rotork

Global actuation solutions

Annual report and accounts 2001

rotork

The principal activities of the Rotork group are the design, manufacture and support of actuators, systems and related products worldwide.

Rotork Actuation provides a range of products, systems and services for the motorisation and manual operation of and adaption to industrial valves and dampers for isolation duty and process control applications. It does this through its Electric Actuator, Gears and Fluid System operations.

Actuated valves are major control elements in refineries, pipelines, power stations, water distribution systems and effluent treatment plants and in all industries in which liquids or gases are transported through pipes.

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

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global actuation solutions for

Financial Highlights

"2001 saw a substantial recovery from the poor markets experienced in 2000 . . . order intake was buoyant through much of the year and recorded a 13% increase on the prior year . . . The profitability of sales improved from 20% to 21% for the year as a whole"

Turnover up £15.8m to 123.7m

Profit before goodwill and tax up 19.7%

Earnings per share up 19.6% to 20.1p

Order book up 11% year on year

Turnover

£123.7m

£107.9m

Profit before goodwill amortisation

£25.9m

£21.6m

power gas oil water

Introduction

A noticeable improvement this year in the market for most of Rotork's product lines has enabled us to achieve significant advances in turnover, profit and earnings. Sales increased by 15% to £123.7m, pre-tax profit by 21% to £24.8m and pre-goodwill earnings per share by 20% to 20.1 pence. Our closing order book was 11% above that of December 2000.

Operating Review

Our three main markets have seen increasing investment by customers during the year with projects previously on hold being released and new ones coming on stream.

The strengthening dollar contributed to a highly creditable outcome for our US business, the achievements of which were mirrored by our Canadian and Venezuelan subsidiaries. Whilst Far Eastern results were mixed some companies recorded encouraging performances. In Europe the continued relative weakness of the euro made trading conditions difficult. However, growth was achieved as we adapted our business processes to prevailing rates, while continuing to deliver a full service to our customers.

In line with our stated strategy of expanding the scope of our operations whilst remaining focused on valve actuation, we acquired Jordan Controls Inc. of Milwaukee in January 2002. This strengthens our position in some existing business areas and facilitates entry into new ones. We can derive benefits from the joint development of electronics and Jordan will gain from our international sales capability.

Having completed the development of the full IQII range we are now engaged in a number of projects designed to incorporate selected IQII features into other products which will be targeted at specific market sectors.

Production issues arising from the introduction of IQII were resolved by the end of the summer and we have reported a substantially higher second half performance. As a result we have shortened customer delivery times and reduced the order book to more normal levels. The impact on inventory turns in the second half year has eased as the IQII replaced its predecessor.

The overseas sourcing programme has proved a success and we now buy high quality components from a number of Far East suppliers. This initiative will be further developed for future products as part of a sustained drive to enhance margins and deliver cost effective quality products to our customers.

The Fluid System businesses in the US and Italy improved on their prior year's performance and we now have a profitable fluid power operation with a more integrated product range. This activity forms a key component of our growth plans and is receiving appropriate levels of emphasis and support within the group. The new management team has recorded a number of successes and views the future with confidence.

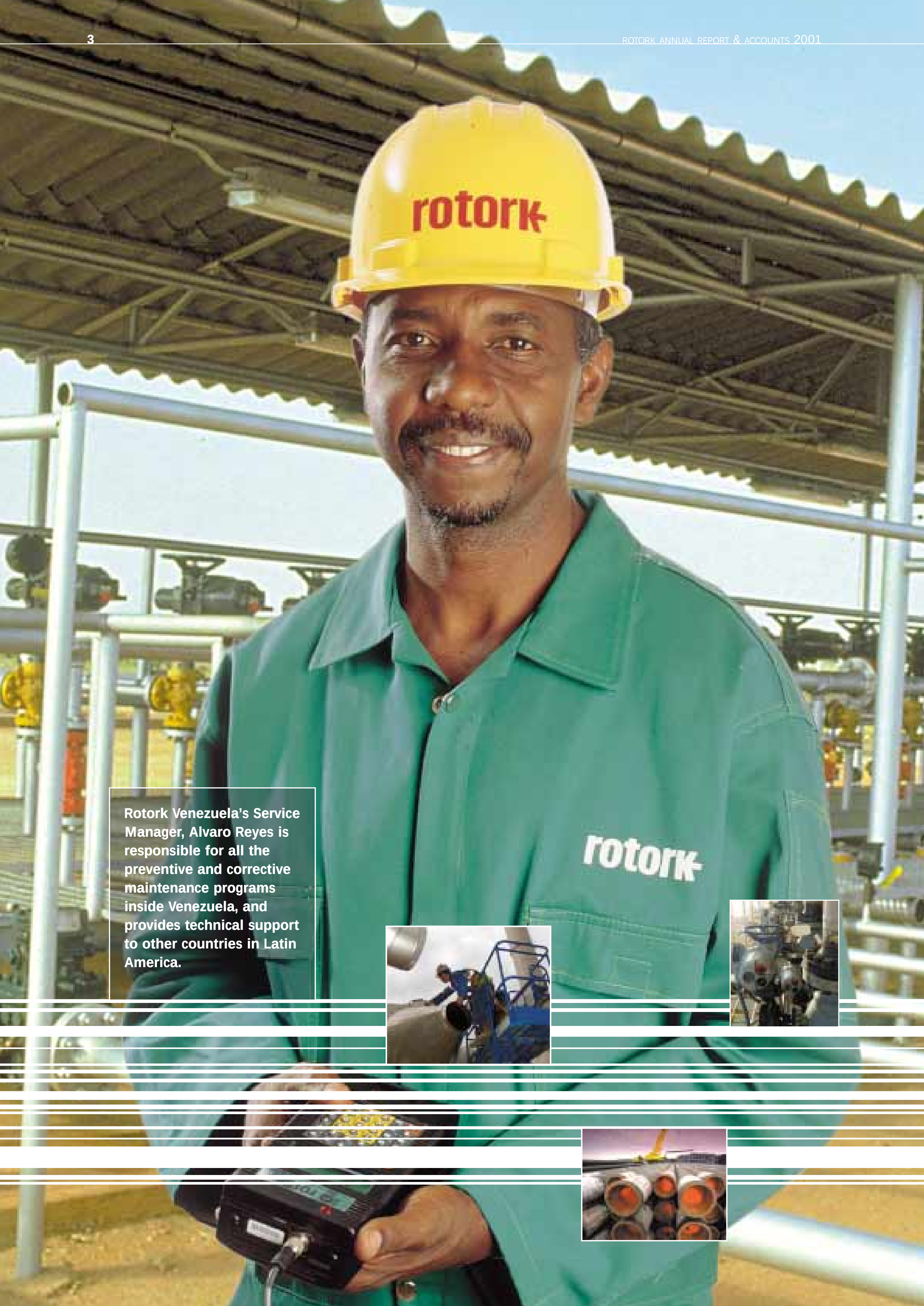
Directors

I am pleased to report that Bob Arnold was appointed to the board of the company in August. For over 13 years Bob has been and will remain President of our operations in the Americas. We look forward to his contribution to the overall progress of the group.

Having completed the development of the full IQII range we are now engaged in a number of projects designed to incorporate selected IQII features into other products which will be targeted at new specific market sectors.

global solutions

Roger Lockwood *Chairman*



Rotork Venezuela's Service Manager, Alvaro Reyes is responsible for all the preventive and corrective maintenance programs inside Venezuela, and provides technical support to other countries in Latin America.

Overall our worldwide companies have experienced a better year in 2001. We have begun the current year with a strong order book and order intake to date continues to support our targets.

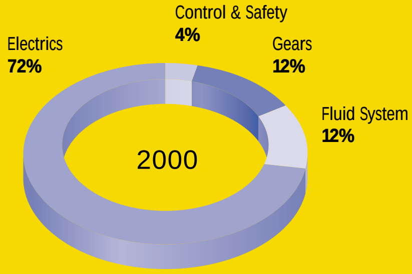
Dividend

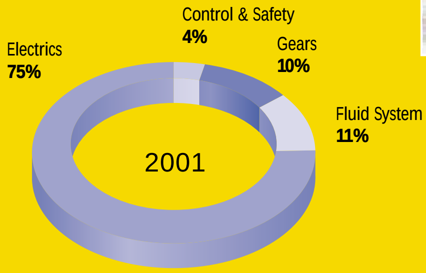
The dividend last year had been held at 1999 levels, reflecting the trading position in 2000. At the interim stage we increased the dividend by 5.7% to reflect our improved trading this year, and I am pleased to say that the directors are recommending that the final dividend be increased to 8.3p per share (2000: 7.8p) which will bring the total for the year to 12.95p (2000: 12.2p). This represents an increase of 6.1% for the year, with dividend cover of 1.5 times post-tax earnings.

Outlook

We have strengthened our operations in a number of key areas during 2001. After some weakness in the final weeks of 2001, order intake in the first part of the current year has been ahead of target and most of our world-wide operations are reporting good project activity levels. This should allow us to make further progress in spite of the uncertainties of our operating environment.

Turnover by Operation





looking forward

Graham Oliver is a member of the Bath based service & retrofit department. This runs projects involving implementation and commissioning of some complex applications in the three core areas of our business. As a member of this team, Graham is responsible for installation and commissioning work as well as supporting customers' site maintenance and repair requirements.

Important steps in developing and executing our strategy were taken during the year.

The year saw a substantial recovery from the poor market conditions experienced in 2000. We entered 2001 with an improved order book and a major new product introduction. Some supplier constraints held back sales in the first half to an 11% increase. With the resolution of these issues we achieved an 18% increase in sales in the second half compared with the same period last year. The overall annual increase in sales was 15%. Order intake was buoyant through much of the period and recorded a 13% increase on the prior year. The order book at the end of 2001 was lower than the production constrained figure at the interims but 11% above the figure at the start of the year. The profitability of sales improved from 20% to 21% for the year as a whole. This was due to increased sales volumes, the elimination of losses on fluid power operations and the improved margins of the IQII. The latter were realised later in the year and contributed to a second half return on sales of 22%.

The IQII, which entered full production in the early part of the year, represents a major product development for the company. This is the company's flagship product line and contributes over 50% of the electric actuator revenue. It incorporates a number of ground-breaking technologies and features and has been very well received by the market. We expect to be able to continue to build on the benefits that this product line creates for the customer.

Important steps in developing and executing our strategy of extending our expertise and coverage of valve actuator opportunities were taken during the year. In addition, the re-structuring of our fluid power operations under the control of its own world-wide managing director has lead to the emergence of three distinct but closely related actuator businesses – Electrics, Fluid System and Gears.

Revenues from our service and support operations grew by 13%. This area of business has been receiving increasing attention. Initiatives to win annual and preventive maintenance contracts with major users have been successful in a number of key markets. We believe that we have opportunities to continue to expand our share of this growing area of business throughout our extensive network of sales and support offices.

Most of our actuators are used in isolation or on-off duty. Although our IQM and other actuators are used for positioning duties in process control applications, this is a market where we believe there are further opportunities for Rotork. Jordan Controls Inc, which we acquired in January 2002, has a comprehensive range of products which are used on such applications. Their actuators are found extensively in US power generating plants, oil and gas applications and a wide range of industries. We look forward to co-ordinating our engineering development and international marketing efforts to increase penetration of this market.

Electric Actuators
UK Operations
The UK sales team faced a difficult market where valvemakers and other customers continued to be disadvantaged by a weak euro. In addition, the water companies who make up the major users in the UK had reduced levels of capital expenditure. However, we were successful in cementing ties with both major users and contractors and this will prove beneficial as demand from the water companies improves following the implementation of AMP3 expenditure plans.

Production at the main plant in Bath was constrained in the first three months due to the replacement of the major product line. Difficulties continued to be experienced in the

resources & teamwork

Bill Whiteley *Chief Executive*

Yolanda Blazquez is in charge of the Rotork team of service engineers at the Repsol-YPF refinery in Tarragona, Spain. This team maintains over 1800 actuators on this site and is responsible for the retrofit, commissioning and engineering data maintenance for new projects.

IQII had by the final quarter of the year met its reduced cost targets which were set at the outset of the project.

second quarter due mainly to supply problems.

Record production levels were achieved in the final quarter, which resulted in sales being up 14% and profits up 15% for the year. Besides meeting all the functionality goals, IQII had, by the final quarter of the year, met its reduced cost targets which were set at the outset of the project. Further cost reductions are expected mainly through sourcing initiatives.

Europe
All the European sales companies, France, Italy, Germany, Spain and The Netherlands increased profits over the prior year. They all benefited from improved access to product from Bath in the second half. The results in Spain and France were particularly creditable.

The Americas
The performance of the US, Canadian and Venezuelan subsidiaries was outstanding with sales up 22% and profits up 80% over the prior year. The US operation in its new premises in Rochester was able to increase output to take advantage of the buoyant demand from the water, oil and gas and power sectors. In addition business from South American projects came through in the second half. The Canadian results were lead by substantial western oil and gas projects coupled with good general business levels. In the east the operation moved to a new plant which doubled their capacity. The Venezuelan business had a very successful year after a difficult 2000.

Far East and Others
In general terms business in South East Asia was subdued. Having said this, our Malaysian and Thai subsidiaries performed well and both increased sales and profits over the prior year. Singapore's results were disappointing. We continued to benefit from our investment in our Chinese operation. Business levels from China and Hong Kong were very encouraging.

Elsewhere, Korea performed satisfactorily as did our relatively new subsidiary in Japan. The Japanese operation will move to larger premises incorporating warehouse and workshop facilities which will enable them to better service their customer base. Order intake in Australia improved in the second half but sales and profits for the year were below expectations. Our operations in India and South Africa both had successful years despite difficult economic climates.

Rotork Fluid System
This operation suffered in 2000 from poor oil and gas markets and some operational and management problems. The business was restructured at the start of the year and the new management team, assisted by better market conditions, was successful in turning the business around. The Italian company in particular had a much improved performance due to good domestic sales and the reorganisation of the company. Fluid power distribution centres based in our operations in Canada and Singapore performed very well while the UK operation in Leeds recovered from a poor first half performance. The fluid power cell based in Rochester remained in loss although this was reduced from the prior year.

The order book and prospects for RFS continue to improve. Product rationalisation, new product introductions and increased operational efficiencies are all important elements in making this an important contributor to the overall business.

Rotork Gears
Exeeco's gearbox business continued to perform well despite a difficult UK market. Sales to American customers through their US gears operation continued to grow. Sales of Alecto gearboxes exceeded target but profits did not meet expectations due to costs of materials and operating issues. Valvekits sales, which are closely tied to the UK valvemakers and distributors, were weak and profits were below

customer focus

Dennis Goh is in the service department of Rotork's Singapore operation, responsible for customer support throughout South East Asia, particularly focused on actuator communication and control systems.

prior year levels. The net result was that profits from the Gears business was down about 10% from the prior year. Management is focused on reducing costs of components especially at Alecto. An enhanced Chinese based purchasing initiative has been put in place. Continuing investment in broadening the geographic reach of sales will also assist in overcoming recent setbacks.

Product Development

Research and development expenditure remained at 2000 levels as the IQT and Mayflower programmes were at an early stage of development. The IQT project incorporates the successful IQII technology in an all-new quarter turn actuator that will be launched in the first half of 2003. This is an important project for the company and will update our offering for the important butterfly, ball and plug valve market.

The Mayflower project is aimed at enhancing the company's product offerings in the important water and power markets. A major overseas procurement exercise is an integral part of the project. It is intended that manufacture of this actuator will be undertaken in Malaysia with initial production scheduled to commence at the end of the current year.

Other programmes are aimed at enhancing the company's actuator control systems and developing the range and competitiveness of our fluid power offerings.

Rotork Control and Safety

This company continued to make progress in redefining its core business. It increased its profitability on higher sales and comfortably exceeded its initial target of meeting a 10% return on sales. It won some important contracts during the year and looks forward to further progress based on its current order book.

Quality

The newly launched IQII product has been well received in the market place, with customers appreciating its design enhancements and technical development. The new product has benefited from very capable overseas suppliers who have demonstrated a strong commitment to meeting Rotork's demanding quality requirements.

Implementation of the new international Quality Management System, ISO9001:2000, is well under way and transition audits for formal registration are scheduled for summer 2002. The new standard places considerable emphasis on customer focus and continual improvement, both key elements in achieving Rotork's business objectives. One important initiative is the development of a new web-based, global reporting system to improve product performance monitoring.

Environmental

A complete review of all the environmental aspects and impacts associated with the activities on the Bath site was conducted during 2001. A detailed Environmental Management Plan (EMP) has been drafted, geared towards ISO14001 requirements. The EMP includes strategies to minimise costs under government and EU legislation and, above all, to contribute positively to the communities and physical environments in which we operate.

Employees

There were many challenges that faced our employees in 2001 with a major new product launch and recovery from a difficult 2000. I would like to thank them all for their dedication and skill in overcoming the many challenges which face a business that prides itself as being the leader in its field around the world. Their loyalty and commitment is our most valuable asset.

The IQT is an important project for the company and will be launched in the first half of 2003.

a year of achievements

THE QUEEN'S AWARDS FOR ENTERPRISE 2001

Bill Whiteley *with the Queen's award for enterprise 2001 (Innovation category)*

Dr. Graham Ogden, research and development director of Rotork Actuation leads Rotork's strategic product development programme. Rotork will soon have a product portfolio 75% of which is less than 5 years old.

Executive directors

WH Whiteley *Chief Executive*

Bill (53) joined Rotork in 1974 and was President of Rotork's North American operations from 1979 until he became Managing Director of Rotork Actuation in 1988. He has been a member of the Rotork p.l.c. board since 1984 and was appointed Chief Executive in 1996. He is a member of the Nomination Committee.

In August 2001 Bill was appointed a non-executive Director of Roxboro plc.

RE Slater

Bob (51) joined Rotork in 1989 as Finance Director of the Actuation Division, and joined the board of Rotork p.l.c. as Group Finance Director in July 1998. He has previously held finance positions in mining, building controls and the engineering industry.

GE Malcolm

Since joining Rotork in 1984, George (56) had been Engineering Director of the Actuation Division prior to joining the Rotork p.l.c. board in 1997. He is currently Operations Director of the Actuation Division. His previous appointments were in industrial controls, aerospace and shipbuilding companies.

RH Arnold

Newly appointed to Rotork p.l.c.'s board in August 2001, Bob (50), a graduate engineer, previously with Westinghouse where he was an engineering design manager, joined Rotork Controls Inc. in 1978 subsequently becoming Vice President, Engineering and since 1988 President of Rotork Controls Inc. Bob has responsibility for all Rotork's interests in the Americas.

Non-Executive directors

RC Lockwood *Chairman*

Roger (56) has been a director of Rotork since 1988 and became Chairman in November 1998. He is a member of the Audit, Remuneration and Nomination Committees. He is Chairman of Colston Engineering Co and Hydro International plc and has previously held CEO roles in automotive and engineering businesses.

JW Matthews

John (57) has been a director of Rotork since November 1998. He is Chairman of Crest Nicholson Plc and a director of Regus plc. He has previously held senior positions in banking and industrial companies. He is a member of the Audit, Remuneration and Nomination Committees, and is the senior independent non-executive director.

A Walker

New to Rotork in January 2001 Alex is 55, and has been Chief Executive of Yule Catto & Co. plc since 1986. He is a member of the Audit and Remuneration Committees.

strategic focus

Report of the Directors

The directors submit their report and the audited accounts for the year ended 31 December 2001 as set out on pages 22 to 45.

Activities

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

Rotork Actuation provides a range of products, systems and services for the motorisation and manual operation of and adaption to industrial valves and dampers for isolation duty and process control applications. It does this through its Electric Actuator, Gears and Fluid System operations. Actuated valves are major control elements in refineries, pipelines, power stations, water distribution systems and effluent treatment plants and in all industries in which liquids or gases are transported through pipes.

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

Reviews of the group's activities and operations are set out on pages 2 to 10.

Acquisitions

On 7 January 2002, the entire share capital of Jordan Controls Inc. of Milwaukee, Wisconsin, USA was acquired. The cash consideration was £7.2 million. A maximum sum of £0.7 million will be added to or deducted from the initial consideration dependent on confirmed orders received in calendar year 2002.

Dividends

The directors recommend a final dividend of £7,134,000 for the year, payable on 27 May 2002 to shareholders on the register on 2 April 2002. This represents 8.3p per share *(2000: 7.8p)* which, with the interim dividend of 4.65p per share *(2000: 4.4p)* will produce a total dividend per ordinary share of 12.95p *(2000: 12.2p)*.

Substantial shareholdings

At 1 March 2002 the company had been formally notified, pursuant to the Companies Act 1985, of the following interests in its issued ordinary share capital.

	No.	*%*
Friends Provident Group	6,142,010	7.14
Prudential Corporation group of companies	6,038,746	7.00
CGNU plc	4,873,603	5.67
Clerical Medical Investment Management Limited	4,246,061	4.94
Royal & Sun Alliance	2,923,117	3.40
Legal and General	2,888,117	3.34

Shares issued or repurchased

Details of the ordinary shares issued and the preference shares purchased during 2001 are given in note 19 on page 39.

Research and development

Total group expenditure on research and development in the year was £2,057,000 *(2000: £2,040,000)* further details of which are contained in the Chief Executive's review on pages 6 to 10.

Charitable donations

During the year the group made charitable donations of £32,026 *(2000: £27,769)*.

Directors

The names of the directors in office at the date of this report and their biographical details are as shown on page 12. TW Eassie left the board in February 2001. The interests of the directors in office at the end of the financial year in the shares of the company are as shown in note 9 to the financial statements on page 31.

WH Whiteley, GE Malcolm, RE Slater and RH Arnold have service agreements and details of these are contained in the remuneration report on page 17.

At the Annual General Meeting, in accordance with the Articles of Association, RH Arnold who was appointed on 6 August 2001 will offer himself for re-election. RC Lockwood and RE Slater will retire by rotation and, being eligible, will offer themselves for re-election.

Corporate governance

The board considers that the company has complied with the provisions set out in section 1 of the Combined Code on corporate governance ("the Code") throughout the year ended 31 December 2001 apart from those relating to the length of directors' service contracts (Code provision B.1.7), which are commented on in the remuneration report.

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

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

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

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

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

During the year the Audit Committee

- Reviews the external and internal financial audit work plans;
- Considers reports from management, internal and external audit on the system of internal financial control and any material control weaknesses;
- Considers reports on Health and Safety, social, ethical and environmental issues including the applicable FTSE4Good criteria and the relevant new ABI Guidelines;
- Discusses with management the range of actions taken on problem areas for the business identified by board members or in the internal and external audit reports.

Additionally,

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

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

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

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

The board has three standing committees:

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

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

The Remuneration Committee is described in the remuneration report on page 17.

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

Statement of directors' responsibility for preparing the financial statements

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

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

The directors consider that in preparing the financial statements on pages 22 to 45, the company has selected suitable accounting policies which have been consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed subject to any explanations and any material departures disclosed in the notes to the financial statements. The directors are required to use a going concern basis in preparing the financial statements unless this is inappropriate. After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

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

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

Creditor payment policy

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

Auditors

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

Annual General Meeting

The Annual General Meeting of the company will be held at the company's offices at Rotork House, Brassmill Lane, Bath BA1 3JQ on Thursday, 23 May 2002 at 12 noon. A separate circular containing the Notice of the Meeting is sent to shareholders with this Annual Report.

On behalf of the board

SR Jones, *Secretary*
21 March 2002
Bath

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

The Remuneration Committee of the board is comprised of the three non-executive directors, currently RC Lockwood, JW Matthews and A Walker. During the year under review RC Lockwood chaired the Committee. In January 2002, JW Matthews accepted the post of Chairman of the committee. The committee makes recommendations to the board on the company's framework of executive remuneration, and determines the individual salaries and other terms and conditions of employment for the executive directors. The committee also determines the terms of any discretionary share schemes in which executive directors may be invited to participate.

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

The remuneration packages of each individual director currently include basic salary, an annual bonus, benefits in kind (cars, fuel and private medical insurance), membership of The Rotork Profit-Linked Share Scheme, discretionary long-term incentive awards and participation in a Rotork group pension scheme. In the year under review the annual non-pensionable bonus was determined after considering achievement based on specific profit-related targets and the recovery in group profit. The Remuneration Committee have appointed external remuneration consultants to undertake a review of the existing bonus arrangements for executive directors and other senior managers. Further details of all elements of each individual director's remuneration package, including profit-linked shares, long-term incentive awards and pension entitlements are set out elsewhere in this report.

Directors' emoluments

	Salary and fees	Bonus	Benefits	2001 Total	2000 Total
Executive directors					
GE Malcolm	120	18	12	150	117
RE Slater	120	18	12	150	112
WH Whiteley	190	29	13	232	183
RH Arnold from August 2001	50	7	3	60	–
Non-executive directors					
A Walker from January 2001	19	–	–	19	–
RC Lockwood	40	–	–	40	40
JW Matthews	20	–	–	20	20
TW Eassie to February 2001	2	–	–	2	20
	561	72	40	673	492

No bonus was paid in 2000.

Employee share options

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

No options have been granted to any executive director since 1994 under the 1985 or 1995 schemes. Interests of directors in the company's Employee Share Option Schemes consisted of 6,312 options *(2000: 6,312)* in ordinary shares of the company held by RE Slater. These options were granted on 13 April 1994 and are exercisable at 182p per share until 12 April 2004.

Long-Term Incentive Plan

Following shareholder approval of the Rotork Long-Term Share Incentive Plan ("LTIP") at the company's Annual General Meeting on 18 May 2000, awards were made to executive directors and senior managers in June 2000 and March 2001. Those awards made to executive directors are set out below:

	Award date June 2000	Price	% of salary	Award date March 2001	Price	% of salary
GE Malcolm	22,198	236.5p	50%	20,168	297.5p	50%
RE Slater	21,141	236.5p	50%	20,168	297.5p	50%
WH Whiteley	35,940	236.5p	50%	31,932	297.5p	50%
RH Arnold*	16,338	236.5p	35%	14,397	297.5p	35%

*RH Arnold, a United States citizen and resident is awarded cash units of a monetary value equivalent to share awards under the LTIP.

The LTIP is a performance share or cash unit plan under which shares or cash units are conditionally allocated to selected members of senior management at the discretion of the Remuneration Committee on an annual basis. No shares or cash units will be released to participants unless they are still in the group's service following completion of four year performance periods and the company's relative total shareholder return against a comparator group of companies places it in at least the 50th percentile position in the comparator group at the end of the performance period. The actual number of shares or cash units transferred will be determined by the number of shares or cash units initially allocated multiplied by a vesting percentage which will be 40% at the 50th percentile rising to 100% at the 75th percentile with each percentile position above the 50th adding 2.4% to the vesting percentage. The company's earnings per share is also monitored during the relevant performance period to ensure it meets a minimum average annual growth equal to the rise in the Retail Price Index plus 2% per annum.

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

Interests in shares and Profit-Linked Share Scheme

The interests of the directors in the ordinary share capital of the company are set out on page 31. In common with all employees with two complete calendar years of service, all UK based executive directors receive an entitlement to ordinary shares under The Rotork Profit-Linked Share Scheme ("PLSS") which is approved by the Inland Revenue. Up to 5% of profits are distributed to employees each year in the form of ordinary shares. The distribution is calculated by reference to years of service and salary. Details of allocations made to UK based executive directors in 2001 are set out below:

GE Malcolm	867
RE Slater	783
WH Whiteley	1,405
*RH Arnold	979

*RH Arnold, in common with other North American employees, participates in the Rotork Overseas Profit-Linked Share Scheme ("OPLSS"). The Scheme Trustee is based in Guernsey, Channel Islands. The OPLSS scheme rules are substantially modelled on the UK scheme.

Following the 2000 Finance Act, the final allocation of shares under PLSS will be in 2002. The company is therefore seeking shareholder approval for a replacement Inland Revenue approved Share Incentive Plan ("SIP") scheme at the 2002 Annual General Meeting. Details of the SIP are being circulated to shareholders.

Service contracts and directorships

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

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

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

Pensions

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

	Age at 31 December 2001	Increase in accrued pension over 2001 (Note 1) £	Accumulated total accrued pension at 31 December 2001 (Note 2) £
GE Malcolm	56	9,729	56,963
RE Slater	50	10,267	39,471
WH Whiteley	53	12,130	107,189
RH Arnold	50	2,506	36,965

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

Notes applicable to the UK Scheme:

1. The increase in accrued pension over the year excludes any increase for inflation.
2. The accrued pension is that which would be paid annually from normal retirement age, based on service to 31 December 2001.
3. Members of the Scheme have the option to pay Additional Voluntary Contributions; these are not included in the table above.

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

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

RH Arnold is a member of the Rotork Controls Inc. pension scheme which is a defined benefits scheme and the figures provided are in respect of that scheme. Additionally, and to alleviate the effect of the pension salary cap applicable in the United States to the Rotork Controls Inc. scheme, RH Arnold benefits from funded split dollar life insurance plans which are targeted to supplement his pension such that in combination the plans deliver a pension of at least 60% of uncapped basic salary at age 65.

Non-executive directors

The level of remuneration of the non-executive directors is set by a board designated committee consisting of the Chief Executive and two other UK based executive directors as designated by him from time to time. No non-executive director is involved in discussions concerning his own fees. The non-executive directors do not participate in any of the share or pension schemes operated by the group.

We have audited the financial statements on pages 22 to 45.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 16, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the statement on page 14 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2001 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

Bristol

Chartered Accountants
Registered Auditor

21 March 2002

Consolidated Profit and Loss Account

for the year ended 31 December 2001

	Notes	2001 £'000	2000 £'000
Turnover	*2*	**123,689**	107,880
Cost of sales		**(65,877)**	(59,021)
Gross profit		**57,812**	48,859
Distribution costs		**(2,649)**	(2,286)
Administrative expenses		**(30,613)**	(27,502)
Other operating (expenses)/income		**(270)**	680
Operating profit		**24,280**	19,751
Operating profit before amortisation of goodwill		**25,307**	20,787
Amortisation of goodwill		**(1,027)**	(1,036)
Operating profit		**24,280**	19,751
Interest receivable and similar income	*3*	**793**	1,090
Interest payable and similar charges	*3*	**(230)**	(259)
Profit on ordinary activities before taxation	*4*	**24,843**	20,582
Tax on profit on ordinary activities	*5*	**(8,539)**	(7,110)
Profit for the financial year	*6*	**16,304**	13,472
Dividends – including non-equity	*7*	**(11,147)**	(10,504)
Retained profit for the financial year	*20*	**5,157**	2,968

		pence	pence
Basic earnings per share	*8*	**18.9**	15.6
Basic earnings per share before goodwill amortisation	*8*	**20.1**	16.8
Diluted earnings per share	*8*	**18.9**	15.6

All results relate to continuing operations.

Balance Sheets

at 31 December 2001

	Notes	**Group 2001 £'000**	Group 2000 £'000	**Company 2001 £'000**	Company 2000 £'000
Fixed assets					
Intangible assets	*10*	**16,637**	18,166	**–**	–
Tangible assets	*11*	**14,095**	15,763	**660**	731
Investments	*12*	**578**	–	**2,135**	1,557
		31,310	33,929	**2,795**	2,288
Current assets					
Stocks	*13*	**18,048**	14,553	**–**	–
Debtors due within one year	*14*	**33,409**	32,562	**23,606**	16,234
Debtors due after more than one year	*14*	**317**	384	**4,283**	4,680
Cash at bank and in hand	*15*	**22,162**	16,820	**12,943**	8,947
		73,936	64,319	**40,832**	29,861
Creditors:					
Amounts falling due within one year	*16*	**(34,877)**	(31,491)	**(12,706)**	(11,758)
Net current assets		**39,059**	32,828	**28,126**	18,103
Total assets less current liabilities		**70,369**	66,757	**30,921**	20,391
Creditors:					
Amounts falling due after more than one year	*17*	**(150)**	(1,011)	**–**	–
Provisions for liabilities and charges	*18*	**(2,322)**	(3,293)	**(530)**	(1,155)
Net assets		**67,897**	62,453	**30,391**	19,236
Capital and reserves					
Called up share capital	*19*	**4,357**	4,352	**4,357**	4,352
Share premium account	*20*	**3,944**	3,379	**3,944**	3,379
Revaluation reserve	*20*	**2,397**	2,398	**–**	–
Capital redemption reserve	*20*	**1,608**	1,602	**1,608**	1,602
Profit and loss account	*20*	**55,591**	50,722	**20,482**	9,903
Rotork shareholders' funds		**67,897**	62,453	**30,391**	19,236
Equity		**67,844**	62,394	**30,338**	19,177
Non-equity		**53**	59	**53**	59
Shareholders' funds		**67,897**	62,453	**30,391**	19,236

These financial statements were approved by the board of directors on 21 March 2002 and were signed on its behalf by **WH Whiteley** and **RE Slater**, *Directors*.

Statement of Group Cash Flow

for the year ended 31 December 2001

	Notes	2001 £'000	2000 £'000
Net cash inflow from operating activities	*15*	**25,542**	16,409
Returns on investments and servicing of finance			
Interest and similar income received		**920**	1,127
Interest paid		**(230)**	(258)
Dividends paid on non-equity preference shares		**(5)**	(6)
		685	863
Taxation			
UK corporation tax paid		**(4,438)**	(4,545)
Overseas tax paid		**(4,315)**	(3,994)
		(8,753)	(8,539)
Capital expenditure and financial investments			
Purchase of tangible fixed assets		**(1,503)**	(3,810)
Sale of tangible fixed assets		**918**	753
Purchase of own equity shares held as investments		**(248)**	–
		(833)	(3,057)
Acquisitions and disposals			
Purchase of businesses		**–**	(482)
Deferred consideration on sale of business		**103**	240
Deferred consideration on purchase of business		**(171)**	(152)
		(68)	(394)
Dividends paid on equity ordinary shares		**(10,728)**	(10,543)
Net cash inflow/(outflow) before management of liquid resources and financing		**5,845**	(5,261)
Management of liquid resources			
(Increase)/decrease in term deposits		**(3,792)**	8,620
Financing			
Issue of ordinary share capital		**576**	23
Purchase of own preference shares		**(11)**	–
Purchase of own equity ordinary shares		**–**	(1,102)
Repayment of amounts borrowed		**(938)**	(493)
Capital element of finance lease payments		**(49)**	(43)
		(422)	(1,615)
Increase in cash in the year	*15*	**1,631**	1,744

Statement of the Group's Total Recognised Gains and Losses

for the year ended 31 December 2001

	2001 £'000	2000 £'000
Profit for the financial year	**16,304**	13,472
Exchange differences	**(278)**	815
Total recognised gains and losses for the year	**16,026**	14,287

Note on the Group's Historical Cost Profits and Losses

for the year ended 31 December 2001

	2001 £'000	2000 £'000
Reported profit on ordinary activities before taxation	**24,843**	20,582
Revaluation element of depreciation charge	**65**	75
Historical cost profit on ordinary activities before taxation	**24,908**	20,657
Historical cost retained profit for the financial year	**5,222**	3,043

Reconciliation of Movements in Rotork Shareholders' Funds

for the year ended 31 December 2001

	2001 £'000	2000 £'000
Profit for the financial year	**16,304**	13,472
Preference dividends on non-equity shares	**(5)**	(6)
Ordinary dividends on equity shares	**(11,142)**	(10,498)
Retained profit for the financial year	**5,157**	2,968
Exchange differences	**(278)**	815
New ordinary share capital issued	**576**	23
Purchase of own preference shares	**(11)**	–
Purchase of own ordinary shares	**–**	(1,102)
Net additions to shareholders' funds	**5,444**	2,704
Shareholders' funds at beginning of the year	**62,453**	59,749
Shareholders' funds at end of the year	**67,897**	62,453

Notes to the Financial Statements

for the year ended 31 December 2001

Except where indicated, values in these notes are in £‘000.

1. Accounting policies

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

Changes in presentation of financial information

The transitional arrangements for FRS17: ‘Retirement benefits’ came into effect for these financial statements. Disclosures relating to the group’s pension schemes are contained in note 22.

FRS18: ‘Accounting policies’ came into effect for these financial statements. This has had no effect on the group results and net assets, nor has it resulted in any changes in presentation.

FRS19: ‘Deferred tax’ has been adopted early. Prior to its implementation deferred tax was provided for under a partial provision method. This has not resulted in any material changes to the accounts and prior year numbers have not been restated.

Basis of accounting

The financial statements have been prepared under the historical cost convention supplemented by the revaluations explained in note 11 to the financial statements and have been prepared in accordance with applicable accounting standards.

Consolidation

The consolidated financial statements incorporate the financial statements of the company and its subsidiary undertakings for the year to 31 December 2001. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired in the year are included in the consolidated profit and loss account from the date of acquisition.

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

Goodwill

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

Foreign currencies

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

Notes to the Financial Statements

Depreciation and amortisation

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

Freehold buildings	2% to 4%
Short leasehold buildings	period of lease
Machinery, plant and equipment	10% to 30%

Leases

Where fixed assets are financed by leasing agreements, which give rights approximating to ownership, the assets are treated as if they had been purchased and the capital element of the leasing commitments is shown as obligations under finance leases. The rentals payable are apportioned between interest, which is charged to the profit and loss account, and capital, which reduces the outstanding obligation so as to give a constant rate of charge on the outstanding lease obligations. Costs in respect of operating leases are charged in arriving at the operating profit.

Stocks and work in progress

Stocks and work in progress are valued at the lower of cost on a 'first in, first out' basis and net realisable value. In respect of work in progress and finished goods, cost includes all production overheads and the attributable proportion of indirect overhead expenses. Where the outcome of a long-term contract can be assessed with reasonable certainty, turnover and profit are recognised for that portion of the contract which is attributable to the work that has been done, on a cost to completion basis.

Deferred taxation

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the assets or on unremitted earnings of subsidiaries where there is no commitment to remit those earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Turnover

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

Research and development

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

Pensions

The group operates a number of pension schemes and contributes to these schemes in accordance with qualified actuaries' recommendations. Contributions are charged to the profit and loss account so as to spread the cost over the remaining working lives of the employees within the schemes. Further details are given in note 22 to the financial statements.

Notes to the Financial Statements

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

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

2. Segmental analysis

Turnover can be analysed by geographical origin as follows:

	Group 2001	Group 2000
Europe	66,195	58,887
Americas	38,180	31,112
Rest of world	19,314	17,881
	123,689	107,880

Turnover can be analysed by operation as follows:

Electrics	93,309	77,952
Gears	12,977	13,482
Fluid System	13,036	12,511
Control & Safety	4,367	3,935
	123,689	107,880

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

3. Interest and similar items

Interest receivable and similar income		
Short term deposits	762	1,040
Other	31	50
	793	1,090
Interest payable and similar charges		
Bank overdrafts and loans	139	198
Other	91	61
	230	259
Net interest receivable and similar items	563	831

Notes to the Financial Statements

4. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging or (crediting) the following:	Group 2001	Group 2000
Depreciation and other amounts written off tangible fixed assets:		
Owned assets	1,996	1,916
Assets held under finance lease contracts	16	43
Amortisation of goodwill	1,027	1,036
Research and development expenditure	2,057	2,040
Hire of plant and machinery	630	608
Other operating lease rentals	391	347
Exchange differences realised	(106)	(270)
Auditors:		
Audit fees and expenses	231	206
Taxation and consultancy fees paid to KPMG Audit Plc and its associates in respect of UK companies	115	45

The auditors' remuneration in respect of the company was £27,920 *(2000: £29,678)*

5. Tax on profit on ordinary activities

UK taxes:		
Corporation tax at 30% *(2000: 30%)*	4,119	4,149
Deferred taxation	(431)	80
Adjustments in respect of prior years	336	(326)
	4,024	3,903
Double taxation relief	–	(153)
	4,024	3,750
Overseas taxes:		
Current taxation charge	4,558	3,334
Deferred taxation	44	7
Adjustments in respect of prior years	(87)	19
	4,515	3,360
	8,539	7,110
Profit on ordinary activities before tax	24,843	20,582
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% *(2000: 30%)*	7,453	6,175
Effects of:		
Expenses not deductible for tax purposes (including goodwill amortisation)	298	290
Higher tax rates on overseas earnings	926	865
Adjustments to tax charge in respect of prior years	249	(307)
Current tax charge for year	8,926	7,023

Notes to the Financial Statements

6. Profit for the financial year

	Group 2001	Group 2000
Dealt with in the financial statements of the company	21,693	5,691
Retained by subsidiary undertakings	(5,389)	7,781
	16,304	13,472

7. Dividends

Interim paid 4.65p per ordinary share *(2000: 4.4p)*	4,008	3,800
Final proposed 8.3p per ordinary share *(2000: 7.8p)*	7,134	6,698
Ordinary dividends on equity shares	11,142	10,498
9.5% cumulative preference dividend on non-equity shares	5	6
	11,147	10,504

8. 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 86.0 million shares *(2000: 86.3 million shares)* being the weighted average number of ordinary shares in issue for the year.

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

Diluted earnings per share is based on the profit for the year attributable to the ordinary shareholders and 86.4 million shares *(2000: 86.3 million shares)*. The number of shares is equal to the weighted average number of ordinary shares in issue adjusted to assume conversion of all dilutive potential ordinary shares. The company has 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.

Profit for the financial year attributable to ordinary shareholders	16,299	13,466
Amortisation of goodwill	1,027	1,036
Adjusted profit	17,326	14,502
Basic earnings per share based on profit for the financial year	18.9p	15.6p
Basic earnings per share based on adjusted profit	20.1p	16.8p
Diluted earnings per share	18.9p	15.6p

Supplementary basic EPS has been calculated to exclude the effect of goodwill amortisation

Notes to the Financial Statements

9. Directors and employees

	Group 2001 No.	Group 2000 No.
During the year, the average weekly number of employees, analysed by business activity, was:		
Actuation	985	955
Control & Safety	57	60
Rotork p.l.c.	6	6
	1,048	1,021
UK	480	467
Overseas	568	554
	1,048	1,021

	£'000	£'000
Staff costs during the year were:		
Wages and salaries	23,548	21,512
Social security costs	2,506	2,288
Pension costs	893	1,246
	26,947	25,046

Directors' interests

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

	No.	No.
RC Lockwood	–	–
JW Matthews	10,000	10,000
A Walker	5,000	5,000
GE Malcolm	22,691	20,919
WH Whiteley	83,319	81,914
RE Slater	13,586	12,554
RH Arnold	10,227	8,976

All interests were beneficial and include directors' directly held and family share interests.

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

GE Malcolm	2,678	2,730
WH Whiteley	4,616	4,946
RE Slater	2,440	2,389
*RH Arnold	2,332	2,309

*RH Arnold participates in the Rotork Overseas Profit-Linked Share Scheme ("OPLSS").

Allocations to directors in 2001 and further details of the PLSS and OPLSS schemes are provided in the remuneration report on page 17.

Save as disclosed, no director or his family had any interest in the shares of the company at 31 December 2001.

Notes to the Financial Statements

10. Intangible fixed assets

	Group Goodwill
Cost	
at 1 January 2001	34,547
Adjustment to goodwill	(502)
at 31 December 2001	34,045
Aggregate amortisation	
at 1 January 2001	16,381
Charge for the year	1,027
at 31 December 2001	17,408
Net book amount at 31 December 2001	16,637
Net book amount at 31 December 2000	18,166

The adjustment to goodwill relates to a reassessment of the consideration payable on the acquisition of Valvekits Group Ltd which was contingent at the time of acquisition and has not become payable.

11. Tangible fixed assets

	Group			Company		
	Land and buildings	Machinery plant and equipment	Total	Land and buildings	Machinery plant and equipment	Total
Cost or valuation						
At 1 January 2001	12,454	13,790	26,244	1,018	13	1,031
Exchange differences	(123)	(121)	(244)	(58)	–	(58)
Additions	42	1,435	1,477	–	–	–
Disposals	(1,089)	(850)	(1,939)	(170)	–	(170)
At 31 December 2001	11,284	14,254	25,538	790	13	803
Depreciation						
At 1 January 2001	2,325	8,156	10,481	298	2	300
Exchange differences	(25)	(111)	(136)	(5)	–	(5)
Charge for year	325	1,687	2,012	15	3	18
Disposals	(228)	(686)	(914)	(170)	–	(170)
At 31 December 2001	2,397	9,046	11,443	138	5	143
Net book value						
At 31 December 2001	8,887	5,208	14,095	652	8	660
At 31 December 2000	10,129	5,634	15,763	720	11	731

Notes to the Financial Statements

11. Tangible fixed assets *(continued)*

The net book value of the group's plant and machinery includes £50,000 *(2000: £100,000)* in respect of assets held under finance leases and hire purchase contracts.

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

	Group 2001	Group 2000
Cost	9,613	10,633
Depreciation	(1,908)	(1,750)
Net book value at 31 December	7,705	8,883
Net book value included:		
Freehold land	1,465	1,485
Freehold buildings	5,577	6,656
Long leasehold	1,839	1,982
Short leasehold	6	6
Net book value at 31 December	8,887	10,129

The cost or valuation figure of £11,284,000 *(2000: £12,454,000)* included the following properties at the revalued amounts shown. The year of revaluation is also given.

London leasehold, 1983	–	170
Bath freehold, 1991	105	105
Bath leasehold, 1991	2,245	2,245
Spain freehold, 1997	284	284
	2,634	2,804

The revaluation of the Bath properties was based on the market value for the existing use.

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

Notes to the Financial Statements

12. Investments (*held as fixed assets)*

	Group 2001	Group 2000
Investment in own shares	578	–

The investment in own shares represents 206,008 ordinary shares of the company held in trust for the benefit of directors and employees for future payments under the Profit-Linked Share Scheme and the Long-Term Incentive Plan. The market value of these shares at 31 December 2001 was £690,127. The dividends on these shares have been waived.

	Company
Shares in group companies	
At 1 January 2001	1,557
Written off in the year	–
Investment in own shares	578
At 31 December 2001	2,135

A listing of the major investments is included in the directory on page 48.

13. Stocks and work in progress

	Group 2001	Group 2000
Raw materials and purchased components	12,670	9,555
Work in progress	3,796	3,630
Finished stocks	1,582	1,368
	18,048	14,553

Notes to the Financial Statements

14. Debtors

	Group 2001	Group 2000	Company 2001	Company 2000
Amounts falling due within one year:				
Trade debtors	30,314	28,098	–	–
Amounts owed by subsidiary undertakings	–	–	22,698	14,595
Other debtors	795	1,747	18	156
Prepayments and accrued income	1,110	1,550	331	720
Corporation tax	1,053	1,067	422	663
Deferred consideration	137	100	137	100
	33,409	32,562	23,606	16,234
Amounts falling due after more than one year:				
Amounts owed by subsidiary undertakings	–	–	4,283	4,540
Other debtors	317	244	–	–
Deferred consideration	–	140	–	140
	317	384	4,283	4,680
	33,726	32,946	27,889	20,914

15. Cash at bank and in hand

	Group 2001	Group 2000	Company 2001	Company 2000
Cash at bank and in hand	7,533	5,930	36	43
Term deposits	14,629	10,890	12,907	8,904
	22,162	16,820	12,943	8,947

Cash flow analysis

	Group	Group
Reconciliation of operating profit to net cash flow from operating activities		
Operating profit	24,280	19,751
Goodwill amortisation	1,027	1,036
Depreciation	2,012	1,959
Loss/(profit) on sale of fixed assets	117	(101)
Increase in stocks	(3,689)	(371)
Increase in debtors	(1,227)	(4,479)
Increase/(decrease) in creditors and provisions	3,022	(1,386)
Net cash inflow from operating activities	25,542	16,409

Notes to the Financial Statements

15. Cash at bank and in hand *(continued)*

Reconciliation of net cash flow to movement in net funds	Group 2001	Group 2000
Increase in cash in the period	1,631	1,744
Cash outflow from change in debt and lease financing	987	536
Cash outflow/(inflow) from change in short term deposits	3,792	(8,620)
Change in net funds resulting from cash flows	6,410	(6,340)
Other non-cash items:		
Translation difference	284	(177)
Movement in net funds in the period	6,694	(6,517)
Net funds at 1 January	15,218	21,735
Net funds at 31 December	21,912	15,218

Analysis of net funds

	At 1 January 2001	Cash flow	Exchange movement	At 31 December 2001
Cash at bank and in hand	5,930	1,311	292	7,533
Overdrafts	(322)	320	2	–
	5,608	1,631	294	7,533
Debt due within one year	(218)	134	11	(73)
Debt due after one year	(972)	804	31	(137)
Finance leases	(90)	49	1	(40)
Term deposits	10,890	3,792	(53)	14,629
Total	15,218	6,410	284	21,912

Notes to the Financial Statements

16. Creditors: amounts falling due within one year

	Group 2001	Group 2000	Company 2001	Company 2000
Bank loans and overdrafts	73	540	3,496	3,263
Net obligations under finance leases	27	51	–	–
Borrowings	100	591	3,496	3,263
Trade creditors	11,497	10,278	179	139
Bills of exchange	175	33	–	–
Amounts owed to subsidiary undertakings	–	–	969	992
Corporation tax	3,986	3,820	–	277
Other taxes and social security	1,532	1,212	7	7
Deferred consideration on acquisition	–	253	–	–
Other creditors	943	529	395	157
Accruals and deferred income	9,502	8,047	518	195
Dividends payable	7,142	6,728	7,142	6,728
	34,877	31,491	12,706	11,758

Total borrowings comprise:

	Group 2001	Group 2000	Company 2001	Company 2000
Secured:				
Bank loans and overdrafts	73	540	3,496	3,263
Unsecured:				
Net obligations under finance leases	27	51	–	–
	100	591	3,496	3,263

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

Obligations under operating leases are shown under note 21.

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

	Group 2001	Group 2000
Bank loans	137	972
Finance lease obligations	13	39
	150	1,011

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

Notes to the Financial Statements

18. Provisions for liabilities and charges

	Group					Company		
	Deferred taxation	Warranty	Pensions	Other	Total	Deferred taxation	Other	Total
Balance at 1 January 2001	518	1,280	773	722	3,293	451	704	1,155
Exchange differences	(2)	(1)	17	(11)	3	–	–	–
Utilised during the year	(9)	(459)	(209)	(250)	(927)	–	(128)	(128)
Charged/(credited) in the profit and loss account	(387)	584	(160)	(84)	(47)	(331)	(166)	(497)
Balance at 31 December 2001	120	1,404	421	377	2,322	120	410	530

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

The amounts provided for deferred taxation are:

	Group 2001	Group 2000	Company 2001	Company 2000
Difference between accumulated depreciation and capital allowances	202	199	70	72
Other timing differences	(82)	319	50	379
	120	518	120	451

Included within provisions for liabilities and charges:		
UK	79	516
Overseas	41	2
	120	518

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

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

Notes to the Financial Statements

19. Share capital

	Authorised 2001	Authorised 2000	Issued and fully paid-up 2001	Issued and fully paid-up 2000
Non-equity $9^{1}/_{2}$% cumulative preference shares of £1 each	53	59	53	59
Equity ordinary shares of 5p each	5,449	5,449	4,304	4,293
	5,502	5,508	4,357	4,352

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

Following ordinary and preference shareholders approval given in May 2001, 6,115 preference shares were bought in during 2001 at an average price of 180p.

The only ordinary shares issued during the year were 155,840 *(2000: nil)* under The Rotork Profit-Linked Share Scheme at 312.5p and 46,029 *(2000: 18,567)* under The Rotork Employee Share Option Schemes at prices between 112.5p and 284.5p.

On 11 April options over 30,136 shares exercisable after three years (subject to satisfying performance criteria) at 297.5p were granted under The Rotork Employee Share Option Scheme (1995).

Outstanding options under the Rotork Employee Share Option Schemes at 31 December 2001, exercisable at various prices between 145p and 361.5p per ordinary share, were 803,210 *(2000: 877,838)*.

20. Equity reserves

	Group				Company		
	Share premium account	Capital redemption reserve	Revaluation reserve	Profit and loss account	Share premium account	Capital redemption reserve	Profit and loss account
At 1 January 2001	3,379	1,602	2,398	50,722	3,379	1,602	9,903
Profit retained	–	–	–	5,157	–	–	10,546
Premium on new shares issued	565	–	–	–	565	–	–
Purchase of own shares	–	6	–	(11)	–	6	(11)
Exchange differences	–	–	(1)	(277)	–	–	44
At 31 December 2001	3,944	1,608	2,397	55,591	3,944	1,608	20,482

Notes to the Financial Statements

21. Commitments

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

	Group 2001	Group 2000
Contracted	449	368

	Land and buildings 2001	Land and buildings 2000	Machinery, plant and equipment 2001	Machinery, plant and equipment 2000
Operating lease rentals payable during the next year are as follows:				
Commitments expiring:				
Within one year	37	66	95	89
Between two and five years	282	139	482	389
After five years	–	158	–	–
	319	363	577	478

22. Pensions

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

The total pension cost for the group was £893,000 *(2000: £1,246,000)* of which £85,000 *(2000: £402,000)* related to the overseas schemes.

The pension cost relating to the principal scheme that covers the majority of UK employees is assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The latest actuarial valuation of the principal UK scheme was as at 31 March 2001. The assumptions that have the most significant effect on the results of the valuations are those relating to the rate of return on investments and the rates of increase in salaries and pension. It was assumed that the investment return would be 5.85%, that salary increases would average 3.5% per annum and that present and future pensions would increase at a rate of 4.5% on service accrued until May 2000 and at 2.5% for service after that date.

At the date of the latest actuarial valuation, the market value of the assets of the principal UK scheme was £44,052,000 (excluding members' Additional Voluntary Contributions). The actuarial value of the assets was sufficient to cover 97% of the benefits that had accrued to members, after allowing for expected future increases in earnings. This deficiency should be eliminated by 2006 by increasing the employer's contribution rate by 3.2% of pensionable earnings. The pension costs of the other defined benefit scheme that covers US employees have been determined in accordance with advice from an independent qualified actuary.

Notes to the Financial Statements

22. Pensions *(continued)*

An amount of £421,000 *(2000: £773,000)* is included in provisions, which represents the excess of the accumulated pension costs over the payment of contributions to the US fund.

The disclosures required under the transitional arrangements within FRS17 'Retirement Benefits' have been calculated by independent actuaries based on the most recent full actuarial valuation at 31 March 2001 updated to 31 December 2001 for the UK Scheme, and 1 January 2001 updated to 31 December 2001 for the US Scheme. The financial assumptions used at 31 December 2001 were:

	UK scheme (% per annum)	US scheme (% per annum)	Average
Discount rate	5.75	7.15	5.81
Rate of increase in salaries	3.5	5.0	3.56
Rate of increase in pensions (post May 2000)	2.5	0.0	2.39
Rate of increase in pensions (pre May 2000)	4.5	0.0	4.31
Rate of price inflation	2.5	4.0	2.56

The assets in the Scheme and the expected rates of return at 31 December 2001 were:

	Expected rate of return %	Market value £m
Equities	7.75	32.7
Bonds	5.0	7.5
Other	4.5	2.8
US deposit administration contract	6.0	1.4
Total		44.4

The following amounts at 31 December 2001 were measured in accordance with the requirements of FRS17:

	£m
Total market value of Schemes' assets	44.4
Present value of the Schemes' liabilities	50.3
Deficit in the Scheme	(5.9)
Related deferred tax	1.8
Net pension liability	(4.1)

The assets and liabilities disclosed above are the combined total of the UK and US Schemes. The US Scheme accounts for approximately 4.3% of the total liability.

The company has a subsidiary in The Netherlands, the employees of which are members of an industry-wide pension scheme and any surplus or deficit cannot be associated with a particular employer. Therefore, this has not been included in the results.

Notes to the Financial Statements

23. Contingent liabilities

	Group 2001	Group 2000	Company 2001	Company 2000
Performance guarantees and indemnities	5,116	4,842	612	597
Guarantees for bank overdrafts of UK subsidiary undertakings	–	–	–	66
Guarantees for bank loan of subsidiary undertakings	–	–	–	434

The UK banking arrangements are subject to cross-guarantees between the company and its UK subsidiary undertakings. These accounts are subject to a right of set-off.

24. Derivatives and other financial instruments

Financial risk and treasury policies

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

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

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

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

Interest rate risk profile

Financial liabilities

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

	2001				2000			
	Fixed rate of interest	Floating rate of interest	Nil interest	Total	Fixed rate of interest	Floating rate of interest	Nil interest	Total
Euro	40	–	–	40	90	1,078	–	1,168
Other	38	157	15	210	59	347	28	434
	78	157	15	250	149	1,425	28	1,602

The floating rate financial liabilities comprise bank loans bearing interest rates fixed by reference to the relevant LIBOR or equivalent rate.

The financial liabilities on which no interest is payable have a weighted average period to maturity of 3 years *(2000: 3 years).*

The weighted average interest rate of the fixed rate financial liabilities is 2.4% per annum *(2000: 3.7%).*

The weighted average period for which interest rates on the fixed rate financial liabilities are fixed is 2 years *(2000: 3 years).*

Notes to the Financial Statements

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

Financial assets

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

	2001 Fixed rate cash	2001 Other cash	2001 Debtors	2000 Fixed rate cash	2000 Other cash	2000 Debtors
Sterling	12,908	918	137	9,654	357	140
US Dollar	335	2,911	–	137	1,973	–
Euro	229	1,947	–	1,078	822	–
Other	1,157	1,757	–	21	2,778	–
	14,629	7,533	137	10,890	5,930	140

All cash deposits are held on fixed rates of interest.

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

There is no interest applied on the debtors and the weighted average period until maturity is 1 year *(2000: 1 year).*

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

	2001 Fixed rate Weighted average interest rate (%)	2001 Fixed rate Weighted average period for fixed rate (months)	2000 Fixed rate Weighted average interest rate (%)	2000 Fixed rate Weighted average period for fixed rate (months)
Sterling	4.0	0	5.5	1
US Dollar	1.8	1	6.1	1
Euro	3.3	1	4.8	1
Other	6.9	2	–	–
Group	4.1	0	5.5	1

Notes to the Financial Statements

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

Currency exposures

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

At 31 December these exposures were as follows:

Net foreign currency monetary assets/(liabilities)

	2001 Functional currency of group operation				
	Sterling	US Dollar	Euro	Other	Total
Sterling	–	(2,006)	(5,811)	(2,437)	(10,254)
US Dollar	3,523	–	153	(1,599)	2,077
Other	569	(79)	(25)	(112)	353
Total	4,092	(2,085)	(5,683)	(4,148)	(7,824)

	2000 Functional currency of group operation				
	Sterling	US Dollar	Euro	Other	Total
Sterling	–	(2,003)	(4,355)	(74)	(6,432)
US Dollar	2,656	–	432	(842)	2,246
Other	(103)	(52)	8	62	(85)
Total	2,553	(2,055)	(3,915)	(854)	(4,271)

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

Maturity of financial liabilities

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

	2001	2000
In one year or less	100	591
In more than one year but not more than two years	82	249
In more than two years but not more than five years	68	633
In more than five years	–	129
Total	250	1,602

The group had no undrawn committed borrowing facilities at 31 December 2001.

Notes to the Financial Statements

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

Fair values

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

	2001		2000	
	Book value	Fair value	Book value	Fair value
Primary financial instruments held or issued to finance the group's operations:				
Short-term financial liabilities and current proportion of long-term borrowings	(100)	(100)	(591)	(591)
Long-term borrowings	(150)	(150)	(1,011)	(1,011)
Cash deposits	14,629	14,629	10,890	10,890
Other cash balances	7,533	7,533	5,930	5,930
Long-term debtors	137	137	140	140
Derivative financial instruments held to manage the currency profile:				
Forward foreign currency contracts	–	666	–	37

At 31 December 2001 the group also held open various forward contracts that the group had taken out to hedge expected future foreign currency sales.

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

Gains and losses on hedges

The group enters into forward foreign currency contracts to eliminate the currency exposures that arise on sales denominated in foreign currencies. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures.

	Gains	Losses	Total
Unrecognised gains and losses on hedges			
At 1 January 2001	89	(126)	(37)
Amounts arising in previous years that were recognised during the year	(30)	126	96
Amounts arising before 1 January 2001 that were not recognised during the year	59	–	59
Amounts arising in the year that were not recognised during the year	607	–	607
At 31 December 2001	666	–	666
Of which:			
Gains expected to be recognised in less than one year	441	–	441
Gains expected to be recognised after more than one year	225	–	225

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