

# rotork®

Keeping the World Flowing

WEDNESDAY



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A09 13/06/2018 #312

COMPANIES HOUSE

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[www.rotork.com](http://www.rotork.com)

## NOTES

NOTES

## CORPORATE DIRECTORY

### **Company Secretary**

Stephen Rhys Jones

### **Registered Office**

Rotork plc  
Rotork House  
Brassmill Lane  
Bath BA1 3JQ

### **Company Number**

00578327

### **Registrars**

Equiniti  
Aspect House  
Spencer Road  
Lancing  
West Sussex BN99 6DA

### **Stockbrokers**

UBS Investment Bank  
1 Finsbury Avenue  
London EC2M 2PP

Citigroup Global Markets Ltd

Citigroup Centre  
33 Canada Square  
London E14 5LB

### **Financial Advisers**

UBS Investment Bank  
1 Finsbury Avenue  
London EC2M 2PP

Citigroup Global Markets Ltd

Citigroup Centre  
33 Canada Square  
London E14 5LB

### **Auditors**

Deloitte LLP  
2 New Street Square  
London EC4A 3BZ

### **Financial Public Relations**

FTI Consulting  
200 Aldersgate  
Aldersgate Street  
London EC1A 4HD

### **Solicitors**

Messrs. Osborne Clarke  
No.2 Temple Back East  
Temple Quay  
Bristol BS1 6EG

## SHARE REGISTER INFORMATION

The tables below show the split of shareholder and size of shareholding in Rotork plc.

Ordinary shareholder by type	Number of holdings	%	Number of shares	%
Individuals	2,404	74.3	24,024,490	2.8
Bank or nominees	768	23.8	842,050,898	96.7
Other company	37	1.1	1,404,877	0.2
Other corporate body	25	0.8	2,961,385	0.3
	<b>3,234</b>	<b>100.0</b>	<b>870,441,650</b>	<b>100.0</b>

Range	Number of holdings	%	Number of shares	%
1 – 1,000	711	22.0	354,623	0.1
1,001 – 2,000	417	12.9	624,989	0.1
2,001 – 5,000	611	18.9	2,068,613	0.2
5,001 – 10,000	411	12.7	3,017,669	0.3
10,001 – 50,000	606	18.7	13,596,310	1.6
50,001 – 100,000	122	3.8	8,805,116	1.0
100,001 +	356	11.0	841,974,330	96.7
	<b>3,234</b>	<b>100.0</b>	<b>870,441,650</b>	<b>100.0</b>

Source: Equiniti

### Dividend information

The table below details the amounts of interim, final and additional dividends declared in respect of each of the last five years.

	Interim dividend (p)	Final dividend (p)	Total dividends (p)
2017	2.05	3.35	5.40
2016	1.95	3.15	5.10
2015	1.95	3.10	5.05
2014*	1.92	3.09	5.01
2013*	1.81	3.00	4.81

\* Restated to reflect subdivision of 5p ordinary shares into 0.5p ordinary shares.

### 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

## TEN YEAR TRADING HISTORY

	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Revenue	<b>642,229</b>	590,078	546,459	594,739	578,440	511,747	447,833	380,560	353,521	320,207
Cost of sales	<b>(358,090)</b>	(328,410)	(296,944)	(309,280)	(304,066)	(272,199)	(236,359)	(199,742)	(187,600)	(176,046)
Gross profit	<b>284,139</b>	261,668	249,515	285,459	274,374	239,548	211,474	180,818	165,921	144,161
Overheads	<b>(198,167)</b>	(167,891)	(145,129)	(143,232)	(135,109)	(115,081)	(99,474)	(83,094)	(74,384)	(69,272)
Operating profit	<b>85,972</b>	93,777	104,386	142,227	139,265	124,467	112,000	97,724	91,537	74,889
Adjusted* operating profit	<b>130,162</b>	120,588	125,272	157,167	151,412	131,866	115,921	99,442	92,103	76,014
Amortisation of acquired intangible assets	<b>(27,183)</b>	(26,811)	(20,886)	(14,940)	(12,147)	(7,399)	(3,921)	(1,718)	(1,153)	(1,125)
Disposal of property	-	-	-	-	-	-	-	-	587	-
Other adjustments	<b>(17,007)</b>	-	-	-	-	-	-	-	-	-
Operating profit	<b>85,972</b>	93,777	104,386	142,227	139,265	124,467	112,000	97,724	91,537	74,889
Net interest	<b>(5,386)</b>	(2,707)	(2,517)	(1,062)	(1,268)	(273)	550	131	(621)	862
Profit before taxation	<b>80,586</b>	91,070	101,869	141,165	137,997	124,194	112,550	97,855	90,916	75,751
Tax expense	<b>(24,973)</b>	(23,897)	(27,012)	(37,963)	(38,488)	(34,879)	(32,149)	(28,334)	(26,884)	(22,331)
Profit for the year	<b>55,613</b>	67,173	74,857	103,202	99,509	89,315	80,401	69,521	64,032	53,420
Dividends	<b>45,218</b>	43,876	43,765	42,702	38,735	33,924	49,534	35,912	24,102	29,970
Basic EPS	<b>6.4p</b>	7.7p	8.6p	11.9p	11.5p	10.3p	9.3p	8.1p	7.4p	6.2p
Adjusted* EPS	<b>10.6p</b>	10.0p	10.4p	13.2p	12.5p	10.9p	9.6p	8.2p	7.5p	6.3p
Diluted EPS	<b>6.4p</b>	7.7p	8.6p	11.9p	11.4p	10.3p	9.3p	8.0p	7.4p	6.2p

\* Adjusted is before the amortisation of acquired intangible assets, the disposal of property, and other adjustments, comprising goodwill impairment, release of contingent consideration and restructuring costs.

**f) Other receivables in the Company balance sheet**

	2017	2016
Prepayments	153	485
Corporation tax	–	172
Other receivables	5	86
	<b>158</b>	<b>743</b>

**g) Other payables in the Company balance sheet**

	2017	2016
Other taxes and social security	47	52
Corporation tax	1,319	–
Other payables	1,673	1,455
Accruals	2,178	1,142
	<b>5,217</b>	<b>2,649</b>

The Company has a £17,000,000 gross overdraft facility (2016: £25,000,000) and is part of a UK banking arrangement, see note h.

**h) Contingencies in the Company**

The UK banking arrangements are subject to cross-guarantees between the Company and its UK subsidiaries. These accounts are subject to a right of set-off. The performance guarantees and indemnities have been entered into in the normal course of business. A liability would only arise in the event of the Group failing to fulfil its contractual obligations.

The £20,000,000 committed 364 day facility matured in August 2017. The Company negotiated to extend the term facility of £75,000,000 (2016: £90,000,000) to August 2019. The Company has a £60,000,000 Revolving Credit Facility (2016: £60,000,000) which matures in August 2020. The facilities are available to the Company, Rotork Controls Limited and Rotork Overseas Limited. At year end £75,000,000 of the committed facilities were drawn, resulting in £60,000,000 being available.

**i) Capital and reserves in the Company balance sheet**

Details of the number of ordinary shares in issue and dividends paid in the year are given in note 17 to the Group Financial Statements.

**NOTES TO THE COMPANY FINANCIAL STATEMENTS** CONTINUED  
FOR THE YEAR ENDED 31 DECEMBER 2017

**d) Investments in the Company balance sheet** continued

Subsidiary	Incorporated in	Registered address
<b>100% owned by Bifold Fluidpower Limited</b>		
Fluidpower (Stainless Steel) Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
<b>100% owned by Rotork Germany Holdings GmbH</b>		
Max Process GmbH	Germany	Rastenweg 10, 53489 Sinzig
Schischek GmbH	Germany	Mühlsteig 45, 90579 Langenzenn
Schischek Produktion Technischer Geräte GmbH	Germany	Mühlsteig 45, 90579 Langenzenn
Rotork GmbH	Germany	Mühlsteig 45, 90579 Langenzenn
<b>100% owned by Rotork AG</b>		
Schischek Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Schischek EURL	France	49 avenue du Président Salvador Allende, 77100 Meaux, France
Schischek Srl	Italy	Ranica (BG) - Via Adelasio 22, Italy
<b>60% owned by Max Process GmbH</b>		
GT Attuatori Europe GmbH	Germany	Rastenweg 10, 53489 Sinzig
<b>40% owned by Rotork Germany Holdings GmbH</b>		
GT Attuatori Europe GmbH	Germany	Rastenweg 10, 53489 Sinzig
<b>100% owned by Schischek Produktion Technischer Geräte GmbH (Germany)</b>		
Schischek Sales Europe Ltd	England and Wales	Mühlsteig 45, 90579 Langenzenn
<b>100% owned by Robusta Miry Brook BV</b>		
Rotork Servo Controles de Mexico S.A de C.V	Mexico	Centeotl 223, Col. Industrial San Antonio, C.P. 02760, Azcapotzalco, Ciudad de Mexico, Mexico
<b>100% owned by Rotork Controls (Iberia) SL</b>		
Actuation Iberia S.L	Spain	C/ Ercilla, 21. , 48009 , Bilbao (Vizcaya), Spain
Centork Valve Control S.L	Spain	Pol. Ind. Ipintza 110, Txatxamendi 24-26 – 20100 Lezo (Gipuzkoa) – Spain
<b>100% owned by Rotork Instruments Italy Srl</b>		
Soldo Controls USA Inc	USA	FBT Ohio, Inc., 3300 Great American Tower, 301 E. Fourth Street, Cincinnati, OH 45202 USA

**e) Deferred tax assets and liabilities in the Company balance sheet**  
*Deferred tax assets and liabilities are attributable to the following:*

	Assets 2017	Liabilities 2017	Net 2017	Assets 2016	Liabilities 2016	Net 2016
Tangible fixed assets	8	–	8	4	–	4
Provisions	142	–	142	141	–	141
Share-based payments	–	–	–	–	–	–
	<b>150</b>	<b>–</b>	<b>150</b>	<b>145</b>	<b>–</b>	<b>145</b>

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

	2017	2016
Balance at 1 January	145	51
Credited to the income statement	5	94
Charged directly to equity in respect of share-based payments	–	–
	<b>150</b>	<b>145</b>

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

Subsidiary	Incorporated in	Registered address
Rotork AG	Switzerland	Fuchsacker 678, 9426 Lutzenberg, Switzerland
Rotork Inc	USA	The Corporation Trust Company, Corporation Trust Center, 1209 Orange St., Wilmington, DE 19801 USA
Rotork Controls de Venezuela SA	Venezuela	Av. Casanova Torre banco plaza, piso 3 Ofic. 3D. Sabana Grande. Caracas – Venezuela
Rotork Turkey Akış Kontrol Sistemleri Ticaret Limited Şirketi	Turkey	Aydinli Mahallesi Melodi Sok. Bilmo Küçük Sanayi Sitesi No:35/2 Tuzla, Turkey
<b>100% owned by Valvekits Limited</b> Circa Engineering Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
<b>100% owned by Rotork Trading (Shanghai) Co Limited</b> Centork Trading (Shanghai) Co. Ltd	China	Room C-02, 1/F, West Area No. 2 Building, No. 29 Jiatai Road, Free Trade Zone, Shanghai, China
Rotork Instruments Chengdu Co. Ltd	China	Room 1201, 12/F, Unit No.1, Building No. 1, Building I, 88 Shenghe No.1 Road, High Tech Zone, Chengdu, Sichuan, China 610041
<b>100% owned by Rotork UK Limited</b> Prokits Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Flowco Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
<b>100% owned by Rotork Italy Holdings Srl</b> Rotork Controls Italia Srl	Italy	Viale Europa n.17 – 20090 Cusago (Milano) Italy
Rotork Instruments Italy Srl	Italy	Viale Europa n.17 – 20090 Cusago (Milano) Italy
Rotork Fluid Systems Srl	Italy	Via Padre Jacques Hamel, 138/B – 55016 Porcari (Lucca) Italy
Rotork Gears Srl	Italy	Viale Europa n.17 – 20090 Cusago (Milano) Italy
<b>100% owned by Rotork Gears Holding BV</b> Rotork Gears BV	The Netherlands	Nijverheidstraat 25, 7581 PV, Overijssel, The Netherlands
<b>100% owned by Rotork Inc</b> Rotork (Thailand) Limited	Thailand	35/8 Soi Ladprao124 (Sawasdikarn) Ladprao Road, Plubpla, Wangtonglang, Bangkok 10310 Thailand
Rotork Controls Inc	USA	675 Mile Crossing Blvd., Rochester, NY 14624, USA
Ralph A Hiller Company	USA	6005 Enterprise Drive, Export, PA 15632, USA
Remote Control Inc	USA	77 Circuit Drive, North Kingstown, RI 02852, USA
Ranger Acquisition Corporation	USA	The Corporation Trust Company, Corporation Trust Center, 1209 Orange St., Wilmington, DE 19801 USA
<b>100% owned by Ranger Acquisition Corp</b> Fairchild Industrial Products Company	USA	3920 West Point Blvd, Winston-Salem, NC 27103, USA
Rotork Tulsa Inc	USA	4433 W 49th Suite D, Tulsa, OK 74017, USA
<b>100% owned by Fairchild Industrial Products Company</b> Fairchild Industrial Products (Sichuan) Company Limited	China	Room 1201, Complex Square, No.88 West Shenghe No.1 Road, High Tech Zone, Chengdu, Sichuan, China. 610041
Fairchild India Private Limited	India	56-C/Bb, Janakpuri, New Delhi-110058
<b>100% owned by Bifold Group Limited</b> Bifold Fluidpower (Holdings) Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
<b>100% owned by Bifold Fluidpower (Holdings) Limited</b> Bifold Fluidpower Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
MTS Precision Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Marshalsea Hydraulics Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Bifold Company (Manufacturing) Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ

**NOTES TO THE COMPANY FINANCIAL STATEMENTS** CONTINUED  
FOR THE YEAR ENDED 31 DECEMBER 2017

**d) Investments in the Company balance sheet**  
*Shares in Group companies*

	2017	2016
At 1 January and 31 December	<b>43,205</b>	43,205

The Company has the following investments in wholly owned subsidiaries:

Subsidiary	Incorporated in	Registered address
<b>100% owned by Rotork plc</b>		
GH Chaplain & Co (Engineers) Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Rotork Analysis Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Rotork Cleaners Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Rotork Control and Safety Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Rotork Instruments Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Rotork Nominees Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Widcombe (Developments) Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Rotork Controls Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Rotork Overseas Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
<b>100% owned by Rotork Controls Limited</b>		
Rotork Actuation (Shanghai) Co Limited	China	Building G, No.260 Liancao Road, Minhang District, Shanghai, PRC 201108
Rotork Trading (Shanghai) Co Limited	China	Room 1177, No.400, Middle Zhejiang Road, HuangPu District, Shanghai, China
Rotork Controls (India) Private Limited	India	28B, Ambattur Industrial Estate (North Phase), Ambattur, Chennai 600 098, India
Rotork UK Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Valvekits Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
<b>100% owned by Rotork Overseas Limited</b>		
Rotork Australia Pty Limited	Australia	Level 26, 181 William Street, Melbourne, VIC, 3000, Australia
Rotork Controls Comercio De Atuadores LTDA	Brazil	Rodovia SP 73, 4509 – Armazem Modulo 14 – NR Cond., Indaiatuba – SP, Brazil
Rotork Controls (Canada) Limited	Canada	#4-2850 Argentia Road, Mississauga, Ontario, L5N-8G4, Canada
Rotork Chile SpA	Chile	Rotork es Presidente Kennedy 4700, Oficina 1001, Vitacura, Chile
Bifold Group Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Rotork Midland Limited	England and Wales	Rotork House, Brassmill Lane, Bath BA1 3JQ
Rotork Motorisation SAS	France	75, rue Rateau 93126 La Courneuve Cedex, France
Rotork Controls (Deutschland) GmbH	Germany	Siemensstr. 33, 40721 Hilden, Germany
Rotork Germany Holdings GmbH	Germany	Mühlsteig 45, 90579 Langenzenn, Germany
Rotork Limited	Hong Kong	Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
Eltav Wireless Monitoring Limited	Israel	15 Hata'asia St. Ra'anana, Israel 4365408
Rotork Italy Holdings Srl	Italy	Corso di Porta Vittoria 9 (Milano) Italy
Rotork Japan Co Limited	Japan	2-2-24 Sengoku, Koto-ku, Tokyo, 135-0015 Japan
Rotork Middle East FZE	Jebel Ali Free Zone	PUB-LC 07, near R/A 08, PO Box 262903, Jebel Ali Free Zone, Dubai, United Arab Emirates
Rotork (Malaysia) Sdn Bhd	Malaysia	1-17-1, Menara Bangkok Bank, Berjaya Central Park, No 105, Jalan Ampang, 50450 Kuala Lumpur, Malaysia
Rotork Actuation Sdn Bhd	Malaysia	No 32, Jln angerik Mokara 31/47, Kota Kemuning, 40460 Shah Alam, Malaysia
Rotork BV	The Netherlands	Mandenmakerstraat 45, 3194 DA Hoogvliet, The Netherlands
Rotork Gears Holding BV	The Netherlands	Nijverheidstraat 25, 7581 PV Losser, The Netherlands
Robusta Miry Brook BV	The Netherlands	Strawinskylaan 3127, 8th floor, 1077 ZX Amsterdam, The Netherlands
Rotork Norge AS	Norway	Ormahaugvegen 3, 5347 Ågotnes, Norway
Rotork Polska zoo	Poland	Tarnogórska 241, 44-100 Gliwice, Poland
Rotork Rus Limited	Russia	Offices 203-205, ul. Otradnaya 2B, bld. 3, 127273 Moscow, Russia
Rotork Controls (Singapore) Pte Limited	Singapore	426 Tagore Industrial Ave, Singapore 787808
Rotork Africa (Pty) Limited	South Africa	136 Kuschke Street, Meadowdale Ext3, Germiston, 1601 South Africa
Rotork Controls (Korea) Co Limited	South Korea	509, 5th Floor Leader's Bldg 342-1, Yatap-Dong, Bundang-gu, Seongnam si, Gyeonggi-do, South Korea 463-828
Young Tech Co Limited	South Korea	81, Hwangeum-ro, 89beon-gil, Yangchon-eup, Gimpo-si, Gyeonggi-do, Korea 10048
Rotork Controls (Iberia) SL	Spain	Larrondo Beheko Etorbidea, Edificio 2 – 48180 Loui (Bizkaia) Spain
Rotork Sweden AB	Sweden	Box 80, 791 22 Falun, Sweden

**Deferred taxation**

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

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

**Dividends**

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

**b) Personnel expenses in the Company profit and loss account**

	2017	2016
Wages and salaries (including bonus and incentive plans)	3,739	3,028
Social security costs	506	334
Pension costs	185	251
Share-based payment charge	255	452
	<b>4,685</b>	<b>4,065</b>

During the year there were 21 (2016: 17) employees of Rotork plc plus the two (2016: three) executive directors.

Disclosures required by paragraph 1 of schedule 5 of SI2008/410 are set out in the Director's Remuneration Report on pages 68 to 83.

**Share-based payments**

The share-based payment charge relates to employees of the Company participating in the Long Term Incentive Plan (LTIP). The disclosures required under IFRS 2 can be found in note 25 to the Group Financial Statements. The table below sets out the movement of share options under the LTIP for employees of the Company.

	Outstanding at start of year	Granted during year	Vested during year	Lapsed	Outstanding at end of year
2014 Award	316,920	–	–	(316,920)	–
2015 Award	400,940	–	–	(30,900)	370,040
2016 Award	804,898	–	–	(190,407)	614,491
2017 Award	–	600,162	–	(329,360)	270,802
	1,522,758	600,162	–	(867,587)	1,255,333

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

**c) Property, plant and equipment in the Company balance sheet**

	Plant and equipment	Total
<b>Cost</b>		
At 1 January 2017	221	221
Additions	–	–
<b>At 31 December 2017</b>	<b>221</b>	<b>221</b>
<b>Depreciation</b>		
At 1 January 2017	149	149
Charge for year	42	42
<b>At 31 December 2017</b>	<b>191</b>	<b>191</b>
<b>Net book value</b>		
<b>At 31 December 2017</b>	<b>30</b>	<b>30</b>
At 31 December 2016	72	72

## NOTES TO THE COMPANY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### **a) Accounting policies**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements. Notes a to i relate to the Company rather than the Group. Except where indicated, values in these notes are in £000.

### **Basis of preparation**

The financial statements have been prepared under the historical cost convention.

The Company has applied Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) issued by the Financial Reporting Council (FRC) incorporating the Amendments to FRS 101 issued by the FRC in July 2015, and the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015. In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

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

The Company produces consolidated financial statements which are prepared in accordance with International Financial Reporting Standards. As the consolidated financial statements of the Company include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments; and
- The disclosures required by IFRS 7 and IFRS 13 regarding financial instrument disclosures have not been provided.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee. The Company accounts for intra-group cross guarantees under IAS 37.

As permitted by s408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account or statement of comprehensive income for the year. The profit attributable to the Company is disclosed in the footnote to the Company's balance sheet.

### **Foreign currencies**

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

### **Investments in subsidiaries**

Investments are measured at cost less any provision for impairment and comprise investments in subsidiary companies.

### **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Plant and machinery is depreciated by equal annual instalments by reference to their estimated useful lives and residual values at annual rates of between 10% and 33%. Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

### **Post-retirement benefits**

The Company participates in a UK Group pension scheme providing benefits based on final pensionable salary. The assets of the scheme are held separately from those of the Company. The sponsoring employer for the Group pension scheme is Rotork Controls Ltd. No contractual agreement or policy is in place for charging to individual Group entities the net defined benefit cost for the plan as a whole. As a result, in accordance with IAS 19, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

### **Classification of preference shares**

In line with the requirements of IAS 32, Financial Instruments, the cumulative redeemable preference shares issued by the Company are classified as long term debt. The preference dividends are charged within interest payable.

### **Share-based payments**

The Company has adopted IFRS 2 and its policy in respect of share-based payment transactions is consistent with the Group policy shown in note 1 to the Group financial statements. Costs in relation to share-based awards made to other Group company employees are recharged to each subsidiary company.

## ROTORK PLC COMPANY STATEMENT OF CHANGES IN EQUITY

AT 31 DECEMBER 2017

	Share capital £000	Share premium £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
Balance at 31 December 2015	4,349	10,018	1,644	155,031	171,042
Total comprehensive income for the year	-	-	-	61,600	61,600
Equity settled share-based payment transactions	-	-	-	1,557	1,557
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	1,644	175,495	191,971
Total comprehensive income for the year	-	-	-	67,439	67,439
Equity settled share-based payment transactions	-	-	-	1,089	1,089
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)
<b>Balance at 31 December 2017</b>	<b>4,352</b>	<b>11,193</b>	<b>1,644</b>	<b>199,949</b>	<b>217,138</b>

# ROTORK PLC COMPANY BALANCE SHEET


AT 31 DECEMBER 2017

	Notes	2017 £000	2016 £000
<b>Non-current assets</b>			
Property, plant and equipment	c	30	72
Investments	d	43,205	43,205
Deferred tax assets	e	150	145
		<b>43,385</b>	<b>43,422</b>
<b>Current assets</b>			
Amounts owed by Group undertakings		178,116	150,327
Other receivables	f	158	743
Cash and cash equivalents		1,977	1,234
		<b>180,251</b>	<b>152,304</b>
<b>Total assets</b>		<b>223,636</b>	<b>195,726</b>
<b>Equity</b>			
Share capital	i	4,352	4,350
Share premium		11,193	10,482
Capital redemption reserve		1,644	1,644
Retained earnings		199,949	175,495
		<b>217,138</b>	<b>191,971</b>
<b>Non-current liabilities</b>			
Preference share capital		40	40
		<b>40</b>	<b>40</b>
<b>Current liabilities</b>			
Trade payables		178	15
Amounts owed to Group undertakings		1,063	1,051
Other payables	g	5,217	2,649
		<b>6,458</b>	<b>3,715</b>
<b>Total equity and liabilities</b>		<b>223,636</b>	<b>195,726</b>

The Company reported a total comprehensive income for the financial year of £67,439,000 (2016: £61,600,000).

These Company financial statements, company number 00578327, were approved by the Board of Directors on 5 March 2018 and were signed on its behalf by:

**MJ Lamb** and **JM Davis**, Directors.



## 27. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2017	2016
Less than one year	5,359	4,775
Between one and five years	12,730	10,351
More than five years	1,179	1,801
	<b>19,268</b>	<b>16,927</b>

Of the £19,268,000 (2016: £16,927,000), £13,996,000 (2016: £13,279,000) relates to property and the balance to plant and equipment.

## 28. Capital commitments

Capital commitments at 31 December for which no provision has been made in these accounts were:

	2017	2016
Contracted	1,238	884

## 29. Contingencies

	2017	2016
Performance guarantees and indemnities	8,375	7,034

The performance guarantees and indemnities have been entered into in the normal course of business. A liability would only arise in the event of the Group failing to fulfil its contractual obligations.

## 30. Related parties

The Group has a related party relationship with its subsidiaries and with its directors and key management. A list of subsidiaries is shown on pages 136 to 138 of these financial statements. Transactions between two subsidiaries for the sale and purchase of products or the subsidiary and Parent Company for management charges are priced on an 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
	<b>4,149</b>	<b>4,649</b>

**NOTES TO THE GROUP FINANCIAL STATEMENTS** CONTINUED  
FOR THE YEAR ENDED 31 DECEMBER 2017

**26. Financial instruments** continued

e) Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, were as follows:

	Carrying amount 2017	Fair value 2017	Carrying amount 2016	Fair value 2016
<b>Loans and receivables</b>				
Trade receivables	145,529	145,529	131,891	131,891
Other receivables	19,344	19,344	22,487	22,487
<b>Financial assets</b>				
Cash and cash equivalents	63,192	63,192	61,423	61,423
<b>Designated cash flow hedges</b>				
Foreign exchange contracts:				
Financial assets	3,468	3,468	–	–
Financial liabilities	(1,766)	(1,766)	(10,626)	(10,626)
<b>Financial liabilities at amortised cost</b>				
Bank loans	(75,762)	(75,762)	(116,299)	(116,299)
Trade and other payables	(91,348)	(91,348)	(81,651)	(81,651)
Contingent consideration	(397)	(397)	(11,708)	(11,708)
Preference shares	(40)	(40)	(40)	(40)
Finance lease liabilities	(5)	(5)	(72)	(72)
	<b>62,215</b>	<b>62,215</b>	<b>(4,595)</b>	<b>(4,595)</b>

**Fair value hierarchy**

The fair value of the Group's outstanding derivative financial assets and liabilities consisted of foreign exchange contracts and swaps and were estimated using year end spot rates adjusted for the forward points to the appropriate value dates, and gains and losses are taken to equity estimated using market foreign exchange rates at the balance sheet date. All derivative financial instruments are categorised at Level 2 of the fair value hierarchy.

The other financial instruments are classified as Level 3 in the fair value hierarchy and are valued as follows:

i) *Trade and other receivables/payables*

As the majority of receivables/payables have a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

ii) *Contingent consideration*

As all the contingent consideration is contractually due for payment within 12 months (2016: 14 months), the carrying amount is equal to the fair value. Further information on the contingent consideration is shown in note 21.

d) **Capital risk management**

The primary objective of the Group's capital management is to ensure it maintains sufficient capital in order to support its business and maximise shareholder value. The Group has an asset-light business model and uses cash generated from operations to either invest organically or by acquisition. The Group manages its capital structure and makes adjustments to it in light of changes in economic and market conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares.

The Group defines capital as net debt plus equity attributable to shareholders. There are no externally imposed restrictions on the Group's capital structure.

The Group monitors capital using the following indicators:

i) *Group net debt*

	Notes	2017	2016
Total borrowings	19	(75,807)	(116,411)
Cash and cash equivalents	16	63,192	61,423
<b>Group net debt</b>		<b>(12,615)</b>	<b>(54,988)</b>

**Reconciliation of changes in cash and cash equivalents to movements in net debt**

Net increase in cash and cash equivalents		4,064	8,688
Repayment of borrowings		40,579	3,619
Repayment of finance lease liabilities		68	253
Effect of exchange rate fluctuations		(2,338)	3,592
<b>Movement in net debt</b>		<b>42,373</b>	<b>16,152</b>
Net debt at start of year		(54,988)	(71,140)
<b>Net debt at end of year</b>		<b>(12,615)</b>	<b>(54,988)</b>

ii) *Return on capital employed*

	Notes	2017	2016
<b>Adjusted operating profit</b>			
Operating profit		85,972	93,777
Amortisation of acquired intangible assets	4	27,183	26,811
Other adjustments	4	17,007	–
		<b>130,162</b>	<b>120,588</b>
<b>Capital employed</b>			
Shareholders' funds		457,200	434,086
Cash and cash equivalents	16	(63,192)	(61,423)
Interest bearing loans and borrowings	19	75,807	116,411
Net debt		12,615	54,988
Pension deficit net of deferred tax		38,924	46,469
		<b>508,739</b>	<b>535,543</b>
Average capital employed		522,141	516,009
Return on capital employed		24.9%	23.4%

**NOTES TO THE GROUP FINANCIAL STATEMENTS** CONTINUED  
FOR THE YEAR ENDED 31 DECEMBER 2017

**26. Financial instruments** continued

Sensitivity analysis

It is estimated that, with all other variables held equal (in particular other exchange rates), a general change of one cent in the value of euro against sterling would have had an impact on the Group's operating profit for the year ended 31 December 2017 of £300,000 (2016: £250,000) and a change of one cent in the value of US dollar against sterling would have had an impact on the Group's operating profit for the year ended 31 December 2017 of £400,000 (2016: £450,000). The method of estimation, which has been applied consistently, involves assessing the transaction impact of US dollar and euro cash flows and the translation impact of US dollar and euro profits.

The following significant exchange rates applied during the year:

	Average rate		Closing rate	
	2017	2016	2017	2016
US dollar	<b>1.29</b>	1.36	<b>1.35</b>	1.24
Euro	<b>1.14</b>	1.22	<b>1.13</b>	1.17

ii) *Interest rate risk*

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

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

	2017	2016
Fixed rate financial liabilities	<b>1,061</b>	203
Floating rate financial liabilities	<b>74,746</b>	116,208
	<b>75,807</b>	116,411

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

The weighted average interest rate of the fixed rate financial liabilities is 2.38% (2016: 2.08%). The weighted average period for which interest rates on the fixed rate financial liabilities are fixed is 1.8 years.

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

	2017	2016
In one year or less	<b>29,928</b>	65,108
In more than one year but not more than two years	<b>44,928</b>	44,968
In more than two years but not more than five years	<b>911</b>	5,600
In more than five years	<b>40</b>	735
Total	<b>75,807</b>	116,411

#### b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group is highly cash generative, and uses monthly cash flow forecasts to monitor cash requirements and to optimise its return on investments. Typically the Group ensures that it has sufficient cash on hand to meet foreseeable operational expenses; it also maintains a £7m overdraft facility (2016: £7m) on which interest would be payable at base rate plus 1.5%.

During 2017 the Group repaid its £20,000,000 committed 364 day facility that matured in August 2017. In addition, the Group repaid £15,000,000 of its £90,000,000 term facility and negotiated to extend the remaining facility to August 2019. The Group has a £60,000,000 Revolving Credit Facility which matures in August 2020. At year end £75,000,000 of the committed facilities were drawn, resulting in £60,000,000 being available.

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

31 December 2017	Carrying amount	Contractual cash flows	Analysis of contractual cash flow maturities			
			Less than 12 months	1-2 years	2-5 years	More than 5 years
Bank loans and overdrafts	75,762	76,064	30,151	44,948	965	-
Finance lease liabilities	5	5	3	2	-	-
Trade and other payables	91,348	91,348	91,348	-	-	-
Contingent consideration	397	397	397	-	-	-
Foreign exchange contracts	1,766	1,766	1,521	245	-	-
Non-redeemable preference shares	40	40	-	-	-	40
	<b>169,318</b>	<b>169,620</b>	<b>123,420</b>	<b>45,195</b>	<b>965</b>	<b>40</b>

31 December 2016	Carrying amount	Contractual cash flows	Analysis of contractual cash flow maturities			
			Less than 12 months	1-2 years	2-5 years	More than 5 years
Bank loans and overdrafts	116,299	116,792	65,349	44,989	5,657	797
Finance lease liabilities	72	74	71	3	-	-
Trade and other payables	81,651	81,651	81,651	-	-	-
Contingent consideration	11,708	11,708	1,708	10,000	-	-
Forward exchange contracts	10,626	10,626	8,143	2,483	-	-
Non-redeemable preference shares	40	40	-	-	-	40
	<b>220,396</b>	<b>220,891</b>	<b>156,922</b>	<b>57,475</b>	<b>5,657</b>	<b>837</b>

Where a counterparty experiences credit stress then the foreign exchange contracts may be settled on a net basis but standard practice is to settle on a gross basis and the undiscounted gross outflow in respect of these contracts is £190,786,000 (2016: £242,288,000) and the gross inflow is £189,127,000 (2016: £231,888,000).

#### c) Market risk

Market risk arises from changes in market prices, such as currency rates and interest rates, and may affect the Group's results. The objective of market risk management is to manage and control market risk within suitable parameters.

##### i) Currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the business unit's functional currency. The currencies primarily giving rise to this risk are the US dollar and related currencies and the euro. The Group hedges up to 75% of forecast US dollar or euro foreign currency exposures using forward exchange contracts. In respect of other non-sterling monetary assets and liabilities the exposures may also be hedged up to 75% where this is deemed appropriate.

As part of the Group's cash management some of the overseas subsidiaries have loan and deposit balances where their intra-group counterparty is in the UK. The balances are typically in local currency for the subsidiary so the UK holds a foreign currency current asset or liability which is usually hedged through the use of foreign exchange swaps. At the balance sheet date only the 'forward' part of the swap remains and this is designated as a cash flow hedge to match the currency exposure of the intercompany loan asset.

The Group classifies its forward exchange contracts (that hedge both the forecast sale and purchase transactions and the intercompany loan and deposit balances) as cash flow hedges and states them at fair value. The net fair value of foreign exchange contracts used as hedges at 31 December 2017 was a £1,702,000 asset (2016: £10,626,000 liability) comprising an asset of £3,468,000 (2016: £nil) and a liability of £1,766,000 (2016: £10,626,000). Forward exchange contracts in place at 31 December 2017 mature in 2018 and 2019.

Changes in the fair value of foreign exchange contracts that economically hedge monetary assets and liabilities in foreign currencies, and for which no hedge accounting is applied, are recognised in the income statement.

## NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

### FOR THE YEAR ENDED 31 DECEMBER 2017

#### 26. Financial instruments

##### *Financial risk and treasury policies*

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

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

##### a) Credit risk

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

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

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

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

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

##### *Exposure to credit risk*

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

	Carrying amount	
	2017	2016
Trade receivables	145,529	131,891
Other receivables	19,344	22,487
Cash and cash equivalents	63,192	61,423
Foreign exchange contracts	-	-
	<b>228,065</b>	<b>215,801</b>

Other receivables consist principally of tax receivables and prepayments. These items do not give rise to significant credit risk.

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

	Carrying amount	
	2017	2016
Sterling	19,646	17,488
US dollar	39,841	35,089
Euro	54,476	53,092
Other	31,566	26,222
	<b>145,529</b>	<b>131,891</b>

##### *Provisions against trade receivables*

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

	Gross 2017	Provision 2017	Gross 2016	Provision 2016
Not past due	100,640	(10)	90,259	(30)
Past due 0-30 days	25,951	(6)	19,575	(85)
Past due 31-60 days	10,012	(81)	11,480	(58)
Past due 61-90 days	4,263	(87)	5,259	(180)
Past due more than 91 days	11,297	(6,450)	12,535	(6,864)
	<b>152,163</b>	<b>(6,634)</b>	<b>139,108</b>	<b>(7,217)</b>

### 2010 LTIP plan

Following shareholder approval of the 2010 LTIP plan at the Company's AGM on 23 April 2010, awards of shares have been made annually to executive and senior managers. For the 2015 and 2016 awards, half of these awards vest under a TSR performance condition and half under an EPS performance condition. A Return on Invested Capital (ROIC) performance condition has been introduced in the 2017 LTIP award, details of which are shown in the 2016 Annual Report & Accounts. A third of the awards vest under each performance condition.

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

For the 2015 awards, the EPS performance condition is satisfied with 15% of the awards vesting if the EPS growth is RPI +10% over the vesting period up to a maximum of 100% vesting if EPS growth exceeds RPI +25%. For the 2016 and 2017 awards, the EPS performance condition is satisfied with 15% of the awards vesting if the EPS growth is 9% over the vesting period up to a maximum of 100% vesting if EPS growth exceeds 35%.

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

The performance period for the 2014 awards ended on 31 December 2016. The TSR element of the award did not vest as the Company was in the 28th percentile relative to the comparator group. The EPS element also did not vest as the growth in EPS did not exceed RPI +10% over the vesting period.

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

	2017	2016
Grant date	<b>8 May 2017</b>	6 April 2016
Share price at grant date	<b>239p</b>	163p
Shares granted under scheme	<b>1,416,628</b>	2,105,244
Vesting period	<b>3 years</b>	3 years
Expected volatility	<b>32.0%</b>	28.4%
Risk free rate	<b>0.2%</b>	0.4%
Expected dividends expressed as a dividend yield	<b>2.1%</b>	3.1%
Probability of ceasing employment before vesting	<b>5% p.a.</b>	5% p.a.
Fair value of awards under TSR performance conditions	<b>114p</b>	85p
Fair value of awards under EPS performance conditions	<b>226p</b>	150p

	Outstanding at start of year	Granted during year	Vested during year	Lapsed	Outstanding at end of year
2014 Award	1,020,500	–	–	(1,020,500)	–
2015 Award	1,184,060	–	–	(223,210)	<b>960,850</b>
2016 Award	2,105,244	–	–	(576,857)	<b>1,528,387</b>
2017 Award	–	1,416,628	–	(428,193)	<b>988,435</b>
	<b>4,309,804</b>	<b>1,416,628</b>	–	<b>(2,248,760)</b>	<b>3,477,672</b>

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

#### c) Overseas profit linked share plan (OPLSS) and the share incentive plan (SIP)

These discretionary profit linked shares schemes are annual schemes based on the prior year profit of participating Rotork companies. The value of the award to each employee is based on salary and length of service and can be up to £3,600.

## NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

### FOR THE YEAR ENDED 31 DECEMBER 2017

#### 25. Share-based payments

The Group awards shares under the Long Term Incentive Plan (LTIP), the Save As You Earn scheme (Sharesave plan), the overseas profit linked share plan (OPLSS) and the share incentive plan (SIP). The equity settled share-based payment expense included in the income statement for each of the plans can be analysed as follows:

	2017	2016
Sharesave plan (a)	566	592
Long Term Incentive Plan (b)	789	1,302
OPLSS/SIP profit linked share scheme (c)	2,035	1,865
<b>Total expense recognised as employee costs (note 6)</b>	<b>3,390</b>	<b>3,759</b>

#### Volatility assumptions for equity-based payments

The expected volatility of all equity compensation benefits is based on the historic volatility (calculated based on the weighted average remaining life of each benefit), adjusted for any expected changes to future volatility due to publicly available information.

##### a) Sharesave plan

UK employees are invited to join the Sharesave plan when an offer is made each year. All the offers to date were made at a 20% discount to market price at the time. There are no performance criteria for the Sharesave plan. Employees are given the option of joining either the three year or the five year scheme.

	3 year scheme		5 year scheme	
	2017	2016	2017	2016
Grant date	<b>2 October</b>	3 October	<b>2 October</b>	3 October
Share price at grant date	<b>262p</b>	215p	<b>262p</b>	215p
Exercise price	<b>189p</b>	168p	<b>189p</b>	168p
Shares granted under scheme	<b>555,917</b>	612,593	<b>264,906</b>	391,454
Vesting period	<b>3 years</b>	3 years	<b>5 years</b>	5 years
Expected volatility	<b>30.7%</b>	29.4%	<b>27.3%</b>	27.7%
Risk free rate	<b>0.53%</b>	0.09%	<b>0.78%</b>	0.25%
Expected dividends expressed as a dividend yield	<b>1.98%</b>	2.4%	<b>1.98%</b>	2.4%
Probability of ceasing employment before vesting	<b>2%</b>	2%	<b>2%</b>	2%
Fair value	<b>82p</b>	56p	<b>83p</b>	57p

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

	2017		2016	
	Average option price per share	Options	Average option price per share	Options
At 1 January	<b>160p</b>	<b>4,541,915</b>	159p	4,367,367
Granted	<b>189p</b>	<b>820,823</b>	168p	1,004,047
Exercised	<b>188p</b>	<b>(378,520)</b>	149p	(285,323)
Forfeited	<b>160p</b>	<b>(437,017)</b>	171p	(544,176)
<b>At 31 December</b>	<b>163p</b>	<b>4,547,201</b>	160p	4,541,915

Of the 4,547,201 outstanding options (2016: 4,541,915), 46,000 are exercisable (2016: 132,000).

The Group received proceeds of £713,000 in respect of the 378,520 options exercised during the year: £2,000 was credited to share capital and £711,000 to share premium. The weighted average share price at date of exercise was 257p (2016: 231p).

The weighted average remaining life of 2,561,903 (2016: 2,389,686) awards outstanding under the 3 year plan is 1.5 years. The weighted average remaining life of 1,985,298 (2016: 2,152,229) awards outstanding under the 5 year plan is 3.2 years.

##### b) Long Term Incentive Plan

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

The demographic assumptions are the same as used for the most recent valuations of the Schemes, except for cash commutation and mortality. For cash commutation, an allowance has been made for 90% of UK Scheme members who have yet to retire to take maximum cash at retirement. The mortality assumptions used for the UK Scheme are the S2NXA year of birth tables (2016: S2NXA) with future improvements in mortality based on the CMI\_2016 projections (2016: CMI\_2015 projections) with a long-term rate of improvement of 1.25% per annum (2016: 1.25%).

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

Current age	2017		2016	
	Life expectancy at age 65		Life expectancy at age 65	
	Male	Female	Male	Female
65	22.2	24.2	22.3	24.4
45	23.6	25.7	24.0	26.3

#### Sensitivity analysis on the Schemes' liabilities

Adjustments to assumptions	Approximate effect on liabilities
<b>Discount rate</b>	
Plus 0.5% pa	(24,000)
Minus 0.5% pa	26,800
<b>Inflation</b>	
Plus 0.5% pa	12,700
Minus 0.5% pa	(11,900)
<b>Salary increase</b>	
Plus 0.5% pa	4,700
Minus 0.5% pa	(4,400)
<b>Life expectancy</b>	
Decrease mortality rates by a factor of 10%	7,300
Increase mortality rates by a factor of 10%	(6,600)

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

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

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

#### Effect of the Schemes on the Group's future cash flows

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

The Group estimates that cash contributions to the Group's defined benefit pension schemes during 2018 will be £3,120,000 for regular payments (2017: £3,590,000) and £5,500,000 of additional payments in relation to past service (2017: £5,500,000).

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

#### ii) Other pension plans

The Group makes a contribution to a number of defined contribution plans around the world to provide benefits for employees upon retirement. Total expense relating to these plans in the year was £5,105,000 (2016: £4,816,000).

**NOTES TO THE GROUP FINANCIAL STATEMENTS** CONTINUED  
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**24. Pension schemes** continued

Expense recognised in the income statement

	2017	2016
Current service costs	<b>3,846</b>	2,983
Administration costs	<b>178</b>	252
Net interest cost	<b>1,607</b>	767
	<b>5,631</b>	4,002

The expense is recognised in the following line items in the income statement

	2017	2016
Cost of sales	<b>1,443</b>	1,083
Administrative expenses	<b>2,581</b>	2,152
Net finance expense	<b>1,607</b>	767
	<b>5,631</b>	4,002

Remeasurements over the year

	2017	2016
Experience adjustments on plan assets	<b>5,007</b>	10,118
Experience adjustments on plan liabilities	<b>2,601</b>	3,167
Actuarial loss from changes to financial assumptions	<b>(7,392)</b>	(55,104)
Actuarial gain from changes to demographic assumptions	<b>5,633</b>	3,896
Experience adjustments on currency	<b>1,099</b>	(1,809)
	<b>6,948</b>	(39,732)

Reconciliation of net defined benefit obligation

	2017	2016
Net defined benefit obligation at the beginning of the year	<b>58,498</b>	23,275
Current service costs	<b>3,846</b>	2,983
Administration costs	<b>178</b>	252
Net financing expense	<b>1,607</b>	767
Remeasurements over the year	<b>(6,948)</b>	39,732
Employer contributions	<b>(8,971)</b>	(8,511)
	<b>48,210</b>	58,498

Liability for defined benefit obligations

The principal actuarial assumptions at 31 December 2017 (expressed as weighted averages):

	UK scheme (% per annum)		US scheme (% per annum)		Weighted average (% per annum)	
	2017	2016	2017	2016	2017	2016
Discount rate	<b>2.4</b>	2.6	<b>3.8</b>	4.4	<b>2.5</b>	2.8
Rate of increase in salaries	<b>3.7</b>	3.9	<b>3.0</b>	3.0	<b>3.6</b>	3.8
Rate of increase in pensions (post May 2000)	<b>3.1</b>	3.3	<b>0.0</b>	0.0	<b>2.8</b>	2.9
Rate of increase in pensions (pre May 2000)	<b>4.6</b>	4.6	<b>0.0</b>	0.0	<b>4.1</b>	4.1
Rate of inflation	<b>3.2</b>	3.4	<b>3.0</b>	3.0	<b>3.2</b>	3.4

In the UK the Retail Price Index is used as the rate of inflation as it is a requirement of the UK Scheme's rules.

The split of the Schemes' quoted assets were as follows:

	2017 Fair value	2016 Fair value
Equities	<b>82,999</b>	83,099
Bonds/LDI	<b>75,146</b>	70,805
Property	<b>16,527</b>	9,534
Cash	<b>635</b>	179
US deposit administration contract	<b>13,537</b>	14,428
Total	<b>188,844</b>	178,045
Actual return on the Schemes' assets	<b>9,931</b>	16,350

## 24. Pension schemes

### i) Defined benefit pension schemes

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

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

The UK Scheme is managed by a Trustee, with directors appointed in part by the Group and part from elections by members of the Scheme. The Trustee has responsibility for obtaining valuations of the fund, administering benefit payments and investing the Scheme's assets. The Trustee delegates some of these functions to its professional advisers where appropriate. The UK Scheme which was closed to new entrants in 2003 will be closed to future accrual from 1 April 2018.

The US Pension Plan is subject to the ERISA funding requirements. A valuation of the Plan is carried out annually to ensure the Funding Objective is met under ERISA by contributing at least the Minimum Required Contribution. As part of this process the Company must contribute to the Plan enough contributions to ensure at least the Minimum Contribution is deposited in the Trust to pay for the accrual of benefits.

The two defined benefit pension arrangements expose the Group to a number of risks:

- Investment risk – the Schemes hold investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term the short-term volatility can cause additional funding to be required if a deficit emerges. The Schemes have a relatively balanced investment in equities, debt instruments and property. Due to the long-term nature of the plan liabilities, the Trustees of the pension funds consider it appropriate that a reasonable portion of the plan assets should be invested in equities and in property to leverage the return generated by the funds.
- Interest rate risk – the Schemes' liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Schemes hold assets such as equities the value of the assets and liabilities may not move in the same way. A decrease in the bond interest rate will increase the Schemes' liabilities but this will be partially offset by an increase in the return of the Schemes' debt investments.
- Inflation risk – a significant proportion of the benefits under the Schemes are linked to inflation. Although the Schemes' assets are expected to provide a good hedge against inflation over the long term, movements over the short-term could lead to deficits emerging.
- Mortality risk – in the event that members live longer than assumed a deficit will emerge in the Schemes.

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

#### Movements in the present value of defined benefit obligations

	2017	2016
Liabilities at 1 January	236,543	180,406
Current service costs	3,846	2,983
Administration costs	178	252
Member contributions	621	601
Interest cost	6,531	6,999
Benefits paid	(7,441)	(6,880)
Actuarial (gain)/loss	(842)	48,041
Currency (gain)/loss	(2,382)	4,141
Liabilities at 31 December	237,054	236,543

#### Movements in fair value of plan assets

	2017	2016
Assets at 1 January	178,045	157,131
Interest income on plan assets	4,924	6,232
Employer contributions	8,971	8,511
Member contributions	621	601
Benefits paid	(7,441)	(6,880)
Return on plan assets, excluding interest income on plan assets	5,007	10,118
Currency (loss)/gain	(1,283)	2,332
Assets at 31 December	188,844	178,045

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FOR THE YEAR ENDED 31 DECEMBER 2017

**19. Interest bearing loans and borrowings**

This note provides information about the contractual terms of the Group's interest bearing loans and borrowings. For more information about the Group's exposure to interest rate, liquidity and currency risks, see note 26.

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

**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
				<b>75,807</b>	<b>116,411</b>

**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
	<b>75,767</b>	<b>302</b>	<b>76,069</b>	<b>116,371</b>	<b>494</b>	<b>116,865</b>

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**22. Trade and other payables**

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

**23. Derivative financial instruments**

	2017 Assets	2017 Liabilities	2016 Assets	2016 Liabilities
Forward foreign exchange contracts – cash flow hedges	<b>367</b>	<b>1,766</b>	–	8,945
Foreign exchange swaps – cash flow hedges	<b>3,101</b>	–	–	1,681
Total	<b>3,468</b>	<b>1,766</b>	–	10,626
<i>Less non-current portion:</i>				
Forward foreign exchange contracts – cash flow hedges	–	<b>245</b>	–	2,483
Current portion	–	<b>1,521</b>	–	8,143

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

There was no ineffectiveness to be recorded from the use of foreign exchange contracts.

The hedged forecast transactions denominated in foreign currency are expected to occur at various dates. Gains and losses in respect of these derivatives recognised in the hedging reserve in equity at 31 December 2017 are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement.

## 20. Employee benefits

	2017	2016
Recognised liability for defined benefit obligations:		
– Present value of funded obligations	237,054	236,543
– Fair value of plan assets	<b>(188,844)</b>	(178,045)
	<b>48,210</b>	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
	<b>73,757</b>	76,849
Non-current	<b>52,293</b>	62,593
Current	<b>21,464</b>	14,256
	<b>73,757</b>	76,849

Defined benefit pension scheme disclosures are detailed in note 24.

## 21. Provisions

	Contingent consideration	Warranty provision	Total
Balance at 1 January 2017	11,708	5,842	17,550
Exchange differences	36	(178)	(142)
Provisions utilised during the year	(1,347)	(1,804)	(3,151)
(Credit)/charge to the income statement	(10,000)	1,987	(8,013)
<b>Balance at 31 December 2017</b>	<b>397</b>	<b>5,847</b>	<b>6,244</b>
<b>Maturity at 31 December 2017</b>			
Non-current	–	1,929	1,929
Current	397	3,918	4,315
	<b>397</b>	<b>5,847</b>	<b>6,244</b>
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.

**18. Earnings per share****Basic earnings per share**

Earnings per share is calculated for both the current and previous years using the profit attributable to the ordinary shareholders for the year. The earnings per share calculation is based on 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
<b>Net profit attributable to ordinary shareholders</b>	<b>55,613</b>	67,173
<b>Weighted average number of ordinary shares</b>		
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
<b>Weighted average number of ordinary shares during the year</b>	<b>869,434</b>	868,666
<b>Basic earnings per share</b>	<b>6.4p</b>	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
<b>Adjusted net profit attributable to ordinary shareholders</b>	<b>91,924</b>	86,949
<b>Weighted average number of ordinary shares during the year</b>	<b>869,434</b>	868,666
<b>Adjusted basic earnings per share</b>	<b>10.6p</b>	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
<b>Net profit attributable to ordinary shareholders</b>	<b>55,613</b>	67,173
<b>Weighted average number of ordinary shares (diluted)</b>		
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
<b>Weighted average number of ordinary shares (diluted) during the year</b>	<b>872,010</b>	872,034
<b>Diluted earnings per share</b>	<b>6.4p</b>	7.7p

**Adjusted diluted earnings per share**

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

**NOTES TO THE GROUP FINANCIAL STATEMENTS** CONTINUED  
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**17. 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. Further details of the share awards are shown in note 25.

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

Within the retained earnings reserve are own shares held. The investment in own shares held is £1,594,000 (2016: £2,738,000) and represents 566,000 (2016: 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
<b>Final proposed dividend per qualifying ordinary share</b>		
3.35p	29,159	
3.15p		27,407

**15. Trade and other receivables**

	2017	2016
<b>Non-current assets:</b>		
Other non-trade receivables	142	146
Other receivables	142	146
<b>Current assets:</b>		
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.

**16. 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

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**13. Deferred tax assets and liabilities**

	Assets 2017	Liabilities 2017	Net 2017	Assets 2016	Liabilities 2016	Net 2016
Property, plant and equipment	495	(1,263)	(768)	435	(985)	(550)
Intangible assets	21	(16,502)	(16,481)	74	(23,829)	(23,755)
Employee benefits	11,428	–	11,428	13,952	(48)	13,904
Inventory	6,276	–	6,276	7,712	–	7,712
Other items	4,398	(3,014)	1,384	6,211	(3,111)	3,100
Net tax assets/(liabilities)	22,618	(20,779)	1,839	28,384	(27,973)	411
Set off of tax	(1,400)	1,400	–	(3,125)	3,125	–
	21,218	(19,379)	1,839	25,259	(24,848)	411

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

	2017	2016
Balance at 1 January	411	(15,275)
Credited to the income statement	5,189	7,852
Credited directly to equity in respect of share-based payments	213	74
Acquired as part of business combinations	–	530
(Charged)/credited directly to equity in respect of pension schemes	(2,140)	7,191
(Charged)/credited directly to hedging reserves in respect of cash flow hedges	(1,358)	1,408
Exchange differences	(476)	(1,369)
Balance at 31 December	1,839	411

A deferred tax asset of £21,218,000 (2016: £25,259,000) has been recognised at 31 December 2017. The directors are of the opinion, based on recent and forecast trading, that the level of profits in the current and future years make it more likely than not that these assets will be recovered.

A deferred tax asset of £1,306,000 (2016: £1,302,000) has not been recognised in relation to capital losses. This asset may be recovered if sufficient capital profits are made in future in the companies concerned. There is no expiry date in relation to this asset.

**14. Inventories**

	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.

## 12. Property, plant and equipment

	Land and buildings	Plant and equipment	Total
<b>Cost</b>			
1 January 2016	50,832	80,594	131,426
Additions	4,511	10,150	14,661
Disposals	(101)	(2,288)	(2,389)
Acquisition through business combinations	-	1,393	1,393
Exchange adjustments	6,410	10,824	17,234
31 December 2016	61,652	100,673	162,325
Additions	3,008	9,397	12,405
Disposals	(1,874)	(911)	(2,785)
Exchange adjustments	868	(1,475)	(607)
<b>31 December 2017</b>	<b>63,654</b>	<b>107,684</b>	<b>171,338</b>
<b>Depreciation</b>			
1 January 2016	10,164	49,254	59,418
Charge for the year	1,892	9,867	11,759
Disposals	(76)	(1,953)	(2,029)
Exchange adjustments	1,504	7,907	9,411
31 December 2016	13,484	65,075	78,559
Charge for the year	2,007	10,225	12,232
Disposals	(195)	(356)	(551)
Exchange adjustments	8	(635)	(627)
<b>31 December 2017</b>	<b>15,304</b>	<b>74,309</b>	<b>89,613</b>
<b>Net book value</b>			
31 December 2016	48,168	35,598	83,766
<b>31 December 2017</b>	<b>48,350</b>	<b>33,375</b>	<b>81,725</b>

The net book value of the Group's plant and equipment includes £4,000 (2016: £410,000) in respect of assets held under finance leases.

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

	2017	2016
Land	7,360	7,107
Buildings	40,990	41,061
Net book value at 31 December	48,350	48,168

It is the Group's policy to test assets for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. No impairment was identified in the year.

**NOTES TO THE GROUP FINANCIAL STATEMENTS** CONTINUED  
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**10. Goodwill** continued

**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.

**11. Intangible assets**

	Research and development costs	Acquired intangible assets			Total
		Brands	Customer relationships	Other	
<b>Cost</b>					
1 January 2016	17,147	45,332	106,147	22,560	191,186
Acquisition through business combinations	–	1,644	4,674	498	6,816
Internally developed	2,958	–	–	–	2,958
Exchange adjustments	290	6,130	11,296	2,357	20,073
31 December 2016	20,395	53,106	122,117	25,415	221,033
Acquisition through business combinations	–	–	–	–	–
Internally developed	3,357	–	–	–	3,357
Exchange adjustments	(47)	(1,036)	(1,637)	(481)	(3,201)
<b>31 December 2017</b>	<b>23,705</b>	<b>52,070</b>	<b>120,480</b>	<b>24,934</b>	<b>221,189</b>
<b>Amortisation</b>					
1 January 2016	9,341	17,045	35,242	11,003	72,631
Charge for the year	2,226	5,788	17,631	3,392	29,037
Exchange adjustments	72	3,105	5,713	1,456	10,346
31 December 2016	11,639	25,938	58,586	15,851	112,014
Charge for the year	2,699	6,436	17,459	3,287	29,881
Exchange adjustments	(14)	(822)	(1,324)	(2)	(2,162)
<b>31 December 2017</b>	<b>14,324</b>	<b>31,552</b>	<b>74,721</b>	<b>19,136</b>	<b>139,733</b>
<b>Net book value</b>					
31 December 2016	8,756	27,168	63,531	9,564	109,019
<b>31 December 2017</b>	<b>9,381</b>	<b>20,518</b>	<b>45,759</b>	<b>5,798</b>	<b>81,456</b>

Other acquired intangible assets represent order books and intellectual property.

The amortisation charge is recognised within administrative expenses in the income statement.

## 10. Goodwill

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

### 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
<b>Total Group</b>		<b>228,028</b>	<b>251,407</b>

### 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 it serves.

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.

**NOTES TO THE GROUP FINANCIAL STATEMENTS** CONTINUED  
FOR THE YEAR ENDED 31 DECEMBER 2017

**9. Income tax expense**

	2017	2017	2016	2016
<b>Current tax:</b>				
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
<b>Total current tax</b>		<b>30,162</b>		<b>31,749</b>
<b>Deferred tax:</b>				
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	
<b>Total deferred tax</b>		<b>(5,189)</b>		<b>(7,852)</b>
<b>Total tax charge for year</b>		<b>24,973</b>		<b>23,897</b>
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
<i>Effects of:</i>				
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)
<b>Total tax charge for year</b>		<b>24,973</b>		<b>23,897</b>
<b>Effective tax rate</b>		<b>31.0%</b>		<b>26.2%</b>
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		-
<b>Adjusted total tax charge for the year</b>		<b>32,852</b>		<b>30,932</b>
<b>Adjusted effective tax rate</b>		<b>26.3%</b>		<b>26.2%</b>

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).

**8. Profit before tax**

Profit before tax is stated after charging the following:

	Notes	2017	2016
Depreciation of property, plant and equipment:			
– Owned assets	i	<b>11,922</b>	11,700
– Assets held under finance lease contracts	i	<b>310</b>	59
Amortisation:			
– Other intangibles	iii	<b>27,183</b>	26,811
– Development costs	iii	<b>2,699</b>	2,226
Inventory write downs recognised in the year	ii	<b>4,144</b>	6,632
Hire of plant and machinery	i	<b>2,560</b>	1,986
Rental of land and buildings under operating leases	i	<b>3,874</b>	3,969
Research and development expenditure	iii	<b>10,678</b>	8,841
Exchange differences realised	iv	<b>1,801</b>	(96)
Audit fees and expenses paid to Deloitte:			
– Audit of the Group financial statements		<b>821</b>	800
– Audit of financial statements of subsidiaries of the Company		<b>237</b>	158
		<b>1,058</b>	958
Other auditors of financial statements of subsidiaries of the Company		<b>11</b>	34
Total audit fees and expenses		<b>1,069</b>	992
Amounts paid to Deloitte and its associates in respect of:			
– Taxation compliance services		–	12
– Taxation advisory services		–	23
– Half year review		<b>44</b>	42
– Corporate finance services		–	–
– Other assurance services		–	6
		<b>44</b>	83

These costs can be found under the following headings in the income statement:

- i. Both within cost of sales and administrative expenses;
- ii. Within cost of sales;
- iii. Within administrative expenses; and
- iv. Within finance income and expenses.

**NOTES TO THE GROUP FINANCIAL STATEMENTS** CONTINUED  
FOR THE YEAR ENDED 31 DECEMBER 2017

**6. Personnel expenses**

	2017	2016
Wages and salaries (including bonus and incentive plans)	<b>147,637</b>	136,557
Social security costs	<b>20,486</b>	18,032
Pension costs (note 24)	<b>8,951</b>	7,799
Share-based payments (note 25)	<b>3,390</b>	3,759
Increase in liability for long term service leave	<b>539</b>	49
	<b>181,003</b>	166,196

	2017 Number	2016 Number
During the year, the average monthly number of employees, analysed by business segment was:		
Controls	<b>1,814</b>	1,781
Fluid Systems	<b>807</b>	860
Gears	<b>466</b>	414
Instruments	<b>651</b>	664
	<b>3,738</b>	3,719
UK	<b>1,012</b>	1,028
Overseas	<b>2,726</b>	2,691
	<b>3,738</b>	3,719

**7. Finance income and expense**

**Recognised in the income statement**

	2017	2016
Interest income	<b>1,206</b>	934
Foreign exchange gains	<b>175</b>	810
Finance income	<b>1,381</b>	1,744

	2017	2016
Interest expense	<b>(3,184)</b>	(2,970)
Interest charge on pension scheme liabilities (note 24)	<b>(1,607)</b>	(767)
Foreign exchange losses	<b>(1,976)</b>	(714)
Finance expense	<b>(6,767)</b>	(4,451)

**Recognised in equity**

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

#### 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 £10,000,000 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 10.

The restructuring costs include:

- Consultancy costs associated with the strategic review.
- Redundancy costs which have arisen following the reorganisation of operations in Italy and Germany.
- 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. Other income and expense

	2017	2016
Release of contingent consideration	10,000	–
Gain on disposal of property, plant and equipment	420	462
Other	231	167
<i>Other income</i>	<b>10,651</b>	629
	2017	2016
Loss on disposal of property, plant and equipment	273	208
Other	41	9
<i>Other expense</i>	<b>314</b>	217

**NOTES TO THE GROUP FINANCIAL STATEMENTS** CONTINUED  
FOR THE YEAR ENDED 31 DECEMBER 2017

**3. Operating segments** continued

	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

### 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](http://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)	–	–
<b>Total revenue</b>	<b>325,174</b>	<b>150,117</b>	<b>83,900</b>	<b>100,622</b>	<b>(17,584)</b>	<b>–</b>	<b>642,229</b>
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)
<b>Profit for the year</b>							<b>55,613</b>

	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)	–	–
<b>Total revenue</b>	<b>298,381</b>	<b>145,317</b>	<b>72,379</b>	<b>91,170</b>	<b>(17,169)</b>	<b>–</b>	<b>590,078</b>
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)
<b>Profit for the year</b>							<b>67,173</b>

\* 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 (see note 4)

## NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

### FOR THE YEAR ENDED 31 DECEMBER 2017

#### 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	<b>80,586</b>	91,070
<i>Adjustments:</i>		
Amortisation of acquired intangible assets	<b>27,183</b>	26,811
Impairment of goodwill	<b>21,594</b>	–
Release of contingent consideration	<b>(10,000)</b>	–
Restructuring costs	<b>5,413</b>	–
<b>Adjusted profit before tax</b>	<b>124,776</b>	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 18). Adjusted net profit attributable to ordinary shareholders is calculated as follows:

	2017	2016
Net profit attributable to ordinary shareholders	<b>55,613</b>	67,173
<i>Adjustments:</i>		
Amortisation of acquired intangible assets	<b>27,183</b>	26,811
Impairment of goodwill	<b>21,594</b>	–
Release of contingent consideration	<b>(10,000)</b>	–
Restructuring costs	<b>5,413</b>	–
Tax effect on adjusted items	<b>(7,879)</b>	(7,035)
<b>Adjusted net profit attributable to ordinary shareholders</b>	<b>91,924</b>	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 18).

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

**Dividends**

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

**Critical accounting estimates and judgements**

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

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

**i) Critical accounting judgements****Impairment of intangible assets**

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

Impairment testing requires management to judge whether the carrying value of assets can be supported by the net present value of future cash flows that they generate. Calculating the net present value of the future cash flows requires estimates to be made in respect of uncertain matters, including management's expectations of growth in operating profit, long-term growth rates and appropriate discount rates to reflect the risks involved. Further explanations and sensitivities in respect of the current year impairment review are detailed in note 10.

**ii) Key sources of estimation uncertainty****Retirement benefits**

The Group's financial statements include costs in relation to, and provisions for, retirement benefit obligations. Management is required to estimate the future rates of inflation, salary increases, discount rates and longevity of members, each of which may have a material impact on the defined benefit obligations that are recorded. Sensitivities to changes in key estimates affecting the pension schemes' liabilities are shown in note 24.

## NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

### FOR THE YEAR ENDED 31 DECEMBER 2017

#### 1. Accounting policies continued

##### **Provisions**

###### i) Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty cost data, known issues and management expectations of future costs.

###### ii) Contingent consideration

The terms of an acquisition may provide that the value of the purchase consideration, which may be payable in cash at a future date, depends on uncertain future events. The amounts recognised in the financial statements represent a fair value estimate at the balance sheet date of the amounts expected to be paid.

##### **Employee benefits**

###### i) Pension plans

Where the Group operates a defined benefit pension scheme, contributions are made in accordance with the schedule of contributions agreed with the Trustees. In respect of all actuarial gains and losses that arise in calculating the Group's obligation in respect of the plans, these are recognised in equity. The retirement benefit obligation recognised in the consolidated balance sheet represents the deficit in the Group's defined benefit pension schemes. Interest on pension scheme liabilities has been recognised within financing expenses.

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

###### ii) Share-based payment transactions

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

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

The overseas profit linked share plan (OPLSS) and the share incentive plan (SIP) are discretionary profit linked share schemes based on the prior year profit of the participating Rotork companies. The value of the award to each employee is based on salary and the length of service, the value of the awards can be up to £3,600. Shares awarded under these schemes are issued by the trustee at the cost of purchase. The costs of providing these plans are recognised in the income statement over the period to which the employee has earned the award.

###### iii) Long term service leave

The Group's net obligation in respect of long term service leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

###### iv) Other employee benefits

The Group offers a number of discretionary bonus schemes to employees around the world. The costs of these schemes are recognised in the income statement as incurred.

##### **Derivative financial instruments**

The Group uses forward exchange contracts and swaps to hedge its exposure to foreign exchange risk arising from operational and financing activities. These are the only derivative financial instruments used by the Group. In accordance with its Treasury Policy, the Group does not hold or issue contracts for trading purposes. Forward exchange contracts that do not qualify for hedge accounting are accounted for as trading instruments.

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

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

ii) Other intangible assets

Other intangible assets that are acquired by the Group as part of a business combination are stated at cost less accumulated amortisation and impairment losses. The useful life of each of these assets is assessed based on discussions with the management of the acquired business and takes account of the differing natures of each of the intangibles acquired. The assessed useful lives of intangibles acquired are as follows:

Brands and trademarks	4 to 10 years
Customer relationships	2 to 8 years
Product design patents	4 to 8 years
Order backlog	3 months to 1 year

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

**Property, plant and equipment**

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

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

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

**Leases**

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

**Interest-bearing loans and borrowings**

Obligations for loans and borrowings are recognised when the Group becomes party to the related contracts and are measured initially at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**Taxation**

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

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

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

**Inventory and work in progress**

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

**Cash and cash equivalents**

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

**Equity**

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

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

# NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

## FOR THE YEAR ENDED 31 DECEMBER 2017

### 1. Accounting policies continued

#### **Foreign currencies**

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purposes of the consolidated financial statements, the results and financial position of each Group company is expressed in sterling, which is the functional currency of the Company, and the presentational currency for the consolidated financial statements.

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

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

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

#### **Revenue**

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

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

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

#### **Business combinations**

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

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- The fair value of the existing equity interest in the acquiree; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the income statement. The fair value of the assets and liabilities assumed are provisional for a 12 month period. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Goodwill is stated at cost or deemed cost less any impairment losses. Goodwill is not amortised but is reviewed for impairment annually. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash generating units (CGUs) expected to benefit from the synergies of the combination. An impairment loss is recognised whenever the carrying value of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in the income statement.

#### **Intangible assets**

##### i) Research and development

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

### 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 in note 27. 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 to the financial statements.

### 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.

# 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). The accounting policies contained below in note 1 and the disclosures in notes 2 to 30 all relate to the Group financial statements. The Company balance sheet, accounting policies and applicable notes can be found following note 30.

### 1. Accounting policies

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

#### **Basis of preparation**

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

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

#### **New accounting standards and interpretations**

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.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £000	2017 £000	2016 £000	2016 £000
<b>Cash flows from operating activities</b>					
Profit for the year		55,613		67,173	
<i>Adjustments for:</i>					
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	
		<b>148,336</b>		<b>138,078</b>	
(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	
		<b>134,448</b>		<b>151,568</b>	
Income taxes paid		(28,243)		(32,876)	
<b>Cash flows from operating activities</b>			<b>106,205</b>		<b>118,692</b>
<b>Investing activities</b>					
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	
<b>Cash flows from investing activities</b>			<b>(12,857)</b>		<b>(59,054)</b>
<b>Financing activities</b>					
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)	
<b>Cash flows from financing activities</b>			<b>(89,284)</b>		<b>(50,950)</b>
<b>Increase in cash and cash equivalents</b>			<b>4,064</b>		<b>8,688</b>
Cash and cash equivalents at 1 January			61,423		48,968
Effect of exchange rate fluctuations on cash held			(2,295)		3,767
<b>Cash and cash equivalents at 31 December</b>	16		<b>63,192</b>		<b>61,423</b>

## 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
<b>Other comprehensive income</b>							
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
<b>Transactions with owners, recorded directly in equity</b>							
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
<b>Other comprehensive income</b>							
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
<b>Transactions with owners, recorded directly in equity</b>							
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)
<b>Balance at 31 December 2017</b>	<b>4,352</b>	<b>11,193</b>	<b>31,766</b>	<b>1,644</b>	<b>(1,147)</b>	<b>409,392</b>	<b>457,200</b>

Detailed explanations for equity capital, the translation reserve, capital redemption reserve and hedging reserve can be seen in note 17.

# CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2017

	Notes	2017 £000	2016 £000
<b>Non-current assets</b>			
Goodwill	10	228,028	251,407
Intangible assets	11	81,456	109,019
Property, plant and equipment	12	81,725	83,766
Deferred tax assets	13	21,218	25,259
Other receivables	15	142	146
<b>Total non-current assets</b>		<b>412,569</b>	<b>469,597</b>
<b>Current assets</b>			
Inventories	14	91,908	85,772
Trade receivables	15	145,529	131,891
Current tax	15	2,726	4,349
Derivative financial instruments	23	3,468	-
Other receivables	15	19,202	22,341
Cash and cash equivalents	16	63,192	61,423
<b>Total current assets</b>		<b>326,025</b>	<b>305,776</b>
<b>Total assets</b>		<b>738,594</b>	<b>775,373</b>
<b>Equity</b>			
Issued equity capital	17	4,352	4,350
Share premium		11,193	10,482
Reserves		32,263	26,451
Retained earnings		409,392	392,803
<b>Total equity</b>		<b>457,200</b>	<b>434,086</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	19	45,879	51,303
Employee benefits	20	52,293	62,593
Deferred tax liabilities	13	19,379	24,848
Derivative financial instruments	23	245	2,483
Provisions	21	1,929	11,947
<b>Total non-current liabilities</b>		<b>119,725</b>	<b>153,174</b>
<b>Current liabilities</b>			
Interest bearing loans and borrowings	19	29,928	65,108
Trade payables	22	49,183	39,652
Employee benefits	20	21,464	14,256
Current tax	22	13,093	13,352
Derivative financial instruments	23	1,521	8,143
Other payables	22	42,165	41,999
Provisions	21	4,315	5,603
<b>Total current liabilities</b>		<b>161,669</b>	<b>188,113</b>
<b>Total liabilities</b>		<b>281,394</b>	<b>341,287</b>
<b>Total equity and liabilities</b>		<b>738,594</b>	<b>775,373</b>

These financial statements were approved by the Board of Directors on 5 March 2018 and were signed on its behalf by:

MJ Lamb and JM Davis, Directors.



## CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £000	2016 £000
<b>Revenue</b>	3	<b>642,229</b>	590,078
Cost of sales		<b>(358,090)</b>	(328,410)
<b>Gross profit</b>		<b>284,139</b>	261,668
Other income	5	<b>10,651</b>	629
Distribution costs		<b>(6,271)</b>	(5,138)
Administrative expenses		<b>(202,233)</b>	(163,165)
Other expenses	5	<b>(314)</b>	(217)
Adjusted operating profit	2,3	<b>130,162</b>	120,588
Adjustments			
– Amortisation of acquired intangible assets	3	<b>(27,183)</b>	(26,811)
– Other adjustments	4	<b>(17,007)</b>	–
<b>Operating profit</b>	2,3	<b>85,972</b>	93,777
Finance income	7	<b>1,381</b>	1,744
Finance expense	7	<b>(6,767)</b>	(4,451)
<b>Profit before tax</b>	8	<b>80,586</b>	91,070
Income tax expense	9	<b>(24,973)</b>	(23,897)
<b>Profit for the year</b>		<b>55,613</b>	67,173
Basic earnings per share	18	<b>6.4p</b>	7.7p
Adjusted basic earnings per share	18	<b>10.6p</b>	10.0p
Diluted earnings per share	18	<b>6.4p</b>	7.7p
Adjusted diluted earnings per share	18	<b>10.5p</b>	10.0p

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

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

**Use of our report**

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

**Report on other legal and regulatory requirements**

**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- The information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

**Matters on which we are required to report by exception**

**Adequacy of explanations received and accounting records**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements are not in agreement with the accounting records and returns.

**We have nothing to report in respect of these matters.**

**Directors' remuneration**

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

**We have nothing to report in respect of these matters.**

**Other matters**

**Auditor tenure**

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 2 June 2014 to audit the financial statements for the year ending 31 December 2014 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is four years, covering the years ending 31 December 2014 to 31 December 2017.

**Consistency of the audit report with the additional report to the Audit Committee**

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

*Nigel Thomas*

NIGEL THOMAS (SENIOR STATUTORY AUDITOR)

For and on behalf of Deloitte LLP

Statutory Auditor

London

5 March 2018

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

Five components that were in full scope audit and two components that were subject to specified audit procedures in 2016, have been subject to review at the Group level in the current year, which is consistent with the remaining entities in the Group.

Due to the significance to the group audit of the 19 components' operations subject to full scope audits, a programme has been designed and implemented for senior members of the group audit team to visit the key components where the group audit scope was focused at least once every three years. As part of the 2017 audit, senior members of the group audit team visited key components in the UK, USA, China, Italy and Spain.

For each of the businesses included within the programme of planned visits, the group audit team also discusses audit findings with the relevant component audit team throughout the audit engagement and reviews relevant audit working papers. For the remaining locations where full scope audits were completed, we discuss audit findings with the relevant component audit team, review audit working papers in relation to key issues and discuss key matters with component management where considered necessary in forming our group audit opinion.

At the parent entity level, we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining 46 components not subject to full scope audit. None of these components represented more than 3% of revenue or profit before taxation individually.

### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

**We have nothing to report in respect of these matters.**

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit committee reporting* – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

### **Responsibilities of directors**

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

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

### **Auditor's responsibilities for the audit of the financial statements**

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Our application of materiality**

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	<b>Group financial statements</b>	<b>Parent company financial statements</b>
<b>Materiality</b>	£5.0m (2016: £4.6m)	£2.8m (2016: £3.6m)
<b>Basis for determining materiality</b>	Materiality was determined as 5.3% of adjusted profit before tax which was determined on the basis of profit before tax adjusted to exclude the impact of the Bifold goodwill impairment charge, release of contingent consideration and restructuring costs (2016: 5% of statutory profit before tax).	2% of net assets, capped at component materiality.
<b>Rationale for the benchmark applied</b>	Adjusted profit before tax reflects the manner in which business performance is reported and assessed by external users of the financial statements. We have adopted this measure in the current year as it provides a consistent year on year basis for determining materiality.	Net assets are considered to be an appropriate benchmark for the Company given that it is mainly a holding company. A set percentage of Group materiality was applied to the Company based upon the scoping of components, assessing the risk within the Company compared to others within the Group.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £250,000 (2016: £229,000) for the Group and £100,000 (2016: £182,000) for the Parent Company, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

**An overview of the scope of our audit**

Our group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at a group level. Our approach was consistent with that adopted in the prior year. Based on that assessment, we focused our group audit scope primarily on the audit work at 19 components, which were subject to a full scope audit.

**Revenue**

**Profit before tax**

The 19 locations represent the principal business units within the Group's four reportable segments across 11 countries and account for 72% of the Group's revenues (2016: 76%), 86% of profit before tax (2016: 87%). They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at these locations was executed at levels of materiality applicable to each individual entity which were lower than Group materiality ranging from £2.0m to £2.8m. The Parent Company is located in Bath and audited directly by the group audit team.

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

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### **Discount factors and growth rates utilised in management's assessment of impairment of goodwill and intangibles, specifically in relation to the Bifold CGU**

<b>Key audit matter description</b>	<p>Refer to the Audit Committee Report, note 1 (Accounting policies), note 10 (Goodwill) and note 11 (Intangible assets).</p> <p>Management is required to assess the carrying value of goodwill and acquired intangibles, and perform an impairment review under IAS 36 "Impairment of Assets" on an annual basis and whenever an indication of impairment exists.</p> <p>The key audit matter identified in relation to the impairment review is focused on the discount factors and future growth rate assumptions used to support the carrying value of goodwill in the Bifold CGU. As disclosed in note 10, the carrying value of goodwill in relation to Bifold is £47.5m (2016: £67.2m) which reflects a goodwill impairment charge of £19.7m.</p> <p>Due to the high level of judgement involved, we have determined that there was a potential for fraud through possible manipulation of this balance.</p>
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<b>How the scope of our audit responded to the key audit matter</b>	<p>We performed the following procedures to address this risk. We have:</p> <ul style="list-style-type: none"><li>• Challenged the reasonableness of forecast growth with reference to recent performance and external market data and checked that the forecast for 2018 was consistent with the Board approved budget;</li><li>• Visited the Bifold operations and made enquiries of Bifold management in relation to the current performance of the business and the growth assumptions in the forecasts;</li><li>• Obtained and reviewed a detailed Management impairment paper which had been considered and approved by the Board;</li><li>• Performed a specific review and challenge, involving our own internal valuations specialists, of the discount rate applied with reference to market data;</li><li>• Recalculated management's sensitivity analysis on key assumptions and replaced key assumptions with alternative scenarios e.g. future growth rates based on external market data; and</li><li>• Considered the adequacy of the Group's disclosures in respect of the impairment recognised and sensitivity of the Bifold CGU to changes in the key assumptions.</li></ul>
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<b>Key observations</b>	<p>From the work performed, we are satisfied that the impairment charge is based on a reasonable and balanced assessment of the range of possible outcomes for the future growth, profitability and cash generation of the Bifold business.</p>
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### **Inflation and discount rate assumptions used in defined benefit pension liability valuation**

<b>Key audit matter description</b>	<p>Refer to the Audit Committee Report, note 1 (Accounting policies) and note 24 (Pension schemes).</p> <p>The Group has a net defined benefit pension liability of £48.2m (gross liabilities of £237.1m) at 31 December 2017 (31 December 2016: £58.5m net liability and £236.5m gross liabilities).</p> <p>There is a risk of material misstatement relating to judgements made in valuing the defined benefit pension scheme liabilities as small changes in the key model input assumptions such as the discount rate and inflation rate can have a significant impact on the valuation of the liability.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>We performed the following procedures to address this risk. We have:</p> <ul style="list-style-type: none"><li>• Utilised our Pensions Analytic tool to challenge the appropriateness of the inflation and discount rate assumptions used in respect of the UK scheme and engaged Deloitte actuarial specialists to consider and challenge the assumptions in respect of the US scheme;</li><li>• Challenged management to understand the sensitivity of changes in assumptions and quantify a range of reasonable rates that could be used in their calculation with reference to comparator company and market data as at 31 December 2017; and</li><li>• We also considered the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to changes in these key assumptions.</li></ul>
<b>Key observations</b>	<p>From the work performed we are satisfied that the key inflation and discount rate assumptions applied in respect of the valuation of the defined benefit pension scheme liability are within a reasonable range.</p>

## Conclusions relating to going concern, principal risks and viability statement

### Going concern

We have reviewed the directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

### Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

- The disclosures on pages 22 to 25 that describe the principal risks and explain how they are being managed or mitigated;
- The directors' confirmation on page 25 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- The directors' explanation on page 25 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

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

## Report on the audit of the financial statements

### Opinion

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- The Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Rotork plc (the 'Parent Company') and its subsidiaries (the 'Group') which comprise:

- The consolidated income statement;
- The consolidated statement of comprehensive income;
- The consolidated and Parent Company balance sheets;
- The consolidated and Parent Company statements of changes in equity;
- The consolidated statement of cash flows;
- The statement of accounting policies; and
- The related notes 1 to 30 and a) to i).

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

### Basis for opinion

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

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Summary of our audit approach

#### Key audit matters

The key audit matters that we identified in the current year were:

- Discount factors and growth rates utilised in management's assessment of impairment of goodwill and intangibles, specifically in relation to Bifold; and
- Inflation and discount rate assumptions used in defined benefit pension scheme valuations.

These key audit matters are consistent with the prior year.

#### Materiality

The materiality that we used for the Group financial statements was £5m which was determined on the basis of adjusted profit before tax.

#### Scoping

Based on our assessment, we identified 19 components which, in our view, required a full scope audit of their financial information in order to ensure that sufficient appropriate audit evidence was obtained, with Europe, North America and China being the largest regions. Our full scope covered 72% of the Group's revenues (2016: 76%) and 86% of profit before tax (2016: 87%).

#### Significant changes in our approach











Last year our report included a key audit matter in respect of manual adjustments to inventory provisions and profit in inventory, which is not included in our report this year. We concluded that these areas did not represent a significant risk of material misstatement in the current year based on the work performed in prior periods, the consistent approach to accounting for these items, and the fact that the manual adjustments to provisions and the profit in inventory adjustment have been stable year on year.

No new key audit matters have been identified in the current year.




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# FINANCIAL STATEMENTS

Identity <sup>(i)</sup>	Size of holding	Nature of holding
Aberdeen Asset Managers Limited	4.99%	Indirect
AXA Investment Managers S.A.	4.99%	Indirect
APG Asset Management NV	5.01%	Direct
Blackrock Inc	4.86%	Indirect
Fiera Capital Corporation	3.92%	Direct
Mondrian Investment Partners Limited	4.91%	Indirect
T. Rowe Price Associates, Inc.	4.97%	Indirect

(i) No changes to the below have been disclosed to the Company in accordance with DTR 5 between the end of the financial year and 5 March 2017.

### Corporate Governance

The Company's Corporate Governance Report can be found on pages 56 to 60.

### Disclosure of information to auditors

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

### 'Going concern' basis of preparation

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

### Statement of directors' responsibility for preparing the Annual Report and financial statements

#### Directors' responsibilities

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

Company law requires the directors to prepare such financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the European Union. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

### Directors' responsibility statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

### Directors' statement pursuant to the Disclosure Guidance and Transparency Rules

Each of the directors, whose names and functions are listed on pages 54 to 55 confirm that, to the best of each person's knowledge and belief:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company;
- The Report of the Directors includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face; and
- Having taken advice from the Audit Committee, the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategies.

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

### External auditor

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

On behalf of the Board

STEPHEN RHYS JONES  
Company Secretary  
5 March 2018



## REPORT OF THE DIRECTORS

The directors submit their report which incorporates the management report required under the Disclosure Guidance and Transparency Rules for listed companies and the audited accounts for the year ended 31 December 2017 as set out on pages 94 to 139. In compiling this report, the directors have consulted with the management of the Group.

### Directors

The names of the directors in office during the year still in office at the year end, and their biographies and other details, are set out on pages 54 to 55. John Nicholas and Peter France were directors during the year and resigned on 24 February 2017 and 27 July 2017, respectively.

### Directors' indemnification and insurance

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

### Powers of the directors

As set out in the Company's articles of association, the business of the Company is managed by the Board who may exercise all the powers of the Company.

### Appointment and removal of directors

The Board may appoint a director, either to fill a vacancy or as an additional director. Any director appointed by the Board must retire at the next AGM of the Company and put themselves forward for re-appointment by the shareholders. In accordance with the recommendations of the Code, each member of the Board submits them self for re-election on an annual basis.

In addition to any power of removal conferred by the Companies Act 2006, the Company may by ordinary resolution remove any director before the expiration of their period of office and may, subject to the articles of association, by ordinary resolution appoint another person who is willing to act as a director in their place.

### Political donations

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

### Dividend

The directors recommend a final dividend of 3.35p per ordinary share (2016: 3.15p) for the year, payable on 23 May 2018 to shareholders on the register on 6 April 2018. An interim dividend for 2017 of 2.05p per ordinary share (2016: 1.95p) was paid on 22 September 2017.

### Information required in the Report of the Directors' set out in the Strategic Report

Information relating to likely future developments of the Company and its subsidiaries and information relating to research and development activities of the Company and its subsidiaries is set out in the Strategic Report on pages 2 to 51.

### Use of financial instruments

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

### Post-balance sheet events

There have been no important post-balance sheet events.

### Existence of branches outside the UK

The Company has no branches outside of the UK.

### Share capital

Details of the Company's share capital including the rights and obligations attached to each class of shares and the ordinary shares issued during 2017 are summarised in note 17 of the financial statements. 0.5p ordinary shares represent over 99.9% of the Company's total share capital and £1 9.5% cumulative preference shares represent less than 0.1% of the Company's total share capital.

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

At the Company's last AGM held on 28 April 2017, the shareholders authorised the Company to make market purchases of ordinary shares limited to just under approximately 10% of its issued ordinary share capital at that time and of certain issued preference shares, and to allot shares within certain limits approved by shareholders. These authorities expire at the 2018 AGM and appropriate renewals will be sought.

The Company did not acquire any of its own shares in 2017.

The Company's articles of association contain customary restrictions on the transfer of shares as applicable only in certain limited circumstances (e.g. in relation to transfers to a minor). Save for those provisions, there are no restrictions on the transfer of ordinary shares in the capital of the Company other than certain restrictions which may be required from time to time by law, for example, insider trading law. In accordance with the Company's share dealing code, directors and certain employees are required to seek the prior approval of the Company to deal in its shares. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights. The Company's articles of association contain limited restrictions on the exercise of voting rights (e.g. in relation to disenfranchised shares following the issue of a notice to shareholders under section 793 Companies Act 2006).

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

### Amendments to the Company's articles of association

The Company's articles of association may only be amended by special resolution at a general meeting of the shareholders.

### Significant agreements – change of control

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

### Greenhouse gas emissions

The disclosures concerning greenhouse gas emissions required by law are set out in the Corporate Social Responsibility Report on page 48.

### Disabled persons and employee involvement

The disclosures concerning the Group's policies on the employment of disabled persons and employee involvement are set out on page 38.

### Substantial shareholders

As at 31 December 2017, the following notifiable interests in issued share capital had been received by the Company under the Disclosure Guidance and Transparency Rules (DTR 5) of the UK Listing Authority. It should be noted that these holdings are likely to have changed since notified to the Company. However, notification of any change is not required until an applicable threshold is crossed.

### Consideration by the directors of matters relating to directors' remuneration

The members of the Remuneration Committee as at 31 December 2017 were Gary Bullard (Chair), Lucinda Bell, Sally James and Peter Dilnot. John Nicholas ceased to be a member on his retirement from the Board in February 2017. The Remuneration Committee invites the Group HR Director to inform the Remuneration Committee of pay awards throughout the Group when setting executive director remuneration. The Chairman and Chief Executive are also invited to attend meetings except when their own remuneration is considered. The Company Secretary acts as secretary to the Remuneration Committee.

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

In 2017, the Company paid £59,000 (2016: £61,000) to New Bridge Street for services to the Remuneration Committee. Figures exclude VAT and disbursements.

### Statement of voting at general meeting

At the 2017 AGM of the Company, the percentages of votes cast 'for', 'against' and 'withheld' in respect of the remuneration policy and the Annual Report on Remuneration were as follows:

Resolution	Votes cast 'for'	Votes cast 'against'	Votes 'withheld'
To approve the remuneration policy	99.1%	0.9%	0%
To approve the Annual Report on Remuneration	67.8%	32.2%	0%

The Annual Report on Remuneration, received a sizeable against vote in 2017. This related to changes to the executive salary levels which were made as part of a package of changes to the remuneration policy and followed an extensive consultation exercise with major shareholders. The remainder of the changes, which were set out in the remuneration policy, were very positively received (99% support). In consultation, the majority of shareholders were broadly comfortable with the combined impact of the changes. The new policy has the strong support of shareholders and the Remuneration Committee will continue to engage with the Company's largest shareholders on matters of significance.

## DIRECTORS' REMUNERATION REPORT CONTINUED

### Recruitment of Kevin Hostetler

Kevin Hostetler joined the Board on 12 February 2018 and will assume the role of Chief Executive from 12 March 2018. Martin Lamb, current Executive Chairman, will then revert to his role as Non-Executive Chairman. The remuneration arrangements for Kevin Hostetler are consistent with the terms of the Directors' Remuneration Policy approved by shareholders at the AGM in April 2017.

Kevin Hostetler will receive an annual salary of £600,000 and a pension allowance of 25% of base salary. He will also be able to participate in the annual bonus plan up to a maximum of 125% of salary and the LTIP up to 150% of salary. Benefits will be provided in accordance with the standard policy. In addition, to facilitate his move to the United Kingdom relocation assistance will be provided.

Rotork was not required to compensate Kevin Hostetler for any remuneration foregone at his previous employer.

### Statement of implementation of the Policy Report in 2018

Salary	<ul style="list-style-type: none"> <li>Kevin Hostetler – £600,000 (set on appointment).</li> <li>Jonathan Davis – £346,000 (an increase of 3.2%, in line with the average increase for the rest of the UK workforce). Jonathan Davis continues to invest a proportion of his monthly salary in Rotork shares.</li> </ul>
Benefits	No change to 2017 – benefits will comprise car and fuel (or car and fuel allowance), personal accident and private medical insurance and life assurance. In addition, Kevin Hostetler is entitled to the reimbursement of certain relocation expenses incurred in connection with his appointment and move to Bath (including tax).
Pension	Cash allowance in lieu of pension set at 25% of salary for Kevin Hostetler and 20% of salary for Jonathan Davis.
Annual bonus	Maximum award levels of 125% of salary for Kevin Hostetler and 100% of salary for Jonathan Davis, any bonus above target performance (60% of maximum) will be deferred in shares for three years. Bonuses will be based on annual profit (60%), cash generation (15%), lost time incident rate (5%) and personal strategic objectives (20%). The specific targets relating to the bonus have not been disclosed as they are considered by the Remuneration Committee to be commercially sensitive but full details will be given on a retrospective basis in next year's report.
LTIP	<p>The LTIP award levels for 2018 will be 150% of salary for Kevin Hostetler and 125% of salary for Jonathan Davis. The awards will be subject to the following performance conditions:</p> <ul style="list-style-type: none"> <li>33% will be based on relative TSR performance with 25% vesting at median increasing to full vesting for upper quartile performance or above.</li> <li>33% will be based on EPS. EPS growth must be at least 9% for 15% vesting, increasing on a straight line basis to full vesting for EPS growth of 35% and above. The targets will be based on adjusted/underlying EPS (i.e. excluding the impact of any material restructuring costs). However, the Remuneration Committee will use its discretion to increase the targets as appropriate, to take into account the Board's expected return on any restructuring investment during the period.</li> <li>33% will be based on a capital return measure (economic profit). No pay-out will be received for a negative economic profit. The threshold target will require the average economic profit over the three year period to exceed that generated in 2017 and the maximum target has been set such that it will require double digit growth in post-tax profits alongside improved balance sheet efficiencies. Similar to EPS targets, these targets may be adjusted upwards to take into account the Board's expected return on any restructuring investment during the period. Details of the exact targets are considered by the Committee to be commercially sensitive at the current time. However, full details of the targets and how economic profit has been calculated will be disclosed on vesting.</li> </ul> <p>The executive directors will be required to retain any shares vesting under the awards (net of tax) until the fifth anniversary of grant.</p>
Shareholding guidelines	The executive directors will be required to build and maintain a shareholding equivalent to 250% of salary.
Non-executive director fees	<p>There are no changes to the fee policy. The fees remain:</p> <ul style="list-style-type: none"> <li>Chairman: £180,000;</li> <li>Base Board fee: £47,000;</li> <li>Additional fee for chairing the Audit Committee £10,000;</li> <li>Additional fee for chairing the Remuneration Committee £8,000; and</li> <li>Additional fee for the role of Senior Independent Director £10,000.</li> </ul> <p>Martin Lamb and Sally James will continue to receive additional remuneration in connection with their enhanced responsibilities as Executive Chairman and Senior Independent Director until Kevin Hostetler assumes the role of Chief Executive on 12 March 2018, when such arrangements will cease.</p>

### Historic Chief Executive remuneration table

Year	Chief Executive	Chief Executive single figure remuneration (£000s)	Annual cash bonus as a percentage of maximum opportunity	LTIP vesting rate as a percentage of maximum opportunity
2017	Martin Lamb <sup>(i)</sup>	282	N/A	N/A
2017	Peter France <sup>(ii)</sup>	681	72%	0%
2016	Peter France	835	45.5%	0%
2015	Peter France	696	23.4%	0%
2014	Peter France	1,092	66.0%	37.0%
2013	Peter France	1,452	94.4%	67.0%
2012	Peter France	1,539	91.3%	75.5%
2011	Peter France	1,182	88.9%	30.0%
2010	Peter France	1,288	91.9%	94.4%
2009	Peter France	1,062	99.5%	100.0%

(i) Martin Lamb assumed the role of Executive Chairman on 28 July 2017 and received an additional fixed remuneration of £55,000 per month on top of his annual Chairman's fee during this period.

(ii) Peter France resigned as Chief Executive and stood down from the Board on 27 July 2017.

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

The table below shows the percentage change in remuneration (based on salary, benefits and bonus) between 2016 and 2017.

	Chief Executive	Average per UK employee
	% Change from 2016	% Change from 2016
Base Salary	N/A	3.9%
Benefits	N/A	3.8%
Bonus	N/A	68.8%

Peter France stepped down from the Board on 27 July 2017 and, Martin Lamb, assumed the role of Executive Chairman until a new Chief Executive could be appointed. Consequently, full year comparable data is not available.

### Relative importance of spend on pay

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

	2017	2016	Percentage change
Employee remuneration (£000s)	147,637	136,557	6.6%
Dividends (£000s) <sup>(i)</sup>	45,218	43,876	3.1%

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

### Departure arrangements for Peter France

Peter France stood down from the Board and as Chief Executive on 27 July 2017. Under the terms of his leaving arrangements, he was entitled to:

- £525,000 as payment in lieu of his salary for his notice period;
- £18,000 in respect of certain benefit entitlements during the notice period and continuation of private medical and life insurance cover during this period; and
- £131,000 in respect of pension allowance during the notice period.

The Company also made a payment of £93,000 as liquidated damages for any claims that Peter France may have against the Company.

Peter France also received a pro-rated, performance related annual bonus in respect of the period up to the termination of his employment. The assessment of the bonus was based on performance to the cessation of employment against the corporate and individual strategic measures set and resulted in a payment of £271,000 (out of a maximum pro-rata entitlement of £382,000).

He was treated as a good leaver in relation to the LTIP awards granted in 2015 and 2016. The awards will continue to vest on the normal vesting date, subject to the achievement of the applicable performance targets and a pro-rata reduction to reflect the period for which he was employed. The 2015 LTIP award will lapse on 6 March 2018 as the minimum performance hurdles were not satisfied. The LTIP award granted to him in 2017 has lapsed. Outstanding awards under the SIP and Sharesave vested in accordance with the terms of the relevant plan.

In addition, the Company paid for outplacement services and legal advice provided to Peter France.

## DIRECTORS' REMUNERATION REPORT CONTINUED

In 2017, the shareholding guideline for Jonathan Davis was increased from 150% to 250% of salary.

There has been no change in the directors' interests in the ordinary share capital of the Company between 31 December 2017 and 5 March 2018, except, in the case of Jonathan Davis, for purchases of monthly partnership shares under the SIP and in the case of Jonathan Davis, Martin Lamb and Sally James under the monthly rolling share purchase arrangements.

### Total pension entitlements (audited)

Director	Normal retirement age	Total accrued pension in the defined benefit scheme as at 31 December 2017 (£ per annum)	Value of pension related benefits (£) during Company financial year to:					
			31 December 2016			31 December 2017		
			Defined benefit scheme	Cash in lieu of pension	Total	Defined benefit scheme	Cash in lieu of pension	Total
Jonathan Davis	65	36,324	66,140	26,216	92,356	29,600	53,800	83,400
Peter France	60	73,025	90,280	64,103	154,383	33,800	54,900	88,700

#### Notes:

- The amounts above have been calculated in accordance with Statutory Instrument 2013 No 1981 – The Large and Medium-sized Companies and Groups (Account and Reports) (Amendment) Regulations 2013.
- The total accrued pension in the defined benefit scheme as at 31 December 2017 is that which would be paid annually on retirement from normal pension age, based on service to 31 December 2017. Both Jonathan Davis and Peter France opted out of the defined benefit scheme with effect from 30 April 2017, so the amount shown is their accrued pension at this date. This amount will revalue up to normal pension age in line with the scheme's rules.
- The value of benefits in the defined benefit pension scheme is based on the increase in accrued pension over the year incorporating an increase for Consumer Prices Index (CPI) inflation.
- The pensionable salary used to calculate benefits in the defined benefit scheme for Peter France and Jonathan Davis is restricted to a scheme-specific earnings cap which was £150,600 for 2017. In lieu of this limitation on their benefits under the scheme they received a monthly cash sum equal to 22.5% and 18% respectively of their basic salary above the scheme-specific earnings cap, until they opted out on 30 April 2017. From 1 May 2017, they received a monthly cash sum equal to 25% and 20% respectively of their total basic salary.
- The cash in lieu of pension amount for Peter France is the amount paid up until he left the Company on 27 July 2017. He also received a payment in respect of his pension allowance as part of his leaving arrangements. Details of this are set out on opposite.
- The accrued pension figures for Peter France include a fixed transfer-in pension amount of £5,123 which is payable from his normal retirement date at age 60.
- Jonathan Davis was subject to an annual allowance tax charge in 2017. He opted to use 'scheme pays' to settle this, and as such his annual pension was reduced by £809 p.a. This amount is not allowed for in the figures shown in the table above.

### TSR performance graph

### LTIP awards granted in 2017 (audited)

	Share awards made during 2017	Basis on which award made	Face value of award (£) <sup>(i)</sup>	Number of shares vesting for minimum performance <sup>(ii)</sup>	Number of shares vesting for maximum performance	End of performance period	Vesting date
Jonathan Davis	175,135	125% of salary	419,000	23,351	175,135	31 December 2019	6 March 2020
Peter France <sup>(iii)</sup>	329,360	150% of salary	788,000	43,914	329,360	31 December 2019	6 March 2020

- (i) The share price used to determine the number of shares under the award was £2.39 being the share price immediately prior to the date of the award.
- (ii) Vesting if the minimum performance EPS, TSR and capital return (economic profit) conditions are achieved (13.3% of the maximum award). The three equally weighted performance measures are:
- Earnings per share – EPS growth must be at least 9% for 15% vesting, increasing on a straight line basis to full vesting for EPS growth of 35% and above;
  - Total shareholder return – measured relative to the constituents of the FTSE 350 Industrial Goods and Services Sector, 25% vesting for median performance, increasing on a straight line basis to full vesting for upper quartile performance and above; and
  - Capital return (economic profit) – measures the extent to which a post-tax return in excess of the weighted average cost of capital (WACC) is created, rewarding management for increasing levels of economic profit, on a cumulative basis, over the three year performance period. No pay-out will be received for a negative economic profit. The threshold target requires average economic profit over the three year period to exceed that generated in 2016 and the maximum target has been set such that it will require double digit growth in post-tax profits alongside improved balance sheet efficiencies. Details of the exact targets are considered by the Remuneration Committee to be commercially sensitive. However, full details of the targets and how economic profit has been calculated will be disclosed on vesting.
- (iii) The award to Peter France has since lapsed following his resignation as Chief Executive and director on 27 July 2017. See page 81 for further details.

### Free SIP share awards (audited)

In common with all eligible employees, UK based executive directors receive an entitlement to ordinary shares under the SIP which is approved by Her Majesty's Revenue and Customs (HMRC). Under the SIP, an aggregate total of up to 5% of profits are distributed to employees each year in the form of ordinary shares. The distribution is calculated by reference to years of service and basic salary. Details of free share awards under the SIP made to executive directors in 2017 are set out below.

	Date of grant	Free share awards made during the year	Basis on which award made	Face value of award
Jonathan Davis	6 April 2017	2015	Non-performance based	£3,600
Peter France <sup>(i)</sup>	6 April 2017	2015	Non-performance based	£3,600

- (i) See page 81 for further details.

The executive directors are also eligible to purchase monthly partnership shares under the SIP to a maximum of £150 per month.

### Statement of directors' shareholding and share interests (audited)

The table below shows total shareholdings of the current directors and former directors as at 31 December 2017.

	Interests in shares 2017 <sup>(i)</sup>	Outstanding LTIP awards 2017	Outstanding options 2017	% Shareholding of salary achieved <sup>(ii)</sup> 2017
<b>Current Directors</b>				
Jonathan Davis	216,172	518,377 <sup>(iii)</sup>	12,162 <sup>(iv)</sup>	172%
Lucinda Bell	7,150	–	–	N/A
Gary Bullard	46,842	–	–	N/A
Sally James	12,306	–	–	N/A
Martin Lamb	129,190	–	–	N/A
Peter Dilnot <sup>(v)</sup>	–	–	–	N/A
<b>Former Directors</b>				
Peter France <sup>(vi)</sup>	491,440	393,618	–	N/A
John Nicholas <sup>(vii)</sup>	–	–	–	N/A

- (i) Includes shares held by connected persons.
- (ii) The share price used to determine the percentage of the shareholding of salary achieved is 266.9p being the share price as at 31 December 2017.
- (iii) During the year, an award over 175,135 shares was granted (on 8 May 2017) and the award granted on 6 March 2014, over 103,560 shares lapsed. No awards vested during the year.
- (iv) This relates to outstanding options held under the Rotork Sharesave scheme. No options were granted, vested or exercised during the year.
- (v) Joined the Board on 1 September 2017.
- (vi) Left the Board on 27 July 2017. See page 81 for details on the treatment of outstanding incentive awards.
- (vii) Left the Board on 24 February 2017.

## DIRECTORS' REMUNERATION REPORT CONTINUED

Personal strategic objectives, which accounted for 20% of the bonus opportunity, were set at the start of the year. Details of the objectives for the Finance Director and performance against them are summarised in the table below:

Jonathan Davis	% payable* at maximum	Performance summary	% bonus awarded*
Specific personal objectives related to:	20%	Performance against the objectives was monitored and assessed by the Executive Chairman, with input from the non-executive directors and, in particular, the Chair of the Audit Committee. The individual objectives were reviewed and scored against the criteria set out. Strong performance was achieved in relation to a number of measures, in particular in relation to inventory management. However the financial targets in relation to Bifold were not achieved. Taking into account performance against the individual objectives, the Remuneration Committee elected to award a bonus of 14.5% of salary.	14.5%
<ul style="list-style-type: none"> <li>• Financial performance of Bifold;</li> <li>• Improvements in inventory management performance;</li> <li>• Development of the finance team;</li> <li>• Improvements in the presentation of the financial performance to the Board;</li> <li>• Development of a strong control environment;</li> <li>• Managing the risk profile of the Company's ongoing liabilities; and</li> <li>• Providing operational assistance to the Executive Chairman in the second half of the year.</li> </ul>			

The Remuneration Committee used its discretion to amend certain of the objectives during the year following the departure of the former Chief Executive which reflects the changes in strategic and operational emphasis.

\* % of maximum bonus.

Overall this resulted in a bonus award to Jonathan Davis of £240,000 (71.6% salary). In accordance with the remuneration policy approved by shareholders in 2017, part of the bonus will be deferred in shares for three years.

Peter France was entitled to a pro-rata bonus for the proportion of the performance period worked, see page 81 for further details. Martin Lamb was not eligible for a bonus.

### LTIP

The Company's LTIP rewards the creation of shareholder value which is a strategic priority. Performance is measured over a three year period using a combination of EPS, TSR compared to a comparator group, and a capital return measure for the 2017 LTIP awards onwards. Details of the awards lapsing based on performance to 31 December 2017 and granted in the year are set out below.

#### LTIP awards lapsing based on performance to 31 December 2017 (audited)

The LTIP awards granted on 6 March 2015 were based on performance to 31 December 2017 and were subject to the following performance targets:

Measure	Weighting	Performance period	Threshold target <sup>1</sup>	Stretch target <sup>2</sup>	Performance outcome
Earnings per share	50%	01/01/2015 – 31/12/17	RPI + 10% (15% vesting)	RPI + 25% (100% vesting)	EPS performance (-46.2%) was below the threshold target resulting in nil vesting for this part of the award.
TSR relative to the constituents of the FTSE 250 Index <sup>2</sup>	50%	01/01/2015 – 31/12/17	Median ranking	Upper quartile ranking or above	TSR growth of 17% was below the threshold target resulting in nil vesting for this part of the award.

1 For performance between threshold and stretch, awards vest on a pro-rata basis.

2 Excluding all financial services companies, insurance companies and investment trusts.

Performance was below the minimum performance thresholds resulting in the following awards lapsing.

	Grant date	Number of shares under award	Number of shares vesting	Number of shares lapsing	Vesting date
Jonathan Davis	6 March 2015	117,120	–	117,120	6 March 2018
Peter France <sup>(i)</sup>	6 March 2015	215,500	–	215,500	6 March 2018

(i) See page 81 for further details.

## ANNUAL REPORT ON REMUNERATION

### Single figure of remuneration (£000s) (audited)

#### Executive directors

Name	Salary		Benefits <sup>(i)</sup>		Annual cash bonus		LTIP <sup>(ii)</sup>		Pension and related benefits <sup>(iii)</sup>		Payment for loss of office		Total remuneration	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Jonathan Davis	335 <sup>(iv)</sup>	295	18	18	240 <sup>(ii)</sup>	128	–	–	83	92	–	–	676	533
Peter France <sup>(vi)</sup>	306	434	15	18	271	247	–	–	89	154	767 <sup>(vii)</sup>	–	1,448	853

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

(ii) Paid up to 60% of the maximum in shares with the remainder deferred into shares for three years.

(iii) The 2017 figures relate to the vesting of the 2015 LTIP award. The threshold performance targets for the award (which were based on performance over the three financial years to 31 December 2017) were not achieved and the award will lapse.

(iv) See page 80 for further details.

(v) Jonathan Davis has elected to invest a proportion of his salary (net of tax) in Rotork shares and to retain them for two years.

(vi) Peter France resigned from the Board and as Chief Executive on 27 July 2017.

(vii) See page 81 for further details.

#### Other Directors (£000s)

Name	Base fees		Additional fees/remuneration		Total remuneration	
	2017	2016	2017	2016	2017	2016
Lucinda Bell	47	47	8	–	55	47
Gary Bullard	47	47	8	8	55	55
Sally James	47	47	18	10	65	57
Martin Lamb	180	180	282	–	462	180
John Nicholas <sup>(i)</sup>	7	47	1	8	8	55
Peter Dilnot <sup>(ii)</sup>	16	–	–	–	16	–

(i) John Nicholas stood down from the Board on 24 February 2017.

(ii) Peter Dilnot joined the Board on 1 September 2017.

The additional remuneration for Martin Lamb relates to the remuneration received whilst fulfilling the role of Executive Chairman. This comprised a fixed allowance only and he did not participate in any variable pay arrangements. Other additional fees are the supplementary fees paid to the Chairs of the Audit and Remuneration Committees and the Senior Independent Director. For Sally James this also includes an additional fee of £20,000 p.a. payable from 28 July 2017 for her increased responsibilities whilst the Chairman is fulfilling the role of Executive Chairman. Martin Lamb elected to invest the additional net remuneration that he receives in Rotork shares and to hold them for a minimum of two years following purchase. Sally James also elected to invest the additional net fees in Rotork shares and to hold them for a minimum of two years. All directors have confirmed that, save as disclosed in the single figures of remuneration table above, they have not received any other items in the nature of remuneration.

#### Annual cash bonus for 2017

Bonuses in 2017 were based 60% on annual profit, 15% on cash generation, 5% on lost time incident rate and 20% on personal strategic objectives. Details of performance achieved and the targets set are shown below:

	Performance required to trigger bonus payment	Performance required at maximum	% payable* at maximum performance	Performance outcome	% bonus awarded*
Annual profit target	£110m	£142m	60%	£130m	37.1%
Cash generation	85%	100%	15%	109%	15.0%
Lost time incident rate	N/A	<0.46	5%	0.24	5.0%
<b>Total</b>			<b>80%</b>		<b>57.1%</b>

\* % of maximum bonus.

## DIRECTORS' REMUNERATION REPORT CONTINUED

### Illustration of the application of the Policy Report

The charts below illustrate how the remuneration policy would function for minimum, on target and maximum performance for 2018 for each executive director.

Salary levels (and consequently the other elements of the remuneration package which are calculated as a percentage of salary) are based on those applying in 2018 and, in the case of Kevin Hostetler, are based on a full year equivalent package. Taxable benefits are shown as the cost to the Company of supplying those benefits for the year ending 31 December 2017 (or estimated cost in the case of Kevin Hostetler). On target performance, for illustrative purposes, assumes achievement of 60% of the maximum available bonus and threshold LTIP vesting (20% of the maximum). Maximum performance assumes achievement of the maximum bonus and full vesting of the LTIP shares. The LTIP grant level is 150% for Kevin Hostetler and 125% for Jonathan Davis. No share price growth has been assumed and for simplicity, the benefit derived from participating in the Company's SIP or OPLSS have been excluded.

### Approach to recruitment remuneration

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

The structure of the variable pay element will be in accordance with the Policy Report. The maximum aggregate variable pay opportunity under the policy is up to 275% of salary. Different performance measures may be set initially for the annual bonus, taking into account the responsibilities of the individual, and the point in the financial year that the executive joined.

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

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

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

### Service contracts and policy on payments for loss of office

Under the executive directors' service contracts, up to 12 months' notice of termination of employment is required by either party. Should notice be served, the executive directors can continue to receive basic salary, benefits and pension for the duration of their notice period during which time the Company may require the individual to continue to fulfil their current duties or may assign a period of garden leave. The Company applies a general principle of mitigation in relation to termination payments and the service contracts expressly include the use of monthly phased payments following termination in lieu of notice which can be reduced to the extent that alternative remunerated employment is found.

The service contracts also enable the Company to elect to make a payment in lieu of notice equivalent in value to 12 months' base salary only.

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

Any unvested shares held under the deferred annual bonus plan will ordinarily vest on the normal vesting date, save where the departure is as a result of summary dismissal, in which case the awards will lapse on cessation of employment. The Remuneration Committee may also determine that the shares shall vest on an earlier date (including the date of cessation) if the Remuneration Committee, in its discretion, considers that the circumstances of the cessation merit early vesting of the awards.

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

Outplacement services and reimbursement of legal costs may be provided where appropriate. Any statutory entitlements or sums to settle or compromise claims in connection with a termination would be paid as necessary.

Any legacy benefits under the Company's defined benefit pension schemes will be allowed to be paid under the terms of those schemes and as set out in the Policy Report.

Outstanding share awards would ordinarily vest early on a change of control of the Company. In the case of unvested awards under the LTIP, performance would be measured to the date of the date of control with a pro-rata reduction to reflect the proportion of the vesting period served.

The Executive Chairman and non-executive directors do not have service contracts, they serve under letters of appointment and are subject to annual re-election by shareholders at the AGM. The term of appointment for non-executive directors and the Executive Chairman is three years and their appointments are subject to termination on three months' notice (12 months for the Executive Chairman). In the event of the termination of their position, they are entitled to reimbursement of any outstanding fees and expenses due.

## DIRECTORS' REMUNERATION REPORT CONTINUED

Element of remuneration	Purpose and how it supports the strategy	How the element operates	Maximum amounts payable	Framework used to assess performance
Chairman and non-executive directors' fees	To attract and retain non-executive directors of the right calibre.	<p>Fees for the Chairman and non-executive directors are reviewed periodically.</p> <p>Non-executive director fees are determined by the Chairman and Chief Executive. The fees for the Chairman are determined by the Remuneration Committee taking into account views of the Chief Executive. The Chairman excludes himself from such discussions.</p> <p>The fees for the non-executive directors normally comprise a basic Board fee, with additional fees paid to the Senior Independent Director and for chairing a Committee.</p> <p>Any reasonable business related expenses may be reimbursed (including tax thereon if determined to be a taxable benefit).</p>	<p>The maximum aggregate fee level is £700,000.</p> <p>The fee levels set are set by reference to rates in companies of comparable size and complexity. The fee levels are reviewed periodically taking into account the responsibilities of the role and the time commitment of the individual.</p>	N/A

### Performance measures

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

### Clawback and malus

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

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

### Differences between the Policy Report and the policy on employee remuneration

The Board recognises that it is appropriate for a significant proportion of executive directors' remuneration to be contingent on the performance of the Group, and that such remuneration is at risk subject to the satisfaction of stretching performance conditions. Consequently, executive directors and other senior managers are invited to participate in the LTIP where shares awarded will vest contingent upon performance conditions over a three year period. Executive directors and other senior managers are also invited to participate in the annual bonus scheme which will result in a bonus payment being made if targets are achieved, part of which for executive directors may be deferred in shares.

For employee remuneration, the Board considers it more appropriate that employees share in the success of the Group through a profit based bonus plan which is based on the performance of their business unit and Group performance. This is coupled with the opportunity, for eligible employees, to receive free shares from the Company, paid from the Company's profits.

Element of remuneration	Purpose and how it supports the strategy	How the element operates	Maximum amounts payable	Framework used to assess performance
LTIP	To incentivise long term value creation and alignment with shareholder interests.	<p>The LTIP permits an award of shares to be granted which vest subject to performance and continued employment. The LTIP awards will be granted in accordance with the rules of the plan, which were approved by shareholders in 2010, and the discretions contained therein. A copy of the rules is available on request from the Company Secretary.</p> <p>Awards under the LTIP may be granted in the form of conditional shares, forfeitable shares, nil-cost options or cash (where the award cannot be settled in shares). Awards are currently structured as nil-cost options.</p> <p>For awards granted from 2017 onwards, the directors must retain any shares vesting (net of tax) until the fifth anniversary of grant.</p>	<p>The grant level is 150% of salary per annum.</p> <p>Details of the current award levels are set out in the Annual Report on Remuneration.</p>	<p>Awards under the LTIP are currently subject to performance conditions, measured over three financial years.</p> <p>The awards from 2017 onwards are based on a mix of EPS, return on capital (economic profit) and TSR. Different measures may be used for future award cycles.</p> <p>A sliding scale of targets is set for each measure with no more than 25% of the award (under each measure) vesting for achieving the threshold performance hurdle.</p> <p>The performance targets are set prior to the grant of each award. Different measures, targets and/or weightings between measures may be set for future award cycles.</p> <p>Under the LTIP rules approved by shareholders, the Remuneration Committee has the discretion to amend the targets applying to existing awards in exceptional circumstances providing the new targets are no less challenging than originally envisaged. The Remuneration Committee also has the power to adjust the number of shares subject to an award in the event of a variation in the capital of the Company.</p>
Shareholding guideline	To provide alignment with shareholders by requiring executives to build and maintain a meaningful shareholding in Rotork.	The executive directors are also subject to a shareholding requirement to build and maintain a shareholding in Rotork equivalent to 250% of salary.	N/A	N/A

## DIRECTORS' REMUNERATION REPORT CONTINUED

Element of remuneration	Purpose and how it supports the strategy	How the element operates	Maximum amounts payable	Framework used to assess performance
Benefits	To attract and retain executive directors of the right calibre by providing a market competitive level of benefit provision.	<p>The range of benefits that may be provided is set by the Remuneration Committee after taking into account local market practice in the country where the executive is based.</p> <p>The executive directors' benefits currently comprise a car and fuel (or car and fuel allowance), personal accident insurance, private medical insurance and life assurance. Additional benefits may be provided, as appropriate.</p> <p>Executive directors are also entitled to membership of the all-employee Rotork Share Incentive Plan (SIP), or Overseas Profit Linked Share Scheme (OPLSS), within the maximum limits as set by HMRC.</p> <p>Any reasonable business related expenses may be reimbursed (including any tax if determined to be a taxable benefit).</p>	There is no prescribed maximum level, but the Remuneration Committee monitors the overall cost of the benefit provision to ensure that it remains appropriately proportionate.	N/A
Pension	To provide a market competitive remuneration package to enable the recruitment and retention of executive directors.	The Company may fund contributions to a director's pension as appropriate. This may include contributions to a money purchase scheme and/or payment of a cash allowance where appropriate.	Up to 25% of salary.	N/A
Annual bonus	Drives and rewards performance against annual financial and operational goals which are consistent with the medium to long term strategic needs of the business.	<p>Bonus up to 60% of the maximum are paid in cash. Any bonus awarded in excess of 60% of the maximum is deferred into shares for three years.</p> <p>Dividend equivalents may be paid on the deferred shares on vesting. The Remuneration Committee retains discretion to adjust the number of deferred shares in the event of a variation in the capital of the Company and/or to settle the award in cash.</p>	<p>The maximum annual bonus potential is 125% of salary.</p> <p>Details of the current annual opportunity are set out in the Annual Report on Remuneration.</p> <p>For each measure, normally a sliding scale of stretching targets is set by the Remuneration Committee. The threshold level of bonus under each financial measure varies but accounts for no more than one third of the maximum bonus opportunity under any single measure.</p>	<p>The annual bonus is focused on the delivery of strategically important performance measures. These include demanding financial and non-financial measures. Financial measures will account for the majority.</p> <p>Under the terms of the bonus plan, the Remuneration Committee has the discretion, in exceptional circumstances, to amend previously set targets or to adjust the proposed pay-out to ensure a fair and appropriate outcome.</p>

## POLICY REPORT

This report sets out the policy of the Company on the remuneration of the directors. The policy was approved by shareholders at our AGM on 28 April 2017 and is intended to remain in place for three years. Shown below is the policy in full, as approved by shareholders, updated where appropriate to reference how the policy will be applied in 2018.

### Role of the Remuneration Committee

The principal role of the Remuneration Committee is to determine the framework and policy for remuneration of the executive directors and the Chairman, ensuring that remuneration levels are sufficient but not excessive in order to attract, retain and motivate directors of the quality required to successfully run the Company. The full terms of reference of the Remuneration Committee can be found on the Company's website at [www.rotork.com/en/investors/index/committees](http://www.rotork.com/en/investors/index/committees).

Key responsibilities include:

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

### Consideration of conditions elsewhere in the Company

The Remuneration Committee is sensitive to employee remuneration conditions in the Group and in determining remuneration takes account of Group remuneration conditions. The Remuneration Committee invites the Group HR Director to its meetings to provide, amongst other things, details of employee remuneration conditions and metrics, such as pay rises awarded to employees to inform the Remuneration Committee's decision making. During 2017, the Chair of the Remuneration Committee met with employee representatives to discuss the approach to remuneration at Rotork. The Remuneration Committee also monitors internal relativities and pay ratios to ensure that they remain appropriate.

### Consideration of shareholder views

In formulating the Policy Report, the Remuneration Committee takes into account guidance issued by shareholders, their representative bodies and proxy agencies (including the Investment Association and Institutional Shareholder Services). The Remuneration Committee also takes into consideration any views expressed by shareholders during the year (including at the AGM) and encourages an open dialogue with its largest shareholders. Major shareholders are consulted in advance about changes to the Policy Report or any significant proposed changes to the way in which it is implemented. A detailed consultation exercise was undertaken in Autumn 2016.

### Overview of the Policy Report Directors' policy table

Element of remuneration	Purpose and how it supports the strategy	How the element operates	Maximum amounts payable	Framework used to assess performance
Base salary	To attract and retain executive directors of the right calibre and provide a core level of reward for the role.	Salary levels (and subsequent salary increases) are set after taking into account the responsibilities of the role, the value of the individual in terms of skills, experience and personal contribution, Company performance, internal relativities and pay conditions, and external market data (benchmarked against companies of a similar size and complexity and other companies in the same industry sector). The Remuneration Committee also considers the impact of any increase to salaries on the total remuneration package.  Salaries are paid monthly <sup>1</sup> and reviewed annually (salaries are normally reviewed in December, with any changes effective from 1 January).	Details of the current salaries of the executive directors are set out in the Annual Report on Remuneration.  For Jonathan Davis, future salary increases will be no higher than the average increase (as a percentage of salary) applied to the UK workforce.  For other executive directors, the Remuneration Committee retains the discretion to award higher increases if appropriate. For example, to reflect progression in the role or to the increased experience of the individual.	N/A

<sup>1</sup> Jonathan Davis has elected to invest a proportion of his salary (net of tax) in Rotork shares and to retain them for two years.

## DIRECTORS' REMUNERATION REPORT CONTINUED

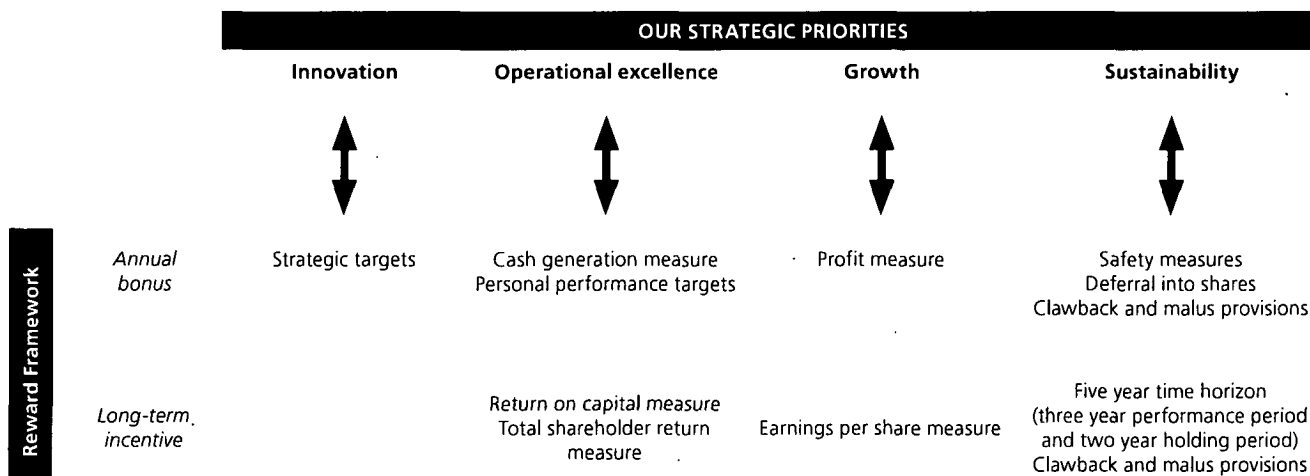
### Remuneration at a glance for 2018

	Kevin Hostetler (Chief Executive)	Jonathan Davis (Finance Director)
Salary	£600,000 (set on appointment)	£346,000 (+3.2%) <sup>1</sup>
Benefits	Standard benefits plus relocation arrangements agreed in connection with his appointment	Standard benefits
Pension	25% of salary	20% of salary
Annual bonus	125% of salary maximum (75% salary target)	100% of salary maximum (60% salary target)
	Based on profit, cash generation, safety, strategic and personal targets. Any bonus above target is deferred in shares for three years	
Long-term incentive	150% salary performance share award	125% of salary performance share award
	Based on earnings per share (EPS), relative total shareholder return (TSR) and a return on capital measure assessed over a three year performance period (a two year post-vesting holding period also applies)	
Shareholding guideline	250% of salary	

<sup>1</sup> As disclosed in last year's report, Jonathan Davis elected to invest a proportion of his salary in shares on a monthly basis.

### How our remuneration policy supports Rotork's strategy

Our aim is to deliver a high return on capital with strong and sustainable margins and consistent year-on-year growth in revenues and profit which, combined with our asset-light model, deliver strong cash generation. Our reward structure supports and reflects this strategy.



### Aligning pay with Rotork performance

ANNUAL BONUS (2017)		LTIP (1.1.2015 to 31.12.2017)	
Performance	Outcome	Performance	Outcome
£130m profit 109% cash generation 0.24 LTIR	71.6% of maximum pay-out	-46% basic earnings per share growth 17% total shareholder return	Nil% vesting

Dates of Remuneration Committee meetings:

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
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Members<sup>1</sup>: Gary Bullard, Lucinda Bell, Sally James and Peter Dilnot

<sup>1</sup> As at 31 December 2017

SETTING EXECUTIVE SALARY

- Set basic salary for Jonathan Davis for 2018.
- Considered a report from New Bridge Street on executive remuneration.

REVIEW OF BONUS AND LTIP

- Reviewed LTIP performance against targets.
- Reviewed bonus performance against targets and approved 2016 bonus payments.

REMUNERATION COMMITTEE  
ACTIVITY 2017

OTHER

- Considered corporate governance developments, guidance from institutional investors and general remuneration.
- Considered and approved of remuneration arrangements for departure of the Chief Executive.
- Approved new Chief Executive remuneration and relocation package and service agreement.
- Approved the Remuneration Committee's schedule of work for 2018.

REMUNERATION REPORTING

- Approved the Directors Remuneration Report 2016.
- Consulted with shareholders and approved of the 2017 Remuneration Policy.

SETTING LONG TERM INCENTIVE PLAN (LTIP) AND BONUS OPPORTUNITIES

- Set LTIP performance targets and award levels for executive directors and other members of senior management for the 2017 LTIP.
- Set executive directors' personal performance bonus targets for 2017 and 2018.
- Set financial and non-financial bonus targets for executive directors and other members of senior management's bonus scheme for 2018.

## DIRECTORS' REMUNERATION REPORT

### Statement from the Chair of the Remuneration Committee

2017 has been a year of considerable change for Rotork. Peter France left the business in July and Martin Lamb, our Chairman, assumed the role of Executive Chairman whilst the search for a new Chief Executive took place. In December 2017, the Board were delighted to announce we had recruited Kevin Hostetler to lead the business as it embarks on its accelerated growth plans. Kevin is a US citizen and has relocated from Chicago for the role. His remuneration arrangements, which are in line with the remuneration policy approved by shareholders at the 2017 AGM, are summarised below and set out later in this report; so too are the interim arrangements for Martin Lamb and the departure arrangements for Peter France.

### Our remuneration philosophy

The principal role of the Remuneration Committee is to determine the framework and policy for remuneration of the executive directors and the Chairman. The policy for the executive directors is aligned with Rotork's overall philosophy on remuneration and operates as an extension of the broader reward framework. The Remuneration Committee is kept informed of any material changes to the benefit or reward arrangements for Rotork's employees and during the course of the year, I met with employee representatives to discuss the approach to remuneration at Rotork.

### Board changes during 2017 and 2018

Peter France stood down from the Board and resigned as Chief Executive on 27 July 2017. Under the terms of his leaving arrangements, he was entitled to a payment in lieu of the salary, benefits and pension allowance for the unexpired portion of his notice period. He was also eligible to receive a pro-rata bonus for 2017 (in respect of the period worked). Peter was treated as a good leaver in relation to the LTIP awards granted in 2015 and 2016. The awards will continue to vest on the normal vesting date, subject to the achievement of the applicable performance targets and a pro-rata reduction to reflect the period for which he was employed. The 2015 LTIP award will lapse on 6 March 2018 as the minimum performance hurdles were not satisfied. The LTIP award granted to him in 2017 also lapsed following his departure. Details of the final settlement terms are set out on page 81.

Kevin Hostetler was appointed as an executive director on 12 February 2018 and will resume the role of Chief Executive from 12 March 2018. Details of his remuneration package are set out overleaf and in more detail on page 82. His remuneration package has been set in accordance with the existing approved policy. The Company was not required to pay any buy-out awards in connection with his appointment.

Martin Lamb assumed the full time role of Executive Chairman on an interim basis from 28 July 2017 until the new Chief Executive assumes the role and has received additional remuneration (structured as a fixed allowance) to reflect the increased time commitment involved. He has not received any additional benefits or participated in the executive bonus or LTIP during this period. Martin elected to invest the additional net remuneration that he receives in Rotork shares and to hold them for a minimum of two years following purchase. Sally James, Senior Independent Director, also assumed additional responsibilities during this period and has received an additional fee for her services. She also elected to invest the additional net fees in Rotork shares and to hold them for a minimum of two years. Full details are set out on page 77.

### Variable remuneration in 2017

Bonuses for 2017 were based on annual profit, cash generation, accident frequency rate and individual strategic targets. In line with our pay for performance philosophy, we set ambitious targets for the annual bonus, particularly in relation to profitability. The Group has made good progress in 2017 and as a result, the bonus for Jonathan Davis for 2017 paid out at 71.6% of salary. Full details of the bonus targets and performance against them are set out on pages 77 to 78.

However, despite the strong progress in 2017, the 2015 LTIP awards (which were based on earnings per share (EPS) and total shareholder return (TSR) performance over the three years to 31 December 2017) failed to meet the threshold levels of performance required and the awards will lapse on 6 March 2018.

### Variable remuneration for 2018

The variable pay arrangements for 2018 are unchanged from those operating in 2017. Bonuses will continue to be based on profit, cash generation, safety and strategic targets. The 2018 LTIP grants will be based on TSR, EPS and a return on capital measure. Challenging performance targets have been set for the variable pay elements in line with the business strategy and growth expectations and no changes have been made to the award levels for executive directors.

### Activities of the Remuneration Committee during the year

The Remuneration Committee maintains a rolling programme of activities which forms the basis of its scheduled meetings throughout the year. This rolling programme is supplemented by consideration of specific issues as and when they arise. The Remuneration Committee met five times during the year. Details of attendance at meetings is set out on page 59. A summary of its principal activities is set out opposite.

The purpose of this report is to communicate details of our remuneration policy and its application during the year. The Annual Report on Remuneration, together with this introductory statement, will be subject to an advisory shareholder vote at the 2018 AGM. The Policy Report, which sets out the Company's current policy on director's remuneration, will not be subject to a shareholder vote this year. I hope that you will support the resolution to approve the Annual Report on Remuneration at the forthcoming AGM.

GARY BULLARD  
Chair of the Remuneration Committee  
5 March 2018

**Dates of Nomination Committee meetings:**

Jan	Feb	Mar ✓	Apr	May	Jun	Jul	Aug ✓	Sept ✓	Oct	Nov	Dec ✓✓
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Members<sup>1</sup>: Martin Lamb, Lucinda Bell, Gary Bullard, Sally James and Peter Dilnot

<sup>1</sup> As at 31 December 2017

**APPOINTMENT PROCESS**

- Approved the appointment of external search consultants for new Chief Executive search.
- Considered the candidate profile for the Chief Executive role.
- Approved offer to new Chief Executive.
- Recommended Peter Dilnot for appointment as a non-executive director and member of Audit, Remuneration and Nomination Committees.

**SUCCESSION PLANNING**

- Discussed Board composition and succession planning, including consideration of balance of skills and experience and diversity.

**NOMINATION COMMITTEE  
ACTIVITY 2017**

**OTHER WORK**

- Discussed gender pay gap reporting requirements.
- Discussed diversity following presentation from Group HR Director and consideration of the Hampton Alexander Report on gender diversity and Parker review on ethnic diversity.

## NOMINATION COMMITTEE REPORT

The Nomination Committee is responsible for:

- Leading the process for Board appointments and making recommendations to the Board;
- Ensuring succession planning is in place for appointments to the Board and senior management;
- Reviewing the structure, size and composition of the Board, including its balance of skills, diversity, knowledge and experience and making recommendations as appropriate; and
- Making recommendations concerning the membership of the Audit and Remuneration Committees (in consultation with the Chairs of those Committees).

A copy of the Nomination Committee terms of reference is available on the Rotork website at [www.rotork.com/en/investors/index/committees](http://www.rotork.com/en/investors/index/committees).

John Nicholas retired from the Nomination Committee on his retirement from the Board on 24 February 2017, Peter Dilnot joined the Nomination Committee on 1 September 2017 and Kevin Hostetler joined on 1 March 2018. A majority of the Nomination Committee members are independent non-executive directors. Biographies of each member of the Nomination Committee are set out on pages 54 to 55.

### Activities of the Nomination Committee during the year

There were five formal Nomination Committee meetings during the year. The Nomination Committee also met at other times during 2017 in connection with the recruitment of Kevin Hostetler as Chief Executive and Peter Dilnot as a non-executive director. A summary of principal activities is set out opposite.

### Board appointments

Following the resignation of Peter France as Chief Executive in July 2017, the Nomination Committee commenced work on the recruitment of a new Chief Executive. This process was led by Sally James (Senior Independent Director). A structured timetable was adopted for the process and regular Nomination Committee discussions and updates held throughout.

The Nomination Committee appointed Spencer Stuart as external search consultants (with which the Company has no other connection) to assist with this process. In formulating the candidate profile for the appointment, the Nomination Committee had particular regard to the need for a growth orientated Chief Executive with an engineering background and a strong technical appreciation and international experience. They also looked for a diverse gender and ethnic list of potential candidates.

The Nomination Committee received a long list of potential candidates from Spencer Stuart. Following review and discussion, prioritised candidates were identified for interview. The Nomination Committee were unanimous in their recommendation of the preferred candidate to the Board for approval. Kevin Hostetler's appointment as executive director, from 12 February 2018, and Chief Executive, from 12 March 2018, was announced on 4 January 2018.

During the year, the Nomination Committee was also responsible for recommending Peter Dilnot as a new non-executive director and member of the Audit, Remuneration and Nomination Committees following a search for a replacement non-executive director which was commenced in 2016.

### Succession planning

Succession planning for the Board is continuous and the Nomination Committee considered during the year the need to maintain an appropriate balance of skills and experience within the Company and on the Board and to ensure progressive refreshing of the Board. As Gary Bullard will have been in office for nine years in 2019 the Nomination Committee have started to plan for the appointment of a replacement non-executive director and Chair of the Remuneration Committee. This will be progressed during 2018.

### Diversity policy

The Board seeks to attain a diverse mix of skills, experience, knowledge and background. In considering diversity, gender will play an important role but the Board will take account of ethnicity, nationality, background, profession and personality.

The Board has formally adopted a diversity policy to encourage diversity at all levels within the Group. At Board level, this includes a number of voluntary actions to improve diversity, including only using external search consultants (where such consultants are engaged to make an appointment) which have signed up to the Voluntary Code of Conduct for Executive Search Firms on gender diversity and best practice. The diversity policy also sets out other actions that will be taken to contribute to a more diverse pool of employees throughout the Group. Details of further actions to improve diversity are set out on page 38.

The Nomination Committee received a presentation from the Group HR Director on improving diversity across the Group during the year. This followed on from the publication of the Hampton Alexander review (on gender diversity) and Parker review (on ethnic diversity) in November 2016. This will remain a focus for the coming year.

Details of the proportion of women on the Board, in senior leadership positions and within the Group can be found on page 39. We also provided our gender data for the Hampton Alexander follow up review which was published in November 2017.

MARTIN LAMB  
Chair of the Nomination Committee  
5 March 2018

### Risk management

The Audit Committee has responsibility for reviewing and monitoring the effectiveness of the Group's control environment, risk management and internal audit process. During 2017, the Key Risk Indicators have been updated and enhanced, technology has been introduced to support the facilitation of the risk management process and there has been increased focus on divisional risk mitigations.

Following the resignation of the Head of Risk and Internal Audit in July 2017, the Audit Committee oversaw the appointment of PwC to provide external support and specialist skills to the internal audit and risk function including the provision of a Head of Risk and Internal Audit. PwC are currently undertaking a risk maturity assessment, looking at all aspects of the Groups risk management processes and the connections between those various processes and the day to day operations of the Group. Any recommendations arising from this review will be considered during the coming year and be used to enhance the current risk management framework.

### Internal controls

The Audit Committee has continued to monitor the effectiveness of internal controls, supported by internal audit. The internal audit team report and follow up on controls weaknesses, providing support to management in making operational improvements where needed.

Other means of assessing the internal control systems include annual letters of assurance from the divisional leadership team, a regular process of collating controls confirmations from operating sites and the risk assessment process. These controls sit alongside our effective system of governance, including key committees that monitor our processes and controls, such as the Audit Committee and CSR Committee and its sub-committees.

During the year, the Audit Committee considered reports on internal control from the Head of Risk and Internal Audit, as well as reports on procedures to prevent bribery and corruption and whistleblowing events from the Group Legal Director.

### Internal audit

The Group continues to use Rotork staff to undertake audits, and this arrangement encourages the sharing of best practice and provides career development for the staff involved. Quality assurance procedures ensure consistency both in terms of audit approach and remedial actions. The Rotork internal audit team is now led by PwC internal auditors, as part of a co-source arrangement, which will bring an independent perspective to our audits and methodology. Where an audit raises a number of higher risk recommendations which require significant management action, internal audit will perform a follow up audit to ensure actions taken are effectively mitigating the risks.

During 2017, the scope of internal audit was expanded to cover some risk based audit areas as well as the financial audits. The risk based audits focused on the controls which are in place to mitigate some of the principal risks identified during the Group risk review process, as well as areas where an independent review of operational processes and procedures was considered beneficial. The areas reviewed during 2017 under the risk based audits included aspects of health and safety, business continuity planning and third party sales channels including agents and commission. In 2017, a key controls confirmation process was also introduced which is now completed monthly in the larger manufacturing sites and quarterly in the smaller locations.

The Audit Committee continues to receive reports at the main meetings on internal audit activity, any significant matters arising and the management response.

The 2018 audit programme has been scoped to include a number of risk based audits related to the Group's Principal Risks as well as financial audits across a wide range of locations. Sites to be audited are selected based on a thorough assessment using a number of relevant risk factors. The Audit Committee reviewed the programme at its December 2017 meeting. The PwC team are also in the process of reviewing the development of the internal audit function, an update of work they first performed in 2015. This exercise will not only note areas of progress since the first report but identify the appropriate next steps as the internal audit function continues to mature.

### Other matters

In accordance with its terms of reference, the Audit Committee carried out a review of its effectiveness by way of a questionnaire and discussion facilitated by the Head of Risk and Internal Audit, including how it discharged its responsibilities. There were two main areas for improvement identified by the review: Audit Committee induction and on-boarding for new members; and Audit Committee meeting agendas and papers management. These will be addressed in 2018.

Throughout the year, the Audit Committee also considered relevant accounting and corporate governance developments, in addition to those in relation to risk and internal controls discussed above.

### Areas of focus for 2018

Key areas of focus for the coming year are:

- External audit partner transition in preparation for 2019; and
- A core plan of financial and risk-based internal audits. The teams will focus on embedding improved working practices across risk and internal audit.

There will also be flexibility in the use of internal audit resource during the year as business transformation activities are expected to impact the Group's risk profile.

LUCINDA BELL  
Chair of the Audit Committee  
5 March 2018

## AUDIT COMMITTEE REPORT CONTINUED

### Financial reporting

A key role of the Audit Committee in relation to financial reporting is to review the quality and appropriateness of the half year and yearend financial statements with a particular focus on:

- Accounting policies and practices;
- The clarity of disclosures and compliance with International Financial Reporting Standards, UK company law and the Code;
- Material areas in which significant judgements have been applied or where there has been discussion with the external auditor; and
- Upon request of the Board, advising the Board on whether the Annual Report and Accounts are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance as a whole.

To assist the Audit Committee, the Finance Director and the Group Financial Controller present a detailed report outlining significant matters on the half year and yearend financial statements and the external auditor presents a report on the work they have undertaken. They also present on the scope for the next full year audit for consideration by the Audit Committee.

The principal matters of judgment considered by the Audit Committee in relation to the 2017 accounts and how they were addressed were:

- Goodwill impairment testing. The year end balance sheet includes goodwill of £228.0m, this represents approximately 30.9% of the Group's assets. The Audit Committee reviewed the carrying value of goodwill by examining a report from the Group Financial Controller which set out the values attributable to each cash generating unit, the expected value in use, based on projected cash flows and the key economic assumptions related to growth and discount rates. The report included a detailed impairment review paper for Bifold as this was the cash generating unit identified as being most sensitive to changes in the key assumptions. The Bifold paper was reviewed by the Board in December 2017 and finalised in February 2018. The Audit Committee discussed the appropriateness of the assumptions used, compared expected growth rates to historical averages and relevant market data and compared the discount rates to the Group weighted average cost of capital and appropriate risk premiums. Following the discussion, the Audit Committee were satisfied with the approach taken by management which resulted in the impairment of the Bifold (£19.8m) and Tulsa (£1.6m) cash generating units. The Audit Committee also considered the impact of any reasonable change in assumptions that might further increase or reduce the impairments recorded and whether any reasonable change would result in any other cash generating unit requiring to be impaired. The Audit Committee reviewed the sensitivities and impairment disclosures in note 10 and were satisfied these are balanced and fair.
- Retirement benefit schemes. The Group operates two defined benefit retirement plans which were still open to future accrual at the balance sheet date. The UK scheme is in the process of being closed to future accrual. The valuations are prepared by an independent qualified actuary. The Audit Committee considered the report from the Group Financial Controller and were satisfied the assumptions used were appropriate. The detailed disclosure for these schemes under IAS19 are shown in note 24 and the Audit Committee is satisfied they are complete and accurate.

### External auditor

The year under review marks the fourth year during which Deloitte LLP has been the Group's external auditor following a formal tender process in 2014. Nigel Thomas is the lead audit partner, taking over from Nicola Mitchell during 2017. Nigel has been on the audit team since Deloitte's appointment as auditor and therefore the transition between lead audit partners has been very smooth. The Audit Committee assesses the effectiveness of the external audit process, the scope of the Group audit and the quality of the audit work throughout the year.

The assessment considers:

- Any issues arising from the prior year external audit;
- The proposed external audit plan, including identification of risks specific to Rotork;
- External audit scope and materiality thresholds;
- Staffing continuity and experience;
- The delivery of the external audit in line with the plan;
- Matters arising during the external audit and the communication of these to the Audit Committee;
- Feedback from executive management;
- Private meetings with the external auditor and the Head of Risk and Internal Audit without management being present;
- The independence, objectivity and scepticism of the external auditor; and
- The FRC audit quality review report on selected audits undertaken by Deloitte.

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

Consideration was given to the possibility of re-tendering the external work during the course of the year but given it is only the fourth year the decision was made not to re-tender. The Audit Committee has recommended that Deloitte LLP be re-appointed auditors for the 2018 financial year and Deloitte's continuing appointment will be subject to shareholder approval at the 2018 AGM.

The 2018 year end audit will be the last year under the Financial Reporting Council's APB Ethical Standards that Nigel Thomas will be able to hold the role of Senior Statutory auditor. We will therefore be considering a transition plan during the coming year.

### Statement of compliance

The Company confirms that it has complied with terms of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 (the Order) throughout the year.

### Non-audit services

In order to safeguard the independence and objectivity of the external auditor, the Board has adopted a policy on non-audit services which restricts the work and fees available to the external audit firm, and the policy is reviewed by the Audit Committee annually to ensure it remains appropriate and in line with applicable requirements.

The policy specifies certain activities which the external auditor may not undertake such as work related to the internal audit function and, from January 2017, work related to certain tax activities.

The policy is compliant with EU legislation on permitted non-audit fee services which came into effect on 17 June 2016. The policy contains restrictions on the scope of permissible non-audit work; and a cap on fees for permissible non-audit work (which may not exceed 70% of the average audit fees paid in the last three consecutive years).

For work that is permitted under the policy, authority has been delegated to the Finance Director to approve. This is for fees of up to £10,000 per project or £40,000 in aggregate for general work, and £10,000 for acquisition related work that is permitted under the policy. Non-audit work above these levels requires the prior approval of the Chair of the Audit Committee or the Audit Committee as a whole.

An analysis of fees paid to Deloitte, including the split between audit and non-audit is included in note 8 of the report and accounts. The statutory auditor's non-audit related fees reduced from £41,000 in 2016 to nil in 2017.

Dates of Audit Committee meetings:

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
	✓		✓				✓			✓✓	✓

Members<sup>1</sup>: Lucinda Bell, Sally James, Gary Bullard and Peter Dilnot

<sup>1</sup> As at 31 December 2017

**FINANCIAL REPORTING**

- Reviewed the Annual Report and Accounts including whether they are fair, balanced and understandable and the governance report and draft results announcements.
- Reviewed the material judgments and estimates and going concern assumption and the viability statement in the Annual Report and Accounts.
- Reviewed the half year accounts including material judgments, estimates and draft half year results announcement.
- Reviewed the external auditor's report on the year end accounts and the proposed full year external audit scope, key risks, materiality and year end issues.
- Reviewed trading updates.

**INTERNAL CONTROLS AND RISK MANAGEMENT**

- Reviewed internal controls and risk management, including consideration of processes and procedures for risk management, effectiveness of internal controls and fraud risk.
- Reviewed significant internal control reports, findings and management responses.
- Reviewed internal audit programme, its remit, resourcing and effectiveness.
- Meetings with the Head of Risk and Internal Audit without management present.
- Reviewed anti-bribery and corruption procedures, including training and communication, and recommendation of a new gifts and hospitality policy to the Board.
- Reviewed Whistleblowing Policy, the Whistleblowing Hotline and procedures including training and communication, and received reports on whistleblowing matters.

**AUDIT COMMITTEE  
ACTIVITY 2017**

**EXTERNAL AUDIT**

- Considered and reported to the Board on the external auditor's independence, objectivity and effectiveness including the annual audit.
- Reviewed the external auditor's representation letter, views on the control environment and fraud risk management.
- Meetings with the external auditor without management present.
- Reviewed non-audit services undertaken by the external auditor and considered of policy on non-audit work.
- Considered audit fees, engagement terms and risk of external auditor leaving the market.
- Considered re-tendering the external audit contract.
- Reviewed policies on the employment of ex-employees of the external auditor.

**OTHER WORK**

- Considered accounting and corporate governance developments.
- Reviewed Audit Committee effectiveness and Terms of Reference.
- Received presentations from the Group Tax Manager and Group Treasurer.
- Reviewed revised Ethics and Values Statement and recommendation of statement to the Board for approval.
- Considered resourcing required for Risk and Internal Audit team, including the appointment of PwC following departure of the central team.

## AUDIT COMMITTEE REPORT

I am pleased to present the report of the Audit Committee for the year ended 31 December 2017. This year the key areas of focus for the Audit Committee have been:

- Appointing the new Head of Risk and Internal Audit via the cosourcing arrangement with PwC;
- Reviewing the activities of internal audit and the effectiveness of risk mitigating controls for principal risks;
- Scrutinising the carrying value of intangible assets, including the goodwill on acquisition of Bifold; and
- Monitoring the quality, consistency and integrity of the Company's financial reporting, including assessment of whether the Annual Report and Accounts is fair, balanced and understandable.

### Committee composition and governance

All Audit Committee members are independent non-executive directors. John Nicholas retired from the Audit Committee on his retirement from the Board on 24 February 2017. On 27 February 2017, I was appointed Chair of the Audit Committee, replacing Sally James who became the Senior Independent Director. I would like to thank Sally for her thorough chairing of the Audit Committee. Peter Dilnot joined the Committee on his appointment as a Director on 1 September 2017.

I hold professional accounting qualifications and am deemed to have recent and relevant financial experience. Biographies of each member of the Audit Committee can be found on pages 54 to 55.

The Audit Committee operates under formal terms of reference which are reviewed annually and were last updated in December 2017. A copy of the terms of reference is available on the Rotork website at [www.rotork.com/en/investors/index/committees](http://www.rotork.com/en/investors/index/committees).

The principal responsibilities of the Audit Committee are to review and report to the Board on:

- The integrity of financial reporting;
- Significant accounting policies and judgements;
- Internal control and risk management systems including monitoring the effectiveness of internal audit;
- The appointment, independence and effectiveness of the external auditor;
- The external auditor's remuneration; and
- Whistleblowing and other Group policies as relevant.

The Audit Committee maintains an annual schedule of work which is kept under review and forms the basis of its principal meetings throughout the year. The annual schedule is supplemented by consideration of specific issues as and when they arise.

The Audit Committee met six times during the year. There were four main Audit Committee meetings and two other meetings to approve the trading statements in April and November. Details of attendance are set out on page 59. Meetings of the Audit Committee are arranged to co-ordinate with the Group's financial reporting timetable to ensure appropriate scrutiny by the Audit Committee of such announcements, including review of year end and interim financial reports, in addition to other trading updates made during the year.

The Chief Executive, Chairman, Finance Director, Group Financial Controller, Head of Risk and Internal Audit and representatives of the external auditor (including the principal audit partner) also regularly attend meetings by invitation.

As Chair of the Committee, I additionally hold regular meetings with the Finance Director and other members of the management team. These meetings provide me with a better understanding of key issues and identify those matters which require meaningful discussion at Audit Committee meetings. I also meet with the Head of Risk and Internal Audit and the external audit partner to discuss any matters of concern that they may have.

During the year, the Audit Committee received reports from management, the Head of Risk and Internal Audit and the external auditors. These reports have allowed the Audit Committee to scrutinise and ask questions where further clarification or discussion was required. Further details of the work undertaken by the Audit Committee during 2017 is set out opposite.

Further details of the Group's internal control and risk management systems and the process for identifying, evaluating and managing the principal risks faced by the Group during 2017, including the Board's risk appetite, are contained on pages 18 to 24.

**Relations with shareholders**

Communication with shareholders is a priority for Rotork and the Company openly engages in a regular dialogue with its major shareholders. In 2017, the Board, and in particular the Executive Chairman and Finance Director, have engaged with shareholders in a number of ways including:

- Hosting and participating in roadshows, both in the UK and internationally;
- Hosting webcasts;
- Attending shareholder events;
- Hosting investor site visits;
- Attending conferences;
- Hosting conference calls; and
- Arranging ad hoc one to one and group meetings and calls with shareholders.

A Director of Strategy and Investor Relations was appointed in January 2017 to increase the resources available to support existing and potential shareholders and enhance our reporting to shareholders.

During the year we have reviewed our programme of events and expanded our investor communications programme to include greater participation with a wider range of shareholders, hosting additional site visits and roadshows, and attending additional conferences. We have communicated with all major shareholders regarding the change of Chief Executive and progress regarding our growth acceleration plans, and will keep shareholders updated on a regular basis as this develops.

In January 2018, MiFID II (made up of the Markets in Financial Instruments Directive (2014/65/EU) and the Markets in Financial Instruments Regulation (2014/600/EU) became effective which impacts how investment fund managers receive research from analysts and how they arrange access to corporates. We have assessed the likely implications for our wider communications with shareholders and will keep this under review as the investment industry's response evolves.

The Chairman ensures that all directors are made aware of major shareholder issues and concerns by ensuring the Board receives reports on meetings with analysts and fund managers as well as shareholders. In addition, the Board receives reports from its brokers which give anonymised feedback from investors.

Rotork makes constructive use of its AGM as an opportunity for the Board to communicate with, and answer questions from, shareholders who attend in person. The entire Board is normally available during the meeting, and for lunch following the meeting, to allow direct interaction between the directors and the shareholders. This year, Rotork will again adopt automatic poll voting at its AGM in order to better reflect the views of shareholders; previously voting on resolutions was generally undertaken on a show of hands at the AGM itself. Automatic poll voting ensures that all votes cast in person or by proxy are taken into account on a particular resolution.

Rotork also maintains a comprehensive investor relations section on its website which provides a variety of resources for investors including current webcasts, presentations and press releases as well as annual interim reports. The website can be accessed at [www.rotork.com/en/investors](http://www.rotork.com/en/investors).

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

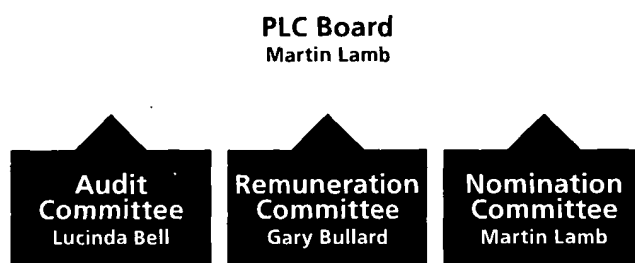
**Board Committees**

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

In addition to the principal Committees outlined above, the Board also maintains a Disclosure Committee to ensure that Rotork complies with its obligations in relation to the control and disclosure of inside information under the EU Market Abuse Regulation. Membership of the Disclosure Committee currently comprises the Executive Chairman, the Finance Director and the Company Secretary and it operates under formal, written terms of reference.

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

**Chairman of the Board and Chairs of the Committees as at 31 December 2017**



## CORPORATE GOVERNANCE REPORT CONTINUED

All non-executive directors constructively challenge executive management at Board meetings and are entitled to unfettered access to information and management across the Group. Rotork's executive directors understand the distinction between their roles as executive managers and as Board directors.

At Board meetings, the Board receives presentations from senior management (including all Divisional Managing Directors during the year) regarding that senior manager's area of responsibility. The principal purpose of the presentations is to consolidate the Board's understanding of the Group's operations, and in particular current strategic and operational issues facing divisional and business functional management. The presentations are structured so that the Board has the opportunity to ask questions and constructively challenge senior management at their presentations. Management presentations normally take place at the start of the meeting so that any issues raised in them can be considered in wider Board discussions, particularly around strategy and risk.

The executive directors present to the Board the content of preliminary and half year results announcements and the Board also considers trading updates.

### **Induction and development**

New Board members receive a suitable tailored induction, facilitated by the Company Secretary. This includes a combination of reading materials, external and internal training, meetings with senior management and site visits.

Directors are encouraged to continually update their professional skills and knowledge. During 2017, development activities for the directors included participation in external training seminars. All the non-executive directors are members of the Deloitte Academy which provides a wide range of training opportunities for FTSE 350 board directors.

The level and nature of training given to the Board is considered at least annually by the Chairman.

### **Performance evaluations**

The Board is self-critical, and is continuously looking to improve its performance. In this respect, the appointment of new members to the Board in recent years has provided a valuable opportunity to review and refresh the approach to achieving best practice.

The formal performance evaluation of the Board in accordance with Code Provision B.6 took place in early 2017. Following the full, interview-based Board performance evaluation in 2016, the Executive Chairman asked Useful Thinking Limited, an independent external consultancy, to facilitate a review in 2017 focusing on the key points previously raised and assessing the Board's satisfaction with the follow up to the 2016 Board evaluation. This was done by way of written questionnaire.

Building on specific feedback from the Board's 2016 effectiveness review, Board workshops were held in March 2017 to consider the acquisition process and the Group's Risk Appetite Framework and in June 2017 on succession planning, personal development and recruitment.

The Senior Independent Director annually arranges a meeting of the non-executive directors to appraise the Chairman's performance. This feedback is used by the Senior Independent Director to discuss with the Chairman his performance. This review took place in December 2017 and related to Martin Lamb's performance as Chairman not Executive Chairman.

### **Risk management and internal controls**

The Board is responsible for Rotork's system of risk management and internal control and the Board's review of the system's effectiveness is completed with the assistance of the Audit Committee.

During 2017, the Board regularly reviewed the effectiveness of the Group's risk management and internal control systems and can confirm that no significant failings or weakness were identified in relation to these reviews. The systems which were in place for the year under review, and up to the date of approval of the report, are in accordance with the Code and the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

### **Main features of the Group's risk management process**

An established risk review process at a divisional level results in a 'bottom up' assessment of the risks facing the Group. These are consolidated before the 'top down' review is performed by management and then by the Board to ensure the risk population is complete and adequately assessed.

An Executive Risk Summary is presented to the Board on a quarterly basis. This includes a set of Key Risk Indicators which provide a means of monitoring the Group's risk exposures and focusses the Board on risks where the Group exceeds, or will potentially exceed, risk appetite. Quarterly reporting is supplemented as necessary by more detailed monthly reporting to the Board by the executive management team on new or evolving risks, the effectiveness of existing mitigations and plans to further strengthen mitigations.

### **Main features of the Group's internal control systems**

All members of the Board receive Audit Committee papers and prior meeting minutes, which contain the Audit Committee's assessment of the effectiveness of the Group's risk management and internal control systems. All non-executive directors are members of the Audit Committee and the executive directors attend Audit Committee meetings.

Key elements of the framework which enables Rotork to respond appropriately to financial, operational, compliance and any other risks, include:

- Group wide policies and procedures, including authority levels and division of responsibilities;
- Training of staff on policies and procedures relevant to their roles;
- Ongoing monitoring of business performance, Key Risk Indicators and levels of compliance with procedures;
- A formal schedule of reserved matters for the Board, including responsibility for reviewing Group strategy;
- A formal whistleblowing policy (revised in 2017) with an external whistleblowing hotline;
- Robust assurance processes and controls over financial reporting and health and safety procedures; and
- Regular controls confirmations from the business.

At the start of 2017, Rotork's internal audit function comprised a dedicated central team supported by a team of in-house accountants and Head Office staff. Unfortunately both members of the central team resigned during the year as they wanted to relocate with their families. As a result, PwC have been retained to cover these roles. The function is now led by an experienced Head of Risk and Internal Audit from PwC. Staffing of the central risk and internal audit team will be kept under review during 2018.

During the year, the internal audit team identified improvement recommendations as a result of their work. Management are charged with implementing the required improvements to controls. The status and effectiveness of actions are monitored by internal audit and regularly reported to the Audit Committee.

### Directors' attendance at Board and Committee meetings during 2017

	No. of meetings			
	Board	Audit Committee	Remuneration Committee	Nomination Committee
Lucinda Bell <sup>(i)</sup>	11/12	5/6	3/5	3/5
Gary Bullard	12/12	6/6	5/5	5/5
Jonathan Davis	12/12	6/6	0	0
Peter Dilnot <sup>(ii)</sup>	4/12	3/6	3/5	3/5
Peter France <sup>(iii)</sup>	6/12	2/6 <sup>(iv)</sup>	2/5	1/5
Sally James	12/12	6/6	5/5	5/5
Martin Lamb	12/12	5/6 <sup>(v)</sup>	5/5 <sup>(v)</sup>	5/5
John Nicholas <sup>(iv)</sup>	1/12	1/6	1/5	0
Maximum number of meetings	12	6	5	5

(i) Lucinda Bell missed the meetings of Board, Audit Committee, Remuneration Committee and Nomination Committee in December for medical reasons.

(ii) Peter Dilnot was appointed to the Board with effect from 1 September 2017.

(iii) Peter France resigned from the Board on 27 July 2017.

(iv) John Nicholas retired from the Board on 24 February 2017.

(v) By invitation.

### Roles and responsibilities

There is a documented clear division of responsibilities between the Chairman and the Chief Executive to ensure that there is a balance of power and authority between leadership of the Board and executive leadership. As set out on page 58, Martin Lamb has been carrying out the Chief Executive role on a temporary basis following the resignation of Peter France in July 2017. He will resume his role as non-executive Chairman when Kevin Hostetler becomes Chief Executive on 12 March 2018. Sally James, the Senior Independent Director, has taken on additional responsibilities during this period.

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

### Board meetings held outside the UK in past five years

### How the Board operates effectively

#### Board activities

As part of Rotork's Board effectiveness, day-to-day responsibility for the running of the Company is delegated to executive management. However, there are a number of matters where, because of their importance to the Group, it is not considered appropriate to do this. The Board therefore has a formal and documented schedule of matters reserved for its decision. This schedule can be found on the Company's website at [www.rotork.com/en/investors/index/theboard](http://www.rotork.com/en/investors/index/theboard).

In 2017, there were nine main Board meetings and three other meetings. The Chairman (and the Senior Independent Director, following Martin Lamb's appointment as Executive Chairman), through the Company Secretary, ensure that the Board agenda and all relevant information is circulated to the Board members sufficiently in advance of the meeting. The format and content of management reporting packs are kept under review to ensure that the non-executive directors receive focused, concise and timely information from executive management. The Chairman (together with, following Martin Lamb's appointment as Executive Chairman, the Senior Independent Director) and the Company Secretary discuss the agenda in detail ahead of every meeting and hold a review meeting ahead of each Board meeting.

At least once annually, the Board travels to and meets at one of Rotork's locations other than its head office in Bath. This allows the Board, and, in particular, the non-executive directors, the opportunity to gain a deeper understanding of other Rotork businesses and their markets and to interact with local management and staff, as well as to view new capital investments and acquisitions. In June 2017, the Board visited Rotork's operations in Rotterdam, The Netherlands, and met with, and received presentations from, local management. Whilst there, they visited a large oil tank terminal in the Rotterdam Europort area, which has about 700 Rotork units installed, to see Rotork actuators in operation. In September 2017, the Board met at Bifold's office in Manchester, UK, where they received a tour of the site and local management presentations.

## CORPORATE GOVERNANCE REPORT CONTINUED

### UK Corporate Governance Code compliance statement

The UK Corporate Governance Code 2016 (the Code) is the standard against which we measured ourselves in 2017. The Code is available to download at [www.frc.org.uk](http://www.frc.org.uk).

Throughout the year ended 31 December 2017, Rotork plc fully complied with the Code, save that from 28 July 2017 it was not in compliance with Code Provision A.2.1, which provides that the roles of the Chairman and Chief Executive should not be performed by the same person.

Martin Lamb assumed the full time role of Executive Chairman on an interim basis following the announcement of the resignation of Peter France on 28 July 2017. Following Martin Lamb's appointment, Sally James, the Senior Independent Director, has taken an increased role at Board level, including chairing the majority of discussions at meetings, in particular those aspects relating to direct review and constructive challenge of the work of the executive directors. Sally James has also taken greater responsibility for the setting of Board meeting agendas, as described below.

The Nomination Committee commenced work in August 2017, with the appointment of external executive recruitment consultants, to identify and recruit a new Chief Executive. The appointment of Kevin Hostetler as Chief Executive was announced on 4 January 2018. Kevin joined the Board on 12 February 2018 and the Nomination Committee on 1 March 2018, and will assume the role of Chief Executive from 12 March 2018. Martin Lamb will revert to his role as non-executive Chairman from this date and Sally James' additional responsibilities will also cease.

The following section on pages 58 to 61 contains a summary of the system of corporate governance adopted by Rotork.

### The Board

The Board has a duty to promote the long-term success of Rotork for its shareholders; accomplished by entrepreneurial leadership, within a framework of prudent and effective controls and with proper consideration of wider stakeholder interests. Its role therefore includes approval of strategy, risk reviews, finance matters and internal control and risk management.

The terms of appointment of the Directors are available for inspection during business hours at the registered office of Rotork plc and will also be available at the AGM.

### Board composition

Rotork is led by an effective Board which currently consists of seven members: the Executive Chairman, the Finance Director, Kevin Hostetler (who will become Chief Executive on 12 March 2017) and four independent non-executive directors. The non-executive directors are appointed for an initial term of three years. Upon the completion of this term, the appointment is reviewed and, if appropriate, extended.

Rotork Board members come from a variety of professional backgrounds including engineering, legal, accountancy and international sales and collectively possess significant managerial experience, as well as experience of being company directors of other public limited companies. The appointment of Peter Dilnot as a non-executive director in September 2017 has further strengthened the mix of skills on the Board, in particular given his background in engineering and extensive international business experience.

Following a rigorous review, the Board considers all non-executive directors to be independent in character and judgement from Rotork. Details of the length of tenure of the independent non-executive directors is set out below. Gary Bullard is the longest serving non-executive director and as he will have been in office for nine years in 2019, the Nomination Committee have started to plan for the appointment of a replacement non-executive director and Chair of the Remuneration Committee.

Rotork's female representation on the Board was 33% as at 31 December 2017. With the appointment of Kevin Hostetler, female representation now stands at 29%. The Board is cognisant of the updated Hampton-Alexander Review target of 33% female representation on the Board by 2020.

The biographies of the directors and details of Board committee membership are set out on pages 54 to 55.

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

### Length of tenure of independent non-executive directors as at 31 December 2017

- 0-3 Years
- 3-6 Years
- 6-9 Years

### Balance of independent non-executive directors and executive directors as at 31 December 2017

- Non-executives
- Executives

### Balance between male and female directors on the Board as at 31 December 2017

- Male
- Female

Dates of Board meetings

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
	✓	✓	✓✓		✓✓	✓	✓	✓		✓✓	✓

**BUSINESS REVIEW AND STRATEGY**

- Received regular performance and business updates from the executive directors.
- Set the Group's strategy and vision.
- Received presentations from divisional and Group business function managers to consolidate understanding and awareness of activities and performance within the relevant divisions and business functions.
- Received a presentation in relation to the competitive landscape.

**FINANCIAL**

- Received regular financial performance updates from the Finance Director.
- Approved 2016 Annual Report and Accounts and Annual General Meeting (AGM) business.
- Approved 2017 interim report and trading updates.
- Approved 2016 final dividend recommendation and 2017 interim dividend declaration.
- Approved 2018 budget.

**BOARD ACTIVITY 2017**

**OTHER**

- Approved appointment of Martin Lamb as Executive Chairman.
- Approved appointment of Peter Dilnot on recommendation of the Nomination Committee and Sally James as Senior Independent Director and Lucinda Bell as Chair of the Audit Committee.
- Approved closure of UK defined benefit scheme to future accrual.
- Received a presentation from the Chief Information Officer on a major review of the IT systems, including cyber-security.
- Received presentations on diversity and gender pay gap reporting.

**INTERNAL CONTROLS AND RISK MANAGEMENT**

- Approved entry into an internal audit and risk partnership with PwC.
- Received regular reports on risk including quarterly Executive Risk Summary.
- Received regular reports on litigation and regulatory matters.
- Received regular financial controls self-assessment confirmations from global locations.
- Reviewed effectiveness of risk management and internal control systems.
- Risk appetite workshop.
- Received reports on a third party selling arrangement review and agreed a process to rationalise this sales channel.
- Approved revised Ethics and Values Statement, updated Whistleblowing Policy and new Gifts and Hospitality Policy.

**GOVERNANCE AND STAKEHOLDERS**

- Series of meetings undertaken between the Executive Chairman, Finance Director and key shareholders following Board changes.
- Received regular updates from the Director of Strategy and Investor Relations on investor relations.
- Adopted revised board protocols following the appointment of Martin Lamb as Executive Chairman.
- Reviewed feedback from institutional shareholders.
- Approved 2016 and 2017 Modern Slavery Statements.
- Reviewed and discussed the ICSA and Investment Association paper on the proper consideration of stakeholder interests in the boardroom.
- Received regular updates on health and safety.

## CORPORATE GOVERNANCE REPORT

### Introduction from the Executive Chairman

On behalf of the Board, I am pleased to introduce Rotork's Corporate Governance Report for 2017. The aim of this report is to provide a clear and comprehensive explanation of Rotork's governance framework and how it was applied day-to-day during the year under review, with particular emphasis on explaining how the principles of the UK Corporate Governance Code have been applied across our Group.

As I highlighted earlier in my report on pages 4 to 5, 2017 was a period of change for the Group with further changes expected in 2018, with the appointment of a new Chief Executive, and as we commence implementation of our plans to accelerate growth. I believe that strong corporate governance has a key role to play in protecting our business and its long-term success, particularly during periods of change. It is important for good governance to resonate throughout our entire organisation and at Rotork we seek to apply it across all our activities around the world in a consistent and unified way to create and maintain the right culture throughout the Group.

As previously reported, there has been a strong focus by the Board on broader strategic issues this year as we consider ways to accelerate our revenue growth and return to higher margins. The Board has overseen the strategic reviews of our routes to market, innovation funnel, operations footprint, supply chain, talent development and IT systems and will continue to do so in 2018.

Our robust risk management processes, which were further enhanced in 2017, ensure that the Board's risk assessment and risk appetite are fully considered, both in the development of strategy, and in action plans in furtherance of new business opportunities.

The Board received a number of presentations on improving diversity across the Group during the year. These have followed on from the publication of the Hampton Alexander review in November 2016, and follow up review in November 2017, which focused on gender diversity at Board and senior management level for FTSE 350 companies. There was also the Parker report, which was published in November 2016, which focused on the ethnic diversity of Boards. We provided our gender data for the Hampton Alexander follow up review. We have also recently published our gender pay report. The Board is committed to fostering greater diversity at Board and all other levels of Rotork and this will remain a focus for the coming year.

The Board has regard to the interests of other stakeholders of the Company in its decision making, in addition to its shareholders. Details of how we have considered the interests of our employees during the year are set out on page 38. In addition, the Chair of our Remuneration Committee met with employee representatives in 2017 to discuss executive pay and remuneration more broadly across the Group. Details of how we interact with the communities in which we operate, and our environmental impact, are set out in our Corporate Social Responsibility Report (see pages 44 to 45 and 46 to 49). In addition, details of our relationships with our suppliers are set out on page 43.

As reported last year, John Nicholas retired from the Board in February 2017. Following this, Sally James was appointed Senior Independent Director and Lucinda Bell was appointed Chair of the Audit Committee to replace Sally James. Peter Dilnot joined the Board on 1 September 2017 as our fourth independent non-executive director and has joined each of the three principal Committees. Finally, Kevin Hostetler joined the Board as an executive director on 12 February 2018 and became a member of the Nomination Committee on 1 March 2018. Kevin will assume the role of Chief Executive on 12 March 2018.

As a Board we regularly review and discuss our ways of working and our effectiveness. Useful Thinking Limited facilitated a Board effectiveness review in early 2017, following on from the comprehensive review that was conducted in the previous year. Further details are set out on page 60.

Rotork is subject to the 2016 UK Corporate Governance Code, and I am happy to report that throughout 2017 Rotork has complied with the Code in all respects, save that, following Peter France's resignation as Chief Executive in July 2017, I have acted as Executive Chairman. Details of the changes made to the governance structures of the Board in response to my temporary change in role are set on page 58.

MARTIN LAMB  
Executive Chairman  
5 March 2018

4.

5.

6.

7.

**4. Gary Bullard  
Non-Executive Director**

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

**5. Peter Dilnot  
Non-Executive Director**

Peter is the Chief Executive Officer of international waste-to-product company Renewi plc (formerly Shanks Group plc). Peter has an engineering background and before joining Shanks Group, he was a senior executive at Danaher Corporation, a leading global industrial business listed on the NYSE. Prior to Danaher, Peter spent seven years at the Boston Consulting Group (BCG) based in both London and Chicago, working primarily with industrial and pharmaceutical clients.

**6. Sally James  
Senior Independent Director**

Sally was appointed as Senior Independent Director of Rotork plc on 27 February 2017. Sally previously held senior legal roles in investment banking in London and Chicago, including Managing Director and EMEA General Counsel for UBS Investment Bank. She has also held the position of Bursar of Corpus Christi College, Cambridge.

**7. Kevin Hostetler  
Executive Director**

Most recently Kevin was the CEO of FDH Velocitel, a private equity backed telecommunications and engineering consulting business in the USA. Prior to this, Kevin was an executive advisor to private equity firms. His roles included CEO of a speciality private valve manufacturer and executive chairman of an engineered high-pressure vessel company. From 2005 to 2012, Kevin was in various senior executive roles at IDEX Corporation, including leading their Asia and Emerging Markets businesses. From 1997 to 2004, he held a number of leadership positions and senior strategic and business development roles at Ingersoll Rand.

2010

2017

2012

2018

Founder and CEO of Catquin Ltd  
 Chairman of New Model Identity Ltd  
 Non-executive director of Spirent Communications plc  
 Non-Executive Chairman of Gooch & Housego PLC

CEO of Renewi plc

Non-executive director of Moneysupermarket.com Group PLC  
 Non-executive director of Bank of America Merrill Lynch International  
 Non-executive director of Hermes Investment Management  
 Trustee of Legal Education Foundation











## BOARD OF DIRECTORS

1.

2.







3.

	1. Martin Lamb Executive Chairman	2. Jonathan Davis Finance Director	3. Lucinda Bell Non-Executive Director
<b>EXPERIENCE</b>	Martin has extensive experience in the global engineering sector. He worked for IML plc for over 33 years in a number of senior management roles, joining the Board in 1996, and serving as Chief Executive from 2001 to 2013. He has served on the boards of a number of engineering businesses in a non-executive capacity, both in the public and private equity arena.	Jonathan joined Rotork in 2002 after holding a number of finance positions in listed companies. He gained experience of the Rotork business initially as Group Financial Controller, and then as Finance Director of the Rotork Controls division, and in 2010 was appointed Group Finance Director.	Lucinda was Chief Financial Officer of the British Land Company PLC until January 2018. She served on the board of British Land from 2011 and has held a range of finance roles in the real estate industry.
<b>APPOINTED TO THE BOARD</b>	2014	2010	2014
<b>EXTERNAL APPOINTMENTS</b>	Chairman of Evoqua Water Technologies Corp Member of the European Advisory Board of AEA Investors (UK) Ltd		
<b>COMMITTEE MEMBERSHIP</b>			  
	 Nomination	 Audit	 Remuneration
	 Denotes Chair of Committee		

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# GOVERNANCE

## PERFORMANCE AND OBJECTIVES

### PROGRESS

- The 2017 LTIR of 0.24 represented a decrease on the prior year and was significantly below the target.
- A number of other sites have gained or maintained certification to OHSAS18001.

### 2018 TARGETS

- The method adopted to set the LTIR target is the calculated average of the previous three years LTIR results. This sets the LTIR target for 2018 at below 0.34.

#### Awards and recognition

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

#### Assurance activities

Our subsidiaries continue to embrace the challenge for the continuous improvement of our health and safety standards. The assurance process continues to develop to highlight and mitigate significant risks in the business. The assessment looks at significant risk areas and identifies gaps in our processes or improvements that can be made. Whilst there has been a slight decline in the overall score across the manufacturing sites this year (83% down from 88% in 2016), this is predominantly due to the restructuring of our sites that occurred during the year. Additional support has been given to these sites to improve their safety performance. Our sales and service subsidiaries continue to show improved performance, from 84% to 88%, which has resulted in the overall audit score equalling last year's score of 87%.

#### Conclusion

Throughout the year, health and safety continued to be a priority for employees and contractors. This can be seen by the significant reduction in lost time injuries that have occurred across the business and increase in near miss reporting. We continue to learn from events, audits and inspections which enables us to continually improve our health and safety performance. As we move forward, we will be looking at innovative practices to improve our health and safety performance.

#### Lost Time Injury Rate

The strategic report was approved by the Board and signed on its behalf by

  
STEPHEN RHYS JONES  
Company Secretary  
5 March 2018

## Corporate social responsibility

# HEALTH AND SAFETY

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

---

Lost Time Injury Rate (LTIR)

# 0.24

### Overview

Policies, procedures and systems of safe working are in place, supported with training to ensure the health, safety and wellbeing of our employees during their working day. Health and safety training for all employees who join Rotork is included in their induction programme. Additional training is conducted that focuses on hazard identification and mitigation, risk assessment and action planning and is refreshed when applicable.

The fundamental principle of 'If we cannot do a job safely, we will not do the job' is maintained and communicated to all those who work for or on behalf of Rotork.

Across the Group, HS&E teams are engaging in continuous improvement activities to improve our safety performance. This includes obtaining a greater understanding of the root cause of incidents. Following a lost time injury or a near miss that had a potential high consequence, a safety alert is issued to all subsidiaries so they can learn from the events and avoid a repeat of the event occurring.

### Progress

The objective for 2017 was to have a Lost Time Injury Rate (LTIR) below a target of 0.47. The LTIR for 2017 was 0.24 which is a decrease on the previous year and significantly below the target.

The LTIR is a calculation of accidents resulting in one day lost time, divided by the average hours worked, multiplied by 100,000.

Our proactive approach is aimed at continuously identifying weaknesses in our safety processes and removing or mitigating risks when they are identified. This drive for continuous improvement and the openness of the culture has shown a further 40% increase in near miss reporting across the organisation.

### Occupational health

There have been no occupational diseases reported during 2017. Rotork continues to promote the wellbeing of its employees. This includes both physical health and mental wellbeing.

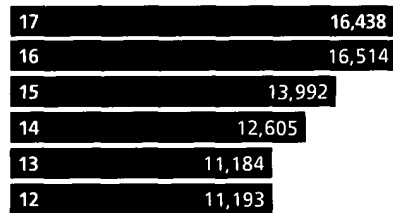
Water usage

**-22.4%**

Water (1,000 m<sup>3</sup>)



Electricity (MWh)



Gas (1,000 m<sup>3</sup>)



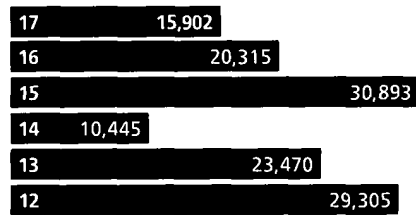
LPG (1,000 litres)



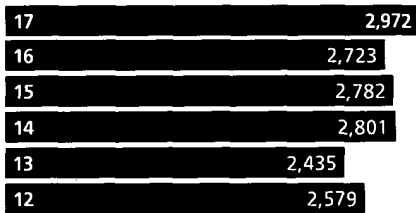
Carbon emissions

**-16.6%**

Oil (litres)



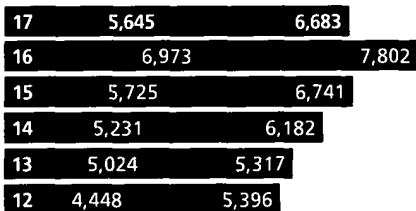
Waste generated (tonnes)



Waste recycled (%)



Scope 1 and 2 emissions (TnCO<sub>2</sub>e)



■ Scope 1 ■ Scope 2

## Corporate social responsibility

### HELPING THE ENVIRONMENT CONTINUED

#### Energy consumption

Overall electricity consumption has decreased by 0.5% on the previous year and increased by 46.9% on the baseline of 2012.

Absolute gas consumption decreased by 4.1% on the previous year but increased by 26.7% on the baseline year of 2012. The decrease is based on managing heating and the consolidation of businesses around the Group. When considering gas consumption for only the heating of buildings normalised on degree days, the overall consumption of gas has reduced by 4.2%.

In 2017, Liquid Petroleum Gas (LPG) consumption increased by 1.9% on the previous year and increased 1% on the baseline of 2012. The increase in LPG is in line with expected consumption rates.

Overall oil consumption has decreased on the previous year by 21.7% and also decreased on the baseline year of 2012 of 45.7%. The main reasons for this reduction are the removal of the generator and upgrading of the electrical system at Bifold Marshalsea (UK) and the use of solar power in Chennai which has further reduced the use of the back-up generator.

To support the continued focus on energy management, our UK businesses continue to be certified to ISO50001. During the year we are pleased to report that the Bifold Marshalsea site in Taunton and the Bifold Chadderton site were certified to ISO50001. Surveillance audits were conducted through 2017 with no major instances of non-conformance identified. The internal audit process ensures that those sites that are not certified to ISO50001 are managing their energy and are looking at ways to increase their energy efficiency.

As we develop new sites or upgrade our existing sites, we will continue to build energy efficient solutions into the design. Where viable we will also look at the generation of power from renewable sources, which will help to reduce the environmental impact of our business.

#### Water consumption

Absolute water consumption has decreased by 22.1% on the previous year and has increased by 27.7% on the baseline year of 2012. This is mainly due to the site consolidation activities that have occurred in Italy and in the USA.

#### Waste and recycling

The amount of waste that our sites generate has increased on the previous year by 9% and the amount of hazardous waste generated has increased by 3% on the previous year. When normalised with turnover, waste has increased by 0.2% on the previous year. Recycling has increased from 76% to 77%.

#### Environmental incidents

There have been no reportable environmental incidents during 2017. Systems are in place to address any environmental incident that occurs at our subsidiaries and the robustness of these emergency systems are reviewed as part of our internal audit programme.

Extreme weather events did impact on the business on a number of occasions during 2017. The site in Bergamo, Italy, flooded due to high rainfall. The flooding incident did not impact on production as emergency plans were immediately activated. Actions have been taken to reduce the risk of the site flooding in the future.

Hurricane Harvey impacted on our operations in Houston, USA, which forced the closure of the site for a period of three days. The site itself was unharmed by the flooding that occurred in the greater Houston area, however, there were restrictions on travel due to roads being flooded and a number of employees being land locked.

#### Greenhouse Gas Emissions (GHG) reporting

In January 2018, EEF (the UK manufacturers' organisation) undertook an assurance audit of the Greenhouse Gas Emissions Report. The business reports on GHG emissions are in line with the GHG Emissions Protocol developed jointly by the World Business Council for Sustainable Development and the World Resource Institute. No significant issues were identified during the assurance audit.

Greenhouse gas is measured across three different scopes:

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

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

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

Absolute scope 1 and scope 2 emissions have decreased by 16.6% on 2016 and increased on the baseline year of 2012 by 25.2%. Emissions per £million turnover has decreased from 25.0TnCO<sub>2</sub>e to 19.2TnCO<sub>2</sub>e, a decrease of 23.3%.

#### Conclusion

We continue to focus on reduction in electricity consumption across the business that have provided greater energy efficiency. The consolidation of the sites and upgrades in some of our facilities have resulted in the overall reduction of our scope 1 and scope 2 emissions by almost 17%.

## PERFORMANCE AND OBJECTIVES

### PROGRESS

A number of key activities have occurred during the year that have impacted on our emissions:

- The consolidation of our sites within the Instruments division in Italy has delivered a saving of 113 tonnes of CO<sub>2</sub>.
- The installation of solar panels in our Chennai factory has generated approximately 13% of the site's electricity consumption, whilst stabilising the supply and reducing the need for back-up generators to run. This improvement has delivered a saving of 62 tonnes of CO<sub>2</sub>.

We continue to target electricity as part of our energy efficiency programme with 12 sites reducing electricity consumption by more than 5%.

### 2018 TARGETS

To support the increase in the number of energy related projects that are occurring across our business, the following targets have been set for all of our large energy consuming sites:

- Promote energy efficiency throughout the business with focus on high impact projects to deliver a 2% saving on electricity.
- Further reduce gas consumption on heating normalised on degree days by 2%.

More stringent local targets can be set where needed to support the energy reduction programme of the Group...

## Corporate social responsibility

# HELPING THE ENVIRONMENT

Rotork is fully committed to the prevention of pollution, to comply with all legal and regulatory requirements and to reduce our environmental impact by targeting key areas such as energy consumption, water consumption and waste.

### Introduction

We continue with our assembly only philosophy in the majority of our business units where we use specialist suppliers for most of our manufactured components and assemblies. This philosophy has resulted in the majority of our energy being used on lighting, heating and cooling and IT systems. As a responsible global entity, we continue to influence the environmental performance of our supply chain through our supplier assessment programme.

### Strategy

- We will improve our operational efficiency and enhance our environmental performance in order to secure the continued sustainability of the Group.
- We will work as a business and in the local communities where we operate, to ensure that the environment on which we depend is maintained for future generations.
- We will encourage all employees to behave in an environmentally responsible manner by supporting the businesses in reducing waste, saving energy and water and using technology to reduce travel.
- We will continue to work in partnership with our regulatory bodies and respect the regulatory framework in which we work.
- As an environmentally responsible business, we will be open and transparent and report regularly to all relevant stakeholders on our environmental performance.

### Corporate objectives

A number of improvement activities through the year have helped reduce the energy consumed at our subsidiaries. Upgrades to equipment and infrastructure have contributed to a reduction in our overall consumption.

The significant reduction in our emissions has come from the overall site consolidation strategy that has occurred through the year across the Group.

### Organisational boundaries

The environmental report covers all operations and processes within the physical boundaries of the facilities and business transportation by company cars or vans or any private cars and hire cars used for business purposes only. Transportation of products by third parties are not covered by the report.

Where energy consumption cannot be verified, normally due to the size of the facility, then an estimation on the energy use per square metre of floor space occupied has been made. This estimation is based on The Chartered Institution of Building Services Engineers (CIBSE) Guide F – Energy Efficiency in Buildings. This estimation equates to 0.56% of total emissions declared.

The baseline year remains at 2012.

## PERFORMANCE AND OBJECTIVES

### PROGRESS

- £46,000 contributed to WaterAid.
- £35,000 contributed to Sightsavers.
- £12,000 contributed to The Forever Friends Appeal (RUH) Bath, UK.
- Variety of donations made to charitable causes relevant to the local communities of Rotork's operating sites.

### 2018 TARGETS

To continue donations to charitable causes. Rotork will:

- Donate 0.1% of Group profits to Rotork's nominated international charities.
- Donate 0.1% of Group profits to charitable causes local to Rotork's operating sites.
- Review our charitable contributions and align these with our organisational culture and aims.
- Review our community involvement to identify ways of working more closely with the communities we operate within to become better corporate social partners.

## Corporate social responsibility

# COMMUNITY INVOLVEMENT

Rotork considers it important to contribute to and engage positively with stakeholders in the communities in which we operate, and to be a good community neighbour around the world.

### Overview

We regard this as part of our ongoing responsibilities as a good corporate citizen. This links into our corporate values which include producing a positive and beneficial impact in the areas in which we operate.

One of the ways Rotork does this is by having local charity committees at each of our sites which donate to local charitable causes. This empowers local employees to decide how to distribute the funds in their local communities. Rotork aims to contribute 0.1% of profits to local charitable causes. As a global organisation Rotork also commits to annually supporting global charities from head office funds of 0.1% of profits.

In addition, our employees around the world have been generous in their support of local causes with volunteer work, fundraising and making donations. Rotork is encouraging of these efforts. Local community involvement highlights from the year include:

- In Bath, UK, employees were involved in volunteer work with a local community special needs school to clear an overgrown area of their gardens to make way for an interactive sculpture for the students.
- In the USA, employees have supported the North Carolina Fire Relief efforts, various children's charities and the Salvation Army. They also volunteer tutored at risk children and assisted with food banks.
- In Germany, employees have volunteered as members of the official examination board of the Chamber of Industry and Commerce in the field of industrial mechanics and industrial clerks giving volunteer days during the year to help support examinations of official German apprenticeship schemes.
- In The Netherlands, an employee participated in a two day cycle ride to raise money, supported by Rotork, for children with drug addictions.
- In Russia, employees donated to an orphanage in the South of Russia and bought and shipped various items such as tables and benches for the children's playground, an air conditioning system and two printers with toners.
- Our Singapore employees have supported local cancer charities by raising money through sponsored runs and making food bag donations.

- Our business in South Africa has made donations to The Hope Factory, a charity that utilises enterprise development to dramatically impact and improve the lives of previously disadvantaged unemployed South Africans, by providing them with an opportunity to be trained and empowered and thus become financially productive.

In addition to these local charitable and community activities, Rotork has supported two major charities in 2017, Sightsavers and WaterAid. We have been supporting both these charities for a number of years.

---

Teachers to receive additional training

# 550+

Sightsavers is an international charity that works with partners in the developing world to combat avoidable blindness. In 2017, we focused our support on the Education for All project in the Bombali district in northern Sierra Leone. This five year project supports children with disabilities, with a particular focus on girls, to access education. Under the project, 45 schools will be made more inclusive and accessible for children with disabilities and more than 550 teachers and 750 trainee teachers will receive additional training in inclusive education.

Rotork's donations to WaterAid have been used to support a project in Ethiopia which will reach people in three wards of the Oromia Region in Central Ethiopia, who have the poorest rates of access to water and sanitation. As well as delivering access to water, sanitation and hygiene this project will improve water source protection, food production and income generation. This in turn will contribute to poverty reduction and the sustainable development of the communities.

Additionally, we have agreed a three year donation programme with the Royal United Hospitals, Bath, UK, to support their building of a new Cancer Unit via their Forever Friends Appeal (the hospitals' fundraising charity). To date, Rotork has donated £24,000 as part of our three year commitment to donate £50,000.

## PERFORMANCE AND OBJECTIVES

Rotork has developed and delivered anti-bribery and corruption training to all employees working in sales and purchasing roles, as well as to senior accountants, all managers and directors (including the Board). The training is delivered as an e-learning module. All employees who completed the course over 12 months ago are also required to do a refresher course. Both courses have been made available in numerous languages. Rotork agents receive a bribery and corruption booklet which is required to be read by all employees of the agent working on the Rotork account, and signed to confirm the booklet has been read and understood by their manager.

### Suppliers

We have a global supply chain for goods and services that supports our businesses around the world. This includes the suppliers that produce the components for our products. Many of our suppliers have a long-term working relationship with the Company.

We expect our suppliers to meet our high ethical standards and in 2017 we published a Supplier Code of Conduct which sets out our expectations. This can be found on the Rotork website at: <http://www.rotork.com/en/about-us/index/codeofconduct>. Our suppliers must adhere to the core values contained in the code and require their own supply chain to adhere to them too.

We undertook a supplier assessment survey in 2017, which included CSR themed questions associated with modern slavery, equal rights and equal pay, anti-bribery and corruption policies, charitable giving, environmental impact and child labour practices. Further details are contained in our 2017 Modern Slavery Statement.

Rotork Controls Limited and Rotork UK Limited, the Group's main UK trading companies, and Rotork plc, are signatories to the Prompt Payment Code. This ensures suppliers are paid according to the terms agreed and encourages good practice to be passed down our supply chains. Rotork is preparing for compliance with the new Prompt Payment Regulations which were introduced in the UK in April 2017. Under these, Rotork Controls Limited and Rotork UK Limited will be required to report on their supplier payment practices.

### PROGRESS

- Membership of FTSE4Good and UN Global Compact was maintained.
- An updated Whistleblowing Policy was published.
- A Supplier Code of Conduct was published.
- A comprehensive bribery risk assessment was completed.
- An updated Group Ethics and Values Statement was published.
- 2017 Modern Slavery Act Statement was published.

### 2018 TARGETS

- Implement updated Whistleblowing Policy and process and continue to promote the Policy.
- Complete third party selling arrangements review and commence implementation of the recommendations.
- Publish and implement Group Gifts and Hospitality Policy.
- Continue to ensure online bribery and corruption training is provided for employees.

## Corporate social responsibility

# ETHICS AND VALUES

Our ethics and values are central to the way we do business. They are set out in Rotork's Ethics and Values Statement which was updated in 2017 and can be viewed on our website.

### Overview

It is essential to us that our business is run in an ethical way, with fair dealing and the highest standards of integrity. Rotork has high ethical standards and expects all employees and those with whom it does business, including suppliers, to meet the same standards.

### Human rights and ethical business

Rotork is fully committed to supporting and respecting human rights as defined in the Universal Declaration of Human Rights and the International Labour Organisation's standards. Rotork does not accept any form of child or forced labour and embracing the UN Global Compact principles in our updated Ethics and Values Statement and throughout the business, is a demonstration of this commitment.

Rotork has published its Modern Slavery Act Statement for the 2017 financial year, which can be found on the Rotork website at [www.rotork.com/en/investors/index/modernslaverystatement](http://www.rotork.com/en/investors/index/modernslaverystatement). Rotork's 2017 Modern Slavery Statement sets out steps Rotork has taken during the 2017 financial year to ensure slavery and human trafficking are not taking place in its business or supply chains

and proposed steps for 2018. Rotork's commitments in 2018 include rolling out an online training module for modern slavery.

### Whistleblowing Policy

Rotork recognises that an open and honest culture is key to understanding concerns within the business and will investigate any potential wrongdoing. Rotork recently updated its Whistleblowing Policy and process. The Policy can be found on the Rotork website ([www.rotork.com/en/master-record/6675](http://www.rotork.com/en/master-record/6675)). The Policy encourages the reporting of any potential wrongdoing, anonymously if required, by all individuals working within, for, or with Rotork. The Whistleblowing Policy gives whistleblowers various ways to alert senior management to any suspected wrongdoing, including an independent external whistleblowing hotline to assist in facilitating the reporting of any concerns confidentially.

All whistleblowing concerns, however received, are investigated thoroughly and reported to the Audit Committee. During 2017, the whistleblowing hotline received eight calls and five concerns were raised through other channels.

The whistleblowing reports received covered a broad range of potential issues related to human resources, employment and dishonest behaviour. Rotork continues to take steps to publicise and promote the hotline and the Whistleblowing Policy.

### Bribery and corruption

Rotork has a zero tolerance policy on bribery and corruption worldwide, irrespective of country or business culture. Rotork's Ethics and Values Statement makes it clear that our employees will never offer, pay or solicit bribes in any form. The updates to the statement include additional wording on bribery and corruption. A new Group Gifts and Hospitality Policy was approved by the Board at the end of 2017 and was published in 2018.

Rotork makes use of detailed background checks provided by specialist bribery and corruption due diligence consultants before dealing with unknown third parties (including agents and on prospective acquisitions), particularly where they are operating in higher risk jurisdictions or market sectors. Rotork also makes use of objective guidance on country risk, such as the Corruption Perception Index by Transparency International. When working with unknown third parties, after the initial detailed background checks, Rotork continues to screen these third parties via a large number of international sources, which can detect unethical behaviour, using its due diligence consultants' proprietary databases.

In 2017, Rotork completed a comprehensive bribery risk assessment. As part of this process general managers across the Group responded to a questionnaire covering bribery and corruption risk issues. The results of the questionnaires were analysed and the results of each business unit plotted against the five main risk areas identified by Ministry of Justice Guidance to the Bribery Act 2010. The risk assessment identified agents as a principal risk for Rotork. As a result, our internal audit team produced a paper on agents, investigating how to mitigate against the risk agents present from a bribery risk perspective. In addition, we are currently conducting a review of our third party selling arrangements which will be completed in the first half of 2018. The final report will contain recommendations to further mitigate the risks that our agents present.

At the end of 2017, the Audit Committee received a full report on all 2017 activity for anti-bribery and corruption, both developments and improvements.

OUR GROUP'S APPROACH IS FOCUSED AROUND FOUR MAIN AREAS:

**ETHICS AND VALUES**

Ethics and values are fundamental to the way we in which we do business. Respecting internationally proclaimed human rights, promoting an open and honest culture, having a zero tolerance to bribery and corruption worldwide, and selecting suppliers with sound reputations in the marketplace are important principles for the Group to adhere to. More details of the Group's ethics and values can be found on pages 42 to 43.

**COMMUNITY INVOLVEMENT**

We consider it important to contribute and engage positively in the communities in which we operate and to be a good community neighbour around the world. One of our corporate values is to produce a positive and beneficial impact in the areas in which we operate. Further details on community involvement can be found on pages 44 to 45.

Completed E-Learning courses

**5,998**

See our ethics and values on page 42

Donations to charity

**£265,000**

See our community involvement on page 44

**THE ENVIRONMENT**

Rotork is fully committed to reducing its impact on the environment by preventing pollution in all countries in which it operates and to make sure it is compliant with any legal and regulatory requirements. Our compliance contributes to sustaining the environment and brings cost savings by reducing the consumption of energy, water and waste and recycling. The environmental programme is described in more detail on pages 46 to 49.

**HEALTH AND SAFETY**

The health and safety of all employees and contractors is of paramount importance in providing a safe working environment. Our fundamental principle, 'If you cannot do a job safely, we will not do the job', is actively promoted to everyone. This ensures that our people remain safe and we enhance the effectiveness of our workforce by reducing the risk of injury and costs associated with injury or illness. The Group's approach to health and safety can be found on pages 50 to 51.

Carbon emissions

**-16.6%**

See our environmental programme on page 46

Lost time injury rate

**0.24**

See our approach to health and safety on page 50

## Corporate social responsibility

# CORPORATE SOCIAL RESPONSIBILITY

We believe that being a responsible business through the effective management of social, ethical, health and safety and environmental matters is key to our success. It benefits our operational effectiveness, builds on the trust of our stakeholders and protects our reputation.

Sustainability is an integral part of our business model and strategy. Achieving a positive impact around the world lies at the heart of our commitment to CSR and it represents a valuable opportunity to ensure that Rotork continues to be successful in the long term. We are committed to embedding CSR values across all our processes and ways of working.

Rotork has been a member of the UN Global Compact since 2003 and continues to be included in the FTSE4Good index where we maintain an above average score in the global rankings, UK rankings and industry sector rankings.

We believe that the approach that we take to CSR helps to meet the expectations of our stakeholders and contributes to the success of our corporate strategy by promoting an effective and sustainable business.

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

The diagram opposite sets out our CSR Committee structure.



**CORPORATE SOCIAL RESPONSIBILITY  
COMMITTEE**

**ETHICS COMMITTEE**

**SOCIAL ISSUES COMMITTEE**

**ENVIRONMENTAL COMMITTEE**

**HEALTH AND SAFETY COMMITTEE**

---

Employees worldwide

**3,835**

---

Countries with a direct presence

**38**

**Board of Directors  
by gender**

■ Male	4
■ Female	2

**Total employees  
by gender**

■ Male	3,052
■ Female	788

**Gender reporting**

The table below shows the gender breakdown of the Group's directors and employees as at 31 December 2017.

	Male	Female
Board directors	4	2
Senior managers	102	16
Other employees	2,946	770
<b>Total</b>	<b>3,052</b>	<b>788</b>

Overall women currently represent 20% of our employees. Increasing the number of women in our business and moving towards a more even distribution of men and women at all levels is a key goal. We are making progress on this in various ways, such as increasing our intake of female apprentices and implementing actions as described below to address the imbalance.

As required by UK legislation we share the gender pay gap data for our two reportable entities that have more than 250 employees. We have also reported the total UK workforce because from our perspective it is every employee that we should count and every person, male or female, that will benefit from the actions we take today. We fully embrace the challenge to create a better gender balanced workforce.

The table opposite shows our gender pay gap. This is a snapshot taken as of 5 April 2017 to show the difference between the average hourly pay levels of all females and males in our organisation. This is shown as a percentage figure of men's average salary, irrespective of role or level in the organisation. Our figures show that the mean pay of all of our women across the whole of the UK organisation is 7.4% lower than that of men and the median pay is 5.6% lower than men's pay. To put this into context the UK national gender pay gap in 2017 stands at 18.0% for all employees whether part or full time.

The 'gender pay gap' is an average figure and is distinct from 'equal pay', which looks at the individual level of pay to ensure that men and women are paid the same for carrying out the same work. The evaluation of our gender pay data indicates that the difference in average pay is due to proportionately more men being in senior higher paid roles. At Rotork we are confident that men and women are paid equally for doing equivalent jobs across our business and we actively review decisions around annual performance, pay and bonus to help ensure this fairness and parity continues.

**GENDER PAY GAP**

Mean gender pay gap across all Rotork employees in the UK

**7.4%**

Median gender pay gap across all Rotork employees in the UK

**5.6%**

UK's national gender pay gap for all employees

**18.0%**

We fully accept the challenge to improve the number of women across the business. We have prioritised a number of actions to tackle this challenge head-on and make us an employer of choice for women:

- Introducing checks and balances on pay decisions;
- Training all supervisors and managers to be alert to 'unconscious bias';
- Implementing more family friendly and flexible working arrangements;
- Building our talent pipeline through supporting STEM initiatives, promoting our apprentice programmes to woman and building a 'return to work' programme for mid-career female engineers;
- Reviewing our recruitment policies, processes and approach;
- Setting up internal mentoring programmes to support and nurture women in their careers; and
- Measuring and reporting the impact of this action plan on our gender balance.

**MEET NAZRI**

**Area Sales Manager, Malaysia**

I started my career in Rotork Site Services in Malaysia in June 2003, maintaining oil & gas plant onshore and offshore facilities throughout the Peninsular and West Coast sea of Malaysia. I later became a sales engineer, receiving great support and exceptional mentoring from management, before being promoted to Area Sales Manager in 2010.

My team and I support each other to secure major projects, including some international projects with the assistance of our colleagues overseas. With a truly global market presence, Rotork people speak to each other all the time and I feel as if I have friends everywhere in the world!

The experience that I have gained during my career with Rotork has been priceless, helping me to build confidence and develop my skills and make new friends around the world.

## Corporate social responsibility

### OUR PEOPLE

Rotork aims to be a 'great place to work' with strong core values in 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.

#### MEET KATIA

##### **Divisional Training and NPI Manager, Lucca, Italy**

I love the practical and hands-on aspect of engineering and having achieved a PhD in Chemical Engineering I joined Rotork in 2004 as an Inside Sales Engineer then moved to the technical training department to manage product training, allowing me to fully use my technical background and travel all over the world. I currently also manage new product introduction for the Fluid Systems division, working closely with the divisional R&D department. I remember that when I was at university, the slogan was 'Join engineering, you will be a technician and travel the world.' This truly applies to me and I enjoy every single day of my job.

We recognise that to implement our business strategy we need highly trained and motivated staff. We are investing in our people and encouraging internal development. We are also working to enhance employee engagement to enable our people to reach their full potential, so they can do their best work with us. Our recruitment policy supports our future growth plans.

We are currently reviewing our talent development programme to assess the needs of our people and ensure we are providing the best career enhancement and support.

##### **Developing and supporting our people**

We are committed to supporting our people's wellbeing and development. Many of our offices provide health checks for our employees, we also encourage participation in sports teams and our people are enthusiastic participants in charitable events. More details regarding charitable activities can be found in the Community Involvement section (see pages 44 to 45).

We are committed to the development of our employees. We recognise that for the Group to be successful, we need highly trained and motivated employees and also to encourage internal development. We are reviewing how we invest in the skills and career progression of our staff, from operational upskilling programmes to management development.

##### **Rewarding and retaining employees**

Our reward and benefits arrangements are benchmarked in each country in which we operate, taking into account cost

considerations. All locations participate in employee bonus schemes and many in profit linked share ownership schemes which give staff a financial interest in the Group and stimulate their performance. We also provide various pension arrangements, designed to provide retirement benefits, based on local laws and practices.

##### **Attracting and recruiting talent**

We want to be the first choice for potential recruits with skills that match the needs of our business.

We support apprenticeship schemes for young people which helps to increase access into all aspects of our business. We also belong to the Manufacturers Standardization Society (MSS), a committee that offers undergraduate and graduate scholarships.

We have built a strong partnership with the Institution of Mechanical Engineers (IMechE) to support its engineers in gaining Incorporated and Chartered accreditation. We continue to work with IMechE in Leeds and their Industrial Liaison team which supports members of the Institution, helping to promote it internally and to the wider engineering community.

We are also reviewing our recruitment policies, processes and approach to ensure we create a diverse and inclusive workforce.

We regularly feature in Management Today's top ten Most Admired Companies in Britain, winning the 'Quality Goods and Services' category in 2017.

##### **Employee engagement**

We believe that motivated and engaged people value their own health and safety and that of their colleagues, drive greater productivity and aspire to deliver higher levels of customer satisfaction.

To seek employee views, we run employee suggestion schemes and several locations have employee forums where employees can raise issues to be further considered by management. We have historically performed an annual employee satisfaction survey to obtain feedback from across the businesses on how we relate to our employees and what we can do better. As we are currently carrying out a review of a number of different aspects of our business, including our talent development, we did not perform the survey this year. We will redesign the survey for 2018 to reflect our revised ambitions and implement a number of other initiatives to obtain employee feedback and buy-in.

Employees are briefed by management on various matters, including the Group's performance and the employee bonus performance, at regular intervals. This communication takes place either through team briefings, our intranet, Connect, our newsletters or employee forums.

##### **Diversity and equal opportunities**

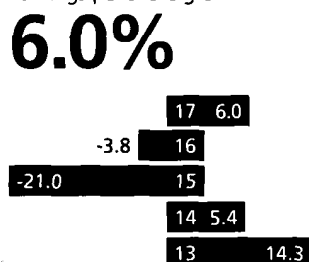
We are committed to creating a diverse and inclusive workforce, where people from all backgrounds and genders are welcomed, respected and thrive in our Company. We know that a diverse workforce will improve our innovation, our customer alignment and our ability to attract and retain talent.

We have an objective and fair recruitment process which promotes equal opportunities across the Group in line with the 'Respect at Work and Equality of Opportunity' policy. We are committed to the principle of equal opportunities in employment to ensure that no employee or job applicant receives less favourable treatment because of their age, race, nationality, ethnic origin, disability, sex, sexual orientation, religion, belief or marital status. All employees have a responsibility to ensure that the policy is successfully implemented. This includes ensuring that work allocation and selection for hiring, promotion and training is carried out in a non-discriminatory manner. We work wherever possible to overcome any obstacles for employees with disabilities by, for example, improving access or restructuring responsibilities.

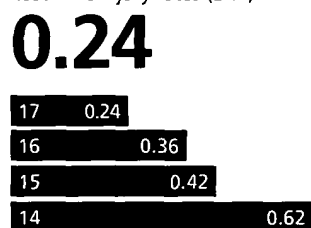
### NON-FINANCIAL KPIs

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

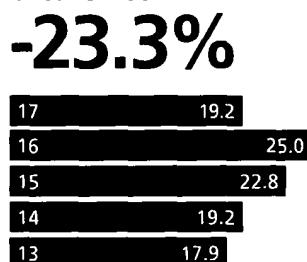
Earnings per share growth



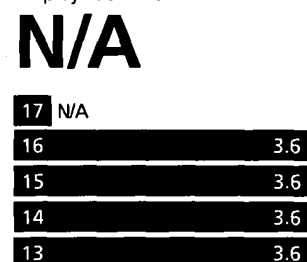
Lost time injury rates (LTIR)



Carbon emissions



Employee satisfaction



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

LTIR is used as one measure of the effectiveness of our health and safety procedures.

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

We have historically performed an annual employee satisfaction survey to enable the Group to obtain feedback from across the businesses on how we relate to our employees and what we can do better.

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

The formula we have used for calculating our LTIR is the number of reportable injuries resulting in lost time divided by the number of hours worked multiplied by 100,000.

Energy usage data (scope 1 and 2) is collected and converted to equivalent tonnes of CO<sub>2</sub> and then reported as a function of revenue. Further details are contained in the Corporate Social Responsibility Report on page 48.

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

A small increase in the adjusted effective tax rate and an increase in finance expenses have diluted the increase in adjusted operating profit of 7.9%.

Our investment in health and safety combined with training and auditing of our sites to monitor compliance with procedures has resulted in a further reduction in LTIR in 2017.

The consolidation of sites and upgrades in some of our facilities have resulted in the overall reduction of our Scope 1 and Scope 2 emissions.

As we are currently carrying out a review of a number of different aspects of our business, including our talent development, we did not perform the survey this year. We will redesign the survey for 2018 to reflect our revised ambitions and implement a number of other initiatives to obtain employee feedback and buy-in.

## Financial review

# KEY PERFORMANCE INDICATORS

### FINANCIAL KPIS

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

Revenue	Return on sales	Cash conversion	Return on capital employed
<b>8.8%</b>	<b>19.4%</b>	<b>109.1%</b>	<b>24.9%</b>
17 8.8	17 19.4	17 109.1	17 24.9
16 8.0	16 20.0	16 130.1	16 23.4
-8.1 15	15 22.5	15 115.4	15 28.6
14 2.8	14 26.2	14 97.4	14 47.6
13 13.0	13 26.0	13 99.6	13 59.1

### REASONS FOR CHOICE

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

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

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

We aim to use our capital efficiently and reporting this ratio internally helps management at Group level monitor our adherence to this philosophy.

### HOW WE CALCULATE

Increase in sales revenue year-on-year divided by prior year sales revenue.

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

Cash flow from operating activities before tax outflows, payments of restructuring charges and the pension charge to cash adjustment as a percentage of adjusted operating profit.

Adjusted operating profit as a percentage of average capital employed. Capital employed is defined as shareholders' funds less net cash held, with the pension fund deficit net of related deferred tax asset added back. The calculation is shown on page 34.

### COMMENTS ON RESULTS

An improved backdrop in some of our key markets, aided by a currency tailwind, resulted in sales growth in the year. Growth was not consistent across all markets but our geographic spread and diverse end market exposure allowed us to focus on growth areas.

Whilst adjusted operating profit margins were held close to prior year levels, an increase in finance charges, principally related to increased foreign exchange losses, resulted in a 60 basis point reduction in this KPI.

Overall cash generation remained strong and the reduction in net debt in the year was £42.4m. The weighting of sales to the fourth quarter meant net working capital grew but despite this cash conversion remained above 100%.

With no acquisitions in 2017, an increased dividend payment and growth in adjusted operating profit this has resulted in an improved return on capital employed.

### Credit management

The Group's credit risk is primarily attributable to trade receivables, with the risk spread over a large number of countries and customers, and no significant concentration of risk. Creditworthiness checks are undertaken before entering into contracts or commencing trade with new customers and in companies where insurance cover operates, the authorisation process works in conjunction with the insurer, taking advantage of their market intelligence. We actively expanded the coverage of the credit insurance policy during the year and have cover in place for 88% of receivables in those companies now using the policy. Where appropriate, we use trade finance instruments such as letters of credit to mitigate any identified risk.

### Treasury

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

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

The Group now has two committed facilities with two different lenders comprising a £75m three year facility which has been extended to expire in August 2019 and a five year £60m facility expiring in August 2020. A £20m facility expired in August 2017 and the three year facility was reduced by £15m during the year. At year end £75m of the committed facilities were drawn, resulting in £60m being available.

### 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 scheme 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.

JONATHAN DAVIS  
Finance Director  
5 March 2018

## Financial review

### FINANCIAL REVIEW CONTINUED

#### 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 5.7% 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 conversion 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<sup>1</sup> 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<sup>2</sup> compared with 30.2% in December 2016 but was a £11.0m outflow in the cash flow statement.

1. Days sales outstanding is calculated on a count back method. The sales value including local sales taxes is deducted from the year end trade receivables to calculate the number of days sales outstanding.

2. Working capital as a percentage of revenue is calculated as inventory plus trade receivables, less trade payables, divided by revenue.

Adjusted operating profit was £130.2m, an increase of 7.9% over the prior year, with the adjusted operating margin maintained at 20.3% (2016: 20.4%). On an OCC basis adjusted operating profit increased 2.5% to £123.6m, a margin of 20.5%. The increase in reported gross profit was partially offset by an increase in overheads of 9.1% (+4.3% OCC) with a general increase in salary costs and an increase in employee bonuses and benefits following the improvement in results. Average salary per head increased by 3% at constant exchange rates.

Net finance costs rose £2.7m to £5.4m with higher currency losses (£1.8m) and a higher interest charge in respect of the pension schemes (£0.8m). This resulted in adjusted profit before tax of £124.8m, a 5.8% increase on the prior year, and a 6.0% increase in adjusted earnings per share to 10.6p.

#### 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.

#### Adjusted earnings reconciliation

£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)	–	(1.2)	(32.9)
Profit after tax	55.6	20.5	11.6	4.2	91.9

Further details of the adjustments are provided in note 4. The acquisitions charge comprises a £21.6m impairment charge, largely related to Bifold, and a £10.0m release of contingent consideration also in relation to Bifold.

#### Organic business growth

We also present organic constant currency (OCC) figures to exclude the impacts of currency and acquisitions.

£m	2017 as reported	Constant currency adjustment	2017 at 2016 exchange rates	Remove acquisitions	Organic business at 2016 exchange rates	2016 as reported				
Revenue	642.2	(33.4)	608.8	(5.4)	603.4	590.1				
Cost of sales	(358.1)	20.9	(337.2)	4.6	(332.6)	(328.4)				
Gross profit	<b>44.2%</b>	284.1	(12.5)	<b>44.6%</b>	271.6	(0.8)	<b>44.9%</b>	270.8	<b>44.3%</b>	261.7
Overheads	<b>23.9%</b>	(153.9)	5.9	<b>24.3%</b>	(148.0)	0.8	<b>24.4%</b>	(147.2)	<b>23.9%</b>	(141.1)
Adjusted operating profit*	<b>20.3%</b>	130.2	(6.6)	<b>20.3%</b>	123.6	–	<b>20.5%</b>	123.6	<b>20.4%</b>	120.6

\* Adjusted is before the amortisation of acquired intangible assets and other adjustments (see note 4).

## Financial review

### FINANCIAL REVIEW

In 2017 we saw a return to growth in revenue and adjusted operating profit and further strengthened our balance sheet through strong cash generation.

The Group delivered strong revenue and profit growth supported by an improvement in the market environment. Strong operating cash flow resulted in a reduction in net debt of £42.4m to £12.6m.

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Revenue

**£642.2m**  
**+8.8%**

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Operating profit

**£86.0m**  
**-11.5%**

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Adjusted\* operating profit

**£130.2m**  
**+7.9%**

On an underlying basis, order intake increased in the second half of the year, although was broadly consistent with the first half on a reported basis due to the way the exchange rates moved. Full year order intake of £666.5m was up 15.6% on a reported basis and 8.2% on an OCC basis. Although second-half weighted, full year revenue of £642.2m was 8.8% higher than the prior year (+2.3% OCC) with an increase in the closing order book of 6.5% to £192.5m.

Underlying gross margins increased 60 basis points to 44.9% (remaining broadly flat at 44.2% on a reported basis once currency and the Mastergear acquisition is included). The cost of components used in our products was the largest element of cost of sales and once again this improved, this year by 130 basis points. Material cost savings initiatives delivered annualised savings of £5.5m, comfortably ahead of the £4m savings targeted at the start of the year. However these savings were partly offset by inflationary increases within labour and factory costs which grew faster than the rate of revenue growth.

## BUSINESS REVIEW – ROTORK INSTRUMENTS

The successful consolidation of businesses and implementation of our new ERP system into our Bergamo, Italy site provides a blueprint for further consolidation.

Revenue

**£100.6m**  
**+10.4%**

Adjusted operating profit\*

**£20.5m**  
**+1.6%**

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.

### YTC POSITIONER

Our YTC Smart Positioners, designed for extreme temperatures, hazardous areas and high vibration conditions, enable technicians to use autocalibration and simple diagnostics to commission and monitor entire systems at the push of a button.

ALAN PAINE  
 Managing Director – Rotork Instruments

## Operating review

# BUSINESS REVIEW – ROTORK GEARS

The integration of Mastergear into our existing operations positions us well for the future.

Revenue

**£83.9m**

**+15.9%**

Adjusted operating profit\*

**£15.7m**

**+11.9%**

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.

### SMART POSITION INDICATOR

In a typical refinery, 90% of valves are manually operated, a potentially dangerous problem if the valves' real time positions are not known. Our Smart Position Indicator displays the valve position locally and signals it to the control room.

PAMELA BINGHAM  
Managing Director – Rotork Gears

## BUSINESS REVIEW – ROTORK FLUID SYSTEMS

Fluid Systems has benefited from material cost savings and operational gearing as volumes have started to increase.

Revenue

**£150.1m**  
 +3.3%

Adjusted operating profit\*

**£9.0m**  
 +45.9%

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.

### SKILMATIC

Skilmatic actuators offer a unique, reliable solution for quarter-turn and linear valves and dampers. The actuator combines all-electric simplicity with the precision of hydraulic actuation and the reliability of mechanical failsafe operation.

DAVID LITTLEJOHNS  
 Managing Director – Rotork Fluid Systems

## Operating review

# BUSINESS REVIEW – ROTORK CONTROLS

Enhancing the resilience of our supply chain has strengthened our business.

Revenue

**£325.2m**

**+9.0%**

Adjusted operating profit\*

**£92.9m**

**+6.4%**

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, wastewater 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.

**IQ3**

With the revolutionary dual-stacked display, the IQ3 allows unparalleled data analysis of the condition and operational status of the valve; data analysis that enables accurate asset management of the plant.

GRANT WOOD  
Managing Director – Rotork Controls

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. See pages 12 to 13 for further details.

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 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 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).

For more information about the CSR Committee and sub-committees and the work they carry out see pages 40 to 51.

#### Our people

Our culture and values are key to Rotork's success. See pages 38 to 39 for further information.

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 am sure they will rise to the challenges ahead as we embark on our growth acceleration programme.

MARTIN LAMB  
 Executive Chairman  
 5 March 2018

\* Definitions are shown on page 5.

## Operating review

# OPERATIONAL PERFORMANCE

We are undertaking a detailed review of our cost base and the shape of our sales and operating infrastructure to ensure we are well positioned to respond to customer needs and accelerate growth.

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 (OCC)\* 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 through 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.

**VIABILITY STATEMENT**

The directors have assessed the viability of the Group over a three year period taking account of the Group's current position and the potential impact of the principal risks as documented above. A robust assessment of the principal risks facing the business was conducted through the year with the review of the risk appetite framework and executive risk summaries contributing to a fuller consideration of those risks which might impact the business model or future performance. Whilst the Board has no reason to believe the Group will not be viable over a longer period, three years is considered an appropriate period over which a reasonable expectation of the Group's longer-term viability can be evaluated and is aligned with our planning horizon at both Group and divisional level. The Board has considered whether it is aware of any specific relevant factors beyond the three year horizon and confirmed that there are none. The growth acceleration programme which has been initiated during the year is expected to further strengthen the Group's longer-term performance and financial position.


In coming to this view, the Board has considered the inherent volatility in exchange rates and oil prices, the nature of the industry and the business cycles involved. The Group works closely with its customers on projects ranging from several weeks to several years, discussing operational plans and longer-term capital expenditure programmes.

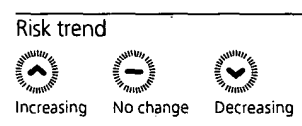
In making this statement, the directors have considered each of the principal risks, individually and some in combination, and the potential impact they could have in severe but plausible scenarios. The scenarios contained significant one off financial shocks and significant profit erosion as a result of external actions impacting the Group's revenue.

Financial sensitivity modelling was carried out to assess the impact of these risks on the Group's three year plan. Assumptions were made concerning market activity levels, the impact of the scenarios on working capital cycles and the mitigating actions that could be taken to reduce the cash and financial impact of the stress-test scenarios. Given the current position of the Group and the likely effectiveness of mitigating actions, the Board has assessed the impact these would have on the business model, future performance, solvency and liquidity over the period and have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over a three year period.

# Strategic review

## PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Risk description and importance to Rotork	Summary of mitigation and controls	Strategic priority	Risk trend
<b>Acquisition risk</b>			
<p><b>Failure of an acquisition to deliver the growth or synergies anticipated, either due to unforeseen changes in market conditions, or failure to integrate an acquisition effectively. Significant financial underperformance could lead to an impairment write down of the associated intangible assets.</b></p>	<ul style="list-style-type: none"> <li>• Forecast market conditions are considered during the due diligence process.</li> <li>• Due diligence processes will provide information to assist management and minimise likelihood of unknown surprises.</li> <li>• During the due diligence process a 100 day plan is prepared to manage the important initial stages of integration.</li> <li>• Effective integration and communication of Rotork's policies and procedures.</li> <li>• Careful consideration and negotiation of acquisitions by senior management to ensure the purchase price represents value for money.</li> </ul>	<ul style="list-style-type: none"> <li>• Accelerated growth</li> </ul>	
<b>IT security, continuity and system implementation</b>			
<p><b>Failure to provide, maintain and update the systems and infrastructure required by the Rotork business.</b></p> <p><b>Failure to protect Rotork operations, sensitive or commercial data, technical specifications and financial information from cyber-crime.</b></p>	<ul style="list-style-type: none"> <li>• Thorough business process reviews and use of flexible testing environments to address functional issues.</li> <li>• Post system implementation, each business is monitored.</li> <li>• Dedicated implementation resource provided by experienced Rotork team.</li> <li>• Robust security systems are in place to monitor and protect the Rotork network.</li> <li>• We continually review the effectiveness of our key IT security controls, including a Key Risk Indicator to monitor the number of successful cyber breaches reported quarterly to the Board.</li> <li>• Regular cyber-security and cyber-fraud awareness training and guidance.</li> <li>• A disaster recovery solution (supported by third party service level agreements where applicable) is in place for all critical systems.</li> </ul>	<ul style="list-style-type: none"> <li>• Strong margins</li> <li>• Sustainability</li> </ul>	
<b>Compliance with law, regulation or ethical standards</b>			
<p><b>Failure of our staff or third parties who we do business with to comply with law or regulation or to uphold our high ethical standards and values.</b></p>	<ul style="list-style-type: none"> <li>• Tone from the top, a 'no tolerance' culture to reinforce our high ethical standards and values.</li> <li>• Commitment to compliance embodied in Rotork culture.</li> <li>• Anti-bribery and corruption training is provided to all relevant staff.</li> <li>• We continue our programme of communication to, and education of, agents.</li> <li>• We are currently undertaking a Group wide review of our arrangements with all agents and distributors.</li> <li>• Use of WorldCheck for agents and acquisition targets before engaging in business relationships.</li> <li>• Availability and promotion of the Whistleblowing Policy and Hotline.</li> <li>• We are fully committed to reduce our environmental impact and comply with all legal and regulatory requirements.</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainability</li> </ul>	
<b>People</b>			
<p><b>Failure to recruit and retain the talented staff needed to deliver to our core strategic challenges.</b></p>	<ul style="list-style-type: none"> <li>• Benchmarking of salaries to ensure they remain competitive.</li> <li>• Continued focus on employee performance management.</li> <li>• Identification and motivation of existing talent.</li> <li>• We are aware of human rights and act in accordance with them.</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainability</li> </ul>	



Risk description and importance to Rotork	Summary of mitigation and controls	Strategic priority	Risk trend
<b>Financial</b>			
<p><b>UK defined benefit pension scheme deficit can be volatile due to a number of factors including investment returns, long-term interest rates, price inflation and members' longevity.</b></p> <p>This in turn might lead to a requirement for the Company to increase cash contributions to the schemes.</p>	<ul style="list-style-type: none"> <li>Both defined benefit schemes are closed to new members. In 2018, the UK defined benefit scheme will be closed to future benefit accruals and all members of this scheme are being offered alternative pension arrangements.</li> <li>The Group and trustees monitor the performance of the scheme.</li> <li>Actuarial and investment advice is taken with a view to reducing volatility and the overall cost of provision of this employee benefit.</li> </ul>	<ul style="list-style-type: none"> <li>Sustainability</li> </ul>	
<p><b>Volatility of exchange rates would impact Rotork's reported results and competitive position.</b></p>	<ul style="list-style-type: none"> <li>Rotork's Treasury Hedging Policy addresses short term risk and this works together with the natural hedging provided by the geographical spread of operations, sourcing and customers.</li> <li>The Hedging Policy continues to be reviewed annually to ensure it remains fit for purpose.</li> </ul>	<ul style="list-style-type: none"> <li>Strong margins</li> </ul>	
<b>Health and safety</b>			
<p><b>The nature of Rotork's core business and geographical locations involves potential risks to the health and safety of our employees and other stakeholders.</b></p>	<ul style="list-style-type: none"> <li>Compliance with relevant legislation and codes of best practice.</li> <li>Robust health and safety policy and training included in all staff inductions, in addition to regular refresher training.</li> <li>Regular health and safety audits, site checks and reporting.</li> <li>Regular communications about accidents at work and visible KPIs.</li> <li>Appropriate training is provided for known safety risks.</li> <li>Third party provider of international support and travel advice in all markets and regions.</li> </ul> <p>See Health and Safety Report on pages 50 to 51.</p>	<ul style="list-style-type: none"> <li>Accelerated growth</li> <li>Sustainability</li> </ul>	
<b>Product quality and reliability</b>			
<p><b>Major in field failure of a new or existing Rotork product potentially leading to a product recall, major on-site warranty programme or the loss of an existing or potential customer.</b></p>	<ul style="list-style-type: none"> <li>Extensive product design review process pre-launch reduces the risk of product failures occurring in the field.</li> <li>Rotork has experience of launching many products and enhanced the process based on this experience.</li> <li>Comprehensive set of quality control procedures over suppliers. These include supplier visits, audits and a scorecard system to measure their performance.</li> <li>Our global service coverage ensures that any product failure issues should be dealt with quickly and efficiently to minimise any reputational impact.</li> <li>Fitting and commissioning products wherever possible by Rotork engineers to ensure current operations.</li> </ul>	<ul style="list-style-type: none"> <li>Accelerated growth</li> <li>Strong margins</li> <li>Sustainability</li> </ul>	
<p><b>Failure of a key supplier or tooling failure at a supplier causing disruption to manufacturing at a Rotork factory.</b></p>	<ul style="list-style-type: none"> <li>Dual sourcing for key components wherever possible provides mitigation for key suppliers.</li> <li>A Key Risk Indicator measures single sourced critical components and is reported quarterly to the Board.</li> <li>Maintaining safety stock levels sufficient to protect against short term disruption.</li> <li>Regular monitoring and replacement of our tooling at all suppliers reduces the risk of a tooling failure.</li> </ul>	<ul style="list-style-type: none"> <li>Strong margins</li> </ul>	

## Strategic review

# PRINCIPAL RISKS AND UNCERTAINTIES




### A) GROWTH ACCELERATION PROGRAMME

As detailed in the Strategic Report on pages 10 to 51, we are assessing options for a growth acceleration programme which will aim to return Rotork to the higher growth and margin levels previously delivered by the Group. We have initiated a programme of work to assess our sales and operating infrastructure (including our supply chain) and the readiness of our people and systems. The present activities, which are being driven by appropriate steering groups and working teams, are focused on analysing the current state and options and so do not present a significant risk to ongoing business activities.

Implementing such a programme will present a variety of challenges and risks, but will ensure that Rotork continues to thrive in a rapidly changing market environment. We will only pursue change where the level of risk exposure is consistent with our risk appetite and we will invest in mitigations and controls to ensure net risk levels are managed appropriately.

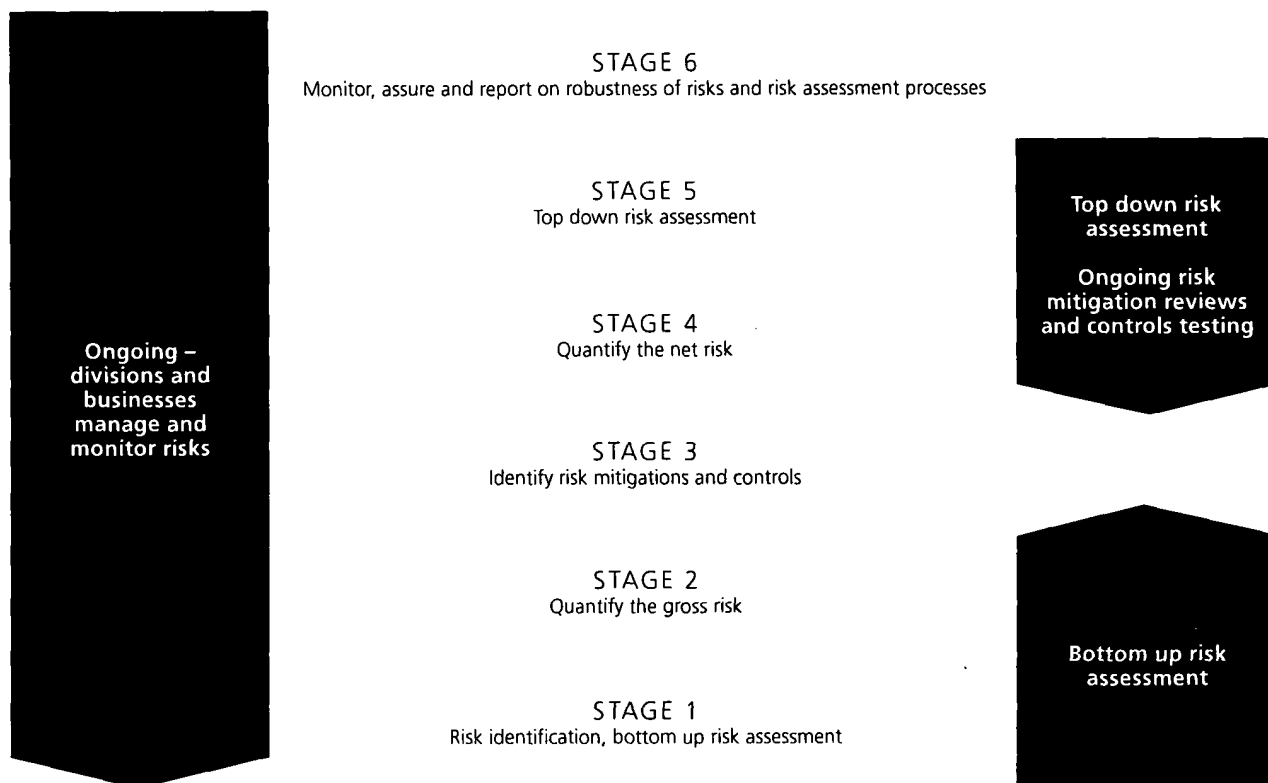
Our risk management processes are dynamic and will continue to assess and prioritise the risks related to growth acceleration and their impact on the principal Group risks which are detailed below. These risks are the result of the robust, top down and bottom up risk assessment process previously described. These risks include those that would threaten the Group's business model, future performance, solvency or liquidity.

### B) PRINCIPAL GROUP RISKS

Risk description and importance to Rotork	Summary of mitigation and controls	Strategic priority	Risk trend
<b>Economic and market conditions</b>			
<p><b>A decline in government and private sector confidence and spending will lead to cancellations of expected projects or delays to existing expenditure commitments.</b></p> <p><b>This lower investment in Rotork's traditional market sectors would result in a smaller addressable market, which in turn could lead to a reduction in revenue from that sector.</b></p>	<ul style="list-style-type: none"> <li>Product development and innovation to address new markets and new applications in existing markets.</li> <li>Geographic and end market diversification provides resilience to a reduction in any one area or market but, as we have seen this year, may not fully mitigate a change in the larger end markets.</li> <li>Increased focus on service offerings, to capitalise on increased demand for product maintenance.</li> </ul>	<ul style="list-style-type: none"> <li>Accelerated growth</li> <li>Strong margins</li> </ul>	
<p><b>Increased competition on price or product offering leading to a loss of sales globally or market share.</b></p>	<ul style="list-style-type: none"> <li>Rotork already has production or sales and service operations in many low cost countries.</li> <li>Global strategic sourcing team secure lower prices for components.</li> <li>R&amp;D investment and organic product development, or acquisition of companies with new products, to maintain differentiation from the competition both in terms of the quality of our products and the services we provide.</li> <li>A Group wide project has been established to focus on an improved customer experience and delivering the required market driven specifications to the end user.</li> </ul>	<ul style="list-style-type: none"> <li>Accelerated growth</li> <li>Strong margins</li> </ul>	
<p><b>Increasing social and political instability results in both disruption and increased protectionism in key geographic markets.</b></p> <p><b>This includes the risks posed by Brexit.</b></p> <p><b>Business disruption would impact our sales and might ultimately lead to loss of assets located in the affected region.</b></p>	<ul style="list-style-type: none"> <li>Regular review of global markets considering social and political risks and contingency plans and market exit strategies developed and implemented as appropriate.</li> <li>Key Risk Indicator monitoring % of revenue from high risk markets reported quarterly to the Board.</li> <li>The geographic spread of Rotork's operations and customers limits the impact of any one market on the results of the Group as a whole.</li> <li>Group Treasury policy sets cash limits for overseas businesses, restricting our exposure to any one market. The Treasury Committee assesses compliance with these limits.</li> </ul>	<ul style="list-style-type: none"> <li>Accelerated growth</li> <li>Strong margins</li> </ul>	

## RISK MANAGEMENT PROCESS

The risk management process is summarised as follows:



Major risks are first identified (Stage 1) and considered by the Divisional and Group Executives during their regular meetings. Each division values the gross likelihood and impact of each risk (Stage 2) on their divisional business, assuming no specific mitigations or controls. Divisions then consider the strength of mitigations and controls in place for each risk (Stage 3) before giving a net likelihood and impact score (Stage 4). There are a range of potential impacts including financial, reputational and health and safety. For financial impacts, valuation limits are tailored so that each division has an appropriate benchmark.

Consolidated Group risks are formally updated and presented to the Board at half year. An annual Risk Assessment Workshop is then facilitated by the risk function for each division and the plc, to promote consistency and challenge to the bottom up process. Once the Risk Assessment Workshops are completed by each division, the risks are then consolidated at a Group level. This consolidation process is subject to top down input and challenge from the Rotork Management Board, Audit Committee and Board (Stage 5).

The consolidated risk scores are used to determine which risks are most important at a Group level and these are defined as our principal risks. Each principal risk is ultimately owned by a member of the Rotork Management Board. Risks which are not considered to be principal risks, are owned and managed by members of the Divisional or plc Boards. The principal risks are set out on pages 22 to 25.

Risks are monitored, assured and reported in a number of ways (Stage 6). An example of each is below:

- Monitoring – Divisional management and the Board monitor, manage and reassess risk, maintaining risk registers as live documents.
- Assurance – The work of internal audit and others tests the effectiveness of mitigations and controls in relation to Rotork's risks.
- Reporting – The quarterly Executive Risk Summary reports KRIs giving an indication of how Rotork is being affected by risks.

Identified risks are discussed and the progress reviewed at both Rotork Management Board and Divisional Board meetings during the year. Senior management, in association with the Board, meets twice a year to consider the Group risk register and progress with mitigating actions.

## Strategic review

### HOW WE MANAGE RISK CONTINUED

Risk appetite dimension	Statement	KRIs
<b>Acquisitions</b>	We will pursue suitable acquisition opportunities and review each on its individual merits.	Total value, size and number of acquisitions within the last 12 months.
<b>Control environment</b>	We will invest in order to further strengthen the control environment of the business, including in second and third lines of defence.	Number of significant control breaches identified by internal audit.
<b>Control environment – cyber</b>	We will continue to review current external and internal cyber threats so that the business is protected from these threats and ensure that we have appropriate processes in place to respond to a successful cyber-attack.	Number of successful cyber-events. Critical system uptime %.
<b>Earnings volatility</b>	We have limited appetite for volatility in earnings in the long term, but would consider opportunities that would increase the risk of earnings volatility, if the upside opportunity could be proven.	Level of hedging cover for currency exposures. Current year adjusted operating profit. Order book coverage of in year revenue forecasts.
<b>Geopolitical</b>	We will continue to operate a geographically diverse business and we want to be as geographically diverse as possible in the future.	% of Group revenue from risky countries by: <ul style="list-style-type: none"> <li>• Subsidiary location – forecast;</li> <li>• End destination location – actual.</li> </ul> Risky countries are defined in the AON Political Risk Map 2017.
<b>Health and safety</b>	We are fully committed to ensuring the safety of all our employees.	LTIR incidents leading to absence. Health and safety audit scores. Promotion of open health and safety culture.
<b>Market / industry concentration</b>	We will, in the long term, move to greater diversification in the end markets we serve.	% of Group revenue by industry.
<b>Operational</b>	We will continue to have a preference for an asset-light business model and will evaluate dual supply for critical long lead-time items.	Number of critical components which are single sourced.
<b>Operating model, culture and behaviours</b>	We will have a strong regard to our culture when considering the evolution of the organisation or its management structure or the integration of acquisitions.	Consideration of our culture and our talent development is a key part of the strategic review.
<b>Operational – sales projects</b>	We will take on sales projects, including complex, extended scope and long-term maintenance contracts, but will only do so on commercially acceptable terms and under strict terms and conditions.	Major contracts approved.
<b>Operational – IT systems</b>	We will invest in our IT systems and infrastructure in order to ensure that we operate consistently and efficiently.	Progress reporting for IT system implementation and investment.
<b>People – succession planning</b>	We want to maintain appropriate succession plans for our key people at a Board and divisional management level.	We are reviewing our talent development. Succession planning will be a key consideration of this workstream.
<b>Product</b>	We will invest in R&D in order to retain a differentiated product portfolio and will support this by providing a leading service element to our offering.	Actual R&D investment. Market opportunities and competitor actions.
<b>Quality</b>	We will maintain robust quality control procedures over components purchased and over our finished product in all of our manufacturing locations.	Cost of significant product recalls.
<b>Legal and regulatory compliance</b>	We have zero tolerance for non-compliance with relevant laws and regulations in the markets in which we operate.	Number of confirmed significant regulatory breaches/external investigations/notification or approach from a regulator.
<b>Tax</b>	We do not pursue aggressive tax planning schemes.	Monitoring of Group effective tax rates. Number of tax audits carried out against the Group.

This framework enables Rotork to have better visibility of which risks potentially need additional mitigation, which risks are potentially over managed, and where we have appetite to accept additional risk.

We have applied the RAF throughout 2017, incorporating this into Board decision making and measuring business decisions against our appetites through a quarterly Executive Risk Summary. The approach taken by the Board is summarised below:

For a given Board decision, underlying parameters are identified and considered alongside the likely impacts of the decision:

- Potential decision points and outcomes; and
- Impact types (e.g. financial, reputational).

**Who: Group Finance Director and Head of Risk & Internal Audit**


 See principal risks and uncertainties on pages 22-25

Potential decisions are evaluated against the over-arching principles articulated through the Group Risk Appetite Statement.

Potential decisions are assessed against the detailed Group risk appetite metrics, for example:

- Do the forecast returns justify the additional risk taken on?


**Who: Board**

 See principal risks and uncertainties on pages 22-25

Potential decisions are evaluated against the specific risk appetite dimensions, statements and KRIs, considering:

- The key risk appetite dimensions related to the decision;
- How the KRIs are expected to be impacted by the decision; and
- Whether the impact supports our desired appetite for the given risk(s).

**Who: Board**

 See principal risks and uncertainties on pages 22-25

The RAF is continuously refined in light of the decisions made. We then use the RAF to determine:

- Where we are willing to take on additional risk;
- Where further action is needed to manage risk within our appetite;
- Whether decisions expose us to additional risk dimensions not currently identified; and
- How the RAF could better support the Board's decision-making process in the future.

**Who: Group Finance Director and Head of Risk & Internal Audit, with Board sign-off**

 See principal risks and uncertainties on pages 22-25

## Strategic review

# HOW WE MANAGE RISK

Managing the risks of our business is essential to our long-term success and sustainability of the Group. Our approach to risk is intended to protect the interests of our shareholders and other stakeholders. Consideration of execution risk will be a key part of our growth acceleration programme.

### ESSENTIAL TO LONG-TERM SUCCESS

#### Managing business risks

As with all businesses, there are certain risks and uncertainties that may impact Rotork's ability to achieve its objectives.

The assessment and management of risk is the responsibility of the Board, and the continuous improvement and execution of a comprehensive and robust system of risk management is a high priority for Rotork. Managing the risks of our business is essential to the long-term success and sustainability of the Group and our approach to risk is intended to protect the interests of shareholders and all stakeholders. The risk management process is an established way of identifying and managing risk and is part of our governance framework as set out in our Corporate Governance Statement, see page 56.

The Board's role in risk management involves promoting a risk-aware culture that emphasises integrity at all levels of business operations.

This includes:

- Setting the Group's risk appetite in accordance with the Risk Appetite Framework (RAF), as set out below;
- Determining the principal risks;
- Setting, maintaining and communicating the overall policies for risk management; and
- Ensuring that risk management is embedded within the core processes of the Group.

Effective communication of policies and standards across our global locations is crucial to ensuring a consistent risk management approach across the Group.

2017 has seen the continued development of the risk management framework, including investment in technology to support further improvement in the Group's risk management approach.

#### Risk appetite framework

The Board is responsible for determining the nature and extent of the risks it is willing to take in achieving its strategic objectives. Our Group Risk Appetite Statement is designed to set the right tone from the top and support decision making:

#### Risk appetite statement

*Rotork is a growth company and will continue to pursue both organic and acquisition led initiatives to drive future growth. Growth will lead to greater diversification in our product portfolio, geographic coverage and end market exposure. However, in pursuing growth our preference will be to maintain the current levels of operational risk and our existing business model and not to dilute the core values associated with the Rotork brand. We will also not risk the financial stability of the company through the pursuit of development opportunities.*

The RAF provides qualitative and quantitative insight on key risks and supports proactive mitigation planning. The RAF consists of:

1. Risk Appetite Dimensions
2. Risk Appetite Statements
3. Risk Appetite Preferences
4. Key Risk Indicators (KRIs)

During 2017, we revised the RAF to reflect changes to the nature of Rotork's business and its operating environment. We updated the Board's risk appetite dimensions, statements and preferences, which inform the KRIs monitored by the Board.

The risk appetite statements provide guiding principles to support decision-making at both a Board level and throughout the wider Group. The Board sets the Group's risk appetite preference for each dimension, stating whether we are tolerant, neutral or averse to a particular risk dimension. These preferences guide the Group's approach to managing risk.

### RISK APPETITE FRAMEWORK APPROACH

IDENTIFY KEY DECISIONS AND UNDERLYING PARAMETERS

EVALUATE POTENTIAL DECISIONS AGAINST GROUP RISK APPETITE

EVALUATE SPECIFIC RISK APPETITE DIMENSIONS

ASSESS AND REFINE RISK APPETITE FRAMEWORK

## HOW WE MAXIMISE VALUE

### to create value for stakeholders

### Our strategic objectives


**WE SELL** through a network of 65 regional offices around the world supplying the full range of our products. These offices are supported by our four divisions which are responsible for product management, innovation and manufacturing.

#### Shareholders

We return money to our shareholders through dividends and, through the execution of our strategy, we grow the value of their investment over time.

#### Employees

We provide development opportunities and a rewarding place to work and create a safe working environment for our employees.

 For more details see page 38

#### Suppliers


Our suppliers are supported by the procurement of goods and services that we require.

#### Customers

We provide innovative solutions in response to our customers' requirements and aftermarket service support.

#### Communities

We support local jobs and skills and contribute to, and engage positively with, the communities in which we operate.

 For more details see pages 44-45

#### Governments

Through paying taxes in the jurisdictions in which we operate, we support the development of public infrastructure and public services.



ACCELERATED GROWTH




STRONG MARGINS




SUSTAINABILITY

#### Revenue by division

■ Controls	49%
■ Fluid Systems	23%
■ Gears	13%
■ Instruments	15%

 See our divisional reviews on pages 28-31

 See our strategy on pages 14-15

Reinvestment in organic growth and acquisitions

## Strategic review

# OUR BUSINESS MODEL

Our business model, combining the benefits of global expertise and local service, positions us well to generate sustainable value for our stakeholders.

## HOW WE CREATE VALUE

**We use our unique resources and relationships that form our competitive advantage**

### OUR RESOURCES AND RELATIONSHIPS

#### Expertise

With a 60 year history and a wealth of long-standing, experienced employees, we offer our customers a superior level of service.

#### Innovation

Our understanding of our customers and the markets we serve allows us to continue to develop new products and lead the evolution of actuator and flow control products. We are focused on solutions to reduce the power consumption of our products, improve their efficiency and minimise their environmental impact in response to our customers' requirements.

#### Brand


Rotork products have a reputation for technological excellence.

#### Leading quality and reliability

Our products meet or exceed international technical and performance standards and have a reputation for quality and reliability.

#### Skilled employees, winning culture

Attracting, developing and retaining outstanding talented people, many of whom have been with the business for a long time, is key to our success as we aspire to be the employer of choice. Our open and transparent culture and our values of respect, integrity and focus on the customer are embedded throughout our business units to ensure that our customers receive a consistently high quality service throughout the world.

 See our people on page 38

#### Strong balance sheet

Our strong net asset position and our ability to convert our profits into cash allows us significant scope for investment in innovation and acquisitions to deliver consistent growth and returns for shareholders.

### SOURCES OF COMPETITIVE ADVANTAGE

#### Broad product portfolio

We have the broadest range of actuators on the market and a growing range of complementary flow control instruments. The breadth of our offering ensures we have the appropriate product for the widest range of applications within a site or a project and can access increased cross-selling opportunities.

#### Independent solutions provider

Our products sit between the pipeline valve and the distributed control system (DCS). We offer best in class solutions that are independent of the 'one stop shop' providers with whom our customers are often in competition.

#### Capital efficiency

Most of our factories receive finished components and assemble to order allowing us flexibility to react to changing market conditions and improving our return on capital.

#### Global operations

Rotork's worldwide geographic base provides a resilient business portfolio. Local relationships with customers not only means that we have clear sight of value generation in the long term, but also the ability to recognise customers' evolving requirements.

#### Global reach, local presence

We are able to use our global expertise and resources to meet our customers' needs, delivered through local offices offering local technical support and dedicated aftermarket service support.

#### Diverse end market exposure

Our actuators and flow control products are used most intensively in the oil and gas, power and water markets, but our products are also used in many other markets. Wherever fluids or gases are being moved and the process requires automation, or to contain failsafe controls, actuators and flow control products are required.

#### Geographic spread

The broad geographic spread of our end users reduces the risk of exposure to any particular location or economic area.

**in our chosen flow control and automation applications**

**WE PROVIDE** high quality, technically advanced and innovative industrial valve actuation and flow control equipment, and a superior level of service to support our customers' activities wherever they are in the world. We do this in a sustainable way with corporate social responsibility (CSR) values being entrenched in our business processes.

**WE COMPETE** in targeted segments of the global flow control and automation markets across a variety of industries and geographies where we can command above average margins. Many of our products are used in critical applications in challenging environments and involve the supply of fundamental resources such as energy, water and power.

HOW WE MEASURE PROGRESS

Sales revenue growth

**8.8%**

17	8.8%
16	8.0%

Return on capital employed

**24.9%**

17	24.9%
16	23.4%

Return on sales

**19.4%**

17	19.4%
16	20.0%

Earnings per share growth

**6.0%**

17	6.0%
16	-3.8%

Cash conversion

**109.1%**

17	109.1%
16	130.1%

Employee satisfaction

**N/A**

17	N/A
16	3.6

Lost time injury rate

**0.24**

17	0.24
16	0.36

Carbon emissions

**-23.3%**

17	19.2 TnCO <sub>2</sub> e
16	25.0 TnCO <sub>2</sub> e

FOCUS FOR 2018

- The Board has ambitions to return the business to higher growth and margin levels.
- We are currently reviewing our routes to market, including our sales channels and sales coverage.
- We are also reviewing our innovation funnel and the need for additional investment in new product development in response to changing market drivers and customer needs.
- We expect to expand our service activity both in terms of coverage and capability.
- Acquisitions will be considered where appropriate to supplement our capability and support the above plans for growth.

- Continue to develop high added value, differentiated products for mission critical applications.
- We are currently carrying out a review of our operations. We aim to optimise the manufacturing footprint, better leverage our global supply chain, simplify the organisational structure and accelerate the introduction of new systems.
- We have paused the rollout of our global business system while this exercise is underway, however we expect this to be a key enabler of future growth once the review is finalised.

- As noted above, we are engaged in a review of our routes to market which will include our approach to key account management and how we best service our customers' requirements.
- As one of the enablers of our programme for accelerating growth we have commenced a talent development review to assist us in formulating personal development plans. We are also reviewing current and future Group training needs.
- We will continue to drive safety improvement and deliver the CSR strategy. The CSR Report is on pages 38 to 51 of this report.

LINK TO RISKS

- Increased competition on price or product offering leading to a loss of sales globally or market share.
- A decline in government and private sector confidence and spending will lead to cancellations of expected projects or delays to existing expenditure commitments.
- Increasing social and political instability results in both disruption and increased protectionism in key geographic markets.
- Major in field failure of a new or existing Rotork product potentially leading to a product recall, major on-site warranty programme or the loss of an existing or potential customer.
- Failure of an acquisition to deliver the growth or synergies anticipated, either due to unforeseen changes in market conditions, or failure to integrate an acquisition effectively.
- Volatility of exchange rates would impact Rotork's reported results and competitive position.
- Failure of a key supplier or tooling failure at a supplier causing disruption to manufacturing at a Rotork factory.
- Failure to provide, maintain and update the systems and infrastructure required by the Rotork business.
- Failure to protect Rotork operations, sensitive or commercial data, technical specifications and financial information from cyber-crime.

- The nature of Rotork's core business and geographical locations involves potential risks to the health and safety of our employees and other stakeholders.
- Failure of our staff or third parties who we do business with to comply with law or regulation or to uphold our high ethical standards and values.
- Failure to recruit and retain the talented staff needed to deliver to our core strategic challenges.
- UK defined benefit pension scheme deficit can be volatile due to changes in financial assumptions which might lead to a requirement for the Company to increase cash contributions to the schemes.

See full key performance indicators and definitions on pages 36-37

See full risks and uncertainties on pages 22-25

## Strategic review

# OUR STRATEGY

In order to accelerate growth and return to higher margin levels we are engaged in a strategy review of our routes to market, innovation funnel, operations footprint, supply chain, talent development and IT systems.

### STRATEGIC OBJECTIVES

#### ACCELERATED GROWTH

- Deliver accelerated year-on-year growth in revenues and profits through a combination of organic growth and acquisition.
- Maximise our return on capital through optimising manufacturing and supply chain processes.



#### STRONG MARGINS

- Maintain strong and sustainable margins through our market-leading position and innovative products and services.



#### SUSTAINABILITY

- Maintain our track record of strong cash generation to strengthen our balance sheet and ensure we have sufficient resources for investment in innovation and acquisitions.
- Be the supplier of choice for our customers, sustaining our revenue streams.
- Be the employer of choice, developing and retaining our talented employees.
- Corporate Social Responsibility (CSR).



### STRATEGIC INITIATIVES

- Sales growth – Deliver profitable sales growth by leveraging our product portfolio, reputation for reliability and our customer relationships.
- Innovation – Invest in the development of new technologies that enhance performance for our customers.
- Service growth – Further develop our aftermarket service capability and coverage including the Client Support Programme (CSP).
- Acquisitions – Consider growth by acquisition to expand into new geographic markets, market sectors or new products.

- Manufacturing excellence – Consolidate operations and develop efficient, effective world-class manufacturing facilities.
- Cost management – Continued cost management, reflecting current market condition and development of the global supply chain.
- Global business systems – Develop and rollout our global business systems to enable more efficient operations.

- Positive customer experience – Enhance our customer facing processes to reflect current market requirements.
- Employee development – Invest to support our growth strategy and promote diversity and inclusion throughout the Group.
- CSR – Communicate best practice throughout the Group, training those responsible and, where appropriate, verifying adoption in each subsidiary.

### PROGRESS IN 2017

- We delivered revenue growth of 8.8% and have seen a gradual increase in the level of project activity.
- We have introduced a number of new, intelligent products such as a smart position indicator and fugitive emissions monitoring.
- We increased the number of service engineers by 10% and the number of actuators under a maintenance agreement increased by 8%.
- We continued to pursue a number of acquisition opportunities, however none were considered appropriate.

- We consolidated two sites into one in Italy. We have developed plans for a new manufacturing facility and global headquarters in Bath, UK.
- We delivered annualised cost savings of £5.2m in 2017 from sourcing initiatives.
- We completed the successful 'go live' of the first Microsoft Dynamics AX manufacturing site in Bergamo, Italy.

- We maintained our focus on our customers having a positive experience, focusing on response times and providing the appropriate level of support. Our aftermarket service team assists customers in resolving any issues as they arise.
- In addition to continuing to develop our global sales training programmes, we initiated a gender diversity project during the year and commenced implementation of a new global HR information system. We are in the process of recruiting a new Group HR director.
- Our CSR sub-committees continued to promote improvements in health and safety, monitor initiatives to reduce CO<sub>2</sub> emissions, provide training on ethical behaviour and our employees gave their time and money to many charities around the world.

## POWER

Population growth and the trend towards urbanisation is driving global growth in power demand. The shift from coal and gas to renewable energy sources drives the requirement to supplement intermittent renewable sources with responsive gas generation. This requires higher quality, more responsive actuation.

There is continual cost pressure between competing generating technologies. This gives rise to a focus on lower operating expenses and continuous improvement in efficiency which provides further opportunities for new, more efficient technology.

To date the digitalisation in the power industry has been largely focused on the power block but it is likely this will extend to the remainder of the power plant to drive maintenance efficiency gains and improve the ability to respond quickly to peaks in energy requirements which requires more sophisticated actuation.

Environmental regulation encourages the shift to renewables and an increased requirement for desulphurisation plants which are actuator intensive.

## INDUSTRIAL AND OTHER

Organisations continue to seek greater automation to respond to the lack of availability of labour, reduce costs and improve efficiencies and safety. Greater automation drives demand for flow control and measurement.

Inflationary pressures on labour and other operating costs are driving manufacturers to invest in process improvements, maximising production efficiency and plant uptime. Our solutions can play an important part in this.

Digital automation is underway across the value chain and is at a more advanced stage of development and acceptance than in our other markets. Real-time monitoring of plant allows problems to be fixed before they escalate, improving safety, productivity and performance and optimising asset life. Wireless control and predictive maintenance are growing trends to which we are responding.

Key regulatory changes are largely around the use of power and emissions. Our innovation funnel includes solutions to lower energy consumption and reduce leak rates.

Adjusted operating profit\*

**£130.2m**

**+7.9%**

Operating profit

**£86.0m**

**-11.5%**

Adjusted earnings per share\*

**10.6p**

**+6.0%**

## OUR MARKET ENVIRONMENT

Our products and solutions play a critical role in ensuring the safe and efficient operation of global infrastructure in energy, power, water and industrial markets. Increased demand for our products arises from population growth and greater urbanisation supported by pressure for greater automation, improved information using digital technology and greater efficiency and effectiveness.

### DRIVERS



POPULATION GROWTH, ONGOING URBANISATION



LOWER COST, GREATER EFFICIENCY



REAL TIME DATA AND FAST RESPONSE



REGULATORY OR ENVIRONMENTAL CHANGE AND STRUCTURAL CHANGE

### OIL AND GAS

Demand for oil and gas remains strong, particularly in faster growing emerging markets. Shifts in energy mix will dampen growth for oil and gas in the longer term.

The oil price appears to have stabilised around the \$50-\$60 per barrel range but is still considered likely to remain 'lower for longer' as lower cost US onshore production places a ceiling on price.

Oil price reduction and continued pressure on refining margins has placed cash cost reduction at the top of the agenda across the value chain. Many operators are becoming more willing to adopt new technology as a result. We differentiate by engineering cost out of the system and providing innovative, efficient solutions and aftermarket packages.

Many players across the value chain have developed ambitious digital agendas in order to reduce cost and improve productivity. The data gathering and analysis capabilities of our solutions and service offerings enable us to respond well to this growing requirement, particularly regarding predictive maintenance, assisting customers to minimise downtime and improve process optimisation.

Operators are aiming to reduce energy consumption and methane emissions. We are developing a number of new solutions that will lower energy consumption. We have recently launched new fugitive emissions monitoring technology as part of our solutions portfolio.

### WATER

In emerging markets, the population growth and trend towards urbanisation is driving investment in the water infrastructure.

In developed markets, capacity expansion and scarcity of conventional water sources requires investment in new technology.

Water markets are typically highly regulated with pressure to limit price increases to end customers providing good opportunities where we can provide more cost effective solutions.

Ageing water infrastructure is driving spend on maintenance and replacement.

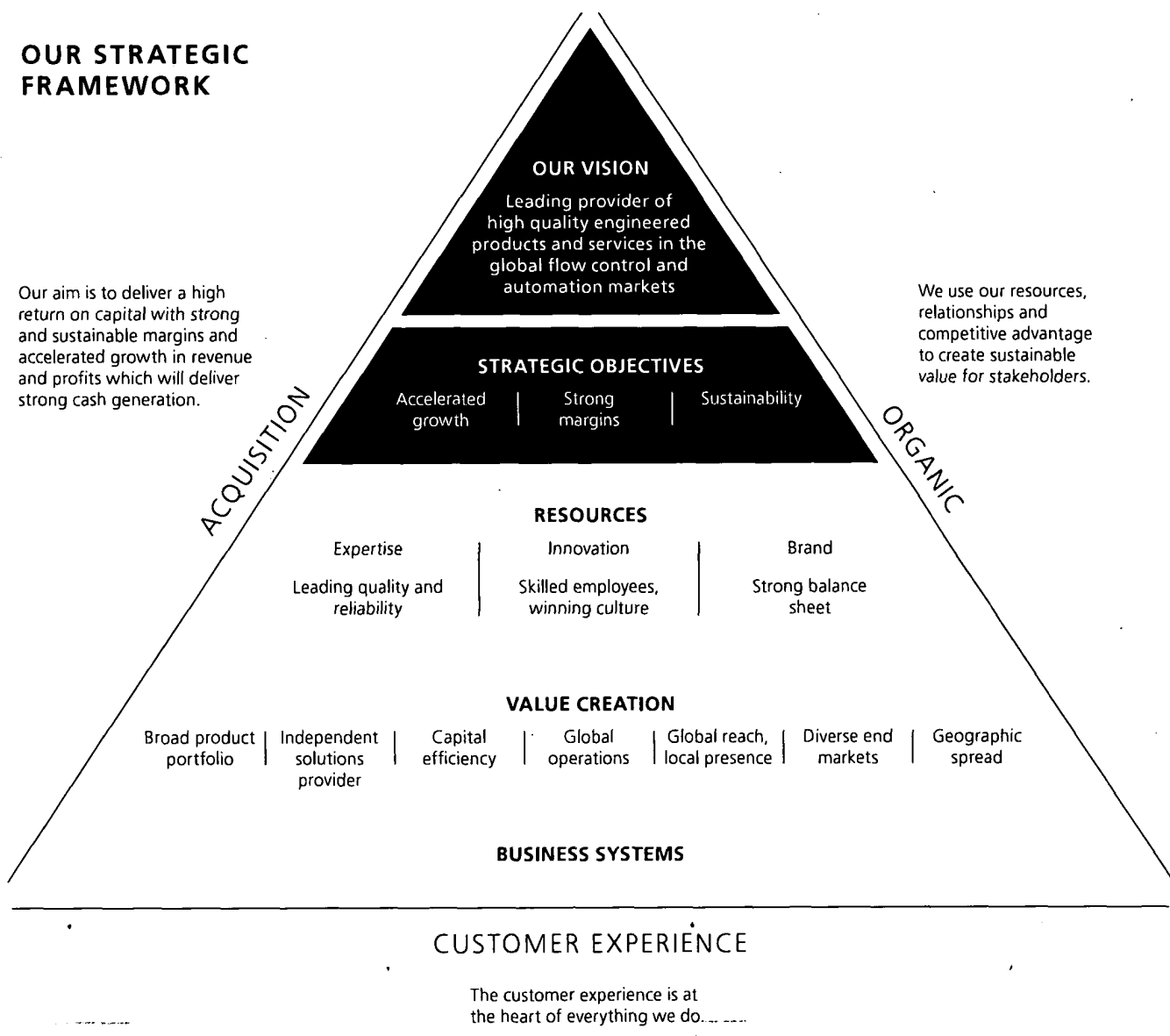
Technology development is currently focused on monitoring leakages, however, water shortages are driving continued evolution in smart grids with automated valves, which will stimulate increased demand for our solutions, and investment in water reuse and desalination technology.

Regulation is evolving on a number of fronts across different geographies regarding reuse, sludge treatment and water quality, requiring more processing and additional capital expenditure.

## OUR STRATEGIC FRAMEWORK

Our aim is to deliver a high return on capital with strong and sustainable margins and accelerated growth in revenue and profits which will deliver strong cash generation.

We use our resources, relationships and competitive advantage to create sustainable value for stakeholders.



- Strategy
- Business model

**rotork®**

**Keeping the World Flowing**

**BUILDING A  
BOLD AND  
SUSTAINABLE  
FUTURE**

## WELCOME TO ROTORK

**Rotork is a market-leading solution provider for the actuation, flow control and industrial markets. We have over 3,800 talented employees who work across a global network of local offices and established manufacturing facilities to provide a world-class service to our customers.**

**Our flow control products are used extensively in the oil and gas, water, power and industrial markets, amongst others. Our customers rely on us for innovative, high quality engineered products and services, many of which are used in mission-critical applications.**

**The Group comprises four actuation and flow control divisions along with our cross-divisional Site Services team. We deliver a high return on capital and strong sustainable margins from our diverse end markets and wide geographic spread.**

---

### **Why invest in us**


**We are taking steps to return the Group to the higher levels of organic growth and margins previously delivered.**

 **See our investment case on page 6**

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### **Our strategy**

**We deliver a high return on capital with strong and sustainable margins, consistent growth in revenues and profits and strong cash generation.**

 **See our strategy on page 14**

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### **Our business model**

**Our capital efficient model, combining the benefits of global expertise and local service, positions us well to generate sustainable value for our stakeholders.**

 **See our business model on page 16**

# 2017 HIGHLIGHTS

## OUR PERFORMANCE

Revenue

**£642.2m**

**+8.8%**

17	£642.2m
16	£590.1m

Profit before tax

**£80.6m**

**-11.5%**

17	£80.6m
16	£91.1m

Adjusted profit before tax\*

**£124.8m**

**+5.8%**

17	£124.8m
16	£117.9m

Adjusted operating profit\*

**£130.2m**

**+7.9%**

17	£130.2m
16	£120.6m

Earnings per share

**6.4p**

**-16.9%**

17	6.4p
16	7.7p

Adjusted earnings per share\*

**10.6p**

**+6.0%**

17	10.6p
16	10.0p

- 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%

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\* References to adjusted performance measures throughout this document relate to statutory results adjusted to exclude amortisation of acquired intangibles and other adjustments (see note 2).

References to organic constant currency (OCC) or underlying results throughout this document are the 2017 figures restated at 2016 exchange rates, excluding the incremental contribution from acquisitions.

## AT A GLANCE

Our customers rely upon Rotork for innovative, reliable solutions to manage the flow of liquids and gases.

### OUR DIVISIONS

We have four product divisions and a service group, Rotork Site Services, which works across all four divisions, providing planned and emergency services for all of our flow control products worldwide.

#### ROTORK CONTROLS

Rotork Controls' products include the Group's electric valve actuator ranges and network control systems for all applications, and it is the largest independent manufacturer in its sector. It offers electric solutions for on/off and process applications where a high degree of accuracy is required.

#### ROTORK FLUID SYSTEMS

Rotork Fluid Systems manufactures and supplies a comprehensive range of pneumatic, hydraulic and electro-hydraulic actuators and control systems that are used in a wide range of applications, including emergency shutdown and protective service.

#### ROTORK GEARS

Rotork Gears is a specialist manufacturer and supplier of gearboxes, adaptations and accessories to the international valve and actuator industry. Its products offer solutions for light duty industrial applications through to the harshest environments, including subsea.

#### ROTORK INSTRUMENTS

Rotork Instruments manufactures and supplies instrumentation and control products for flow, pressure, temperature and position measurement applications. Its diverse portfolio provides many different solutions across a wide range of industries.

Revenue

**£325.2m**

+9.0%

17	£325.2m
16	£298.4m

Revenue

**£150.1m**

+3.3%

17	£150.1m
16	£145.3m

Revenue

**£83.9m**

+15.9%

17	£83.9m
16	£72.4m

Revenue

**£100.6m**

+10.4%

17	£100.6m
16	£91.2m

Adjusted operating profit

**£92.9m**

+6.4%

17	£92.9m
16	£87.3m

Adjusted operating profit

**£9.0m**

+45.9%

17	£9.0m
16	£6.2m

Adjusted operating profit

**£15.7m**

+11.9%

17	£15.7m
16	£14.1m

Adjusted operating profit

**£20.5m**

+1.6%

17	£20.5m
16	£20.1m

#### Revenue by division

■ Controls	49%
■ Fluid Systems	23%
■ Gears	13%
■ Instruments	15%

See the divisional reviews on pages 28-31

## OUR END USER MARKETS

Our products and services are used extensively in the oil and gas, power, water and industrial markets around the world to improve efficiency, assure safety and protect the environment. The development of our product portfolio allows expansion into new and diverse markets.

### OIL AND GAS

Rotork products are used on applications for upstream, midstream and downstream activities including offshore and onshore production facilities, refining, processing, transportation, storage and distribution.

### WATER

Water treatment and distribution offers significant opportunities for Rotork through modern state-of-the-art processes which maximise existing resources, such as desalination plants and water re-use projects, together with conventional water and wastewater plants.

### POWER

Rotork products are found in conventional power stations, emission reduction plants, such as flue gas desulphurisation, and renewable energy plants, such as solar collecting power stations. Rotork products are also certified for use on nuclear power stations, both inside and outside containment.

### INDUSTRIAL AND OTHER

Other industries served by Rotork include mining, HVAC and marine and any other industry where you are trying to control flow, for example, food and beverage.

**Revenue by end user market**

Oil and gas	50%
Water	13%
Power	15%
Industrial and other	22%

See our operating review on pages 26-31

## OUR GLOBAL PRESENCE

A global business with over 3,800 employees, we serve customers in more than 168 countries through our network of 65 offices, 25 manufacturing facilities and our relationships with local agents. Our 480 service engineers are based throughout our network providing maintenance, repair and upgrade services.

Our global footprint allows us to capitalise on our investment in technical and sales support at a local level, close to the customer, while leveraging Group wide resources and expertise in fostering our reputation for excellence in innovation and the quality of our products and services.

We are currently reviewing our manufacturing footprint to ensure we make the most efficient use of our resources.

Manufacturing facilities

UK x6

Italy x3

	Manufacturing facilities	Offices	Employees
Americas	7	11	721
Europe, Middle East and Africa	13	25	2,159
Asia and Australia	5	29	955

**Revenue by end destination**

Americas	25%
Europe	31%
Rest of World	44%

See our operating review on pages 26-31

## EXECUTIVE CHAIRMAN'S STATEMENT

We are committed to building a bold and sustainable future for Rotork, returning the business to higher growth and margin levels, despite a lower growth market environment.

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.

Revenue

**£642.2m**  
**+8.8%**

Adjusted operating profit\*

**£130.2m**  
**+7.9%**

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 focused 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 USA, 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 (the 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; see page 60 of the Corporate Governance Report for further details.

### 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.

Further details of this work and its outputs, our approach to governance and our compliance with the Code are contained in the Corporate Governance Report on pages 56 to 61.

### 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.

### Dividend

The Board recommends a final dividend of 3.35p per share, a 6.3% increase over the 2016 final dividend. Taken with the 2017 interim dividend, the total dividend is 5.40p per share (2016: 5.10p), representing a 5.9% increase in the total dividend on 2016. 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

\* References to adjusted performance measures throughout this document relate to statutory results adjusted to exclude amortisation of acquired intangibles and other adjustments (see note 2).

References to organic constant currency (OCC) or underlying results throughout this document are the 2017 figures restated at 2016 exchange rates, excluding the incremental contribution from acquisitions.

Order intake represents the value of orders received during the year.

## OUR PEOPLE

We aim to be a 'great place to work' with strong, consistent values across all of our business units.

We invest in our people and encourage internal development. 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.

See our ethics and values on page 42


## OUR INVESTMENT CASE

Our investment case is underpinned by our strategy of delivering a high return on capital and strong sustainable margins from our diverse end markets and wide geographic spread.

### ACCELERATED GROWTH

#### TRACK RECORD OF GROWTH

Group revenue £m

 See our strategic objectives on pages 14-15

#### HIGH RETURN ON CAPITAL EMPLOYED (ROCE) FROM OUR ASSET-LIGHT MODEL

ROCE\*

# 24.9%

17	24.9%
16	23.4%

#### INVESTMENT IN INNOVATION

R&D spend

# £14.0m

17	£14.0m
16	£11.8m

Increased spend in 2017

# 18.9%

17	18.9%
16	5.9%


### STRONG MARGINS

#### HIGH MARGINS

Adjusted operating margin

# 20.3%

17	20.3%
16	20.4%

 See our financial review on pages 32-35

\* KPIs are defined on pages 36-37

"We plan to significantly increase our investment in innovation and our service infrastructure, funded by reshaping our sales and operating infrastructure."

MARTIN LAMB  
Executive Chairman

## SUSTAINABILITY

### DIVERSE END MARKETS

#### Revenue by end user market

■ Oil and gas	50%
■ Water	13%
■ Power	15%
■ Industrial	17%
■ Other	5%

#### Oil and gas revenue by sub-sector

■ Upstream	34%
■ Midstream	19%
■ Downstream	47%

See our markets on page 3

### GLOBAL REACH, LOCAL PRESENCE

#### Revenue by end destination

■ Americas	25%
■ Europe	31%
■ Rest of World	44%

### STRONG BALANCE SHEET

Cash conversion\*

# 109.1%

17	109.1%
16	130.1%

Net debt reduced by

# £42.4m


17	£12.6m
16	£55.0m

### STRONG CULTURE WHERE SUSTAINABILITY MATTERS

See our corporate social responsibility on pages 38-51

# STRATEGIC REPORT

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**OPPORTUNITIES AND CHALLENGES**12  Market environment**HOW WE MAXIMISE VALUE**14  Our strategy18  Our risk management**HOW WE DELIVER VALUE**33  Corporate social responsibility42  Our values**HOW WE CREATE AND SHARE VALUE**16  Business model**HOW WE MEASURE VALUE**36  Our key performance indicators**HOW WE PERFORMED**26  Operating review28  Divisional reviews32  Financial review**INNOVATION CENTRE**

We are investing in our Bath facility to develop new innovation labs, a purpose-built factory and head office. In order to stay at the forefront of product development it is important that we create the right environment to allow us to attract and retain the best talent, allowing creative and technical skills to be developed.

Revenue

**£642.2m****+8.8%**


## Strategic review

# OUR STRATEGIC FRAMEWORK

Our aim is to deliver a high return on capital with strong and sustainable margins and accelerated growth in revenues and profits which will deliver strong cash generation. The customer experience is at the heart of everything we do. We use our resources and relationships and competitive advantage to create value for all stakeholders.


### OUR VISION

To be the leading solution provider of innovative, high quality engineered products and services in our targeted segments of the global flow control and automation markets across diverse industries and geographies, meeting customer needs through global expertise delivered locally.

 See our strategy on page 14


### STRATEGIC OBJECTIVES

Our aim is to deliver a high return on capital with strong and sustainable margins and accelerated growth in revenues and profits which will deliver strong cash generation.

 See our strategy on page 14

### RESOURCES AND VALUE CREATION

The customer experience is at the heart of everything we do. We use our resources and relationships and competitive advantage to create value for all stakeholders.

 See our business model on page 16