2018 £000	2017 £000
Trade payables	**9,665**	7,857
Amounts owed to Parent	**2,642**	16,681
Amounts owed to Rotork Group undertakings	**15,925**	8,187
Other payables	**1,041**	633
Corporation tax	**1,284**	722
Other taxes and social security	**929**	693
Accruals and deferred income	**5,142**	4,381
	36,628	39,154

Of the £15,925,000 (2017: £8,187,000) owed to Rotork Group undertakings, £1,676,000 (2017: £2,995,000) are interest-bearing deposits on account, which are payable upon demand and attract an average interest rate of LIBOR less 0.125% (2017: 0.125%). The remaining £14,249,000 (2017: £5,192,000) are sterling non-interest-bearing short-term loans.

18. Financial instruments

Cash flow hedges

	Assets 2018 £000	Liabilities 2018 £000	Assets 2017 £000	Liabilities 2017 £000
Forward foreign exchange contracts	**-**	**1,407**	367	1,766
Foreign exchange swaps	**308**	**1,276**	3,101	-
	308	**2,683**	3,468	1,766
Less current portion	**(308)**	**(2,683)**	(3,468)	(1,521)
Non-current	**-**	**-**	-	245

The full fair value of a hedging instrument 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 2018 are recognised in the income statement in the period or periods during which the hedged forecast transaction is recorded in the income statement.

19. Capital commitments

Capital commitments at 31 December 2018 and 2017 for which no provision has been made in these financial statements were:

	2018 £000	2017 £000
Contracted	**2,310**	964

20. Operating leases

Total amounts payable under non-cancellable operating leases are as follows:

	2018 £000	2017 £000
Within one year	**8**	17
Between one and five years	**67**	73
	75	90

21. Pensions

i) Defined benefit pension schemes

Rotork Controls Limited participates in the Rotork Pension and Life Assurance Scheme, a contributory defined benefit pension scheme which provides benefits based on final salary and length of service on retirement, leaving service or death. There is no contractual agreement or policy in place for recharging the net defined benefit cost of the Scheme to the participating group companies and therefore, as permitted by IAS 19, the Company, as sponsoring employer for the Scheme, recognises the net defined benefit cost in its own financial statements.

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

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

The defined benefit pension arrangement exposes the Company to a number of risks:

- Investment risk. The Scheme holds investments in asset categories, such as equities, which have volatile market values and whilst 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 Scheme's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Scheme holds assets such as equities the value of the assets and liabilities may not move in the same way.
- Inflation risk. A significant proportion of the benefits under the Scheme are linked to inflation. Although the Scheme's assets are expected to provide a good hedge against inflation over the long term, movements over the short term could lead to deficits emerging.
- Mortality risk. In the event that members live longer than assumed a deficit will emerge in the Scheme.

The Scheme was closed to future accrual on 31 March 2018, from when active members were able to join the Company's defined contribution plan. This led to a curtailment gain.

21. Pensions (continued)

The High Court judgement in the case of Lloyds Banking Group on 26 October 2018 clarified that pension benefits under the Scheme need to be equalised for the effects of unequal GMPs. An estimate has been made of the likely impact of GMP equalisation for accounting purposes.

The gain from the curtailment at 31 March 2018 has been included in other income and the past service cost in respect of GMP equalisation has been included in administrative expenses within the defined benefit expense for 2018.

Movements in the present value of defined benefit obligations

	2018 £000	2017 £000
Liabilities at 1 January	**211,922**	210,920
Current service costs	**637**	2,834
Administration costs	**187**	178
Member contributions	**152**	621
Interest cost	**4,939**	5,411
Benefits paid	**(9,757)**	(6,037)
Actuarial gain	**(18,180)**	(2,006)
Curtailment gain	**(5,830)**	-
Past service cost	**920**	-
Liabilities at 31 December	**184,990**	211,921

Movement in fair value of plan assets

	2018 £000	2017 £000
Assets at 1 January	**175,307**	163,617
Interest income on plan assets	**4,299**	4,273
Employer contributions	**5,996**	7,600
Member contributions	**152**	621
Benefits paid	**(9,757)**	(6,037)
Return on plan assets, excluding interest income on plan assets	**(11,215)**	5,233
Assets at 31 December	**164,782**	175,307

21. Pensions (continued)

(Credit)/expense recognised in the income statement

	2018 £000	2017 £000
Current service costs	637	2,834
Administration costs	187	178
Net interest cost	640	1,138
Defined benefit expense (normal components)	1,464	4,150
Curtailment gain	(5,830)	-
Past service cost	920	-
Overall defined benefit (credit)/expense	(3,446)	4,150

The (credit)/expense is recognised in the following line items in the income statement:

	2018 £000	2017 £000
Cost of sales	288	1,054
Administrative expenses	1,456	1,958
Net finance expense	640	1,138
Other income	(5,830)	-
	(3,446)	4,150

Remeasurements over the year

	2018 £000	2017 £000
Experience adjustments on plan assets	(11,215)	5,233
Experience adjustments on plan liabilities	(130)	812
Actuarial gain/(loss) from changes to financial assumptions	17,010	(4,197)
Actuarial gain from changes to demographic assumptions	1,300	5,390
Curtailment gain	5,830	-
Past service cost	(920)	-
	11,875	7,238

21. Pensions (continued)

Reconciliation of net defined benefit obligation

	2018 £000	2017 £000
Net defined benefit obligation at the beginning of the year	**36,615**	47,303
Current service costs	**637**	2,834
Administration costs	**187**	178
Net financing expense	**640**	1,138
Remeasurements over the year	**(11,875)**	(7,238)
Employer contributions	**(5,996)**	(7,600)
	20,208	36,615

Liability for defined benefit obligations

The principal actuarial assumptions at 31 December 2018 were as follows:

	2018	2017
	% per annum	
Discount rate	**2.8**	2.4
Rate of increase in salaries	**n/a**	3.7
Rate of increase in pensions (post May 2000)	**3.1**	3.1
Rate of increase in pensions (pre May 2000)	**4.6**	4.6
Rate of inflation	**3.2**	3.2

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

The split of the Scheme's assets and liabilities was as follows:

	2018 £000	2017 £000
Equities	**30,581**	34,537
Target return	**45,243**	48,462
Property	**17,326**	16,527
Corporate bonds	**41,740**	42,977
LDI/Absolute return bonds	**30,011**	32,169
Cash and net current (liabilities)/assets	**(119)**	635
Total	**164,782**	175,307
Actual return on the Scheme's assets	**(6,916)**	9,506

21. Pensions (continued)

The Scheme has a strategic asset allocation which was agreed after considering its liability profile, funding position, expected return of the various asset classes and the need for diversification. The level of interest rate and inflation hedging is being gradually increased by the use of LDI funds. Currently the Scheme has hedged around 24% of its liabilities, as measured on a low risk gilts basis, and this will automatically increase by 3% each year. A series of triggers have also been agreed so that, if/when gilt yields rise, the pace of hedging will be accelerated.

The demographic assumptions are the same as used for the most recent valuation of the Scheme, except for cash commutation and mortality. For cash commutation, an allowance has been made for 90% of Scheme members who have yet to retire to take maximum cash at retirement. The mortality assumptions are the S2NXA year of birth tables (2017: S2NXA) with future improvements in mortality based on the CMI_2017 projections (2017: CMI_2016 projections) with a long-term rate of improvement of 1.25% per annum (2017: 1.25%). By way of example the respective mortality tables indicate the following life expectancy:

	2018 Life expectancy at age 65		2017 Life expectancy at age 65	
Current age	**Male**	**Female**	Male	Female
65	**22.1**	**24.1**	22.2	24.2
45	**23.5**	**25.6**	23.6	25.7

Sensitivity analysis on the Scheme's liabilities

Adjustments to assumptions	Approximate effect on liabilities £000
Discount rate	
Plus 0.5% pa	(18,600)
Minus 0.5% pa	20,800
Inflation	
Plus 0.5% pa	14,800
Minus 0.5% pa	(13,700)
Life expectancy	
Decrease mortality rates by a factor of 10%	6,400
Increase mortality rates by a factor of 10%	(5,700)

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.

21. Pensions (continued)

Effect of the Scheme on the Company's future cash flows

The Company is required to agree a Schedule of Contributions with the Trustees of the Scheme following a valuation which must be carried out at least once every three years. Following the valuation of the Scheme as at 31 March 2016, the Company is continuing to pay deficit contributions of £5,500,000 a year. A new valuation will be carried out as at 31 March 2019.

The Company estimates that its cash contributions to the Scheme during 2019 will be nil for regular payments (2018 actual: £496,000) and £5,500,000 of additional payments in relation to past service (2018 actual: £5,500,000).

The weighted average duration of the defined benefit obligation is 22 years.

ii) Other pension plans

The Company makes a contribution to a defined contribution plan to provide benefits for employees upon retirement. Total expense relating to this plan in the year was £742,000 (2017: £680,000).

22. Contingent liabilities

The Company has given an unlimited guarantee in favour of Barclays Bank plc in respect of the borrowing and guarantees of certain other group companies, which at 31 December 2018 amounted to £nil (2017: £nil).

In addition the Company has given guarantees, indemnities and bonds not provided in the financial statements amounting to £140,000 (2017: £97,000).

23. Share-based payments

Sharesave plan

Following shareholder approval of the Sharesave plan at the Rotork plc Annual General Meeting on 18 May 2000, the first offer was made to employees in 2004. Company employees are invited to join the Rotork plc 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 three-year plan or the five-year plan.

Of the 1,899,000 outstanding options held by the Company's employees (2017: 1,962,000), 126,000 are exercisable (2017: 17,320). The weighted average remaining life of 786,000 (2017: 927,000) awards outstanding under the three-year plan is two years. The weighted average remaining life of 1,086,000 (2017: 1,035,000) awards outstanding under the five-year plan is three years. The range of exercise prices is 148.0p to 272.0p.

Rotork plc received total proceeds of £646,000 (2017: £443,000) in respect of the Sharesave plan options exercised by the Company's employees during the year.

23. Share-based payments (continued)

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. For 2016 awards, half of these awards vest under a TSR performance condition and half under an EPS performance condition. A Return on Invested Capital (ROIC) performance condition was introduced in the 2017 and 2018 LTIP awards, details of which are shown in the 2016 Annual Report and Accounts. A third of the awards vest under each performance condition.

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

The EPS performance condition is satisfied with 15% of the awards vesting if the EPS growth is 9% over the vesting period up to a maximum of 100% vesting if EPS growth exceeds 35%.

Vesting of awards under the ROIC condition will be determined by calculating the growth in ROIC, on a cumulative basis, over the performance period. For the 2017 and 2018 awards, the awards will vest by comparing the average ROIC over the performance period against a set of pre-defined targets.

The performance period for the 2015 awards ended on 31 December 2017. The TSR element of the award did not vest as the Company was in the 17th percentile relative to the comparator group. The EPS element also did not vest as the growth in EPS did not exceed RPI +10% over the vesting period.

The performance period for the 2016 awards ended on 31 December 2018. Messrs. PricewaterhouseCoopers LLP as independent actuaries certified to the Remuneration Committee that there was a 79.2% vesting of this award as the Company was in the 85th percentile relative to the comparator group and the Group's EPS growth was 22.3% over the performance period. These awards will vest during 2019.

The weighted average remaining life of awards outstanding is one year.

The Share Incentive Plan

The Share Incentive Plan (SIP) is a discretionary profit-linked share scheme based on the prior year profit of the 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.

24. Ultimate holding company

The immediate and ultimate holding company is Rotork plc, a company incorporated in England and Wales and registered in England. Copies of the accounts of Rotork plc can be obtained from the Company's registered office at the address stated on page 1.