

Company registration number 00608345

Rotork Controls Limited
Annual Report and Financial Statements
31 December 2019



Rotork Controls Limited

COMPANY INFORMATION

DIRECTORS: J M Davis

K G Hostetler

SECRETARY: S E Forbes (appointed 4 April 2020)

H P Barrett-Hague (appointed 14 June 2019 and resigned 3 April 2020)

S C Parsons (resigned 14 June 2019)

REGISTERED OFFICE: Rotork House
Brassmill Lane
Bath
BA1 3JQ

AUDITOR: Deloitte LLP
Statutory Auditor
1 New Street Square
London
EC4A 3HQ

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 fell 11% during the year, due to a strong comparative period during which a large low-margin project in China was completed. Profit before tax declined by 11% in line with revenue. In 2019 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 2019 costs is not significant, they have been laying the groundwork for delivery of savings in 2020.

The Company finished the year with an order book representing 20% of revenue for the year (2018: 17%). The balance sheet remains in a strong position. Net assets have declined by 7% due to a significant reduction in inventory balance as a result of the ongoing inventory reduction programme.

There has been a significant increase in investments in 2019 as a result of the investment in Rotork Americas Holdings Limited, the company owns 100% of the entity.

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

	2019 £000	2018 £000
Revenue	97,591	110,096
Profit before tax	41,174	46,928
Tax expense	(4,575)	(5,669)
Profit for the year	36,599	41,259
Net assets	84,996	91,184

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 2019. 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 2019.

The group have also considered the impact of COVID-19 on its risk profile, details of the impact are included within the interim financial statements for the period ending 30 June 2020. The directors have considered the group position to be consistent with that of the group.

Rotork Controls Limited

STRATEGIC REPORT (Continued)

Section 172 Statement

In July 2018, the new Code reinforced the importance of section 172 of the Companies Act 2006 ('s172'), which requires the Board to act in a way that promotes the success of the Company for the benefit of shareholders as a whole, whilst having regard (among other matters) to:

- The likely consequences of any decision in the long term;
- The interests of the Company's employees;
- The need to foster the Group's business relationships with suppliers, customers and others;
- The impact of the Group's operations on the community and the environment;
- The desirability of the Group maintaining a reputation for high standards of business conduct; and
- The need to act fairly as between members of the Company.

From the perspective of the Board, as a result of the Group governance structure, the matters that it is responsible for considering under s172 have been considered to an appropriate extent by the Group Board in relation both to the Group and to the Company. The Board has also considered relevant matters where appropriate. To the extent necessary for an understanding of the development, performance and position of the Company, an explanation of how the Group Board has considered the matters set out in s172 (for the Group and for the Company) is set out on page 53 of the Group's annual report, which does not form part of this report.

Employee engagement

The Company's policy is to provide, wherever possible, employment opportunities for disabled people, to care for employees who become disabled whilst employed by the Company and to make the best possible use of their skills and potential.

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.

From the perspective of the Board, as a result of the Group governance structure, the Group Board has taken the lead in carrying out the duties of a Board in respect of the Company's employees, including engaging with them, having regard to their interests and the effect of that regard (including on the principal decisions taken by the Company during the year). The Board of the Company has also considered relevant matters where appropriate. An explanation of how the Group Board has carried out these responsibilities (for the Group and for the Company) is set out on page 55 of the Group's annual report, which does not form part of this report.

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.

Rotork Controls Limited

STRATEGIC REPORT (Continued)

Going concern

The world is in the midst of a global pandemic and the impact of the 2019 Coronavirus (COVID-19) is far reaching. Any impacts on the financial performance of the company will be seen in 2020. The impact on the business has been mild in comparison to industry peers. Production has continued with minimal disruption with the required policies and procedures being implemented to ensure the safety of employees and customers.

The company has remained very resilient despite the impact that the pandemic is having on the global economy. Revenue in 2020 is expected to decline slightly but margins will benefit from the implementation of additional cost saving initiatives. Overall, it is expected that full year margins will show progress in 2020.

Management have performed an assessment of the company's ability to continue to operate as a going concern by assessing industry performance, liquidity and future outlook. The latest consensus forecasts indicates that industrial production in the Eurozone will decline in 2020 but will show growth in 2021. Given that the entity is showing margin growth in 2020, the industry improvements will only enhance future performance further. From a liquidity perspective, 100% profit to cash conversion is expected in line with group assumptions, this will allow the company to generate surplus cash which will enable all liabilities to be paid when they fall due. The company shows a strong cash position at both the end of 2019 and forecast for 2020 (December 2019: £48.7m, September 2020: £78.1m). In addition to this the company shows a strong net current asset position in 2019 and 2020 to date (December 2019: £60.5m, September 2020 £120.9m) which further supports the notion that there are more than sufficient resources to meet liabilities as they fall due.

Forecasts for the end of 2020 and beyond show strong profit generation for the entity with revenue growth expected to return in 2021 and beyond. This coupled with the group's continued commitment to cost saving initiatives will result in the entity achieving positive results in line with the anticipated industry growth.

Based on the factors described above the directors' are comfortable that the entity will continue to operate as a going concern for a period of at least 12 months, it is therefore appropriate for financial statements to be prepared on this basis.

This report was approved by the board and signed on its behalf.



J M Davis
Director

Rotork House, Brassmill Lane, Bath, BA1 3JQ

1 December 2020

Rotork Controls Limited

DIRECTORS' REPORT

The directors present the annual report and audited financial statements for Rotork Controls Limited for the year ended 31 December 2019 (Company number: 00608345).

Political and charitable contributions

The Company made no political donations or expenditure during the year (2018: £nil). The Company made charitable donations of £7,625 (2018: £6,250) during the year.

Research and development

Total expenditure on research and development in the year was £6,011,000 of which £606,000 was capitalised (2018: £7,582,000 of which £1,570,000 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 53 days (2018: 51 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.

Financial risk management objectives and policies

The Company is part of Rotork plc (Rotork Group). The financial risk management objectives and policies 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 2019. 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 2019, this includes how the group treasury department manages financial risks.

Rotork Controls Limited

DIRECTORS' REPORT (Continued)

Future developments

Following revenue reduction in 2019, and mindful of macroeconomic uncertainty and the impact of COVID-19, a reduction in revenue is expected in 2020. 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 in 2020.

Dividends

A dividend of £40,000,000 was paid in the year (2018: £30,000,000).

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

COVID-19

The emergence of COVID-19 as a global pandemic is likely to have an impact on the company and the Rotork Group as a whole. Details of the potential impact are included within the interim financial statements issued for the period ended 30 June 2020. The impact on the company will be consistent with the impact on the Rotork Group.

Credit Facility

The Parent entered into a new credit £60,000,000 credit facility agreement which matures in June 2020, this replaces the existing facility in place which expires in August 2020. The facility is available to the Parent, Rotork Controls Limited and Rotork Overseas Limited.

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.

Rotork Controls Limited

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.

This report was approved by the board and signed on its behalf.

J M Davis
Director

Rotork House, Brassmill Lane, Bath, BA1 3JQ

1 December 2020

Rotork Controls Limited

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.

ROTORK CONTROLS LIMITED

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 2019 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 25.

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

Rotork Controls Limited

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.



David Griffin FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

1 December 2020

Rotork Controls Limited

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 £000	2018 £000
Revenue	2	97,591	110,096
Cost of sales		(57,010)	(66,061)
Gross profit		40,581	44,035
Distribution costs		(455)	(433)
Administrative expenses		(35,127)	(34,512)
Other income		10,465	16,552
Other expenses		(70)	(85)
Operating profit		15,394	25,557
Income from shares in group undertakings		21,030	18,255
Finance income	4	6,551	6,496
Finance expense	4	(1,801)	(3,380)
Profit before tax	5	41,174	46,928
Tax expense on profit	7	(4,575)	(5,669)
Profit for the financial year		36,599	41,259

All of the results presented are derived from continuing activities.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 £000	2018 £000
Profit for the year	36,599	41,259
Other comprehensive income		
<i>Items that may subsequently be reclassified to profit or loss:</i>		
Effective portion of changes in fair value of cash flow hedges net of tax	3,617	(6)
<i>Items that will not be reclassified to profit or loss:</i>		
Actuarial (loss)/gain in pension scheme net of tax	(4,868)	5,925
Other comprehensive income for the period net of tax	(1,251)	5,919
Total comprehensive income for the period attributable to the owners of the Company	35,348	47,178

ROTORK CONTROLS LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2019

	Notes	2019 £000	2018 £000
Non-current assets			
Intangible assets	8	6,226	7,004
Property, plant and equipment	9	18,577	12,762
Investments	10	22,365	4,525
Deferred tax assets	11	76	1,280
Derivative Financial Instruments	18	91	1,280
		47,335	25,571
Current assets			
Inventories	12	11,498	17,205
Trade and other receivables	13	30,306	122,014
Derivative financial instruments	18	3,553	308
Cash and cash equivalents		48,786	46,820
		94,142	186,347
Total assets		141,477	211,918
Equity			
Share capital	14	16,015	16,015
Capital contribution reserve		1,844	1,844
Hedging reserve		2,464	(1,153)
Retained earnings		66,209	74,478
		86,532	91,184
Non-current liabilities			
Loans and Borrowings	15	69	29,960
Employee benefits	21	21,134	20,208
Derivative financial instruments	18	81	-
Provisions	16	-	335
		21,284	50,503
Current liabilities			
Loans and Borrowings	15	58	29,939
Trade and other payables	17	30,544	35,344
Corporation Tax		1,553	1,284
Derivative financial instruments	18	6	2,683
Provisions	16	1,500	981
		33,661	70,231
Total equity and liabilities		141,477	211,918

The financial statements were approved and authorised for issue by the Board of Directors on 1 December 2020 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 2019

	Notes	Called up share capital £000	Hedging reserve £000	Capital contribution reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2018		16,015	(1,147)	1,844	57,294	74,006
Profit for the year		-	-	-	41,259	41,259
<i>Other comprehensive income</i>						
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
<i>Transactions with owners</i>						
Dividends paid during the year		-	-	-	(30,000)	(30,000)
Balance at 31 December 2018		16,015	(1,153)	1,844	74,478	91,184
Profit for the year		-	-	-	36,599	36,599
<i>Other comprehensive income</i>						
Effective portion of changes in fair value of cash flow hedges		-	4,084	-	-	4,084
Actuarial loss on defined benefit pension plans	21	-	-	-	(5,809)	(5,809)
Tax in other comprehensive income	11	-	(467)	-	941	474
Total other comprehensive income		-	3,617	-	(4,868)	(1,251)
Total comprehensive income for the year		-	3,617	-	31,731	35,348
<i>Transactions with owners</i>						
Dividends paid during the year	14	-	-	-	(40,000)	(40,000)
Balance at 31 December 2019		16,015	2,464	1,844	66,209	86,532

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

The notes on pages 13 to 42 form part of these financial statements.

ROTORK CONTROLS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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.

ROTORK CONTROLS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

New accounting standards and interpretations

1. IFRS 16 Leases

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'). The new standard has been applied using the modified retrospective approach, with no net effect of adopting IFRS 16 recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of transition, being 1 January 2019, the entity has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

The entity has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of transition. At this date, the entity has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of transition, the entity has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the entity has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight line basis over the remaining lease term.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 3.05%.

The following is a reconciliation of total operating lease commitments at 31 December 2018 to the lease liabilities recognised at 1 January 2019:

	£'000
Total operating lease commitments disclosed at 31 December 2018	75
Additional leases identified on review of lease portfolio	89
Operating lease liabilities before discounting	164
Discounted using incremental borrowing rate	(12)
Total lease liabilities recognised under IFRS 16 at 1 January 2019	152

Further information on the impact of the transition to IFRS 16 is disclosed in note 20.

ROTORK CONTROLS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

II. Other amendments

A number of other standards became applicable. Application of these standards and amendments has not had any material impact on the disclosures or on the amounts recognised in the entity's financial statements.

Going concern assumption

The world is in the midst of a global pandemic and the impact of the 2019 Coronavirus (COVID-19) is far reaching. Any impacts on the financial performance of the company will be seen in 2020. The impact on the business has been mild in comparison to industry peers. Production has continued with minimal disruption with the required policies and procedures being implemented to ensure the safety of employees and customers.

The company has remained very resilient despite the impact that the pandemic is having on the global economy. Revenue in 2020 is expected to decline slightly but margins will benefit from the implementation of additional cost saving initiatives. Overall, it is expected that full year margins will show progress in 2020.

Management have performed an assessment of the company's ability to continue to operate as a going concern by assessing industry performance, liquidity and future outlook. The latest consensus forecasts indicates that industrial production in the Eurozone will decline in 2020 but will show growth in 2021. Given that the entity is showing margin growth in 2020, the industry improvements will only enhance future performance further. From a liquidity perspective, 100% profit to cash conversion is expected in line with group assumptions, this will allow the company to generate surplus cash which will enable all liabilities to be paid when they fall due. The company shows a strong cash position at both the end of 2019 and forecast for 2020 (December 2019: £48.7m, September 2020: £78.1m). In addition to this the company shows a strong net current asset position in 2019 and 2020 to date (December 2019: £60.5m, September 2020 £120.9m) which further supports the notion that there are more than sufficient resources to meet liabilities as they fall due.

Forecasts for the end of 2020 and beyond show strong profit generation for the entity with revenue growth expected to return in 2021 and beyond. This coupled with the group's continued commitment to cost saving initiatives will result in the entity achieving positive results in line with the anticipated industry growth.

Based on the factors described above the directors' are comfortable that the entity will continue to operate as a going concern for a period of at least 12 months, it is therefore appropriate for financial statements to be prepared on this basis.

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.

ROTORK CONTROLS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

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.

Leases

At the lease commencement date, the entity recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the entity, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The entity depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The entity also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the entity measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the entity's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments, variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The entity has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the balance sheet, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in loans and borrowings.

Leases - accounting policy applicable before 1 January 2019

The entity as a lessee

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.

ROTORK CONTROLS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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.

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.

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.

ROTORK CONTROLS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

1. *Accounting policies (continued)*

Property, plant and equipment

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.

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

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.

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.

ROTORK CONTROLS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

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.

ROTORK CONTROLS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

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:

	2019 £000	2018 £000
United Kingdom	9,370	9,224
Europe	27,735	30,042
Americas	16,163	17,059
Asia	35,026	47,186
Rest of World	9,297	6,585
	97,591	110,096

ROTORK CONTROLS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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:

	2019 No.	2018 No.
Production	113	120
Administration	282	267
	395	387

The aggregate payroll costs of these persons were as follows:

	2019 £000	2018 £000
Wages and salaries	22,223	21,948
Social security costs	2,361	2,383
Pension costs	2,579	1,379
	27,163	25,710

ROTORK CONTROLS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Finance income and expense

Recognised in the income statement

	2019	2018
	£000	£000
Interest income	1,033	848
Interest receivable from group undertakings	5,518	5,648
Finance income	6,551	6,496

	2019	2018
	£000	£000
Interest expense	648	2,423
Interest payable to group undertakings	669	317
Interest payable on finance leases	4	-
Interest charge on pension scheme liabilities (see note 21)	480	640
Finance expense	1,801	3,380

Recognised in equity

	2019	2018
	£000	£000
Effective portion of changes in fair value of cash flow hedges	1,125	(1,423)
Fair value of cash flow hedges transferred to income statement	1,423	1,399
Recognised in the Hedging reserve	2,548	(24)

ROTORK CONTROLS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

5. Profit before taxation

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

	2019 £000	2018 £000
Depreciation of tangible fixed assets	3,386	2,840
Write down of tangible fixed assets	-	17
Amortisation of development costs	1,384	1,591
Research and development expenditure	5,405	6,012
Audit fees payable to the Company's auditor for the audit of the annual accounts	60	57
Foreign exchange (gain)/loss	516	(391)
Share-based payments expense	1,333	1,308

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 practicable 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.

ROTORK CONTROLS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

7. Taxation

	2019 £000	2018 £000
Current tax:		
UK corporation tax	2,062	2,620
Overseas tax	1,106	1,066
	3,168	3,686
Adjustment in respect of prior periods	(271)	(239)
	2,897	3,447
Deferred tax:		
Origination and reversal of timing differences	1,471	2,359
Adjustment in respect of prior periods	207	(137)
Total deferred tax (note 11)	1,678	2,222
Total tax charge for the year	4,575	5,669

The effective rate of corporation tax is lower (2018: lower) than the rate of corporation tax in the UK of 19.00% (2018: 19.00%). The differences are explained below:

	2019 £000	2018 £000
Profit before tax	41,174	46,928
Profit multiplied by standard effective rate of corporation tax in the UK of 19.00% (2018: 19.00%)	7,823	8,916
Effects of:		
Income not taxable	(4,559)	(3,660)
Overseas withholding tax suffered	1,106	1,066
Deferred tax on unremitted earnings	1,039	700
Amounts not deductible	454	(156)
R&D/intellectual property incentives	(1,126)	(1,126)
Other timing differences	(98)	305
Adjustments to tax charge in respect of prior periods	(64)	(376)
Total tax charge for the year	4,575	5,669

The rate of UK corporation tax will remain at 19% from 1 April 2020. The deferred tax asset as at 31 December 2019 has been calculated based on the rate of 17%, being the rate substantively enacted at the balance sheet date.

ROTORK CONTROLS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

8. Intangible assets

	Development costs £000	Goodwill £000	Total £000
Cost			
Cost at 1 January 2019	16,004	2,841	18,845
Internally developed during the year	606	-	606
Disposals in year	(3,114)	-	(3,114)
At 31 December 2019	13,496	2,841	16,337
Amortisation			
At 1 January 2019	11,841	-	11,841
Amortisation in year	1,384	-	1,384
Disposals in year	(3,114)	-	(3,114)
At 31 December 2019	10,111	-	10,111
Net book value			
At 31 December 2019	3,385	2,841	6,226
At 31 December 2018	4,163	2,841	7,004

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

ROTORK CONTROLS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019	2,599	6,849	27,357	36,805
Recognition of right-of-use asset on initial application of IFRS16	-	-	152	152
Adjusted balance at 1 January 2019	2,599	6,849	27,509	36,957
Additions	-	350	8,910	9,260
Disposals	-	(210)	(3,573)	(3,783)
At 31 December 2019	2,599	6,989	32,846	42,434
Depreciation				
At 1 January 2019	1,313	3,596	19,134	24,043
Charged in year	-	458	2,928	3,386
Disposals	-	-	(3,572)	(3,572)
At 31 December 2019	1,313	4,054	18,490	23,857
Net book value				
At 31 December 2019	1,286	2,935	14,360	18,577
At 31 December 2018	1,286	3,253	8,223	12,762

The net book value of the land and buildings comprises:

	2019 £000	2018 £000
Freehold land (not depreciated)	480	480
Freehold buildings	969	2,212
Long leasehold buildings	1,486	561
	2,935	3,253

ROTORK CONTROLS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

10. Investments

Investments comprise shares in wholly-owned subsidiary undertakings.

	2019 £000	2018 £000
Cost and net book value at 1 January and 31 December	22,366	4,525

The increase in investments in 2019 is a result of the investment in Rotork Americas Holdings Limited. The company owns 100% of the entity as shown in the table below.

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
Rotork Americas Holdings Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
100% owned by Valvekits Limited		
Circa Engineering Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ

ROTORK CONTROLS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

11. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities:

	Assets 2019 £000	Liabilities 2019 £000	Net 2019 £000	Assets 2018 £000	Liabilities 2018 £000	Net 2018 £000
Property, plant and equipment	245	-	245	174	-	174
Employee benefits	3,604	-	3,604	3,493	-	3,493
Share-based payments	646	-	646	395	-	395
Designated cash flow hedges	-	(197)	197	270	-	270
Unremitted earnings	-	(3,658)	(3,658)	-	(2,620)	(2,620)
Intangible assets	-	(564)	(564)	-	(432)	(432)
Tax assets/(liabilities)	4,495	(4,419)	76	4,332	(3,052)	1,280
Set off of tax	(4,419)	4,419	-	(3,052)	3,052	-
Net tax assets	76	-	76	1,280	-	1,280

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

	2019 £000	2018 £000
Balance at 1 January	1,280	4,524
Charged to the income statement	(1,678)	(2,222)
Credited/(charged) directly to equity in respect of pension scheme	941	(1,040)
(Charged)/credited directly to equity in respect of designated cash flow hedges	(467)	18
Balance at 31 December	76	1,280

Deferred tax assets of £76,000 (2018: £1,280,000) have been recognised at 31 December 2019. 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 £32,456,000 (2018: £9,058,000).

12. Inventories

	2019 £000	2018 £000
Raw material and purchased components	10,294	15,468
Work in progress	1,203	1,737
	11,497	17,205

Included in cost of sales was £45,743,000 (2018: £53,469,000) in respect of inventories consumed in the year.

ROTORK CONTROLS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

13. Trade and other receivables

	2019 £000	2018 £000
Trade receivables	287	362
Amounts owed by Rotork Group undertakings	27,460	118,726
Other debtors	1,333	1,343
Prepayments and accrued income	1,226	1,583
	30,306	122,014

Of the £27,460,000 (2018: £118,726,000) owed by Rotork Group undertakings, £136,000 (2018: £100,675,000) are interest-bearing loans, which are repayable upon demand and attract a weighted average interest rate of LIBOR/EURIBOR plus 3.94% (2018: 3.94%). The remaining £27,324,000 (2018: £18,051,000) are trading balances which are settled on normal payment terms.

14. Capital and reserves

	2019 £000	2018 £000
Share capital authorised, allotted, called up and fully paid: 16,015,000 Ordinary Shares of £1 each (2018: 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:

	2019 £000	2018 £000
Equity shares:		
£2.50 per share interim dividend paid (2018: £1.87)	40,000	30,000
	40,000	30,000

ROTORK CONTROLS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

15. Loans and borrowings

	2019	2018
	£000	£000
<i>Non-current liabilities</i>		
Lease Liabilities	69	-
Bank loans	-	29,960
	69	29,960
<i>Current liabilities</i>		
Lease Liabilities	58	-
Bank loans	-	29,868
	58	29,868

The Company is part of Rotork plc's Group banking arrangements. During 2019 the Company repaid £60,000,000 of the committed facility and negotiated to extend the remaining facility to August 2020. The Company also has a £60,000,000 Revolving Credit Facility which matured in August 2020. See note 25 for details of new facilities. At year end none of the committed facilities were drawn, resulting in £60,000,000 being available.

16. Provisions

	Warranty provision £000	Restructuring provision £000	Total £000
Balance at 1 January 2019	1,016	300	1,316
Utilised during the year	(68)	-	(68)
Recognised in the year	52	200	252
Balance at 31 December 2019	1,000	500	1,500
Non-current	-	-	-
Current	1,000	500	1,500
	1,000	500	1,500

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.

ROTORK CONTROLS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

17. Trade and other payables

	2019 £000	2018 £000
Trade payables	8,730	9,665
Amounts owed to Parent	2,753	2,642
Amounts owed to Rotork Group undertakings	11,365	15,925
Other payables	1,542	1,041
Other taxes and social security	1,098	929
Accruals and deferred income	5,056	5,142
	30,544	35,344

Of the £11,365,000 (2018: £15,925,000) owed to Rotork Group undertakings, £6,175,000 (2018: £1,676,000) are interest-bearing deposits on account, which are payable upon demand and attract an average interest rate of LIBOR less 0.125% (2018: 0.125%). The remaining £5,190,000 (2018: £14,249,000) are sterling non-interest-bearing short-term loans.

18. Financial instruments

Cash flow hedges

	Assets 2019 £000	Liabilities 2019 £000	Assets 2018 £000	Liabilities 2018 £000
Forward foreign exchange contracts	1,629	87	-	1,407
Foreign exchange swaps	2,015	-	308	1,276
	3,644	87	308	2,683
Less current portion	(3,553)	(6)	(308)	(2,683)
Non-current	91	81	-	-

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 2019 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 2019 and 2018 for which no provision has been made in these financial statements were:

	2019 £000	2018 £000
Contracted	8,225	2,310

ROTORK CONTROLS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

20. Leases

The entity leases vehicles, machinery and IT equipment. Information about leases for which the entity is a lessee is presented below.

Right-of-use assets

The right-of-use assets are disclosed as a non-current asset and are part of the property, plant and equipment balance of £18,577,000 at 31 December 2019.

	Plant and equipment £'000	Total £'000
2019		
Balance at 1 January	152	152
Additions to right-of-use assets	45	45
Derecognition of right-of-use assets	(3)	(3)
Depreciation charge for the year	(68)	(68)
	126	126

Lease Liabilities

	Total £'000
2019	
Maturity analysis- contractual undiscounted cash flows	
Less than one year	67
One to five years	73
Total undiscounted lease liability at 31 December	140
Interest cost associated with future periods	(13)
Lease liabilities included in statement of financial position at 31 December	127
Current	58
Non-current	69

ROTORK CONTROLS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

20. Leases (continued)

Amounts recognised in profit and loss

The entity has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred.

	Total £'000
2019 leases under IFRS16	
Interest on lease liabilities	4
Expenses relating to short-term leases and leases of low value assets	16
Depreciation of right-of-use assets	68

	Total £'000
2018 - Operating leases under IAS17	
Lease expense	128

Amounts recognised in statement of cash flows

Total cash outflow for leases	109
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ROTORK CONTROLS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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.

ROTORK CONTROLS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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

	2019 £000	2018 £000
Liabilities at 1 January	184,990	211,922
Current service costs	-	637
Administration costs	282	187
Member contributions	-	152
Interest cost	5,040	4,939
Benefits paid	(14,835)	(9,757)
Actuarial loss/(gain)	22,803	(18,180)
Curtailment gain	-	(5,830)
Past service cost	-	920
Liabilities at 31 December	198,280	184,990

Movement in fair value of plan assets

	2019 £000	2018 £000
Assets at 1 January	164,782	175,307
Interest income on plan assets	4,560	4,299
Employer contributions	5,645	5,996
Member contributions	-	152
Benefits paid	(14,835)	(9,757)
Return on plan assets, excluding interest income on plan assets	16,994	(11,215)
Assets at 31 December	177,146	164,782

ROTORK CONTROLS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

21. Pensions (continued)

(Credit)/expense recognised in the income statement

	2019	2018
	£000	£000
Current service costs	-	637
Administration costs	282	187
Net interest cost	480	640
Defined benefit expense (normal components)	762	1,464
Curtailment gain	-	(5,830)
Past service cost	-	920
Overall defined benefit (credit)/expense	762	(3,446)

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

	2019	2018
	£000	£000
Cost of sales	99	288
Administrative expenses	183	1,456
Net finance expense	480	641
Other income	-	(5,830)
	762	(3,446)

Remeasurements over the year

	2019	2018
	£000	£000
Experience adjustments on plan assets	16,994	(11,215)
Experience adjustments on plan liabilities	(4,187)	(130)
Actuarial gain/(loss) from changes to financial assumptions	(19,494)	17,010
Actuarial gain from changes to demographic assumptions	878	1,300
Curtailment gain	-	5,830
Past service cost	-	(920)
	5,809	11,875

ROTORK CONTROLS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

21. Pensions (continued)

Reconciliation of net defined benefit obligation

	2019 £000	2018 £000
Net defined benefit obligation at the beginning of the year	20,208	36,615
Current service costs	-	637
Administration costs	282	187
Net financing expense	480	640
Remeasurements over the year	5,809	(11,875)
Employer contributions	(5,645)	(5,996)
	21,134	20,208

Liability for defined benefit obligations

The principal actuarial assumptions at 31 December 2019 were as follows:

	2019 % per annum	2018
Discount rate	2.1	2.8
Rate of increase in pensions (post May 2000)	2.8	3.1
Rate of increase in pensions (pre May 2000)	4.6	4.6
Rate of inflation	2.9	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:

	2019 £000	2018 £000
Equities	35,588	30,581
Target return	50,409	45,243
Property	11,683	17,326
Corporate bonds	47,526	41,740
LDI/Absolute return bonds	32,090	30,011
Cash and net current (liabilities)/assets	(150)	(119)
Total	177,146	164,782
Actual return on the Scheme's assets	21,554	(6,916)

ROTORK CONTROLS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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 27% 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 have been changed in three areas since the 2018 year-end. The allowance for cash commutation now assumes that members will commute 70% of the maximum possible amount at retirement (2018: 90%), whilst the proportion of members with a dependant at retirement or on earlier death is assumed to be 80% (2018: 90%).

As a result of longevity analysis carried out for the Scheme's 2019 valuation, the mortality base table is now 90% of the S3PMA table for males and 115% of the S3PFA table for females (2018: 100% of S2NXA for males and females). Future changes in mortality are now based on the CMI_2018 projections with an initial addition parameter of +0.5% (2018: CMI_2017 projections) with a long-term rate of improvement of 1.25% per annum (2018: 1.25%).

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

Current age	2019 Life expectancy at age 65		2018 Life expectancy at age 65	
	Male	Female	Male	Female
65	22.9	23.3	22.1	24.1
45	24.2	24.8	23.5	25.6

Sensitivity analysis on the Scheme's liabilities

Adjustments to assumptions	Approximate effect on liabilities £000
Discount rate	
Plus 0.5% pa	(18,800)
Minus 0.5% pa	21,000
Inflation	
Plus 0.5% pa	12,900
Minus 0.5% pa	(12,200)
Life expectancy	
Decrease mortality rates by a factor of 10%	6,500
Increase mortality rates by a factor of 10%	(5,500)

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.

ROTORK CONTROLS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

21. Pensions (continued)

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 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 2019, the Company will contribute £6,800,000 from 1 April 2020.

The Company estimates that its cash contributions to the Scheme during 2020 will be about £9,200,000 (2019 actual: £5,645,000).

The weighted average duration of the defined benefit obligation is 21 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 £1,000,000 (2018: £742,000).

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 2019 amounted to £nil (2018: £nil).

In addition the Company has given guarantees, indemnities and bonds not provided in the financial statements amounting to £140,000 (2018: £140,000).

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 1,794,000 outstanding options held by the Company's employees (2018: 1,899,000), 74,000 are exercisable (2018: 126,000). The weighted average remaining life of 704,000 (2018: 786,000) awards outstanding under the three-year plan is two years. The weighted average remaining life of 1,090,000 (2018: 1,086,000) awards outstanding under the five-year plan is two years. The range of exercise prices is 148.0p to 272.0p.

Rotork plc received total proceeds of £594,000 (2018: £646,000) in respect of the Sharesave plan options exercised by the Company's employees during the year. The weighted average share price at date of exercise was 291p (2018: 272p).

ROTORK CONTROLS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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 vested 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, 2018 and 2019 LTIP awards, details of which are shown in the 2016 Annual Report & 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 is determined by calculating the growth in ROIC, on a cumulative basis, over the performance period. For the 2017, 2018 and 2019 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 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 vested during 2019.

The performance period for the 2017 awards ended on 31 December 2019. Messrs. PricewaterhouseCoopers LLP as independent actuaries certified to the Remuneration Committee that there was an 84.4% vesting of this award as the Company was in the 73rd percentile relative to the comparator group, the Group's EPS growth was 39.6% over the performance period and the Group's growth in economic profit was 14.3%. These awards will vest during 2020.

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 parent undertaking, ultimate parent company, ultimate controlling party and the smallest and largest group to consolidate these financial statements 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.

ROTORK CONTROLS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

25. Events subsequent to the balance sheet date

COVID-19

Subsequent to the year end, the spread of COVID-19 was declared a pandemic by the World Health Organisation, its spread is affecting countries worldwide.

The impact of the pandemic on the company has been discussed as part of the going concern disclosures in Note 1 and will be consistent with the impact on the group as a whole. The group considered the impact of COVID-19 within the interim financial statements for the period ending 30 June 2020.

Given the timing of the pandemic and the expected group impact on the financial statements, this is considered a non-adjusting balance sheet event.

Credit Facility

The Parent entered into a new credit facility agreement subsequent to the year end to replace the existing arrangement that expired in August 2020. The new facility is for £60,000,000 and matures in June 2022. The facility is available to the Parent, Rotork Controls Limited and Rotork Overseas Limited.