FINANCIAL DYNAMICS
BUSINESS COMMUNICATIONS

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Rotork p.l.c.

Preliminary Announcement

Rotork p.l.c., the international specialist engineering group, announces audited results for the year ended 31 December 2003

Financial Highlights

- Turnover up 4.8% on continuing operations
- Net profit before goodwill and tax up 7%
- Basic earnings per share up 8%
- Cash flow from operations up 31% to £34m
- Special interim dividend for 2004 of 5.85p per share
- Luton property sold for £1.7m

Operational review

- All three actuator businesses achieved sales and profit growth
- Rotork Fluid System now accounts for 13.4% of Group turnover up from 12.5% in 2002
- US second half order intake 32% above first half
- IQT launched to plan in September
- Acquisition of DVA in Australia successfully integrated.

Chief Executive Bill Whiteley, commenting on the results said:

"The year under review was marked by some strong movements in the Group's geographic and end user markets both within the year and in comparison to the prior year. Our extensive worldwide coverage and investment in developing markets has allowed us to make progress which would not have been possible had we had to rely solely on our traditional markets and customers."

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CHAIRMAN'S STATEMENT

Introduction
Trading conditions for Rotork varied around the world, with good levels of demand in the Far East and Europe being partially offset by difficulties in the Americas and in the UK. The oil and gas markets were generally more active, while some of our water and waste water markets contracted. From continuing operations before tax, goodwill and exceptional profit from the disposal of the Luton building, profit increased by 7% to £29m on Group sales 5% ahead at £136m. If turnover were converted at constant currency year on year, the effect would have been negligible. The year-end order book was unchanged over the previous year.

Net cash increased by £12m to £32m and from this substantial balance we intend to return some cash to investors in the form of an additional interim dividend to be paid in May with the final dividend. We are also recognising the underfunded position of the pension scheme with a one off contribution equivalent to the extra dividend.

Business review
Overall our businesses have performed well in the year. All of the companies were profitable except the Malaysian assembly facility although the new AWT actuator produced there did record a positive profit contribution to the Group as a whole. The US improved in the second half although the benefit of this was diluted by the deteriorating dollar. Most of our Far East operations, in particular China, delivered good growth in the year.

The Electric Actuation business launched its new quarter turn actuator, the IQT, in the third quarter and this has been well received by customers. This product offers more benefits than the unit it replaces, representing value for money improvement and new levels of technical excellence in all its applications. The AWT actuator, built in Malaysia and launched at the end of 2002, is gaining acceptance in the market and winning new customers. The factory is now operating as planned although not yet at capacity.

In Fluid System, the move to the new premises in Lucca at the beginning of the year was achieved with the minimum of disruption as was the simultaneous implementation of a new production system. The business has won some large projects in the year and executed them successfully delivering growth of nearly 17% in operating profit before goodwill on an increase in sales of 13%. This further progress in profit of the division is driven by our growing ability, through product and marketing initiatives, to exploit the opportunities in the fluid power market. Its impact in the US has however been constrained by the weakening dollar, affecting the cost of its products into the US market. The acquisition of the Australian business, Deanquip Valve Automation in January 2004, will improve our customer focus in Australasia and complement our Fluid System service centre in Singapore.

The Leeds based Gears business did well in the year recording a 13% improvement in both sales volume and in operating profit. The Dutch operation, where management changes were made at the end of the prior year, has seen much improved margin performance and contributed well to the results of the division. The drive in Gears to reduce costs through Far East procurement is now making a positive impact on the margins as well as enabling us to better meet customer requirements for cost effective timely product deliveries.

Dividend and Cash
A final dividend of 9.50p is proposed which is an increase of 7% over last year, and gives a dividend for the year up 6% over 2002.

Our continued strong cash generation has contributed to balances exceeding £32m at the year-end. Assuming that trading remains in line with expectations this trend will continue in 2004. With this in mind the Board has decided to recommend the return of some of this cash to shareholders by way of an additional dividend for 2004 of 5.85p, to be paid on May 28 with the 2003 final dividend to shareholders on the register at 2 April. Over the last few years our dividend cover has reduced to around 1.5 times, a level that is lower than we would like. It is therefore our current intention that when recommending the levels of interim and final dividends for 2004, following our announcement of the additional interim dividend for 2004 mentioned above, we will seek to move towards a greater level of cover. Dividend cover for the year under review is 1.5 times.

Recognising the deficit in the defined benefit pension scheme has encouraged us to address part of this shortfall with an additional contribution into the scheme of £5m in 2004, which is approximately equivalent to the third dividend payment for 2004. This contribution is ahead of the actuarial valuation of the scheme set for 31 March 2004. There will be no reduction in profit as a result of this contribution, which is taken account of in the ongoing pension cost accruals.

Outlook

Overall market indicators are positive, and there is a reasonable level of large project activity around the world. The weakness of the US dollar, in which a third of our revenues are denominated, and the strength of the pound against most other trading currencies will, if maintained at current levels, impact our expected growth in sterling terms. However mitigation should come from our cost reduction programmes, which include procurement from dollar related sources. These factors, combined with the good level of order intake in the last few months, give us the confidence to look forward to further progress in 2004.

Roger Lockwood
Chairman

CHIEF EXECUTIVE'S REVIEW

Overview

The year under review was marked by some strong movements in the Group's geographic and end user markets both within the year itself and in comparison with the prior year. Our extensive worldwide coverage and investment in developing markets allowed us to make progress which would not have been possible had we had to rely solely on our traditional markets and customers. In the first half of the year we continued to see some of the caution in funding capital projects which was present for much of 2002, resulting in the end of June order input being down on the first half of 2002. For the year as a whole like for like order input was up 4.3% with second half input being 9.2% above the second half of 2002. The main improvement seen in the second half came from the US operation where second half order intake was 32% above the first half in sterling and 38% in US dollar. Worldwide turnover on continuing operations was up 4.8% over the prior year.

Within the body of the income statement this year there are a number of adjustments to show the effects of the profit from the Luton business disposed of in 2002, the sale of that company's building in early 2003, and the effect of the insurance claim in the Netherlands in 2002, shown in other income in that year. The statutory accounts record an increase in profit before tax of 7.3% this year. If we remove the profits from discontinued operations in both years and the £752k insurance receipt in 2002, the underlying profit growth is 10.2%. If the accounts had been translated at constant currency, this increase would have been 10.6%.

All three of our valve actuator businesses achieved sales and profit growth.

The highlight of our electric actuator business was good growth from most European and Asian markets, offsetting weaker figures from the Americas. Although difficult trading conditions continued to affect our Venezuelan operation it managed to make a small profit against the loss suffered in 2002. The IQT, a quarter turn variant of the successful IQII actuator, was launched to plan in September. Its reception has been excellent and sales since the launch are well ahead of forecast.

Further progress was made in overseas sourcing which helped to mitigate competitive pressures and increase margins.

The Malaysian manufacturing plant set up at the end of 2002 geared up production throughout the year and it recorded a positive contribution to the Group. Jordan, with its dependence on the US power sector and Venezuelan oil markets, experienced difficult trading conditions.

The Rotork Fluid System business continued to make excellent progress and now accounts for 13.4% of Group turnover. Order intake was up 14.1%, output was up 12.8% and operating profit, which exceeded £2m, was up 16.7%. This was achieved against a difficult North American market and poor operating results for the US fluid power operations. The highlights for this business were the opening of a new larger production facility in Lucca, Italy, the success of new product lines, and the acquisition of the Deanquip Valve Automation business in Australia at the beginning of 2004.

Rotork Gears saw a positive turnaround in their operations. Its business accounts for 11.6% of Group turnover. Order intake was up 6.4%, sales output up 12.4% and operating profits up 11.1%. These results were due to the continued success of the broadening of the customer base for the Leeds operation and a much improved performance from Rotork Gears B.V. in the Netherlands.

The key drivers for the Group's businesses are related to the investment in oil and gas, water and waste water and power generation installations around the world with demand being generated by new and expanded capacity, upgrades to existing facilities and replacements. This is often linked to projects which are aimed at improving efficiency, safety and environmental performance of plants. Valve actuators are critical components and their long-term reliability and performance is of importance to users. They also act as an important interface between plant control systems and related hardware. Rotork's reputation for quality, worldwide support and technical innovation is crucial to its leadership position in the field. The broad geographic spread of our operations and applications means that we have a large number of repeat customers around the world and no one customer accounts for more than 5% of our turnover in any year.

Programmes aimed at increasing the efficiency of our processes were underway at most of our main operations during the year. These 'lean' programmes are enabling us to become more effective and efficient suppliers to our market place.

Electric actuators

UK Operations

The UK market both for new projects and our important retrofit activities remained subdued. A certain amount of predicted investment activity was delayed due to re-organisations in the water industry. The main electric actuator manufacturing plant in Bath again had to contend with inconsistent production programmes but coped well with a late surge of delivery requirements and the introduction of a major new product line, the IQT.

Rotork adhere to an in-house assembly only philosophy of manufacture in which we rely on high quality vendors for all of our components. There is an on going initiative to develop more Far Eastern sources for components to reduce our costs and the sterling component of the cost base. Further progress was made in 2003 which meant that our cost reduction targets were exceeded and that we are positioned to reap further benefits during 2004. Most of our new sources of supply are purchased in US dollars or in currencies closely tied to the US dollar.

Europe

Our European sales companies traded successfully during the year. The star performance was undoubtedly from our German subsidiary which benefited from its customers' successes in Eastern Europe. The Italian and Spanish companies also saw substantial increases in their sales and profits. The French and Dutch companies' profits met our expectations but were down from a very good prior year in France and a result in the prior year in the Netherlands which included an insurance receipt following a fire. As expected a stronger euro assisted all these companies.

The Americas

Our US and Canadian subsidiaries recorded high growth in 2002, which was not maintained in the year. Sales and profits for both subsidiaries were down, which was exacerbated by the steep decline in the US dollar when translated into sterling. Order intake in the US was particularly hard to come by in the first half of the year. Fortunately the second half showed a significant improvement with a number of the projects which had been anticipated in the first half being booked. The number of actuators sold to municipalities was lower than the prior year while those destined for hydro carbon projects increased. The new Houston service and support operation benefited our regional business in the Gulf Coast market. In Canada this trend was reversed with less business in the Western oil and gas sector and more in the East where more diverse users are served.

The economic and political problems in Venezuela continued to be present for the whole year. Our strategy, in this uncertain but important market, was to reduce our exposure, while maintaining a strong presence, and to eliminate the loss suffered in 2002. We succeeded in making a profit but on a much reduced turnover.

Jordan Controls continued to face difficult market conditions in the US power sector which, together with problems in its Venezuelan market, held back its profits. However, Jordan took important steps in establishing sales in the Far East, Latin America and Europe which it should benefit from in 2004. Further benefits will accrue from the current re-organisation of its production processes to bring it in line with Rotork's methodology.

The Far East and Rest of the World
We again saw good growth from this region with most of our operations exceeding their targets and the prior year's figures. Impressive growth was recorded in China, Singapore, Australia and South Africa.

The new production facility in Malaysia steadily increased its output during the year. As expected this operation made a trading loss in its first year of operation. However, margins at our sales companies for products manufactured at this facility were better than expected which meant that the project as a whole made a positive contribution to Group results.

Rotork Fluid System
Rotork Fluid System design, produce and market fluid power valve actuators, which are operated either pneumatically or hydraulically. This business continued to make good progress on all fronts. Order input was up 14.1%, sales output was up 12.8% and operating profits were up 16.7%. This meant that its order book was up at the year-end and that it achieved a further increase in its percentage return on sales. These figures were achieved despite a disappointing US performance and an unhelpful euro cost base.

The new, larger, production facility in Lucca, Italy, played an important role in enabling us to meet the increased sales targets and in taking on large, more complex, projects. The unit recorded a major increase in its operating profits. The new product ranges launched in 2002 were well received in the market and accounted for £2m of sales. Further product developments were undertaken to capitalise on our increasing market penetration. Enhanced fluid power operations were established at a number of our companies around the world and a number of key appointments were made. In early January 2004 we announced the acquisition of Deanquip Valve Automation for 2 million Australian dollars. This company, which is based in Melbourne, is the major distributor of fluid power actuators in Australia and will become the focus of our fluid power product and service offerings in the region.

Rotork Gears
The positive results for the year were driven by increased sales and profits from the Leeds operation due to a broader product range, component cost savings and positive sales growth in most of our markets. Rotork Gears B.V. also increased its profits significantly due to improved cost control and management of the operation in the Netherlands following the re-organisation in late 2002. Rotork Valvekits, based near Nottingham, UK, achieved sales growth, but ended with similar operating profits to the prior year.

Research & Development
In the year under review we spent £2.1m on research and development. This was slightly down on the prior year due to the timing of expenditure for the two major new ranges, the IQT and AWT, falling into the prior year. The IQT range, which was launched in September, brings IQII technology to quarter turn actuators. Since its launch, sales of the product have exceeded expectations and it has considerably enhanced the attractiveness of the IQ range of products. We have also increased the range and capability of our digital actuator control system offerings and continue to invest in this important area of activity.

Innovation has been a fundamental driver to our past success and remains at the heart of our strategy for future growth. Important initiatives are in place to ensure that innovative ideas for valve actuation are nurtured and brought to the market.

Treasury
With 75% of the Group's turnover, and 57% of its operating profit originating from outside the UK, the Group's results are sensitive to movements in exchange rates, particularly the US dollar and the euro. Currency movements in the year affect our results through the translation of local currency profits into sterling, as well as the transaction impact arising from the movement of components and products around the world. An increasing proportion of our components are being sourced in the Far East.

Free Cash flow

Rotork is highly cash generative. Fixed asset spend is usually around the level of depreciation. Working capital, although historically not excessive, has seen debtors, in terms of days outstanding, reduce over the last three years. They are currently 67 days compared with 70 days last year.

In the current year free cash flow available to shareholders has been £24.7m:

£m	Year ended 31 December 2003	Year ended 31 December 2002
Cash flow from operations	33.8	25.8
Purchase of fixed assets	(2.3)	(2.6)
Sale of fixed assets	1.8	0.7
Interest	0.6	0.4
Tax	(9.2)	(9.0)
Free cash flow	24.7	15.3

Tax

The effective tax rate on profit before goodwill amortisation has decreased slightly from 32.3% to 32.1%. This is mainly as a result of the gain in April on the disposal of the Luton building, which was covered by capital losses from prior years, and the lower earnings from the US, offset by the effect of dividend repatriation from the Far East. We are anticipating the tax rate for 2004 to be around 32.5%.

Earnings per share and Dividend

Profit after tax amounted to £18.6m (£17.3m in 2002) giving basic earnings per share up 8% at 21.7p (2002: 20.1p). If we exclude goodwill, the earnings per share was 23.2p (2002: 21.6p). As stated in the Chairman’s statement and the directors’ report, the Board are recommending an increase in the final dividend and an additional interim dividend for 2004 to be paid at the same time as the final dividend for 2003, in May. Our strong cash resources and cash generation gives us the confidence to do this, but we would like to move toward a stronger level of dividend cover over time.

Bill Whiteley
Chief Executive

Audited Consolidated Profit and Loss Account
for the year ended 31 December 2003

	2003 £'000	2002 £'000
Turnover		
Continuing operations	135,964	129,677
Discontinued operations	-	3,783
	135,964	133,460
Cost of sales	(72,159)	(71,875)
Gross profit	63,805	61,585
Distribution costs	(1,768)	(1,748)
Administrative expenses	(35,586)	(35,348)
Other operating income	262	1,233
Operating profit		
Continuing operations	26,713	25,248
Discontinued operations	-	474
	26,713	25,722
Continuing operations before amortisation of goodwill	28,018	26,553
Discontinued operations	-	474
Operating profit before amortisation of goodwill	28,018	27,027
Amortisation of goodwill	(1,305)	(1,305)
Operating profit	26,713	25,722
Profit on disposal of fixed assets – discontinued operations	597	-
Interest receivable and similar income	841	530
Interest payable and similar charges	(80)	(90)
Profit on ordinary activities before taxation	28,071	26,162
Tax on profit on ordinary activities	(9,439)	(8,868)
Profit for the financial year	18,632	17,294
Dividends – including non-equity	(12,592)	(11,959)
Retained profit for the financial year	6,040	5,335
	Pence	Pence
Basic earnings per share	21.7	20.1
Basic earnings per share before goodwill amortisation	23.2	21.6
Diluted earnings per share	21.6	20.0

Note:
If approved at the annual general meeting on 21 May 2004, the final dividend for 2003 and the additional interim dividend for 2004 will be paid on 28 May 2004 to shareholders on the register on 2 April 2004.

Audited Group Balance Sheet
at 31 December 2003

	Group 2003 £'000	Group 2002 £'000
Fixed assets		
Intangible assets	19,057	20,886
Tangible assets	13,640	14,816
Investments	341	958
	33,038	36,660
Current assets		
Stocks	18,570	17,687
Debtors due within one year	32,966	32,421
Debtors due after more than one year	486	409
Cash at bank and in hand	32,253	20,371
	84,275	70,888
Creditors:		
Amounts falling due within one year	(37,807)	(33,603)
Net current assets	46,468	37,285
Total assets less current liabilities	79,506	73,945
Creditors:		
Amounts falling due after more than one year	(129)	(197)
Provisions for liabilities and charges	(2,890)	(2,038)
Net assets	76,487	71,710
Capital and reserves		
Called up share capital	4,342	4,358
Share premium account	4,543	4,036
Revaluation reserve	2,405	2,400
Capital redemption reserve	1,634	1,609
Profit and loss account	63,563	59,307
Rotork shareholders' funds	76,487	71,710
Equity	76,437	71,658
Non-equity	50	52
Shareholders' funds	76,487	71,710

Note:
The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2003 or 2002. The financial information for 2002 is derived from the statutory accounts for 2002 which have been delivered to the Registrar of Companies. The auditors have reported on the 2002 and 2003 accounts; their reports were unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act

1985. The statutory accounts for 2003 will be delivered to the Registrar of Companies following the Company's annual general meeting.

Audited Statement of Group Cash Flow
for the year ended 31 December 2003

	2003 £'000	2002 £'000
Net cash inflow from operating activities	33,798	25,771
Returns on investments and servicing of finance		
Interest and similar income received	729	478
Interest paid	(80)	(90)
Dividends paid on non-equity preference shares	(5)	(5)
	644	383
Taxation		
UK corporation tax paid	(3,804)	(4,032)
Overseas tax paid	(5,427)	(4,958)
	(9,231)	(8,990)
Capital expenditure and financial investments		
Purchase of tangible fixed assets	(2,287)	(2,563)
Sale of tangible fixed assets	89	706
Sale of tangible fixed assets - exceptional	1,675	-
Purchase of own equity shares held as investments	-	(380)
	(523)	(2,237)
Acquisitions and disposals		
Sale of business	-	1,306
Purchase of business	-	(7,781)
Cash acquired with business	-	202
Deferred consideration on sale of business	-	77
	-	(6,196)

Dividends paid on equity ordinary shares	(12,068)	(11,423)
Net cash inflow / (outflow) before management of liquid resources and financing	12,620	(2,692)
	=====	=====
Management of liquid resources		
(Increase) in term deposits	(11,301)	(1,752)
Financing		
Issue of ordinary share capital	516	94
Purchase of ordinary share capital	(1,223)	-
Purchase of own preference shares	(2)	(2)
(Decrease) / increase in amounts borrowed	(132)	46
Repayment of capital element of finance lease	(67)	(55)
	(908)	83
Increase / (decrease) in cash in the year	411	(4,361)
	=====	=====