rotork

annual report and financial statements

2000

Rotork designs, manufactures and markets actuators, systems and related products. Rotork is an international business.

Rotork enjoys an excellent reputation for its products. It has become the largest single supplier of heavy-duty valve actuators in the world and is a growing force in fluid power and manual gear operated actuation markets.

Rotork's success in these international markets is won by ensuring that its products and every aspect of its organisation are of the finest quality and meet the highest environmental standards.

rotork

Contents

Registered in England, No. 578327

rotork

core activities

Activity	Description

This, the largest of Rotork's activities, supplies latest state of the art electric valve actuators for controlling the opening and closing of pipeline valves.

30% of these are supplied with digital control systems developed in house.

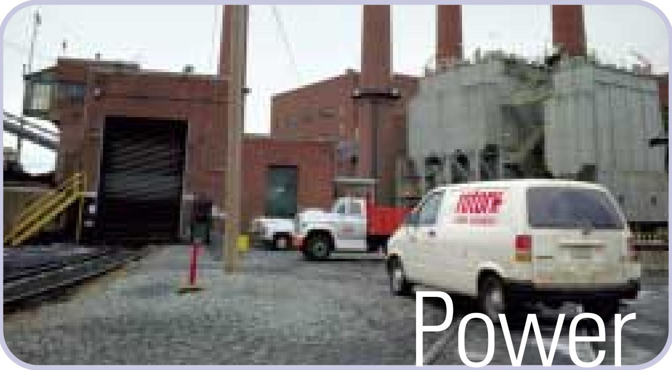
Manufacture is in UK, USA and India.

Heavy duty pneumatic and hydraulic valve actuators for emergency shut down in safety-critical and sub-sea applications. Manufacture is in USA and Italy with distribution mainly via Rotork companies in Canada, Singapore and UK.

Pipeline valves are not always automated but require gearboxes for hand operation. Factories in UK, USA and Holland supply these vital components together with a variety of valve accessories. Valve to actuator adaption is an important product within this activity.

Supplying tailored products for the process control industry including DCS, SCADA and Safety Systems.

core markets

Market	Description
	Applications include the control of water, air and steam as well as the relevant fuel for the power generator plant. Even the dispersal of waste, e.g., the ash from a coal fired power station, is controlled by Rotork.
	Rotork is involved with everything from automating the valves at the wellhead to handling the distribution of crude oil or gas to pipeline, tanker and storage facilities. This is of particular relevance to emergency shutdown procedures associated with potentially hazardous activities.
	The refining of hydrocarbon products, their distribution, measurement and storage is a vitally important business area for Rotork where our integrated control systems and valve actuators play an important role.
	The production of drinking water and the treatment of municipal and industrial effluent is an increasing activity due to population increase. Rotork is involved with everything from remote reservoir and bore hole valve control to complete automation of water filters and sewage treatment plants.

Financial Highlights

"The group will continue to take advantage of opportunities in key market segments through focused marketing initiatives and product innovation. Its philosophy of continuous improvement will result in further cost saving opportunities and continued investment in world-class manufacturing techniques."

- New IQ actuator launched; well received by customers
- Order book up **19%** on previous year
- Performance reflects reduced capital expenditure in the hydrocarbon sector
- Move to new US production facility completed on time and under budget

	2000	1999
Turnover	**£107.9m**	£117.5m
Operating profit	**£19.8m**	£26.0m
Profit before taxation	**£20.6m**	£26.9m
– before goodwill amortisation	**£21.6m**	£27.8m
Taxation	**£7.1m**	£9.5m
Profit after taxation	**£13.5m**	£17.5m
Basic earnings per ordinary share	**15.6p**	20.3p
Basic earnings per ordinary share – before goodwill amortisation	**16.8p**	21.3p
Dividends per ordinary share	**12.2p**	12.2p

Chairman's Review

Roger Lockwood

Chairman

"Our strategic focus has continued to be the design, manufacture and marketing of actuators, systems and related products."

Introduction

Lower investment in the hydrocarbon sector and consolidation within the industry over the last eighteen months resulted in reduced levels of capital investment and therefore contributed to lower demand for actuators and associated products. Over 40% of Rotork actuators are shipped to customers in these sectors and the result of this reduced spend was that the order book at the beginning of 2000 was lower than at the previous year-end. Nevertheless, gross margin in 2000 was maintained at 1999 levels underlining the quality of our products and customer support. In addition activity in this sector now appears to be returning to more normal levels and I am pleased to report that our closing order book was nearly 20% higher than at the end of the previous year.

Operating Review

The most significant development programme undertaken to date at Rotork is now complete and the latest version of the IQ intelligent actuator is in full production at our Bath and Rochester facilities. The increased functionality obtained by utilising advanced electronic techniques is meeting with widespread customer approval. During the development programme the opportunity was taken to identify lower cost overseas sources for some of the more significant electronic and mechanical assemblies. We intend to make greater use of these and other low cost sources in the future to further reduce costs across our complete product range.

The new production facility for our American operations situated in Rochester New York was completed on schedule and under budget in May. We took the opportunity to introduce the modern production methods that had already been successfully installed at our Bath plant to improve the efficiency and capacity of this operation. Rotork Gears are also using this facility as a base for their expanding American operations and the resulting improved service levels to US customers have already created further business opportunities for these products.

Rotork Gears now contributes significantly to our profitability and this is due in part to the successful integration of acquisitions made in recent years. The latest of these was the purchase in October of the business and assets of the actuator division of Skil Controls Limited, previously located in Skelmersdale. This business had a specialised product, which is capable of being marketed through our existing international sales network. Although currently relatively small, we believe that potential exists for significant growth.

The year saw the opening of our wholly owned company in the People's Republic of China and business levels there to date have been encouraging. The rest of our Far East operations experienced a mixed year but all have had acceptable returns and the outlook in most of these territories is now more positive than it has been for some time.

Our Fluid Power plants in the USA and Italy are particularly dependent on oil industry business and as a result experienced a difficult trading environment during the year. We have redesigned our processes in both plants and have an ambitious product development programme. As a result of restructuring, a new Fluid Power management team has been put in place. I am pleased to report that the fluid power order book at the end of the year was higher than it has been in the recent past and there is currently much more optimism about our prospects.

Dividend

In view of the current trading position the directors are recommending that the dividend be held at last year's level with a final dividend of 7.8p bringing the total for the year to 12.2p.

Outlook

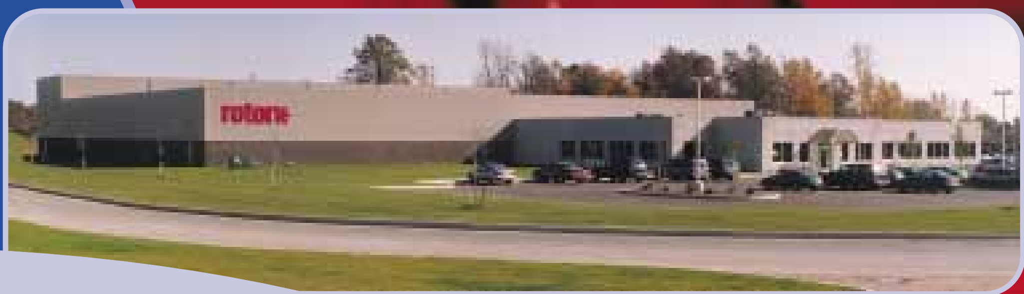
Our strategic focus has continued to be the design, manufacture and marketing of actuators, systems and related products. Our product development programme in the three main activities, Electric Actuators, Fluid System, and Rotork Gears is providing a greater breadth of solutions to customers across our market sectors, supported by acquisition where appropriate.

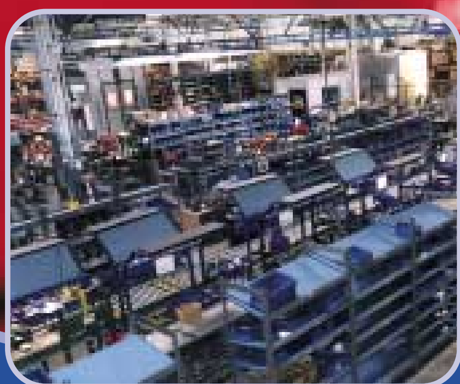
Activity levels are steadily improving and our marketing companies view the year ahead with greater confidence. The second half of 2000 saw an improvement in order intake into our plants, and this trend has continued into the early part of the current year. The introduction of our new IQ actuator is strengthening our market position and we will build on this success with further product developments that will incorporate its innovative concepts. The strength of sterling, particularly against the euro, continues to cause difficulties for us but with some signs of favourable movement this year, together with improvements in activity from our main customer sectors, the outlook for the current year is more promising.

Roger Lockwood, *Chairman*

21 March 2001

investment in facilities





Our new facility in Rochester New York was completed in May 2000 on time and under budget. This will provide a more complete service to our customers in the Americas and Canada, and has enabled Rotork Gears to have its own dedicated production and customer support service in the US.

Chief Executive's Review

Bill Whiteley
Chief Executive

"Rotork's commitment to stay at the forefront of electric actuator technology was realised with the launch of the IQ-II"

Rotork entered 2000 with a lower order book due to reduced demand from the important oil and gas sector. The strength of sterling against the euro and the lack of infrastructure projects in some important overseas markets aggravated the effects of this. The company successfully focused on obtaining the available business in this difficult and competitive environment and achieved growth in its market share. As the year progressed there was evidence of increasing activity in many of our markets. Order intake of electric actuators was up 5% over the prior year. The value of the total actuation order book grew 20% by the end of the year.

Rotork's commitment to stay at the forefront of electric actuator technology was realised with the launch of the IQ-II, which incorporates a number of techniques that are new to valve actuation. Rotork's desire to continue to add to its range of products to cover as many valve actuation applications as possible was realised by the development of the electro-hydraulic EH range and the acquisition of the Skilmatic range of actuators. Rotork's strategy of developing its service and support capabilities around the world was rewarded by the growth and success of dedicated operations in Leeds and California and the enhanced service and support facilities at many of our worldwide companies.

Electric Actuators
UK Operations
Actuator sales exceeded budget in the UK in spite of a difficult market and the continued problems that faced the company's traditional o.e.m. customers. The sales team made progress in forging partnership arrangements with major users of our equipment.

Profits at the Bath plant were down on the prior year due to reductions in throughput. Gross margins were up 1% on the prior year. Components are overwhelmingly the major cost element in this assembly plant and the company was successful in mitigating the impact of sterling to some extent through purchasing initiatives. Following the introduction of the IQ-II, which incorporates components from new overseas sources, a new project has been commenced. This focuses on reducing the cost of existing product lines through a combination of value engineering and locating new overseas sources of supply.

Europe
The European sales companies generally found market conditions to be poor and the weakness of the euro for much of the year an added difficulty. The French, Spanish, Italian and Dutch subsidiaries all failed to achieve their prior year profits. The German company continued to make progress with both sales and profit showing healthy increases.

investment in
systems

Later this year we are launching an on-line digital catalogue which will give a superior spare-part supply service to key customers, including our international distribution network of subsidiaries and agents. The catalogue provides interactive technical support to customers at the order stage, ensuring fast and accurate assessment of their requirements and speeding up our response times.

Chief Executive's Review

The Americas

The US operation, of which much was expected in 2000, had a difficult first half. The second half improved considerably both in terms of order intake and revenues. However, sales and profits for the year failed to reach the levels achieved in the prior year during which a major pipeline project was completed. The move to the new custom built facility in Rochester was completed on time, under budget and without interruption of operations.

In recent years the company has successfully increased its penetration of the water and wastewater market. This proved to be particularly important in a year when domestic hydrocarbon projects were largely absent. Over half of the actuators supplied to the domestic US market in 2000 were destined for the water and wastewater market. The West Coast service and support operation traded successfully.

The Canadian results were disappointing. Contract delays and deferrals affected them. Order intake improved in the final quarter, especially in the West where a major project was landed. Sales and profits from the Venezuelan company showed modest improvements.

Far East

Market conditions were mixed in this important region. A new wholly owned company and a facility in Shanghai helped Rotork increase its presence in China. Hong Kong, which benefits from activity in China, recorded further increases in business.

Japan recorded a profit in its first full year of operation and although Korea's profits were slightly below the prior year, order intake exceeded expectation. South East Asia was held back by the lack of business in Indonesia, although Malaysia had an excellent year's trading. The Indian manufacturing company again performed well.

Rotork Fluid System

Rotork Fluid System's markets are predominantly oil and gas which made for a difficult and challenging market in which to operate. The division recorded losses at the assembly plants in Italy and the United States. This was partly offset by an outstanding performance of the Leeds based Fluid System centre. Amongst other measures, a new structure and management team has been put in place to deliver both the short and long term objectives of this division. Sales of Fluid System products improved in the second half of the year. Important projects were won in Canada, Brazil and Italy prior to the year-end.

Product line rationalisation and the development of new products both to extend the range of applications and to ensure that the company has the most extensive cost-effective range of products on the market are the key objectives. Programmes to realise these objectives are being put into place.

investment in products & services

Consistent with its strategy to provide a complete actuation solution, Rotork continues to broaden its portfolio of products and services. New products, in the form of Skilmatic electro-hydraulic actuators and an integrated Fluid System range provide greater choice for customers as well as an opportunity to enter new markets. In future we envisage a significant increase in the service element of our business as we embark on an international initiative to promote our installation and retrofit capabilities.

Chief Executive's Review

Rotork Gears

Weakness in the UK and European market was mainly offset by the developing market for Exeeco and Alecto gearboxes in the United States. One of the objectives of the new Rochester plant was to provide Rotork Gears with a US assembly and stocking facility. Valvekits sales were slightly up on the prior year, but profits were slightly down due in part to costs incurred in promoting sales in continental Europe. The objective in the current year is to integrate further the operations of Exeeco, Valvekits and Alecto in order to provide our valvemaker customers with a total solution for their gearbox and valve adaption requirements. Through using existing Rotork facilities and where appropriate acquisitions, Rotork Gears is targeting to expand its worldwide presence.

Product Development

Research and development expenditure remained at a high level albeit down slightly on the prior year. The next generation of the IQ actuator was launched during the year with production commencing in December. The benefits of this programme, which provides enhanced customer functionality in a cost-effective design, should be increasingly apparent during the year. Work continues on variants of the product range which are planned to become available in the first half of 2001. The IQ-II has been developed with technology that is compatible with design requirements for the important quarter turn market. The R&D resources are now being directed towards developing a non-intrusive quarter turn actuator that is planned for launch late in 2002.

Rotork are leaders in valve control systems. The development of products that enable our actuators to communicate with all the major open systems and bus technologies has been and continues to be a priority. The company believes it has the expertise and investment in place to be a major beneficiary of the interest in this field.

During the year a line of Electro-hydraulic actuators was developed in Rochester. This extends Rotork's capabilities into new valve automation markets. A number of orders were taken for this product during the year including a substantial project in South America. In October Rotork acquired the Skilmatic range from Skil Controls Limited. This range of actuators is now being assembled in the Leeds plant and provides the company with new solutions for a number of specific applications.

Rotork Control and Safety

Rotork Control and Safety performed well. The new management team continued to review the operations and refocused the company onto system integration work where its core skills now reside. This re-organisation led to a reduction in resources directed at product development and manufacturing and has allowed the company to boost its competitiveness and widen its customer base. Particular successes were achieved in the power, pharmaceutical and gas industries, with the delivery of a number of major projects.

Quality

The quality and performance of the products in the field are fundamental to Rotork's continuing success. Managing new product introductions is a particularly important aspect of quality management. The company's commitment to continual improvement has been noted by a number of accreditation bodies.

Environmental

Rotork has an environmental policy that is communicated to all employees and is under regular review. Our commitment to environmental issues is reflected in both our business objectives and our commercial practices. It is our policy to develop products that have a beneficial effect on the environment. We monitor our compliance with relevant regulations on environmental standards in all of our locations.

Employees

Trading conditions meant that 2000 was a difficult year for many of our staff and I would particularly like to thank them for their enthusiasm and hard work during the year. Their loyalty and commitment is our most valuable asset. We encourage all members of the company to develop as individuals to enable them to contribute to the success of the business.

Bill Whiteley, *Chief Executive*

Board of Directors

Executive

WH Whiteley (Chief Executive)

Bill (52) joined Rotork in 1974 and was President of Rotork's North American operations from 1979 until he became Managing Director of Rotork Actuation in 1988. Bill has been a member of the Rotork p.l.c. board since 1984 and was appointed Chief Executive in 1996. Bill is a member of the Nomination Committee.

RE Slater

Bob (50) joined Rotork in 1989 as Finance Director of the Actuation Division, and joined the board of Rotork p.l.c. as Group Finance Director in July 1998. He has previously held finance positions in mining, building controls and the engineering industry.

GE Malcolm

Since joining Rotork in 1984, George (55) had been Engineering Director of the Actuation Division prior to joining the Rotork p.l.c. board in 1997. He is currently Operations Director of the Actuation Division. His previous appointments were in industrial controls, aerospace and shipbuilding companies.

Non-Executive

RC Lockwood (Chairman)

Roger (55) has been a director of Rotork since 1988 and became Chairman in November 1998. He is a member of the Audit, Remuneration and Nomination Committees. He is Chairman of Colston Engineering Co and Hydro International plc and has previously held CEO roles in automotive and engineering businesses.

JW Matthews

John (56) has been a director of Rotork since November 1998. He is Chairman of Crest Nicholson Plc, Deputy Chairman of Perry Group plc and a director of Regus plc. He has previously held senior positions in banking and industrial companies. He is a member of the Audit, Remuneration and Nomination Committees, and is the senior independent non-executive director.

A Walker

New to Rotork in January 2001 Alex is 54, and has been Chief Executive of Yule Catto plc since 1986. He is a member of the Audit and Remuneration Committees.

TW Eassie

Tom Eassie left the board in February 2001. The board would like to place on record its appreciation and thanks for his contribution during his period as a non-executive director.

Report of the Directors

The directors submit their report and the audited accounts for the year ended 31 December 2000 as set out on pages 17 to 38.

Activities

Rotork p.l.c. is a holding company. The principal activities of the Rotork group are the design, manufacture and marketing of actuators, systems and related products worldwide.

Rotork Actuation provides a range of products, systems and services for the motorisation and manual operation of and adaption to industrial valves and dampers. Actuated valves are major control elements in refineries, pipelines, power stations and water distribution systems, sewage and effluent treatment plants and in all industries in which liquids or gases are transported through pipes.

Rotork Control & Safety designs and provides essential control and safety systems to the process and utility sectors.

Reviews of the group's activities are set out on pages 2 to 8.

Acquisitions

On 27 October 2000 the business and assets of the actuator business of Skil Controls Limited was acquired.
The consideration was £493,000 of which £62,000 is deferred.

Dividends

The directors recommend a final dividend of £6,698,000 for the year, payable on 21 May 2001 to shareholders on the register on 30 March 2001. This represents 7.8p per share *(1999: 7.8p)* which, with the interim dividend of 4.4p per share *(1999: 4.4p)* will produce a total dividend per ordinary share of 12.2p *(1999: 12.2p).*

Substantial shareholdings

At 1 March 2001 the company had been formally notified that the following are interested in 3% or more of the issued ordinary share capital of the company.

	No.	%
Prudential Corporation group of companies	**6,161,029**	7.17
Axa UK Investment Companies	**3,402,700**	3.96
Legal & General group of companies	**3,068,981**	3.57
Equitable Life Assurance Society	**3,035,448**	3.53
Invesco	**2,790,000**	3.25

Shares issued and repurchased

Details of the ordinary shares issued during 2000 are given in note 18 on page 33.

The company repurchased a total of 500,000 ordinary shares of 5p each, at a price of 220p, on 27 October 2000.
This represented 0.6% of the company's issued share capital at that time. The repurchase was effected by the directors to make best use of the company's capital resources.

Report of the Directors

Research and development

Total group expenditure on research and development in the year was £2,040,000 *(1999: £2,315,000)* further details of which are contained in the Chief Executive's review on pages 4 to 8.

Charitable donations

During the year the group made charitable donations of £27,769 *(1999: £24,238).*

Directors

The names of the directors in office at the date of this report and their biographical details are as shown on page 9. The interests of the directors in office at the end of the financial year in the shares of the company are as shown in note 8 to the financial statements on pages 24 to 26.

WH Whiteley, GE Malcolm and RE Slater have service agreements and details of these are given on page 15. Details of fees paid to non-executive directors are given on page 25.

At the Annual General Meeting, in accordance with the Articles of Association, A Walker who was appointed on 18 January 2001 will offer himself for re-election. WH Whiteley and JW Matthews will retire by rotation and, being eligible, will offer themselves for re-election. WH Whiteley's service contract is further referred to at page 15.

Corporate governance

The board considers that the company has complied with the provisions set out in section 1 of the Combined Code on corporate governance ("the Code") throughout the year ended 31 December 2000 apart from those relating to the length of directors' service contracts, (Code provision B.1.7) which are commented on in the Remuneration Committee report.

The company now complies with the Code provisions on internal control having during the year established procedures necessary to implement the guidance issued in September 1999 ("the Turnbull Report"), and by reporting in accordance with that guidance.

The board has ultimate responsibility for the company's system of internal control and is required to set appropriate policies and to review its effectiveness. The role of management is to implement board policies.

The system of internal control is designed to reduce but cannot eliminate the risks of failure to meet business objectives. Internal control therefore can only provide reasonable but not absolute assurance in meeting such business objectives or against material mis-statement or loss.

A continuous process for identifying, evaluating and managing the significant risks faced by the company has been developed during the year under review and operated up to the date of approval of the Annual Report and Accounts. Senior managers with responsibility across all functions participate in a risk management process which identifies and evaluates the key risks facing the company's businesses. Their deliberations are reported to the Audit Committee and board. This process is based on senior managers' detailed knowledge and understanding of key risks within and external to the business based on formal management information and reports and their interaction and daily dealings with those reporting directly to them, their colleagues and external parties. Internal financial audits are undertaken on a regular basis by the head office accounting team. Work will continue to further embed internal control and risk management into the operations of the business and to further enhance and add to the relevant processes.

Report of the Directors

The processes which are used by the board to review the effectiveness of this system of internal control include the following:

During the year the Audit Committee

- Reviews the external and internal financial audit work plans;
- Considers reports from management, internal and external audit on the system of internal financial control and any material control weaknesses;
- Considers reports on Health and Safety and environmental issues;
- Discusses with management the range of actions taken on problem areas for the business identified by board members or in the internal and external audit reports.

Additionally,

- The board receives copies of the minutes of all Audit Committee meetings;
- The board reviews the role of insurances in managing risk across the group;
- The board regularly receives written and oral reports from management on all aspects of production, operations, financial and risk management matters.

Prior to the year end the full board following discussion at the Audit Committee formally reviewed the effectiveness of the group's system of internal control.

The board currently has six members comprising three non-executive directors, including the Chairman, and three executive directors. There is a clear division of responsibility between the Chairman and the Chief Executive that ensures that there is a balance of power and authority. JW Matthews is the senior independent non-executive director.

The board is expected to meet eight times during the course of the year and additional meetings will be convened as necessary; there is a formal schedule of matters reserved for the decision of the board; the terms of reference of the board and its committees are regularly reviewed. To enable the board to perform its duties all directors have full and timely access to all relevant information.

The board has three standing committees;

The Nomination Committee is primarily responsible for making recommendations to the board for the appointment or re-appointment and removal of directors. It has three members, RC Lockwood (who chairs the committee), JW Matthews and WH Whiteley.

The Audit Committee is comprised of the three independent non-executive directors, RC Lockwood (Chairman), JW Matthews and from January 2001, A Walker who replaces TW Eassie who retired from the board in February 2001. It usually meets three times a year to review published financial information, the effectiveness of both external and internal audit and internal financial and other controls. The Chief Executive, the Finance Director and the external auditors normally attend meetings and there is a meeting at least once a year between the committee and the external auditors at which management is not present.

The Remuneration Committee is described in the board's remuneration report on page 14.

Communication with shareholders is given high priority. There is regular dialogue with institutional shareholders and an opportunity for individual shareholders to put questions to the Chairman at the AGM. Individual shareholder enquiries are dealt with throughout the year by the Company Secretary's department.

Report of the Directors

Statement of directors' responsibility for preparing the financial statements

The following statement, which should be read in conjunction with the auditors' Statement of Auditors' Responsibilities, included in the audit report, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss for that period.

The directors consider that in preparing the financial statements on pages 17 to 38, the company has selected suitable accounting policies which have been consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed subject to any explanations and any material departures disclosed in the notes to the financial statements. The directors are required to use a going concern basis in preparing the financial statements unless this is inappropriate. After making enquiries, the directors have a reasonable expectation that the company and the group have 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.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Creditor payment policy

While there is no formal code or standard, it is company and group policy to settle terms of payment with creditors when agreeing the terms of each transaction and to abide by creditors' terms of payment provided that the supplier is also complying with all relevant terms and conditions. There are no creditors subject to special arrangements outside suppliers' terms and conditions. The company does not have any trade suppliers so that a creditor day payment period is not appropriate.

Auditors

Resolutions to re-appoint KPMG Audit Plc as auditors and to authorise the directors to determine the remuneration are to be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Annual General Meeting of the company will be held at the company's offices at Rotork House, Brassmill Lane, Bath BA1 3JQ on Thursday, 24 May 2001 at 12 noon. A separate circular containing the Notice of the Meeting is sent to shareholders with this Annual Report.

On behalf of the board

SR Jones, *Secretary*
21 March 2001
Bath

Directors' Remuneration Report

This report is presented to shareholders by the board and sets out the board's remuneration policy and details of the remuneration of each director.

The Remuneration Committee of the board is currently comprised of the three independent non-executive directors, RC Lockwood (Chairman), JW Matthews and A Walker. During 2000, the committee comprised of RC Lockwood (Chairman) and JW Matthews only. The committee makes recommendations to the board on the company's framework of executive remuneration, and determines the individual salaries and other terms and conditions of employment for the executive directors. The committee also determines the terms of any discretionary share schemes in which executive directors may be invited to participate.

The board considers that it is critical that the group has remuneration policies which enable it to retain, motivate and, when required, recruit high quality management. In recommending the level of remuneration for executive directors, the Remuneration Committee considers the company's pay levels with a broad cross-section of UK-based companies from various sectors with financial dimensions broadly similar to those of the company.

During the prior year the Remuneration Committee commissioned a report by specialist remuneration consultants into the comparative salary and benefits offered by the company in relation to other plcs with comparable financial dimensions. The report considered pay and benefit levels for both executive directors and the company's senior management. One of the findings of the report was that the basic salary levels of executive directors was significantly lower than many of its comparators. For executive directors the Remuneration Committee has decided to phase adjustment increases in basic salary over a two year period starting with the year under review to achieve at the end of that period basic salaries they consider appropriate for each executive director, which meet the objectives set out above.

The remuneration packages of each individual director currently include basic salary, an annual bonus, benefits in kind (cars, fuel and private medical insurance), membership of The Rotork Profit-Linked Share Scheme, discretionary long-term incentive awards and participation in the Rotork Pension and Life Assurance Scheme. Currently the annual non-pensionable bonus is measured on a basis rewarding increases in group profit above targets based on averaged prior years' results and other specific profit-related targets. Further details of all elements of each individual director's remuneration package, including profit-linked shares, long-term incentive awards and pension entitlements are set out in note 8 to the financial statements.

Employee share options

The Rotork Employee Share Option Scheme, which was introduced in 1985 (the 1985 scheme), enabled all UK employees to acquire a grant of options to the value of 50% of their salaries. That scheme has now closed. The Rotork 1995 Employee Share Option Scheme (the 1995 scheme), which is an all-employee scheme and has broadly the same terms as the 1985 scheme, with the addition of corporate performance criteria, was approved by the members on 26 May 1994.

No options have been granted to any executive director since 1994 under the 1985 or 1995 schemes. Only relevant options granted to one executive director remain unexercised as set out on page 26.

Long-Term Incentive Plan

Following shareholder approval of the Rotork Long-Term Share Incentive Plan ("LTIP") at the company's Annual General Meeting on 18 May 2000, the first awards were made to executive directors and senior managers in June 2000 and those made to executive directors are set out on page 26.

The 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. No shares will be released to participants unless they are still in the group's service following completion of four year performance periods and the company's relative total shareholder return against a comparator group of companies places it in at least the 50th percentile position in the comparator group at the end of the performance period. The actual number of shares transferred will be determined by the number of shares initially allocated multiplied by a vesting percentage which will be 40% at the 50th percentile rising to 100% at the 75th percentile with each percentile position above the 50th adding 2.4% to the vesting percentage.

Directors' Remuneration Report

The company's earnings per share is also monitored during the relevant performance period to ensure it meets a minimum average annual growth equal to the rise in the Retail Price Index plus 2% per annum.

The executive directors and senior managers who were offered participation in the LTIP as a condition of participation do not participate in the 1995 Employee Share Option Scheme referred to above.

Interests in shares and profit-linked share scheme
The interests of the directors in the ordinary share capital of the company are set out on page 26. In common with all employees with two complete calendar years of service, all executive directors receive an entitlement to ordinary shares under The Rotork Profit-Linked Share Scheme which is approved by the Inland Revenue. 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 salary. Details of allocations made to executive directors in 2000 are set out on page 26.

Service contracts and directorships
WH Whiteley and GE Malcolm have service agreements with two years' notice. Following a decision of the Remuneration Committee in 1994, the then executive directors voluntarily and without compensation agreed to reduce their notice periods to two years from three years. RE Slater, who was appointed to the board in 1998, has a service contract with one year's notice. For future executive director appointments, the board's intention will be to continue to limit service contracts to one year's notice.

None of the executive directors has any external directorships with the exception of WH Whiteley, who is a director of the British Valve and Actuator Manufacturers Association Limited.

In accordance with the Code provisions during the year, the Remuneration Committee considered what compensation commitments the executive directors' contracts of service would entail in the event of early termination. In particular, they considered the advantages of providing explicitly in executive directors' service contracts for such compensation commitments. After taking specialist advice, the Remuneration Committee decided it would not recommend any such changes to executive directors' service contracts.

Pensions
The executive directors participate in the Rotork Pension and Life Assurance Scheme ("the Scheme"). The Scheme is a defined benefits scheme and provides benefits based on basic salary only, with a maximum of two-thirds of final pensionable salary payable at normal retirement age. The Scheme also provides a lump sum "death in service" benefit and a widow's benefit. All Scheme benefits are within, and subject to, Inland Revenue limits. The company contributes to the Scheme in accordance with the recommendations of the Scheme actuary. None of the executive directors is required to contribute to the Scheme. Further details are given in note 21 to the financial statements.

Non-executive directors
The level of remuneration of the non-executive directors is set following discussions between the Chairman and Chief Executive; however, no non-executive director is involved in discussions concerning his own fees. The non-executive directors do not participate in any of the commission, profit-related pay, share or pension schemes operated by the group.

On behalf of the board

RC Lockwood, *Chairman*
Remuneration Committee

21 March 2001

Auditors' Report to the members of Rotork p.l.c.

KPMG

We have audited the financial statements on pages 17 to 38.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 13, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the listing rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the statement on pages 11 to 12 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2000 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

Bristol

Chartered Accountants
Registered Auditor

21 March 2001

Consolidated Profit and Loss Account

For the year ended 31 December 2000

	Notes	2000 £'000	1999 £'000
Turnover		**107,880**	117,535
Cost of sales		**(59,021)**	(63,626)
Gross profit		**48,859**	53,909
Distribution costs		**(2,286)**	(2,023)
Administrative expenses		**(27,502)**	(26,021)
Other operating income		**680**	95
Operating profit		**19,751**	25,960
Operating profit before amortisation of goodwill		**20,787**	26,855
Amortisation of goodwill		**(1,036)**	(895)
Operating profit		**19,751**	25,960
Net interest receivable and similar items	*2*	**831**	987
Profit on ordinary activities before taxation	*3*	**20,582**	26,947
Tax on profit on ordinary activities	*4*	**(7,110)**	(9,477)
Profit for the financial year	*5*	**13,472**	17,470
Dividends - including non-equity	*6*	**(10,504)**	(10,546)
Retained profit for the financial year	*19*	**2,968**	6,924
		pence	**pence**
Basic earnings per share	*7*	**15.6**	20.3
Basic earnings per share before goodwill amortisation	*7*	**16.8**	21.3
Diluted earnings per share	*7*	**15.6**	20.3

All results relate to continuing operations.

Balance Sheets

At 31 December 2000

	Notes	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Fixed assets					
Intangible assets	*9*	**18,166**	19,175	**–**	–
Tangible assets	*10*	**15,763**	14,412	**731**	769
Investments	*11*	**–**	–	**1,557**	1,557
		33,929	33,587	**2,288**	2,326
Current assets					
Stocks	*12*	**14,553**	13,790	**–**	–
Debtors due within one year	*13*	**32,562**	27,806	**16,234**	17,771
Debtors due after more than one year	*13*	**384**	581	**4,680**	5,170
Cash at bank and in hand	*14*	**16,820**	25,788	**8,947**	14,155
		64,319	67,965	**29,861**	37,096
Creditors:					
Amounts falling due within one year	*15*	**(31,491)**	(35,824)	**(11,758)**	(11,607)
Net current assets		**32,828**	32,141	**18,103**	25,489
Total assets less current liabilities		**66,757**	65,728	**20,391**	27,815
Creditors:					
Amounts falling due after more than one year	*16*	**(1,011)**	(1,758)	**–**	(1,026)
Provisions for liabilities and charges	*17*	**(3,293)**	(4,221)	**(1,155)**	(1,664)
Net assets		**62,453**	59,749	**19,236**	25,125
Capital and reserves					
Called up share capital	*18*	**4,352**	4,376	**4,352**	4,376
Share premium account	*19*	**3,379**	3,357	**3,379**	3,357
Revaluation reserve	*19*	**2,398**	2,398	**–**	–
Capital redemption reserve	*19*	**1,602**	1,577	**1,602**	1,577
Profit and loss account	*19*	**50,722**	48,041	**9,903**	15,815
Rotork shareholders' funds		**62,453**	59,749	**19,236**	25,125
Equity		**62,394**	59,690	**19,177**	25,066
Non-equity		**59**	59	**59**	59
Shareholders' funds		**62,453**	59,749	**19,236**	25,125

These financial statements were approved by the board of directors on 21 March 2001 and were signed on its behalf by **WH Whiteley** and **RE Slater**, *Directors*.

Statement of Group Cash Flow

For the year ended 31 December 2000

	Notes	2000 £'000	1999 £'000
Net cash inflow from operating activities	*14*	**16,409**	25,946
Returns on investments and servicing of finance			
Interest and similar income received		**1,127**	1,331
Interest paid		**(258)**	(431)
Dividends paid on non-equity preference shares		**(6)**	(6)
		863	894
Taxation			
UK corporation tax paid		**(4,545)**	(5,647)
Overseas tax paid		**(3,994)**	(4,621)
		(8,539)	(10,268)
Capital expenditure			
Purchase of tangible fixed assets		**(3,810)**	(2,699)
Sale of tangible fixed assets		**753**	202
		(3,057)	(2,497)
Acquisitions and disposals			
Purchase of businesses		**(482)**	(14,613)
Net overdrafts acquired with subsidiary undertaking		**–**	(520)
Deferred consideration on sale of business		**240**	240
Deferred consideration on purchase of business		**(152)**	–
		(394)	(14,893)
Dividends paid on equity ordinary shares		**(10,543)**	(9,817)
Net cash outflow before management of liquid resources and financing		**(5,261)**	(10,635)
Management of liquid resources			
Decrease in term deposits		**8,620**	7,157
Financing			
Issue of ordinary share capital		**23**	379
Purchase of own preference shares		**–**	(10)
Purchase of own equity ordinary shares		**(1,102)**	–
(Repayment)/increase of amounts borrowed		**(493)**	540
Capital element of finance lease payments		**(43)**	(6)
		(1,615)	903
Increase/(decrease) in cash in the period	*14*	**1,744**	(2,575)

Statement of the Group's Total Recognised Gains and Losses

For the year ended 31 December 2000

	2000 £'000	1999 £'000
Profit for the financial year	**13,472**	17,470
Exchange differences	**815**	36
Total recognised gains and losses for the year	**14,287**	17,506

Note on the Group's Historical Cost Profits and Losses

For the year ended 31 December 2000

Reported profit on ordinary activities before taxation	**20,582**	26,947
Revaluation element of depreciation charge	**75**	98
Historical cost profit on ordinary activities before taxation	**20,657**	27,045
Historical cost retained profit for the financial year	**3,043**	7,022

Reconciliation of Movements in Rotork Shareholders' Funds

For the year ended 31 December 2000

Profit for the financial year	**13,472**	17,470
Preference dividends on non-equity shares	**(6)**	(6)
Ordinary dividends on equity shares	**(10,498)**	(10,540)
Retained profit for the financial year	**2,968**	6,924
Exchange differences	**815**	36
New ordinary share capital issued	**23**	380
Purchase of own preference shares	**–**	(10)
Purchase of own ordinary shares	**(1,102)**	–
Net additions to shareholders' funds	**2,704**	7,330
Shareholders' funds at beginning of the year	**59,749**	52,419
Shareholders' funds at end of the year	**62,453**	59,749

Notes to the Financial Statements

For the year ended 31 December 2000

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

1. Accounting policies

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements of the group and of the company.

Basis of accounting

The financial statements have been prepared under the historical cost convention supplemented by the revaluations explained in note 10 to the financial statements and have been prepared in accordance with applicable accounting standards.

Consolidation

The consolidated financial statements incorporate the financial statements of the company and its subsidiary undertakings together with the group's share of the results and net assets of its associated undertakings for the year to 31 December 2000. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired in the year are included in the consolidated profit and loss account from the date of acquisition.

A separate profit and loss account dealing with the results of the company only has not been presented, as permitted by section 230(4) of the Companies Act 1985.

Goodwill

Goodwill arising on consolidation represents the difference between the fair value of the consideration given and the fair value of the separable net assets acquired. Goodwill arising on the acquisition of subsidiaries is amortised on a straight line basis over its estimated economic life, which is not expected to exceed 20 years.

Foreign currencies

Assets and liabilities of subsidiary undertakings in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year and the results and cashflows of foreign subsidiary undertakings are translated at the average rate of exchange for the year. Differences on exchange arising from the retranslation of the opening net investment in subsidiary undertakings, and from the translation of the results of those undertakings at average rate, are taken to reserves and are reported in the statement of total recognised gains and losses. All other foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Depreciation and amortisation

Freehold land is not depreciated. Long leasehold buildings are amortised over fifty years or the expected useful life of the building where less than fifty years. Other assets are depreciated by 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
Machinery, plant and equipment	10% to 30%

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 is shown as obligations under finance leases. The rentals payable are apportioned between interest, which is charged to the profit and loss account, and capital, 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 in arriving at the operating profit.

Stocks and work in progress

Stocks and work in progress are valued at the lower of cost on a 'first in, first out' basis 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.

Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect of all timing differences to the extent that it is probable that liabilities or assets will crystallise in the foreseeable future.

Segmental information

The group has taken advantage of the provisions of the Companies Act 1985 (sch. 4, para. 55(5)) and of SSAP 25 not to disclose segmental or geographical market information on the grounds that, in the opinion of the directors, such disclosure would be seriously prejudicial to the interests of the group.

Turnover

Turnover represents gross sales made and services supplied in engineering, excluding value added tax and returns and allowances.

Research and development

Expenditure on research and development of the group's products is written off against profits in the year in which it is incurred.

Pensions

The group operates a number of pension schemes and contributes to these schemes in accordance with qualified actuaries' recommendations. Contributions are charged to the profit and loss account so as to spread the cost over the remaining working lives of the employees within the schemes. Further details are given in note 21 to the financial statements.

Changes in presentation of financial information

FRS15: 'Tangible fixed assets' came into effect for these financial statements. The transitional rules have been adopted and the valuations on previously revalued land and buildings have not been updated. This has not resulted in any changes in presentation.

FRS16: 'Current taxation' came into effect for these financial statements. Prior to its implementation, dividends received were grossed up to include the related tax credit. All comparative figures have been restated to remove the tax credit.

Derivative financial instruments

The group uses forward exchange contracts to reduce its exposure to foreign exchange risk. The group does not hold or issue derivative financial instruments for speculative purposes. For a forward exchange contract to be treated as a hedge, the instrument must be related to actual foreign currency assets or liabilities or to a probable commitment. It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign currency exchange movements on the group's operations.

Gains and losses on foreign currency hedges are recognised in the profit and loss account when the hedged transaction is recognised.

Notes to the Financial Statements

2. Interest and similar items

	Group 2000	Group 1999
Interest receivable		
Short term deposits	**1,040**	1,141
Interest on deferred consideration	**50**	48
	1,090	1,189
Interest payable		
Bank overdrafts and loans	**198**	137
Discount on bills	**29**	28
Other	**32**	37
	259	202
Net interest receivable and similar items	**831**	987

3. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging or (crediting) the following:

	Group 2000	Group 1999
Depreciation and other amounts written off tangible fixed assets:		
Owned assets	**1,916**	1,825
Assets held under finance lease contracts	**43**	38
Amortisation of goodwill	**1,036**	895
Research and development expenditure	**2,040**	2,315
Hire of plant and machinery	**608**	558
Other operating lease rentals	**347**	299
Exchange differences realised	**(270)**	293
Auditors:		
Audit fees and expenses	**206**	196
Taxation and consultancy fees paid to KPMG Audit Plc and its associates in respect of UK companies	**45**	66

The auditors' remuneration in respect of the company was £29,678 *(1999: £27,580)*.

Notes to the Financial Statements

4. Tax on profit on ordinary activities

	Group 2000	Group 1999
UK taxes:		
Corporation tax at 30% *(1999: 30.25%)*	4,149	5,083
Deferred taxation	80	291
Adjustments in respect of prior years	(326)	22
	3,903	5,396
Double taxation relief	(153)	(208)
	3,750	5,188
Overseas taxes:		
Current taxation charge	3,334	4,410
Deferred taxation	7	(6)
Adjustments in respect of prior years	19	(115)
	3,360	4,289
	7,110	9,477

Prior year figures have been restated to remove tax credits in accordance with FRS 16: Current taxation.

5. Profit for the financial year

Dealt with in the financial statements of the company	5,691	18,237
Retained by subsidiary undertakings	7,781	(767)
	13,472	17,470

6. Dividends

Interim paid 4.4p per ordinary share *(1999: 4.4p)*	3,800	3,799
Final proposed 7.8p per ordinary share *(1999: 7.8p)*	6,698	6,741
Ordinary dividends on equity shares	10,498	10,540
9.5% cumulative preference dividend on non-equity shares	6	6
	10,504	10,546

Notes to the Financial Statements

7. 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 86.3 million shares (1999: 86.2 million shares) being the weighted average number of ordinary shares in issue for the year.

The adjusted earnings per share is based on the profit for the year attributable to the ordinary shareholders before the amortisation of goodwill. The adjusted numbers provide a more consistent measure of operating performance.

Diluted earnings per share is based on the profit for the year attributable to the ordinary shareholders and 86.3 million shares *(1999: 86.3 million shares)*. The number of shares is equal to the weighted average number of ordinary shares in issue adjusted to assume conversion of all dilutive potential ordinary shares. The company has only one category of dilutive potential ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the company's ordinary shares during the year.

	Group 2000	Group 1999
Profit for the financial year	**13,466**	17,464
Amortisation of goodwill	**1,036**	895
Adjusted profit	**14,502**	18,359
Basic earnings per share based on profit for the financial year	**15.6p**	20.3p
Basic earnings per share based on adjusted profit	**16.8p**	21.3p
Diluted earnings per share	**15.6p**	20.3p

8. Directors and employees

	No.	No.
During the year, the average weekly number of employees, analysed by business activity, was:		
Actuation	**955**	938
Control & Safety	**60**	77
Rotork p.l.c.	**6**	6
	1,021	1,021
UK	**467**	491
Overseas	**554**	530
	1,021	1,021

	£'000	£'000
Staff costs during the year were:		
Wages and salaries	**21,512**	20,635
Social security costs	**2,288**	2,130
Pension costs	**1,246**	1,105
	25,046	23,870

8. Directors and employees *(continued)*

Directors' emoluments

	Salary and fees	Bonus	Benefits	**2000 Total**	1999 Total
Executive directors					
GE Malcolm	105	–	12	**117**	116
RE Slater	100	–	12	**112**	116
WH Whiteley	170	–	13	**183**	205
Non-executive directors					
TW Eassie	20	–	–	**20**	20
RC Lockwood	40	–	–	**40**	30
JW Matthews	20	–	–	**20**	20
	455	–	37	**492**	507

Directors' pension entitlements

The following table shows the executive directors' entitlements earned during the year and the accumulated entitlement at the year end.

	Age at 31 December 2000	*Increase in accrued pension over 2000 (Note 1) £*	*Accumulated total accrued pension at 31 December 2000 (Note 2) £*
GE Malcolm	55	8,312	46,813
RE Slater	49	13,850	28,944
WH Whiteley	52	22,170	94,211

Notes

1. The increase in accrued pension over the year excludes any increase for inflation.

2. The accrued pension is that which would be paid annually from normal retirement age, based on service to 31 December 2000.

3. Members of the Scheme have the option to pay Additional Voluntary Contributions; these are not included in the table above.

4a. The Pension Scheme terms for executive directors include a normal retirement age of 60;
4b. a capital sum equal to four times basic annual salary is payable in the event of death in service;
4c. a dependant's pension of one-half of prospective pension is payable in the event of death in service;
4d. a dependant's pension of one-half of pre-commutation pension is payable on death in retirement;
4e. post-retirement increases are applied at the rate of the increase in the Index of Retail Prices up to 5% per annum. This is subject to a minimum increase of 4.5% per annum for pension benefits accrued up to 15 May 2000.

5a. In the event of WH Whiteley retiring at the age of 55 the Pension Scheme terms would provide an immediate pension of two-thirds of final pensionable salary, subject to Inland Revenue limits;
5b. if the level of pension payable under 5a is restricted by Inland Revenue limits then the company will pay the shortfall as an addition to each affected instalment of pension;
5c. all other Pension Scheme benefits will follow those in 4d and 4e above.

8. Directors and employees *(continued)*

Directors' Interests
Interests in shares
The interests of the directors in the ordinary share capital of the company according to the register required to be kept by section 325 of the Companies Act 1985, at 31 December were as follows:

	2000		1999	
	Beneficial	Non beneficial	Beneficial	Non beneficial
TW Eassie	93,213	–	93,213	–
RC Lockwood	–	–	–	–
JW Matthews	–	10,000	–	–
A Walker	5,000	–	–	–
GE Malcolm	15,268	5,651	13,552	5,639
WH Whiteley	81,914	–	80,133	–
RE Slater	10,298	2,256	9,392	2,092

The beneficial interests at 31 December included the following ordinary shares held under the Rotork Profit-Linked Share Scheme in trust:

	2000	1999
GE Malcolm	2,730	2,521
RE Slater	2,389	2,106
WH Whiteley	4,946	4,690

The Rotork Profit-Linked Share Scheme was approved by the Inland Revenue in 1979. Up to 5% of profits are distributed to employees annually, by reference to years of service and salary, in the form of ordinary shares. Allocations to directors in 2000 were:

	2000	1999
GE Malcolm	1,007	804
RE Slater	912	745
WH Whiteley	1,781	1,430

These figures are included in the beneficial interests.

Save as disclosed, no director or his family had any interest in the shares of the company at 31 December 2000.

Long-Term Incentive Plan ("LTIP")
The initial awards under the plan were as follows:

	Shares awarded on 5 June 2000	Price	% of salary
WH Whiteley	35,940	236.5p	50
GE Malcolm	22,198	236.5p	50
RE Slater	21,141	236.5p	50

The price by reference to which awards are determined represents the middle market quotation of a Rotork p.l.c. share as derived from the daily official list of the London Stock Exchange on the dealing day immediately preceding the date on which the awards were made.

LTIP awards are contingent being dependent on future performance. The figures shown representing ordinary shares of the company, therefore, reflect the maximum possible potential share interests.

Share options
Interests of directors in the company's Employee Share Option Schemes consisted of 6,312 options in ordinary shares of the company held by RE Slater *(1999: 6,312)*. These options were granted on 13 April 1994 and are exercisable at 182p per share until 12 April 2004.

There have been no changes in the interests in shares, LTIPs or options of the directors listed above between 31 December 2000 and 21 March 2001.

9. Intangible Fixed Assets

	Group Goodwill
Cost	
at 1 January 2000	34,520
Additions	481
Adjustment to goodwill	(454)
at 31 December 2000	**34,547**
Aggregate amortisation	
at 1 January 2000	15,345
Charge for the year	1,036
at 31 December 2000	**16,381**
Net book amount at 31 December 2000	**18,166**
Net book amount at 31 December 1999	19,175

The adjustment to goodwill relates to a reassessment of the fair value of the assets acquired of £246,000 and of the consideration payable on the acquisition of Fluid System S.r.l., £700,000 of which was contingent at the time of acquisition and has not become payable.

10. Tangible Fixed Assets

	Group			Company		
	Land and buildings	Machinery plant and equipment	Total	Land and buildings	Machinery plant and equipment	Total
Cost or valuation						
At 1 January 2000	11,609	17,247	28,856	1,041	2	1,043
Exchange differences	133	124	257	(23)	–	(23)
Additions	1,583	2,301	3,884	–	11	11
Disposals	(871)	(5,882)	(6,753)	–	–	–
At 31 December 2000	**12,454**	**13,790**	**26,244**	**1,018**	**13**	**1,031**
Depreciation						
At 1 January 2000	2,316	12,128	14,444	274	–	274
Exchange differences	37	136	173	(1)	–	(1)
Charge for year	355	1,604	1,959	25	2	27
Disposals	(383)	(5,712)	(6,095)	–	–	–
At 31 December 2000	**2,325**	**8,156**	**10,481**	**298**	**2**	**300**
Net book value						
At 31 December 2000	**10,129**	**5,634**	**15,763**	**720**	**11**	**731**
At 31 December 1999	9,293	5,119	14,412	767	2	769

The net book value of the group's plant and machinery includes £100,000 *(1999: £128,000)* in respect of assets held under finance leases and hire purchase contracts.

10. Tangible Fixed Assets *(continued)*

Land and buildings stated in accordance with the historical cost convention were:

	Group 2000	Group 1999
Cost	**10,633**	9,789
Depreciation	**(1,750)**	(1,820)
Net book value at 31 December	**8,883**	7,969
Net book value included:		
Freehold land (not depreciated)	**1,485**	1,324
Freehold buildings	**6,656**	5,828
Long leasehold	**1,982**	2,125
Short leasehold	**6**	16
Net book value at 31 December	**10,129**	9,293

The cost or valuation figure of £12,454,000 *(1999: £11,609,000)* included the following properties at the revalued amounts shown. The year of revaluation is also given.

London leasehold, 1983	**170**	170
Bath freehold, 1991	**105**	105
Bath leasehold, 1991	**2,245**	2,245
Spain freehold, 1997	**284**	284
	2,804	2,804

The revaluations of the London and Bath properties were based on the market value for the existing use.

Under a statutory option the Spanish property was revalued at the retail price index on 1 January 1997.

11. Investments (*held as fixed assets)*

A listing of the major investments is included in the directory on pages 40 to 41.

	Company
Shares in group companies	
At 1 January 2000	**1,557**
Written off in the year	**–**
At 31 December 2000	**1,557**

12. Stocks and work in progress

	Group 2000	Group 1999
Raw materials and purchased components	9,555	8,790
Work in progress	3,630	3,946
Finished stocks	1,368	1,054
	14,553	13,790

13. Debtors

	Group 2000	Group 1999	Company 2000	Company 1999
Amounts falling due within one year:				
Trade debtors	28,098	24,799	–	–
Amounts owed by subsidiary undertakings	–	–	14,595	16,459
Other debtors	1,747	673	156	158
Prepayments and accrued income	1,550	980	720	247
Corporation tax	1,067	1,114	663	667
Deferred consideration	100	240	100	240
	32,562	27,806	16,234	17,771
Amounts falling due after more than one year:				
Trade debtors	–	78	–	–
Amounts owed by subsidiary undertakings	–	–	4,540	4,790
Other debtors	244	123	–	–
Deferred consideration	140	380	140	380
	384	581	4,680	5,170
	32,946	28,387	20,914	22,941

14. Cash at bank and in hand

Reconciliation of net cash flow to movement in net funds

	Group 2000	Group 1999	Company 2000	Company 1999
Cash at bank and in hand	**5,930**	6,468	**43**	25
Term deposits	**10,890**	19,320	**8,904**	14,130
	16,820	25,788	**8,947**	14,155

Cash flow analysis

	Group 2000	Group 1999
Reconciliation of operating profit to net cash flow from operating activities		
Operating profit	**19,751**	25,960
Goodwill amortisation	**1,036**	895
Depreciation	**1,959**	1,863
Profit on sale of fixed assets	**(101)**	–
(Increase)/decrease in stocks	**(371)**	1,051
(Increase)/decrease in debtors	**(4,479)**	685
Decrease in creditors and provisions	**(1,386)**	(4,508)
Net cash inflow from operating activities	**16,409**	25,946

Reconciliation of net cash flow to movement in net funds		
Increase/(decrease) in cash in the period	**1,744**	(2,575)
Cash outflow/(inflow) from change in debt and lease financing	**536**	(534)
Cash inflow from change in short term deposits	**(8,620)**	(7,157)
Change in net funds resulting from cash flows	**(6,340)**	(10,266)
Other non-cash items:		
Loans and finance leases acquired with subsidiary undertakings	**–**	(1,393)
Translation difference	**(177)**	594
Movement in net funds in the period	**(6,517)**	(11,065)
Net funds at 1 January	**21,735**	32,800
Net funds at 31 December	**15,218**	21,735

Analysis of net funds

	At 1 January 2000	Cash flow	Exchange movement	At 31 December 2000
Cash at bank and in hand	6,468	(109)	(429)	**5,930**
Overdrafts	(2,237)	1,853	62	**(322)**
	4,231	1,744	(367)	**5,608**
Debt due within one year	(545)	331	(4)	**(218)**
Debt due after one year	(1,137)	162	3	**(972)**
Finance leases	(134)	43	1	**(90)**
Term deposits	19,320	(8,620)	190	**10,890**
Total	21,735	(6,340)	(177)	**15,218**

Notes to the Financial Statements

15. Creditors: amounts falling due within one year

	Group 2000	Group 1999	Company 2000	Company 1999
Bank loans and overdrafts	540	2,782	3,263	3,160
Net obligations under finance leases	51	55	–	–
Borrowings	591	2,837	3,263	3,160
Trade creditors	10,278	8,139	139	4
Bills of exchange	33	54	–	–
Amounts owed to subsidiary undertakings	–	–	992	234
Corporation tax	3,820	5,374	277	964
Other taxes and social security	1,212	1,269	7	9
Deferred consideration on acquisition	253	1,122	–	–
Other creditors	529	588	157	106
Accruals and deferred income	8,047	9,668	195	357
Dividends payable	6,728	6,773	6,728	6,773
	31,491	35,824	11,758	11,607

Total borrowings comprise:

	Group 2000	Group 1999	Company 2000	Company 1999
Secured:				
Bank loans and overdrafts	540	2,782	3,263	3,160
Unsecured:				
Net obligations under finance leases	51	55	–	–
	591	2,837	3,263	3,160

Bank loans are secured by accepted letters of credit and corporate guarantees.

Obligations under operating leases are shown under note 20.

16. Creditors: amounts falling due after more than one year

	Group 2000	Group 1999	Company 2000	Company 1999
Bank loans	972	1,137	–	–
Finance lease obligations	39	79	–	–
Deferred consideration for acquisitions	–	542	–	–
Amounts owed to subsidiary undertakings	–	–	–	1,026
	1,011	1,758	–	1,026

Bank loans are for overseas subsidiaries and are secured by accepted letters of credit.

17. Provisions for liabilities and charges

	Group					Company		
	Deferred taxation	Warranty	Pensions	Other	Total	Deferred taxation	Other	Total
Balance at 1 January 2000	359	1,980	724	1,158	4,221	451	1,213	1,664
Exchange differences	(5)	27	49	(1)	70	–	–	–
Utilised during the year	54	(622)	(172)	(54)	(794)	–	(57)	(57)
Charged/(credited) in the profit and loss account	110	(105)	172	(381)	(204)	–	(452)	(452)
Balance at 31 December 2000	**518**	**1,280**	**773**	**722**	**3,293**	**451**	**704**	**1,155**

Provisions should be utilised over a period not exceeding 5 years.

The amounts provided for deferred taxation are:

	Group 2000 amount provided	**Group 2000 full potential liability**	Group 1999 amount provided	Group 1999 full potential liability
Difference between accumulated depreciation and capital allowances	**199**	**199**	193	196
Other timing differences	**319**	**332**	166	183
	518	**531**	359	379
Included within provisions for liabilities and charges:				
UK	**516**	**516**	435	435
Overseas	**2**	**15**	(76)	(56)
	518	**531**	359	379

	Company	**Company**	Company	Company
Difference between accumulated depreciation and capital allowances	**72**	**72**	73	73
Other timing differences	**379**	**379**	378	378
	451	**451**	451	451

No provision for deferred taxation has been made in relation to the surplus on the revaluation of land and buildings included in the revaluation reserve. If these properties were disposed of at their values in the accounts, it is estimated that there would be no taxation liability after relief for available losses.

The majority of the pensions provision related to projected obligations under Rotork Controls Inc.'s Employee Benefit Plan.

18. Share capital

	Authorised		Issued and fully paid-up	
	2000	1999	**2000**	1999
Non-equity 9½% cumulative preference shares of £1 each	**59**	59	**59**	59
Equity ordinary shares of 5p each	**5,449**	5,449	**4,293**	4,317
	5,508	5,508	**4,352**	4,376

The preference shareholders take priority over the ordinary shareholders on a distribution in the winding-up of the company or on a reduction of capital 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.

Following ordinary shareholder approval given in May 2000, the company repurchased 500,000 ordinary shares at 220p on 27 October 2000. There were no such purchases in 1999.

The only ordinary shares issued during the year were: 18,567 *(1999: 210,681)* under The Rotork Employee Share Option Scheme at prices between 76p and 182p.

On 28 April 2000 options over 544,289 shares exercisable after three years (subject to satisfying performance criteria) at 284.5p were granted under the Rotork Employee Share Option Scheme (1995).

Outstanding options under the Rotork Employee Share Option Schemes at 31 December 2000 exercisable at various prices between 76p and 361.5p per ordinary share were 877,838.

19. Equity reserves

	Group				Company		
	Share premium	Capital redemption reserve	Revaluation reserve	Profit and loss account	Share premium	Capital redemption reserve	Profit and loss account
At 1 January 2000	3,357	1,577	2,398	48,041	3,357	1,577	15,815
Profit/(loss) retained	–	–	–	2,968	–	–	(4,813)
Premium on new shares issued	22	–	–	–	22	–	–
Purchase of own shares	–	25	–	(1,102)	–	25	(1,102)
Exchange differences	–	–	–	815	–	–	3
At 31 December 2000	**3,379**	**1,602**	**2,398**	**50,722**	**3,379**	**1,602**	**9,903**

Notes to the Financial Statements

20. Commitments

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

	Group 2000	Group 1999
Contracted	**368**	741

Commitments under operating leases:

	Land and buildings	Machinery, plant and equipment
Instalments falling due within one year for leases expiring:		
Within one year	66	89
From two to five years	139	389
Over five years	158	–
At 31 December 2000	**363**	**478**
Within one year	97	66
From two to five years	105	327
Over five years	90	–
At 31 December 1999	292	393

21. Pensions

The group operates a number of pension plans in the UK and overseas, devised in accordance with local conditions and practices. The majority of the group's employees are members of funded defined benefit schemes. The assets of these schemes are held in separate trustee administered funds.

The total pension cost for the group was £1,246,000 *(1999: £1,105,000)* of which £402,000 *(1999: £373,000)* related to the overseas schemes.

The pension cost relating to the principal scheme which covers the majority of UK employees is assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The latest actuarial valuation of the principal UK scheme was as at 31 March 1998. The assumptions which have the most significant effect on the valuation are those relating to the rate of return on investments (7.75% per annum), the rate of increase in salaries (6.0% per annum) and the rate of increase in present and future pensions (4.5% per annum).

At the date of the latest actuarial valuation, the market value of the assets of the principal UK scheme was £37,670,000 (excluding members' Additional Voluntary Contributions). The actuarial value of the assets was sufficient to cover 115% of the benefits which had accrued to members, after allowing for expected future increases in earnings. The on-going contribution rates for members and employers have been maintained on the recommendation of the actuary. The pension costs of the other defined benefit scheme which covers US employees have been determined in accordance with advice from an independent qualified actuary.

An amount of £773,000 *(1999: £724,000)* is included in provisions, which represents the excess of the accumulated pension costs over the payment of contributions to the US fund.

22. Contingent liabilities

	Group 2000	Group 1999	Company 2000	Company 1999
Performance guarantees and indemnities	**4,842**	6,753	**597**	558
Guarantees for bank overdrafts of UK subsidiary undertakings	**–**	–	**66**	–
Guarantees for bank loan of subsidiary undertakings	**–**	–	**434**	–

The UK banking arrangements are subject to cross-guarantees between the company and its UK subsidiary undertakings.

23. Acquisitions

On 27 October 2000 the group purchased the assets of the actuation business of Skil Controls Limited. The results of the business are not material enough to warrant separate disclosure and have been included using the acquisition method of accounting. The business has now been fully integrated into the group.

24. Derivatives and other financial instruments

Financial risk and treasury policies

The treasury department maintains liquidity, manages relations with the group's bankers, identifies and manages foreign exchange risk 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 foreign exchange and interest rate risk. Group treasury 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 by the use of forward exchange contracts.

The numerical disclosures in this note deal with financial assets and financial liabilities as defined in Financial Reporting Standard 13: 'Derivatives and Other Financial Instruments: Disclosures' (FRS13). Certain financial assets such as investments in subsidiary and associated companies are excluded from the scope of these disclosures.

As permitted by FRS13, short-term debtors and creditors have been excluded from the disclosures, other than the currency disclosures.

Interest rate risk profile

Financial liabilities

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

	2000				1999			
	Fixed rate of interest	Floating rate of interest	Nil interest	Total	Fixed rate of interest	Floating rate of interest	Nil interest	Total
Sterling	**–**	**–**	**–**	**–**	–	–	372	372
Euro	**90**	**1,078**	**–**	**1,168**	132	2,997	170	3,299
Other	**59**	**347**	**28**	**434**	606	220	98	924
	149	**1,425**	**28**	**1,602**	738	3,217	640	4,595

The floating rate financial liabilities comprise deferred consideration and overdrafts bearing interest rates fixed by reference to the relevant LIBOR or equivalent rate.

The financial liabilities on which no interest is payable have a weighted average period to maturity of 3 years *(1999: 1 year)*.

The weighted average interest rate of the fixed rate financial liabilities is 3.7% per annum *(1999: 2.7%)*.

The weighted average period for which interest rates on the fixed rate financial liabilities are fixed is 3 years *(1999: 2 years)*.

24. Derivatives and other financial instruments *(continued)*

Financial assets

The interest rate profile of the financial assets held as part of the financing arrangements of the group at 31 December was as follows:

	2000 Fixed rate cash	2000 Other cash	2000 Debtors	1999 Fixed rate cash	1999 Other cash	1999 Debtors
Sterling	9,654	357	140	15,222	463	380
US Dollar	137	1,973	–	2,241	1,663	–
Euro	1,078	822	–	1,565	1,823	–
Other	21	2,778	–	292	2,519	4
	10,890	5,930	140	19,320	6,468	384

All cash deposits are held on fixed rates of interest.

All other cash amounts are on floating rates or overnight rates based on the relevant LIBOR or equivalent rate.

There is no interest applied on the debtors and the weighted average period until maturity is 1 year *(1999: 1 year)*.

Further analysis of the interest rate profile at 31 December is as follows:

	2000 Fixed rate Weighted average interest rate (%)	2000 Fixed rate Weighted average period for fixed rate (months)	1999 Fixed rate Weighted average interest rate (%)	1999 Fixed rate Weighted average period for fixed rate (months)
Sterling	5.5	1	5.4	–
US Dollar	6.1	1	6.0	1
Euro	4.8	1	3.3	1
Other	–	–	3.6	2
Group	5.5	1	5.2	–

24. Derivatives and other financial instruments *(continued)*

Currency exposures
The table below shows the group's currency exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the group that were not denominated in the operating (or 'functional') currency of the operating unit involved.

At 31 December these exposures were as follows:

Net foreign currency monetary assets/(liabilities)

	2000						
	Functional currency of group operation						
	Sterling	**US Dollar**	**Euro**	**South African Rand**	**Singapore Dollar**	**Other**	**Total**
Sterling	**–**	**(2,003)**	**(4,355)**	**(923)**	**478**	**371**	**(6,432)**
US Dollar	**2,656**	**–**	**432**	**–**	**473**	**(1,315)**	**2,246**
Euro	**(102)**	**(45)**	**–**	**(24)**	**(5)**	**1**	**(175)**
Other	**(1)**	**(7)**	**8**	**(1)**	**83**	**8**	**90**
Total	**2,553**	**(2,055)**	**(3,915)**	**(948)**	**1,029**	**(935)**	**(4,271)**

	1999						
	Functional currency of group operation						
	Sterling	US Dollar	Euro	South African Rand	Singapore Dollar	Other	Total
Sterling	–	(181)	(4,692)	(1,075)	984	(641)	(5,605)
US Dollar	1,064	–	71	–	647	(482)	1,300
Euro	65	(12)	–	(9)	(11)	(6)	27
Other	(9)	(41)	45	–	54	(10)	39
Total	1,120	(234)	(4,576)	(1,084)	1,674	(1,139)	(4,239)

The amounts shown above take into account the effect of any forward contracts entered into to manage these currency exposures.

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

	2000	1999
In one year or less	**591**	2,837
In more than one year but not more than two years	**249**	784
In more than two years but not more than five years	**633**	716
In more than five years	**129**	258
Total	**1,602**	4,595

The group had no undrawn committed borrowing facilities at 31 December 2000.

24. Derivatives and other financial instruments *(continued)*

Fair values

The table below shows a comparison by category of book values and fair values of the group's financial assets and liabilities at 31 December

	2000		1999	
	Book value	**Fair value**	Book value	Fair value
Primary financial instruments held or issued to finance the group's operations:				
Short-term financial liabilities and current proportion of long-term borrowings	**(591)**	**(591)**	(5,991)	(5,991)
Long-term borrowings	**(1,011)**	**(1,011)**	(1,758)	(1,758)
Cash deposits	**10,890**	**10,890**	17,649	17,649
Other cash balances	**5,930**	**5,930**	8,139	8,139
Long term debtors	**140**	**140**	581	581
Derivative financial instruments held to manage the currency profile:				
Forward foreign currency contracts	**–**	**37**	–	145

At 31 December 2000 the group also held open various forward contracts that the group had taken out to hedge expected future foreign currency sales.

There is no material difference between book values and fair values for the primary financial instruments shown above.

Gains and losses on hedges

The group enters into forward foreign currency contracts to eliminate the currency exposures that arise on sales denominated in foreign currencies. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures. At 31 December 2000 there were unrecognised gains of £89,000 and unrecognised losses of £126,000. Of the unrecognised gains, £30,000 are expected to occur within one year and £59,000 after one year. All the unrecognised losses are expected to occur within one year. At 31 December 1999 there were unrecognised gains of £151,000 and unrecognised losses of £6,000. All these gains and losses were realised in 2000.

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All the shares in subsidiary undertakings are of the equity class. Countries of incorporation are as stated.
All principal subsidiary undertakings are shown above.

Printed by FOLIUM Financial & Security Printers, Birmingham. Tel: 0121-236 6969

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