rotork

The world leader in actuation solutions

Annual Report & Accounts 2003

rotork

Total Actuation Solutions

THE PRINCIPAL ACTIVITIES OF THE ROTORK GROUP ARE THE DESIGN, MANUFACTURE AND SUPPORT OF ACTUATORS, SYSTEMS AND RELATED PRODUCTS WORLDWIDE.

Fluid System

Heavy duty pneumatic and hydraulic valve actuators for emergency shutdown in safety critical and subsea applications. Manufacture is based in Italy and the USA, with distribution mainly via Rotork companies in Canada, UK and Singapore.

Gears

A complete source of gearboxes, adaption and ancillaries for the valve industry. Production facilities are based in the UK, Holland and the USA.

Process Control

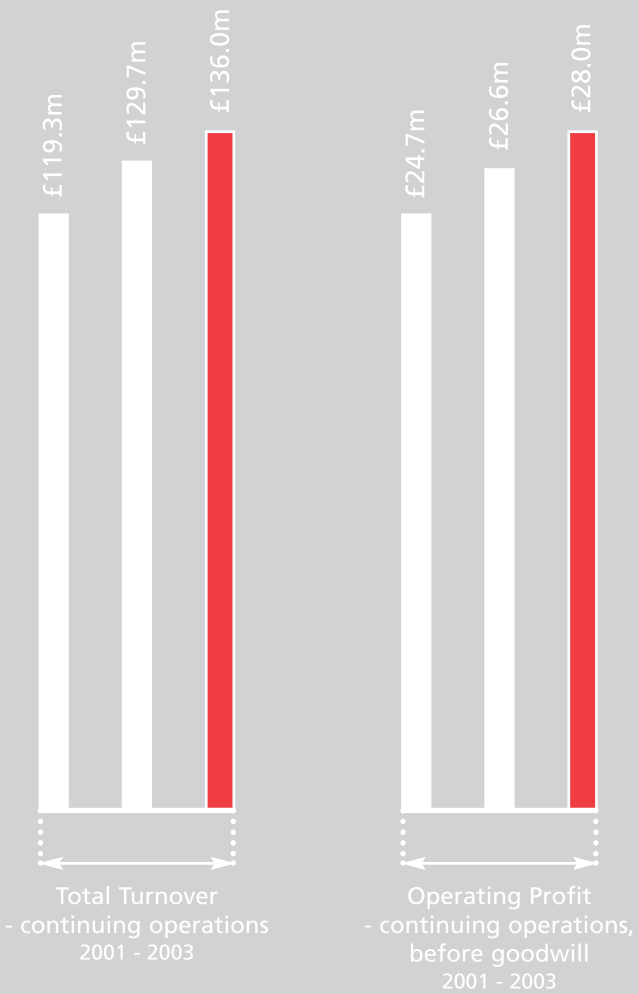
Actuators for mainstream and specialist process control and other positioning applications are produced in our facilities in the USA and UK.

Electric

This, the largest of Rotork's activities, supplies latest, state of the art electric valve actuators for controlling the opening and closing of pipeline valves. 30% of these are supplied with digital control systems developed in-house. Manufacture is based in the UK, USA, Malaysia and India.

Financial Highlights

The key drivers for the Group's businesses are related to the investment in oil and gas, water and waste water and power generation installations around the world with demand being generated by new and expanded capacity, upgrades to existing facilities and replacements.



- **Basic earnings per share up 8%**
- **Sales and profit growth in all divisions**
- **Cash flow from operations up 31% to £34m**
- **Fluid System operating profit* increased by 17% and Gears by 11%**

*before goodwill

Contents

Chairman's Statement

Overall our businesses have performed well in the year....most of our Far East operations, in particular China, delivered good growth in the year.

Introduction

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

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

Business review

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

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

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

The acquisition of the Australian business, Deanquip Valve Automation in January 2004, will improve our customer focus in Australasia and complement our Fluid System service centre in Singapore.

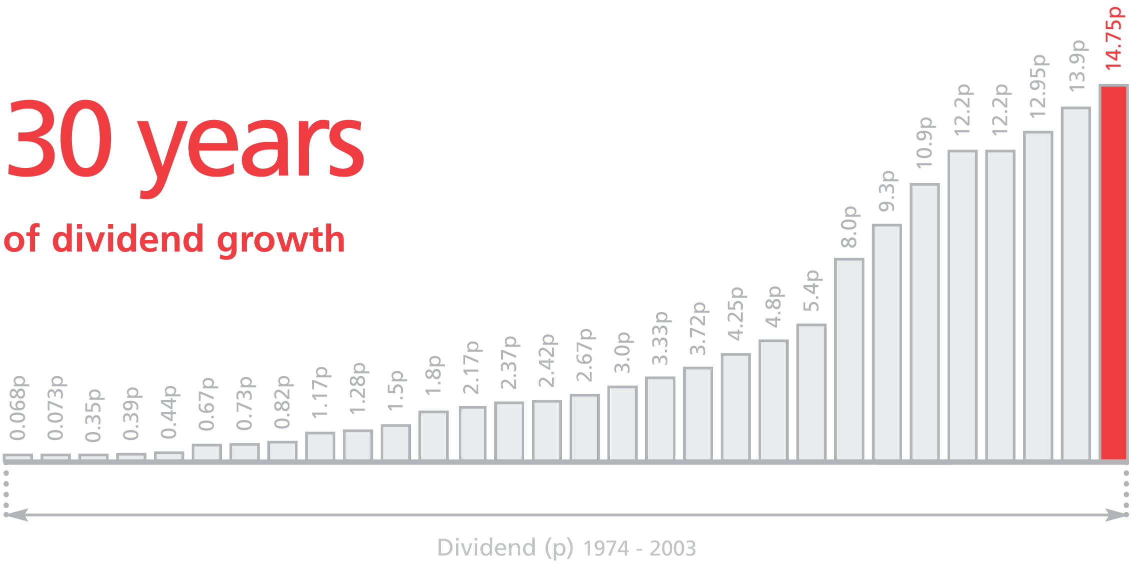
The Leeds based Gears business did well in the year recording a 13% improvement in both sales volume and in operating profit. The Dutch operation, where management changes were made at the end of the prior year, has seen much improved margin performance and contributed well to the results of the division.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

Dividend and Cash

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

30 years

of dividend growth

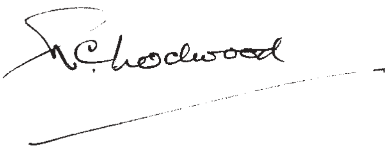


Our continued strong cash generation has contributed to balances exceeding £32m at the year-end. Assuming that trading remains in line with expectations this trend will continue in 2004. With this in mind the Board has decided to recommend the return of some of this cash to shareholders by way of an additional dividend for 2004 of 5.85p, to be paid on May 28 with the 2003 final dividend to shareholders on the register at 2 April. Over the last few years our dividend cover has reduced to around 1.5 times, a level that is lower than we would like. It is therefore our current intention that when recommending the levels of interim and final dividends for 2004, following our announcement of the additional interim dividend for 2004 mentioned above, we will seek to move towards a greater level of cover. Dividend cover for the year under review is 1.5 times. The graph above shows that dividends have grown in almost every year for the last 30 years.

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

Outlook

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



Roger Lockwood
Chairman
25 March 2004

Operating & Financial Review

Overview

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

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

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

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

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

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

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

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

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

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

International Strength

WITH NINE MANUFACTURING OPERATIONS AND A WORLDWIDE NETWORK OF SERVICE CENTRES, OFFICES AND AGENTS, ROTORK HAS THE LARGEST SUPPORT NETWORK DEDICATED TO ACTUATORS. THIS COMBINED WITH ROTORK'S EXPERTISE PROVIDES AN UNRIVALED SERVICE TO ITS CUSTOMERS.

Case Study:
Da Xie Tank Farm, China.
More than 200 Rotork IQ actuators are installed on Chinese-built valves in the new plant at the Da Xie Tank Farm in Ningbo Beilun Port on the east coast of China, pictured here.

This order is one of many received in recent years from China's oil and gas industries. In one of the latest projects, Rotork is supplying over 700 electric actuators to valvemakers in China, Holland, Italy and the USA for the 4,000 kilometre West to East Natural Gas Pipeline, described as the largest and most significant distribution project ever planned in China.

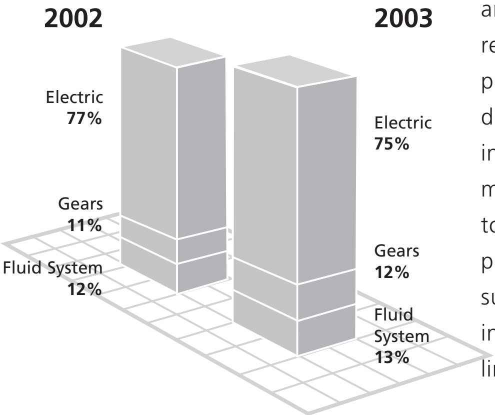
Ultimate product reliability

WITH OVER 45 YEARS OF EXPERIENCE, WORKING IN EXTREME ENVIRONMENTS IN ALL INDUSTRIES ACROSS THE WORLD, ROTORK HAS DEVELOPED A DESIGN OF UNCOMPROMISING RELIABILITY. WHETHER THE ACTUATOR IS OPERATED ONCE A MINUTE OR ONCE A MONTH ROTORK ACTUATORS CAN BE RELIED UPON TO WORK.

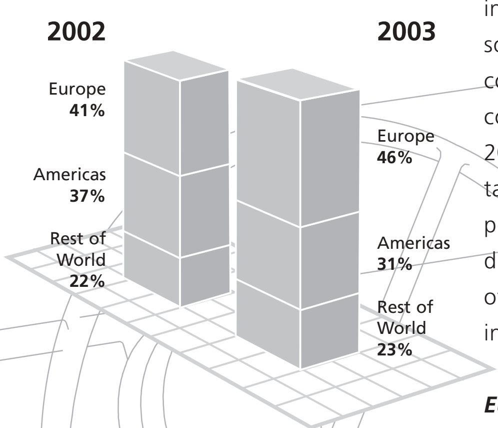
Case Study:
Sour Gas Pipeline at Burnt Timber, Calgary, Canada.
The operators of a remote pipeline in northern Canada have adopted Rotork electro-hydraulic actuators to meet the strictest operational and reliability criteria in an area of outstanding environmental importance. Due to the very sour nature of the gas carried by the pipeline the customer was concerned about the venting to atmosphere characteristics of conventional actuation equipment used for this type of remote isolating valve duty.

The innovative Rotork EH design offers an alternative solution with a fully enclosed power unit that does not rely on the pipeline gas to operate the valve. In addition, integral Rotork electronics provide all the benefits of simplified remote control and indication associated with electric actuators.

Turnover by Business Segment (continuing operations)



Turnover by Geographical Destination (continuing operations)



Electric actuators

UK Operations

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

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

Europe

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

The Americas

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

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

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

Operating & Financial Review
continued

The Far East and Rest of the World

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

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

Rotork Fluid System

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

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

Rotork Gears

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

Research & Development

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

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

Leading Edge Design

ROTORK PRODUCTS ARE DESIGNED WITH AN UNCOMPROMISING ATTITUDE TOWARDS RELIABILITY, QUALITY AND TECHNICAL INNOVATION. OVER THE YEARS ROTORK HAS BECOME A BYWORD FOR EXCELLENCE IN THE FIELD OF VALVE, SLUICE GATE, AND DAMPER PRODUCTS FOR THE OIL, GAS, POWER, WATER AND WASTE WATER TREATMENT INDUSTRIES WORLDWIDE.

Case Study: Development of IQT quarter turn actuator.
The evolution of Rotork's IQ actuator has resulted in the latest non-intrusive addition to the range; the IQT.

IQT offers a direct quarter turn output actuator with full IQ specification. IQT offers the highest standard in comprehensive control, real time diagnostics and bus connectivity.

Utilising IrDA TM communication for rapid non-intrusive commissioning and data exchange, the IQT in common with the IQ includes a data logger, allowing operational data such as valve torque profiles, actuator events and statistics to be stored and downloaded.

Increasing manufacturing efficiency

WITH PLANTS IN THE UK, THE USA, NETHERLANDS, ITALY, INDIA, AND MALAYSIA, ROTORK IS STRATEGICALLY POSITIONED TO SERVE THE VALVE INDUSTRY WORLDWIDE. WITH THE FOUR-FOLD EXPANSION OF THE PLANT CAPACITY IN LUCCA, AND INVESTMENT IN NEW PROCESSES, ROTORK HAS THE LARGEST MOST UP TO DATE FACILITIES DEDICATED TO ACTUATOR MANUFACTURING.

Case Study:
Rotork Fluid System Manufacturing Plant Lucca, Tuscany.

A significant increase in demand for fluid power actuators together with the introduction of new ranges has necessitated a move for Rotork Fluid System to larger production premises and allows centralisation of the Fluid System operations in Lucca.

RFS also has a manufacturing plant located in Rochester, New York, strategically positioned to serve some important valve supply markets. These two plants provide Rotork with substantial capacity for the production of heavy-duty fluid powered actuators.

Operating & Financial Review
continued

Quality

Following the precedent set by the main Bath plant and Rotork India in 2002, other key sites in the Group have now made the transition to ISO9001:2000. A particularly notable achievement was Rotork Actuation Malaysia, which gained LRQA approval in August 2003, having only begun manufacturing in December 2002.

The main Bath site underwent a very successful LRQA re-certification audit against ISO9001:2000 in February 2004. The scope of approval was amended to underscore the suitability of Rotork products for use in potentially hazardous environments. LRQA noted "an evident commitment to continual improvement" and during 2004 the Bath plant will embark on a Lean Manufacturing Initiative. Value stream maps will be developed, focusing on key business processes to improve efficiency and eliminate waste. The primary objectives are to align operational systems with customer lead-time expectations and to maximise flexibility.

Q Track, the web-based quality performance monitoring system launched at the beginning of 2003, has been a major success. The system has reduced significantly the use of paper and fax systems, improved data capture and provided a powerful management tool for analysis of performance information. It has already been rolled out to Rotork Controls Inc., Rochester, New York and Rotork Actuation Malaysia. Other sites in the Group are keen to adopt it.

The 'concept-to-market' time cycle of the new, non-intrusive quarter turn product, IQT, was expedited by deploying innovative techniques including analytical solid modelling, rapid prototyping and concurrent engineering. Casting design was optimised using leading edge process simulation to predict potential trouble spots, resulting in very high casting yields from the start.

Treasury

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

At constant currency, the Group turnover would have shown an improvement of 4.6% over 2002, rather than the 4.8% reported. In net profit terms, before goodwill, the increase would have been 7.4% rather than the 7.0% reported. Of our total income streams for 2003, around 30% were in US dollars, and 27% in euros. The US dollar weakened rapidly toward the end of the year, a period of improved performance from our US subsidiary. The result of this was to mask the real trading improvement made in the US in the second half. In local currency the US Company had sales output in the second half 30% higher than the first half.

The weighted average exchange rates for the translation of Group results in the two main currencies for the year were:

- US dollar $1.66 (2002 $1.52)
- Euro €1.44 (2002 €1.58)

Electric actuators are produced mainly in the UK and US, Fluid System actuators in Italy. The US Company procures many of its components for electric actuators from the UK, although increasingly these are sourced in Asia and paid for in US dollars. The components for Fluid System products sold throughout the world are sourced mainly in Italy.

We have some natural currency hedging on the US dollar through the sourcing of components from the dollar based economies of Malaysia and China. In addition, the Group has an active hedging policy and seeks to cover its exposure on known trading risks. The Group treasury function does not operate as a profit centre, and foreign currency hedging is done only against underlying trading transactions, many of which – at the point of cover – are intercompany. Speculative currency transactions are not undertaken.

Operating & Financial Review
continued

Free Cash flow

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

In the current year free cash flow available to shareholders has been £24.7m: (see table above right)

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

Pensions

We have delayed implementation of the pensions accounting standard FRS17 pending introduction of International Accounting Standards. Disclosures are shown, as required, in this year's report, to illustrate the effect that FRS17 would have had on the Group's reported profits, recognised gains and losses, and net assets.

As stated last year, membership of the main defined benefit pension scheme in the UK was closed to employees joining the Company from 1 January 2003. We have now introduced a defined contribution scheme for all employees joining after 1 January 2003. This scheme has a Company contribution equivalent to the level which we would have expected to put into a fully funded final salary scheme.

The UK defined benefit scheme is subject to its triennial actuarial valuation as at 31 March 2004. Since the previous valuation there have been a number of factors which have adversely affected defined benefits schemes in the UK and the Rotork Scheme has not been immune from these general trends. The combination of poor stock market performance, falling bond yields, increasing maturity of the Scheme and improvements in longevity will all worsen the Scheme's funding level. In view of this anticipated deterioration we have already acted to increase the standard rate of employee contribution to the Scheme, by 1.5% from January 2004 and by a further 1.5% from 1 January 2005.

In addition, we are making a lump sum cash contribution of £5m to the Scheme prior to the end of the scheme year, 31 March 2004. The purpose of this is to recognise the underfunded position before the valuation date. There is a minimal effect in terms of pension charge on the profit of the Group as a result of this action because the smoothing effect of the SSAP24 calculation does not reflect the actual contributions paid into the Scheme. There is of course the effect on interest receivable as a result of this money not being available to the Group as a cash investment, although the money will earn a return from being invested in assets held by the Scheme.

The value of the Scheme's assets has recovered since the last balance sheet date, as can be seen from the FRS17 calculation shown in note 23 to the accounts. However, inflation and corporate bond rates have adversely affected the liability calculation and consequently increased the size of the FRS17 deficit at the year end, which now stands at £13.6m after related deferred taxation. The proportion of our employees in this Scheme will diminish over time.

The overall pension charge to the accounts in the year rose to £2.3m from £2.0m in 2002.

Tax

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

Earnings per share and Dividend

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

Outstanding customer support

WHATEVER THE PRODUCT, WHATEVER THE ENVIRONMENT, ALL ROTORK CUSTOMERS ENJOY THE BACKUP OF 150 OFFICES LOCATED THROUGHOUT EUROPE, NORTH AND SOUTH AMERICA, FAR EAST, AFRICA, AUSTRALASIA AND THE MIDDLE EAST. ROTORK'S GLOBAL SERVICE NETWORK ENABLES ROTORK TO RESPOND QUICKLY AND EFFICIENTLY AT A LOCAL LEVEL, INTERNATIONALLY.

Case Study:
Maizuru Terminal, Japan.
The Maizuru Terminal is the latest fuel supply facility in Japan's maritime self-defence infrastructure to be automated with Rotork IQ electric actuators and Pakscan digital control systems.

Rotork Japan's careful attention to customer requirements has been rewarded by the adoption of the Rotork actuator and control system package at every site that has been modernised. Several hundred actuators have so far been installed on this nationally important project.

Working with the environment

ROTORK IS A MEMBER OF THE UN INITIATIVE "GLOBAL COMPACT" WHICH IS A VOLUNTARY INITIATIVE TO PROMOTE GOOD CORPORATE CITIZENSHIP. WITH WORLDWIDE MANUFACTURING OPERATIONS, ROTORK IS CONSTANTLY LOOKING AT WAYS TO REDUCE ITS IMPACT ON THE ENVIRONMENT, SUCH AS WASTE MINIMISATION, INCREASING RECYCLING AND REDUCING CO2 EMISSION.

Case Study:
London Heathrow Terminal 5.
The construction of the new BA Terminal 5 at Heathrow Airport entails the diversion of two of London's historical rivers. The Longford and Duke of Northumberland's rivers have been re-aligned in new, fully open channels in order to maximise their ecological and environmental values.

At the heads of both diversions Rotork IQ intelligent electric actuators automatically operate river gates that control the downstream flows. The actuators respond to signals from adjacent level sensors to ensure that the flow will always be contained within the riverbanks.

Future UK accounting developments

The European Commission issued a Regulation in 2002 requiring all listed companies to adopt International Accounting Standards in their consolidated financial statements from 2005. The Group is considering the implications of such a requirement and would expect first to prepare financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board for the year ended 31 December 2005.

Environmental issues

Rotork remains fully committed to the principles laid down for inclusion in the FTSE4Good Index. The Group Environment Policy has been published on the Company website since early 2002 and is now reviewed annually. The 2003 Group Environmental Report, to be published on the website in Spring 2004, will include global reporting of environmental data.

An independent audit in January 2004 confirmed that 2003 saw major progress in establishing an ISO14001 compliant Environmental Management System at the main Bath plant. Key milestones in this process included:

- Preparation of an exhaustive legal register
- A detailed aspects and impacts assessment
- Preparation of operational controls
- Setting objectives and targets

The main target established through this process is to reduce waste to landfill by two thirds, by mid-2005. This will be achieved by a progressive strategy of recycling more packaging and other waste.

Global Compact

Rotork signed up to the UN's Global Compact and its nine principles in November 2003. Rotork's commitment to these principles, which are part of a wider Corporate Social Responsibility ethic within the Group, is fully supported by the Board and Rotork is a keen advocate of the Compact and its objectives.

The Rotork Group has always espoused such principles as equality, personal freedom and economical, social and cultural rights. Having set out to establish an ISO14001 compliant Environmental Management System at the main plant and Company headquarters in Bath, Rotork is also well advanced in its efforts to protect and preserve the environment. During the course of 2004, the business will review its operations and establish actions required to implement more fully the principles of the Global Compact.

Employees

I would like to take this opportunity of thanking all our people for their enthusiasm for and dedication to serving our customers around the world and creating wealth for our shareholders. We are committed to train our people and to provide support and the necessary tools to help develop our business and implement our strategies. The Group also recognises the importance of investing time and resources to developing future leaders at all levels of the organisation.

Bill Whiteley
Chief Executive
25 March 2004

The Company's operating Board pictured in the Bath plant.

Board of Directors

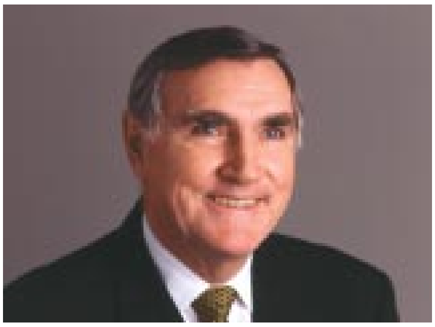
RE Slater (right)
Bob (52) joined Rotork in 1989 as Finance Director of the Actuation Division, and was appointed to the Board of Rotork p.l.c. as Group Finance Director in 1998. He has previously held finance positions in mining, building controls and the engineering industry.

Chief Executive WH Whiteley (above)
Bill (55) 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 Group Chief Executive in 1996. He is a member of the Nomination Committee. Bill is a non-executive director of Roxboro Group plc and Spirax-Sarco Engineering plc.

GE Malcolm (above)
Since joining Rotork in 1984, George (58) had been Engineering Director of the Actuation Division prior to becoming a member of 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 (above)
Bob (52), who became a member of the Rotork p.l.c. Board in 2001, is a graduate engineer. Previously with Westinghouse in the USA, he joined Rotork Controls Inc. as Engineering Manager subsequently becoming Vice President, Engineering and since 1988 President of Rotork Controls Inc. Bob has responsibility for all Rotork's interests in the Americas.

Chairman RC Lockwood (above)
Roger (58) has been a non-executive director of Rotork since joining the Board in 1988 and became non-executive Chairman in November 1998. He is a member of the Audit and Remuneration Committees and Chairman of the Nomination Committee. He is Chairman of Colston Manufacturing (Engineering) Co Ltd and Hydro International plc and has previously held CEO roles in automotive and engineering businesses.



JW Matthews (above)
John (59) has been a non-executive director of Rotork since joining the Board in November 1998. He is Chairman of Crest Nicholson plc and Regus plc. He has previously held senior positions in banking and industrial companies. He is Chairman of the Audit and Remuneration Committees and a member of the Nomination Committee, and is the Senior Independent non-executive Director.

A Walker (above)
Alex (57), who joined the Board as a non-executive director in January 2001, has been Chief Executive of Yule Catto & Co. plc since 1986. He is a member of the Audit, Remuneration and Nomination Committees.

Report of the Directors

The directors submit their report and the audited accounts for the year ended 31 December 2003 as set out on pages 28 to 55.

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.

Reviews of the Group's activities including the acquisition post year end in January 2004 of the business and assets of Deanquip Valve Automation from Deanquip Sales Pty Ltd. of Melbourne, Australia are set out in the Operating and Financial Review on pages 4 to 15.

Dividends

The directors recommend a final dividend of £8,142,000 for the year, payable on 28 May 2004 to shareholders on the register on 2 April 2004. This represents 9.50p per share *(2002: 8.90p)* which, with the interim dividend of 5.25p per share *(2002: 5.00p)* will produce a total dividend per ordinary share of 14.75p *(2002: 13.90p)*.

Shares issued or purchased

Details of the ordinary shares issued and purchased and the preference shares purchased during 2003 are given in note 19 on page 47.

Substantial shareholdings

As at 1 March 2003 the Company had been formally notified that the following have material interests in 3% or more of the issued ordinary share capital of the Company:

	No.(m)	%
Aviva	5.9	6.9
Legal & General Investment Management	3.5	4.9
Prudential plc	3.0	3.5
Threadneedle Asset Management Ltd	2.7	3.1

Research and development

Total Group expenditure on research and development in the year was £2,071,000 *(2002: £2,367,000)* further details of which are contained in the Operating and Financial Review on pages 4 to 15.

Charitable donations

During the year the Group made charitable donations of £30,000 *(2002: £28,000)*.

There were no political donations made in the year or the prior year.

Directors

The names of the directors in office throughout the year and their biographical details are as shown on page 16. 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 39.

WH Whiteley, GE Malcolm, RE Slater and RH Arnold have service agreements and details of these are contained in the Remuneration Report on pages 21 to 26.

At the Annual General Meeting, in accordance with the Articles of Association, A Walker and WH Whiteley will retire by rotation and, being eligible, will offer themselves for re-election.

Corporate governance

The Company applied the principles set out in section 1 of the Combined Code for the period under review and has throughout the year complied with the provisions set out in the Code apart from those relating to the length of directors' service contracts (Code provision B.1.7), which are commented on in detail in the Remuneration Report.

The Company complies with the Code provisions on internal control having during the year continued to embed procedures necessary to implement the guidance issued in 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 misstatement or loss.

A continuous process for identifying, evaluating and managing the significant risks faced by the Company continued to be applied and 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 the risk management process that identifies and evaluates the key risks (including social and environmental) 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 function. 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 including consideration of social and environmental risks.

Report of the Directors
continued

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:

- Monitors and reviews the effectiveness of internal audit activities;
- Reviews and monitors external auditor independence and objectivity and the effectiveness of the audit process;
- Considers reports from management, internal and external audit on the system of internal financial control and any material control weaknesses;
- Receives reports on Health and Safety and environmental issues;
- Discusses with management the range of actions taken on problem areas for the business identified by Board members or in the internal and external audit reports.

Additionally:

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

Prior to the year-end the full Board following discussion at the Audit Committee formally reviews 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 approved by the Board in writing 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 full Board had eight meetings spread appropriately over the course of the year and additional meetings will be convened as necessary. During the year Mr. Lockwood, Mr. Matthews, Mr. Whiteley, Mr. Slater and Mr. Malcolm attended every Board meeting. Mr. Walker attended seven of the eight Board meetings. Mr. Arnold attended five Board meetings in person and the remainder by video-link for part of the meeting.

The Chairman ensures through the Company Secretary that the Board Agenda and all relevant information is provided to the Board sufficiently in advance of meetings. The Chairman and Company Secretary discuss the Agenda ahead of every meeting. At meetings the Chairman ensures that all directors are able to make an effective contribution throughout meetings and every director is encouraged to participate and provide opinions for each Agenda item. The Chairman always seeks to achieve unanimous decisions of the Board following due discussion of Agenda items. The Schedule of Reserved Matters details those matters specifically reserved for Board decision. The types of decision which are reserved for Board decision relate to matters which cannot or the Board considers should not be delegated to the Chief Executive and executive management. They include approval of Group commercial strategy and succession planning, approval of Group annual operating and capital expenditure budgets and recommendations for payment of final dividend and decisions for interim dividends and dividend policy, approval of the Annual Report and financial statements and announcements of final and interim results, ensuring sound internal control and risk management, executive director remuneration, corporate governance matters including Board and Committee performance appraisals, Board and Committee membership. The decisions which are left to management are all those related to the successful operation and management of the Company's business and in implementing the commercial strategy within the limits set by the Board annually for overall operational budgets and capital expenditure.

The Chairman ensures that meetings of non-executives without the executives present are held. The Company maintains appropriate directors' and officers' insurance cover. The Chairman's other significant commitments in the year are described on page 16.

The Board has three standing committees:

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 Finance Director, Chief Executive 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 matter of auditor independence is considered by the Committee. The Auditor does provide non-audit services. Auditor objectivity and independence is safeguarded by ensuring all non-audit services are managed and directed by the Company executive management and by ensuring disclosure of non-audit fees to the Audit Committee. For significant general consulting projects more than one service delivery provider is considered. Categories of non-audit work provided by the auditor with fees are set out on page 36. Within the Audit Committee's Terms of Reference is a requirement for the Committee to assess the independence of the external auditor ensuring key partners are rotated at appropriate intervals and to ensure that the provision of non-audit services does not impair the external auditors' independence or objectivity.

A revised Terms of Reference for the Audit Committee was approved by the Board following publication of the revised Combined Code in July 2003 (Revised Code) and is available to view on the Company's website.

Of the members of the Audit Committee Mr. Lockwood and Mr. Matthews attended all three meetings of the Committee during the year. Mr. Walker attended two of the

Committee meetings. Mr. Slater and Mr. Whiteley attended all three meetings of the Committee by invitation. Mr. Malcolm and Mr. Arnold attended two meetings by invitation.

During the year the Board approved on Audit Committee recommendation a Whistleblowing Policy.

The work of the Remuneration Committee is described in the Remuneration Report on pages 21 to 26. Mr. Lockwood and Mr. Matthews attended the four formal meetings of the Remuneration Committee. Mr. Walker attended three of the formal meetings. The Chief Executive was invited to attend the four formal meetings for parts of those meetings.

The Nomination Committee's three members during the year were RC Lockwood (who chairs the committee), JW Matthews and WH Whiteley. The Committee meets regularly to undertake its duties in relation to succession planning and in recommending specific appointments to the Board. The Committee is at the time of publication of this Annual Report preparing to undertake a search for an additional independent non-executive director with recent and relevant financial experience. Terms of Reference for the Nomination Committee compliant with the Revised Code were approved by the Board following its publication and are available on the Company's website.

The Nomination Committee met at various times throughout the year.

Communication with shareholders is given high priority. All members of the Board receive copies of all analysts' reports of which the Company is made aware. The Chief Executive reports at each Board meeting upon his meetings with analysts and fund managers. The Company intends to write to major shareholders enquiring whether in the light of the revised Combined Code they wish to receive any additional communication with the Company and the Board. Individual shareholders have an opportunity to put questions to the Chairman at the AGM and individual shareholder enquiries are dealt with throughout the year by the Company Secretary's department.

Revised Combined Code Published July 2003 (Revised Code)

During the year the Board appointed a Committee of the Company Chairman, the Senior Independent non-executive Director, the Chief Executive and the Company Secretary to consider the implications of the Revised Code for future Corporate Governance of the Company and the Board. The Committee presented recommendations to the Board and these were agreed.

Currently there are two independent non-executives on the Board as defined by the Revised Code. As Rotork p.l.c. is considered a large Company by the Revised Code it is recognised that for full compliance, based on the current four executive directors, two further independent non-executives would need to be appointed. The Board's intention is to immediately search for an additional independent non-executive as further described below. This decision is considered by the Board to be a significant step towards full compliance in respect of the Revised Code provisions (when they become applicable to the Company) concerning Board and Committee composition. It is noted that for companies outside the FTSE350 the two current independent non-executives on the Board would make the Company compliant with the Revised Code.

The Board is aware of the requirement in the Revised Code that for both Audit and Remuneration Committees there should be at least three members all of whom should be independent non-executive directors. As a transitional measure the Audit and Remuneration Committees will retain their current membership until the Board appoints a further independent non-executive director (with recent and relevant financial experience) at which time the Company Chairman will step down from membership of both the Audit and Remuneration Committees and the additional independent non-executive will be invited to replace the Company Chairman on both Committees.

Pending the appointment of the third independent non-executive director detailed above, the Nomination Committee will comprise the two independent directors on the Board at the time of publication of this Report and the Chief Executive and Chairman. The third independent non-executive director will on appointment be invited to join the Nomination Committee. At such time a majority of the members of the Nomination Committee will be independent non-executive directors.

The Board intends during financial year 2004 to put in place a formal process for performance evaluation of the Board, its Committees and individual directors.

Corporate Social Responsibility

The Company's environmental policy is stated within the Environmental Report published on the Company's website.

The 2003 Environmental Report will set out the key indicators for measurement of environmental performance within the Bath, Leeds and Nottingham manufacturing sites and additionally provide environmental information for the Netherlands, USA, Italian and Indian manufacturing sites. A strategy to further develop global environmental reporting of all Rotork manufacturing plants is in place. The strategy also includes plans for the implementation of a formal environmental management system compliant with ISO14001 at the Bath plant and thereafter to other manufacturing sites on a progressive basis. During 2004-2005 audits of the Group's main suppliers will include supplier environmental audits. The Environmental Report references the Group's corporate social responsibility infrastructure including the standing Environmental Committee; Social Committee and the over-arching Corporate and Social Responsibility Committee chaired by the Group Chief Executive.

Report of the Directors
continued

The Company has awareness of the UN backed International Labour Core Labour Standards. The Company's policy is not to discriminate on grounds of colour, race, gender, age, ethnicity or religious beliefs or ever operate with unacceptable worker treatment such as the use of child or forced labour. The Group aims to uphold and support human rights wherever it operates respecting local laws and regulations. Generally the Company's overseas offices are managed and operated by nationals of the relevant country. During the year the Company signed up to the UN Global Compact initiative. The Compact brings together companies, UN agencies, labour and civil society to support nine principles in the areas of human rights, labour and the environment.

The Company's 'doing the right thing' publication available on the Company's website sets out the way in which the Group encourages employees to become shareholders through its employee share schemes and to make available to employees opportunities for training and development including direct financial support related to job roles within the Company. The 'doing the right thing' publication also highlights how employee communication is fostered through employee committees and makes reference to the Group's involvement with the wider community. For many years the Company has pursued a policy of community involvement through financial support fostering partnership with local charitable and voluntary organisations, trusts and local support groups. A Charity Committee made up of employees at all levels considers local community charitable and similar requests. Projects are then followed through with visits and reports by employees and feedback to the Charity Committee. Sponsorship is also given to local youth and sporting clubs and to local cultural and social events. There is also direct engagement in community issues. For example in Bath a representative of the Company sits on a local group supporting local initiatives for cultural, social and economic development. During the year there was also involvement in Bath Heritage which concerns itself with Bath's world heritage status.

The Group has health and safety policies in place. The Group is working toward a global health and safety policy compliant with occupational health and safety management system (ohsas) for the benefit of employees and those they interact with worldwide.

Business integrity and fair dealing is key to the Group's relationships with suppliers and contractors. Many of the Group's suppliers have had long-term relationships with the Group. Most key suppliers are registered to ISO9000. Supplier development is ongoing and involves elements of the ISO9000 system developed in the motor industry.

The Company is a constituent of the FTSE4Good Index.

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 28 to 55, 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 their 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 Friday, 21 May 2004 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

Stephen Rhys Jones, Secretary
25 March 2004
Bath

Remuneration Report

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

The Remuneration Committee (the Committee) of the Board is comprised of the three non-executive directors, RC Lockwood, JW Matthews and A Walker. During the year under review JW Matthews chaired the Committee. The Committee makes recommendations to the Board on the Company's framework of executive remuneration and its costs, and determines on the Board's behalf 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.

During the year the Committee appointed and received salary and remuneration advice from Towers Perrin for executive directors and senior management. The Chairman of the Committee consults the Chief Executive on remuneration of the other executive directors and the Committee is informed and consulted by the Chief Executive upon his recommendations for remuneration of other senior managers. The Company Secretary participates in Remuneration Committee discussions and advises the Committee.

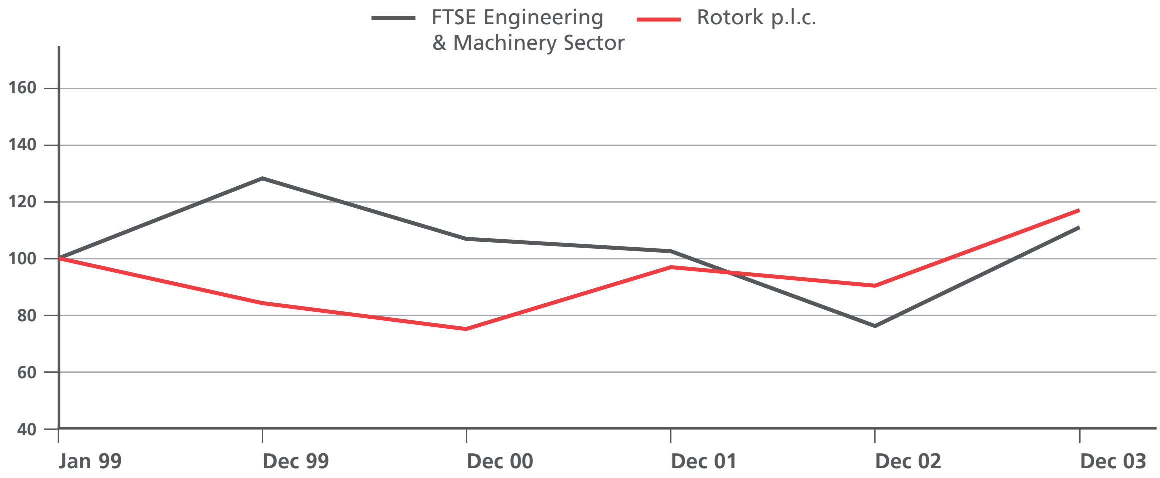
For the year under review, the Board considered that it was critical that the Company had remuneration policies that enabled it to retain, motivate and, when required, recruit high quality management. In recommending the level of remuneration for executive directors, the Remuneration Committee took account of the size and nature of the Company, including its international scope, using data from a number of sources including Towers Perrin's own survey and proprietary data, and other third party surveys. The Committee confirms that Towers Perrin do not have any other connection with the Company. For the year 2004 and subsequent years the directors' current intention is to continue with the remuneration policy referred to above.

WH Whiteley has agreed to reduce the two years' notice required to be given by either party under his service contract dated February 1996 to one year from the Company and to six months from Mr. Whiteley. GE Malcolm's service contract dated March 1997 continues to include a provision for two years notice however by October 2004 Mr. Malcolm will have only one year remaining until he reaches his contractual retirement date of 60 and given these facts the Committee considered it unnecessary to formally reduce Mr. Malcolm's notice period to one year or less. RE Slater's service contract dated June 1998 and RH Arnold's service contract dated May 2002 are both rolling 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 on a rolling basis. Following the reduction in his service contract to one year's notice Mr. Whiteley's contract now contains a statement that on early termination of his contract by the Company, or by Mr. Whiteley in circumstances where he is entitled to do so including on a change of control, he would receive a payment by way of liquidated damages equivalent to one year's salary and other benefits on an annualised basis. The other executive directors' contracts do not provide any specific provision for compensation payable upon early termination. Non-executive directors are offered engagement agreements of three years duration, subject to earlier termination by either party on three months notice, with no provision for any compensation payment on termination.

None of the executive directors has any external directorships with the exception of WH Whiteley, who is a non-executive director of Roxboro Group PLC (fees for this directorship which are £20,000 per annum are payable to Rotork p.l.c.), Spirax-Sarco Engineering plc (fees for this directorship, which are £22,000 per annum are payable to Mr. Whiteley) and a director of the British Valve and Actuator Manufacturers Association Limited for which no fee is paid.

The remuneration packages of each individual director currently include basic salary, an annual bonus, benefits in kind (car and fuel, or car and fuel allowance, and private medical insurance), membership of the Rotork Share Incentive Plan (SIP) or Overseas Profit-Linked Share Scheme (OPLSS) (see below), discretionary Rotork Long-Term Incentive Plan (LTIP) and participation in a Rotork Group pension scheme. Further details of all elements of each individual director's remuneration package are set out elsewhere in this report. Salary and benefits including pension and car and fuel, or car and fuel allowance, constitute fixed pay. To date the LTIP plan has provided an annual opportunity for shares to vest to a maximum 50% of salary for executive directors and a minimum of zero dependent on performance as described below. Additionally, an annual cash bonus provides an opportunity to earn a cash payment which is substantially dependent on increased profits in a financial year when compared to a relevant prior year based on a scale. The bonus also contains a personal performance element. The annual bonus payment is capped at 50% of basic salary.

Remuneration Report
continued



Rotork p.l.c. Total Return Index vs the Total Return Index of FTSE Engineering & Machinery Sector for the 5 Financial Years ending 31 December 2003 (rebased as at 1 January 1999)

The above graph measures the Company's performance against other companies in its sector by showing the total shareholder return (TSR) on a holding of ordinary shares in the Company compared with the average total shareholder return of other companies in the FTSE Engineering & Machinery sector, being the sector within which the Company is quoted on the London Stock Exchange and which is therefore considered the most appropriate index over the five year period to 31 December 2003.

The auditors are required to report on the information contained in the following sections of this report:

Directors' emoluments

	Salary and fees	Bonus	Benefits[1]	2003 Total	2002[2] Total
Executive directors					
GE Malcolm	132	20	18	170	159
RE Slater	140	29	18	187	163
WH Whiteley	216	37	18	271	243
RH Arnold	134	23	8	165	164
Non-executive directors					
A Walker*	24	–	–	24	24
RC Lockwood	50	–	–	50	50
JW Matthews	27	–	–	27	27
	723	109	62	894	830

* Fees for the provision of Mr. Walker's services are payable to Yule Catto & Co. plc.

1 This column includes the cash value on allocation of SIP and OPLSS share awards as appropriate. For further details see page 24.

2 The 2002 emoluments total includes the cash value of the 2002 profit-linked share awards and OPLSS awards as appropriate.

The Committee is mindful of the Revised Combined Code (as published in July 2003) requirement for a minimum three independent non-executive directors to be members of the Remuneration Committees of large companies as defined by the Revised Combined Code. The Board is currently engaged in a search for a suitable additional independent non-executive to become a member of its standing Board Committees. Until that new appointment is made the Committee considers it appropriate that RC Lockwood remains on the Committee thus ensuring a minimum three non-executive directors on the Committee. Whilst the Committee accepts the Revised Combined Code determination that a Board Chairman is not to be regarded as independent post appointment, it considers that it is in its view possible (particularly in smaller FTSE 350 companies where the Chairman is part-time) for a Board Chairman to apply independence in matters related to the Board and its Committees.

Given that RC Lockwood remains on the Committee for the reasons given above, he will exclude himself from the Committee when his fees are discussed and the Senior Independent Director and the Chief Executive will discuss his fees. Following appointment of a further independent non-executive who will replace Mr. Lockwood on the Remuneration Committee as described in the paragraph above the Remuneration Committee will from then on set the Chairman's fees.

The fees of all the other non-executives are determined by a Board Committee which includes the Chief Executive.

The Terms of Reference of the Remuneration Committee were revised following publication of the revised Combined Code and are available on the Company's website.

Rotork Long-Term Share Incentive Plan (LTIP)

Following shareholder approval of the LTIP at the Company's Annual General Meeting on 18 May 2000, awards over shares were made to executive directors and senior managers in 2000, 2001, 2002 and 2003. Those awards still outstanding at the time of publication of this report made to executive directors or lapsed during the year are set out below.

	Outstanding awards made to 1 January 2003	Awards made during 2003	Lapses during 2003	Outstanding awards at 31 December 2003
GE Malcolm	58,793	24,812	(22,198)	61,407
RE Slater	58,258	26,315	(21,141)	63,432
WH Whiteley	94,599	40,601	(35,940)	99,260
RH Arnold*	49,962	26,477	(16,338)	60,101

* RH Arnold, a United States citizen and resident, is awarded cash units of a monetary value equivalent to share awards under the LTIP. Following his appointment to the Board in 2001, RH Arnold's discretionary annual LTIP award as a percentage of salary from the 2002 Award onwards was increased to 50%.

The performance period for the 2000 Award ended at 31 December 2003. Messrs Hewitt, Bacon and Woodrow as independent actuaries have certified to the Remuneration Committee that there was a nil vesting of this Award as the Company's position relative to the comparator group at the end of the relevant performance period was below the 50th percentile position.

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 normally 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 TSR against a comparator group of companies places it in at least the 50th percentile position in the comparator group at the end of the relevant performance period. TSR measures the change in value of a share and reinvested dividends over the period of measurement. The actual number of shares or cash units transferred will be determined

Remuneration Report
continued

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. Failure to meet the 'RPI' requirement will result in nil vesting.

The comparator companies used for the LTIP are listed below:

Babcock International plc
Brammer plc
BSS plc
Delta plc
FKI plc
IMI plc
Invensys plc
Meggitt plc
Renishaw plc
Senior plc
Smith Group plc
Spectris plc
Spirax-Sarco Engineering plc
TT Electronics plc
Volex plc
Weir Group plc

Interests in shares

The interests of the directors in the ordinary share capital of the Company are set out on page 39. In common with all employees with a minimum one prior financial year's service at award, all UK based executive directors receive an entitlement to ordinary shares under The Rotork Share Incentive Plan (SIP) which is approved by the Inland Revenue. Under the SIP and Rotork Overseas Profit-Linked Share Scheme (OPLSS) an aggregate total of 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 free share allocations under the SIP and OPLSS made to executive directors in 2003 are set out below:

GE Malcolm	1,120
RE Slater	1,120
WH Whiteley	1,120
RH Arnold*	1,516

* RH Arnold, in common with other eligible overseas employees, participates in the OPLSS. The Scheme Trustee is based in Guernsey, Channel Islands.

Pensions

All the UK based executive directors participate in the Rotork Pension and Life Assurance Scheme (the Scheme). The Scheme is a defined benefit scheme approved by the Inland Revenue. It provides benefits based on basic salary only, with a maximum of two-thirds of final pensionable salary payable at normal retirement age (60). All Scheme benefits are within, and subject to, Inland Revenue limits. The Company contributes to the Scheme at the level agreed with the trustees of the Scheme on the advice of the Scheme actuary. None of the UK based executive directors is required to contribute to the Scheme.

Pension disclosures required under the Listing Rules of the UK Listing Authority

The following table shows the executive directors' entitlements earned during the year (net of inflation) and the accumulated entitlement at the year-end.

	Age at 31 December 2003	Increase in accrued pension over the year (Note 1) £	Accumulated accrued pension at 31 December 2003 (Note 2) £
GE Malcolm	58	7,465	77,109
RE Slater	52	8,265	58,427
WH Whiteley	55	28,924	149,062
RH Arnold	52	(3,048)	36,812

Notes:

1. The figures shown for the increase in accrued pension over the year exclude any increase for inflation.
2. The accumulated accrued pension is that which would be paid annually on retirement from normal pension age, based on service to 31 December 2003.
3. A lump sum death benefit of 4 times basic annual salary is payable on death in service.
4. A dependant's pension of one-half of prospective pension is payable on death in service, and of one-half of pre-commutation pension on death in retirement.
5. Post-retirement increases are applied at the rate of increase of the Index of Retail Prices up to a maximum of 5% per annum, except that for pension benefits in respect of pensionable service up to 15 May 2000 the minimum inflationary increase is 4.5%.
6. WH Whiteley was entitled to an immediate pension from age 55 of two-thirds of his final pensionable salary. He has now passed age 55 and on his eventual retirement his pension will be uplifted to reflect its later commencement date. To the extent that the payment of such pension from the Scheme is restricted by Inland Revenue limits, the Company will pay the shortfall under a separate pension promise.
7. For WH Whiteley, the accrued pension above allows for his two year notice period as at 31 December 2003. However, post year-end in January 2004, it has been agreed that the notice to the Company from Mr. Whiteley will be six months. Using a six month notice period would decrease the accrued pension at 31 December 2003 to £140,602.
8. The figures shown for RH Arnold are in respect of his membership of the Rotork Controls Inc. pension scheme, which is a defined benefit scheme. Additionally, and to alleviate the effect of the pension salary cap applicable in the United States, RH Arnold benefits from funded split dollar life insurance plans which are targeted to supplement his pension such that, in aggregate, the pension arrangements for RH Arnold will deliver a pension of at least 60% of uncapped basic salary at age 65.
9. Note that the increase in accrued pension over the year for RH Arnold is negative due to movements in the US dollar relative to sterling. In dollars, the accrued pension increased from $62,975 pa as at 31 December 2002 to $65,897 pa at 31 December 2003.

Remuneration Report
continued

Pension disclosures required under the Directors' Remuneration Report Regulations 2002

The following table shows the executive directors' entitlements earned during the year and their value at the start and end of the year.

	Increase in accrued pension during the year (Note 1) £	Transfer value of accrued pension at 31.12.02 £'000	Transfer value of accrued pension at 31.12.03 £'000	Increase in transfer value over the year £'000
GE Malcolm	9,164	1,264	1,531	267
RE Slater	9,488	598	832	234
WH Whiteley	31,854	2,691	3,144	453
RH Arnold	(2,305)	223	213	(10)

Notes:

1. The figures shown for the increase in accrued pension over the year incorporate the increase for inflation.

2. The transfer values have been calculated in accordance with the Actuarial Guidance Note GN 11 published by the Institute of Actuaries and the Faculty of Actuaries. The increases in transfer values over the year are net of directors' contributions (if any).

3. For WH Whiteley, the transfer value above allows for his two year notice period as at 31 December 2003. However, post year-end in January 2004, it has been agreed that the notice to the Company from Mr. Whiteley will be six months. Using a six month notice period would increase the transfer value of accrued pension at 31 December 2003 to £3,499,000.

4. The increase in accrued pension and the increase in transfer value over the year for RH Arnold are negative due to movements in the US dollar relative to sterling. In dollars, the accrued pension increased from $62,975 pa as at 31 December 2002 to $65,897 pa at 31 December 2003 and the transfer value increased from $358,500 as at 31 December 2002 to $382,000 at 31 December 2003.

J W Matthews

JW Matthews, Chairman
Remuneration Committee
25 March 2004

Independent Auditors' Report to the Members of Rotork p.l.c.

We have audited the financial statements on pages 28 to 55. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 20, 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 whether the financial statements and the part of the directors' remuneration report to be audited have been 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 regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on page 17 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 the unaudited part of the directors' remuneration report, 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 misstatements 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 and the part of the directors' remuneration report to be audited. 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 and the part of the directors' remuneration report to be audited are free from material misstatement, 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 and the part of the directors' remuneration report to be audited.

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 2003 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

Bristol

Chartered Accountants
Registered Auditor

25 March 2004

Consolidated Profit and Loss Account

for the year ended 31 December 2003

	Notes	**2003 £'000**	2002 £'000
Turnover			
Continuing operations		**135,964**	129,677
Discontinued operations		**–**	3,783
	2	**135,964**	133,460
Cost of sales		**(72,159)**	(71,875)
Gross profit		**63,805**	61,585
Distribution costs		**(1,768)**	(1,748)
Administrative expenses		**(35,586)**	(35,348)
Other operating income		**262**	1,233
Operating profit			
Continuing operations		**26,713**	25,248
Discontinued operations		**–**	474
	2	**26,713**	25,722
Continuing operations before amortisation of goodwill		**28,018**	26,553
Discontinued operations		**–**	474
Operating profit before amortisation of goodwill		**28,018**	27,027
Amortisation of goodwill		**(1,305)**	(1,305)
Operating profit		**26,713**	25,722
Profit on disposal of fixed assets – discontinued operations	3	**597**	–
Interest receivable and similar income	4	**841**	530
Interest payable and similar charges	4	**(80)**	(90)
Profit on ordinary activities before taxation	5	**28,071**	26,162
Tax on profit on ordinary activities	6	**(9,439)**	(8,868)
Profit for the financial year		**18,632**	17,294
Dividends – including non-equity	7	**(12,592)**	(11,959)
Retained profit for the financial year	20	**6,040**	5,335

	Notes	**pence**	pence
Basic earnings per share	8	**21.7**	20.1
Basic earnings per share before goodwill amortisation	8	**23.2**	21.6
Diluted earnings per share	8	**21.6**	20.0

Balance Sheets

at 31 December 2003

	Notes	**Group 2003 £'000**	Group 2002 £'000	**Company 2003 £'000**	Company 2002 £'000
Fixed assets					
Intangible assets	10	**19,057**	20,886	**–**	–
Tangible assets	11	**13,640**	14,816	**670**	669
Investments	12	**341**	958	**1,398**	2,015
		33,038	36,660	**2,068**	2,684
Current assets					
Stocks	13	**18,570**	17,687	**–**	–
Debtors due within one year	14	**32,966**	32,421	**15,641**	14,856
Debtors due after more than one year	14	**486**	409	**99**	201
Cash at bank and in hand	15	**32,253**	20,371	**25,274**	12,199
		84,275	70,888	**41,014**	27,256
Creditors:					
Amounts falling due within one year	16	**(37,807)**	(33,603)	**(14,012)**	(9,678)
Net current assets		**46,468**	37,285	**27,002**	17,578
Total assets less current liabilities		**79,506**	73,945	**29,070**	20,262
Creditors:					
Amounts falling due after more than one year	17	**(129)**	(197)	**–**	–
Provisions for liabilities and charges	18	**(2,890)**	(2,038)	**(277)**	(337)
Net assets	2	**76,487**	71,710	**28,793**	19,925
Capital and reserves					
Called up share capital	19	**4,342**	4,358	**4,342**	4,358
Share premium account	20	**4,543**	4,036	**4,543**	4,036
Revaluation reserve	20	**2,405**	2,400	**–**	–
Capital redemption reserve	20	**1,634**	1,609	**1,634**	1,609
Profit and loss account	20	**63,563**	59,307	**18,274**	9,922
Rotork shareholders' funds		**76,487**	71,710	**28,793**	19,925
Equity		**76,437**	71,658	**28,743**	19,873
Non-equity		**50**	52	**50**	52
Shareholders' funds		**76,487**	71,710	**28,793**	19,925

These financial statements were approved by the Board of directors on 25 March 2004 and were signed on its behalf by **WH Whiteley** and **RE Slater**, Directors.

Statement of Group Cash Flow

for the year ended 31 December 2003

	Notes	**2003 £'000**	2002 £'000
Net cash inflow from operating activities	15	**33,798**	25,771
Returns on investments and servicing of finance			
Interest and similar income received		**729**	478
Interest paid		**(80)**	(90)
Dividends paid on non-equity preference shares		**(5)**	(5)
		644	383
Taxation			
UK corporation tax paid		**(3,804)**	(4,032)
Overseas tax paid		**(5,427)**	(4,958)
		(9,231)	(8,990)
Capital expenditure and financial investments			
Purchase of tangible fixed assets		**(2,287)**	(2,563)
Sale of tangible fixed assets		**89**	706
Sale of tangible fixed assets - exceptional		**1,675**	–
Purchase of own equity shares held as investments		**–**	(380)
		(523)	(2,237)
Acquisitions and disposals			
Sale of business	22	**–**	1,306
Purchase of business	22	**–**	(7,781)
Cash acquired with business	22	**–**	202
Deferred consideration on sale of business		**–**	77
		–	(6,196)
Dividends paid on equity ordinary shares		**(12,068)**	(11,423)
Net cash inflow / (outflow) before management of liquid resources and financing		**12,620**	(2,692)
Management of liquid resources			
(Increase) in term deposits		**(11,301)**	(1,752)
Financing			
Issue of ordinary share capital		**516**	94
Purchase of ordinary share capital		**(1,223)**	–
Purchase of own preference shares		**(2)**	(2)
(Decrease) / increase in amounts borrowed		**(132)**	46
Repayment of capital element of finance lease		**(67)**	(55)
		(908)	83
Increase / (decrease) in cash in the year	15	**411**	(4,361)

Statement of the Group's Total Recognised Gains and Losses

for the year ended 31 December 2003

	2003 £'000	2002 £'000
Profit for the financial year	**18,632**	17,294
Exchange differences	**(554)**	(1,614)
Total recognised gains and losses for the year	**18,078**	15,680

Note on the Group's Historical Cost Profits and Losses

for the year ended 31 December 2003

Reported profit on ordinary activities before taxation	**28,071**	26,162
Revaluation element of depreciation charge	**19**	88
Historical cost profit on ordinary activities before taxation	**28,090**	26,250
Historical cost retained profit for the financial year	**6,059**	5,423

Reconciliation of Movements in Rotork Shareholders' Funds

for the year ended 31 December 2003

Profit for the financial year	**18,632**	17,294
Preference dividends on non-equity shares	**(5)**	(5)
Ordinary dividends on equity shares	**(12,587)**	(11,954)
Retained profit for the financial year	**6,040**	5,335
Exchange differences	**(554)**	(1,614)
New ordinary share capital issued	**516**	94
Purchase of own ordinary share capital	**(1,223)**	–
Purchase of own preference shares	**(2)**	(2)
Net additions to shareholders' funds	**4,777**	3,813
Shareholders' funds at beginning of the year	**71,710**	67,897
Shareholders' funds at end of the year	**76,487**	71,710

Notes to the Financial Statements

for the year ended 31 December 2003

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

1. Accounting policies

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

Basis of accounting

The financial statements have been prepared under the historical cost convention supplemented by the revaluations explained in note 11 to the financial statements and have been prepared in accordance with applicable accounting standards. The Group is implementing FRS17 Retirement Benefits in accordance with transitional arrangements set out in the standard. The disclosures required for the financial year ended 31 December 2003 are set out in note 23.

Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary undertakings for the year to 31 December 2003. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired in the year are included in the consolidated profit and loss account from the date of acquisition.

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

Goodwill

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

Foreign currencies

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

Depreciation and amortisation

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

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

Leases

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

Stocks and work in progress

Stocks and work in progress are valued at the lower of cost on a 'first in, first out' basis and net realisable value. In respect of work in progress and finished goods, cost includes all production overheads and the attributable proportion of indirect overhead expenses.

Deferred taxation

Deferred 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, except for the terms explained below. 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 23 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.

Notes to the Financial Statements
for the year ended 31 December 2003 - continued

2. Analysis of turnover, profit and net assets

Analysis by operation:

	2003 Turnover	**2003** Profit before interest, tax and goodwill	**2003** Profit before interest and tax	2002 Turnover	2002 Profit before interest, tax and goodwill	2002 Profit before interest and tax
Electrics	**105,594**	**23,093**	**22,637**	102,296	22,209	21,753
Gears	**16,264**	**2,865**	**2,420**	14,476	2,578	2,133
Fluid system	**18,838**	**2,060**	**1,656**	16,706	1,766	1,362
Inter segmental elimination	**(4,732)**	**–**	**–**	(3,801)	–	–
Continuing operations	**135,964**	**28,018**	**26,713**	129,677	26,553	25,248
Discontinued operations	**–**	**597**	**597**	3,783	474	474
	135,964	**28,615**	**27,310**	133,460	27,027	25,722

	2003 Net assets	2002 Net assets
Electrics	**30,109**	36,863
Gears	**10,723**	11,828
Fluid system	**11,960**	10,249
Unallocated	**23,695**	12,370
Continuing operations	**76,487**	71,310
Discontinued operations	**–**	400
	76,487	71,710

Analysis by geographical origin:

	2003 Turnover	**2003** Profit before interest, tax and goodwill	**2003** Profit before interest and tax	2002 Turnover	2002 Profit before interest, tax and goodwill	2002 Profit before interest and tax
Europe	**70,075**	**18,322**	**17,442**	62,491	15,543	14,663
Americas	**39,992**	**4,281**	**3,960**	45,391	6,710	6,388
Rest of world	**25,897**	**5,415**	**5,311**	21,795	4,300	4,197
Continuing operations	**135,964**	**28,018**	**26,713**	129,677	26,553	25,248
Discontinued operations	**–**	**597**	**597**	3,783	474	474
	135,964	**28,615**	**27,310**	133,460	27,027	25,722

2. Analysis of turnover, profit and net assets (continued)

	2003 Net assets	2002 Net assets
Europe	**24,179**	25,350
Americas	**16,683**	24,578
Rest of world	**11,930**	9,012
Unallocated	**23,695**	12,370
Continuing operations	**76,487**	71,310
Discontinued operations	**–**	400
	76,487	71,710

The 2002 profit before interest and tax and net assets have been restated to reflect the re-allocation of goodwill to each segment and geographical area. Unallocated net assets comprise cash less proposed dividends.

Analysis of turnover by destination:

Europe	**62,354**	52,785
Americas	**41,557**	47,812
Rest of world	**32,053**	29,080
Continuing operations	**135,964**	129,677
Discontinued operations	**–**	3,783
	135,964	133,460

Analysis of continuing and discontinued operations:

	2003			2002		
	Continuing operations	**Discontinued operations**	**Total**	Continuing operations	Discontinued operations	Total
Turnover	**135,964**	**–**	**135,964**	129,677	3,783	133,460
Cost of sales	**(72,159)**	**–**	**(72,159)**	(69,520)	(2,355)	(71,875)
Gross profit	**63,805**	**–**	**63,805**	60,157	1,428	61,585
Distribution costs	**(1,768)**	**–**	**(1,768)**	(1,742)	(6)	(1,748)
Administrative expenses	**(35,586)**	**–**	**(35,586)**	(34,385)	(963)	(35,348)
Other operating income	**262**	**–**	**262**	1,218	15	1,233
Operating profit	**26,713**	**–**	**26,713**	25,248	474	25,722

Notes to the Financial Statements

for the year ended 31 December 2003 - continued

3. Non operating items

	2003	2002
Profit on disposal of fixed assets	**597**	–

The freehold premises formerly occupied by Rotork Control and Safety, the trade and assets of which were sold in November 2002, was sold in April 2003 for consideration of £1,675,000. This profit on disposal is not taxable as it is offset by capital losses brought forward.

4. Interest and similar items

Interest receivable and similar income		
Short term deposits	**754**	383
Other	**87**	147
	841	530
Interest payable and similar charges		
Bank loans and overdrafts	**39**	31
Other	**41**	59
	80	90
Net interest receivable and similar items	**761**	440

5. Profit on ordinary activities before taxation

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

Depreciation and other amounts written off tangible fixed assets:		
owned assets	**2,220**	2,174
assets held under finance lease contracts	**66**	16
Amortisation of goodwill	**1,305**	1,305
Research and development expenditure	**2,071**	2,367
Hire of plant and machinery	**604**	722
Other operating lease rentals	**601**	422
Exchange differences realised	**(244)**	(559)
Auditors:		
audit fees and expenses	**239**	247
Other fees paid to KPMG Audit Plc and its associates analysed between:		
further assurance services	**6**	–
taxation services	**60**	56
other	**48**	56

The auditors' remuneration in respect of the Company was £31,000 *(2002: £31,000)*

6. Tax on profit on ordinary activities

	2003	2002
Current tax:		
UK Corporation tax on profits for the year	**3,954**	3,653
Adjustment in respect of prior years	**(22)**	452
	3,932	4,105
Overseas tax on profits for the year	**5,700**	5,782
Adjustment in respect of prior years	**(59)**	(165)
	5,641	5,617
Total current tax	**9,573**	9,722
Deferred tax:		
Origination and reversal of timing differences	**(168)**	(224)
Adjustment to estimated recoverable amounts of deferred tax assets arising in previous periods	**34**	(630)
Total deferred tax	**(134)**	(854)
Tax charge on profit on ordinary activities	**9,439**	8,868
Effective tax rate (based on profit before tax and goodwill)	**32.1%**	32.3%
Profit before tax	**28,071**	26,162
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% *(2002: 30%)*	**8,421**	7,849
Effects of:		
Timing differences	**207**	219
Non deductible expenses	**246**	251
Utilisation of losses	**(642)**	(68)
Higher tax rates on overseas earnings	**1,030**	785
Goodwill amortisation	**392**	399
Adjustments to tax charge in respect of prior periods	**(81)**	287
Current tax charge for period	**9,573**	9,722

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.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries. As the unremitted earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future.

No provision has been made for deferred tax for taxable gains recognised on revaluation of property or on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would only become payable if property was sold without it being possible to claim rollover relief or utilise existing capital losses. At present, it is not envisaged that any tax will become payable in respect of the revalued properties in the foreseeable future.

Notes to the Financial Statements

for the year ended 31 December 2003 - continued

7. Dividends

	2003	2002
Interim paid 5.25p per ordinary share *(2002: 5.00p)*	**4,445**	4,290
Final proposed 9.50p per ordinary share *(2002: 8.90p)*	**8,142**	7,664
Ordinary dividends on equity shares	**12,587**	11,954
9.5% cumulative preference dividend on non-equity shares	**5**	5
	12,592	11,959

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 85.8 million shares *(2002: 86.1 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 86.2 million shares *(2002: 86.5 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	**18,627**	17,289
Amortisation of goodwill	**1,305**	1,305
Adjusted profit	**19,932**	18,594
Basic earnings per share based on profit for the financial year	**21.7p**	20.1p
Basic earnings per share based on adjusted profit	**23.2p**	21.6p
Diluted earnings per share	**21.6p**	20.0p

9. Directors and employees

	No.	No.
During the year, the average weekly number of employees, analysed by business activity, was:		
Electrics	**846**	834
Gears	**128**	130
Fluid system	**139**	126
Control and Safety	**–**	58
	1,113	1,148
UK	**420**	482
Overseas	**693**	666
	1,113	1,148

9. Directors and employees (continued)

	2003	2002
Staff costs during the year were:		
Wages and salaries	**27,321**	27,346
Social security costs	**2,688**	2,606
Pension costs	**2,331**	1,991
	32,340	31,943

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	**27,025**	24,489
WH Whiteley	**86,321**	84,875
RE Slater	**19,642**	17,996
RH Arnold	**12,925**	11,306

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 Share Incentive Plan (SIP), and the Rotork Profit-Linked Share Plan (PLSS) in trust:

GE Malcolm	**3,404**	2,876
WH Whiteley	**4,407**	4,742
RE Slater	**3,250**	2,627
RH Arnold*	**2,601**	2,064

* RH Arnold participates in the Rotork Overseas Profit-Linked Share Scheme (OPLSS), and the figures shown for Mr. Arnold for 2003 and the prior year relate solely to OPLSS.

Details of directors remuneration and allocations to directors in 2003 and further details of the SIP and OPLSS schemes are provided in the remuneration report on page 24.

The only changes in directors interests post year-end relate to shares purchased by the UK based directors monthly under the Rotork SIP partnership plan to a maximum £125 per month.

Save as disclosed, no director or his family had any interest in the shares of the Company at 31 December 2003.

Notes to the Financial Statements
for the year ended 31 December 2003 - continued

10. Intangible fixed assets

	Group
	Goodwill
Cost	
at 1 January 2003	26,396
Exchange differences	(477)
at 31 December 2003	**25,919**
Aggregate amortisation	
at 1 January 2003	5,510
Exchange differences	47
Charge for the year	1,305
at 31 December 2003	**6,862**
Net book amount at 31 December 2003	**19,057**
Net book amount at 31 December 2002	20,886

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 2003	11,776	16,097	27,873	819	13	832
Exchange differences	(119)	70	(49)	21	–	21
Additions	23	2,358	2,381	–	–	–
Disposals	(1,190)	(981)	(2,171)	–	–	–
At 31 December 2003	**10,490**	**17,544**	**28,034**	**840**	**13**	**853**
Depreciation						
At 1 January 2003	2,899	10,158	13,057	156	7	163
Exchange differences	4	81	85	2	–	2
Charge for year	326	1,960	2,286	15	3	18
Disposals	(151)	(883)	(1,034)	–	–	–
At 31 December 2003	**3,078**	**11,316**	**14,394**	**173**	**10**	**183**
Net book value						
at 31 December 2003	**7,412**	**6,228**	**13,640**	**667**	**3**	**670**
At 31 December 2002	8,877	5,939	14,816	663	6	669

11. Tangible fixed assets (continued)

The net book value of the Group's plant and machinery includes £144,000 *(2002: £101,000)* 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 2003	Group 2002
Cost	**8,812**	10,102
Depreciation	**(2,457)**	(2,345)
Net book value at 31 December	**6,355**	7,757
Net book value included:		
Freehold land	**1,117**	1,534
Freehold buildings	**4,733**	5,636
Long leasehold	**1,557**	1,702
Short leasehold	**5**	5
Net book value at 31 December	**7,412**	8,877

The cost or valuation figure of £10,490,000 *(2002: £11,776,000)* included the following properties at the revalued amounts shown. The year of revaluation is also given.

Bath freehold, 1991	**105**	105
Bath leasehold, 1991	**2,245**	2,245
Spain freehold, 1997	**284**	284
	2,634	2,634

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

for the year ended 31 December 2003 - continued

12. Investments *(held as fixed assets)*

	Group 2003	Group 2002
Investment in own shares	**341**	958

The investment in own shares represents 135,819 *(2002: 352,006)* 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 market value of these shares at 31 December 2003 was £497,000 *(2002: £1,033,000)*. The dividends on these shares have been waived.

	Group and Company listed investment	Investment in subsidiary undertaking	**Company Total**
At 1 January 2003	958	1,057	**2,015**
Issued under Share Incentive Plan	(617)	–	**(617)**
At 31 December 2003	**341**	**1,057**	**1,398**

A listing of the major investments is included in the directory on pages 59 and 60.

13. Stocks and work in progress

	Group 2003	Group 2002
Raw materials and purchased components	**12,436**	11,472
Work in progress	**3,077**	3,742
Finished stocks	**3,057**	2,473
	18,570	17,687

14. Debtors

	Group 2003	Group 2002	**Company 2003**	Company 2002
Amounts falling due within one year:				
Trade debtors	**28,973**	28,835	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**14,635**	14,371
Other debtors	**687**	1,010	**144**	34
Prepayments and accrued income	**1,125**	946	**142**	64
Corporation tax	**1,226**	687	**473**	260
Deferred taxation	**955**	883	**247**	67
Deferred consideration	**–**	60	**–**	60
	32,966	32,421	**15,641**	14,856
Amounts falling due after more than one year:				
Amounts owed by subsidiary undertakings	**–**	–	**99**	201
Other debtors	**486**	409	**–**	–
	486	409	**99**	201
	33,452	32,830	**15,740**	15,057

A deferred tax asset of £955,000 has been recognised at 31 December 2003 *(2002: £883,000)*. This asset principally relates to other timing differences in the US of £587,000. The directors are of the opinion, based on recent and forecast trading that the level of US profits in the current and future years make it more likely than not that the asset will be recovered.

A deferred tax asset of £3.5m *(2002: £3.2m)* has not been recognised in relation to capital losses (£2.2m) and certain tax credits, tax losses and other timing differences. These assets may be recovered if sufficient taxable or capital profits are made in future in the companies concerned.

15. Cash at bank and in hand

Cash at bank and in hand	**4,833**	4,176	**47**	349
Term deposits	**27,420**	16,195	**25,227**	11,850
	32,253	20,371	**25,274**	12,199

Cash flow analysis

	Group 2003	Group 2002
Reconciliation of operating profit to net cash flow from operating activities:		
Operating profit	**26,713**	25,722
Goodwill amortisation	**1,305**	1,305
Depreciation	**2,286**	2,190
(Profit) on sale of fixed assets	**(29)**	(557)
(Profit) on sale of business	**–**	(11)
(Increase) / decrease in stocks	**(969)**	837
Decrease / (increase) in debtors	**329**	(1,215)
Increase / (decrease) in creditors and provisions	**4,163**	(2,500)
Net cash inflow from operating activities	**33,798**	25,771

Notes to the Financial Statements
for the year ended 31 December 2003 - continued

15. Cash at bank and in hand (continued)

Reconciliation of net cash flow to movement in net funds

	Group 2003	Group 2002
Increase / (decrease) in cash in the period	**411**	(4,361)
Cash outflow / (inflow) from change in debt and lease financing	**88**	(77)
Cash outflow from change in short term deposits	**11,301**	1,752
Change in net funds resulting from cash flows	**11,800**	(2,686)
Translation difference	**44**	817
Movement in net funds in the period	**11,844**	(1,869)
Net funds at 1 January	**20,043**	21,912
Net funds at 31 December	**31,887**	20,043

Analysis of net funds

	At 1 January 2003	Cash flow	Other non-cash movements	Exchange movement	**At 31 December 2003**
Cash at bank and in hand	4,176	528	–	129	**4,833**
Overdrafts	–	(117)	–	(2)	**(119)**
	4,176	411	–	127	**4,714**
Debt due within one year	(98)	43	–	–	**(55)**
Debt due after one year	(156)	89	–	(1)	**(68)**
Finance leases	(74)	67	(111)	(6)	**(124)**
Term deposits	16,195	11,301	–	(76)	**27,420**
Total	20,043	11,911	(111)	44	**31,887**

16. Creditors: amounts falling due within one year

	Group 2003	Group 2002	**Company 2003**	Company 2002
Bank loans and overdrafts	**174**	98	**3,065**	–
Net obligations under finance leases	**63**	37	**–**	–
Borrowings	**237**	135	**3,065**	–
Trade creditors	**12,284**	9,668	**75**	82
Bills of exchange	**176**	84	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**1,058**	969
Corporation tax	**5,020**	4,161	**9**	–
Other taxes and social security	**1,452**	1,267	**10**	59
Other creditors	**2,254**	2,285	**1,465**	723
Accruals and deferred income	**8,192**	8,330	**138**	172
Dividends payable	**8,192**	7,673	**8,192**	7,673
	37,807	33,603	**14,012**	9,678

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 2003	Group 2002
Bank loans	**68**	156
Finance lease obligations	**61**	37
Other creditors	**–**	4
	129	197

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

Notes to the Financial Statements

for the year ended 31 December 2003 - continued

18. Provisions for liabilities and charges

	Group					Company	
	Deferred taxation	Warranty	Pensions	Other	Total	Other	Total
Balance at 1 January 2003	127	1,063	346	502	2,038	337	337
Exchange differences	63	(25)	(61)	50	27	–	–
Utilised during the year	–	(430)	(286)	(314)	(1,030)	(60)	(60)
Transfer to current assets	72	–	–	–	72	–	–
Charged / (credited) in the profit and loss account	(134)	1,117	425	375	1,783	–	–
Balance at 31 December 2003	**128**	**1,725**	**424**	**613**	**2,890**	**277**	**277**

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

The amounts provided for deferred taxation are:

	Group 2003	Group 2002	**Company 2003**	Company 2002
Difference between accumulated depreciation and capital allowances	**329**	304	**74**	68
Other timing differences	**(1,156)**	(1,060)	**(321)**	(135)
	(827)	(756)	**(247)**	(67)
Analysed between:				
Debtors	**(955)**	(883)	**(247)**	(67)
Provisions for liabilities and charges	**128**	127	**–**	–
	(827)	(756)	**(247)**	(67)

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

19. Share capital

	Authorised		Issued and fully paid-up	
	2003	2002	**2003**	2002
Non-equity 9.5% cumulative preference shares of £1 each	**50**	52	**50**	52
Equity ordinary shares of 5p each	**5,449**	5,449	**4,292**	4,306
	5,499	5,501	**4,342**	4,358

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.

The only ordinary shares issued during the year were 188,664 *(2002: 48,670)* under The Rotork Employee Share Option Schemes at prices between 162p and 285p. No shares were issued under The Rotork Share Incentive Plan or under The Overseas Profit-Linked Share Scheme during 2003.

During the year 474,324 ordinary shares of 5p each, representing 0.6% of the issued ordinary share capital, were purchased by the Company in the market at a net cost of £1,217,000 for cancellation. Stamp duty and commission of £6,000 were incurred on the share purchases.

On 11 April 2003 options over 78,045 shares exercisable after three years (subject to satisfying performance criteria) at 277.5p were granted under The Rotork Employee Share Option Scheme (1995).

Outstanding options under The Rotork Employee Share Option Schemes at 31 December 2003, exercisable at various prices between 192p and 371.5p per ordinary share, were 524,063 *(2002: 710,297)*.

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 2003	4,036	1,609	2,400	59,307	4,036	1,609	9,922
Profit retained	–	–	–	6,040	–	–	9,580
Premium on new shares issued	507	–	–	–	507	–	–
Purchase of own ordinary shares	–	23	–	(1,223)	–	23	(1,223)
Purchase of own preference shares	–	2	–	(2)	–	2	(2)
Exchange differences	–	–	5	(559)	–	–	(3)
At 31 December 2003	**4,543**	**1,634**	**2,405**	**63,563**	**4,543**	**1,634**	**18,274**

Profit for the financial year in the accounts of the Company is £27,172,000 *(2002: £1,914,000)*.

Notes to the Financial Statements

for the year ended 31 December 2003 - continued

21. Commitments

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

	Group **2003**	Group 2002
Contracted	**489**	671

	Land and buildings **2003**	Land and buildings 2002	Machinery, plant and equipment **2003**	Machinery, plant and equipment 2002
Operating lease rentals payable during the next year are as follows:				
Commitments expiring:				
Within one year	**21**	42	**72**	86
Between two and five years	**396**	461	**403**	479
After five years	**34**	37	**1**	–
	451	540	**476**	565

22. Acquisition and disposal of businesses

Acquisition of Jordan Controls Inc. in January 2002	Fair value
Fixed assets	783
Stock	1,489
Debtors	880
Creditors and provisions	(1,127)
Bank and cash balances	202
	2,227
Goodwill added to the balance sheet	5,554
Consideration paid	7,781

Sale of Rotork Control and Safety in November 2002	Net assets disposed of
Fixed assets	77
Stock	267
Debtors	2,029
Creditors and provisions	(1,078)
Goodwill added to the balance sheet	1,295
Profit on disposal	11
Net cash inflow in respect of disposal	1,306

23. Pensions

The Group operates a number of pension plans in the UK and overseas, devised in accordance with local conditions and practices. The assets of these schemes are held in separate trustee administered funds.

The total pension cost for the Group was £2,331,000 *(2002: £1,991,000)* of which £878,000 *(2002: £591,000)* related to the overseas schemes. Included in the total pension cost is £412,000 *(2002: £325,000)* in respect of defined contribution pension 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 pensions. 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.

An amount of £424,000 *(2002: £346,000)* 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 2003 for the UK scheme, and 1 January 2001 updated to 31 December 2003 for the US scheme. The financial assumptions used were:

	UK scheme (% per annum)			**US scheme (% per annum)**			**Average (% per annum)**		
	2003	2002	2001	**2003**	2002	2001	**2003**	2002	2001
Discount rate	**5.45**	5.65	5.75	**6.10**	6.60	7.15	**5.48**	5.70	5.81
Rate of increase in salaries	**3.8**	3.3	3.5	**4.5**	5.0	5.0	**3.84**	3.39	3.56
Rate of increase in pensions (post May 2000)	**2.8**	2.3	2.5	**0.0**	0.0	0.0	**2.66**	2.19	2.39
Rate of increase in pensions (pre May 2000)	**4.5**	4.5	4.5	**0.0**	0.0	0.0	**4.28**	4.28	4.31
Rate of price inflation	**2.8**	2.3	2.5	**3.5**	4.0	4.0	**2.84**	2.39	2.56

The assets in the schemes and the expected rates of return were:

	Expected rate of return %			**Market value £m**		
	2003	2002	2001	**2003**	2002	2001
Equities	**8.20**	8.30	7.75	**31.4**	25.6	32.7
Bonds	**5.10**	5.00	5.00	**9.1**	7.7	7.5
Other	**4.90**	4.44	4.50	**2.6**	3.1	2.8
US deposit administration contract	**6.00**	6.00	6.00	**1.6**	1.4	1.4
Total				**44.7**	37.8	44.4

Notes to the Financial Statements
for the year ended 31 December 2003 - continued

23. Pensions (continued)

The amounts charged to the profit and loss account on defined benefit schemes under FRS17 would have been:

	2003 £m	2002 £m
Analysis of amounts charged to operating profit:		
Current service cost	**1.5**	1.5
Total charged to operating profit	**1.5**	1.5
Analysis of other amounts charged to the profit and loss account:		
Gain on curtailment	**–**	(0.3)
Net gain charged to the profit and loss account	**–**	(0.3)
Analysis of the amount charged to other finance income:		
Interest on pension scheme liabilities	**3.1**	2.9
Expected return on assets in the pension scheme	**(2.8)**	(3.1)
Net charge / (credit) to other finance income	**0.3**	(0.2)
Total profit and loss charge before deduction for taxation	**1.8**	1.0

The amounts included in the statement of total recognised gains and losses under FRS17 would have been:

	2003 £m	2002 £m
(Gain) / loss on assets	**(3.7)**	10.3
Experience loss on liabilities	**0.1**	0.7
Loss on change of assumptions	**6.6**	0.4
Currency gain	**(0.1)**	(0.1)
Total loss included in the statement of total recognised gains and losses before adjustment for tax	**2.9**	11.3

History of experience gains and losses as a percentage of the schemes' assets / liabilities at end of year

	2003		2002	
	£m	**%**	£m	%
(Gain) / loss on schemes' assets	**(3.7)**	**8**	10.3	27
Loss on schemes' liabilities	**0.1**	**–**	0.7	1
Total actuarial loss included in the statement of total recognised gains and losses	**2.9**	**5**	11.3	21

23. Pensions (continued)

The following amounts were measured in accordance with the requirements of FRS17:

	At 31 December 2003 £m	At 31 December 2002 £m	At 31 December 2001 £m
Total market value of schemes' assets	**44.7**	37.8	44.4
Present value of the schemes' liabilities	**(64.2)**	(54.4)	(50.3)
Deficit in the schemes	**(19.5)**	(16.6)	(5.9)
Related deferred tax	**5.9**	5.0	1.8
Net pension liability	**(13.6)**	(11.6)	(4.1)

The assets and liabilities disclosed above are the combined total of the UK and US schemes. The US scheme accounts for approximately 7.6% 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. The total contribution to this scheme over the year was £53,000.

Analysis of the movement in deficit in the schemes during the year:

	2003 £m	2002 £m
Deficit in the schemes at 1 January	**(16.6)**	(5.9)
Contributions paid	**1.8**	1.6
Current service cost	**(1.5)**	(1.5)
Curtailment cost	**–**	0.3
Other finance (charge) / income	**(0.3)**	0.2
Actuarial loss	**(3.0)**	(11.4)
Currency gain	**0.1**	0.1
Deficit in the schemes at 31 December	**(19.5)**	(16.6)

24. Contingent liabilities

	Group 2003	Group 2002	**Company 2003**	Company 2002
Performance guarantees and indemnities	**3,345**	3,570	**498**	554
Guarantees for bank overdrafts of UK subsidiary undertakings	**–**	–	**–**	243

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. The performance guarantees and indemnities have been entered into in the normal course of business. A liability would only arise in the event of the Group failing to fulfil its contractual obligations.

Notes to the Financial Statements

for the year ended 31 December 2003 - continued

25. 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:

	2003				2002			
	Fixed rate of interest	**Floating rate of interest**	**Nil interest**	**Total**	Fixed rate of interest	Floating rate of interest	Nil interest	Total
Euro	**125**	**119**	**–**	**244**	74	–	–	74
Yen	**122**	**–**	**–**	**122**	–	235	10	245
Other	**–**	**–**	**–**	**–**	9	–	–	9
	247	**119**	**–**	**366**	83	235	10	328

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

Interest is payable on all financial liabilities in 2003. The financial liabilities on which interest was not payable in 2002 had a weighted average period to maturity of 2 years.

The weighted average interest rate of the fixed rate financial liabilities is 3.8% per annum *(2002: 2.5%)*.

The weighted average period for which interest rates on the fixed rate financial liabilities are fixed is 2 years *(2002: 2 years)*.

25. 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:

	2003		2002	
	Fixed rate cash	**Other cash**	Fixed rate cash	Other cash
Sterling	**25,428**	**566**	11,892	1,420
US dollar	**821**	**1,273**	2,453	494
Euro	**427**	**1,005**	1,006	1,150
Other	**744**	**1,989**	844	1,112
	27,420	**4,833**	16,195	4,176

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.

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

	2003 Fixed rate		2002 Fixed rate	
	Weighted average interest rate (%)	**Weighted average period for fixed rate (months)**	Weighted average interest rate (%)	Weighted average period for fixed rate (months)
Sterling	**3.8**	**1**	4.1	0
US dollar	**1.0**	**0**	1.3	0
Euro	**2.0**	**0**	2.8	0
Other	**2.8**	**1**	5.1	1
Group	**3.7**	**1**	3.9	0

Notes to the Financial Statements

for the year ended 31 December 2003 - continued

25. 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)

		2003			
		Functional currency of Group operation			
	Sterling	**US dollar**	**Euro**	**Other**	**Total**
Sterling	**–**	**(856)**	**(1,156)**	**(1,078)**	**(3,090)**
US dollar	**417**	**–**	**1,638**	**2,392**	**4,447**
Euro	**281**	**(298)**	**–**	**350**	**333**
Other	**822**	**–**	**(2)**	**260**	**1,080**
Total	**1,520**	**(1,154)**	**480**	**1,924**	**2,770**

		2002			
		Functional currency of Group operation			
	Sterling	US dollar	Euro	Other	Total
Sterling	–	(1,231)	(682)	(2,619)	(4,532)
US dollar	308	–	685	2,228	3,221
Euro	(61)	(176)	–	(603)	(840)
Other	(12)	–	(12)	1	(23)
Total	235	(1,407)	(9)	(993)	(2,174)

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:

	2003	2002
In one year or less	**237**	135
In more than one year but not more than two years	**69**	105
In more than two years but not more than five years	**60**	88
In more than five years	**–**	–
Total	**366**	328

The Group had no undrawn committed borrowing facilities at 31 December 2003 or 31 December 2002.

25. 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

	2003		2002	
	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	**(237)**	**(237)**	(135)	(135)
Long-term borrowings	**(129)**	**(129)**	(193)	(193)
Cash deposits	**27,420**	**27,420**	16,195	16,195
Other cash balances	**4,833**	**4,833**	4,176	4,176
Derivative financial instruments held to manage the currency profile:				
Forward foreign currency contracts	**–**	**630**	–	205

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 2003	336	(131)	205
Amounts arising in previous years that were recognised during the year	(336)	131	(205)
Amounts arising before 1 January 2003 that were not recognised during the year	–	–	–
Amounts arising in the year that were not recognised during the year	684	(54)	630
At 31 December 2003	**684**	**(54)**	**630**
Of which:			
Gains / (losses) expected to be recognised in less than one year	684	(54)	630

Ten Year Trading History

	2003 £'000	2002 £'000	2001 £'000	2000 £'000	1999 £'000
Continuing operations	**135,964**	129,677	119,322	103,945	112,937
Discontinued operations	**–**	3,783	4,367	3,935	4,598
Turnover	**135,964**	133,460	123,689	107,880	117,535
Cost of sales	**(72,159)**	(71,875)	(65,877)	(59,021)	(63,626)
Gross profit	**63,805**	61,585	57,812	48,859	53,909
Overheads	**(37,092)**	(35,863)	(33,532)	(29,108)	(27,949)
Operating profit	**26,713**	25,722	24,280	19,751	25,960
Continuing operations	**28,018**	26,553	24,733	20,478	26,358
Discontinued operations	**–**	474	574	309	497
Operating profit before amortisation of goodwill	**28,018**	27,027	25,307	20,787	26,855
Amortisation of goodwill	**(1,305)**	(1,305)	(1,027)	(1,036)	(895)
Operating profit	**26,713**	25,722	24,280	19,751	25,960
Exceptional items	**597**	–	–	–	–
Net interest receivable	**761**	440	563	831	987
Profit on ordinary activities before taxation	**28,071**	26,162	24,843	20,582	26,947
Taxation	**(9,439)**	(8,868)	(8,539)	(7,110)	(9,477)
Profit on ordinary activities after taxation	**18,632**	17,294	16,304	13,472	17,470
Minority equity interest	**–**	–	–	–	–
Profit for the financial year	**18,632**	17,294	16,304	13,472	17,470
Dividends	**(12,592)**	(11,959)	(11,147)	(10,504)	(10,546)
Retained profit for the financial year	**6,040**	5,335	5,157	2,968	6,924
Basic earnings per share	**21.7p**	20.1p	18.9p	15.6p	20.3p
Basic earnings per share before goodwill amortisation	**23.2p**	21.6p	20.1p	16.8p	21.3p
Diluted earnings per share	**21.6p**	20.0p	18.9p	15.6p	20.3p

	1998 £'000	1997 £'000	1996 £'000	1995 £'000	1994 £'000
Continuing operations	98,103	87,766	82,123	70,353	67,030
Discontinued operations	3,337	5,083	8,694	9,645	10,083
Turnover	101,440	92,849	90,817	79,998	77,113
Cost of sales	(54,311)	(50,043)	(48,731)	(45,216)	(43,484)
Gross profit	47,129	42,806	42,086	34,782	33,629
Overheads	(23,567)	(22,607)	(24,563)	(20,837)	(20,340)
Operating profit	23,562	20,199	17,523	13,945	13,289
Continuing operations	23,822	20,811	18,308	14,277	13,370
Discontinued operations	59	(427)	(626)	(178)	72
Operating profit before amortisation of goodwill	23,881	20,384	17,682	14,099	13,442
Amortisation of goodwill	(319)	(185)	(159)	(154)	(153)
Operating profit	23,562	20,199	17,523	13,945	13,289
Exceptional items	–	–	(1,390)	–	–
Net interest receivable	1,845	1,935	1,364	1,237	584
Profit on ordinary activities before taxation	25,407	22,134	17,497	15,182	13,873
Taxation	(9,063)	(8,111)	(7,075)	(5,425)	(5,118)
Profit on ordinary activities after taxation	16,344	14,023	10,422	9,757	8,755
Minority equity interest	–	–	–	(43)	(36)
Profit for the financial year	16,344	14,023	10,422	9,714	8,719
Dividends	(9,456)	(8,213)	(7,160)	(4,866)	(4,348)
Retained profit for the financial year	6,888	5,810	3,262	4,848	4,371
Basic earnings per share	18.9p	15.9p	11.7p	10.9p	9.8p
Basic earnings per share before goodwill amortisation	19.3p	16.1p	11.9p	11.1p	10.0p
Diluted earnings per share	18.9p	15.9p	11.7p	10.9p	9.8p

Corporate Directory

Company Secretary
Stephen Rhys Jones

Registered Office
Rotork p.l.c.
Brassmill Lane
Bath BA1 3JQ

Company Number
578327

Registrars
Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA

Stockbrokers
UBS Investment Bank
1 Finsbury Avenue
London EC2M 2PP

Financial Advisers
UBS Investment Bank
1 Finsbury Avenue
London EC2M 2PP

Auditors
KPMG Audit Plc
100 Temple Street
Bristol BS1 6AG

Financial Public Relations
Financial Dynamics Limited
Holborn Gate
26 Southampton Buildings
London EC2A 1PB

Solicitors
Messrs. Osborne Clarke
2 Temple Back East
Temple Quay
Bristol BS1 6EG

Notable Dates

25 March 2004
Preliminary announcement of annual results for 2003

31 March 2004
Ex-dividend date for final 2003 dividend

2 April 2004
Record date for final 2003 dividend

21 May 2004
Annual General Meeting held at Rotork House,
Brassmill Lane, Bath

28 May 2004
Dividend payment date

5 August 2004
Announcement of interim financial results for 2004

Directory

United Kingdom

Rotork p.l.c., England
Holding company
Roger Lockwood
Chairman (non-executive)
Bill Whiteley
Chief Executive
Tel: +44 1225 733200
Fax: +44 1225 733381
E-mail: bill.whiteley@rotork.co.uk

Rotork Overseas Ltd, England
100% owned by Rotork p.l.c.
Robert Slater
Director
Tel: +44 1225 733200
Fax: +44 1225 733381
E-mail: robert.slater@rotork.co.uk

Rotork Controls Ltd, England
100% owned by Rotork p.l.c.
Bill Whiteley
Chief Executive
Tel: +44 1225 733200
Fax: +44 1225 733381

Exeeco Ltd, England
100% owned by Rotork Controls Ltd
Martin Perkins
Managing Director
Tel: +44 113 256 7922
Fax: +44 113 256 3556
E-mail: mperkins@exeeco.co.uk

Valvekits Ltd, England
100% owned by Rotork Controls Ltd
Martin Hunt
Managing Director
Tel: +44 1623 440211
Fax: +44 1623 440214
E-mail: mhunt@valvekits.co.uk

Americas

Rotork Inc, USA
100% owned by Rotork Overseas Ltd
Robert Arnold
Director
Tel: +1 585 328 1550
Fax: +1 585 328 5848
E-mail: bob.arnold@rotork.com

Rotork Controls Inc, USA
100% owned by Rotork Inc.
Robert Arnold
President
Tel: +1 585 328 1550
Fax: +1 585 328 5848
E-mail: bob.arnold@rotork.com

Jordan Controls Inc, USA
100% owned by Rotork Inc.
John Swanson
General Manager
Tel: +1 414 461 9200
Fax: +1 414 461 1024
E-mail: jswanson@jordancontrols.com

Rotork Controls (Canada) Ltd, Canada
100% owned by Rotork Overseas Ltd
Chris Bone
President
Tel: +1 403 569 9455
Fax: +1 403 569 9414
E-mail: chris.bone@rotork.ca

Rotork Controls de Venezuela SA, Venezuela
100% owned by Rotork Overseas Ltd
Edgar Vina
General Manager
Tel: +58 212 953 9473
Fax: +58 212 953 6886
E-mail: rotorkvzev@cantv.net

Europe

Rotork Motorisation SA, France
100% owned by Rotork Overseas Ltd
Bruno Deverly
General Manager
Tel: +33 143 11 15 50
Fax: +33 148 35 42 54
E-mail: bruno.deverly@rotork.fr

Rotork Controls (Deutschland) GmbH, Germany
100% owned by Rotork Overseas Ltd
Jürgen Vogel
General Manager
Tel: +49 2103 95876
Fax: +49 2103 54090
E-mail: jurgen.vogel@rotork.de

Rotork BV, Netherlands
100% owned by Rotork Overseas Ltd
Frank Koopmans
General Manager
Tel: +31 10 4146911
Fax: +31 10 4144750
E-mail: frank.koopmans@rotork.nl

Rotork Gears BV, Netherlands
100% owned by Rotork Overseas Ltd
John van Mierlo
Plant Manager
Tel: +31 53 538 8677
Fax: +31 53 538 3939
E-mail: john.van.mierlo@rotorkgears.nl

Rotork Controls (Italia) Srl, Italy
100% owned by Rotork Overseas Ltd
Cesare Cereghini
General Manager
Tel: +39 0245 703300
Fax: +39 0245 703301
E-mail: cesare.cereghini@rotork.it

Rotork Fluid System Srl, Italy
100% owned by Rotork Overseas Ltd
Stefan Davis
Managing Director
Tel: +39 0583 93061
Fax: +39 0583 934612
E-mail: stefan.davis@fluidsystem.it

Rotork Controls (España) SL, Spain
100% owned by Rotork Overseas Ltd
Joaquin Pastor-Velasquez
General Manager
Tel: +34 94 676 6011
Fax: +34 94 676 6018
E-mail: joaquin.pastor@rotork.es

Directory
continued

Rest of the World

Rotork Africa (Pty) Ltd, South Africa
100% owned by Rotork Overseas Ltd
Howard Mutters
Managing Director
Tel: +27 11 4539741
Fax: +27 11 4539894
E-mail: howard.mutters@rotork.co.za

Rotork Controls (India) Ltd, India
100% owned by Rotork Controls Ltd
Ashok Jayaram
President
Tel: +91 44 2625 4219
Fax: +91 44 2625 7108
E-mail: ashok.jayaram@rotork.co.in

Rotork (Thailand) Ltd, Thailand
100% owned by Rotork Inc.
Chaitawat Chotikawanish
Manager
Tel: +66 2 272 7165
Fax: +66 2 272 7167
E-mail: chaitawc@rotork.co.th

Rotork (Malaysia) Sdn Bhd, Malaysia
100% owned by Rotork Overseas Ltd
P K Ow
General Manager
Tel: +60 3 7880 9198
Fax: +60 3 7880 9189
E-mail: pkow@rotork.com.my

Rotork (Actuation) Sdn Bhd, Malaysia
100% owned by Rotork Overseas Ltd
Doug Jopling
General Manager
Tel: +60 3 5191 3936
Fax: +60 3 5191 3937
E-mail: doug.jopling@rotorkmy.com

Rotork Controls (Singapore) Pte Ltd, Singapore
100% owned by Rotork Overseas Ltd
Philip Seah
General Manager
Tel: +65 64571233
Fax: +65 64576011
E-mail: philip.seah@rotork.com.sg

Rotork Ltd, Hong Kong
100% owned by Rotork Overseas Ltd
Eric Li
General Manager
Tel: +852 2 5202390
Fax: +852 2 5289746
E-mail: eric.li@rotork.com.cn

Rotork Controls (Shanghai) Ltd, China
100% owned by Rotork Controls Ltd
Eric Li
General Manager
Tel: +86 21 647 85015
Fax: +86 21 647 85035
E-mail: eric.li@rotork.com.cn

Rotork Controls (Korea) Co, Ltd, South Korea
100% owned by Rotork Overseas Ltd
Y K Kim
General Manager
Tel: +82 31 265 0962
Fax: +82 31 265 1369
E-mail: ykkim@rotork.co.kr

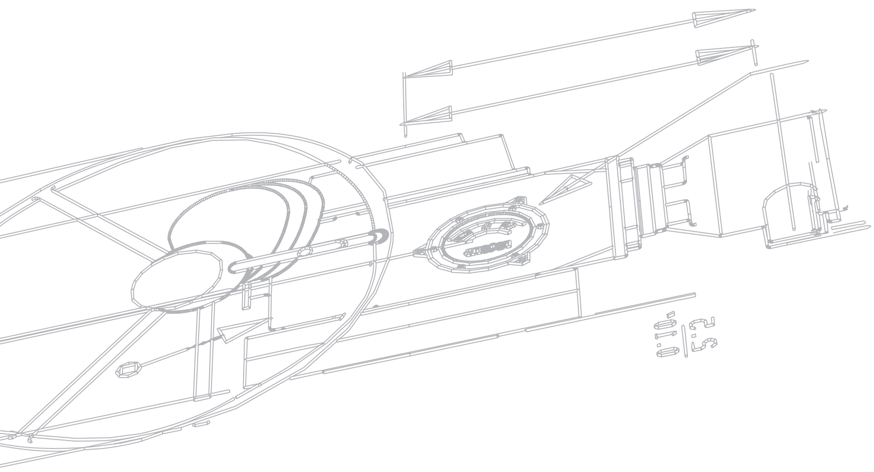
Rotork Japan Co Ltd, Japan
100% owned by Rotork Overseas Ltd
Masaru Sakurai
General Manager
Tel: +81 3 5632 2941
Fax: +81 3 5632 2942
E-mail: m-sakurai@rotork.co.jp

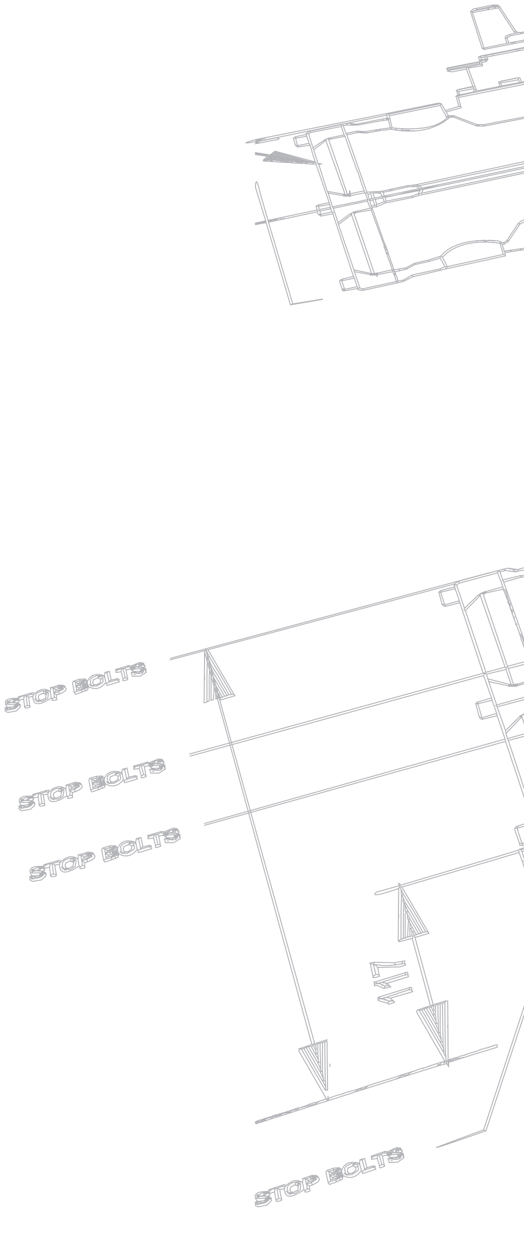
Rotork Australia Pty Ltd, Australia
100% owned by Rotork Overseas Ltd
Lee Howard
General Manager
Tel: +61 353 381566
Fax: +61 353 381570
E-mail: lee.howard@rotork.com.au

Deanquip Valve Automation Pty Ltd, Australia
100% owned by Rotork Overseas Ltd
Lyndon Dean
General Manager
Tel: +61 3 9729 8882
Fax: +61 3 9729 8884
E-mail: lyndon@deanquip.com.au

Shenzhen Sinopec-Rotork Actuation Co, Ltd, China
35% owned by Rotork Controls Ltd

Designed and produced by corporate**prm**, Edinburgh and London. www.corporateprm.co.uk





Rotork p.l.c.
Rotork House
Brassmill Lane
Bath BA1 3JQ
www.rotork.com