



28 February 2007

## Rotork p.l.c.

### Preliminary Announcement

#### Double digit growth in revenue and operating profit in each division

	2006	2005	% change	% change (constant currency)
Revenue	£206.7m	£174.8m	+18.2%	+19.9%
Operating profit	£45.1m	£36.5m	+23.4%	+25.7%
Profit before tax	£46.1m	£36.7m	+25.7%	+27.9%
Earnings per share	36.4 p	28.6 p	+27.3%	+30.0%

#### Financial Highlights

- Order intake up 19% at £223m
- Recommended final dividend of 11.65p, up 18%
- £8m additional interim dividends during 2007

#### Operational Review

- Continued strong growth achieved by Rotork Fluid System
- Chinese market still buoyant
- New Shanghai manufacturing plant commenced production on schedule in the year
- Increased focus on Service and Support with new management structure

#### **Chief Executive Bill Whiteley, commenting on the results said:**

“Active end user markets, a world beating product portfolio and sales and marketing organisation resulted in a particularly strong financial performance for 2006. There were high levels of investment in oil and gas facilities around the world due to the sustained high demand for crude oil, natural gas and refined products.

“Order intake has started strongly in 2007. Furthermore, there appears to be an active project workload in most of our geographic and end user markets, which should ensure that we make further revenue and earnings progress in the current year. This is despite the negative drag that currencies will have if the US dollar and euro exchange rates to sterling are maintained at around current levels.”

#### **For further information, please contact:**

**Rotork p.l.c.**  
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## **Chairman's statement**

### **Financial highlights**

In 2006 Rotork saw further strong growth in its main end user markets – oil & gas, power and water – and across all geographical areas with each of our divisions delivering record sales, profits and order intake. Overall sales revenue was up 18.2% to £206.7m, and profit before tax increased by 25.7% to £46.1m.

The impact of currency movements had been to flatter profit by nearly £1m in the first half of the year. The rapidly weakening US dollar from May onwards meant that the second half suffered a £1.8m negative currency movement with the overall annual result being a charge of £0.8m. However, net margin was 22.3% in both halves of the year compared with 21.0% for 2005, demonstrating the resilience of our business model as we improve our design processes and supply chain. The year end order book – itself negatively impacted by adverse currency movements of £4.8m - closed up 19.2% at £76.0m.

We continue to increase investment in the development of our products and services which, together with the addition of new production facilities and improved operational efficiencies, provides us with an expanding platform upon which to fully capitalise on future growth opportunities.

### **Divisional highlights**

The Electric actuator business had another good year achieving a 19.8% year on year increase in operating profit. Our US businesses traded well and most of the Europe, Middle East and Asia sales operations met or exceeded our expectations. The main Bath assembly plant performed well meeting higher than anticipated demand levels whilst reducing delivery lead times. The new Shanghai production facility commenced shipping product to customers in China during the second half of the year as planned.

Rotork Fluid System continued to build on the high growth rates achieved in the preceding two years by recording a 25.3% increase in sales to £40.5m. With a further improvement in the year to 13.3%, operating margin moved closer to our 15% target. We are now recognised as a major force in the industry with a developed management structure, good product offering, efficient production facilities and a strong customer oriented ethos.

Rotork Gears produced a robust 2006 performance increasing sales and operating profit by 27.4% and 21.3% respectively. We are encouraged by the performance of our Milan operation, acquired at the beginning of the year, and the success with which the management has integrated quickly into the wider Group. The Shanghai gearbox facility, established primarily for export out of China, has been shipping increasing quantities throughout the year.

### **Performance measurement**

Management have a structured and well established approach to performance measurement as defined by a series of financial and other indicators. The Board reviews this information to assess the effectiveness of our operations and to consider its response to specific issues as they arise. In light of an increasing external interest in this subject we now show the key performance measures, used by the Group, in the Business Review.

### **Dividend**

The Board reviews dividend policy regularly and acknowledges a correlation between improvements in earnings and dividend increases. Recognising the very strong earnings growth in the year, and that cash generation has been good, the Board is recommending both an increase in the final dividend for the year and the payment of an additional dividend. It is proposing that the final dividend, payable on 11 May to shareholders on the register on 20 April 2007, will increase by 17.7% to 11.65p, making a total increase in core dividend of 14.9% for the year. In addition, a further £8 million will be paid by way of a one-off additional dividend of 9.30p on 22 June 2007.

**50th Anniversary**

Rotork will celebrate its 50th anniversary in 2007. From the beginning under the inspiration of founder Jeremy Fry the Company has, through a strong and consistent commitment to innovation and customer focus, grown to occupy its current enviable position as both world leader in valve actuation and a highly rated constituent of the FTSE 250. None of this would have been achieved without the year by year dedication of Rotork employees worldwide to whom the Board extends its appreciation and gratitude.

**Outlook**

Order intake has started strongly in 2007. Furthermore, there appears to be an active project workload in most of our geographic and end user markets, which should ensure that we make further revenue and earnings progress in the current year. This is despite the negative drag that currencies will have if the US dollar and euro exchange rates to sterling are maintained at around current levels.

**Roger Lockwood**

Chairman

27 February 2007

## **Business review**

### **Business overview**

Rotork is the world leader in valve actuation solutions which are used extensively in oil and gas, power and water and waste water treatment applications. Beyond these important industries, our products are also used in a broad range of sectors including shipboard control, ventilation and damper control. We are structured around three valve actuation divisions:

- Rotork Electric, the original and largest activity supplying high quality, state of the art products for controlling a wide variety of pipeline and industrial valves;
- Rotork Fluid System, which supplies heavy-duty pneumatic and hydraulic valve actuators for operation in emergency shut down and other critical applications, primarily for the oil and gas sectors;
- Rotork Gears, involved in the supply of gearboxes, adaptors and ancillaries for the valve industry.

Rotork supports customers across the world mainly through direct operations. We have 13 production plants internationally and multiple direct sales and support operations in 22 countries. This together with an extensive network of indirect sales offices gives coverage of all our customers and markets globally. We have around 15,000 active customers in total.

The key drivers for the Group's businesses relate to global investment in oil and gas, water and waste water and power generation installations 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 the efficiency, safety and environmental performance of plants. Valve actuators are critical components and their long-term reliability and performance is extremely important to users. They also act as a key 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. We have a large number of repeat customers around the world but the broad geographic spread of our operations and applications means that no one customer accounts for more than 5% of our revenue in any year.

### **Business Strategy**

The objective of Rotork p.l.c. is to increase shareholder value by developing its leadership position in worldwide valve actuator activities. The Group's activities are focused on the specialist area of valve automation. Over the years Rotork has continued to build on its reputation as an innovator of new concepts in this field and has provided users with increasing levels of functionality, performance and assurance.

Recent strategy has focused on opportunities to leverage our leadership position in heavy duty electric actuation into other closely associated areas of valve automation. Key programmes relate to the development of new products and control systems, marketing initiatives, creating service revenue opportunities and driving cost reductions relating to these businesses. The most important current product initiative relates to the development of our range of actuators aimed at the process control market, which is referred to further in the R&D section.

### **Year under review**

Active end user markets, a world beating product portfolio and sales and marketing organisation resulted in a particularly strong financial performance for 2006. In a year during which many organisations in our industry struggled with rising raw material costs and capacity constraints I am pleased to report that our flexible 'assembly only' philosophy of manufacture, coupled with procurement initiatives, allowed us to handle increased levels of business and kept cost increases to a minimum. The main assembly plant in Bath performed particularly well, not only producing a record number of electric actuators but also allowing us to meet our objective of reducing lead times for much of the electric product range.

Whilst our world wide sourcing and assembly operations act to mitigate currency risks, Rotork is still exposed to transaction as well as translation currency impacts. In currency terms 2006 turned out to be a year of two halves, with the benefits of a strong dollar on our earnings in the first half being more than offset by the impact of a deteriorating dollar in the latter part of the year. The impact of the level of the US dollar against sterling is high due not only to our important North American business but also our large Asian markets in countries where currencies closely follow the US dollar.

All of our operating divisions, namely Electrics, Fluid System and Gears, achieved increased levels of order intake, sales revenue and operating profits. Overall order intake was up 19.0%, and sales output was up 18.2%. The order book increased to £76.0m which is 19.2% up on the start of the year. Profit before tax was up 25.7%. Return on sales, a key performance indicator of the business, increased to 22.3%.

### **Electric Actuators**

Order intake for the electric business was up 14.7%, sales revenue up 15.0% and operating profit up 19.8%. As a percentage of unit actuator order input the principal markets for electric actuators were; oil and gas 40% (37%); water 19% (24%); power 32% (31%) and miscellaneous 9% (8%) with the prior year's figures in brackets. There were high levels of investment in oil and gas facilities around the world due to the sustained high demand for crude oil, natural gas and refined products. In addition to upstream investment there was also an increase in units going into downstream facilities. It is in these areas, i.e. refinery offsites, storage and distribution, that the majority of our electric actuators are used within this sector. Particularly high levels of activity were seen in the Middle East. The construction of new LNG (Liquefied Natural Gas) facilities has also led to increased demand for our products in recent years. Within the power sector, our actuators are used extensively in coal, oil, combined cycle gas and nuclear generation. China and India again dominated the demand within this sector with the increase in business in India being particularly evident. The water market, where we supply actuators for both potable and waste water treatment plants, was also active with increased levels of business in the important North American and UK markets. However the total number of actuators going into this market was down due to an unusually large Asian order won in 2005.

### UK Operations

We saw a good performance from the UK market which accounted for 9% of electric actuators unit input for the year up from 8% in 2005. Strong demand from the water companies who were focused on achieving their AMP 4 targets was coupled with high levels of investment from existing coal fired power plants which required actuators to assist in reducing emissions and increasing the efficiency of their generation.

The Bath plant, which is our main electric actuator assembly unit, responded to the challenge of demand levels which were well above forecast levels. It was of considerable credit to production management and our supply chain that we were able to reduce delivery times in this environment. The year was also notable for steep increases in the price of some important raw materials, such as aluminium, copper and zinc. I am pleased to report that the impact of these increases was, to a large extent, offset by savings coming online during the year due to either sourcing initiatives or value engineering exercises. Indications at the start of the current year are that prices of many materials are softening, which should release pressure on some components. In addition further cost saving measures are planned to come on stream during 2007.

### Europe

Most of our European sales companies had reported improving activity levels in late 2005, which led us to higher expectations for 2006. These expectations were largely met with higher sales and profits being generated in most companies with particularly strong results from Italy. Input accounted for 13% of the total electric actuator unit input by destination compared with 15% in 2005. There were two different elements to their growth. European valvemakers were active in worldwide energy projects, in particular Italian valvemakers had very high levels of business from the Middle East. In addition to this there was an increase in motorisation projects on existing refineries, tank farms and other oil and gas installations within their domestic markets.

Our new Russian company had a successful first year's trading. After a slow start to the year a number of projects were won in the second half.

### The Americas

Rotork Controls Inc, which is based in Rochester, N.Y., continued to build its successful business with sales and profits well up on the prior year, despite the weakening US dollar. Again the main driver for the business was its success in the municipal market. However there was an increased level of business activity in the oil and gas market, in particular in the second half of the year. The company put additional resources into positioning itself for new investment in power generation. The improving power market has also helped our Milwaukee based operation, which manufactures modulating actuators, to increase sales. A new sales operation is being set up in Brazil to complement existing sales channels. Order input in units destined for the Americas was 17% (19%) of the total. The number of units destined for Latin America was down on the prior year.

### The Far East and The Rest of the World

A traditional strength of Rotork is its reputation in and coverage of Asia and in the year under review the Far East accounted for 49% by destination of our electric actuators against 50% in the prior year. The Group has been a beneficiary of the growth in the region which has required very substantial infrastructure investment in power generation, oil & gas production, processing and distribution and water and waste water plants and facilities. Business in China continued to be very buoyant and even exceeded the exceptional levels recorded in 2005. Demand for actuators for power plant applications remains the dominant driver but increasingly we are involved in oil and gas projects throughout the country. A major milestone in the year was the opening of our new assembly plant in Shanghai at which we commenced production of electric actuators on schedule in the third quarter of the year.

The Indian market is also a very important one for the company and one in which we have well established assembly plants in Chennai and Bangalore. High levels of demand from both the power market and new oil and gas investments led to large increases in both our direct Indian business and business won through international OEMs.

Our other Asian companies performed well with further good progress from our Malaysian manufacturing plant. Elsewhere our Australian business had a particularly strong performance while our South Africa company made a loss due to problems encountered in the prior year. The second half of the year gave encouragement that these issues are behind us.

The Middle East was a very active region in 2006 due to the momentum of large oil and gas investments. Actuators destined for the Middle East and Africa increased to 12% from 8% of the total.

### Service and Support

Although our actuators have a deserved reputation for reliability we have always recognised the value of having a worldwide service and support organisation.

Having sold product into the field for 50 years there is a large population of actuators, some of which have been in operation for decades. A key strategy of the company in recent years has been to develop a more comprehensive service and through life support capability. Revenues from these activities have increased significantly in recent years to a point where we felt it was appropriate to bring these activities under the leadership of a new Service, Projects and Retrofit director. 2006 was particularly active for our UK service operations based in Bath and Leeds. Water and power companies were increasing their spend on efficiency and pollution and emissions' control programmes, which involve the design and installation of actuation systems.

## **Rotork Fluid System Division**

Rotork Fluid System design, assemble and market heavy-duty fluid power valve actuators which are operated either pneumatically or hydraulically. The main markets served by our product ranges are oil and gas related and unlike the electric actuators the bulk of these products are destined for upstream applications, transmission and LNG plants and terminals. These areas are benefiting from increased investment by most of the international oil and gas companies. The principal assembly plant is based in Lucca, Italy, with product also assembled in Rochester N.Y. and at Melle in Germany.

This business is closing in on its objective of accounting for 20% of total group turnover reaching 19.6% up from 18.5% in 2005. Order input was £46.1m which was up 26.2%, while output increased by 25.3%. Operating profit was up 46.5% which meant return on sales increased from 11.4% to 13.3%. This represents good progress towards meeting the objective of a 15% return on sales, especially in a year in which movement of the euro/dollar exchange rate reduced the profitability of goods with a euro cost sold in US dollars.

Further development of the management structure of this business has been completed, providing a platform for further growth. Growth was achieved in 2006 without the assistance of any dominant project. Instead the business focused on the large number of substantial opportunities in oil and gas production and transmission particularly in the Middle East.

The main plant in Lucca in Italy again performed very well. The division was also assisted by improved performances from the German and US production facilities. This business relies on the sales and packaging of its products through our own 'centres of excellence' (CoE). We are expanding the number of these facilities, mainly based upon our overseas sales and support companies. Good first time performances were seen from Korea, Japan and Venezuela, in addition to enhanced growth in France, Spain, Canada and Singapore. Only the Australian CoE had a disappointing year.

## **Rotork Gears Division**

Rotork Gears manufactures gearboxes, adaptors and other ancillary devices for industrial valvemakers worldwide. It depends upon similar dynamics as the electrics and fluid power businesses but serves a wider variety of end user industries through its valvemaker customers.

We benefited from an active market and an expanding infrastructure which allowed Gears to win some significant new business. Order intake for the year was up 40.1% (20.6%) while output was up 27.4% (14.6%) and operating profit up 21.3% (12.9%). The figures in brackets exclude the acquisition of Omag Srl which became Rotork Gears Srl after purchase at the start of the year.

2006 was an important year for Gears during which we achieved a smooth management transition following the retirement of the divisional managing director, the successful integration of the Italian acquisition and the commencement of Chinese assembly of gearboxes in the new Shanghai plant. Rotork Gears Srl exceeded our expectations and had a successful year serving an active valve market in Italy. It not only helped embed us in this important market, but extended our product range and capabilities especially for very large valves.

The Leeds and Dutch plants both performed well while further progress was made in expanding the sales base in the US where a number of important new contracts were won. The loss incurred at the Shanghai plant was due to start up costs but the benefits of this initiative should be evident in 2007 and beyond. During the year Gears strengthened their engineering capability in order to develop new product ranges and focus on cost reduction exercises and niche market opportunities such as subsea gearboxes where we have seen increased demand.

## Dividends

Rotork is cash generative, and aims to return funds to shareholders where they are not required for reinvesting in the business in the immediately foreseeable future. The Board aims for total dividend distribution to be generally in line with increases in earnings per share. In recent years cash generation has been strong and it has therefore been possible to make dividend increases significantly beyond increases in earnings per share. We have referred to “core” and “additional” dividend to address the concept of a growing basic annual dividend stream that could be considered supportable in the medium term as a base for future increases, and then further “additional” dividend that represents the distribution of excess cash.

For the current year the directors propose a final dividend of 11.65p payable on 11 May to shareholders on the register on 20 April. This represents an increase of 17.7% over the prior year final dividend and brings the total core dividend for 2006 to 18.15p, 14.9% increase year on year. Furthermore, recognising the strong cash balances at the year end, we are proposing an additional dividend of 9.30p (£8 million in total) to be paid on 22 June to shareholders on the register on 1 June 2007.

## Treasury

We have seen the overall level of working capital increase as the business has grown in the year. In relative terms our receivables’ management has been good and inventory management is generally improving, with the increased level of work in progress reflecting the order book at the end of the year and anticipating shipments in early 2007. Cash generation has been very positive in the year with 102% of operating profits converted into cash.

Rotork is affected by movements in world currencies as can be seen by the profile of our income streams, but our increased focus on worldwide procurement, to support our historic success at worldwide marketing, has enabled us to deflect some of the more punitive impacts of currency swings. The deterioration in our main non sterling traded currencies – the US dollar and the euro – in the second half of the year undoubtedly impacted profits as UK produced goods became more expensive for overseas customers to buy, and also in terms of translation of foreign earned profits into sterling. Currently we estimate that 30% of our income streams are denominated in US dollar and dollar influenced currencies, and 30% in euro. The impact of currency in the two halves, and the year as a whole, can best be seen by converting the results back to constant currency: adjusting the 2006 results to the effective rates that we had in 2005.

	H1	H2	2006 total	2005
	£m	£m	£m	£m
Operating profit as reported	22.0	23.1	45.1	36.5
Translation impact	(0.4)	0.8	0.4	
Transaction impact	(0.6)	1.0	0.4	
Operating profit at 2005 rates	21.0	24.9	45.9	36.5

So overall we believe that profit for the year would have been approximately £0.8m higher if 2005 exchange rates had prevailed. The increase in operating profit, reported as 23.6%, would have shown an increase of 25.7% at constant currency. The biggest mover in the period was the US\$. The average rate for the first half of 2006 was \$1.80 and for the second half \$1.89. As we go into 2007, the dollar rate seems settled at a rate weaker than the second half average, meaning that the currency backdrop overall is likely to be less benign in 2007 than 2006.

Over the last few years, our weighted average rates for translation of our two main trading currencies have been:

	US dollar	Euro
2002	1.52	1.58
2003	1.66	1.44
2004	1.83	1.46
2005	1.80	1.46
2006	1.84	1.47



## Research & Development

Work has continued through 2006 on our flagship IQ series of products. The increased flexibility of the new series controller has enabled us to roll out updates that have both extended the functionality and at the same time facilitated yet more cost reductions. Further updates are planned for the coming year. The quarter turn derivative, IQT, has undergone some preliminary development to enhance its suitability for naval applications which are considered a potential growth area for the product. We are also in the final stages of development of more options to qualify the product for use within safety instrumented systems. This latter development will assist our end users in meeting increased regulatory and safety requirements.

Extensive efforts have been focused on the proprietary Pakscan networking system with the development of a new master station product. This product was launched at the end of 2006 and first shipments are expected in early 2007. In addition to being compatible with the earlier series, the integration of embedded web server technology will enable remote monitoring and diagnosis. Work will take place in 2007 to extend the scope of this new platform including assessment of other network and wireless technology.

During 2006 we have also concentrated on refining and evaluating proposals for the process control market. In what is a major programme for the company these concepts will be developed further with the intention of bringing a product range to market in 2008. Additionally the Jordan product, which is aimed at positioning duty applications, was enhanced with new communication capabilities and the development of 'smart' actuators for specific customers.

RFS has continued to enhance and broaden its extensive product ranges. During the year it introduced new high pressure technology to its gas pipeline products and also added new products for niche applications.

Rotork was the winner of a prestigious 2006 Innovation and Design Excellence Award, a competition for UK companies organised by Cranfield University School of Management and Findlay Publications Ltd. in association with Scientific Generics which recognises "creativity and design innovation".

## Quality

Throughout its 50 year history, Rotork has prized and cultivated its reputation in the market place for product quality and reliability. When Lloyds Register Quality Assurance conducted their regular surveillance visit in August 2006, they audited Rotork's UK site service operation against the requirements of ISO9001:2000. This included a customer site visit and the auditor subsequently wrote in his formal visit report; *'The customer representative on site reported high levels of satisfaction with the quality and reliability of Rotork actuators, and the standard of installation and maintenance services provided'*. This was a very welcome confirmation of Rotork's commitment to meeting customers' expectations.

Other external quality assurance auditors visiting the main manufacturing site in Bath have also been complimentary about Rotork's understanding and commitment to product excellence. One noted that: *'Suppliers appear to be subject to a particularly good level of monitoring and control'*. This confirmed another key aspect of Rotork's strategy; Quality Assured component supply chains. The Supplier Quality Assurance (SQA) Team works closely with suppliers across the globe, from product inception onwards, to ensure that components meet Rotork's stringent requirements.

As Rotork expands its global operations, great emphasis is placed on the rapid transfer of knowledge and core principles to the new manufacturing sites. SQA and systems specialists from the Bath QA Team, alongside key staff from other departments, visit periodically to guide their implementation of World Class methods and processes. A key ingredient in this approach is establishing overseas supply chains, providing components to the local Rotork sites and offering the additional benefit of cost effective component supplies to the Bath factory.

## Environment

The Environment Management System (EMS) at the main Bath site is independently verified as compliant with ISO14001:2004. The EMS was developed to identify, manage and reduce operational impacts on the environment as well as maintaining compliance with new and existing environmental legislation. The Environment Agency audited the waste management systems and pollution prevention procedures in operation at the Bath site in September 2006 and no improvements notes or recommendations were raised.

The achievements made and knowledge gained in developing the EMS at the Bath site is being used to bring all of Rotork manufacturing sites' environmental systems in line with Bath. Initial results are very encouraging showing an increase in waste recycled as a proportion of total waste to 46% from 38% in 2005. The key items recycled are wood, cardboard and plastics. Waste reduction has been improved through a policy of working with suppliers to ensure only recyclable or reusable packaging materials are used in component shipments. Waste recycling is one of the company's key objectives.

While exempt from the specific provisions of the WEEE and RoHS directives, Rotork is making every effort to reduce the environmental impact of its products. Wherever possible new product components are marked with the appropriate standard EU recycling marks or labels. Information has also been included in product handbooks regarding the materials the units contain and any specific advice relating to their disposal.

Rotork remains committed to meeting the requirements for continued inclusion in the FTSE4Good Index and is very conscious of the need for improved awareness of environmental issues and the need to minimise the Group's environmental impact. Our 2006 Environmental Report published on the Rotork web site shows the improvements made in the Group's reporting of environmental performance data. In that report the number of subsidiaries reporting their environmental data increased from 7 to 29. The next report will include data from sites included in recent acquisitions. Details of Rotork's global environmental performance are published in the Rotork Environmental Report on the Rotork web site at [www.rotork.com](http://www.rotork.com).

## Rotork community

As we enter our 50<sup>th</sup> year since the Company was first incorporated it is important to thank not only our existing employees, who have been instrumental in achieving such strong growth in recent years, but to also acknowledge the huge debt Rotork has to everyone who has been associated with it and who has made such an impact on the organisation since its inception. When I joined Rotork over 30 years ago from a leading British manufacturer I was immediately aware of a special culture our founder Jeremy Fry had instilled in the Company which has driven the Company to become the world leader it is today. It is now our task to make sure that as we further develop the business we retain the customer focus, the drive for innovation and the commitment to emerging markets that have been the hallmark of our success.

**Bill Whiteley**  
Chief Executive  
27 February 2007

**Consolidated Income Statement**  
for the year ended 31 December 2006

	<i>Notes</i>	<b>2006</b> <b>£000</b>	2005 £000
<b>Revenue</b>	2	<b>206,709</b>	174,839
Cost of sales		<b>(115,603)</b>	(95,358)
<b>Gross profit</b>		<b>91,106</b>	79,481
Other income		<b>98</b>	79
Distribution costs		<b>(2,287)</b>	(1,959)
Administrative expenses		<b>(43,735)</b>	(41,002)
Other expenses		<b>(93)</b>	(69)
<b>Operating profit</b>	2	<b>45,089</b>	36,530
Financial income		<b>5,568</b>	4,479
Financial expenses		<b>(4,596)</b>	(4,352)
<b>Profit before tax</b>		<b>46,061</b>	36,657
Tax expense	3	<b>(14,728)</b>	(12,043)
<b>Profit for the year</b>		<b>31,333</b> =====	24,614 =====
		<b>Pence</b>	Pence
Basic earnings per share	5	<b>36.4</b>	28.6
Diluted earnings per share	5	<b>36.1</b>	28.4

**Consolidated Balance Sheet**  
at 31 December 2006

	<i>Notes</i>	<b>2006</b> <b>£000</b>	2005 £000
<b>Assets</b>			
Property, plant and equipment		<b>16,616</b>	17,214
Intangible assets		<b>22,225</b>	22,038
Deferred tax assets		<b>5,739</b>	9,115
Other receivables		<b>735</b>	633
<b>Total non-current assets</b>		<b>45,315</b>	49,000
Inventories		<b>29,027</b>	26,697
Trade receivables		<b>37,385</b>	36,492
Current tax		<b>1,219</b>	2,225
Other receivables		<b>4,104</b>	2,560
Cash and cash equivalents		<b>28,460</b>	27,878
<b>Total current assets</b>		<b>100,195</b>	95,852
<b>Total assets</b>		<b>145,510</b> =====	144,852 =====
<b>Equity</b>			
Issued equity capital		<b>4,314</b>	4,310
Share premium		<b>5,857</b>	5,609
Reserves		<b>(1,421)</b>	2,405
Retained earnings		<b>80,386</b>	68,241
<b>Total equity</b>	4	<b>89,136</b> =====	80,565 =====
<b>Liabilities</b>			
Interest-bearing loans and borrowings		<b>180</b>	236
Employee benefits	6	<b>8,186</b>	21,736
Deferred tax liabilities		<b>1,225</b>	1,164
Provisions		<b>941</b>	654
<b>Total non-current liabilities</b>		<b>10,532</b>	23,790
Bank overdraft		<b>62</b>	698
Interest-bearing loans and borrowings		<b>526</b>	1,016
Trade payables		<b>16,835</b>	14,937
Employee benefits	6	<b>3,941</b>	3,342
Current tax		<b>6,236</b>	5,620
Other payables		<b>15,923</b>	13,129
Provisions		<b>2,319</b>	1,755
<b>Total current liabilities</b>		<b>45,842</b>	40,497
<b>Total liabilities</b>		<b>56,374</b>	64,287
<b>Total equity and liabilities</b>		<b>145,510</b> =====	144,852 =====

These financial statements were approved by the Board of Directors on 27 February 2007 and were signed on its behalf by **WH Whiteley** and **RE Slater**, Directors.

**Consolidated Statement of Cash Flows**  
for the year ended 31 December 2006

	2006 £000	2006 £000	2005 £000	2005 £000
<b>Cash flows from operating activities</b>				
Profit for the year	31,333		24,614	
Adjustments for:				
Amortisation of intangibles	98		179	
Amortisation of development costs	259		293	
Depreciation	2,554		2,671	
Equity settled share based payment expense	496		312	
(Profit) / loss on sale of fixed assets	(33)		22	
Financial income	(5,568)		(4,479)	
Financial expenses	4,596		4,352	
Income tax expense	14,728		12,043	
	<u>48,463</u>		<u>40,007</u>	
Increase in inventories	(3,610)		(3,359)	
Increase in trade and other receivables	(3,786)		(685)	
Increase in trade and other payables	6,691		1,325	
Difference between pension charge and cash contribution	(6,801)		(3,243)	
Increase in provisions	731		709	
Increase in other employee benefits	776		1,509	
	<u>42,464</u>		<u>36,263</u>	
Income taxes paid	(11,247)		(11,296)	
<b>Cash flows from operating activities</b>		<b>31,217</b>		24,967
<b>Investing activities</b>				
Purchase of tangible fixed assets	(2,425)		(1,396)	
Development costs capitalised	(372)		(291)	
Sale of tangible fixed assets	116		94	
Acquisition of subsidiary net of cash acquired	(1,589)		(7,227)	
Interest received	876		776	
<b>Cash flows from investing activities</b>		<b>(3,394)</b>		(8,044)
<b>Financing activities</b>				
Issue of ordinary share capital	252		626	
Purchase of ordinary share capital	(2,047)		(2,236)	
Purchase of preference shares treated as debt	(4)		-	
Interest paid	(147)		(232)	
New loans	-		1,515	
Repayment of amounts borrowed	(467)		(838)	
Repayment of finance lease liabilities	(212)		(100)	
Dividends paid on ordinary shares	(24,140)		(13,437)	
<b>Cash flows from financing activities</b>		<b>(26,765)</b>		(14,702)
Net increase in cash and cash equivalents		<u>1,058</u>		<u>2,221</u>
Cash and cash equivalents at 1 January		27,180		24,825
Effect of exchange rate fluctuations on cash held		160		134
<b>Cash and cash equivalents at 31 December</b>		<b>28,398</b> =====		27,180 =====

## Consolidated Statement of Recognised Income and Expense

For the year ended 31 December 2006

	2006 £000	2005 £000
Foreign exchange translation differences	(3,748)	2,190
Actuarial gain / (loss) in pension scheme	6,743	(3,452)
Movement on deferred tax relating to actuarial (gain) / loss	(2,023)	2,552
Effective portion of changes in fair value of cash flow hedges	(80)	(487)
<b>Income and expenses recognised directly in equity</b>	<b>892</b>	<b>803</b>
<b>Profit for the year</b>	<b>31,333</b>	<b>24,614</b>
<b>Total recognised income and expense</b>	<b>32,225</b> =====	<b>25,417</b> =====

### Notes to the Financial Statements

for the year ended 31 December 2006

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

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Rotork p.l.c. is a Company domiciled in England. The consolidated financial statements of the Company for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the Group). The accounting policies contained below in note 1 and all the notes relate to the Group statements.

#### 1. Accounting policies

##### Basis of preparation

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

IFRS7 Financial Instruments: disclosures and IFRIC 8 Scope of IFRS2 which are adopted but not effective as at 31 December 2006 will be applied in the next financial year. They are not expected to have a material effect on the reported results.

##### Basis of accounting

The consolidated financial statements have been prepared under the historical cost convention subject to the items referred to in the derivative financial instruments. The accounting policies set out below have been consistently applied in preparing the 2005 and 2006 financial information within its consolidated financial statements for the year ended 31 December 2006. The accounting policies have been applied consistently in respect of Group entities.

The preparation of consolidated financial statements in conformity with IFRSs requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The key areas where estimates have been used and the assumption applied are in the impairment testing of goodwill and in assessing the defined benefit pension scheme liabilities.

## Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year to 31 December 2006. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. Intragroup balances and any unrealised gains or losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

## Status of this preliminary announcement

The financial information contained in this preliminary announcement does not constitute the Company's statutory accounts for the years ended 31 December 2006 or 2005. Statutory accounts for 2005, which were prepared under International Financial Reporting Standards as adopted by the EU, have been delivered to the registrar of companies, and those for 2006 will be delivered in due course. The auditors have reported on these accounts, their reports were unqualified and did not contain statements under section 237 (2) or (3) of the Companies Act 1985. Full financial statements for the year ended 31 December 2006, will shortly be posted to shareholders, and after adoption at the Annual General Meeting on 20 April 2007 will be delivered to the registrar.

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## **2. Analysis of revenue, profit and net assets**

The primary format used for segmental reporting is by business segment as this reflects the internal management structure and reporting of the Group. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated expenses comprise corporate expenses and unallocated assets and liabilities comprise cash, borrowings, tax assets and liabilities respectively. Inter group trading is determined on an arm's length basis.

### **Business segments**

The Group comprises the following business segments:

Electrics – the design, manufacture and sale of electric valve actuators

Fluid system – the design, manufacture and sale of heavy duty pneumatic and hydraulic valve actuators

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

### **Geographic segments**

Rotork has a worldwide presence in all three business segments through its subsidiary selling offices and through an agency network. A full list of locations can be found at [www.rotork.com](http://www.rotork.com).

Analysis by operation:

	<b>Electrics</b>	<b>Fluid system</b>	<b>Gears</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>2006</b>	<b>2006</b>	<b>2006</b>	<b>2006</b>	<b>2006</b>
Revenue from external customers	<b>147,795</b>	<b>40,504</b>	<b>18,410</b>	-	<b>206,709</b>
Inter-segment revenue	-	-	<b>5,872</b>	<b>(5,872)</b>	-
Total revenue	<b>147,795</b>	<b>40,504</b>	<b>24,282</b>	<b>(5,872)</b>	<b>206,709</b>
	=====	=====	=====	=====	=====
Segment result	<b>37,024</b>	<b>5,374</b>	<b>4,638</b>	-	<b>47,036</b>
	=====	=====	=====	=====	
Unallocated expenses					<b>(1,947)</b>
Operating profit					<b>45,089</b>
Net financing income					<b>972</b>
Income tax expense					<b>(14,728)</b>
Profit for the year					<b>31,333</b>
					=====

	<b>Electrics</b>	<b>Fluid system</b>	<b>Gears</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>2005</b>	<b>2005</b>	<b>2005</b>	<b>2005</b>	<b>2005</b>
Revenue from external customers	128,535	32,321	13,983	-	174,839
Inter-segment revenue	-	-	5,080	(5,080)	-
Total revenue	128,535	32,321	19,063	(5,080)	174,839
	=====	=====	=====	=====	=====
Segment result	30,912	3,669	3,825	-	38,406
	=====	=====	=====	=====	
Unallocated expenses					(1,876)
Operating profit					36,530
Net financing income					127
Income tax expense					(12,043)
Profit for the year					24,614
					=====

	<b>Electrics</b>	<b>Fluid system</b>	<b>Gears</b>	<b>Unallocated</b>	<b>Consolidated</b>
	<b>2006</b>	<b>2006</b>	<b>2006</b>	<b>2006</b>	<b>2006</b>
Segment assets	<b>67,969</b>	<b>29,796</b>	<b>12,325</b>	<b>35,420</b>	<b>145,510</b>
Segment liabilities	<b>34,557</b>	<b>9,442</b>	<b>4,146</b>	<b>8,229</b>	<b>56,374</b>
Depreciation	<b>1,776</b>	<b>563</b>	<b>313</b>	-	<b>2,652</b>
Non-cash items	<b>625</b>	<b>85</b>	<b>87</b>	<b>56</b>	<b>853</b>
Capital expenditure	<b>1,949</b>	<b>496</b>	<b>161</b>	-	<b>2,606</b>
	<b>Electrics</b>	<b>Fluid system</b>	<b>Gears</b>	<b>Unallocated</b>	<b>Consolidated</b>
	<b>2005</b>	<b>2005</b>	<b>2005</b>	<b>2005</b>	<b>2005</b>
Segment assets	63,973	28,691	12,964	39,224	144,852
Segment liabilities	44,666	8,145	2,743	8,733	64,287
Depreciation	2,228	696	219	-	3,143
Non-cash items	527	213	12	32	784
Capital expenditure	1,024	480	128	-	1,632



Analysis by Geographical segment	Europe	Americas	Rest of the World	Unallocated	Consolidated
	2006	2006	2006	2006	2006
Revenue from external customers by location of customer	89,992	58,398	58,319	-	206,709
Segment assets by location of assets	72,810	21,849	15,431	35,420	145,510
Capital expenditure by location of assets	1,500	268	838	-	2,606
	Europe	Americas	Rest of the World	Unallocated	Consolidated
	2005	2005	2005	2005	2005
Revenue from external customers by location of customer	73,967	50,544	50,328	-	174,839
Segment assets by location of assets	67,102	23,578	14,948	39,224	144,852
Capital expenditure by location of assets	1,288	168	176	-	1,632

All of the activities of the Group in the year arise from continuing operations.

### 3. Income tax expense Recognised in the income statement

	2006	2006	2005	2005
Current tax:				
UK Corporation tax on profits for the year	10,486		8,976	
Double tax relief	(6,023)		(5,441)	
Adjustment in respect of prior years	(182)		70	
		4,281		3,605
Overseas tax on profits for the year	8,787		7,470	
Adjustment in respect of prior years	41		22	
		8,828		7,492
Total current tax		13,109		11,097
Deferred tax:				
Origination and reversal of other temporary differences	1,585		1,089	
Adjustment to estimated recoverable amounts of deferred tax assets arising in previous periods	34		(143)	
Total deferred tax		1,619		946
Tax charge on profit on ordinary activities		14,728		12,043
		=====		=====
Effective tax rate (based on profit before tax)		32.0%		32.9%

Profit before tax	<b>46,061</b>	36,657
Profit before tax multiplied by standard rate of corporation tax in the UK of 30%	<b>13,818</b>	10,997
<i>Effects of:</i>		
Non deductible expenses	<b>267</b>	577
Unrelieved losses	<b>(45)</b>	(38)
Higher tax rates on overseas earnings	<b>795</b>	558
Adjustments to tax charge in respect of prior periods	<b>(107)</b>	(51)
Total tax charge for period	<b>14,728</b> =====	<u>12,043</u> =====

A deferred tax credit of £551,000 (2005: £342,000) in respect of share based payments has been recognised directly in equity in the period.

The Group continues to expect its effective rate of corporation tax to be slightly higher than the standard UK rate due to higher rates of tax in the US, Canada, France, Germany, Italy and India.

There is an unrecognised deferred tax liability for temporary differences associated with investments in subsidiaries. Rotork p.l.c. controls the dividend policies of its subsidiaries and subsequently the timing of the reversal of the temporary differences. It is not practical to quantify the unprovided temporary differences as acknowledged within paragraph 40 of IAS 12.

#### 4. Capital and reserves

	Issued equity capital	Share premium	Translation reserve	Capital redemption reserve	Hedging reserve	Retained earnings	Total
Balance at 1 January 2005	4,300	4,993	(1,212)	1,637	277	58,489	68,484
Profit for the financial year	-	-	-	-	-	24,614	24,614
Other items in the statement of recognised income and expense	-	-	2,190	-	(487)	(900)	803
Equity settled transactions net of tax	-	-	-	-	-	562	562
Share options exercised by employees	10	616	-	-	-	-	626
Own ordinary shares acquired	-	-	-	-	-	(2,236)	(2,236)
Own ordinary shares awarded under share schemes	-	-	-	-	-	1,149	1,149
Dividends to shareholders	-	-	-	-	-	(13,437)	(13,437)
Balance at 31 December 2005	<u>4,310</u>	<u>5,609</u>	<u>978</u>	<u>1,637</u>	<u>(210)</u>	<u>68,241</u>	<u>80,565</u>
Profit for the financial year	-	-	-	-	-	31,333	31,333
Other items in the statement of recognised income and expense	-	-	(3,748)	-	(80)	4,720	892
Equity settled	-	-	-	-	-	915	915

transactions net of tax							
Share options exercised by employees	4	248	-	-	-	-	252
Own ordinary shares acquired	-	-	-	-	-	(2,047)	(2,047)
Own ordinary shares awarded under share schemes	-	-	-	-	-	1,368	1,368
Purchase of preference shares	-	-	-	2	-	(4)	(2)
Dividends to shareholders	-	-	-	-	-	(24,140)	(24,140)
<b>Balance at 31 December 2006</b>	<b>4,314</b>	<b>5,857</b>	<b>(2,770)</b>	<b>1,639</b>	<b>(290)</b>	<b>80,386</b>	<b>89,136</b>
	=====	=====	=====	=====	=====	=====	=====

### Share capital and share premium

	5p Ordinary shares Authorised	5p Ordinary shares Issued and fully paid up	£1 Non-redeemable preference shares	5p Ordinary shares Authorised	5p Ordinary shares Issued and fully paid up	£1 Non-redeemable preference shares
	2006	2006	2006	2005	2005	2005
On issue at 1 January	5,449	4,310	47	5,449	4,300	47
Purchased for cash and cancelled	-	-	(2)	-	-	-
Issued under employee share schemes	-	4	-	-	10	-
On issue at 31 December	5,449	4,314	45	5,449	4,310	47
	=====	=====	=====	=====	=====	=====
Number of shares (000)	108,990	86,282		108,990	86,192	
	=====	=====		=====	=====	

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

Ordinary shares issued during the year were 89,726 (2005: 198,634) under The Rotork Employee Share Option Schemes, at prices between 278p and 298p (2005: 192p and 372p) and 1,465 (2005: nil) under The Rotork Sharesave Plan at 320p. No shares were issued under The Rotork Share Incentive Plan or under The Overseas Profit-Linked Share Scheme during 2006 or 2005.

No new options were issued under The Rotork Employee Share Option Scheme (1995) during 2006 or 2005. On 6 October 2006 options over 58,025 (2005: 46,553) shares were granted under the Rotork Sharesave Scheme at 592p (2005: 462p). Of these options, 21,402 (2005: 19,113) were exercisable after 3 years and 36,623 (2005: 27,440) after 5 years.

There were 200,973 (2005: 314,926) outstanding options under The Rotork Employee Share Option Schemes at 31 December, exercisable at various prices between 278p and 387p per ordinary share between 2007 and 2014.

Within the retained earnings reserve are own shares held. The investment in own shares represents 283,045 (2005: 240,460) ordinary shares of the Company held in trust for the benefit of directors and employees for future

payments under the Share Incentive Plan and Long-term incentive plan. The dividends on these shares have been waived.

## Dividends

The following dividends were paid in the year:

	<b>2006</b>	2005
9.9p final dividend (2005: 9.7p) per qualifying ordinary share	<b>8,537</b>	8,342
6.5p interim dividend (2005: 5.9p) per qualifying ordinary share	<b>5,601</b>	5,095
2006 first additional interim dividend 5.8p per qualifying ordinary share	<b>5,004</b>	-
2006 second additional interim dividend 5.8p per qualifying ordinary share	<b>4,998</b>	-
	<b>24,140</b>	13,437
	=====	=====

After the balance sheet date the following dividends were proposed by the directors. The dividends have not been provided for and there are no corporation tax consequences.

	<b>2006</b>	2005
<b>Final proposed dividend</b>		
11.65p per qualifying ordinary share	<b>10,019</b>	
	=====	
9.9p per qualifying ordinary share		8,521
		=====
<b>Additional interim dividends proposed for 2007</b>		
9.3p per qualifying ordinary share	<b>8,000</b>	
	=====	

## 5. Earnings per share

### Basic earnings per share

Earnings per share is calculated for both the current and previous years using the profit attributable to the ordinary shareholders for the year. The earnings per share calculation is based on 86.1 million shares (2005: 86.1 million shares) being the weighted average number of ordinary shares in issue for the year.

	<b>2006</b>	2005
<b>Net profit attributable to ordinary shareholders</b>	<b>31,333</b>	24,614
	=====	=====
<b>Weighted average number of ordinary shares</b>		
Issued ordinary shares at 1 January	<b>85,952</b>	85,867
Effect of own shares held	<b>91</b>	62
Effect of shares issued under options	<b>58</b>	130
Weighted average number of ordinary shares for the year ended 31 December	<b>86,101</b>	86,059
	=====	=====

### Diluted earnings per share

Diluted earnings per share is based on the profit for the year attributable to the ordinary shareholders and 86.9 million shares (2005: 86.8 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 two categories 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 and contingently issuable shares awarded under the Long-term incentive plan.

	<b>2006</b>	2005
<b>Net profit attributable to ordinary shareholders (diluted)</b>	<b>31,333</b> =====	24,614 =====
<b>Weighted average number of ordinary shares (diluted)</b>		
Weighted average number of ordinary shares for the year ended 31 December	<b>86,101</b>	86,059
Effect of share options on issue	<b>102</b>	108
Effect of Sharesave options on issue	<b>111</b>	40
Effect of LTIP shares on issue	<b>552</b>	545
Weighted average number of ordinary shares (diluted) for the year ended 31 December	<b>86,866</b> =====	86,752 =====

## **6. Employee benefits**

	<b>2006</b>	2005
Recognised liability for defined benefit obligations:		
Present value of funded obligations	<b>87,394</b>	89,501
Fair value of plan assets	<b>(80,745)</b>	(69,125)
	<b>6,649</b>	20,376
Defined contribution scheme liabilities	<b>507</b>	543
Employee bonus and incentive plan	<b>2,744</b>	2,113
Long-term incentive plan (cash settled)	<b>1,868</b>	1,542
Employee indemnity provision	<b>196</b>	357
Liability for long-service leave	<b>163</b>	147
	<b>12,127</b> =====	25,078 =====
Non-current	<b>8,186</b>	21,736
Current	<b>3,941</b>	3,342
	<b>12,127</b> =====	25,078 =====

### Defined benefit pension liabilities

The Group makes a contribution to three defined benefit plans to provide benefits for employees in the UK, USA and Holland upon retirement.

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

	2006	2005
Liabilities at 1 January	89,501	74,486
Current service costs	1,817	1,378
Member contributions	484	506
Interest cost	4,309	4,048
Benefits paid	(1,691)	(1,339)
Past service costs	300	-
Actuarial (gains) / losses	(6,729)	9,930
Currency (gains) / losses	(597)	492
Liabilities at 31 December	<u>87,394</u> =====	<u>89,501</u> =====

### Movements in fair value of plan assets

	2006	2005
Assets at 1 January	69,125	54,650
Expected return on scheme assets	4,518	3,770
Employer contributions	8,892	4,568
Member contributions	484	506
Benefits paid	(1,691)	(1,339)
Actuarial (losses) / gains	(199)	6,693
Currency (losses) / gains	(384)	277
Assets at 31 December	<u>80,745</u> =====	<u>69,125</u> =====

### Expense recognised in the income statement

	2006	2005
Current service costs	1,817	1,378
Past service costs	300	-
Interest on obligation	4,309	4,048
Expected return on plan assets	(4,518)	(3,770)
	<u>1,908</u> =====	<u>1,656</u> =====

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

	2006	2005
Cost of sales	663	351
Administrative expenses	1,454	1,027
Net financing (income) / expense	(209)	278
	<u>1,908</u> =====	<u>1,656</u> =====
Actuarial (losses) / gains on plan assets	(199)	6,693
Actuarial gains / (losses) from liabilities	6,729	(9,930)
Currency gains / (losses)	213	(215)

Net actuarial gains / (losses) recognised in Consolidated Statement of Recognised Income and Expense	<b>6,743</b> =====	(3,452) =====
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Cumulative actuarial losses recognised in Consolidated Statement of Recognised Income and Expense	<b>(2,501)</b> =====	(9,244) =====
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	<b>2006</b>	2005	2004	2003	2002
Defined benefit obligation	<b>(87,394)</b>	(89,501)	(74,486)	(64,203)	(54,400)
Scheme assets	<b>80,745</b>	69,125	54,650	44,700	37,800
Deficit	<b>(6,649)</b>	(20,376)	(19,836)	(19,503)	(16,600)
Experience adjustments on liabilities	<b>6,729</b>	(9,930)	(6,783)	(6,750)	(1,100)
Experience adjustments on assets	<b>(199)</b>	6,693	884	3,700	(10,300)
Experience adjustments on currency	<b>213</b>	(215)	107	50	100

### Liability for defined benefit obligations

The principal actuarial assumptions at the balance sheet date (expressed as weighted averages)

	<b>UK scheme</b> (% per annum)			<b>US scheme</b> (% per annum)			<b>Average</b> (% per annum)		
	<b>2006</b>	2005	2004	<b>2006</b>	2005	2004	<b>2006</b>	2005	2004
Discount rate	<b>5.10</b>	4.70	5.30	<b>5.72</b>	5.40	5.66	<b>5.13</b>	4.74	5.32
Rate of increase in salaries	<b>4.0</b>	4.0	3.9	<b>4.5</b>	4.5	4.5	<b>4.02</b>	4.03	3.93
Rate of increase in pensions (post May 2000)	<b>3.0</b>	3.0	2.9	<b>0.0</b>	0.0	0.0	<b>2.85</b>	2.85	2.78
Rate of increase in pensions (pre May 2000)	<b>4.5</b>	4.5	4.5	<b>0.0</b>	0.0	0.0	<b>4.28</b>	4.27	4.31
Rate of price inflation	<b>3.0</b>	3.0	2.9	<b>3.5</b>	3.5	3.5	<b>3.02</b>	3.03	2.93

The expected rates of return were:

	<b>Expected rate of return</b> %		
	<b>2006</b>	2005	2004
Equities	<b>7.80</b>	7.40	7.90
Bonds	<b>4.80</b>	4.40	4.90
Property	<b>7.50</b>	5.50	6.00
Cash	<b>3.40</b>	3.00	4.40
<b>Total Expected Return on UK Assets</b>	<b>6.81</b>	<b>6.20</b>	<b>6.81</b>
US deposit administration contract	<b>6.00</b>	6.00	6.00

Split of the Schemes Assets

	<b>2006</b>	2005
Equities	<b>42,973</b>	39,995
Bonds	<b>23,639</b>	22,030
Property	<b>7,767</b>	2,478
Cash	<b>3,588</b>	2,030
US deposit administration contract	<b>2,778</b>	2,592

<b>Total</b>	<b>80,745</b> =====	69,125 =====
Actual return on the scheme's assets	<b>3,935</b> =====	10,740 =====

The mortality assumption used is PA92 c2004 with an adjustment to the discount rate of -0.1% per annum to allow for future improvements in mortality. The individual return assumptions for each asset class are based on market conditions at the 31 December 2006 and represent a best estimate of future returns for that class allowing for risk premiums where appropriate. The Group estimates that contributions to the defined benefit pension schemes payable during 2007 will be around £2,600,000.

#### **Defined contribution pension liabilities**

The Group makes a contribution to a number of defined contribution plans around the world to provide benefits for employees upon retirement. Total expense relating to these plans in the year was £1,135,000 (2005: £519,000).