



Rotork plc 2016 Full Year Results

	2016	2015	% change	OCC ² % change
Revenue	£590.1m	£546.5m	+8.0%	-8.0%
Adjusted ¹ operating profit	£120.6m	£125.3m	-3.7%	-18.4%
Adjusted ¹ operating margin	20.4%	22.9%	-250bps	-260bps
Profit before tax	£91.1m	£101.9m	-10.6%	-20.5%
Adjusted ¹ profit before tax	£117.9m	£122.8m	-4.0%	-18.9%
Basic earnings per share	7.7p	8.6p	-10.5%	-19.9%
Adjusted ¹ basic earnings per share	10.0p	10.4p	-3.8%	-18.7%
Full year dividend	5.10p	5.05p	+1.0%	

¹ Adjusted figures are before the amortisation of acquired intangible assets.

² OCC is organic constant currency which has all the acquisitions removed and are restated at 2015 exchange rates.

Summary

- Stabilising trading environment
- 10% currency tailwind
- Successful cost management programme delivered £9.2m of savings in 2016, a further £4.2m expected in 2017
- Continued investment in product portfolio and infrastructure
- £16.3m acquisition of Mastergear
- Strong cash generation at 130%
- Full year dividend increased by 1.0% to 5.10p (2015: 5.05p)

Peter France, Chief Executive, commenting on the results, said:

“In the second half of 2016, the trading environment saw some stabilisation and we benefited from a strengthening currency tailwind. The acquisitions completed in 2015 and 2016, along with the introduction of a number of new products, also supported our growth.

We anticipate that any near-term growth in energy markets will remain modest. Our focus will remain on providing our customers with innovative, high quality products and services, reducing their cost of ownership and improving plant efficiency.

Cost management will remain a priority in the current year as we look to mitigate any inflationary pressures through our highly flexible operating base.

We continue to target growth through organic development and acquisition that will enhance our broad product portfolio, diverse end market exposure and wide geographic presence.

Whilst mindful of continued macroeconomic uncertainties, at this stage of the year the Board believes Rotork is well placed to make progress in 2017.”

Rotork plc

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There will be a meeting for analysts and institutional investors at 8.30 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.

Chairman's statement

Looking back on 2016, I am able to report a return to a more stable trading environment for Rotork following the sharp downturn in oil and gas markets in the second half of 2015. Whilst there has been some improvement in market sentiment following a modest recovery in the oil price, activity levels in the Group's oil and gas markets remain below those seen before the downturn.

Against this backdrop, Rotork has delivered a solid set of full-year results, with adjusted operating margin lower than in 2015, as anticipated, but in excess of 20% – a key achievement for the Group. This performance resulted from a combination of focusing on end markets and geographies showing the greatest resilience, and a concerted effort in driving cost efficiencies throughout all areas of our business.

Whilst Rotork's trading environment was more stable during 2016, it was a year that brought increased geopolitical uncertainty, notably in Europe and the USA following the outcome of the EU referendum in the UK and the US Presidential elections. We will continue to closely monitor these developments and evaluate their potential impact but the Board remains confident that Rotork's diverse end market, geographic spread and highly flexible operating base leaves it well placed to optimise its performance under a range of potential future scenarios.

Financial highlights

Order intake increased 9.6% on the prior year as a result of contributions from acquisitions and currency tailwinds. On an organic constant currency (OCC) basis, order intake reduced by 6.1%, reflecting the current market conditions. Revenue increased by 8.0% (-8.0% OCC) to £590.1m on a reported basis, also supported by acquisitions and currency tailwinds.

Adjusted operating profit reduced £4.7m to £120.6m (£102.3m OCC), with adjusted operating margin 250 basis points lower at 20.4%. This reflected the mix effect of newly-acquired businesses at slightly lower margins and the impact of lower volumes, partially offset by £9.2m of material cost and overhead savings from our cost reduction programme and effective control over material and labour costs.

Acquisitions

Our principal focus was on the integration of the six businesses acquired in 2015, and in particular on delivering their anticipated synergies. We completed one acquisition during the year, acquiring Mastergear in June for £16.3m. The Mastergear business operates from bases in the USA, Italy and China and sits within the Gears division.

Board composition and performance

As announced last April, Bob Arnold retired in August 2016 as President of Rotork Controls Inc. and a member of the Board after a long career at Rotork.

We are also announcing that John Nicholas retired from the Board on 24 February 2017. John has served on the Board for nine years, latterly as the Senior Independent Director. I would like to thank John on behalf of the Board for his excellent contribution during this period. Sally James has replaced John as the Senior Independent Director and Lucinda Bell has replaced Sally as the Chair of the Audit Committee. We are currently in the process of recruiting a non-executive director to fill the vacancy that John's departure has created.

The Board now comprises two executive directors, three independent non-executive directors and myself as Chairman, which is in compliance with the UK Corporate Governance Code (the Code). In addition, more than 25% of the Board are women which exceeds 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 2016.

Corporate governance

The Board continues to be committed to the highest standards of governance which we see as essential to the delivery of increasing long-term shareholder value. 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 2015.

Employees

I would like to thank all of our employees for their continued high level of commitment and professionalism during 2016.

Dividend

The Board recommends a final dividend of 3.15p per share, a 1.6% increase over the 2015 final dividend. Taken with the 2016 interim dividend, the total dividend is 5.10p per share (2015: 5.05p), representing a 1.0% increase in the total dividend on 2015. The final dividend will be payable on 15 May 2017 to shareholders on the register on 7 April 2017.

Outlook

We anticipate that any near-term growth in energy markets will remain modest. Our focus will remain on providing our customers with innovative, high quality products and services, reducing their cost of ownership and improving plant efficiency.

Cost management will remain a priority in the current year as we look to mitigate any inflationary pressures through our highly flexible operating base.

We continue to target growth through organic development and acquisition that will enhance our broad product portfolio, diverse end market exposure and wide geographic presence.

Whilst mindful of continued macroeconomic uncertainties, at this stage of the year the Board believes Rotork is well placed to make progress in 2017.

Martin Lamb

Chairman

27 February 2017

Chief Executive's statement

The Group's trading environment became more stable during the year, although we continued to see caution from our customers in terms of large-scale investments in projects. Geopolitical tensions also affected certain key markets. Our reported numbers benefited from a contribution from acquisitions and currency movements. We continued to invest in infrastructure, including IT, which will improve our operational performance, and we made good progress on our previously announced cost reduction programme, exceeding our initial target.

Full year order intake was up 9.6% on a reported basis, but 6.1% lower on an OCC basis. Whilst reported revenue increased 8.0% to £590.1m, underlying revenue decreased 8.0% to £502.6m which was the main driver of the reduction in adjusted operating profit to £120.6m (£102.3m OCC). Our accelerated cost management programme delivered savings of £6.6m in respect of material costs, which was more than sufficient to mitigate the impact of any pricing pressure, which we continue to carefully monitor and manage. A further £2.6m of savings was found in other areas including overhead savings.

In 2016, we continued to implement our long-term strategy for growth by introducing new products and investing in new and existing markets through developing our sales channels. Our focus on selling additional products and services to our existing customer base through cross-divisional initiatives, and new product training for our sales force, had a positive impact. We also introduced a Group-wide initiative to improve our success rate on sales quotes.

During the year, oil and gas represented 52.4% of revenue, a decline of 70 basis points on the previous year, with an increase in the percentage of our sales to upstream and midstream but a decrease in downstream. In the water and industrial markets, underlying revenue increased over the prior year by 10.0% and 5.3% respectively, demonstrating that our strategy of diversifying our end markets continues to make progress. Our sales in the power market, down 6.4%, continued to be affected by China's economy, although we saw an increase in activity levels in China in the second half of 2016. USA revenues increased year-on-year, with growth in the water market but weakness in oil and gas. The Latin American market remained difficult due to our exposure to oil and gas in that region. However, the Middle East and Africa had positive sales momentum and we saw an increase in activity in certain territories in Asia.

Cost saving initiatives included the consolidation of facilities in the USA and Italy, resulting in a reduction in the number of our manufacturing facilities and offices. We now have 27 manufacturing sites, 69 national offices, and 84 regional locations in 38 countries. In total, we have over 861 sales channels in 101 countries. Our strong global presence remains a core part of our strategy. As well as consolidation of sites, we have focused on the roll-out of a global value engineering programme in support of increased customer demand for "smarter" lower cost solutions and measures to rationalise our supply chain and better leverage our global purchasing spend. We also accelerated the roll-out of our global ERP system to improve operational effectiveness and facilitate future scaleability.

We welcomed Mastergear into the Rotork family in June 2016 which expanded our Gears portfolio with new products in motorised and manual gears as we continued to consolidate our market leadership in this segment. Our focus during the year was on integrating Mastergear and the six acquisitions that we completed in 2015 and leveraging their product portfolios to drive growth.

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. Our customers are also increasingly focused on reducing power consumption, increasing efficiency, maximising cost reduction, improved safety and minimising their carbon footprints, which will drive long-term growth in our markets.

The broadening of our product portfolio, developing our geographic reach and expanding our end markets remain the key elements of our strategy. Our sales proposition of providing innovative market leading products and services locally to our customers continues to serve us well.

Customers have always been at the heart of what we do and in 2017 we are introducing a number of measures that will further enhance our customer-facing processes to reflect market requirements and to ensure that we remain competitive. This includes the introduction of a Group wide initiative, Project Energise (2017), focused on improving the customer experience.

Rotork Controls

£m	2016	2015	Change	OCC ² Change
Revenue	298.4	286.7	+4.1%	-6.5%
Adjusted ¹ operating profit	87.3	85.5	+2.1%	-8.4%
Adjusted ¹ operating margin	29.3%	29.8%	-50bps	-60bps

Order intake was £295.2m, a 6.6% increase compared with the prior year, with revenue up 4.1% to £298.4m, reflecting benefits from currency tailwinds. On an OCC basis order intake and revenue decreased by 4.3% and 6.5% respectively.

Adjusted operating profit of £87.3m was up 2.1% with an adjusted operating margin of 29.3%, 50 basis points lower than in 2015. Excluding the impact of currency, the underlying figures reduced, compared with 2015, by 8.4% and 60 basis points respectively, reflecting the effect of lower volumes but partly offset by continued resilience in our pricing and control of costs.

Our exposure to oil and gas reduced again in 2016, with the proportion of revenue down from 48% to 45% with reductions in midstream and downstream. The power market remained slow and although our market exposure declined slightly year-on-year we will continue to focus on expanding in this area. Incremental gains were seen in all the other end markets, including water. Our newer developing territories (Turkey, Poland and Chile) all delivered growth in 2016 and most of Europe, Middle East and Africa had positive sales momentum, with an increase in activity levels seen in South East Asia. Whilst the USA benefited from growth in the water market, overall we saw a decline in this region due to continued challenging conditions in the oil and gas market. Latin America also had its challenges due to our exposure to the oil and gas markets in that region.

In 2016, we launched further extensions to our IQ3 range, enabling us to offer more cost effective solutions. We also replaced a number of the original IQT3 variants with improved designs. Single phase and modulating variants of our Centork range were launched in Europe and China and will be sold outside these territories once the required electrical certification has been obtained. We are developing an intelligent asset management system that will collect and analyse field data from our installed actuators to ensure that our preventative service activities are optimised.

Rotork Fluid Systems

£m	2016	2015	Change	OCC ² Change
Revenue	145.3	149.2	-2.6%	-12.4%
Adjusted ¹ operating profit	6.2	15.2	-59.4%	-64.1%
Adjusted ¹ operating margin	4.3%	10.2%	-590bps	-600bps

Order intake was down 4.8% on a reported basis to £134.7m and down 14.2% to £121.4m on an OCC basis, with revenue down 2.6% to £145.3m (-12.4% to £130.7m OCC). Adjusted operating profit was down 59.4% to £6.2m and adjusted operating margin decreased 590 basis points (-64.1% to £5.5m OCC). Despite actions to consolidate facilities, a redundancy programme in one location and material cost saving initiatives, these were unable to fully cover the fall in volume and the impact of mix and pricing which were most pronounced in Fluid Systems.

The division's exposure to oil and gas remained broadly similar to 2015 at 69%. There was some positive Liquefied Natural Gas (LNG) activity and an increase in projects in Saudi Arabia helped offset overall lower activity elsewhere in this sector. Exposure to each of the other markets also remained broadly similar to the previous year. Our North American market saw a small increase, with a strong performance by our Gulf Coast subsidiary as a result of good LNG activity offsetting a general decline in other markets in this region. Europe remained broadly similar to the previous year, with the modest increase in the Eastern European market offsetting the decrease in Western Europe. Latin America was a weak performer, largely due to significant project delays as a result of both market and political instability that continues to impact business levels in Venezuela, Mexico and Brazil. Our Malaysia, India and Middle East subsidiaries performed well but the Far East, including China, reported lower activity overall, mainly due to ongoing project delays within oil and gas.

2016 saw significant value engineering efforts on our core products that we expect to continue to benefit the division during 2017. This will be supported by our ongoing low cost country sourcing programme that will benefit both our European manufacturing facilities and enable our regional China and India manufacturing operations to better address their regional markets.

Product development continued to be a focus for Fluid Systems in 2016. We expanded our SI3 range (our third generation Skilmatic electric fail safe actuator) with the launch of quarter turn and linear variants. We introduced a stainless steel option in our GT range (pneumatic rack and pinion actuators). A new ELB (electronic line break) detection system designed to detect and isolate leaks in major pipeline infrastructure was also launched.

Rotork Gears

£m	2016	2015	Change	OCC ² Change
Revenue	72.4	58.6	+23.4%	-4.0%
Adjusted ¹ operating profit	14.1	12.0	+17.2%	-14.1%
Adjusted ¹ operating margin	19.4%	20.5%	-110bps	-220bps

Gears performed well over the period, with order intake increasing 22.7%, including contributions from the recent acquisitions, Roto Hammer and Mastergear. On an OCC basis, order intake declined by 4.8% relative to a strong comparable year.

Revenue grew 23.4% including contributions from the acquisitions and currency tailwinds. On an OCC basis, revenue fell by 4.0%, primarily due to the impact of the slowdown in oil and gas. Adjusted operating profit increased 17.2% to £14.1m but fell 14.1% excluding the effects of acquisitions and currency as the lower volumes reduced OCC adjusted operating margin by 220 basis points.

Oil and gas accounted for 54% of revenue, assisted by the contribution from the recent acquisitions. Upstream remained flat, but midstream and downstream both grew. Water grew 16% over the prior year. North America experienced good sales growth, mainly in the Gulf Coast and we saw an increase in activity in China.

The acquisition of Mastergear was completed in June 2016 for £16.3m. Mastergear has its main centres of operations in Italy and the USA, with a further operational presence in China. It has a well regarded product portfolio of manual and motorised gearboxes and will enable us to offer our customers a more comprehensive range of products and services.

In 2016, we introduced new products across many of our gearbox ranges: a quarter turn gearbox for use with motorised applications (ABM range); a bronze worm gearbox for steam distribution applications in manholes and vaults (BR range); a hand operated quarter turn worm gearbox for use in the water and pipeline markets (QTW150 range); and a hand operated bevel gearbox for use on gate valves, globe valves and penstocks (HOB range). We also unveiled a fugitive emission detector gearbox which is a new smart gearbox designed for leak detection and which will be launched in 2017. We changed the standard baseplates on all our gearboxes in the IW range to a new improved flat design. We also launched a new Smart Position Indicator which mechanically displays the position of the valve for in-field notification and digitally signals its open/closed position, helping to create a safer working environment.

Rotork Instruments

£m	2016	2015	Change	OCC ² Change
Revenue	91.2	67.3	+35.4%	-3.9%
Adjusted ¹ operating profit	20.1	18.3	+10.0%	-16.6%
Adjusted ¹ operating margin	22.1%	27.2%	-510bps	-360bps

Instruments benefited both from the acquisitions completed in the prior year and favourable exchange rates, with order intake increasing 42.3% or 5.7% on an OCC basis. The closing order book increased by 22.8% during the year to £9.3m before a £0.5m increase due to currency is included.

Revenue increased by 35.4% with contributions from acquisitions and currency tailwinds. On an OCC basis, revenue declined by 3.9% as a result of the challenging conditions in the oil and gas market and on-going tight conditions in the tyre market. Instruments supplies a number of components to Fluid Systems, and the weak revenue growth in that division also affected Instruments as a result.

As anticipated, the 2015 acquisitions were dilutive to the division's margins in 2016. Adjusted operating profit grew by 10% (-16.6% OCC) but adjusted operating margins decreased 510 basis points to 22.1% (-360 basis points to 23.6% OCC). We made additional investment in the division's engineering resource, although the overall margin at Instruments remains above that of the Group as a whole.

Instruments' exposure to the oil and gas market increased from 44% to 50% in 2016 following the acquisition in 2015 of Bifold, which increased the level of business derived from the upstream market. There was some softness in the North American market and continuing delays in large rail projects. However, the other markets we are now serving include a wider variety of geographies and end markets, including industrial automation, commercial vehicles, rail and life sciences.

In 2016, we continued to develop our product range by updating existing products and introducing new variants. Bifold launched a digital filter booster which integrates a complete control panel into a single unit and a new range of pressure transmitters specifically tailored to the oil and gas market; Rotork Fairchild launched a new PAX1 linear actuator which can be used by itself or paired with a variety of pressure regulators enabling remote control of pneumatic pressure for a variety of applications and a new range of low pressure transducers for use in the medical and precision test rig markets; YTC Positioners were re-engineered and certified for hazardous area use in North America and Canada; Rotork Midland launched a redesigned stainless steel filter regulator; and RI Wireless, a device which provides wireless valve monitoring in the process industry, was re-engineered.

Rotork Site Services (RSS)

Our global service network is a key differentiator for us in our industry. Our highly trained service team provide 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 2016, we continued to invest in our aftermarket business with 430 directly employed service engineers and other service technicians employed by our agents around the world, an increase of 7% on the previous year (2015: 402).

Research and Development (R&D)

In 2016, we accelerated a number of product introductions as we continued to widen our product range and improve our existing products to remain competitive. Our investment in R&D is led by Gary Jacobson, who was appointed as Group Innovation Director following the acquisition of Bifold in 2015, and during the year this increased by 5.9% to £10.2m. The increase is partly attributable to the pipeline of Bifold, whose strong history of product development was a key rationale for its acquisition. In addition, we are making a major investment in Bath to replace our mature factory and corporate headquarters and develop a state of the art R&D centre, to be completed by the end of 2018. Innovation and organic product development remains a key part of our strategy for growth.

Corporate Social Responsibility (CSR)

CSR 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 2016 and also Seva Bharathi (an NGO in India) and The Forever Friends Appeal (Royal United Hospitals Bath, UK), donating a total of £102,000. Our employees also gave support to their local communities with the Group contributing a further £157,000 to support these causes. This brought the total Group contributions in the year to £259,000 (2015: £297,000).

Our people

Our culture and values are key to Rotork's success. Rotork aims to be an employer of choice and our annual employee satisfaction survey is used to improve employee engagement and guide changes in how we work. Our annual survey for 2016 was completed by over 2,300 employees, with the response rate being slightly down (67% compared to 71% last year), and the overall satisfaction score remaining the same as last year at 3.6 out of 5.

The global results showed that on average people are most satisfied with Rotork's products and services, our approach to health and safety, and our values and ethics, and that Rotork is considered a great place to work by the majority of our employees. One clear message that came out of the survey related to employee involvement and understanding of the Group strategy. I am currently looking at the ways we share the Group strategy with all employees and how we might more fully engage employees in a dialogue on strategy in response to this.

We increased our training activities for employees during the year, including the introduction of new training materials for our sales engineers and the roll-out of new e-learning modules throughout the business. Rotork's total employee numbers in 2016 were 3,754, broadly in line with the previous year. This included 55 employees who joined following the Mastergear acquisition. Excluding this, the total number of employees decreased by 59 as a result of the cost management initiatives that were implemented during the year. Rotork's success is due to the dedication and hard work of our employees. I would like to personally thank them all for making Rotork the industry leading business that it is today.

Acquisitions

In June we completed the acquisition of Mastergear, a leading manufacturer of manual and motorised gearboxes focused on the oil and gas, water and distribution, chemical processing and wider industrial markets, for £16.3m. Along with the prior year acquisition of Roto Hammer, this makes our gears product range one of the most complete in the industry.

£6.8m of the consideration for Mastergear was attributed to intangible assets which will be amortised and £5.3m is goodwill which will be subject to an annual impairment review. The increased value of acquisitions over the last three years led to a rise in the amortisation charge related to acquired intangible assets to £26.8m (2015: £20.9m). In order to adjust the income statement to show a like-for-like period for each acquisition, 2016 revenue has to be reduced by £32.6m and adjusted¹ operating profit by £5.4m. The profit margins of the acquired businesses were slightly dilutive in aggregate, at 16.7%.

During 2015, we completed a total of six acquisitions, the most significant of which was Bifold. Each provided access to a new product range, end user market or new geographic market in line with our stated acquisition strategy. We are pleased to report that the integration of these businesses is progressing well and once fully assimilated into the Rotork global sales portfolio, we expect their overall adjusted operating margins to improve.

Accelerated cost management programme

In 2015 we announced an accelerated cost management programme as part of our response to the changing market environment which identified £8m of annualised savings, split equally between material costs and overheads. The 2016 benefit of these initiatives was £2.8m of material cost savings and a £2.1m saving in overheads in addition to the £5.4m benefit already delivered in 2015.

In 2016 new initiatives were identified targeting a further £7.0m of annualised savings. These have so far delivered material cost savings of £3.8m and £0.5m in relation to other costs, bringing the total benefit in 2016 to £9.2m.

The material cost savings resulted in a decrease in the material cost percentage of 180 basis points net of the impacts of pricing and mix. The initiatives to reduce overheads delivered greater savings than anticipated. The consolidation of our facilities along with our headcount reduction initiatives were the largest contributors to the annualised savings. Not replacing leavers and consolidating roles led to a net headcount reduction of 59 people, including some senior posts, before the 55 people added with acquisitions are reflected.

A further £4.2m of savings are anticipated from these actions in 2017. We are also targeting a further £4m of annualised savings from new initiatives to be identified.

Currency

The progressive strengthening of the US dollar and euro during the year gave the Group a foreign exchange translation tailwind. The US\$/£ average rate was \$1.36 (2015: \$1.53), a 17 cent tailwind. The €/£ average rate was €1.22 (2015: €1.38), a 16 cent tailwind. This, along with movements amongst the other 16 currencies that are home to one or more of our subsidiaries, benefited reported revenue by £54.9m, or 10%.

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. Net of these mitigating actions adjusted¹ operating profit was £12.9m (10.3%) lower than it would have been at 2015 rates.

In order to estimate the impact of currency, at the current exchange rates we consider the effect of a 1 cent movement versus sterling. A 1 euro cent movement now results in approximately a £250,000 (2015: £235,000) adjustment to profit and for US dollar, and dollar related currencies, a 1 cent movement equates to approximately a £450,000 (2015: £400,000) adjustment.

Return on Capital Employed (ROCE)

Our asset-light business model and strong profit margins mean Rotork generates a high ROCE. Our definition of ROCE is based on adjusted¹ 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 17.8% to £516m as a result of the full year impact of the additional intangibles and goodwill acquired in the last two years. This, combined with the lower adjusted operating profit resulted in a reduction in ROCE to 23.4% (2015: 28.6%).

Taxation

The Group's effective tax rate reduced slightly from 26.5% to 26.2%. The Group continues to operate in many jurisdictions where local profits are taxed at their national statutory rates, ranging from nil to over 35%, compared to a UK statutory rate of 20.0% for the year. In the year, the reduction in the effective rate resulted from the 25 basis points decrease in the UK statutory tax rate and the change in profit mix across the Group. In addition, the Group continues to benefit from the UK patent box regime and R&D tax relief. 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 and disciplined working capital management resulted in a reduction in net debt of £16.2m to £55.0m at the end of the year. Our cash generation KPI shows a conversion of 130.1% of operating profit into operating cash. This allowed us to invest £17.6m in capital expenditure and £16.3m on the Mastergear acquisition, pay dividends of £43.9m and after currency movements and tax payments of £32.9m, we reduced net bank borrowings used to fund the prior year acquisitions.

Control of working capital as defined in the cashflow statement, using average exchange rates and excluding acquisitions, is key to achieving our cash generation KPI. Inventory reduced by £14.4m in the cashflow but currency and acquisitions reduced the impact to a £1.4m reduction between balance sheets. As a function of revenue, reported inventory reduced from 16.0% to 14.5%. Trade receivables increased by £13.1m as reported, with debtor days outstanding reducing by 1 to 61 days, however in the cashflow receivables generated a £2.5m inflow. In total, net working capital decreased to 30.2% of revenue compared with 31.0% in December 2015 and generated an £18.2m inflow in the cashflow statement.

Retirement benefits

The most recent triennial valuation for the UK scheme took place as at 31 March 2016 and showed a decrease in the actuarial deficit of £1.5m to £32.5m and an increase in the funding level from 78% to 82% as investment outperformance, favourable changes in assumptions and additional Company contributions offset the negative impact of the continued reduction in gilt yields, which is the key driver behind the value of the scheme's liabilities. A recovery plan has been agreed with the Trustees 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 increased from £23.3m to £58.5m during the year and the funding level decreased from 87% to 75%. The company paid total contributions of £8.5m in the year and the

scheme assets increased slightly in value. This was offset, however, by the largest drivers of the increased deficit which were the lower discount rate due to the fall in AA corporate bond rates and increased inflation rates.

Dividends

The Board is proposing a 1.6% increase in the final dividend to 3.15p per share. When taken together with the 1.95p interim dividend paid in September, the 5.10p represents a 1.0% increase in dividends over the prior year. This gives dividend cover of 1.5 times (2015: 1.7 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.

Peter France

Chief Executive Officer

27 February 2017

Consolidated income statement

For the year ended 31 December 2016

	Notes	2016 £000	2015 £000
Revenue	2	590,078	546,459
Cost of sales		(328,410)	(296,944)
Gross profit		261,668	249,515
Other income		629	427
Distribution costs		(5,138)	(4,613)
Administrative expenses		(163,165)	(140,877)
Other expenses		(217)	(66)
Operating profit before the amortisation of acquired intangible assets		120,588	125,272
Amortisation of acquired intangible assets		(26,811)	(20,886)
Operating profit	2	93,777	104,386
Finance income	3	1,744	1,740
Finance expense	3	(4,451)	(4,257)
Profit before tax		91,070	101,869
Income tax expense	4	(23,897)	(27,012)
Profit for the year		67,173	74,857
Basic earnings per share	9	7.7p	8.6p
Adjusted basic earnings per share	9	10.0p	10.4p
Diluted earnings per share	9	7.7p	8.6p
Adjusted diluted earnings per share	9	10.0p	10.4p

Consolidated statement of comprehensive income

For the year ended 31 December 2016

	2016 £000	2015 £000
Profit for the year	67,173	74,857
Other comprehensive income		
<i>Items that may be subsequently reclassified to the income statement:</i>		
Foreign exchange translation differences	36,854	(6,511)
Effective portion of changes in fair value of cash flow hedges net of tax	(6,414)	(1,448)
	30,440	(7,959)
<i>Items that are not subsequently reclassified to the income statement:</i>		
Actuarial (loss) / gain in pension scheme net of tax	(30,732)	8,049
Income and expenses recognised directly in equity	(292)	90
Total comprehensive income for the year	66,881	74,947

Consolidated balance sheet

At 31 December 2016

	Notes	2016 £000	2015 £000
Non-current assets			
Goodwill		251,407	222,086
Intangible assets		109,019	118,555
Property, plant and equipment		83,766	72,008
Deferred tax assets		25,259	13,698
Other receivables	6	146	2,234
Total non-current assets		469,597	428,581
Current assets			
Inventories	5	85,772	87,210
Trade receivables	6	131,891	118,801
Current tax	6	4,349	4,458
Derivative financial instruments		-	25
Other receivables	6	22,341	13,225
Cash and cash equivalents	7	61,423	48,968
Total current assets		305,776	272,687
Total assets		775,373	701,268
Equity			
Issued equity capital	8	4,350	4,349
Share premium		10,482	10,018
Reserves		26,451	(3,989)
Retained earnings		392,803	397,424
Total equity		434,086	407,802
Non-current liabilities			
Interest bearing loans and borrowings	10	51,303	69,756
Employee benefits	11	62,593	26,320
Deferred tax liabilities		24,848	28,973
Derivative financial instruments		2,483	431
Provisions	12	11,947	11,990
Total non-current liabilities		153,174	137,470
Current liabilities			
Interest bearing loans and borrowings	10	65,108	50,352
Trade payables	13	39,652	36,724
Employee benefits	11	14,256	11,118
Current tax	13	13,352	14,276
Derivative financial instruments		8,143	3,601
Other payables	13	41,999	34,612
Provisions	12	5,603	5,313
Total current liabilities		188,113	155,996
Total liabilities		341,287	293,466
Total equity and liabilities		775,373	701,268

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 2014	4,346	9,422	1,799	1,644	527	359,057	376,795
Profit for the year	–	–	–	–	–	74,857	74,857
Other comprehensive income							
Foreign exchange translation differences	–	–	(6,511)	–	–	–	(6,511)
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	(1,790)	–	(1,790)
Actuarial gain on defined benefit pension plans	–	–	–	–	–	9,704	9,704
Tax on other comprehensive income	–	–	–	–	342	(1,655)	(1,313)
Total other comprehensive income	–	–	(6,511)	–	(1,448)	8,049	90
Total comprehensive income	–	–	(6,511)	–	(1,448)	82,906	74,947
Transactions with owners, recorded directly in equity							
Equity settled share-based payments transactions	–	–	–	–	–	(1,447)	(1,447)
Tax on equity settled share-based payment transactions	–	–	–	–	–	(799)	(799)
Share options exercised by employees	3	596	–	–	–	–	599
Own ordinary shares acquired	–	–	–	–	–	(2,785)	(2,785)
Own ordinary shares awarded under share schemes	–	–	–	–	–	4,257	4,257
Dividends	–	–	–	–	–	(43,765)	(43,765)
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

Consolidated statement of cash flows

For the year ended 31 December 2016

	Notes	2016 £000	2016 £000	2015 £000	2015 £000
Cash flows from operating activities					
Profit for the year		67,173		74,857	
<i>Adjustments for:</i>					
Amortisation of intangibles		26,811		20,886	
Amortisation of development costs		2,226		1,814	
Depreciation		11,759		9,759	
Equity settled share-based payment expense		3,759		2,810	
Profit on sale of property, plant and equipment		(254)		(280)	
Finance income		(1,744)		(1,740)	
Finance expense		4,451		4,257	
Income tax expense		23,897		27,012	
		138,078		139,375	
Decrease in inventories		14,416		731	
Decrease in trade and other receivables		2,511		15,664	
Increase / (decrease) in trade and other payables		1,309		(6,931)	
Difference between pension charge and cash contribution		(5,297)		(5,051)	
Decrease in provisions		(496)		(56)	
Increase / (decrease) in employee benefits		1,047		(4,226)	
		151,568		139,506	
Income taxes paid		(32,876)		(35,716)	
Cash flows from operating activities			118,692		103,790
Investing activities					
Purchase of property, plant and equipment		(14,692)		(11,762)	
Development costs capitalised		(2,957)		(3,063)	
Sale of property, plant and equipment		648		1,508	
Acquisition of businesses, net of cash acquired		(16,109)		(133,857)	
Contingent consideration paid		(257)		(4,536)	
Settlement of hedging derivatives		(25,867)		1,949	
Interest received		180		1,103	
Cash flows from investing activities			(59,054)		(148,658)
Financing activities					
Issue of ordinary share capital		466		599	
Own ordinary shares acquired		(1,019)		(2,785)	
Interest paid		(2,649)		(1,759)	
(Decrease) / increase in bank loans		(3,619)		98,326	
Repayment of finance lease liabilities		(253)		(100)	
Dividends paid on ordinary shares		(43,876)		(43,765)	
Cash flows from financing activities			(50,950)		50,516
Increase in cash and cash equivalents			8,688		5,648
Cash and cash equivalents at 1 January			48,968		46,816
Effect of exchange rate fluctuations on cash held			3,767		(3,496)
Cash and cash equivalents at 31 December	7		61,423		48,968

Notes to the Group Financial Statements

For the year ended 31 December 2016

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 2016 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

The following narrow scope amendments which were issued as part of the IFRS Annual improvement cycles have been applied from 1 January 2016:

- Amendments to IAS 1, 'Disclosure Initiative'
- Amendments to IFRS 10, IFRS 12 and IAS 28, 'Applying the consolidation exemption'
- Amendments to IFRS 11, 'Accounting for Acquisition Interests in Joint Operations'
- Amendments to IAS 16 and IAS 38, 'Clarification of Acceptable Methods of Depreciation and Amortisation'
- Amendments to IAS 27, 'Equity Method in Separate Financial Statements'
- Amendments to IFRS 5, 'Changes in methods of disposal'
- Amendments to IFRS 7, 'Servicing contracts'
- Amendments to IAS19, 'Regional market issue'

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.

Recent accounting developments

IFRS 15, 'Revenue from contracts with customers' has been issued but is not yet effective and has not been adopted as application was not mandatory for the year. The new standard requires the separation of performance obligations within contracts with customers and the contractual value to be allocated to the performance obligations. Once a performance obligation is satisfied revenue should be recognised on that element of the contract. The introduction of the standard is likely to have some impact on Rotork but this is unlikely to be material due to the relatively straightforward contractual terms and conditions with customers. An exercise is in process to confirm the impact of this standard before it becomes effective in January 2018.

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

IFRS 16, 'Leases' has been issued but is not yet effective and has not been adopted as application was not mandatory for the year. The new standard will eliminate the classification of leases as either operating or finance leases and result in operating leases being treated as finance leases. This will result in previously recognised operating leases being treated as property, plant and equipment and a finance lease creditor. The introduction of the standard will increase the value of property, plant and equipment and the finance lease liability on the balance sheet but it is unlikely to have a material impact on profit in any year. An assessment will be carried out to understand the full impact of the standard before it becomes effective in January 2019.

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 2016. 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 2016 or 2015. Statutory accounts for 2015, which were prepared under International Financial Reporting Standards as adopted by the EU, have been delivered to the registrar of companies, and those for 2016 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 2016, will shortly be posted to shareholders, and after adoption at the Annual General Meeting on 28 April 2017 will be delivered to the registrar.

2. OPERATING SEGMENTS

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

Controls – the design, manufacture and sale of electric actuators

Fluid Systems – the design, manufacture and sale of pneumatic and hydraulic actuators

Gears – the design, manufacture and sale of gearboxes, adaption and ancillaries for the valve industry

Instruments – the manufacture of high precision pneumatic controls and power transmission products for a wide range of industries

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

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 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)
Operating profit	83,433	4,599	12,353	459	–	(7,067)	93,777
Net finance expense							(2,707)
Income tax expense							(23,897)
Profit for the year							67,173

	Controls 2015	Fluid Systems 2015	Gears 2015	Instruments 2015	Elimination 2015	Unallocated 2015	Group 2015
Revenue from external customers	286,708	149,228	46,072	64,451	–	–	546,459
Inter segment revenue	–	–	12,562	2,875	(15,437)	–	–
Total revenue	286,708	149,228	58,634	67,326	(15,437)	–	546,459
Adjusted operating profit*	85,479	15,215	11,991	18,306	–	(5,719)	125,272
Amortisation of acquired intangible assets	(3,326)	(2,300)	(990)	(14,270)	–	–	(20,886)
Operating profit	82,153	12,915	11,001	4,036	–	(5,719)	104,386
Net finance expense							(2,517)
Income tax expense							(27,012)
Profit for the year							74,857

*Adjusted operating profit is operating profit before the amortisation of acquired intangible assets

	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
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

	Controls 2015	Fluid Systems 2015	Gears 2015	Instruments 2015	Unallocated 2015	Group 2015
Depreciation	4,585	2,560	1,194	1,369	51	9,759
Amortisation:						
– Acquired intangible assets	3,326	2,300	990	14,270	–	20,886
– Development costs	1,514	148	67	85	–	1,814
Non-cash items: equity settled share-based payments	1,911	549	351	103	(104)	2,810
Net financing expense	–	–	–	–	(2,517)	(2,517)
Acquired as part of business combinations:						
– Goodwill	1,321	–	3,933	69,206	–	74,460
– Intangible assets	3,048	–	4,951	58,685	–	66,684
Capital expenditure	5,093	4,970	811	818	46	11,738

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

Geographical analysis:

Revenue by location of subsidiary	2016	2015
UK	74,144	64,415
Italy	63,040	57,254
Rest of Europe	112,759	92,908
USA	145,473	137,898
Other Americas	27,365	30,698
Rest of the World	167,297	163,286
	590,078	546,459

	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

	UK 2015	Europe 2015	USA 2015	Other Americas 2015	Rest of World 2015	Group 2015
Non-current assets:						
– Goodwill	81,328	53,645	48,817	740	37,556	222,086
– Intangible assets	60,917	20,833	16,827	–	19,978	118,555
– Property, plant and equipment	25,675	22,362	7,834	618	15,519	72,008

3. FINANCE INCOME AND EXPENSE

Recognised in the income statement

	2016	2015
Interest income	934	1,119
Foreign exchange gains	810	621
Finance income	1,744	1,740

	2016	2015
Interest expense	(2,970)	(1,811)
Interest charge on pension scheme liabilities	(767)	(1,181)
Foreign exchange losses	(714)	(1,265)
Finance expense	(4,451)	(4,257)

Recognised in equity

	2016	2015
Effective portion of changes in fair value of cash flow hedges	(8,772)	(1,123)
Fair value of cash flow hedges transferred to income statement	950	(667)
Foreign currency translation differences for foreign operations	36,854	(6,511)
	29,032	(8,301)

Recognised in:		
Hedging reserve	(7,822)	(1,790)
Translation reserve	36,854	(6,511)
	29,032	(8,301)

4. INCOME TAX EXPENSE

	2016	2016	2015	2015
Current tax:				
UK corporation tax on profits for the year	3,671		3,154	
Adjustment in respect of prior years	4		(668)	
		3,675		2,486
Overseas tax on profits for the year	28,487		28,995	
Adjustment in respect of prior years	(413)		(232)	
		28,074		28,763
Total current tax		31,749		31,249
Deferred tax:				
Origination and reversal of other temporary differences	(7,937)		(3,540)	
Impact of rate change	(127)		(732)	
Adjustment in respect of prior years	212		35	
Total deferred tax		(7,852)		(4,237)
Total tax charge for year		23,897		27,012
Effective tax rate (based on profit before tax)		26.2%		26.5%
Profit before tax		91,070		101,869
Profit before tax multiplied by the blended standard rate of corporation tax in the UK of 20.0% (2015: 20.25%)		18,214		20,629
<i>Effects of:</i>				
Different tax rates on overseas earnings		6,381		7,910
Permanent differences		301		1,331
Losses not recognised		224		463
Research and development credits		(899)		(1,724)
Impact of rate change		(127)		(732)
Adjustments to tax charge in respect of prior years		(197)		(865)
Total tax charge for year		23,897		27,012

A tax credit of £74,000 (2015: £799,000 expense) in respect of share-based payments has been recognised directly in equity in the year.

The reduction in the effective tax rate from 26.5% to 26.2% is primarily due the mix of where profits are generated. The Group continues to expect its effective rate of corporation tax to be higher than the standard UK rate due to higher rates of tax in the USA, 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 £282,541,000 (2015: £307,714,000).

5. INVENTORIES

	2016	2015
Raw materials and consumables	59,398	60,604
Work in progress	10,211	8,890
Finished goods	16,163	17,716
	85,772	87,210

Included in cost of sales was £204,729,000 (2015: £196,826,000) in respect of inventories consumed in the year.

6. TRADE AND OTHER RECEIVABLES

	2016	2015
Non-current assets:		
Other non-trade receivables	146	2,234
Other receivables	146	2,234
Current assets:		
Trade receivables	139,108	124,285
Less provision for impairment of receivables	(7,217)	(5,484)
Trade receivables – net	131,891	118,801
Corporation tax	4,349	4,458
Current tax	4,349	4,458
Other non-trade receivables	7,600	2,025
Other taxes and social security	7,333	6,002
Prepayments	7,408	5,198
Other receivables	22,341	13,225

Included with non-trade receivables is £2,334,000 (2015: £nil) which relate to collateral held by a third party in respect of the Group's outstanding forward exchange contracts.

7. CASH AND CASH EQUIVALENTS

	2016	2015
Bank balances	50,110	35,013
Cash in hand	65	63
Short term deposits	11,248	13,892
Cash and cash equivalents	61,423	48,968
Bank overdraft	–	–
Cash and cash equivalents in the Consolidated Statement of Cash Flows	61,423	48,968

8. CAPITAL AND RESERVES

	0.5p Ordinary shares Issued and fully paid up 2016	£1 Non- redeemable preference shares 2016	0.5p Ordinary shares Issued and fully paid up 2015	£1 Non- redeemable preference shares 2015
At 1 January	4,349	40	4,346	40
Issued under employee share schemes	1	–	3	–
At 31 December	4,350	40	4,349	40
Number of shares (000)	870,051		869,738	

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 £465,000 (2015: £599,000) in respect of the 312,540 (2015: 458,990) ordinary shares issued during the year: £1,000 (2015: £3,000) was credited to share capital and £464,000 (2015: £596,000) 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 £2,738,000 (2015: £3,920,000) and represents 963,000 (2015: 1,406,000) 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:

	2016 Payment date	2016	2015
3.10p final dividend (2015: 3.09p)	16 May	26,933	26,835
1.95p interim dividend (2015: 1.95p)	23 September	16,943	16,930
		43,876	43,765

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.

	2016	2015
Final proposed dividend per qualifying ordinary share		
3.15p	27,407	
3.10p		26,962

9. 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 868.7m shares (2015: 867.8m shares) being the weighted average number of ordinary shares in issue (net of own ordinary shares held) for the year.

	2016	2015
Net profit attributable to ordinary shareholders	67,173	74,857
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	868,332	867,258
Effect of own shares held	273	428
Effect of shares issued under Sharesave plans	61	131
Weighted average number of ordinary shares during the year	868,666	867,817
Basic earnings per share	7.7p	8.6p

Adjusted basic earnings per share

Adjusted basic earnings per share is calculated for both the current and previous years using the profit attributable to the ordinary shareholders for the year after adding back the after tax amortisation charge.

	2016	2015
Net profit attributable to ordinary shareholders	67,173	74,857
Amortisation	26,811	20,886
Tax effect on amortisation at effective rate	(7,035)	(5,538)
Adjusted net profit attributable to ordinary shareholders	86,949	90,205
Weighted average number of ordinary shares during the year	868,666	867,817
Adjusted basic earnings per share	10.0p	10.4p

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 (2015: 869.3m 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).

	2016	2015
Net profit attributable to ordinary shareholders	67,173	74,857
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares for the year	868,666	867,817
Effect of Sharesave options	870	1,214
Effect of LTIP share awards	2,498	300
Weighted average number of ordinary shares (diluted) during the year	872,034	869,331
Diluted earnings per share	7.7p	8.6p

Adjusted diluted earnings per share

	2016	2015
Net profit attributable to ordinary shareholders	67,173	74,857
Amortisation	26,811	20,886
Tax effect on amortisation at effective rate	(7,035)	(5,538)
Adjusted net profit attributable to ordinary shareholders	86,949	90,205
Weighted average number of ordinary shares (diluted) during the year	872,034	869,331
Adjusted diluted earnings per share	10.0p	10.4p

10. INTEREST BEARING LOANS AND BORROWINGS

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

	2016	2015
Non-current liabilities		
Preference shares classified as debt	40	40
Bank loans	51,260	69,645
Finance lease liabilities	3	71
	51,303	69,756
Current liabilities		
Bank loans	65,039	50,098
Finance lease liabilities	69	254
	65,108	50,352

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

	Currency	Interest rates	Year of maturity	2016	2015
Non-redeemable preference shares	Sterling	9.5%	-	40	40
Bank loans and overdrafts	Sterling	0.6-1.1%	2018-20	115,180	118,560
Bank loans and overdrafts	Euro	1.4% - 4.5%	2017-32	1,119	1,183
Finance lease liabilities	Sterling	1.9% - 10.6%	2017-19	72	325
				116,411	120,108

Repayment profile

Finance leases and bank loans are payable as follows:

	Principal 2016	Interest 2016	Minimum payments 2016	Principal 2015	Interest 2015	Minimum payments 2015
Bank loans less than one year	65,039	310	65,349	50,098	386	50,484
Bank loans more than one and less than five years	50,565	81	50,646	68,987	73	69,060
Bank loans more than five years	695	101	796	658	99	757
Finance leases less than one year	69	2	71	254	7	261
Finance leases more than one and less than five years	3	0	3	71	2	73
	116,371	494	116,865	120,068	567	120,635

11. EMPLOYEE BENEFITS

	2016	2015
Recognised liability for defined benefit obligations:		
- Present value of funded obligations	236,543	180,406
- Fair value of plan assets	(178,045)	(157,131)
	58,498	23,275
Other pension scheme liabilities	356	239
Employee bonuses	10,824	8,601
Long term incentive plan	216	80
Employee indemnity provision	3,359	2,495
Other employee benefits	3,596	2,748
	76,849	37,438
Non-current	62,593	26,320
Current	14,256	11,118
	76,849	37,438

12. PROVISIONS

	Contingent consideration	Warranty provision	Total
Balance at 1 January 2016	11,775	5,528	17,303
Exchange differences	190	713	903
Increase as a result of business combinations	–	96	96
Provisions utilised during the year	(257)	(1,707)	(1,964)
Charged to the income statement	–	1,212	1,212
Balance at 31 December 2016	11,708	5,842	17,550
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
Maturity at 31 December 2015			
Non-current	10,147	1,843	11,990
Current	1,628	3,685	5,313
	11,775	5,528	17,303

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 is £10,500,000. £10,000,000 will become payable in 2018 if an EBITDA target is achieved in respect of the 2017 financial year. Other contingent consideration relates to amounts outstanding in respect of the GTA Group, Masso and SMS acquisitions.

13. TRADE AND OTHER PAYABLES

	2016	2015
Trade payables	39,652	36,724
Corporation tax	13,352	14,276
Current tax	13,352	14,276
Other taxes and social security	10,806	8,592
Payments on account	7,053	6,674
Other payables and accrued expenses	24,140	19,346
Other payables	41,999	34,612

14. 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.

Severn Trent plc was a related party of Rotork plc by virtue of M Lamb's non-executive directorship which ended on 20 July 2016. Sales to subsidiaries and associates of Severn Trent plc totalled £504,000 during the period to 20 July 2016 (2015: £1,229,000 during the year).

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:

	2016	2015
Emoluments including social security costs	3,370	2,972
Post-employment benefits	229	269
Pension supplement	202	208
Share-based payments	848	(309)
	4,649	3,140

15. FINANCIAL CALENDAR

27 February 2017	Preliminary announcement of annual results for 2016
6 April 2017	Ex-dividend date for final proposed 2016 dividend
7 April 2017	Record date for final proposed 2016 dividend
28 April 2017	Announcement of trading update
28 April 2017	Annual General Meeting held at Rotork House, Brassmill Lane, Bath, BA1 3JQ
8 August 2017	Announcement of interim financial results for 2017
23 November 2017	Announcement of trading update