Rotork plc
2017 Full Year Results

	2017	2016	% change	OCC [2] % change
Order intake	**£666.5m**	**£576.6m**	+15.6%	+8.2%
Revenue	**£642.2m**	**£590.1m**	+8.8%	+2.3%
Adjusted[1] operating profit	**£130.2m**	**£120.6m**	+7.9%	+2.5%
Adjusted[1] operating margin	**20.3%**	**20.4%**	-10bps	+10bps
Profit before tax	**£80.6m**	**£91.1m**	-11.5%	-17.0%
Adjusted[1] profit before tax	**£124.8m**	**£117.9m**	+5.8%	+0.3%
Basic earnings per share	**6.4p**	**7.7p**	-16.9%	-22.6%
Adjusted[1] basic earnings per share	**10.6p**	**10.0p**	+6.0%	0.0%
Full year dividend	**5.40p**	**5.10p**	+5.9%	

[1] *Adjusted figures exclude the amortisation of acquired intangible assets and other adjustments.*
[2] *OCC is organic constant currency results excluding acquisitions and restated at 2016 exchange rates.*
[3] *Order intake represents the value of orders received during the year.*

Summary

- Market outlook improving
- Increasing order book
- Growing contribution from new products and service
- New Chief Executive appointed
- Growth acceleration programme initiated
- Initial opportunities actioned
- Balance sheet strengthened with cash conversion of 109.1%

Martin Lamb, Executive Chairman, commenting on the results, said:

"During the year, we saw a return to more favourable market conditions. We saw modest recovery in certain markets and geographies in the first half of the year with a continued improvement during the second half.

Our revenue forecasts for 2018 currently reflect improving order momentum, pointing to mid to high single digit organic revenue growth year on year. However reported results will be impacted by currency movements. Based on current rates we can expect a 4-5% headwind on both revenues and profits compared with last year.

Adjusted operating profit margins are expected to be similar, with contributions from higher volumes offset by increased investments in new products, expansion of our service infrastructure, and accelerated investment in our systems and IT capabilities.

One off costs associated with the ongoing strategic reviews, and any initial rationalisation opportunities arising from those reviews, are likely to be at similar levels in H1 to H2 last year. We will update the market on likely costs for H2 in August alongside more detail around our plans for growth acceleration."

Rotork plc Tel: +44 (0)1225 733 200
Martin Lamb, Executive Chairman
Jonathan Davis, Finance Director
Sarah Matthews-DeMers, Director of Strategy and Investor Relations

FTI Consulting Tel: + 44 (0)20 3727 1340
Nick Hasell / Susanne Yule

There will be a meeting for analysts and institutional investors at 9.45 am GMT this morning at the offices of FTI Consulting, 200 Aldersgate, Aldersgate Street, London EC1A 4HD. The presentation will also be webcast (audio only). Please register at www.rotork.com.

Executive Chairman's statement

I am pleased to report that, in a period of change for the Group, Rotork has delivered another solid set of full year results with growth in order intake, revenue and adjusted operating profit. Despite inflationary pressures the adjusted operating margin has been maintained above 20%, demonstrating the resilience of our business.

We have seen a return to more favourable market conditions following a stabilisation of the oil price and improving macroeconomic trends in a number of our geographic markets. Within the Group's oil and gas markets, representing around half of the Group's revenues, customers' investment in existing facilities, both in respect of maintenance and upgrades, has returned to more normal levels, providing more consistency to order input. Investments in major new projects remains patchy and although still below historic highs, increased levels of quotation activity point to a generally improving position as the break-even point for new well construction continues to reduce.

Notwithstanding this generally lower investment climate for our oil and gas markets, we are committed, over time, to returning the business to the higher growth and margin levels previously delivered by the Group. The lower oil price has focussed our customers on the need to embrace smarter, more efficient technologies in driving down the cost of production, and encouraged the use of the latest predictive maintenance tools in minimising process downtime. Rotork is exceptionally well placed to capitalise on these trends, and we plan to increase significantly our investment in innovative new technologies, and expand our service capabilities. This additional investment will be funded by a reshaping of our sales and operating infrastructure, concentrating resources to drive critical mass and upgrading our management systems.

Working in partnership with a number of external consultants, we are engaged in a series of reviews to fully understand the impact of the changing market dynamics on our innovation funnel, and to examine ways to better align our commercial infrastructure to our customers' needs and routes to market. In addition we are also undertaking a detailed review of our operating footprint, global supply chain, IT infrastructure and talent base. Outputs to date already provide considerable assurance around our long-term growth and margin ambitions. These ongoing reviews are expected to contribute significantly to the growth acceleration plans being developed by our newly appointed Chief Executive, Kevin Hostetler. Initial opportunities arising from the early analysis are already being actioned, with consolidation of operations in Germany and Italy presently underway.

Financial highlights

Order intake increased by 15.6% on the prior year, or 8.2% on an OCC basis, reflecting an improvement in several of our end markets, with increased activity in upstream oil and gas and power and good progress in water and industrial processes. Midstream oil and gas remained challenging while downstream started to improve in the second half of the year.

Revenue increased by 8.8% to £642.2m with currency contributing 5.6% and the contribution from acquisitions being 0.9%. On an OCC basis, revenue increased by 2.3%, reflecting the traditional lag in order activity flowing through to revenue.

Adjusted operating profit increased by £9.6m to £130.2m (OCC: up £3.0m) with adjusted operating margin 10 basis points lower at 20.3%. Although our gross margins held up well, the increase in revenue was offset by inflationary cost increases.

Board composition and performance

On 28 July 2017 we announced the resignation of Peter France as Chief Executive. The Board asked me to assume the role of full time Executive Chairman on an interim basis until a successor could be appointed.

The announcement followed a period of reflection by the Board, together with Peter, on the steps required to foster a return to higher growth and margin levels in what is likely to be a generally lower growth macro environment. The Board thanks Peter for all his efforts and achievements throughout a long and successful career with the Company and wishes him every success in the future.

We were delighted to announce in January the appointment of Kevin Hostetler as Chief Executive. Kevin joined the Board on 12 February 2018 and will assume the role of Chief Executive from 12 March 2018, when I will revert to my role as Non-Executive Chairman.

Kevin has an impressive track record of delivering profitable growth in a number of highly respected and innovative global engineering businesses, with significant experience in the flow control sector. He adopts leading edge practices and processes honed at Ingersoll Rand, and has delivered transformational growth for shareholders at IDEX Corp, a flow control business with highly engineered products and strong customer service requirements serving similar end markets to Rotork. Kevin has recently concluded a successful exit after leading a three year turnaround at FDH Velocitel, a private equity backed telecoms business in the US, and is in the process of relocating from Chicago to Bath, where he has received a warm welcome from the whole Rotork team.

We also announced the appointment of Peter Dilnot to the Board as a non-executive director with effect from 1 September 2017. He is a member of the Audit, Nomination and Remuneration Committees of the Board. Peter is Chief Executive Officer of Renewi plc, the international waste-to-product company created in 2017 by the merger of Shanks Group plc and Van Gansewinkel Groep B.V.. We are delighted to welcome Peter to the Board.

The Board currently comprises two executive directors, four independent non-executive directors and myself as Executive Chairman. Rotork has complied with the UK Corporate Governance Code in all respects, save that, following Peter France’s resignation as Chief Executive in July 2017, I have acted as Executive Chairman. We are in compliance with our stated aim that at least 25% of our independent non-executive directors are women.

The annual performance review of the Board took place during February and March 2017.

Corporate governance

The Board continues to be committed to the highest standards of governance. During the year, the Board and Audit Committee were involved in work related to risk appetite and monitoring and disclosure of risk, building on the work that was done during 2016.

Operating review

During the year, the market environment started to improve. We saw modest recovery in certain markets and geographies in the first half of the year with a continued improvement during the second half. The oil industry appears to be stabilising around a lower oil price, with a return to more normal levels of project activity (albeit that projects are generally smaller in scale). We saw steady progress across the water and industrial process markets with power remaining flat. Geographically we saw growth in the Middle East, parts of Asia, North America and Europe while Latin America remained subdued.

Full year order intake increased by 15.6% and by 8.2% on an organic constant currency basis, while revenue increased by 8.8%, (+2.3% OCC), reflecting the improvement in the market environment. Adjusted operating profit increased by 7.9% to £130.2m (+2.5% OCC). The improvement in revenue and our material cost saving initiatives offset the impact of inflationary pressures, with adjusted operating margins remaining constant at 20.3% (2016: 20.4%).

The order book at 31 December 2017 was £192.5m, 6.5% (9.5% OCC) higher than at 31 December 2016, giving good visibility into 2018.

Overall, oil and gas represented 50.5% (2016: 52.4%) of revenue with an increase in the percentage of upstream and downstream sales but a decrease in midstream. In upstream, which accounted for 17.0% of revenue, positive sentiment in the USA and the Middle East has provided support for new onshore drilling activity. Midstream remained challenging, although we saw benefits from an increase in gas pipeline activity and the extension of some LNG projects. During the second half of the year we started to see an improvement in activity in downstream and we are well positioned to take advantage of any recovery in this market which we expect to be driven by emerging markets, low raw material costs and new environmental legislation.

In the water, power and industrial markets, revenue increased over the prior period by 10.9%, 5.0% and 25.4% respectively, reflecting improving macroeconomic conditions. This illustrates the growth opportunities across our other end markets.

The Middle East and Africa showed good growth across all our end markets while we saw positive sales momentum in North America in oil and gas, industrial and water, although the power market remained subdued in the USA. In Europe, growth in the upstream oil and gas and industrial process markets was strong, while the Latin American market remained difficult. We remain well positioned internationally to benefit from opportunities in all our key markets.

Strategic progress

The long-term drivers of our markets remain positive with population growth, urbanisation and automation continuing to drive increased demand for flow control products and services across all our end markets. Evolving regulations regarding safety improvements and emissions reduction will also drive growth. The changing oil and gas environment has driven a much greater focus by our customers on cost and margins, giving rise to opportunities for those solution providers who can respond to these needs and we are focused on assisting our customers to increase efficiency, reduce power consumption and maximise cost reduction through innovation in new solutions and enhancements to our service offering.

Delivering high quality, innovative engineered solutions and services to our customers across diverse end markets and geographies remains the key element of our strategy. Our commitment to ensure we are well placed to accelerate growth in revenues and margins and to increase our market share across our customer base requires a fresh perspective on our approach to our business. Such an approach will include increased investment in new product development and a significant enhancement of our service offering. Both represent fertile territory, with oil and gas customers, for example, demanding much greater innovation from their supply chain as they seek to regroup around a lower oil price; while service represents an area of competitive advantage for the Group, being a reliable and profitable growth engine even in a downturn.

The investment in new product development and our service offering will be funded by a reshaping of our sales and operating infrastructure. We are re-examining our cost base, which has grown in scale and complexity over the years, a natural consequence of sustained growth, extensive product and geographic diversification and an active acquisition programme over a long period. We are engaged in a series of reviews across all aspects of our business to examine our routes to market, innovation funnel, operations footprint, supply chain, talent development and IT systems.

Our initial hypothesis, that we can accelerate growth though investing in innovation, service and routes to market, funded by savings generated from rationalisation of our cost base, has been validated by the work completed to date. We commenced the data capture and analysis phase of these reviews in 2017 and have made good progress across each workstream.

The changes to our market drivers have been assessed and validated along with the implications for the Group. We have completed a high level review of our innovation funnel, having developed a framework for analysing opportunities against changing market drivers and are now examining the areas of most interest more closely.

The workstream to review the operating footprint and supply chain is well underway, with phase one (data capture and consideration of first steps and early opportunities) having been completed. We have already implemented a number of these first steps, including the closure of our Melle factory and relocation of three businesses in Italy. Actions in early 2018 are likely to be procurement related. Investigation of strategic options for the longer term has commenced.

We have completed the first wave of our talent development programme with our senior team and are now widening this to include a broader group of people. The review of our routes to market has also now commenced. We will use the output from the route to market work and the review of our operations to assess the impact on our business systems and ensure these are able to support the business in the future.

The outcome of the analysis will contribute significantly to the growth acceleration programme being formulated by our incoming Chief Executive, Kevin Hostetler and the management team and we expect to be in a position to give a further details of our plans with the announcement of our half year results.

We will keep stakeholders informed as our programme progresses and once we are in a position to lay out the detailed plan we will also set out key metrics. We will be very transparent around our achievements, splitting out the underlying trading performance from the restructuring costs, the investment in the customer offering and how these are funded by cost savings.

Rotork Controls

£m	**2017**	**2016**	**Change**	**OCC[2] Change**
Order intake	**333.0**	295.2	+12.8%	+6.9%
Revenue	**325.2**	298.4	+9.0%	+3.3%
Adjusted[1] operating profit	**92.9**	87.3	+6.4%	+2.1%
Adjusted[1] operating margin	**28.6%**	29.3%	-70bps	-40bps

Order intake was £333.0m, a 12.8% increase compared with the prior year, with revenue up 9.0% to £325.2m. On an OCC basis order intake and revenue increased by 6.9% and 3.3% respectively. Adjusted operating profit of £92.9m was up 6.4% with an adjusted operating margin of 28.6%, down 70 basis points on the prior year, with gross margin maintained but overheads impacted by inflationary increases.

Oil and gas revenues remained stable in 2017 and represented 44% of divisional revenues. Whilst both upstream and midstream revenues declined this was offset by an increase in downstream business. Increased revenues were delivered from water, waste water and industrial process markets which are seen as being steady growth sectors. The power market remained slow across a number of geographies and although our market exposure declined slightly year-on-year we will continue to focus on expanding in certain sectors of this market. Positive growth was also delivered from service activities.

We saw positive sales momentum across North America, Europe and the Middle East and Africa. Latin America had its challenges although power and industrial grew in that region.

In 2017 we enhanced the resilience of our supply chain by working with a number of our suppliers to improve the reliability of their manufacturing processes. We continued to invest in additional tooling to reduce manufacturing bottlenecks, improving delivery performance. We have also been developing new products which will be launched through 2018.

Rotork Fluid Systems

£m	2017	2016	Change	OCC[2] Change
Order intake	**160.1**	134.7	+18.9%	+11.7%
Revenue	**150.1**	145.3	+3.3%	-2.8%
Adjusted[1] operating profit	**9.0**	6.2	+45.9%	+33.0%
Adjusted[1] operating margin	**6.0%**	4.3%	+170bps	+150bps

Order intake was up 18.9% to £160.1m (up 11.7% OCC), with revenue up 3.3% to £150.1m (-2.8% OCC). Adjusted operating profit was up 45.9% to £9.0m (+33.0% OCC) and adjusted operating margin increased by 170 basis points.

Fluid Systems is the division with the highest proportion of oil and gas sales, at 67%. Upstream increased significantly due to an increase in project activity in Eastern Europe and the Middle East. However, this was offset by a reduction in midstream, predominantly in North America, in relation to both Liquefied Natural Gas (LNG) activity, as we completed projects started in 2016, and pipeline projects, which were generally smaller in size than those in 2016. Downstream was mixed, with increases arising from new builds in China, India and Korea offset by a reduction in revenues from the Middle East. We saw growth across the water and industrial process markets, with industrial particularly strong in Europe. Exposure to power reduced slightly due to lower activity in North America, partially offset by an increase in the Middle East. Overall, the reduction in activity in North America was offset by increases in Europe, Latin America and the Middle East and Africa.

Fluid Systems delivered significant material cost savings, benefiting from value engineering efforts on our core products, supported by our ongoing low cost country sourcing programme which have benefited both our European manufacturing facilities and also enabled our regional China and India manufacturing operations to better address their regional markets.

Rotork Gears

£m	2017	2016	Change	OCC[2] Change
Order intake	**86.1**	70.5	+22.1%	+6.1%
Revenue	**83.9**	72.4	+15.9%	+3.3%
Adjusted[1] operating profit	**15.7**	14.1	+11.9%	+6.5%
Adjusted[1] operating margin	**18.7%**	19.4%	-70bps	+60bps

Gears performed well over the period, with order intake increasing 22.1%, including contributions from the recent acquisition, Mastergear. Revenue grew 15.9% including contributions from Mastergear and currency tailwinds. On an OCC basis, order intake and revenue increased by 6.1% and 3.3% respectively. Adjusted operating profit increased 11.9% to £15.7m (OCC +6.5%) with an adjusted operating margin of 18.7%, down 70 basis points due to a change in the geographic mix following expansion of our Chinese activity and integration costs in relation to Mastergear.

In the division's largest market, oil and gas, upstream remained flat, but midstream and downstream both grew, mainly in Asia and also North America, benefiting from the acquisition of Mastergear.

We saw growth across water, power and industrial process markets with particularly strong growth in industrial in North America. Asia grew overall, mainly due to an increase in activity in China across all end markets, while Europe and North America also experienced good sales growth.

The acquisition of Mastergear was completed in June 2016 for £16.3m and, with a well regarded portfolio of manual and motorised gearboxes, enables us to offer our customers a more comprehensive range of products and services. During 2017, we moved the Mastergear Italy operation into our existing Cusago site and also brought the North American operation into our Houston facility. This proved to be a longer and more complex process than originally envisaged but the Houston team, under our new General Manager, have worked through the issues and made a number of process improvements.

Rotork Instruments

£m	2017	2016	Change	OCC[2] Change
Order intake	**104.5**	92.5	+13.0%	+8.8%
Revenue	**100.6**	91.2	+10.4%	+6.1%
Adjusted[1] operating profit	**20.5**	20.1	+1.6%	-4.4%
Adjusted[1] operating margin	**20.3%**	22.1%	-180bps	-220bps

Order intake increased 13.0% to £104.5m, with revenue up 10.4% to £100.6m. Excluding currency tailwinds, OCC increases were 8.8% and 6.1% respectively. Adjusted operating profit increased by 1.6% to £20.5m (OCC -4.4%) while the adjusted operating margin decreased by 180 basis points to 20.3% due to a change in the mix of products sold with operating margins further affected by inflationary cost increases.

The overall mix of Instruments sales shifted towards industrial process markets. In oil and gas, upstream was strong in North America, however growth in this market was offset by softness in Europe. Midstream held up well and downstream grew in North America and Asia. The division recorded double digit growth in the water, power and industrial process markets across Asia and Europe. The other markets we are now serving include a wide variety of geographies and end markets, including industrial automation, commercial vehicles, rail and life sciences.

During 2017 we consolidated our M&M and Soldo businesses into one site in Bergamo, Italy. This integrated site was also the first manufacturing facility to which we rolled out our new ERP system, which continues to drive a number of operational improvements in both processes and reporting. While the rollout to further sites has been paused pending our operations footprint review, we learned a number of valuable lessons through this implementation. We continued to leverage our product range, with good growth in sales of our positioners product range and other new products developed by our Bifold business.

Rotork Site Services (RSS)

Our global service network is a key differentiator for us. Our highly trained service team provides service and support to our customers around the world through preventative maintenance contracts, onsite and workshop service, retrofit solutions and through the Client Support Programme which offers maintenance contracts tailored to our customers' specific needs. In 2017, we continued to invest in our aftermarket business with 480 directly employed service engineers, an increase of 10% on the previous year (2016: 430). In future we expect to continue to accelerate this growth and expand and enhance our service offering, both in terms of geographic spread and number of service engineers and also in terms of additional services to assist our customers in reducing costs and maximising uptime.

Research and development (R&D)

In 2017 our R&D spend increased by 18.9% to £14.0m and focused on enhancements to our existing product range. As noted above, we are currently carrying out a review of our innovation funnel and in future expect to concentrate on responding more rapidly to changing customer requirements, particularly given the increased emphasis in the oil and gas industry on cost reduction and efficiency and the drive across all end markets to increase connectivity and digital automation and reduce power consumption. We are developing solutions that have a number of applications across our end markets, using several common technologies.

As already announced, we are making a major investment in Bath to replace our factory and corporate headquarters and develop a state-of-the-art R&D centre, to be completed by 2020. Innovation and organic product development remains a key part of our strategy for growth.

Corporate social responsibility (CSR)

Corporate social responsibility values continue to be an integral part of our business model. We take our responsibilities to our stakeholders very seriously and continuously look for ways to improve our performance. The work in this area is led by our CSR committee and sub-committees who met throughout the year.

We supported WaterAid and Sightsavers again in 2017 and The Forever Friends Appeal (Royal United Hospitals Bath, UK), donating a total of £90,000. Our employees also gave support to their local communities with the Group contributing a further £175,000 to support these causes. This brought the total Group contributions in the year to £265,000 (2016: £259,000).

Our people
We are delighted that Kevin Hostetler is joining us as Chief Executive and look forward to the fresh insight and leadership skills he will bring to the Group.

We recognise that to implement our business strategy we need highly trained and motivated staff. We invest in our people and encourage internal development and operate a recruitment policy that supports our future growth plans. As noted above, we are currently engaged in a talent development programme to assess the needs of our people and ensure we are providing the best career enhancement and support.

We aim to be a 'great place to work' with strong, consistent values across all of our business units and clear adherence to our published group ethics policies. Our entrepreneurial, open culture is an enabler to getting the job done.

Rotork's total employee number in 2017 was 3,835, broadly in line with the previous year.

Rotork's success is due to the dedication and hard work of our employees. I would like to thank all of our employees for their continued high level of commitment and professionalism during 2017, particularly during this period of change. I have been impressed by their ability to deal with the different demands placed on them as we undertake this series of reviews of different areas of our business, while still delivering the high levels of quality and service that our customers expect. I am sure they will rise to the challenges ahead as we embark on our growth acceleration programme.

Financial review

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

The statutory profit measures are adjusted to exclude amortisation of acquired intangibles and other adjustments, comprising the release of contingent consideration, goodwill impairment and restructuring costs.

£m	Statutory results	Amortisation	Acquisition-related	Restructuring costs	Adjusted results
Operating profit	86.0	27.2	11.6	5.4	130.2
Profit before tax	80.6	27.2	11.6	5.4	124.8
Tax	(25.0)	(6.7)	0.0	(1.2)	(32.9)
Profit after tax	55.6	20.5	11.6	4.2	91.9

Acquisitions
The Mastergear acquisition, completed in June 2016 for £16.3m, expanded our Gears portfolio, making our gears product range one of the most comprehensive in the industry. The integration of the business into existing Rotork facilities in China, Italy and the USA is now complete.

The increased value of acquisitions over the last three years led to a rise in the amortisation charge related to acquired intangible assets to £27.2m (2016: £26.8m). In order to adjust the income statement to show a like-for-like period for each acquisition, 2017 revenue has been reduced by £5.4m. There is no adjustment at the operating profit level.

The acquisition of Bifold in 2015 included a stretching £10.0m earn-out which did not become payable therefore the related provision has been released in the year. In addition, following our annual goodwill impairment review and changes in our assumptions regarding the likely speed of recovery of some of Bifold's traditional markets, we have written down the related goodwill by £19.8m.

We continue to seek acquisitions that meet our stated acquisition criteria and support the diversification of our portfolio.

Currency

The income statement once again benefited from a significant currency tailwind in 2017. The major currencies impacting the income statement were universally stronger against Sterling. The US$/£ average rate of $1.29 (2016: $1.36) was a 7 cent tailwind whilst the euro/£ average rate was €1.14 (2016: €1.22), an 8 cent tailwind. These were the main contributors to the £33.4m or 5.6% benefit reported in revenue.

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

In order to estimate the impact of currency, at the current exchange rates we consider the effect of a 1 cent movement versus sterling. A 1 euro cent movement now results in approximately a £300,000 (2016: £250,000) adjustment to profit and for US dollar, and dollar related currencies, a 1 cent movement equates to approximately a £400,000 (2016: £450,000) adjustment.

Towards the end of 2017 we saw a reversal in currency movements as the US dollar weakened in the fourth quarter. The rates used to translate the balance sheet are therefore different, with the US$/£ closing rate of $1.35 (December 2016: $1.24), 11 cents (8.7%) weaker than the start of the year. This reduces the closing balance sheet values in US dollar denominated assets but it also results in a currency headwind as we start 2018.

Return on capital employed (ROCE)

Our capital-efficient business model and strong profit margins mean Rotork generates a high ROCE. Our definition of ROCE is based on adjusted operating profit as a return on the average net assets excluding net debt and the pension scheme liability net of the related deferred tax. This means that as we make acquisitions our capital base grows when the associated intangible assets and goodwill are recognised. The average capital employed increased year-on-year by 1.2% to £522m as there were no acquisitions during 2017. This, combined with the higher adjusted operating profit resulted in an increase in ROCE to 24.9% (2016: 23.4%).

Taxation

The Group's effective tax rate was impacted this year by changes in US corporate tax rates and the adjustments to operating profit. The headline rate therefore increased from 26.2% in 2016 to 31.0% in 2017. Removing the impact of the non-recurring adjustments to profit that weren't present in 2016, the effective tax rate returns to 26.3%. Were it not for the changes in US corporate tax rates, this would have been 90 basis points lower at 25.4%, as the change in rates triggered a reassessment of the US deferred tax assets and a £1.2m tax charge in the year. This deferred tax charge will not repeat in 2018. The benefit arising from the lower US corporate tax rate is likely to generate an approximate 100 basis point reduction in the 2018 adjusted effective tax rate.

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

Cash generation

Our strong cash generation resulted in a reduction in net debt of £42.4m to £12.6m at the end of the year. Our cash generation KPI shows a conversion of 109.1% of adjusted operating profit into cash. This allowed us to invest £12.5m in capital expenditure although this was lower than anticipated as, having originally expected to start redevelopment of the Bath factory site during 2017, we are now looking at options for further expansion of this facility. We also realised £2.5m from the sale of assets including vacated sites in Italy and the USA. Dividends of £45.2m and tax payments of £28.2m were the two other major outflows.

Control of working capital as defined in the cash flow statement, using average exchange rates and excluding acquisitions, is key to achieving our cash generation KPI. The high levels of revenue in the last quarter saw trade receivables grow £13.2m and when measured as days sales outstanding increased from 61 to 63 days. Inventory also rose, by £7.4m, but trade payables grew by £6.9m offsetting the other movements. In total, net working capital in the balance sheet decreased to 29.3% of revenue compared with 30.2% in December 2016 but was a £11.0m outflow in the cash flow statement.

Retirement benefits

The Group accounts for post-retirement benefits in accordance with IAS 19, Employee Benefits. The balance sheet reflects the net deficit of these schemes at 31 December 2017 based on the market value of the assets at that date, and the valuation of liabilities using year end AA corporate bond yields. We have closed both the main defined benefit pension schemes to new entrants; the UK scheme in 2003 and the US one in 2009, in order to reduce the risk of volatility of the Group's liabilities. During 2017 we completed a consultation process with members of the UK scheme and will be closing this scheme to future accrual of benefit from April 2018. The active members of the scheme will be offered membership of the UK defined contribution plan.

The most recent triennial valuation for the UK scheme took place as at 31 March 2016 and showed an actuarial deficit of £32.5m and a funding level of 82%. The update to this actuarial valuation at 31 March 2017 showed the deficit had grown to £44.4m and funding level decreased to 79%. A continued reduction in gilt yields, which is the key driver behind the value of the scheme's liabilities and higher inflation expectations were the main changes since the 2016 valuation. A recovery plan was agreed with the Trustees following the 2016 valuation resulting in required annual contributions from the Company of £5.5m during 2016, 2017 and 2018, at which time the next valuation will take place.

On an accounting basis the deficit on the schemes decreased from £58.5m to £48.2m during the year and the funding level increased from 75% to 80%. The Company paid total contributions of £9.0m in the year and the scheme assets increased by roughly this value whilst liabilities remained broadly unchanged over the year.

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

Dividends

The Board is proposing a 6.3% increase in the final dividend to 3.35p per share (2016: 3.15p). When taken together with the 2.05p interim dividend paid in September, the 5.40p represents a 5.9% increase in dividends over the prior year. This gives dividend cover of 1.2 times (2016: 1.5 times) using statutory earnings per share or when using adjusted earnings per share 2.0 times (2016: 2.0 times). Our dividend policy is to grow core dividends in line with earnings and supplement core dividends with additional dividends when the Board considers it appropriate to do so having considered the near-term expected cash requirements of the Group. The final dividend will be payable on 23 May 2018 to shareholders on the register on 6 April 2018.

Outlook

Our revenue forecasts for 2018 currently reflect improving order momentum, pointing to mid to high single digit organic revenue growth year on year. However reported results will be impacted by currency movements. Based on current rates we can expect a 4-5% headwind on both revenues and profits compared with last year.

We expect the cost environment to be generally more inflationary with pressure on wages and commodities. The pricing environment appears to have stabilised in most end markets albeit pockets of intense competition exist in more commoditised product areas. Together with significant value engineering activities and a more integrated approach to procurement, we would expect to maintain the status quo.

Adjusted operating margins are expected to be similar, with contributions from higher volumes offset by increased investments in new products, expansion of our service infrastructure, and accelerated investment in our systems and IT capabilities. These investments represent the first steps in our ambition to return the business to higher levels of underlying growth, with priority areas emanating from the strategic reviews undertaken to date.

One off costs associated with the ongoing strategic reviews, and any initial rationalisation opportunities arising from those reviews, are likely to be at similar levels in H1 to H2 last year. We will update the market on likely costs for H2 in August alongside more detail around our plans for growth acceleration and business transformation.

We expect 2018 to be a busy year for Rotork, following the appointment of our new Chief Executive, as we embark on our ambition to return the Group to its former growth and margin trajectory.

Martin Lamb
Executive Chairman
5 March 2018

Consolidated income statement

For the year ended 31 December 2017

	Notes	**2017 £000**	2016 £000
Revenue	3	**642,229**	590,078
Cost of sales		**(358,090)**	(328,410)
Gross profit		**284,139**	261,668
Other income		**10,651**	629
Distribution costs		**(6,271)**	(5,138)
Administrative expenses		**(202,233)**	(163,165)
Other expenses		**(314)**	(217)
Adjusted operating profit	2	**130,162**	120,588
Adjustments			
- Amortisation of acquired intangible assets	3	**(27,183)**	(26,811)
- Other adjustments	4	**(17,007)**	-
Operating profit	3	**85,972**	93,777
Finance income	5	**1,381**	1,744
Finance expense	5	**(6,767)**	(4,451)
Profit before tax		**80,586**	91,070
Income tax expense	6	**(24,973)**	(23,897)
Profit for the year		**55,613**	67,173
Basic earnings per share	12	**6.4p**	7.7p
Adjusted basic earnings per share	12	**10.6p**	10.0p
Diluted earnings per share	12	**6.4p**	7.7p
Adjusted diluted earnings per share	12	**10.5p**	10.0p

Consolidated statement of comprehensive income

For the year ended 31 December 2017

	2017 £000	2016 £000
Profit for the year	**55,613**	67,173
Other comprehensive income		
Items that may be subsequently reclassified to the income statement:		
Foreign exchange translation differences	**(376)**	36,854
Effective portion of changes in fair value of cash flow hedges net of tax	**6,188**	(6,414)
	5,812	30,440
Items that are not subsequently reclassified to the income statement:		
Actuarial gain / (loss) in pension scheme net of tax	**3,709**	(30,732)
Income and expenses recognised directly in equity	**9,521**	(292)
Total comprehensive income for the year	**65,134**	66,881

Consolidated balance sheet

At 31 December 2017

	Notes	2017 £000	2016 £000
Non-current assets			
Goodwill	7	**228,028**	251,407
Intangible assets		**81,456**	109,019
Property, plant and equipment		**81,725**	83,766
Deferred tax assets		**21,218**	25,259
Other receivables	9	**142**	146
Total non-current assets		**412,569**	469,597
Current assets			
Inventories	8	**91,908**	85,772
Trade receivables	9	**145,529**	131,891
Current tax	9	**2,726**	4,349
Derivative financial instruments		**3,468**	-
Other receivables	9	**19,202**	22,341
Cash and cash equivalents	10	**63,192**	61,423
Total current assets		**326,025**	305,776
Total assets		**738,594**	775,373
Equity			
Issued equity capital	11	**4,352**	4,350
Share premium		**11,193**	10,482
Reserves		**32,263**	26,451
Retained earnings		**409,392**	392,803
Total equity		**457,200**	434,086
Non-current liabilities			
Interest bearing loans and borrowings	13	**45,879**	51,303
Employee benefits	14	**52,293**	62,593
Deferred tax liabilities		**19,379**	24,848
Derivative financial instruments		**245**	2,483
Provisions	15	**1,929**	11,947
Total non-current liabilities		**119,725**	153,174
Current liabilities			
Interest bearing loans and borrowings	13	**29,928**	65,108
Trade payables	16	**49,183**	39,652
Employee benefits	14	**21,464**	14,256
Current tax	16	**13,093**	13,352
Derivative financial instruments		**1,521**	8,143
Other payables	16	**42,165**	41,999
Provisions	15	**4,315**	5,603
Total current liabilities		**161,669**	188,113
Total liabilities		**281,394**	341,287
Total equity and liabilities		**738,594**	775,373

Consolidated statement of changes in equity

	Issued equity capital	Share premium	Translation reserve	Capital redemption reserve	Hedging reserve	Retained earnings	Total
Balance at 31 December 2015	4,349	10,018	(4,712)	1,644	(921)	397,424	407,802
Profit for the year	–	–	–	–	–	67,173	67,173
Other comprehensive income							
Foreign exchange translation differences	–	–	36,854	–	–	–	36,854
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	(7,822)	–	(7,822)
Actuarial loss on defined benefit pension plans	–	–	–	–	–	(37,923)	(37,923)
Tax on other comprehensive income	–	–	–	–	1,408	7,191	8,599
Total other comprehensive income	–	–	36,854	–	(6,414)	(30,732)	(292)
Total comprehensive income	–	–	36,854	–	(6,414)	36,441	66,881
Transactions with owners, recorded directly in equity							
Equity settled share-based payments transactions	–	–	–	–	–	1,557	1,557
Tax on equity settled share-based payment transactions	–	–	–	–	–	74	74
Share options exercised by employees	1	464	–	–	–	-	465
Own ordinary shares acquired	–	–	–	–	–	(1,019)	(1,019)
Own ordinary shares awarded under share schemes	–	–	–	–	–	2,202	2,202
Dividends	–	–	–	–	–	(43,876)	(43,876)
Balance at 31 December 2016	4,350	10,482	32,142	1,644	(7,335)	392,803	434,086
Profit for the year	–	–	–	–	–	55,613	55,613
Other comprehensive income							
Foreign exchange translation differences	–	–	(376)	–	–	–	(376)
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	7,546	–	7,546
Actuarial gain on defined benefit pension plans	–	–	–	–	–	5,849	5,849
Tax on other comprehensive income	–	–	–	–	(1,358)	(2,140)	(3,498)
Total other comprehensive income	–	–	(376)	–	6,188	3,709	9,521
Total comprehensive income	–	–	(376)	–	6,188	59,322	65,134
Transactions with owners, recorded directly in equity							
Equity settled share-based payments transactions	–	–	–	–	–	1,089	1,089
Tax on equity settled share-based payment transactions	–	–	–	–	–	252	252
Share options exercised by employees	2	711	–	–	–	-	713
Own ordinary shares acquired	–	–	–	–	–	(1,157)	(1,157)
Own ordinary shares awarded under share schemes	–	–	–	–	–	2,301	2,301
Dividends	–	–	–	–	–	(45,218)	(45,218)
Balance at 31 December 2017	**4,352**	**11,193**	**31,766**	**1,644**	**(1,147)**	**409,392**	**457,200**

Consolidated statement of cash flows

For the year ended 31 December 2017

	Notes	2017 £000	2017 £000	2016 £000	2016 £000
Cash flows from operating activities					
Profit for the year		**55,613**		67,173	
Adjustments for:					
Amortisation of intangibles		**27,183**		26,811	
Other adjustments	4	**17,007**		–	
Amortisation of development costs		**2,699**		2,226	
Depreciation		**12,232**		11,759	
Equity settled share-based payment expense		**3,390**		3,759	
Profit on sale of property, plant and equipment		**(147)**		(254)	
Finance income		**(1,381)**		(1,744)	
Finance expense		**6,767**		4,451	
Income tax expense		**24,973**		23,897	
		148,336		138,078	
(Increase) / decrease in inventories		**(7,390)**		14,416	
(Increase) / decrease in trade and other receivables		**(13,172)**		2,511	
Increase in trade and other payables		**6,926**		1,309	
Restructuring costs paid		**(2,775)**		–	
Difference between pension charge and cash contribution		**(4,782)**		(5,297)	
Increase / (decrease) in provisions		**147**		(496)	
Increase in employee benefits		**7,158**		1,047	
		134,448		151,568	
Income taxes paid		**(28,243)**		(32,876)	
Cash flows from operating activities			**106,205**		118,692
Investing activities					
Purchase of property, plant and equipment		**(12,457)**		(14,692)	
Development costs capitalised		**(3,356)**		(2,957)	
Sale of property, plant and equipment		**2,450**		648	
Acquisition of businesses, net of cash acquired		**–**		(16,109)	
Contingent consideration paid		**(1,347)**		(257)	
Settlement of hedging derivatives		**662**		(25,867)	
Interest received		**1,191**		180	
Cash flows from investing activities			**(12,857)**		(59,054)
Financing activities					
Issue of ordinary share capital		**713**		466	
Own ordinary shares acquired		**(1,157)**		(1,019)	
Interest paid		**(2,975)**		(2,649)	
Decrease in bank loans		**(40,579)**		(3,619)	
Repayment of finance lease liabilities		**(68)**		(253)	
Dividends paid on ordinary shares		**(45,218)**		(43,876)	
Cash flows from financing activities			**(89,284)**		(50,950)
Increase in cash and cash equivalents			**4,064**		8,688
Cash and cash equivalents at 1 January			**61,423**		48,968
Effect of exchange rate fluctuations on cash held			**(2,295)**		3,767
Cash and cash equivalents at 31 December	10		**63,192**		61,423

Notes to the Group Financial Statements

For the year ended 31 December 2017

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

Rotork plc is a company domiciled in England. The consolidated financial statements of the Company for the year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the Group).

1. ACCOUNTING POLICIES

Basis of preparation

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

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 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)
- Disclosure Initiative (Amendments to IAS 7)
- Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 12

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.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. An assessment of the impact of these new standards and interpretations is set out below.

i. IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. The directors do not anticipate that the adoption of this standard will have a material impact on the Group's consolidated financial statements.

ii. IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. IFRS 15 is effective for annual periods beginning on or after 1 January 2018. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS.

During 2017, the Group performed a detailed analysis of significant revenue streams in 2016, communicated to key stakeholders within the business the key aspects of the accounting change and had specific targeted training for key finance employees. In early 2018, further work targeted service revenue in 2017 to assess the impact of the change over the transition date. This analysis has enabled management to assess the impact of the new standard on the 2016 and 2017 balance sheets and the 2017 income statement. An explanation of the impact on the key revenue streams is set out below.

Contracts for the sale of products are generally expected to have only one performance obligation and adoption of IFRS 15 is not expected to have any impact on the Group's revenue and profit or loss. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

The Group provides service and support through preventative maintenance contracts, on-site and workshop service, retrofit solutions and the Client Support Programme. The Group's current accounting treatment under IAS 18 is that revenue on long-term service contracts is recognised by reference to the stage of completion. Under IFRS 15, management have concluded that the long-term service contracts are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Group. For other service work revenue will be recognised on completion of the work and after all performance obligations have been completed. Adoption of IFRS 15 is not expected to have a material impact on service revenue in the income statement or the balance sheet.

The Group has adopted IFRS 15 on 1 January 2018 and the impact of the changes set out above are not expected to require any restatement of the 2017 balance sheet and income statement.

iii. IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective for annual periods beginning on or after 1 January 2019.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and are replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively. Extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of £19,268,000. IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have an impact on the amounts recognised in the Group’s consolidated financial statements and management are currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until this review is completed.

In contrast, for finance leases where the Group is a lessee, as the Group has already recognised an asset and a related finance lease liability for the lease arrangement, management do not anticipate that the application of IFRS 16 will have an impact on the amounts recognised in the Group's consolidated financial statements.

Adjustments to profit

Adjustments to profit are items of income and expense which, because of the nature, size and/or infrequency of the events giving rise to them, merit separate presentation. These specific items are presented on the face of the income statement to provide greater clarity and a better understanding of the impact of these items on the Group’s financial performance. In doing so, it also facilitates greater comparison of the Group’s underlying results with prior periods and assessment of trends in financial performance. This split is consistent with how underlying business performance is measured internally.

Adjustments to profit items may include but are not restricted to: costs of significant business restructuring, significant impairments of intangible or tangible assets, adjustments to the fair value of acquisition related items such as contingent consideration, acquired intangible asset amortisation and other items due to their significance, size or nature, and the related taxation.

Acquired intangible asset amortisation has been shown separately to provide visibility over the ongoing impact on the Group’s income statement of prior and current year period investment activities.

Further analysis of the adjustments to profit are provided in note 4.

Going concern

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

Consolidation
The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year to 31 December 2017. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. Intra-group balances and any unrealised gains or losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Status of this preliminary announcement
The financial information contained in this preliminary announcement does not constitute the Company's statutory accounts for the years ended 31 December 2017 or 2016. Statutory accounts for 2016, which were prepared under International Financial Reporting Standards as adopted by the EU, have been delivered to the registrar of companies, and those for 2017 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. Full financial statements for the year ended 31 December 2017 will shortly be posted to shareholders, and after adoption at the Annual General Meeting on 27 April 2018 will be delivered to the registrar.

2. ALTERNATIVE PERFORMANCE MEASURES

The Group uses adjusted figures as key performance measures in addition to those reported under adopted IFRS, as management believe these measures facilitate greater comparison of the Group's underlying results with prior periods and assessment of trends in financial performance.

The key alternative performance measures that the Group use include adjusted profit measures and organic constant currency (OCC). Explanations of how they are calculated and how they are reconciled to IFRS statutory results are set out below.

a. Adjusted operating profit

Adjusted operating profit is the Group's operating profit excluding the amortisation of acquired intangible assets and other items that are considered to be significant and where treatment as an adjusted item provides stakeholders with additional useful information to assess the trading performance of the Group on a consistent basis. In 2017 other items excluded are the release of contingent consideration, impairment of goodwill and restructuring costs to arrive at adjusted operating profit. Further details on these adjustments are given in note 4.

b. Adjusted profit before tax

The adjustments in calculating adjusted profit before tax are consistent with those in calculating adjusted operating profit above.

	2017	2016
Profit before tax	**80,586**	91,070
Adjustments:		
Amortisation of acquired intangible assets	**27,183**	26,811
Impairment of goodwill	**21,594**	-
Release of contingent consideration	**(10,000)**	-
Restructuring costs	**5,413**	-
Adjusted profit before tax	**124,776**	117,881

c. Adjusted basic and diluted earnings per share

Adjusted basic earnings per share is calculated using the adjusted net profit attributable to the ordinary shareholders and dividing it by the weighted average ordinary shares in issue (see note 12). Adjusted net profit attributable to ordinary shareholders is calculated as follows:

	2017	2016
Net profit attributable to ordinary shareholders	**55,613**	67,173
Adjustments:		
Amortisation of acquired intangible assets	**27,183**	26,811
Impairment of goodwill	**21,594**	-
Release of contingent consideration	**(10,000)**	-
Restructuring costs	**5,413**	-
Tax effect on adjusted items	**(7,879)**	(7,035)
Adjusted net profit attributable to ordinary shareholders	**91,924**	86,949

Diluted earnings per share is calculated by using the adjusted net profit attributable to ordinary shareholders and dividing it by the weighted average ordinary shares in issue adjusted to assume conversion of all potentially dilutive ordinary shares (see note 12).

d. Organic constant currency (OCC)

OCC results exclude the incremental impact of acquisitions and adjusted items and are restated at 2016 exchange rates. Key headings in the income statement are reconciled to OCC as follows:

	31 December 2017	Currency adjustment	Impact of acquisitions	**OCC 31 December 2017**
Revenue	**642,229**	(33,387)	(5,438)	**603,404**
Cost of sales	**(358,090)**	20,813	4,647	**(332,630)**
Gross margin	**284,139**	(12,574)	(791)	**270,774**
Overheads	**(153,977)**	5,989	779	**(147,209)**
Adjusted operating profit	**130,162**	(6,585)	(12)	**123,565**
Interest	**(5,386)**	30	-	**(5,356)**
Adjusted profit before tax	**124,776**	(6,555)	(12)	**118,209**
Taxation	**(32,852)**	1,476	(31)	**(31,407)**
Adjusted profit after tax	**91,924**	(5,079)	(43)	**86,802**

3. OPERATING SEGMENTS

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

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

Unallocated expenses comprise corporate expenses.

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

Geographic analysis

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

Analysis by operating segment:

	Controls 2017	**Fluid Systems 2017**	**Gears 2017**	**Instruments 2017**	**Elimination 2017**	**Unallocated 2017**	**Group 2017**
Revenue from external customers	**325,174**	**150,117**	**72,814**	**94,124**	**–**	**–**	**642,229**
Inter segment revenue	**–**	**–**	**11,086**	**6,498**	**(17,584)**	**–**	**–**
Total revenue	**325,174**	**150,117**	**83,900**	**100,622**	**(17,584)**	**–**	**642,229**
Adjusted operating profit*	**92,903**	**9,019**	**15,724**	**20,457**	**–**	**(7,941)**	**130,162**
Amortisation of acquired intangible assets	**(2,888)**	**(1,409)**	**(2,021)**	**(20,865)**	**–**	**–**	**(27,183)**
Segment result before adjustments	**90,015**	**7,610**	**13,703**	**(408)**	**–**	**(7,941)**	**102,979**
Adjustments							**(17,007)**
Operating profit							**85,972**
Net finance expense							**(5,386)**
Income tax expense							**(24,973)**
Profit for the year							**55,613**

	Controls 2016	Fluid Systems 2016	Gears 2016	Instruments 2016	Elimination 2016	Unallocated 2016	Group 2016
Revenue from external customers	298,381	145,317	60,802	85,578	–	–	590,078
Inter segment revenue	–	–	11,577	5,592	(17,169)	–	–
Total revenue	298,381	145,317	72,379	91,170	(17,169)	–	590,078
Adjusted operating profit*	87,293	6,181	14,051	20,130	–	(7,067)	120,588
Amortisation of acquired intangible assets	(3,860)	(1,582)	(1,698)	(19,671)	–	–	(26,811)
Segment result before adjustments	83,433	4,599	12,353	459	–	(7,067)	93,777
Adjustments							-
Operating profit							93,777
Net finance expense							(2,707)
Income tax expense							(23,897)
Profit for the year							67,173

*Adjusted operating profit is operating profit before the amortisation of acquired intangible assets and other adjustments, comprising goodwill impairment, release of contingent consideration and restructuring costs

	Controls 2017	Fluid Systems 2017	Gears 2017	Instruments 2017	Unallocated 2017	Group 2017
Depreciation	**5,622**	**2,801**	**1,813**	**1,951**	**45**	**12,232**
Amortisation:						
– Acquired intangible assets	**2,888**	**1,409**	**2,021**	**20,865**	**–**	**27,183**
– Development costs	**1,670**	**469**	**259**	**301**	**–**	**2,699**
Impairment of goodwill	**–**	**–**	**1,840**	**19,754**	**–**	**21,594**
Release of contingent consideration	**–**	**–**	**–**	**(10,000)**	**–**	**(10,000)**
Non-cash items: equity settled share-based payments	**1,515**	**652**	**418**	**545**	**260**	**3,390**
Net financing expense	**–**	**–**	**–**	**–**	**(5,386)**	(5,386)
Acquired as part of business combinations:						
– Goodwill	**–**	**–**	**–**	**–**	**–**	**–**
– Intangible assets	**–**	**–**	**–**	**–**	**–**	**–**
Capital expenditure	**7,355**	**1,495**	**1,622**	**1,933**	**–**	**12,405**

	Controls 2016	Fluid Systems 2016	Gears 2016	Instruments 2016	Unallocated 2016	Group 2016
Depreciation	5,429	2,571	1,546	2,170	43	11,759
Amortisation:						
– Acquired intangible assets	3,860	1,582	1,698	19,671	–	26,811
– Development costs	1,628	211	281	106	–	2,226
Impairment of goodwill	–	–	–	–	–	–
Release of contingent consideration	–	–	–	–	–	–
Non-cash items: equity settled share-based payments	1,709	680	480	473	417	3,759
Net financing expense	–	–	–	–	(2,707)	(2,707)
Acquired as part of business combinations:						
– Goodwill	–	–	5,317	–	–	5,317
– Intangible assets	–	–	6,816	–	–	6,816
Capital expenditure	6,975	4,575	1,741	1,357	13	14,661

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

Geographical analysis:

Revenue by location of subsidiary	2017	2016
UK	**76,281**	74,144
Italy	**82,165**	63,040
Rest of Europe	**113,822**	112,759
USA	**149,526**	145,473
Other Americas	**31,549**	27,365
Rest of World	**188,886**	167,297
	642,229	590,078

	UK 2017	Europe 2017	USA 2017	Other Americas 2017	Rest of World 2017	Group 2017
Non-current assets:						
– Goodwill	**61,342**	**67,119**	**55,996**	**733**	**42,838**	**228,028**
– Intangible assets	**43,226**	**12,215**	**12,886**	**–**	**13,129**	**81,456**
– Property, plant and equipment	**26,441**	**29,054**	**8,612**	**767**	**16,851**	**81,725**

	UK 2016	Europe 2016	USA 2016	Other Americas 2016	Rest of World 2016	Group 2016
Non-current assets:						
– Goodwill	81,329	64,984	62,730	740	41,624	251,407
– Intangible assets	52,138	17,595	20,674	–	18,612	109,019
– Property, plant and equipment	26,099	29,812	10,348	527	16,980	83,766

4. ADJUSTMENTS TO PROFIT

Adjustments are those items that management consider to be significant and where separate disclosure enables stakeholders to assess the trading performance of the Group on a consistent basis.

The adjustments to profit included in statutory profit are as follows:

	2017	2016
Release of contingent consideration	**10,000**	-
Goodwill impairment	**(21,594)**	-
	(11,594)	-
Restructuring costs	**(5,413)**	-
	(17,007)	-

Bifold was acquired in 2015 and £10.0m of the consideration was contingent on a 2017 EBITDA performance target. Given the target has not been met the contingent consideration has been released to the income statement.

As a result of the annual impairment review the goodwill associated with the Bifold and Tulsa CGUs has been impaired by £19,754,000 and £1,607,000 respectively. Bifold has been impacted as a result of the downturn in its main oil and gas market and trading not recovering as quickly as anticipated. The Tulsa CGU has also been impacted by depressed activity in the markets it serves. Further details of the annual impairment review and the key assumptions is provided in note 7.

The restructuring costs include:

i. Consultancy costs associated with the strategic review.
ii. Redundancy costs which have arisen following the reorganisation of operations in Italy and Germany.
iii. Executive termination and associated recruitment costs.

Within the income statement the goodwill impairment and restructuring costs are included in administrative expenses and the release of contingent consideration is included in other income.

The goodwill impairment is not tax deductible and the release of the contingent consideration is not taxable. The restructuring costs are tax deductible in the country in which the expense is incurred.

5. FINANCE INCOME AND EXPENSE

Recognised in the income statement

	2017	2016
Interest income	**1,206**	934
Foreign exchange gains	**175**	810
Finance income	**1,381**	1,744

	2017	2016
Interest expense	**(3,184)**	(2,970)
Interest charge on pension scheme liabilities	**(1,607)**	(767)
Foreign exchange losses	**(1,976)**	(714)
Finance expense	**(6,767)**	(4,451)

Recognised in equity

	2017	2016
Effective portion of changes in fair value of cash flow hedges	**(1,399)**	(8,772)
Fair value of cash flow hedges transferred to income statement	**8,945**	950
Foreign currency translation differences for foreign operations	**(376)**	36,854
	7,170	29,032
Recognised in:		
Hedging reserve	**7,546**	(7,822)
Translation reserve	**(376)**	36,854
	7,170	29,032

6. INCOME TAX EXPENSE

	2017	2017	2016	2016
Current tax:				
UK corporation tax on profits for the year	**3,407**		3,671	
Adjustment in respect of prior years	**(974)**		4	
		2,433		3,675
Overseas tax on profits for the year	**27,386**		28,487	
Adjustment in respect of prior years	**343**		(413)	
		27,729		28,074
Total current tax		**30,162**		31,749
Deferred tax:				
Origination and reversal of other temporary differences	**(6,711)**		(7,937)	
Impact of rate change	**1,162**		(127)	
Adjustment in respect of prior years	**360**		212	
Total deferred tax		**(5,189)**		(7,852)
Total tax charge for year		**24,973**		23,897

	2017	2016
Profit before tax	**80,586**	91,070
Profit before tax multiplied by the blended standard rate of corporation tax in the UK of 19.25% (2016: 20.00%)	**15,513**	18,214
Effects of:		
Different tax rates on overseas earnings	**6,571**	6,381
Permanent differences	**138**	301
Losses not recognised	**768**	224
Tax incentives	**(1,140)**	(899)
Impact of rate change	**1,162**	(127)
Non-taxable contingent consideration	**(1,925)**	–
Non-deductible goodwill written off	**4,157**	–
Adjustments to tax charge in respect of prior years	**(271)**	(197)
Total tax charge for year	**24,973**	23,897
Effective tax rate	**31.0%**	26.2%
Adjusted profit before tax (note 2b)	**124,776**	117,881
Total tax charge for the year	**24,973**	23,897
Amortisation of acquired intangible assets	**6,664**	7,035
Other adjustments – restructuring	**1,215**	–
Adjusted total tax charge for the year	**32,852**	30,932
Adjusted effective tax rate	**26.3%**	26.2%

A tax credit of £252,000 (2016: £74,000) in respect of share-based payments has been recognised directly in equity in the year.

The effective tax rate for the year is 31.0% (2016: 26.2%). The adjusted effective tax rate is 26.3% (2016: 26.2%) and is lower than the effective tax rate for the year principally because both the goodwill adjustments and the release of the contingent consideration are non-deductible for tax purposes.

The US Tax Cuts and Jobs Act, which was signed into law on 22 December 2017, has resulted in a one off charge to tax of £1,162,000 arising on the revaluation of the Group's net US deferred tax assets at 31 December 2017. Excluding the effect of this charge, the 2017 adjusted effective tax rate would be 25.4%.

The movement on the adjusted effective tax rate arising from the one off revaluation of the US net deferred tax asset has been offset by the change in the geographic mix of where profits are generated, resulting in a small increase in the adjusted effective tax rate from 26.2% to 26.3% in 2017. The Group expects its adjusted effective tax rate to further fall next year as a result of the reduction in the US corporate tax rate, which comes into effect from 1 January 2018. However, the adjusted effective tax rate will still remain higher than the standard UK rate due to higher rates of tax in China, Canada, France, Germany, Italy, Japan and India.

There is an unrecognised deferred tax liability for temporary differences associated with investments in subsidiaries. Rotork plc controls the dividend policies of its subsidiaries and the timing of the reversal of the temporary differences. The value of temporary differences associated with unremitted earnings of subsidiaries for which deferred tax has not been recognised is £305,277,000 (2016: £282,541,000).

7. GOODWILL

	2017	2016
Cost		
At 1 January	**251,407**	222,086
Acquisition through business combinations	**–**	5,317
Other movements	**255**	–
Exchange adjustments	**(2,040)**	24,004
At 31 December	**249,622**	251,407
Provision for impairment		
At 1 January	**–**	–
Impairment charge	**21,594**	–
At 31 December	**21,594**	–
Net book value	**228,028**	251,407

Cash generating units

Goodwill acquired through business combinations has been allocated to the lowest level of cash generating unit (CGU). Where the acquired entity's growth into new markets is through the Group's existing sales network and/or where manufacturing of certain products is transferred to other businesses within a division, the lowest level of CGU is considered to be at a divisional sub-group level. During the year, following the merger of businesses in Italy, the CGUs of Masso and GTA were consolidated with the Rotork Fluid Systems CGU as this is the lowest level at which the goodwill is monitored for internal management purposes.

Cash generating unit	Discount rate	2017	2016
Schischek	**12.6% (2016: 14.9%)**	**20,275**	19,498
Rotork Fluid Systems	**12.3% (2016: 14.4%)**	**15,604**	7,792
Rotork Sweden	**11.5% (2016: 13.5%)**	**6,527**	6,440
Rotork Controls Inc	**10.2% (2016: 13.6%)**	**11,464**	12,218
Tulsa	**10.2% (2016: 13.5%)**	**7,023**	9,448
Bifold	**11.0% (2016: 12.4%)**	**47,467**	67,221
Instruments sub-group	**10.5% (2016: 12.6%)**	**100,485**	101,684
Other cash generating units		**19,183**	27,106
Total Group		**228,028**	251,407

Impairment testing

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment.

The fall in oil price since 2015 has led to a sustained period of lower investment in the traditional HP upstream supply market which has had a substantial impact on the short to medium term forecasts for Bifold. Given this uncertainty we have used an expected cash flow approach to determine the value in use of Bifold which has resulted in an impairment to Bifold's goodwill of £19,754,000.

In addition to the Bifold impairment, a further impairment charge of £1,607,000 has been recorded against the Tulsa CGU which has also been adversely affected by depressed activity in the oil and gas markets they serve.

The key assumptions used in the annual impairment review which are common to all other CGUs are set out below:

i) Discount rates

The discount rates for the significant CGUs presented above are pre-tax nominal weighted average cost of capital (WACC) for each of the CGUs. The WACC is the weighted average of the pre-tax cost of debt financing and the pre-tax cost of equity finance.

ii) Growth rates

Value in use calculations are used to determine the recoverable amount of goodwill allocated to each of the CGUs. These calculations use cash flow projections from management forecasts which are based on the budget and the three year plan. The three year plan is a bottom up process which takes place as part of the annual budget process. Once the budget for the next financial year is finalised, years two and three of the three year plan are prepared by each reporting entity's management reflecting their view of the local market, known projects and experience of past performance. The Group annual budget and the three year plan are reviewed and approved by the Board each year.

In the period after the three year plan growth rates are forecast at 5% per annum for the next two years and at 2% for the long term growth rate. The 5% rate reflects a realistic market forecast for the flow control market up until 2022. The continued need for our customers to improve their infrastructure by automating valves gives confidence that the growth rate of our market will exceed the long term growth rate of 2% used in the impairment calculations.

Sensitivity analysis

At the balance sheet date, the estimated recoverable amount of the Bifold CGU is equal to its carrying value following the impairment charge noted above. The key assumptions underpinning the estimate of the recoverable amount for the Bifold CGU are the discount rate and the forecast revenue growth rate for the next three years. Considering each assumption change in isolation, an increase in the Bifold CGU discount rate by 1% would result in a further impairment of £10,400,000 and a decrease in the discount rate by 1% would result in a £13,600,000 lower impairment charge. The weighted average revenue growth rate used in the Bifold impairment review is 11%. If the forecast revenue growth in each of years one, two and three was reduced to 6%, this would result in a further impairment of £13,800,000. If the forecast revenue growth in each of years one, two and three was increased to 16%, this would result in a reduction in the impairment charge of £15,100,000. Each of these sensitivities are considered to be a reasonably possible change.

Sensitivity analysis has been undertaken for the remaining CGUs to assess the impact of any reasonably possible change in assumptions. Using the key assumptions above and applying sensitivities to these assumptions, there is no reasonably possible change that would cause the carrying amount of any other CGU goodwill to exceed the recoverable amount.

8. INVENTORIES

	2017	2016
Raw materials and consumables	**67,758**	59,398
Work in progress	**8,135**	10,211
Finished goods	**16,015**	16,163
	91,908	85,772

Included in cost of sales was £216,711,000 (2016: £204,729,000) in respect of inventories consumed in the year.

9. TRADE AND OTHER RECEIVABLES

	2017	2016
Non-current assets:		
Other non-trade receivables	**142**	146
Other receivables	**142**	146
Current assets:		
Trade receivables	**152,163**	139,108
Less provision for impairment of receivables	**(6,634)**	(7,217)
Trade receivables – net	**145,529**	131,891
Corporation tax	**2,726**	4,349
Current tax	**2,726**	4,349
Other non-trade receivables	**2,896**	7,600
Other taxes and social security	**9,039**	7,333
Prepayments	**7,267**	7,408
Other receivables	**19,202**	22,341

Included within non-trade receivables is £nil (2016: £2,334,000) which relate to collateral held by a third party in respect of the Group's outstanding forward exchange contracts.

10. CASH AND CASH EQUIVALENTS

	2017	2016
Bank balances	**56,912**	50,110
Cash in hand	**60**	65
Short term deposits	**6,220**	11,248
Cash and cash equivalents	**63,192**	61,423
Bank overdraft	**–**	–
Cash and cash equivalents in the consolidated statement of cash flows	**63,192**	61,423

11. CAPITAL AND RESERVES

	0.5p Ordinary shares issued and fully paid up 2017	**£1 Non-redeemable preference shares 2017**	0.5p Ordinary shares issued and fully paid up 2016	£1 Non-redeemable preference shares 2016
At 1 January	**4,350**	**40**	4,349	40
Issued under employee share schemes	**2**	**–**	1	–
At 31 December	**4,352**	**40**	4,350	40
Number of shares (000)	**870,429**		870,051	

The ordinary shareholders are entitled to receive dividends as declared and are entitled to vote at meetings of the Company.

The Group received proceeds of £713,000 (2016: £465,000) in respect of the 378,520 (2016: 312,540) ordinary shares issued during the year: £2,000 (2016: £1,000) was credited to share capital and £711,000 (2016: £464,000) to share premium.

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

Within the retained earnings reserve are own shares held. The investment in own shares held is £1,594,000 (2016: £2,738,000) and represents 566,000 (2015: 963,000) ordinary shares of the Company held in trust for the benefit of directors and employees for future payments under the Share Incentive Plan and Long Term Incentive Plan. The dividends on these shares have been waived.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Capital redemption reserve

The capital redemption reserve arises when the Company redeems shares wholly out of distributable profits.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments that are determined to be an effective hedge.

Dividends

The following dividends were paid in the year per qualifying ordinary share:

	2017 Payment date	**2017**	2016
3.15p final dividend (2016: 3.10p)	**15 May**	**27,391**	26,933
2.05p interim dividend (2016: 1.95p)	**22 September**	**17,827**	16,943
		45,218	43,876

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

	2017	2016
Final proposed dividend per qualifying ordinary share		
3.35p	**29,159**	
3.15p		27,407

12. EARNINGS PER SHARE

Basic earnings per share

Earnings per share is calculated for both the current and previous years using the profit attributable to the ordinary shareholders for the year. The earnings per share calculation is based on 869.4m shares (2016: 868.7m shares) being the weighted average number of ordinary shares in issue (net of own ordinary shares held) for the year.

	2017	2016
Net profit attributable to ordinary shareholders	**55,613**	67,173
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	**869,087**	868,332
Effect of own shares held	**252**	273
Effect of shares issued under Sharesave plans	**95**	61
Weighted average number of ordinary shares during the year	**869,434**	868,666
Basic earnings per share	**6.4p**	7.7p

Adjusted basic earnings per share

Adjusted basic earnings per share is calculated for both the current and previous years using the profit attributable to the ordinary shareholders for the year after adding back the after tax impact of the adjustments. The reconciliation showing how adjusted net profit attributable to ordinary shareholders is derived is shown in note 2.

	2017	2016
Adjusted net profit attributable to ordinary shareholders	**91,924**	86,949
Weighted average number of ordinary shares during the year	**869,434**	868,666
Adjusted basic earnings per share	**10.6p**	10.0p

Diluted earnings per share

Diluted earnings per share is based on the profit for the year attributable to the ordinary shareholders and 872.0m shares (2016: 872.0m shares). The number of shares is equal to the weighted average number of ordinary shares in issue (net of own ordinary shares held) adjusted to assume conversion of all potentially dilutive ordinary shares. The Company has two categories of potentially dilutive ordinary shares: those share options granted to employees under the Sharesave plan where the exercise price is less than the average market price of the Company's ordinary shares during the year and contingently issuable shares awarded under the Long Term Incentive Plan (LTIP).

	2017	2016
Net profit attributable to ordinary shareholders	**55,613**	67,173
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares for the year	**869,434**	868,666
Effect of Sharesave options	**1,583**	870
Effect of LTIP share awards	**993**	2,498
Weighted average number of ordinary shares (diluted) during the year	**872,010**	872,034
Diluted earnings per share	**6.4p**	7.7p

Adjusted diluted earnings per share

	2017	2016
Adjusted net profit attributable to ordinary shareholders	**91,924**	86,949
Weighted average number of ordinary shares (diluted) during the year	**872,010**	872,034
Adjusted diluted earnings per share	**10.5p**	10.0p

13. INTEREST BEARING LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest bearing loans and borrowings.

	2017	2016
Non-current liabilities		
Preference shares classified as debt	**40**	40
Bank loans	**45,837**	51,260
Finance lease liabilities	**2**	3
	45,879	51,303
Current liabilities		
Bank loans	**29,925**	65,039
Finance lease liabilities	**3**	69
	29,928	65,108

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

	Currency	Interest rates	Year of maturity	**2017**	2016
Non-redeemable preference shares	Sterling	9.5%	-	**40**	40
Bank loans and overdrafts	Sterling	1.32% – 1.34%	2018-19	**74,746**	115,180
Bank loans and overdrafts	Euro	2.35%	2022	**1,016**	1,119
Finance lease liabilities	Sterling	8.77%	2019	**5**	72
				75,807	116,411

Repayment profile

Finance leases and bank loans are payable as follows:

	Principal 2017	**Interest 2017**	**Minimum payments 2017**	Principal 2016	Interest 2016	Minimum payments 2016
Bank loans less than one year	**29,925**	**225**	**30,150**	65,039	310	65,349
Bank loans more than one and less than five years	**45,837**	**77**	**45,914**	50,565	81	50,646
Bank loans more than five years	**-**	**-**	**-**	695	101	796
Finance leases less than one year	**3**	**-**	**3**	69	2	71
Finance leases more than one and less than five years	**2**	**-**	**2**	3	-	3
	75,767	**302**	**76,069**	116,371	494	116,865

14. EMPLOYEE BENEFITS

	2017	2016
Recognised liability for defined benefit obligations:		
- Present value of funded obligations	**237,054**	236,543
- Fair value of plan assets	**(188,844)**	(178,045)
	48,210	58,498
Other pension scheme liabilities	**344**	356
Employee bonuses	**17,512**	10,824
Long term incentive plan	**331**	216
Employee indemnity provision	**2,823**	3,359
Other employee benefits	**4,537**	3,596
	73,757	76,849
Non-current	**52,293**	62,593
Current	**21,464**	14,256
	73,757	76,849

15. PROVISIONS

	Contingent consideration	**Warranty provision**	**Total**
Balance at 1 January 2017	11,708	5,842	17,550
Exchange differences	36	(178)	(142)
Increase as a result of business combinations	–	–	–
Provisions utilised during the year	(1,347)	(1,804)	(3,151)
(Credit) / charge to the income statement	(10,000)	1,987	(8,013)
Balance at 31 December 2017	**397**	**5,847**	**6,244**
Maturity at 31 December 2017			
Non-current	–	**1,929**	**1,929**
Current	**397**	**3,918**	**4,315**
	397	**5,847**	**6,244**
Maturity at 31 December 2016			
Non-current	10,000	1,947	11,947
Current	1,708	3,895	5,603
	11,708	5,842	17,550

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

Contingent consideration relating to the Bifold acquisition of £10,000,000 was released to the income statement after an EBITDA target was not met. Other contingent consideration relates to amounts outstanding in respect of the GTA Group and Masso acquisitions.

16. TRADE AND OTHER PAYABLES

	2017	2016
Trade payables	**49,183**	39,652
Corporation tax	**13,093**	13,352
Current tax	**13,093**	13,352
Other taxes and social security	**11,281**	10,806
Payments on account	**6,667**	7,053
Other payables and accrued expenses	**24,217**	24,140
Other payables	**42,165**	41,999

17. RELATED PARTIES

The Group has a related party relationship with its subsidiaries and with its directors and key management. Transactions between two subsidiaries for the sale and purchase of products or the subsidiary and parent Company for management charges are priced on an arm's length basis.

Evoqua Water Technologies LLC is a related party of Rotork plc by virtue of M Lamb's non-executive chairmanship. Sales to subsidiaries and associates of Evoqua Water Technologies LLC totalled £78,000 during the year and £8,000 was outstanding at 31 December 2017.

Key management emoluments

The emoluments of those members of the management team, including directors, who are responsible for planning, directing and controlling the activities of the Group were:

	2017	2016
Emoluments including social security costs	**3,401**	3,370
Post employment benefits	**45**	229
Pension supplement	**285**	202
Share-based payments	**418**	848
	4,149	4,649

18. FINANCIAL CALENDAR

6 March 2018	Preliminary announcement of annual results for 2017
5 April 2018	Ex-dividend date for final proposed 2017 dividend
6 April 2018	Record date for final proposed 2017 dividend
27 April 2018	Announcement of trading update
27 April 2018	Annual General Meeting held at Rotork House, Brassmill Lane, Bath, BA1 3JQ
7 August 2018	Announcement of interim financial results for 2018