

20 March 2003

Rotork p.l.c.
Preliminary Announcement

Rotork p.l.c., the international specialist engineering group, announces audited results for the year ended 31 December 2002

Financial Highlights

- Total Group sales increased by 8% to £133.5m, 12% at constant currency
- Pre-goodwill profit increased 6% to £27.5m
- Operating margin for continuing operations increased from 20.7% to 21.4%
- Pre-goodwill earnings per share increased 7% to 21.6p
- Full year dividend of 13.9p, an increase of 7%

Operational Highlights

- Malaysian manufacturing plant started assembly of AWT non-hazardous area actuators in December 2002
- Completion of final non-core business disposal, Rotork Control & Safety, in November 2002
- Rotork Fluid System benefited from the restructuring exercise increasing sales by 28% and profits by over 250%

Chief Executive Bill Whiteley, commenting on the results said:

“We are pleased to have increased earnings in what has turned out to be a particularly challenging environment. Important steps were also made in this period in developing our worldwide leadership position in all aspects of valve automation.”

“Our aim going forward is to extend our product offerings to customers through organic product development and niche acquisition, and to identify new areas in which to promote our actuator technology.”

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CHAIRMAN'S STATEMENT

Introduction

I am pleased to report another year of growth for Rotork during a period in which a number of our markets experienced difficult trading conditions. Overall sales grew by 8% to £133.5m, pre-tax, pre-goodwill profit increased by 6% to £27.5m and pre-goodwill earnings per share advanced by 7%. The closing order book was similar to that at the prior year-end when adjusted for acquisitions and disposals.

Business Review

Our overall business is being structured around four major business areas - electric actuators, fluid power actuators, valve gearboxes & ancillaries and process control actuators. Jordan Controls, based in Milwaukee and acquired in January 2002, has met our expectations for the year and enabled us to develop further our process control activities. It will continue to participate in joint product development initiatives and to benefit from access to Rotork's international sales network.

New electric actuator product R&D was focused on the development of a new specification quarter turn actuator, the IQT, and a new non-hazardous area product, the AWT, the latter being produced in Malaysia. In addition to this, further development of our actuator control system offerings took place. The IQT will be launched in the second half of 2003, while the AWT was launched as planned in the final quarter of 2002. Our new electric actuator facility in Malaysia is now in production with first orders having shipped in December. The product manufactured there is new and is receiving positive comment from our sales force and customers alike. We are also increasing our sourcing of Far East components for our UK and US assembled products. While the effect of this is gradual, based on replacement cycles of product and new product introduction, it does represent an inexorable movement towards lower production costs, better cost effective support for customers, and protection of margins across our product ranges.

The Fluid System business is now benefiting from the structural changes that we put in place in 2000, and as a result, registered strong growth in the year contributing 12% of Group turnover and 7% of profit. The Lucca operation moved into its new larger premises in February 2003 and now has much greater capacity and flexibility to respond to its markets. We have also introduced important new products recently and further rationalised some of the existing ranges, allowing us to offer complete solutions to our customers. We feel confident that we can further build on the successes of the past two years both in terms of sales growth and increased return on sales.

The result of the Gears operation, which performed well at its main Leeds location, was held back by poor market conditions for Valvekits and some operational issues in its Dutch subsidiary.

The sale of the Luton based Control and Safety business in November represents the final disposal of non-core businesses and leaves the Group focused entirely on Actuation products, which has been a long-term strategic objective. Our aim now is to extend our product offerings to customers through organic product development and niche acquisition, and to identify new areas in which to promote our actuators. The development of our process control business is an important part of this strategy.

Group performance overall in the second half saw an improvement on the first with a better level of electric and, especially, fluid power product sales, although the effect of this mix towards fluid power products dilutes margin slightly. A modest reduction in underlying order book from the half year reflects the higher shipments in the second half. Our markets were mixed with excellent conditions in the US and Canada and some regional strong points in the Far East and Europe. The UK and some other worldwide markets were slightly weaker than expected. Venezuela was the most troublesome market which started the year with a major devaluation and deteriorated from there.

Working capital management has been a focus of attention during the year. As our product ranges have extended and our sourcing becomes more global we have adjusted some of our

processes to maintain an appropriate balance between working capital level and operational requirements. Debtor days are down again from 75 to 70 days and inventory fell slightly in a period of greater throughput. The net cash balance reduced by £1.9m to £20.0m, notwithstanding the £7.8m purchase of Jordan Controls in January 2002, reflecting strong cash generation in the year.

This year we have extended the Chief Executive's Report to incorporate an Operating and Financial Review.

Dividend

A final dividend of 8.9p is proposed which gives a 7% increase to 13.9p for the year. Over the last five years our rate of dividend increase has been in excess of earnings growth. Cover has been maintained at 1.5 times which the Directors consider is appropriate at the present time.

Outlook

Our commitment to investment in product development and lower cost manufacturing facilities will allow us to continue offering high quality, cost effective solutions to our customer base around the world. We are planning for another year of growth and for further strengthening of Rotork's position within its chosen markets. There are, however, economic and political uncertainties in a number of our markets which may impact the current year's results.

Roger Lockwood
Chairman

OPERATING AND FINANCIAL REVIEW

Overview

We were encouraged by a strong order intake at the start of the year and by a healthy level of project work in our forecasts. This was not however sustained, as an increased level of caution towards energy and infrastructure investment in many of our markets became evident. Despite this background we are pleased to report a robust performance illustrated by an increase in sales and profits.

Total Group sales, including a full year contribution from Jordan Controls and Rotork Control & Safety (up to the point of disposal), increased by 8% to £133.5m. Sales from continuing operations increased 2% to £122.2m. This improvement would have been 7% had it not been for exchange rate fluctuations.

Operating profit before goodwill of £27.0m represents a 7% increase over 2001. Operating profits from continuing operations increased 6% to £26.1m. The operating profit margins of the continuing operations have increased from 20.7% in 2001 to 21.4%. As in the prior year output was oriented toward the second half with 51% of sales being in H2 (2001: 53%).

The highlights included the continued strong turnaround and development of Rotork Fluid System, our fluid power actuator division, which increased sales by 28% and pre-tax profits from £0.5m to £1.8m. It also exceeded the targeted 10% return on sales which had been set for this operation in 2002. In addition, both the US and Canadian operations grew strongly despite a less than encouraging economic background. We also had good results from a number of our European and Far Eastern subsidiaries. Against these positive results we recorded a loss at our Venezuelan subsidiary and two of our Gears operations registered reduced profits. There were also a number of operations including UK, Spain and Korea where project activity was less than originally anticipated. Higher pension costs resulting partly from the funding rate increase in the UK from April increased overheads by £1.1m.

Important steps were taken in developing our worldwide leadership position in all aspects of valve automation. A Malaysian manufacturing plant has been set up and has commenced assembling actuators for certain less demanding applications in the water and power markets. This operation commenced production in December but will not reach its initial intended capacity until late 2003. During the year under review it therefore added overhead cost to the Group without any appreciable sales contribution.

The important IQT, a quarter turn variant of the very successful IQII actuator, will be introduced in the second half of 2003. This will also incorporate Malaysian sourced components, although it will be assembled in the UK. A great deal of work has been undertaken to successfully integrate Jordan Controls, acquired in January 2002, into the Rotork worldwide network.

The Rotork Control & Safety business, the only remaining non-actuator related activity, was disposed of in November.

The key drivers for the business are related to the investment in oil and gas, water and waste water and power generation facilities around the world with demand generated by new and expanded facilities, upgrades to existing facilities and replacements. This is often linked to projects which are aimed at improving the efficiency, safety and the 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 its 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.

Electric Actuators

UK Operations

The majority of our UK business derives from the water companies. Most suppliers were disappointed at the levels of business emanating from this sector under the AMP3 guidelines in 2002. Although general levels of business were disappointing, our UK retrofit department was busy and had a successful year. The Bath plant, which is our main electric actuator assembly plant, coped well with inconsistent order intake patterns and did not suffer from any of the constraints which were present in 2001. We adhere to an assembly only philosophy of manufacture where we rely on high quality vendors for all of our components. One of the main initiatives is to develop more of our components from overseas sources not only to achieve important cost reductions, but to mitigate currency swings between our input costs and output revenues. Progress was made in this area which enabled us to achieve further reductions in the costs of our important IQ range of actuators. Ongoing activities should see further progress on this front in the current year.

Europe

Our European subsidiaries on the whole traded successfully. France's results were up 42% on the prior year due to a number of profitable contracts. Our Dutch subsidiary suffered a fire in March and it subsequently moved to a new facility nearer to its customer base in the Europoort area of Rotterdam - insurance payments compensated for the resultant loss of property and business. The results from our important Spanish operation were lower than anticipated due to project deferrals in that country. Our German subsidiary continued its long history of growth and our Italian subsidiary made progress in a very competitive environment.

The Americas

Rotork Controls Inc., based in Rochester, NY, with the benefit of a strong second half, recorded an excellent result with 21% growth over the prior year's impressive result. Encouraged by the success of our Californian service and support facility we have opened a similar operation in Houston, Texas, which will allow us to expand our business in the important Gulf Coast market.

The Canadian company had an outstanding year across its operations increasing sales by 34%. The West benefited from oil and gas projects while the East experienced good general business levels.

After having had a successful year in 2001 our Venezuelan subsidiary suffered from a deteriorating situation throughout the year which culminated in the PDVSA strike at the end of the year. This created a very difficult trading environment which, when combined with a fall in value of the Venezuelan bolivar, resulted in the subsidiary recording a loss in the year. Compared with the profit in 2001 this represented a reduction in profit to the Group of about £1.3m. Although there is a substantial demand for our equipment in Venezuela the near term future is very uncertain and we have put in place measures to limit our exposure in this country until the situation improves.

In January 2002 we acquired Jordan Controls Inc., based in Milwaukee, to broaden our product range and, in particular, to provide us with a comprehensive range of positioning duty actuators for process control applications. The markets for its products were subdued in the early part of the year but the second half saw a much improved order intake with the company ending the year with a substantial increase in orders. The sales of \$11.4m and profits of \$0.6m would have been greater had not the PDVSA strike in Venezuela prevented shipments just prior to the year-end. The main emphases of the business are to increase its international sales through the Rotork outlets, continue the introduction of its new modulating product line, and improve its internal operating performance. It is our intention to invest in the expansion and updating of its product range.

The Far East and Rest of the World

The results for this region were generally good with excellent business levels being achieved in China and Malaysia. Singapore, Thailand, Japan, Australia and Africa all showed profit growth over 2001. Korea suffered from project deferrals while our manufacturing operations in India suffered from the lack of oil and gas business in the country.

The new actuator production facility in Malaysia started operations on target in December. Small quantities of product will be shipped in the first quarter of 2003 but it will be some time before we achieve critical mass there. Total investment in this business is in the order of £1m.

Rotork Fluid System

Rotork Fluid System design, manufacture and market fluid power valve actuators which are powered either pneumatically or hydraulically. The investment and restructuring exercise undertaken over the past two years began to pay off in 2002. Sales were up 28% and profits were up over 250% and exceeded the 10% return on sales target we set for ourselves for the year. This division now contributes 12% to the Group's turnover and has targets for further growth in the coming year.

The manufacturing locations at Lucca in Italy and Rochester NY both exceeded their budgets, with the Rochester operation recovering from a loss in 2001 and first half of 2002. The main stocking and packaging centres in Leeds, Calgary, Toronto, California and Singapore all performed well. A number of the other Rotork sales subsidiaries are gearing up their efforts in this field to broaden our marketing effort in 2003. In addition to these, new stocking and packaging facilities are being set up in Aberdeen and Houston.

Following the rationalisation of the Italian and US product ranges the priority was to design an effective new range of small quarter-turn pneumatic actuators. The CP was launched in the latter part of the year and will enhance our product offering. A gas over oil product range aimed at the gas transmission pipeline market was also launched during the year, and has received initial orders. The production capacity at the Lucca facility was reaching capacity and therefore a lease on a much larger plant was taken on. Following refurbishment of this plant the business was relocated in the first quarter of 2003 and has enhanced our ability to take on larger and more complex projects with confidence.

Rotork Gears

By extending its range of products and its markets the main gearbox operation at Leeds expanded both its sales and profits despite poor market conditions. The division as a whole suffered from disappointing results from Gears BV in the Netherlands and from Valvekits. Gears BV sales were similar to the prior year, but material and overhead costs increased. A new management structure has been introduced which will co-ordinate activities much more closely with those of Leeds. Purchasing initiatives put in place in 2002 should also have a beneficial effect on margins in the current year. Valvekits' business continued to suffer from a depressed domestic market although considerable improvements in its operations were achieved.

Readers who wish to have a more comprehensive view of our products and services should visit our updated web site at www.rotork.com.

Research and Development

Rotork's growth strategy is dependent upon it continuing to be the technical leader in its industry. Accordingly Rotork continues to undertake R&D to introduce innovative ranges of products which it can competitively offer to its customers. In the year under review R&D expenditure was £2.4m representing an increase of 15%.

Electric actuator R&D expenditure in 2002 was primarily focused on the technological development of the IQT and the AWT actuator ranges. Extensive R&D will result in the new IQT range which will bring IQII features and technology to quarter turn actuators. This range will be launched in the third quarter of 2003. The AWT is a new non-hazardous area actuator which is being built in our new Malaysian facility. In addition to these two ranges considerable research has advanced the breadth and capability of our remote actuator control system offerings, solar powered applications, communication network interfaces and safety enhancements. R&D expenditure also included the work within Rotork Fluid System aimed at extending the range of pneumatic and hydraulic actuators.

Initiatives are in place to ensure that adequate time and resources continue to be set aside for research into groundbreaking technologies and their application to the field of valve actuation.

Rotork Control and Safety

This business was sold to a subsidiary of Serck Controls Ltd. in November 2002. The sale excluded 'Pakscan' the actuator control system, production of which had earlier in the year been transferred to Rotork's Bath plant. It was considered that this mission critical control and safety systems division was no longer core to Rotork's actuator business and would fit better in a group dedicated to developing its systems capabilities.

The disposal gave Rotork a net cash inflow of £1.3m and a marginal gain on disposal. The sale was of the trade and assets of the business excluding the building that the company occupied in Luton which we anticipate disposing of during 2003 at more than its carrying value. The results for the period prior to disposal for 2002 taken into the Group accounts were sales and profits of £3.8m and £0.5m respectively.

Pensions

As with many companies, the cost of providing a defined benefit promise to employees has increased significantly in the last few years. The effects of increased longevity, loss of ACT relief, LPI and of course the fall in equity valuations recently, have led to us re-evaluating our present scheme offerings. We have consequently decided not to offer membership of the defined benefit scheme to new employees from January 2003, and will introduce a new occupational contribution based scheme in addition to the stakeholder plan that has been in place for some time.

Recent stock market volatility has led to a deterioration in the value of the UK scheme's assets since the last annual report. The post tax pension scheme deficit when assessed as required under FRS 17 has increased during the year from £4.1m last year to £11.6m at 31 December 2002. This represents a relatively small proportion of Rotork's current market capitalisation.

Working capital

Following the £7.8m acquisition of Jordan Controls, net cash funds have only reduced by £1.9m during the year to £20.0m. Cash generated from operating activities was £25.8m compared with £25.5m last year. Of this cash inflow, 44% is spent on dividends and a further 35% on tax. The value of stock held has reduced in the year despite our broadening product range. This year has also seen a reduction in component stock both in absolute terms and as a proportion of total stock. Trade debtors have reduced by £1.5m compared with the previous year and debtor days have decreased by five to 70 days at the year-end.

Bill Whiteley
Chief Executive

Audited Consolidated Profit and Loss Account for the year ended 31 December 2002

	2002 £'000	2001 £'000
Turnover		
Continuing operations	122,173	119,322
Acquisitions	7,504	-
Discontinued operations	3,783	4,367
	133,460	123,689
Cost of sales	(71,875)	(65,877)
	61,585	57,812
Gross profit		
Distribution costs	(1,748)	(2,077)
Administrative expenses	(35,348)	(31,185)
Other operating income / (expenses)	1,233	(270)
Operating profit		
Continuing operations	25,109	23,706
Acquisitions	139	-
Discontinued operations	474	574
	25,722	24,280
Continuing operations before amortisation of goodwill	26,136	24,733
Acquisitions before amortisation of goodwill	417	-
Discontinued operations	474	574
	27,027	25,307
Operating profit before amortisation of goodwill		
Amortisation of goodwill	(1,305)	(1,027)
	25,722	24,280
Interest receivable and similar income	530	793
Interest payable and similar charges	(90)	(230)
	26,162	24,843
Profit on ordinary activities before taxation		
Tax on profit on ordinary activities	(8,868)	(8,539)
	17,294	16,304
Profit for the financial year		
Dividends – including non-equity	(11,959)	(11,147)
	5,335	5,157
	pence	pence
Basic earnings per share	20.1	18.9
Basic earnings per share before goodwill amortisation	21.6	20.1
Diluted earnings per share	20.0	18.9

Audited Group Balance Sheet at 31 December 2002

	2002 £'000	2001 £'000
Fixed assets		
Intangible assets	20,886	16,637
Tangible assets	14,816	14,095
Investments	958	578
	<u>36,660</u>	<u>31,310</u>
Current assets		
Stocks	17,687	18,048
Debtors due within one year	32,421	33,409
Debtors due after more than one year	409	317
Cash at bank and in hand	20,371	22,162
	<u>70,888</u>	<u>73,936</u>
Creditors:		
Amounts falling due within one year	(33,603)	(34,877)
Net current assets	<u>37,285</u>	<u>39,059</u>
Total assets less current liabilities	73,945	70,369
Creditors:		
Amounts falling due after more than one year	(197)	(150)
Provisions for liabilities and charges	<u>(2,038)</u>	<u>(2,322)</u>
Net assets	71,710 =====	67,897 =====
Rotork shareholders' funds		
Equity	71,658	67,844
Non-equity	52	53
Capital employed	<u>71,710</u> =====	<u>67,897</u> =====

Note:

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2002 or 2001. The financial information for 2001 is derived from the statutory accounts for 2001 which have been delivered to the Registrar of Companies. The auditors have reported on the 2001 and 2002 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 2001 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 2002

	2002	2001
	£'000	£'000
Operating profit	25,722	24,280
Depreciation and amortisation	3,495	3,039
(Profit) / loss on sale of fixed assets	(557)	117
(Profit) on sale of business	(11)	-
Movement in working capital	(2,878)	(1,894)
Net cash inflow from operating activities	<u>25,771</u>	<u>25,542</u>
Returns on investments and servicing of finance	383	685
Taxation	(8,990)	(8,753)
Capital expenditure and financial investments	(2,323)	(833)
Acquisitions and disposals	(6,196)	(68)
Dividends paid on equity ordinary shares	(11,423)	(10,728)
Financing	169	(422)
(Decrease) / increase in cash and term deposits in the year	<u>(2,609)</u>	<u>5,423</u>
	=====	=====