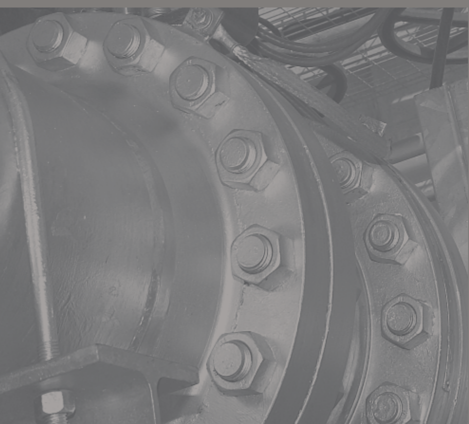
THE WORLD LEADER
IN ACTUATION SOLUTIONS



Annual Report &
Accounts **2005**

rotork

THE WORLD LEADER
IN ACTUATION SOLUTIONS

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

The key drivers for the Group's businesses relate to 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.

The Group is made up of four product areas:

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. 25% of these are supplied with digital control systems developed in-house. Manufacture is based in the UK, USA, Malaysia and India.

FLUID SYSTEM

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

GEARS

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

2005 HIGHLIGHTS

Financial highlights

Order intake up 23.7% at £187.7m

Sales revenue up 19.0% to £174.8m

Operating profit up 20.0% to £36.5m

£10m additional interim dividends during 2006

Record order book

Operational highlights

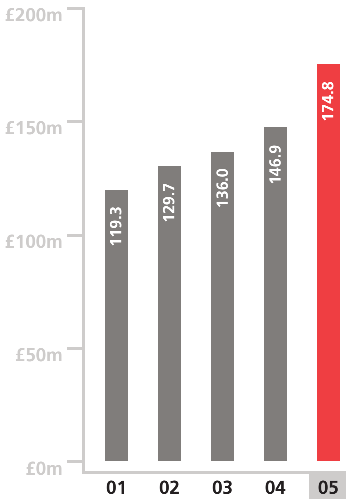
Strong performances in US and China

Excellent growth in all three divisions

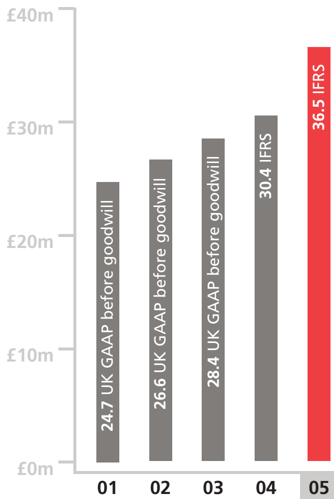
Good business levels in all markets

Continued high levels of growth achieved by Rotork Fluid System

Total Turnover - continuing operations £m



Operating Profit - continuing operations £m



Order Intake

£187.7m

+23.7%

Order Book

£63.7m

+40.8%

CHAIRMAN'S STATEMENT

STRONG DEMAND, PARTICULARLY FROM THE HYDROCARBON AND POWER SECTORS RESULTED IN A 41% INCREASE IN THE ORDER BOOK, WHICH CLOSED THE YEAR AT AN ALL TIME HIGH.

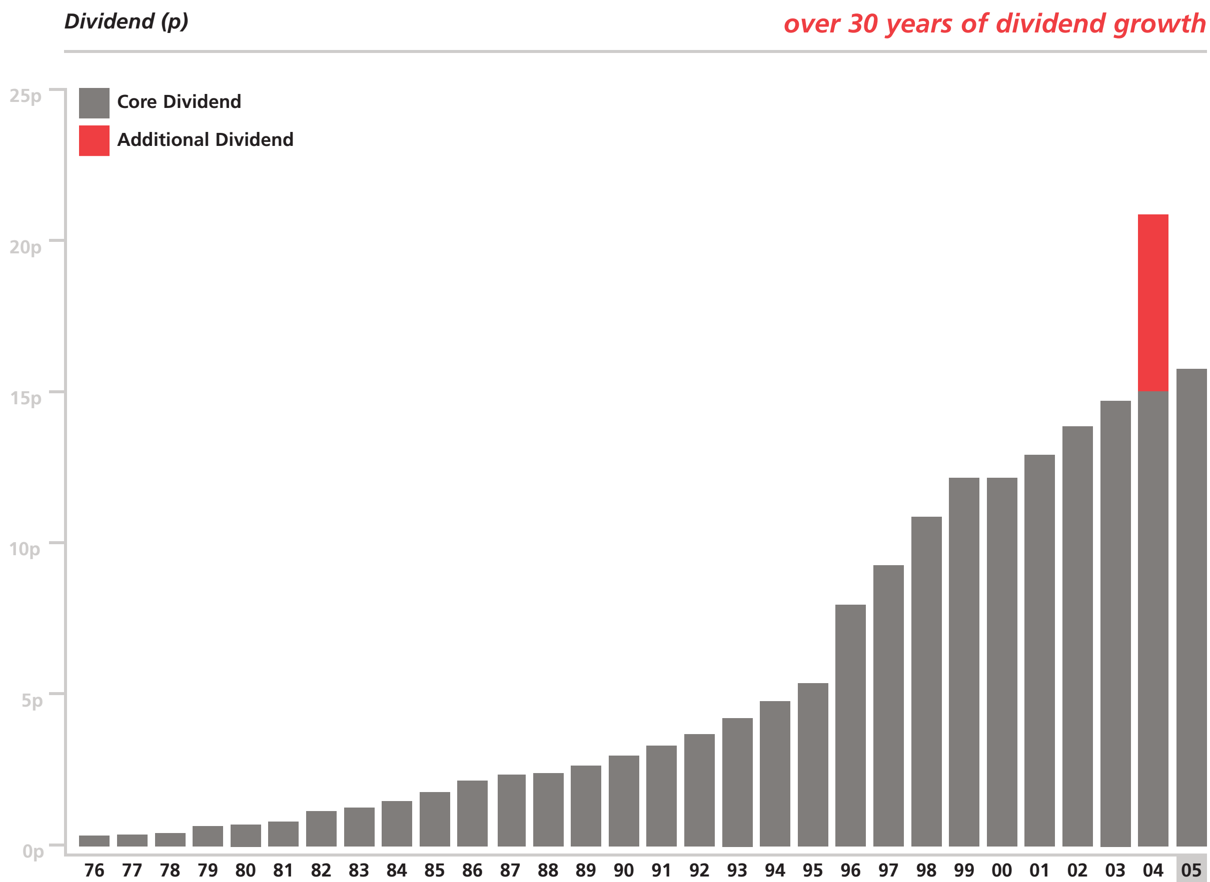
Roger Lockwood
Chairman

Introduction

Excellent progress has been made in the year with the Group's order input increasing by 24%. Group revenue advanced by 19% to £174.8m and double digit growth in operating profit was achieved by all three divisions. Overall profit increased by 20% to £36.5m. Earnings per share increased by nearly 17%. Strong demand, particularly from the hydrocarbon and power sectors, coupled with growth in all our geographical markets resulted in a 41% increase in the order book, which closed the year at an all time high.

Business review

The Electric actuator business, which accounts for 71% of Group revenue, saw good output levels from the main plant in Bath, building on the progress made in the first half. The US had a very positive year with Rochester making record profits and successfully weathering the uncertain currency backdrop that was with us through most of the year. Despite this uncertainty, currency overall had a modest positive impact on reported results. The IQT actuator released at the end of 2003 continues to be well received by



customers worldwide. China is now established as our biggest market for Electric products and this is recognised through the development programme for both product and facilities that we have for the business in the current year.

Rotork Fluid System continued to build on the growth of the last few years producing a very creditable increase of 46% in order input and 36% in sales revenue for the year. The main plants in Lucca and Rochester have improved their use of facilities and continued to develop product offerings during the year, all of which have delivered quality improvements to our customers and increased the range of services that we can offer. The PCI business in Melle, Germany, acquired in March, further increases the division's production capacity giving us the capability of handling very large projects when needed. This business has now been integrated into the Group and we are looking for the impact of this work to be reflected in improved performance during 2006.

Rotork Gears continues to develop its products and business and extend its influence across the global markets that we serve. The Milan based Omag business acquired in January 2006, while small in a Group context, holds a respected position in the important Italian market. It has a strong engineering culture with a largely complementary product range and will enhance the whole of our Gears business as we develop an integrated approach from the four production facilities in Leeds, Losser, Milan and Shanghai.

Corporate governance

The Board is committed to continuously improving its corporate governance framework and regularly reviews progress, both directly and through committees. We have further improved compliance with the Combined Code in a number of areas during the year with, for example, all our directors now having one year notice periods or less. We have also recruited a third independent non-executive director and all of our Board committees are now combined code compliant. The Group has a well developed internal audit process and our internal audit programme now extends beyond fiscal matters to Health and Safety and Environmental issues.

Dividend

The Board has a policy of distributing profits in the form of dividends generally commensurate with increases in earnings. The level of cash held by the Group at the end of the year, and anticipated continued cash generation in the coming year, has however encouraged us to propose additional distributions to shareholders during 2006.

The final dividend proposed by the Directors for 2005 is 9.90p per share payable on 26 May to shareholders on the register on 5 May 2006. In addition, the Board is proposing to make further additional distributions to shareholders by way of dividend, in the amount of £10 million over and above the sum of the final dividend being recommended for 2005 and the proposed core interim dividend for 2006. This additional distribution will take the form of two further interim dividends for 2006 paid in July and December, which with the final dividend for 2005 and the core 2006 interim paid in September, means that we plan to make four dividend payments to shareholders during 2006. The timing of these dividend payments is intended to match the Group's cash generation profile. A table showing the timing and amount of the four dividends proposed to be paid during 2006 is set out in the Operating and Financial Review.

Recognising the present deficit in the main defined benefit pension scheme, the Board has decided to make additional contributions to the scheme equivalent to this additional dividend. It is anticipated that this will put the scheme on a firmer footing prior to the next actuarial valuation in March 2007.

Jeremy Fry

It was with sadness that we record the death of Jeremy Fry, the founder of Rotork, in 2005. A tribute to Jeremy appears on pages 16 and 17.

Outlook

Conditions in most of our end user and geographic markets continue to be buoyant as reflected in the size of the order book at the start of the year and the strength of the order input since then. Based on this we are looking forward to further good progress in 2006.

R C Lockwood

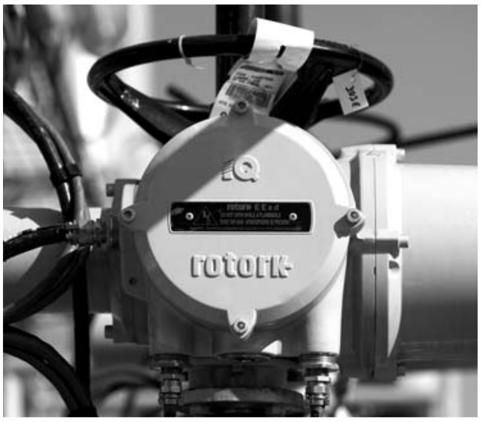
Roger Lockwood
Chairman
27 February 2006

GEOGRAPHICAL REVIEW

A TRULY GLOBAL PRESENCE

150 OFFICES AND 11 ASSEMBLY OPERATIONS SERVING 76 COUNTRIES AROUND THE WORLD

Whatever the product, all our customers enjoy the back-up of the Rotork network located throughout Europe, North and South America, the Far East, Africa, Asia, Australasia and the Middle East. Our global service network ensures that we are able to respond quickly and efficiently at a local and international level – from initial enquiry through to supply, installation and support.

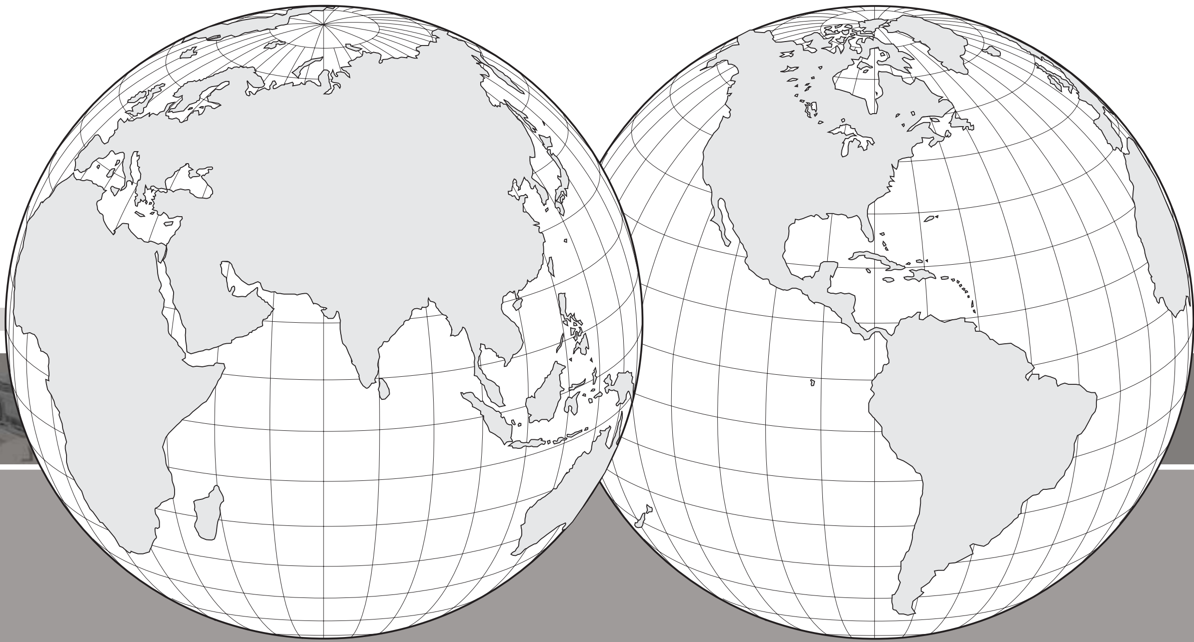


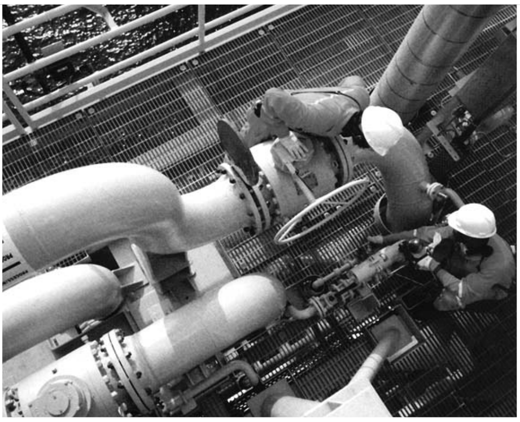
EUROPE
Rotork has a well established presence in the European market with seven assembly locations in Italy, Germany, The Netherlands and the UK, and a further six customer support centres elsewhere. Europe has a strong valvemaker culture supplying hi-tech solutions to complex customer requirements. Europe is often the centre for major project design across the globe.

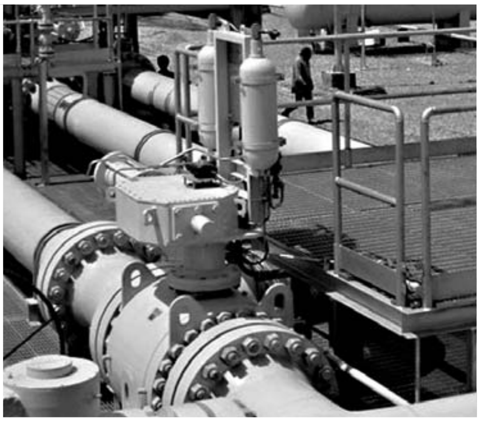
NORTH AMERICA
With two assembly plants and eight customer support locations we have significant investment in this large and complex market. There has been significant infrastructure development connected with potable and waste water activities in recent years, which we are well positioned to support.

SOUTH AMERICA
Supported mainly through our North American operations, the various regions of South America have sophisticated local infrastructures developing hydrocarbon assets within the region. All three of Rotork's divisional businesses are active in these markets.

We have the experience, know how and product range to deliver virtually any actuation solution. From compact, manually operated gearboxes to large, highly specified actuators for use in extreme temperatures and hazardous environments – we can deliver worldwide.







AFRICA

This large and diverse market is supported by local offices and agents, and has seen some considerable investment in power utilities as well as oil and gas industries in recent years.

ASIA

Rotork has historically been strong throughout Asia, and now counts mainland China as the biggest market for Rotork Electric Valve actuators. In addition we have a well established position in India with two assembly units and a further three sales offices. A wide coverage of local companies throughout the Asia region enables us to support all customers even in quite remote locations. We have four assembly plants in Asia in total, including the new Shanghai facility.

AUSTRALASIA

This large geographic area includes remote but often quite sophisticated facilities covering all of Rotork's traditional end user areas. These are served by two customer support centres, one dedicated to Fluid System. Australia has a well developed hydrocarbons market, a strong local power industry, and complex water and irrigation systems across its landmass.

OPERATING AND FINANCIAL REVIEW

WE SAW FURTHER PROGRESS IN MANY OF OUR MARKETS IN 2005. THE PRINCIPAL HIGHLIGHT WAS THE STRENGTH OF OUR CORE ELECTRIC ACTUATOR MARKET ESPECIALLY IN ASIA AND THE USA. THIS WAS SUPPORTED BY THE CONTINUING HIGH LEVELS OF GROWTH FROM ROTORK FLUID SYSTEM.

Bill Whiteley
Chief Executive

Business Strategy

The objective of Rotork p.l.c. is to increase shareholder value by developing its leadership position in worldwide valve actuator activities. All of the Group's activities are focused on the specialist area of valve automation. The origins of the Company lie with the founder, Jeremy Fry, who developed an electric valve actuator in 1952. Over the years Rotork continued to build on its reputation as an innovator of new concepts in this field and has provided users with increasing levels of functionality, performance and assurance.

Recent strategy has focused on opportunities to leverage our leadership position in heavy-duty electric actuation into other closely associated areas of valve automation. Today Rotork's business is split into three actuation divisions; Rotork Electric, the original and largest activity supplying high quality, state of the art products for controlling pipeline and other valves; Rotork Fluid System, which supplies heavy-duty pneumatic and hydraulic valve actuators for operation in emergency shut down and other critical applications; Rotork Gears, involved in the supply of gearboxes, adaptors and ancillaries for the valve industry. Key programmes relate to the development of products, marketing initiatives, creating service revenue opportunities and driving cost reductions relating to these businesses.

Year under review

We saw a further strengthening of many of our markets in 2005 which had been evident in the second half of the prior year. For once currencies were not a significant factor with the average US dollar and euro exchange rates against the pound for the year as a whole giving us a small currency gain. Order intake was up 23.7% with all three divisions participating in active markets. The order book at the end of the year was £63.7m which is 35.6% up on the start of the year adjusted for the acquisition of PCI and 1.4% up on the order book at the half year. Revenue was up 19.0% and operating profits were up 20.0%. The principal highlight was the strength of our core electric actuator market, especially in Asia and the USA where we enjoy good market positions due to our strong sales and support presence and the desire in these regions to purchase the best available technology. This was supported by the continuing strong growth of Rotork Fluid System, whose business was enhanced last March by the acquisition of PC-Intertechnik in Germany.

TECHNICAL INNOVATION

AT THE FOREFRONT OF ACTUATION TECHNOLOGY

The second generation of Rotork IQ intelligent actuators has been setting the standard for actuators since 1993. In keeping with our commitment to innovation further enhancements have enabled multi-lingual displays, performance monitoring and data upload / download using the new IQ Pro setting tool.

The key drivers for the Group's businesses relate to 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 the efficiency, safety and environmental performance of plants. Valve actuators are critical components and their long-term reliability and performance is extremely important to users. They also act as a key interface between plant control systems and related hardware. Rotork's reputation for quality, worldwide support and technical innovation is crucial to its leadership position in the field. 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 revenue in any year.

Electric Actuators

The principal markets for electric actuators are oil and gas, water and waste water treatment and power generation. As a percentage of unit actuator order input oil and gas represented 37% (38%), water and waste water 24% (30%), power generation 31% (24%) and miscellaneous 8% (8%) with the prior year's figures in brackets. The oil and gas markets received much general attention during the year due to the relatively high oil and gas prices affecting the costs to consumers of energy. Much of the focus for investment by the oil and gas companies remained on upstream activities, such as exploration and production. However there was evidence that downstream activities were beginning to receive more focus due to shortages in refining and storage capacity. The majority of the electric actuators we sell into this sector go into downstream operations such as refinery offsites, storage and distribution facilities. Liquefied Natural Gas (LNG) investment was also particularly active. Our main opportunities in this business area reside with our fluid power actuator activities, but we did see good levels of demand for electric actuators especially on the export and receiving terminals. The power market was particularly active for the year under review. Sales of actuators into this market were heavily weighted towards Asia, in particular China and India. The water market also remains a key focus of our activities: we were successful in winning a number of important projects around the world, however as a percentage of our total units ordered, it fell due to this market lagging behind the exceptional growth in power and oil and gas.

UK Operations

The UK domestic market remained quiet for much of the year as the water companies moved from AMP 3 to AMP 4. Encouragingly we saw an increase in quote activity towards the end of the year. We also saw an increased level of business for power station work over the prior year.

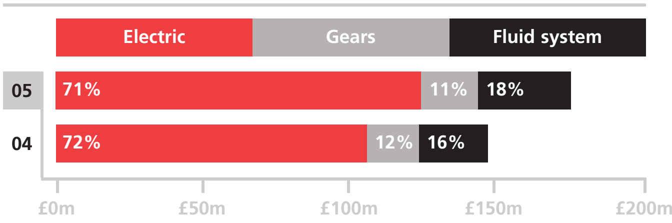
The Bath plant remains our main electric actuator assembly plant. It performed particularly well during the year reaching record output levels. Improvements to the supply chain, coupled with some strategic dual source arrangements, meant that we did not see a re-occurrence of the supply difficulties experienced in 2004. Despite severe increases in some raw material and energy costs our component cost increases were kept well under control due to continued procurement initiatives. Further engineering and procurement cost initiatives were worked on during the year which should help mitigate further material and energy cost increases in 2006.

Our Bath and Leeds Service and Retrofit organisations developed their businesses well during the year, in terms of both their capabilities and financial performance.

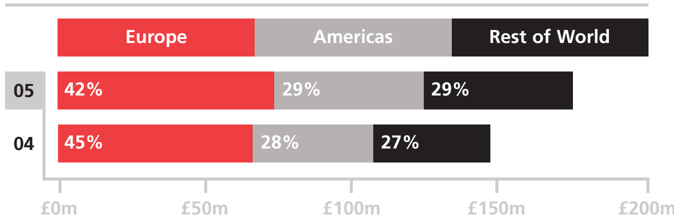
Rotork IQ and IQT intelligent electric actuators with Pakscan 2-wire digital control have been installed on a specialised area of the plant that manufactures the world's largest, most advanced and efficient commercial airliner. The Rotork actuators are installed at Toulouse, where a huge new production plant has been built for the Airbus A380.

The actuators control the sequence by which jet fuel, stored in six tanks, is pumped into the A380's 310,000 litre fuel tanks to clean them and then pumped back through filters for storage and re-use.

Turnover by business segment



Turnover by geographical destination



Europe

Although the business environment was somewhat subdued in some of our European markets, especially France, our sales subsidiaries performed well, in some cases boosted by projects won through their local valve makers for export to the Middle and Far East. The Italian and Spanish operations increased profits over 2004, while the Dutch, German and French companies performed well and ended the year with strong order books and good prospects for the current year. Business from Eastern Europe and Russia was at similar levels to the prior year. A new Rotork company has been registered in Russia in place of the existing sales office as we believe that there will be growing opportunities for our products in this important oil and gas economy.

The Americas

The US subsidiary based in Rochester, N.Y., had a very successful year. It built on its strength in the water and waste water business with the municipalities who continued to make investments in expanding and improving their infrastructure. We also saw modest improvements in the prospects for oil and gas business, especially in Mexico. The company benefited from increased export business won by US valve makers who were assisted by a relatively weak US dollar. Jordan Controls, our subsidiary manufacturing process control actuators based in Milwaukee, saw an improvement in its order intake and financial performance. A largely new management team has been put into place to help further develop this element of our business.

The Canadian subsidiary's performance saw an improvement over the prior year due to a better performance in the West. The Venezuelan subsidiary continued to perform well in a difficult environment.

The Far East and the Rest of the World

Rotork benefits from a strong presence and reputation in Asia, and it is this area which has seen the most significant growth in the period. China and India represent the biggest market opportunities and we achieved exceptional growth at our operations in both countries. Much of this related to power plant construction, but it was encouraging to see a strong increase in business from Chinese tank farm and gas projects. Our Indian subsidiary has assembly plants in Chennai and Bangalore and continues to achieve excellent margins from these plants. The decision was taken to make actuators in China and to this end a new company has been registered and a plant leased in Shanghai to assemble both gearboxes and electric actuators in order to become more deeply embedded in this market with its continuing growth opportunities.

Elsewhere all three sales companies in South East Asia had excellent performances. The Korean and Japanese subsidiaries also managed improved profit performances despite relatively poor domestic investment levels. Rotork Australia increased its profits and performed well while our South Africa subsidiary had a disappointing performance. The Middle East is a key business area for the Company, although orders for projects from this region are frequently routed through European and American OEMs. Project activity was driven by high levels of investment in oil and gas, including LNG activities as well as other infrastructure projects.

The Malaysian manufacturing plant experienced strong order intake especially in the first half of the year and had by the end of the third quarter managed to increase its capacity to cope with the increased business. The AWT product, which is made in the plant, is an important addition to our product range, which has assisted our marketing effort in a number of important non oil and gas markets.

Rotork Fluid System

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

We continued to see exceptional growth levels from this business with order input up 45.8% (30.4%) output up 35.8% (18.4%) and net profits up 23.9% (21.1%). The figures, excluding the acquisition of PCI, are in brackets. I am pleased to report that margins recovered considerably in the second half of the year due to project timings and some relief from the € / $ exchange rate. It was also notable that the division made good progress towards reaching its target of representing 20% of Group revenue. The 71% increase in the order book year on year means that it is well placed to meet that target in 2006.
PC Intertechnik (PCI) was purchased in March for £6.5m. It has an excellent reputation for the design and manufacture of high pressure actuators. This acquisition has done much to enhance our product offerings and strengthen our marketing position in Germany, Eastern Europe and Russia and has also substantially added to our

HIGH QUALITY PRODUCTS

DESIGNED TO THE HIGHEST POSSIBLE STANDARDS OF ENGINEERING

We have been at the forefront of actuation technology since the company was founded in 1957 and we enjoy an unrivalled reputation for commitment to quality. Many of our installations are in hostile environments, so our actuators must keep working in the toughest situations.

Rotork IQ intelligent electric valve actuators have been installed throughout the advanced new Reading Sewage Treatment Works. Approximately 150 Rotork Profibus enabled actuators control the movement of flows throughout the site, from the fully enclosed inlet works to the tertiary filters from where the treated waste water is returned to the local watercourse in line with the latest EU and Environment Agency standards. The new plant serves a population approaching 300,000 as well as a local brewery, so there is an emphasis on odour control that is unique to this site.

At Rotork we firmly believe our reputation is based on reliability, backed by a proven and successful track record over many years. We ensure that maximum reliability is engineered into every aspect of our equipment, with the result that we have what is probably the most reliable actuator anywhere in the world.

Our manufacturing processes have also been developed to ensure absolute quality and total reliability. Every actuator is tested individually before it leaves one of our purpose-built production plants.

Supplying the best equipment is crucial to our success. Providing a totally reliable service is just as important.

manufacturing capability and capacity. The profits were impacted by IFRS intangible amortisation and other initial ownership costs.

The division continued to build its worldwide marketing reach and benefited from its investment in leveraging Rotork's worldwide sales companies' coverage of the market. Most of these now have specialist fluid power capabilities including the ability to package product locally by designing and mounting bespoke control packages on actuators supplied from the assembly plants. The Rotork operations in Canada, Spain, France and The Netherlands all recorded good increases in business and profitability. The Italian plant again saw a significant increase in sales and profits while the US operation turned a first half loss into a profit and met its targets for the year.

The business benefited from its expanding product range. In particular products that have been introduced within the past two years, including the electric hydraulic and gas over oil range, sold well. During the year a range of sub-sea products was designed and successfully sold into a challenging area of business which is set to expand over the next few years.

Rotork Gears

Rotork Gears experienced good levels of demand in most of its markets, the main exception being the UK. Order intake for the year was up 6.4%, sales output up 7.1% and operating profits up 19.8% with both the Leeds and Dutch plant in Losser performing well.

The key strategies of this business are to expand its marketing reach and reduce the costs of its products as it operates in a price sensitive environment. Good progress is being made on both of these fronts. During the year the US operation continued to make inroads into the important North American market and in January 2006 we acquired the business assets of Omag Snc for £1.1m. The new company will be named Rotork Gears Srl. Omag is a respected gears manufacturer and supplier to the Italian heavy duty industrial valve industry and is based in Milan. This acquisition provides the division with a manufacturing and sales base in the globally significant Italian valve market in addition to its sites in Leeds, the USA, the Netherlands and China. Small scale manufacture of gearboxes commenced in Shanghai at the start of 2005. As already mentioned a new larger plant is being set up in Shanghai of which half will be devoted to gearbox manufacture. It is anticipated that gearbox assembly will commence in the second quarter of this year in the new plant. The business also completed a successful cost engineering exercise on two of its smaller gearbox ranges prior to tooling up for Chinese assembly. It is planned that the exercise will move onto the other main product ranges this year.

Research & Development

The last quarter saw the successful introduction of a new generation controller for our IQ and IQT actuators. In addition to extending our market leading diagnostics this new platform allows easier set up and configuration through language specific menus. A unique feature allows alternate languages to be added post manufacture enabling the product to be optimised to meet the needs of our international customer base.

SOLID RELIABILITY

BUILT ON EXPERIENCE GAINED IN EVERY OPERATING ENVIRONMENT

An all new infra-red setting device has also been developed that facilitates the rapid transfer of logged data between the actuator and the control or maintenance room. The new device is suitable for use within all of the areas where actuators are installed and will in future be shipped as standard. As such, it will eliminate the need for third party tools and increase the customer's access to data stored within the actuator.

Bringing all of this together is a new version of our PC based Insight diagnostic software which for the first time allows the actuator's embedded software to be non-intrusively upgraded in the field. In addition to enhancing our manufacturing flexibility and allowing more rapid product introduction, the feature also enables post installation upgrade, which is in keeping with our strategy of offering through life support and maintenance.

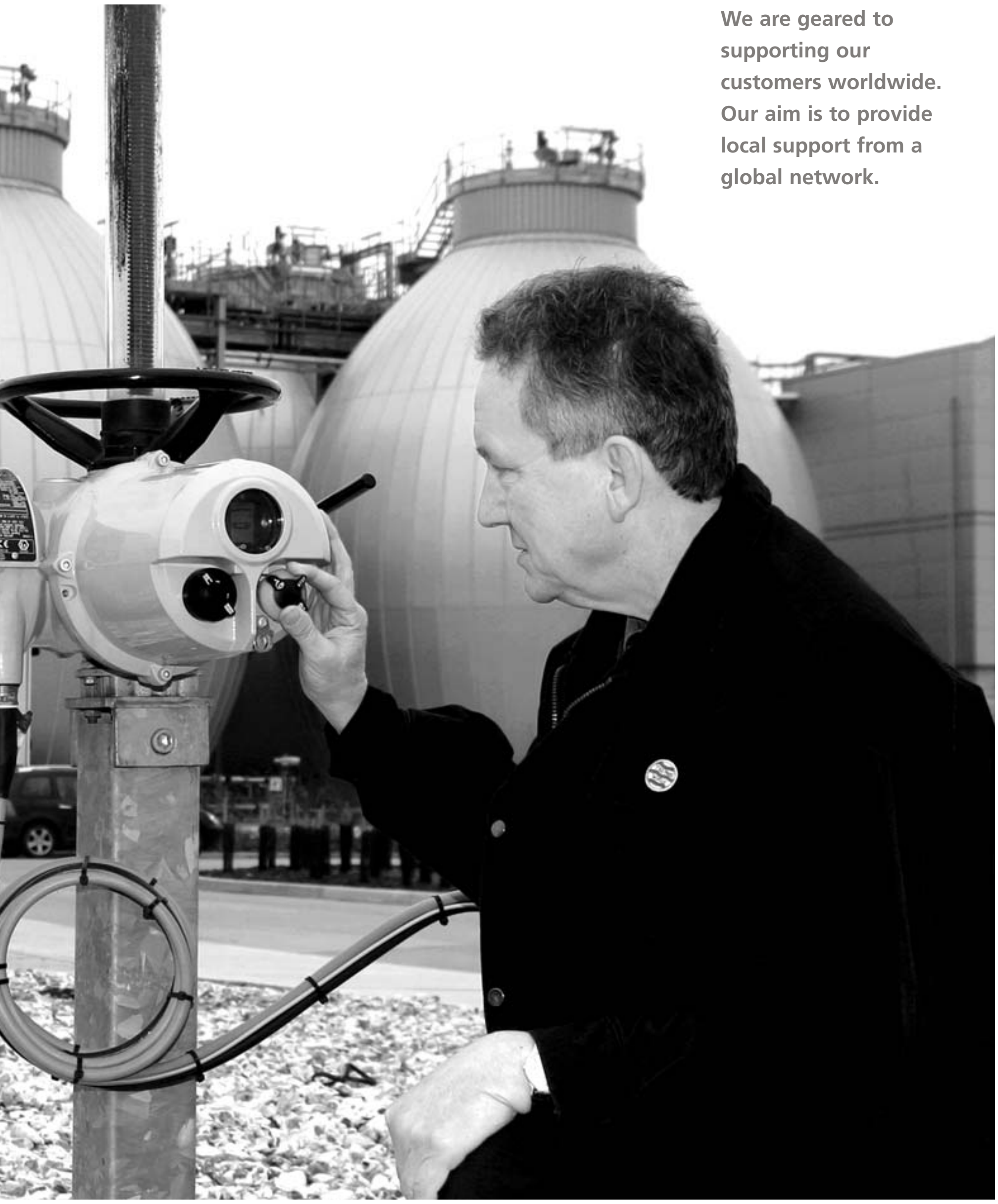
During 2005 we have continued to develop and enhance our network offerings including research into various technologies that could increase the speed and flexibility of field communications.
Our proprietary Pakscan system has also been the focus of significant development work.

Following the success of introducing our IQ technology into the Skilmatic and RFS products our UK based development engineers have been working closely with those at our US subsidiary Jordan Controls on a number of longer term developments focused on the process control market.

Quality

Even prior to ISO 9001: 2000, Rotork was completely committed to the key principles of customer focus and continual improvement. Recent LRQA audits of the main manufacturing site in Bath have yielded no formal findings and have included very positive summaries, commenting on the evident commitment to improvement. The rigour applied to the review, testing and validation of new products prior to release in the market place, has also been noted favourably. One significant innovation was the 'gated' Design Review process where all new products and significant changes to established ones, are assessed at every critical development stage. Prototypes are scrutinised for potential build or field reliability problems, as well as compliance with agreed specifications. A simple and highly effective 'traffic light' system is employed to note the status of each design, manufacturing or system aspect. Any 'red lights' at a Design Review drive further consideration of the aspect in question before proceeding to the next 'gate' in the project. This has had a major, positive impact, preventing projects progressing with inherent problems, which prove intractable in the final stages. The most recent new product introductions are a testament to these controls. New and significantly revised products have been implemented with minimal initial build issues and excellent field reliability performance from day one.

One very powerful tool in identifying improvement opportunities is regular review of Key Performance Indicators (KPI). Studying actual against target performance in principal customer facing objectives, highlights areas requiring particular focus. Similarly, a comprehensive Vendor Rating (VR) mechanism, measuring suppliers against quality,

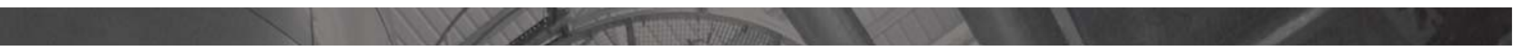


We are geared to supporting our customers worldwide. Our aim is to provide local support from a global network.

Well equipped, Rotork trained engineers and technicians work out of 76 offices worldwide and offer both on site and factory service. Operational data from actuators can be downloaded and analysed using IQ Insight software, and sent via email for analysis at one of our many service centres. Our specialist teams offer predictive maintenance and retrofit valve motorisation backed by a quick, responsive service.

DEDICATED SUPPORT

WHEREVER YOU ARE – WHATEVER YOU NEED



delivery, service and cost parameters, has proved extremely effective in driving improvement in suppliers' performance. Both the KPI and VR systems are run on the same 'traffic light' system as Design Reviews – any red is a trigger for immediate corrective relief.

Pensions

It has been clear over the last couple of years that deficits in defined benefit pension schemes have been adversely affected by a number of factors. The present assessment of life expectancy is leading to an increase in liabilities of schemes generally as these go through their actuarial valuation process. The steady reduction in bond yields over the recent past also increases scheme liabilities through less aggressive discounting of future costs as well as the projection of lower future income levels for schemes. The effect of these issues on Rotork is felt through the main UK defined benefit scheme. We have taken action to mitigate costs within the scheme and have taken no new entrants into the scheme since 2002. In addition, members have accepted increases in their level of contributions recognising the additional costs being borne by the employer companies. Although we have not prepared a complete update to the actuarial valuation since the last full valuation in 2004, it is the opinion of the scheme's actuary that there is a risk that the deficit has risen since that time and that a significant shortfall will be seen at the next valuation in March 2007. This would bring the actuarial deficit closer to the numbers reported in these accounts under IAS 19. In view of this the Board has decided to make a further cash contribution of £10m over and above the employers' regular contributions to address this in some large part. The first tranche of this, £2m, was paid to the trustees in December 2005, and the balance will be spread through 2006 and early 2007. It is believed that by taking this action now the strength of the fund at the March 2007 actuarial valuation will be much sounder than would have been the case. This will not affect the Company's results as the underlying cost to the business is taken into account in the IAS 19 calculations.

Tax

Rotork is an international business with 60% of the Group's profits being earned outside the UK. A number of these jurisdictions have rates of corporate tax higher than that in the UK. The effective rate of tax on profit was 33% in the year *(2004: 33%)*. We anticipate the rate of tax applicable to 2006 to be broadly similar to that in 2005.

Performance Indicators

The Group measures its performance internally through a range of indicators largely income and cash focussed. We have for some time published a number of these in graphical form, augmented more recently by information on total shareholder return.

International Financial Reporting Standards

On June 21 2005 the Group released audited restated accounts for 2004 under IFRS. These accounts have been used as the comparative numbers in this report and as a consequence there is no reference to UK GAAP (generally accepted accounting principles) within the Group financial statements.

Dividends

The Group's strong cash generation in the year has resulted in a closing cash balance of £27.2m. In view of there being no immediate requirement for this within the Group the Board is recommending that additional dividends be paid during 2006 which will distribute £10m of this back to shareholders. At the time that the last additional dividend was paid from 2004 profits, we said that in a year where we made such a distribution, we would recommend that the ongoing, or 'core' dividends be increased by an amount lower than earnings growth.

The Board are therefore recommending payments of the following dividends in the current year:

- Final proposed dividend for 2005 of 9.90p – to be paid on 26 May 2006 to shareholders on the register on 5 May 2006
- Additional interim dividend for 2006 of 5.80p – to be paid on 27 July 2006 to shareholders on the register on 16 June 2006
- Regular interim dividend for 2006 to be announced with interim results – to be paid on 28 September 2006 to shareholders on the register on 8 September 2006
- Additional interim dividend for 2006 of 5.80p – to be paid on 21 December 2006 to shareholders on the register on 1 December 2006.

The final proposed dividend for 2005 represents a 2% increase over the final for 2004. The two dividends payable in July and December between them represent the distribution of £10m additional dividend for 2006.

Treasury

The Group's treasury function in Bath manages financial risks to the Group. These primarily relate to foreign currency exposure as a result of the international nature of the Group's business, and managing cash. The main currency exposure results from trading transactions between our production plants, trading companies and customers around the world. Overall around 30% of our income streams are denominated in US dollars (actual or near equivalent), 20% in euros and 15% in sterling. The rest is a mix of other convertible currencies across the operating companies. The main instrument for covering this transaction exposure is the simple forward cover derivative contract, and this is used for known exposures only where we can accurately predict income. No speculative or non trading hedging takes place within the Group.

The weighted average rates for translation of our two main trading currencies into sterling over the last few years have been:

	US dollar	Euro
• 2002	1.52	1.58
• 2003	1.66	1.44
• 2004	1.83	1.46
• 2005	1.80	1.46

Overall then the movement in average rates between 2004 and 2005 has meant that the effect of currency on our trading profits has been relatively small, under £500k, although there are balance sheet differences due to the spot rates at the two year ends having moved, materially in the case of the dollar. As a guide a one cent movement in the US dollar can have a £150k effect on profit if taken over a full year, and a one cent movement in the euro an equivalent effect of £150k. In recent years we have developed overseas component sources and this trend continued in the year. The production units outside the UK source primarily in their own currencies, with the exception of the main facility in the US which sources mainly from the UK. This approach to international sourcing provides a further hedge to the effect of currency movements on our businesses.

Conversion of profit into cash is traditionally strong in Rotork due largely to the business model, which does not require a large capital base to support it. It is believed that this model allows management of the divisional businesses to focus on customer facing issues and profitability to a greater degree than on capital and production. Receivables collection has been good again in the year and Group debtor days over the last three years have seen the benefit of initiatives internally focussing on this. Inventory has increased over the last two years due in part to the increasing complexity of our product range, the impact of the Rotork Fluid System business which has very large projects as a feature of its business, and the high work in progress at the end of December resulting from the very strong order book at the end of the year.

Internal Audit

The Group has an effective and well-developed internal audit function that has been moulded over many years. Audit work is performed by senior finance staff from a number of our business units based on a common training process and audit work programme developed with assistance from our Group auditors, KPMG. This methodology provides feedback through regular reviews, and allows members of the team to experience the control environment in different business areas while enabling us to develop a common message throughout the Group. The audit programme has inbuilt key performance indicators which are reported on, together with summaries of work performed and issues raised, to each Audit Committee meeting throughout the year.

Environment

2005 saw a major milestone in the development of the Environment Management System (EMS) at the main Bath site when it achieved independent verification of compliance with ISO 14001. The benefits of the management system itself are equally remarkable. With new environmental legislation being introduced on a regular basis, having proper mechanisms in place to address the new requirements has proved invaluable. There have also been some significant cost benefits, mainly from reducing waste to landfill by 46% during 2005. As one of the site's most significant environmental impacts, waste stream management has proved a focal point of the EMS. The reduction in waste to landfill was achieved both by minimising waste generation and by increased recycling, especially of wood and cardboard.

MAXIMISED EFFICIENCY

THE BEST POSSIBLE SOLUTION

Whether its electric, hydraulic or pneumatic we ensure our customers receive the most cost effective and best engineered solution possible. Low long term cost of ownership and peak performance go hand in hand with Rotork.

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

Rotork remains committed to meeting the requirements for inclusion in the FTSE4Good index and to the 10 principles of the Global Compact. Rotork is very conscious of the need for improved awareness of environmental issues and the need to minimise the Group's environmental impact. During 2005 a project was launched to improve the Group's reporting of environmental performance data. This project is now well advanced and the number of subsidiaries reporting their environmental data has increased significantly from 7 to 30. Over the next two years, this project will further extend reporting on Rotork's global operational impacts and, where possible, take action to reduce them. Details of Rotork's global environmental performance are published in the Rotork Environmental Report on the Rotork website at www.rotork.com

Jeremy Fry

It was with great sadness that we learnt of the death of our founder, Jeremy Fry, in July. Jeremy founded Rotork Engineering Company in 1957 and began operations with about a dozen employees from his home in Bath, Widcombe Manor. Jeremy recognised the potential of developing a 'valve actuator' in an era when almost all valves were manually operated.

Everyone associated with Rotork is indebted to his vision, enterprise and energy in founding Rotork and setting it on its path in becoming one of the most successful UK engineering companies. Anyone who worked with Jeremy was instantly aware of his restless search for the right answer to any problem, his willingness to discard conventional wisdom and ability to think from first principles.

When I joined Rotork from a large industrial group over 30 years ago I was immediately attracted to the culture of the Company which reflected Jeremy's unique contribution to the world of business, engineering and, in our case, valve actuators. Although Rotork has seen many changes since his retirement in 1984 I believe that many of his principles still form the Company's core values. The most important of these were his innovative approach to product design, his international outlook to business and markets, his encouragement of young talent and his keen interest in the welfare of everyone working for the Company. There is a tribute to Jeremy on pages 16 and 17 of this Report.

Employees

I would again like to thank all of our employees for the dedication and enthusiasm which they display in furthering Rotork's business. It is particularly encouraging when their commitment to serving our customers is rewarded by the level of financial success experienced in 2005.

Bill Whiteley
Chief Executive
27 February 2006

At South Ferriby we have recently completed a comprehensive modernisation project for the UK Environment Agency to improve operation and safety at a Victorian tidal gateway on the Humber Estuary in Lincolnshire. The Rotork actuators ensure that the lock keeper can accurately control the positions of the gateway and the levels in the locks. The gateway and locks allow for the passage of boats whilst maintaining the overall water level. Today, although the majority of traffic is for pleasure, the river is still a significant environmental asset and plays a vital role in land drainage.

IN REMEMBRANCE OF JEREMY FRY

FOUNDER AND CHAIRMAN OF ROTORK 1957 – 1984

"Rotork ....combines the entrepreneurial qualities of a small organisation with the complex pattern of trading of a very much larger company" – this comment in the 1974 Annual Report begins to illustrate how Jeremy Fry's personality shaped the development of his business.

Engineer, inventor and entrepreneur Jeremy Fry – the second son of the last chairman of the Fry's chocolate business – founded the Rotork Engineering Company in 1957. The discovery of a disused electrically powered water valve in an old iron foundry owned by Frenchay Products Ltd – an aircraft component company set up by Jeremy and his brother David – was the spark that ignited the Rotork story. Jeremy was intrigued with the idea of specialising in the design of electro-mechanical valve actuators and thereafter this became the enduring focus of his innovative and creative talent.

At that time the Fry family lived at Widcombe Manor, a beautiful Georgian house with gardens on a Bath hillside. The house was well known for the Fry's fondness for entertaining – Jeremy's life-long friends Antony Armstrong Jones and Princess Margaret were frequent visitors – but Widcombe Manor also became the first and unlikely home for Rotork. Here, Jeremy and a small team of engineers began the development of design benchmarks that still define the modern electric valve actuator, converting what had previously been a machine that was fabricated for each individual valve into a product range, built from standard modules and suitable for all valve types.

Orders were taken and actuators built in the basement, often leaving the Georgian splendour of Widcombe Manor on the back of the Ford Thames Trader lorry that was parked in the driveway. Employees remember how informal it all was, an extension of home life rather than going to work. For Jeremy it was natural to be actively involved in all areas of the business and he expected the same enthusiasm and interest from all of his team. He had the ability to inspire those who worked with him and he entrusted them with considerable responsibilities – irrespective of age and experience.

Even years later, when the company was first established at its permanent factory site, Jeremy would spend hours on the shop floor assembling components to meet a crucial delivery deadline, or, when the rising waters from the adjacent River Avon threatened to flood the works, join in as the whole workforce moved endangered stock to higher ground.

Much early progress was made in the Middle East, with Rotork actuators installed in the hazardous areas of oil refineries, pipelines and loading jetties. The challenge was to make the equipment both explosionproof and watertight. Jeremy was on a sales trip to Saudi Arabia when he discovered how this design criterion could be accomplished, triggering the radical redesign of Rotork actuators with enclosures that were totally sealed from the environment when all the covers were in place.

The fundamental breakthrough in environmental sealing was thus achieved, enabling the actuator to develop into an increasingly self-contained and sophisticated device. This was the beginning of Rotork's spectacular growth. By 1964 Jeremy was able to announce the launch of "The last word in valve actuation, a new revolutionary system….. the only method of its type in the world, the standardised valve actuator which the firm has been working towards ever since its modest beginnings ten years ago."

In the same year the press reported: "Rotork Engineering Co. Ltd, Bath, have secured $150,000 of orders for the USA. This follows a sales tour by Mr. Jeremy Fry, head of the firm, who visited about 23 engineering and petroleum industry centres in the US. He conducted lectures and led discussions with demonstrations of working models of Rotork's range of electric actuators."

Jeremy Fry 1924 – 2005

His life was filled with many engineering, architectural and artistic achievements. Of these, the creation of the modern electric valve actuator surely represents his most significant and prevailing industrial legacy.

There had been many other successes – the largest an order for 1000 actuators for the French nuclear industry in 1963 – whilst industry in general adopted the concept of centralised control inherent in Rotork's product philosophy with enthusiasm. Jeremy's ideas were very much in tune with the times and by the early 60's Rotork had businesses or licence agreements in six countries, annual production exceeded 1000 units in 1960, the first production line was established in an old mill and in 1962 a new Rotork factory was built in nearby Brassmill Lane, which is still the Company's international headquarters.

Jeremy's enthusiasm continued to influence and innovate. If something seemed worth a try, it was given a chance. A direct delivery service to Europe by Rotork lorry was instigated in 1963, linking manufacturing facilities in France, Germany and Italy to provide "a faster, more economic and more positive service to European customers." Return trips would bring components to the Bath factory. Europe was also the focus of much exhibition activity, at Frankfurt, Leipzig, Paris and elsewhere. Jeremy insisted that actuators should not be specially prepared for exhibitions and only production units should be used, since the Company's reputation relied on the quality and appearance of standard products.

The new Brassmill Lane factory expanded in an open plan fashion, bereft of the management / worker layout and atmosphere that typified much of British industry in those days. Visiting firms' representatives were heard to remark that Rotork was far too "modern" to be British, and surely must be an American company! In fact, Rotork was a dynamic British company that would soon be expanding into manufacture in the USA, reversing the conventional trend of the time.

The architectural practice of Leonard Manassah – whom Jeremy greatly admired, having studied architecture under him – designed Rotork's innovative factory extension. Sir Alex Issigonis was another life-long friend; Mini-vans provided the transport for Rotork's first service engineers. In 1968, the Company was introduced to the London Stock Exchange in order to facilitate the financing of future expansion.

Rotork grew even more quickly during the 1970's when the Rotork name was also associated with additional Jeremy Fry interests including the Sea Truck and the Cyclone vacuum cleaner from which the Dyson evolved, as well as new engineering businesses that were added to the Group. Sales Conventions were introduced in order to keep everyone fully informed of the latest developments and a research department was established at Le Grand Banc, a derelict village in France that Jeremy was renovating. Throughout it all, employees recall those days with affection, remembering how informal it all still seemed and how different from other engineering companies it was.

When Jeremy Fry retired in 1984, he had directed his company over a period of twenty-seven years from a workbench in his basement to a leading international engineering group with annual actuator sales of £21 million. Jeremy's life was filled with many engineering, architectural and artistic achievements. Of these, the creation of the modern electric valve actuator surely represents his most significant and prevailing industrial legacy.

BOARD OF DIRECTORS

WH Whiteley, Chief Executive (left)
Bill (57) 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 Dialight plc and Spirax-Sarco Engineering plc.

RH Arnold (left)
Bob (54), 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.

RC Lockwood, Chairman (above)
Roger (60) has been a non-executive director of Rotork since joining the Board in 1988 and became non-executive Chairman in November 1998. He is 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.

RE Slater (above)
Bob (54) 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.

JW Matthews (above)
John (61) 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 (59), 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.

IG King (above)
Ian (49) joined the Board in February 2005 as a non-executive director. He is currently Group Managing Director, Customer Solutions and Support, BAe Systems plc and is a member of that company's Executive Committee. Ian has previously held senior financial and general management positions at Marconi. He is a member of the Audit, Remuneration and Nomination Committees.

GM Ogden (above)
Graham (49), holds a Phd and 1st class honours degree in electronic engineering from Bristol University and has been with Rotork since 1985. Since joining Graham has been closely involved in product development including our award winning IQ series. He was appointed to the Actuation division operating board in 1997 as Research and Development Director and joined the Board of Rotork p.l.c. in January 2005.

REPORT OF THE DIRECTORS

The directors submit their report and the audited accounts for the year ended 31 December 2005 as set out on pages 34 to 81.

Principal 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 and business development including future development of the business and research and development are set out in the Operating and Financial Review on pages 6 to 15.

Dividends

The directors recommend a final dividend of £8,521,000 for the year, payable on 26 May 2006 to shareholders on the register on 5 May 2006. This represents 9.9p per ordinary share *(2004: 9.7p)* which, with the interim dividend of 5.9p per ordinary share *(2004: 5.35p)* will produce a total dividend per ordinary share of 15.8p (the 2004 equivalent total dividend was 15.05p per ordinary share but with the additional interim dividend of 5.85p per ordinary share produced a total dividend paid in 2004 of 20.90p).

Shares issued or purchased

Details of the ordinary shares issued during 2005 are given in note 16.

Substantial shareholdings

As at the date of this Report the Company had been formally notified under the Companies Act 1985 since the publication of the 2004 Report that Standard Life Group had a material interest in 3.99% of the issued ordinary share capital of the Company being 3,430,877 ordinary shares. Non-material interests had also been formally notified by Capital Group of 5.28% of the ordinary share capital of the Company being 4,536,936 ordinary shares and Fidelity of 4.04% of the ordinary share capital of the Company being 3,484,387 ordinary shares.

Research and development

Total Group expenditure on research and development in the year was £2,666,000 *(2004: £2,424,000)* further details of which are contained in the Operating and Financial Review on pages 6 to 15.

Charitable donations

During the year the Group made charitable donations of £44,000 *(2004: £35,000)*.

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

Directors

The names of the directors in office at the year end and their biographical and other details including the other significant commitments of the Chairman are as shown on page 18. On 1 January 2005, GM Ogden was appointed an executive director and on 17 February 2005, IG King was appointed a non-executive director. GE Malcolm retired on 8 April 2005. 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 26 to the financial statements.

WH Whiteley, RE Slater, RH Arnold and GM Ogden have service agreements and details of these are contained in the Remuneration Report on pages 26 to 32.

At the Annual General Meeting ("AGM"), in accordance with the Articles of Association, WH Whiteley and JW Matthews will retire by rotation and, being eligible, will offer themselves for re-election. In accordance with the Combined Code, RC Lockwood will also offer himself for re-election.

Financial instruments

An explanation of the Group policies on the use of financial instruments and financial risk management objectives are contained in note 22 of these financial statements.

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.

Statement of Directors' Responsibilities in Respect of the Annual Report and Accounts

The directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and have elected to prepare the Company financial statements in accordance with UK Accounting Standards.

The Group financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the Group and Company financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- For the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- For the Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business. 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 operate the going concern basis in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They 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.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included in the Company's website.

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 April 2006 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
27 February 2006

CORPORATE GOVERNANCE

Set out within this section is a commentary on how the Company applies the main and supporting principles of the Combined Code on Corporate Governance ("the Code"). Specific disclosures required within the provisions of the Code are also made within this section.

Code Compliance Statement

All current serving executive directors now have one year's notice period or less in their service contracts. Following the appointment of IG King during 2005, currently there are now three independent non-executives as accepted by the Combined Code on the Board and the Board Committees. As Rotork p.l.c. is considered a large company by the Code it is recognised that for full compliance, Code provision A.3.2 requires a further independent non-executive to be appointed so that half the Board excluding the Chairman comprise non-executive directors. This was the position throughout the year under review. The appointment of IG King is considered by the Board to be a significant step towards full compliance in respect of the relevant Code provision, concerning Board composition, in addition to facilitating full compliance for Committee membership. Subject to the matter of the number of independent non-executives referred to in this paragraph the Company considers that it has from April 2005 complied with the provisions of the Code. Early in the year prior to the appointment of IG King in February 2005, the Nomination, Remuneration and Audit Committees were non-compliant in that RC Lockwood was one of the three non-executive members of each of those committees. Mr. Malcolm whose service contract had a two year notice period, retired in April 2005.

Internal control

The Company has during the year operated procedures necessary to comply with 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 consideration of social and environmental risks) facing the Company's businesses. Their deliberations are reported to the Audit Committee and Board. This process is based on senior managers' detailed knowledge and understanding of key risks within and external to the business based on formal management information and reports and their interaction and daily dealings with those reporting directly to them, their colleagues and external parties.

Internal financial audits are undertaken on a regular basis by a selected group of accountants drawn from head office across the divisional businesses and geographic centres. All these accountants have received relevant and specific training in internal audit, best practice and control procedures, including health and safety. Work will continue to further embed internal control and risk management in the operations of the business and to further enhance and add to the relevant processes including consideration of social and environmental risks.

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:

- Monitored and reviewed the effectiveness of internal audit activities;
- Reviewed and monitored external auditor independence and objectivity and the effectiveness of the audit process;
- Considered reports from management, internal and external audit on the system of internal financial control and any material control weaknesses;
- Received reports on Health and Safety and environmental issues;
- Discussed 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 received copies of the minutes of all Audit Committee meetings;
- The Board reviewed 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

The Board currently has eight members comprising the Chairman, the three independent non-executive directors as accepted by the Code, and four executive directors. On appointment directors receive a suitable and tailored induction. There is a clear division of responsibility approved by the Board in writing between the Chairman, RC Lockwood, and the Chief Executive, WH Whiteley, that ensures that there is a balance of power and authority between the running of the Board and the executive responsibility for the running of the Company's business. JW Matthews is the Senior Independent non-executive Director.

The full Board had seven meetings spread appropriately over the course of the year under review. During the year RC Lockwood, A Walker, WH Whiteley, RE Slater, GM Ogden and IG King attended every Board meeting. JW Matthews attended six meetings and RH Arnold, a United States resident and national, attended four Board meetings in person and three by video-link for part of the meeting. GE Malcolm who retired in April attended two meetings. During the year Board meetings are scheduled at manufacturing sites other than the Company's headquarters in Bath. This allows in particular non-executive directors to meet management at these sites and receive presentations from them. During the year under review the full Board visited and held a full Board meeting at the Rotork Fluid System (manufacturing plant) in Lucca, Italy.

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 proposed 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 Board regularly considers and discusses future strategy, following submissions by management, at Board meetings and, on occasion, separate strategy meetings. The non-executive directors constructively challenge and help develop proposals on strategy at those meetings. 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.

Performance evaluation

There is a formal process for performance evaluation of the Board, its Committees and individual directors which was implemented during 2005. The Chairman with support from the Company Secretary co-ordinates the evaluation and during the evaluation consults individually with all directors addressing a consistent set of pre notified matters covering Board, Board Committees and individual director's effectiveness. The collective results of these structured dialogues are reviewed by the Chairman, consulting with others as appropriate. An overall summary of the evaluation results can then be tabled at an appropriate Board meeting. The effectiveness of the evaluation process is assessed and can form the basis for subsequent development action. The Senior Independent Director leads the performance evaluation of the Chairman through consultation with all the directors followed by a meeting he chairs with the other non-executive directors to consider all responses received and at which the performance of the Chairman is formally evaluated.

Appointments to the Board

The Nomination Committee's five members during the year under review were RC Lockwood (who chairs the committee), JW Matthews, A Walker, IG King and WH Whiteley.

The Committee meets regularly to undertake its duties in relation to succession planning and in recommending specific appointments to the Board. There was one formally minuted meeting of the Committee in the year under review.

The search for an additional independent non-executive director with recent and relevant financial experience culminated in the appointment to the Board of IG King in 2005 who was introduced through an external consultant. Prior to the appointment of IG King the Nomination Committee considered a range of suitable candidates making use of external search consultants and other contacts. A short list of those available candidates considered most suitable when compared with the criteria drawn up by the Committee, were then interviewed by the Committee. Following further consideration by the Committee, and meetings by IG King with all the executive directors, he was recommended to the Board for appointment as a non-executive director by the Committee. IG King has undertaken to the Company that he will have sufficient time to meet what is expected of him as set out in his letter of appointment.

Following the appointment of the third independent non-executive director, IG King, the Nomination Committee now comprises three independent directors, the Chief Executive and Chairman. A majority of the members of the Nomination Committee are therefore independent non-executive directors as accepted by the Code. The Terms of Reference of the Nomination Committee can be accessed on the Company's website in the Investors' section.

Audit Committee

The Audit Committee is now comprised of the three independent non-executive directors, JW Matthews (Chairman), A Walker and IG King. RC Lockwood ceased to be a member of the Committee in February 2005. The Committee 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, Chairman 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 in note 8. 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. This assessment was undertaken by the Committee during the year. The Terms of Reference of the Audit Committee is available to view on the Company's website in the Investors' section.

All of the members of the Audit Committee, during the year under review being, JW Matthews, A Walker and IG King attended all three meetings of the Committee. RE Slater and WH Whiteley attended all three meetings of the Committee by invitation. The internal audit function is undertaken by members of the Group's finance departments who all have other distinct posts. The Group Finance Director is also Head of Internal Audit. The work undertaken by the Committee in discharging its internal control responsibilities is described under the Internal Control section above. During the year the Committee actively reviews the actions and judgements of management in relation to the Company's financial statements, operating and financial review, interim reports and preliminary announcements before their submission to the Board with the Committee's recommendations for approval or otherwise. The Committee considers the appointment of the auditor and recommends the audit fees to the Board. The Committee also pre-approves fees in respect of non-audit services of the auditor (excluding tax advice) at financial thresholds set out in a written policy statement approved by the Committee and seeks to reassure itself that the provision of non-audit services does not impair the external auditors' independence or objectivity. The Committee discuss with the external auditor before the audit commences the nature and scope of the audit and reviews steps taken by the auditor to respond to regulatory requirements.

Remuneration Committee

The work of the Remuneration Committee is described in the Remuneration Report on pages 26 to 32. JW Matthews, A Walker and IG King attended the four formal meetings of the Remuneration Committee during the year under review. The Chief Executive was invited to attend three formal meetings for parts of those meetings.

Relations with shareholders

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 Board receives non-attributable analyst comments from analyst meetings and shareholder meetings after both interim and final results. The Chief Executive reports at each Board meeting upon his meetings with analysts, fund managers and shareholders. The Company Secretary has written on behalf of the Board to the Company's major shareholders offering meetings with the non-executive directors and requesting shareholders to confirm they are content with current Board level contact with the Company and communication to non-executives. The Chairman now attends the preliminary and interim announcements in London with the Chief Executive and Finance Director and is available to meet fund managers and analysts on those days.

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. For the AGM all proxy votes are counted and (except in the event of a poll being called) at the AGM the balance for and against the resolution and the number of abstentions is displayed for shareholders after it has been dealt with on a show of hands. Prior to the AGM the Company Secretary reports to the Board on the results of the proxy returns and on the comments and analysis undertaken by voting agencies.

CORPORATE SOCIAL RESPONSIBILITY

The Company has considered the guidelines on Social Responsibility published by the Association of British Insurers and takes full account of the significance of environmental and ethical matters in the conduct of its business and in its risk assessment processes. Rotork remains fully committed to the principles laid down for its inclusion in the FTSE4Good Index and the 10 Principles of the UN Global Compact of which it is a signatory.

Environment

The Group Environmental policy includes commitments to the prevention of pollution, compliance with all relevant legal and other regulatory requirements and to the continuous improvement of environmental performance. The Environmental policy applies to all manufacturing sites in the Group worldwide. The complete policy may be found at www.rotork.com under 'Environment'.

In its 2005 Environmental Report the Group reported that it had maintained its commitment to managing and improving its environmental performance and to communicating this performance to its stakeholders through the publication of its Environmental Report for 2005 which can be accessed in full at www.rotork.com under 'Environment'. The 2006 Environmental Report will be available on the Company's website in late Spring 2006.

The Group has identified its key negative environmental impacts to include the use of energy, water, packaging and disposal of waste. The Group is continually developing policies and procedures on these issues to minimise its impact on the environment.

Rotork considers its positive environmental impacts include its contribution to sustainable development and environmental improvement through the products and services it sells. The Company's products are used around the world to operate industrial valves in all environments, including those which are hazardous and in many types of industries, including water purification, sewage, food processing, marine, irrigation, power generation and oil and gas.

Rotork products help reduce human error and thus potential environmental disasters, whilst saving energy and resource.

Rotork is continuing to develop and produce energy efficient products with improved performance.

Environmental Management System

Rotork will, through its Environmental Management System:

- Allocate formal environmental responsibilities to ensure compliance with legislation.
- Support a culture of consultation with employees, key stakeholders and other interested parties.
- Provide environmental information, guidance and, where necessary provide training that meets best practice.
- Monitor, measure, audit and seek continuous improvement in its environmental performance.
- Work with external agencies and bodies to ensure continued adoption of best practice solutions in environmental management.
- Communicate best practice and publish internal and external information detailing is aims and achievements.
- Foster open communication with employees, customers, suppliers and other stakeholders via both electronic publishing and face-to-face discussion.

Independent verification of compliance of the Company's Environmental Management System at the Bath site with ISO 14001 was achieved during the year. The audit established that a system was in place and working. In the 2004 Environmental Report waste to landfill was identified as the biggest operational environmental impact. Recycling facilities introduced during 2004 had by mid-2005 reduced waste to landfill by two-thirds.

Within the 2005 Environmental Report at www.rotork.com information and data can be accessed about how Rotork managed its key environmental impacts. The data includes information on energy, water, waste generation, hydrocarbons, volatile organic compounds, ozone depletion and landscape and biodiversity. Data is also included from the other manufacturing sites as well as Bath.

Ethics and Values

Rotork is a signatory to the United Nations Global Compact and its 10 Universal Principles around human rights, labour, environment, bribery and corruption. These Principles are derived from the Universal Declaration of Human Rights, which the Company also therefore supports and the International Labour Organisation's Declaration of Fundamental Principles and Rights at Work. In particular, Rotork supports all United Nations' efforts to ensure the effective abolition of child forced compulsory labour and will never use any such labour in any of its operations worldwide. At Rotork the rights of every employee are respected. The Company acts in ways that ensure all employees are treated with openness, mutual trust, dignity and respect. Everyone working at Rotork will be treated fairly and without discrimination on the basis of race, gender, language or religion.

Rotork's Ethics and Values Statement can be accessed at Rotork's website www.rotork.com under the Investors' section, sub-section 'Responsibilities and Ethics'. Additionally at that part of the website can be accessed the Rotork 'Doing the Right Thing' document which describes some of the benefits Rotork provides for employees and the wider community.

Suppliers

Business integrity and fair dealing is key to the Group's relationships with suppliers and contractors. Many of the Group's suppliers have long-term relationships with the Group. Most key suppliers are registered to ISO 9000. Supplier development is ongoing and involves elements (developed in the motor industry) of the QS 9000 system.

Employees

Employees in the UK and many overseas subsidiary companies enjoy participation in long-standing Rotork profit sharing and share schemes.

At the Bath plant, an Employee Committee sits regularly to discuss staff issues and suggests improvements in working conditions and practices. All issues are reviewed by directors and acted on as appropriate.

An Equal Opportunities policy is applied throughout the Group and in almost all cases, it is nationals from those countries in which the Company operates who manage those companies locally.

Financial support for training and learning programmes directly related to employees working roles are provided. There are two full time training officers at the Bath site who co-ordinate product training initiatives for employees and customers. Four year apprenticeship programmes underline the commitment to staff development for the long-term.

Health and Safety

The Group has Health and Safety policies in place. The Group is working towards 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.

Community involvement

For many years Rotork has pursued a policy of community involvement through financial support and 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 at the Bath site. 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 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.

The Charity Committee normally matches monies raised by employees who undertake appropriate charitable events personally.

From 2004, the Charity Committee awarded a grant of £30,000 over three years to the Research Institute for the Care of the Elderly to provide a Rotork room in a new research facility to be built at the Royal United Hospital in Bath. The room will be one of four examination rooms that will be used on a daily basis for the Institute's research projects and memory clinics. The memory clinics provide a much valued service to people in the Bath area. Like Rotork, the Institute is committed to research as a means of progress in finding solutions to practical problems. With the ageing of the population, research to improve the care of older people is of growing importance and Rotork is pleased to be involved with this initiative.

Other charitable organisations to benefit from Rotork's Charity Committee during the year included:

Tsunami Appeal
Fashion Breakthrough
The Egg
Summerfield School
Leukaemia Research
RNID
Beating Bowel Cancer
Bath Opportunity Pre School
Heartline
Tearfund
Northern Youth Venture Fund
Rosewell League of Friends
The Rainbow Centre
St. Martins Gardens Primary School
Race for Life
BIME
Vision Bath
St. Marys C of E Primary School
2 Bridges Drugs and Alcohol Trust
Weston Day Club
Bridge Care
The Harbour
Music Alive
Samaritans
Churches Together in Bath
CLIC
The Grand Appeal
Guide Dogs for Blind
Little Sisters of the Poor
Invalids at Home
Hop Skip and Jump
Children's Heart Foundation
Julian House
1 to 1
MS Society
Blackwell Challenge
Winsley Acorns
RUH Forever Friends
RUH Charitable Friends
Dressability
Phoenix Activity Club
Bath Cats and Dogs Home
Jeans for Genes
Charter Trustees of the City of Bath
Genises Trust
Charity Search
Roadpeace
Bath Junior Gateway

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 currently comprised of three independent non-executive directors, JW Matthews, A Walker and IG King. During the year under review JW Matthews chaired the Committee and A Walker and IG King were members. RC Lockwood stood down from membership of the Committee in February 2005 following the appointment to the Committee of IG King in 2005. 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 and the Chairman. The Committee determines the terms of any discretionary share schemes in which executive directors may be invited to participate. The Committee recently reviewed its Terms of Reference and made certain amendments including those consequent on its change of composition. The revised Terms of Reference are available on the Company's website.

During the year the Committee received salary and remuneration advice from their appointed adviser, Towers Perrin, for executive directors and senior management. The Chairman of the Committee consults with the Chief Executive on the remuneration of the other executive directors and 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. The Committee considers it important that a significant proportion of executive directors' potential total remuneration is performance related. This is demonstrated by the maximum percentage of salary potentially payable as cash or share Awards respectively under the annual cash bonus scheme and long-term incentive plan.

The Committee confirms that Towers Perrin do not have any other connection with the Company. For the year 2006 and subsequent years the directors' current intention is to continue with the remuneration policy referred to above.

As reported previously, WH Whiteley agreed to reduce the two years' notice required to be given by either party under his service contract to one year from the Company and to six months from Mr. Whiteley. 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. RE Slater, RH Arnold and GM Ogden's service contracts are all 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 on a rolling basis.

Name of executive director	Date of service contract	Notice period from Company	Notice period from director	Normal retirement date
WH Whiteley	1/2/1996	1 year	6 months	25/10/2008
RE Slater	1/6/1998	1 year	1 year	10/4/2011
RH Arnold	28/5/2002	1 year	1 year	18/8/2016
GM Ogden	1/1/2005	1 year	1 year	9/1/2017
GE Malcolm	20/3/1997	2 years	2 years	16/10/2005[1]

[1] Mr. Malcolm retired in April 2005

Name of non-executive director	Date of letter of appointment	Notice period from Company	Notice period from non-executive director
RC Lockwood	1/1/2006	3 months	3 months
JW Matthews	14/10/2004	3 months	3 months
A Walker	6/1/2006	3 months	3 months
IG King	14/2/2005	3 months	3 months

The fees of the non-executive directors, other than the Chairman, are determined by a Board Committee which includes the Chief Executive and Chairman. 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 Dialight plc (fees for this directorship which are £25,000 per annum are payable to Rotork p.l.c.) and Spirax-Sarco Engineering plc (fees for this directorship, which are £40,000 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 all employee 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.

From its inception in 2000 until 2003 the LTIP plan provided executive directors with an annual opportunity for shares to vest to a maximum 50% of basic salary and a minimum of zero dependent on performance as described in detail later in this report. From 2004 LTIP Awards to executive directors were increased to 100% of basic salary being the maximum level of award under the plan rules as approved by shareholders in May 2000. The Committee undertook a review of the LTIP scheme during the year. The Committee considered that it was appropriate to reduce the median vesting percentage of the LTIP to 30% of the Award value for future Awards. Currently the scheme pays 40% at median performance. A 100% vesting of the Award would remain for performance at or above the 75th percentile with a pro-rata vesting scale down to the median. In making this change the Committee took due account of shareholder feedback following the increase in the amount of Awards from 2004. Additionally and to bring the LTIP incentive fully in line with market norms the committee has decided to recommend that the Board seek shareholder approval to introduce a three year performance period for Awards granted from 2006.

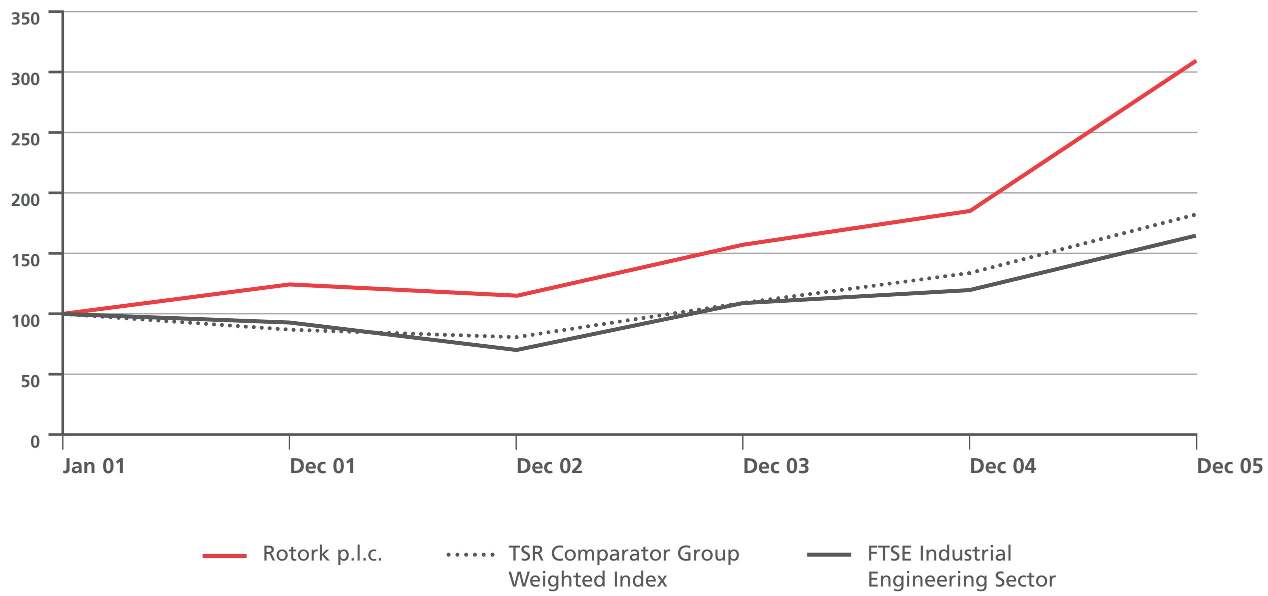
During the year the Committee recommended and the Board approved an executive share retention policy. The policy supports the accumulation of significant shareholdings in the Company by executive directors and other senior executives. The policy requires executive directors to achieve a minimum holding of ordinary shares in the Company equivalent to 50% of their basic salary. Executives are required to make use of vesting LTIP shares to meet this minimum target.

The Committee considered that the comparator group of companies continued to be the appropriate primary measurement of performance and noted that this was underlined by the Association of British Insurers in its latest 'Principles and Guidelines on Remuneration' document.

The Committee approved a revised annual cash bonus plan for 2005 which rewards increases in profit, when compared to the average profit over the three immediately preceding years. The plan additionally rewards high levels of free cash generation and growth in earnings per share together with the achievement of budgeted targets. The total annual bonus payment will be capped at 60% of basic salary for executive directors.

The Committee has during the year given consideration to the implications of the legislative changes to pensions in the UK which come fully into effect from April 2006. The Committee has agreed to pay reasonable professional fees for the UK executive directors who will be affected by these changes to obtain individual advice. The Committee has decided that any alternative offers to current pension provision for executive directors would only be considered on the basis that they do not increase the benefit cost to the employer.

Rotork p.l.c. Total Return Index vs the Total Return Index of the FTSE Industrial Engineering Sector and the TSR Comparator Group Companies for the 5 Financial Years ending 31 December 2005 (rebased as at 1 January 2001)



The above graph measures the Company's performance against other companies in the FTSE Industrial Engineering 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 its 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 2005.

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

Directors' emoluments

	Salary and fees	Bonus	Benefits*	2005* Total	2004* Total
Executive directors					
GE Malcolm[1]	45	27	3	75	181
RE Slater	160	96	15	271	200
WH Whiteley	255	153	15	423	298
RH Arnold[2]	139	83	7	229	159
GM Ogden	125	75	15	215	–
Non-executive directors					
A Walker[3]	27	–	–	27	24
RC Lockwood	60	–	–	60	50
JW Matthews	33	–	–	33	30
IG King[4]	25			25	–
	869	434	55	1,358	942

[1] Mr. Malcolm retired in April 2005.
[2] Mr. Arnold is paid in United States dollar currency.
[3] Fees for the provision of Mr. Walker's services are payable to Yule Catto & Co. plc.
[4] Fees for Mr. King's services were payable from February 2005.
* These columns include the cash value on allocation of SIP and OPLSS share Awards for 2005 as appropriate. For further details see page 30.

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 every year from 2000. Those LTIP Awards still outstanding at the time of publication of this report made to executive directors are set out below.

	Outstanding share or cash unit Awards made to 1 January 2005	Share or cash unit Awards made during 2005[1]	Share or cash unit Awards vesting in 2005[2]	Outstanding share or cash unit Awards at 31 December 2005
RE Slater	102,191	35,955	20,168	117,978
WH Whiteley	159,983	57,303	31,932	185,354
RH Arnold[3]	93,207	29,438	14,397	108,248
GM Ogden	41,854	28,089	8,705	61,238

[1] The market price of shares in the Company at the date of Award was £4.45.
[2] The 2001 LTIP Award vested 100% *(2004: nil)*. The market price at the vesting date was £4.50.
[3] RH Arnold, a United States citizen and resident, is awarded cash units of a monetary value equivalent to share Awards under the LTIP.

GE Malcolm who retired in April 2005 received vested shares from the 2001 Award of 20,168 and a further Award of 28,731 ordinary shares which were made following an exercise of the discretion of the Remuneration Committee in accordance with the rules of the LTIP Scheme in respect of outstanding LTIP Awards for years 2002-2004. In exercising such discretion the Committee took into account the performance of the Company from the commencement of the performance period of each Award to the cessation of employment.

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 by the number of shares or cash units initially allocated multiplied by a vesting percentage which for Awards granted up to and including the year 2005 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 relative TSR against a comparator group performance measure was chosen as it enabled the Remuneration Committee to select a comparator group considered to be sufficiently challenging given the historic performance of the Company.

The comparator companies used for the LTIP are listed below:

Aga Food Service Group plc
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 69. In common with all eligible employees, 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 subject, for the SIP, to Inland Revenue limits.

Details of free share Awards under the SIP and OPLSS made to executive directors in 2005 are set out below.

	2005	2004
GM Ogden	620	–
RE Slater	620	779
WH Whiteley	620	779
RH Arnold	1,015	1,164

Free shares awarded to all three UK executive directors under the SIP are subject to the Inland Revenue upper limit of £3,000 by value.

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

Additionally UK based directors, in common with other eligible UK employees, have the opportunity to invest in the Rotork Sharesave Scheme. Currently only RE Slater and GM Ogden participate in the Scheme. Mr. Slater was granted 5,170 options on 8 October 2004 at an option price of £3.196 under the Scheme and Mr. Ogden was granted 2,964 options on that date at the same option price. These are exercisable five years from grant for Mr. Slater and three years for Mr. Ogden. The exercise period is 6 months duration after which the options lapse.

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 31/12/2005	Increase in accrued pension over the year (Note 1) £	Accumulated accrued pension at 31/12/2005 (Note 2) £
GM Ogden	48	6,872	35,278
RE Slater	54	7,678	76,404
WH Whiteley	57	12,438	167,436
RH Arnold	54	6,152	43,955
GE Malcolm	60	6,525	93,908

(retired on 8 April 2005 – see Note 10)

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 2005.

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% per annum.

6. GM Ogden joined the Board of Directors on 1 January 2005.

7. 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.

8. For WH Whiteley, the accrued pension as at 31 December 2005 above allows for his six month notice period.

9. 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.

10. GE Malcolm retired from the Scheme on 8 April 2005. His accrued pension reflects his pension entitlement, before cash commutation, at retirement.

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 31/12/04 (Old method) £'000	Transfer value of accrued pension at 31/12/04 (New method) £'000	Transfer value of accrued pension at 31/12/05 (New method) £'000	Increase in transfer value over the year (New method) £'000
GM Ogden	7,538	314	596	874	278
RE Slater	9,288	1,051	1,568	1,999	431
WH Whiteley	16,070	3,713	4,446	5,162	716
RH Arnold	7,038	236	236	304	68
GE Malcolm	8,573	1,824	2,194	2,482	288

(retired on 8 April 2005 – see Note 5)

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. The method used to calculate the transfer values has been revised since 31 December 2004. Hence, the transfer values of the accrued pension as at 31 December 2004 have been disclosed on both the previous transfer value method (i.e. that which would have been applicable at the start of the year) and the current method. The increases in transfer values over the year have been calculated consistently using the current method at both the start and the end of the year.

4. The transfer value of accrued pension for RH Arnold reflects the benefits provided by the US scheme together with a US valuation of these benefits and is therefore not directly comparable with the transfer values for directors in the UK scheme.

5. GE Malcolm retired from the Scheme on 8 April 2005. The increase in accrued pension for GE Malcolm is based on his pension entitlement at retirement, before cash commutation. The transfer value at 31 December 2005 on the new transfer value method for GE Malcolm is based on his pension entitlement at retirement, before cash commutation, and market conditions at retirement.

J W Matthews

JW Matthews, Chairman
Remuneration Committee
27 February 2006

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ROTORK p.l.c.

We have audited the Group and parent company financial statements (the "financial statements") of Rotork p.l.c. for the year ended 31 December 2005 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated Statement of Cash Flows, the Consolidated Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. 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' responsibilities for preparing the Annual Report and Accounts and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent company financial statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on pages 19 and 20.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 and whether, in addition, the group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. 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 other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 other information contained in the Annual Report and Accounts 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. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company'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 group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 December 2005 and of its profit for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2005; and
- the parent company 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
Chartered Accountants
Registered Auditor
Bristol
27 February 2006

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2005

	Notes	**2005** **£'000**	2004 £'000
Revenue	2	**174,839**	146,883
Cost of sales		**(95,358)**	(79,097)
Gross profit		**79,481**	67,786
Other income	4	**79**	136
Distribution costs		**(1,959)**	(1,816)
Administrative expenses		**(41,002)**	(35,638)
Other expenses	5	**(69)**	(36)
Operating profit	2	**36,530**	30,432
Financial income	7	**4,479**	4,854
Financial expenses	7	**(4,352)**	(3,780)
Profit before tax	8	**36,657**	31,506
Tax expense	9	**(12,043)**	(10,508)
Profit for the year		**24,614**	20,998

		Pence	Pence
Basic earnings per share	17	**28.6**	24.5
Diluted earnings per share	17	**28.4**	24.3

CONSOLIDATED BALANCE SHEET

at 31 December 2005

	Notes	Group 2005 £'000	Group 2004 £'000
ASSETS			
Property, plant and equipment	10	**17,214**	13,877
Intangible assets	11	**22,038**	20,169
Deferred tax assets	12	**9,115**	6,988
Other receivables	14	**633**	489
Total non-current assets		**49,000**	41,523
Inventories	13	**26,697**	21,015
Trade receivables		**36,492**	34,060
Current tax	14	**2,225**	2,176
Other receivables	14	**2,560**	2,525
Cash and cash equivalents	15	**27,878**	25,298
Total current assets		**95,852**	85,074
Total assets		**144,852**	126,597
EQUITY			
Issued equity capital		**4,310**	4,300
Preference shares		**–**	47
Share premium		**5,609**	4,993
Reserves		**2,405**	425
Retained earnings		**68,241**	58,489
Total equity	16	**80,565**	68,254
LIABILITIES			
Interest-bearing loans and borrowings	18	**236**	268
Employee benefits	19	**25,078**	23,569
Deferred tax liabilities	12	**1,164**	1,155
Provisions	20	**654**	521
Total non-current liabilities		**27,132**	25,513
Bank overdraft	15	**698**	473
Interest-bearing loans and borrowings	18	**1,016**	253
Trade payables	21	**14,937**	15,609
Current tax	21	**5,620**	5,779
Other payables	21	**13,129**	9,674
Provisions	20	**1,755**	1,042
Total current liabilities		**37,155**	32,830
Total liabilities		**64,287**	58,343
Total equity and liabilities		**144,852**	126,597

Total equity as shown above for 2004 contains £47,000 non-equity on an FRS 4 basis.

These financial statements were approved by the Board of Directors on 27 February 2006 and were signed on its behalf by **WH Whiteley** and **RE Slater**, Directors.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2005

	Notes	**2005**	**2005**	2004	2004
		£000	**£000**	£000	£000
Cash flows from operating activities					
Profit for the year		**24,614**		20,998	
Adjustments for:					
Amortisation of intangibles		**179**		70	
Amortisation of development costs		**293**		322	
Depreciation		**2,671**		2,577	
Equity settled share based payment expense		**312**		208	
Loss / (profit) on sale of fixed assets		**22**		(72)	
Financial income		**(4,479)**		(4,854)	
Financial expenses		**4,352**		3,780	
Income tax expense		**12,043**		10,508	
		40,007		33,537	
Increase in inventories		**(3,359)**		(2,600)	
Increase in trade and other receivables		**(685)**		(6,228)	
Increase in trade and other payables		**1,325**		4,130	
Difference between pension charge and cash contribution		**(3,243)**		(5,633)	
Increase / (decrease) in provisions		**709**		(130)	
Increase in other employee benefits		**1,509**		748	
		36,263		23,824	
Income taxes paid		**(11,296)**		(10,441)	
Cash flows from operating activities			**24,967**		13,383
Investing activities					
Purchase of tangible fixed assets		**(1,396)**		(3,099)	
Development costs capitalised		**(291)**		(102)	
Sale of tangible fixed assets		**94**		295	
Acquisition of subsidiary net of cash acquired		**(7,227)**		(912)	
Interest received		**776**		973	
Cash flows from investing activities			**(8,044)**		(2,845)
Financing activities					
Issue of ordinary share capital		**626**		458	
Purchase of ordinary share capital		**(2,236)**		(691)	
Purchase of own preference shares		**–**		(5)	
Interest paid		**(232)**		(136)	
New loans less repayment of amounts borrowed		**677**		188	
Repayment of finance lease liabilities		**(100)**		(58)	
Dividends paid on ordinary shares		**(13,437)**		(17,751)	
Dividends paid on preference shares		**–**		(4)	
Cash flows from financing activities			**(14,702)**		(17,999)
Net increase / (decrease) in cash and cash equivalents			**2,221**		(7,461)
Cash and cash equivalents at 1 January			**24,825**		32,134
Effect of exchange rate fluctuations on cash held			**134**		152
Cash and cash equivalents at 31 December	15		**27,180**		24,825

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
for the year ended 31 December 2005

	2005	2004
	£000	£000
Foreign exchange translation differences	**2,190**	(1,212)
Actuarial loss in pension scheme	**(3,452)**	(5,792)
Movement on deferred tax relating to actuarial loss	**2,552**	237
Effective portion of changes in fair value of cash flow hedges	**(487)**	–
Net gain / (loss) recognised directly in equity	**803**	(6,767)
Net profit for the year	**24,614**	20,998
Total recognised income and expense	**25,417**	14,231
Reclassification of preference shares	**(47)**	
Effective cash flow hedges at 1 January 2005	**277**	
	25,647	

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 December 2005

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

Rotork p.l.c. is a Company domiciled in England. The consolidated financial statements of the Company for the year ended 31 December 2005 comprise the Company and its subsidiaries (together referred to as the Group). The accounting policies contained below in note 1 and the disclosure in notes 2 to 28 all relate to the Group statements. The Company balance sheet can be found following note 28. As the Company has elected to continue reporting under UK GAAP, the applicable accounting policies are contained in note 29 and notes 30 to 40 relate to the Company's financial statements.

1. Accounting policies

Basis of preparation

The Group is preparing its consolidated financial statements in accordance with International Financial Reporting Standards and its interpretation issued by the International Accounting Standards Board that have been adopted by the EU ("Adopted IFRS") for the first time and consequently has applied IFRS 1. An explanation of how the transition to Adopted IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 28.

In addition to exempting companies from the requirement to restate comparatives for IAS 32 and IAS 39 (which the Group has taken), IFRS 1 grants certain exemptions from the full requirements of IFRSs on transition. The following exemptions have been taken by the Group in the preparation of its consolidated financial statements for the year ended 31 December 2005:

- Business combinations – Business combinations that took place prior to 1 January 2004 have not been restated.
- Fair value or revaluation as deemed cost – At the date of transition, fair value has been used as deemed cost for properties previously measured at fair value.
- Employee benefits – All cumulative actuarial gains and losses on defined benefit plans have been recognised in equity at 1 January 2004.
- Cumulative translation differences – Cumulative translation differences for all foreign operations have been set to zero at 1 January 2004.

In preparing the 2004 and 2005 financial information within its consolidated financial statements under Adopted IFRS, the directors have elected to adopt the endorsed December 2004 amendment to IAS 19 – Employee Benefits and the April 2005 endorsed amendment to IAS 39 – Cash Flow Hedge Accounting of Intragroup Forecast Transactions before they were endorsed by the EU.

Basis of accounting

The consolidated financial statements have been prepared under the historical cost convention subject to the items referred to in the derivative financial instruments note below. The accounting policies set out below have been consistently applied in preparing an opening IFRS balance sheet at 1 January 2004 for the purposes of transition to IFRS and for preparing the 2004 and 2005 financial information within its consolidated financial statements for the year ended 31 December 2005 with the exception of IAS 32 and IAS 39 as discussed below. The accounting policies have been applied consistently in respect of Group entities.

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The key areas where estimates have been used and the assumption applied are in the impairment testing of goodwill (note 11) and in assessing the defined benefit pension scheme liabilities (note 19).

Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year to 31 December 2005. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. Intragroup balances and any unrealised gains or losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Foreign currencies
Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to sterling at foreign exchange rates ruling at the dates the values were determined.

Assets and liabilities of foreign subsidiaries, including goodwill and fair value adjustments arising on consolidation, are translated into sterling at rates of exchange ruling at the balance sheet date. The revenues and expenses of foreign subsidiaries are translated to sterling at rates approximating those ruling at the date of the transactions. Differences on exchange arising from the retranslation of the opening net investment in subsidiaries, and from the translation of the results of those subsidiaries at average rate, are recognised directly in equity.

Any differences that have arisen since 1 January 2004, the date of transition to IFRS, are presented as a separate component of equity. Translation differences that arose before the date of transition to IFRS in respect of all foreign entities are not presented as a separate component.

Revenue
Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated completion costs, the possible return of goods or continuing management involvement with the goods.

Intangible assets
i) Goodwill
Goodwill represents amounts arising on acquisition of subsidiaries. In respect of acquisitions that have occurred since 1 January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Negative goodwill arising on acquisitions would be recognised directly in profit and loss.

In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under UK GAAP on transition. The classification and accounting treatment of business combinations that occurred prior to 1 January 2004 has not been reconsidered in preparing the Group's opening IFRS balance sheet at 1 January 2004. Goodwill is stated at cost or deemed cost less any impairment losses. The carrying value of goodwill is reviewed at each balance sheet date and is allocated to cash-generating units. An impairment loss is recognised whenever the carrying value of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

ii) Research and development
Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred. Development costs incurred after the point at which the commercial and technical feasibility of the product have been proven, and the decision to complete the development has been taken and resources made available, are capitalised. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. Development expenditure has an estimated useful life of 5 years and is written off on a straight-line basis.

iii) Other intangible assets
Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. The useful life of each of these assets is assessed on an individual basis and they range from 1 to 15 years. Amortisation is charged on a straight-line basis over the estimated useful life of the assets.

1. Accounting policies (continued)

Property, plant and equipment

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 33%

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation. Certain items of property that had been revalued to fair value on or prior to 1 January 2004, the date of transition to IFRS, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

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. Assets acquired under finance leases are initially recognised at the present value of the minimum lease payments. The rentals payable are apportioned between interest, which is charged to the income statement, and liability, 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 over the term of the lease in arriving at the operating profit.

Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or subsequently enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profits. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Inventory and work in progress

Inventory and work in progress is 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 which are required to bring inventories to their present location and condition.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term (with an original maturity less than three months) deposits. Bank overdrafts that are repayable on demand form part of cash and cash equivalents for the purpose of the statement of cash flows.

Share capital

Equity comprises issued capital, share premium and reserves.

When issued capital recognised as equity is repurchased, the amount paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are debited direct to equity and shown as a deduction from retained earnings.

Provisions
A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty cost data, known issues and management expectations of future costs.

Employee benefits
i) Pension plans
The Group operates a number of defined benefit pension schemes and contributes to these schemes in accordance with qualified actuaries' recommendations. All actuarial gains and losses as at 1 January 2004, the date of transition to IFRS, were recognised. In respect of all actuarial gains and losses that arise after that date in calculating the Group's obligation in respect of the plan, these are recognised in equity. Interest on pension scheme liabilities has been recognised within financing expenses and the expected return on scheme assets within financing income in the consolidated income statement.

The Group also operates a number of defined contribution pension schemes. The costs for these schemes are recognised in the income statement as incurred.

ii) Share-based payment transactions
The Rotork Share Option Scheme allows certain employees to acquire shares in Rotork p.l.c. This scheme is now closed and the last grant of new options took place in 2004. Details of the scheme are given in note 19. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The Rotork Sharesave Plan, introduced in 2004, offers certain employees the opportunity to purchase shares in Rotork p.l.c. at a discounted price compared with the market price at the time of grant. Details of the scheme are given in note 19. The fair value of the right / option is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period between grant and maturity. The right / option reaches maturity when the employee becomes unconditionally entitled. The fair value of the grant is measured using a Black-Scholes model, taking into account the terms and conditions upon which the rights were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The Rotork Long-Term Share Incentive Plan grants awards of shares to executive directors and senior managers. These awards may vest after a period of four years dependent upon both market and non-market performance conditions being met. Details of the grants are given in note 19. This plan gives share awards or cash awards (of equivalent value to the share awards) dependent upon the employees country of residence at date of grant. The fair value of the award is measured at grant date, using a Monte Carlo simulation model which takes into account the market based performance criteria, and spread over the vesting period. The fair value of the award is recognised as an employee expense with a corresponding increase in equity for the share settled award and a provision within employee benefits for the cash settled award. The amount recognised as an expense is adjusted to exclude options that do not vest as a result of non-market performance conditions not being met.

All grants under these schemes made after 7 November 2002 have been accounted for under IFRS 2. Those made before this date are accounted for under UK GAAP and any accruals in respect of these schemes are held in employee benefits.

iii) Long-term service leave
The Group's net obligation in respect of long-term service leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

iv) Other employee incentive schemes
In addition to the above schemes the Group offers a number of other bonus and incentive schemes to employees around the world. The costs of these schemes are recognised in the income statement as incurred. This includes the Share Incentive Plan and Overseas Profit Linked Share Scheme both of which are a known liability at the year end.

1. Accounting policies (continued)

Effect of first time adoption of IAS 32 and IAS 39 on 1 January 2005

The Group has taken advantage of the transitional arrangements of IFRS 1 not to restate corresponding amounts in accordance with IAS 32 and IAS 39. Instead the following policies were applied in respect of financial instruments issued by the Group, investments in debt and equity securities, derivative financial instruments and hedging.

In the comparative period all financial assets and financial liabilities were carried at cost (amortised as appropriate) less, in the case of financial assets, provision for any permanent diminution in value. Gains and losses on forward foreign exchange contracts treated as hedging instruments were not recognised in the income statement. On recognition of the hedged transaction the unrecognised gains and losses arising on the instrument were recognised, either in the income statement or combined into the carrying value of the associated asset or liability.

The following adjustment necessary to implement the revised policy has been made as at 1 January 2005. Corresponding amounts for 2004 are presented and disclosed in accordance with the requirements of the Companies Act 1985, FRS 13 and FRS 4 (as applicable in 2004).

	Effect on the balance sheet on 1 January 2005
Increase in other receivables – gains on effective cash flow hedges	**373**
Increase in other payables – losses on effective cash flow hedges	**(96)**
Increase in non-current interest bearing liabilities – presentation of preference shares as debt	**(47)**
Reduction in preference shares – presentation of preference shares as debt	**47**
Increase in retained earnings – net gain on effective cash flow hedges	**277**

The nature and main effect of these changes on the consolidated balance sheet at 1 January 2005 and the 2005 consolidated income statement are as follows:

- In 2005 hedging instruments and hedged items are accounted for separately in the balance sheet. Gains and losses are both included in profit for the year when they arise (fair value hedges) or when the hedged transaction occurs having first recorded those on the hedging instrument in equity (cash flow hedges), to the extent effective. In 2004 hedging instruments were not recognised and hedged items were held at cost without any adjustment in respect of the hedged risk. On 1 January 2005 the hedged items and hedging instruments are brought separately on to the balance sheet in accordance with the 2005 policy. The cash flow statement is unaffected by this change in accounting policy.
- The Company's preference shares are treated as part of shareholders funds in 2004 and as liabilities in 2005.

Derivative financial instruments (applicable from 1 January 2005 onwards)

The Group uses forward exchange contracts to hedge its exposure to foreign exchange risk arising from operational and financing activities. These are the only form of derivative financial instruments used by the Group. In accordance with its treasury policy, the Group does not hold or issue forward exchange contracts for trading purposes. However, forward contracts that do not qualify for hedge accounting are accounted for as trading instruments.

Forward exchange contracts are recognised initially at cost and then subsequently re-measured at fair value. Where a forward exchange contract is designated as a hedge of the variability in cash flows of a recognised liability, a firm commitment or a highly probable forecasted transaction, the effective part of any gain or loss on the forward contract is recognised directly in equity. The cumulative gain or loss is removed from equity and recognised in the income statement at the same time as the hedged transaction. The ineffective part of any gain or loss is recognised in the income statement immediately.

When a hedging instrument or hedge relationship is terminated but the hedged transaction still is expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss held in equity is recognised in the income statement immediately.

2. Analysis of revenue, profit and net assets

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

Business segments
The Group comprises the following business segments:

Electrics – the design, manufacture and sale of electric valve actuators
Gears – the design, manufacture and sale of gearboxes, adaption and ancillaries for the valve industry
Fluid system – the design, manufacture and sale of heavy duty pneumatic and hydraulic valve actuators

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

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

	Electrics 2004	Gears 2004	Fluid system 2004	Eliminations 2004	Consolidated 2004
Revenue from external customers	109,345	13,736	23,802	–	146,883
Inter-segment revenue	–	4,070	–	(4,070)	–
Total revenue	109,345	17,806	23,802	(4,070)	146,883
Segment result	25,719	3,192	2,962	–	31,873
Unallocated expenses					(1,441)
Operating profit					30,432
Net financing income					1,074
Income tax expense					(10,508)
Profit for the year					20,998

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

	Electrics 2005	**Gears 2005**	**Fluid system 2005**	**Unallocated 2005**	**Consolidated 2005**
Segment assets	**63,973**	**12,964**	**28,691**	**39,224**	**144,852**
Segment liabilities	**44,666**	**2,743**	**8,145**	**8,733**	**64,287**
Depreciation	**2,228**	**219**	**696**	**–**	**3,143**
Non-cash items	**527**	**12**	**213**	**32**	**784**
Capital expenditure	**1,024**	**128**	**480**	**–**	**1,632**

	Electrics 2004	Gears 2004	Fluid system 2004	Unallocated 2004	Consolidated 2004
Segment assets	57,862	12,072	22,200	34,463	126,597
Segment liabilities	40,357	2,434	7,624	7,928	58,343
Depreciation	2,203	284	482	–	2,969
Non-cash items	39	9	57	332	437
Capital expenditure	2,628	177	643	–	3,448

Analysis by Geographical segment:

	Europe 2005	**Americas 2005**	**Rest of the World 2005**	**Unallocated 2005**	**Consolidated 2005**
Revenue from external customers by location of customer	**73,967**	**50,544**	**50,328**	**–**	**174,839**
Segment assets by location of assets	**67,102**	**23,578**	**14,948**	**39,224**	**144,852**
Capital expenditure by location of assets	**1,288**	**168**	**176**	**–**	**1,632**

	Europe 2004	Americas 2004	Rest of the World 2004	Unallocated 2004	Consolidated 2004
Revenue from external customers by location of customer	66,036	41,704	39,143	–	146,883
Segment assets by location of assets	58,491	20,146	13,497	34,463	126,597
Capital expenditure by location of assets	2,380	201	867	–	3,448

All of the activities of the Group in the year arise from continuing operations. The 2004 segment results and assets and liability allocations have been restated to reflect a more appropriate allocation of share scheme costs and liabilities.

3. Acquisition of subsidiaries

Acquisitions

On 2 March 2005 Rotork Controls (Deutschland) GmbH acquired all of the business and assets of PC Intertechnik GmbH for up to £6,520,000. £1,282,000 was paid on completion and a further £4,792,000 was paid during 2005. The remaining £446,000 outstanding at December 2005 may be paid in 2006 subject to satisfaction of certain warranties and achievement of sales related targets. The company manufactures and sells pneumatic and hydraulic actuators, controls and associated products. The acquisition was accounted for using the purchase method of consolidation. In the 10 months to 31 December 2005 the subsidiary contributed £4,163,000 to Group revenue and £232,000 to the consolidated net profit for the year before the £151,000 amortisation of intangible charge. Goodwill has arisen on this acquisition as a result of the synergies Rotork will derive from the business being part of the fluid system division. Due to a lack of reliable information for the two months prior to acquiring the assets, full year proforma financial results are not given in these financial statements.

The acquisition had the following effect on the Group's assets and liabilities.

PC Intertechnik	Recognised values	Fair value adjustments	Carrying amounts
Property, plant and equipment	4,273	–	4,273
Intangible assets	–	151	151
Inventories	1,377	–	1,377
Trade and other receivables	1,009	–	1,009
Trade and other payables	(809)	–	(809)
Borrowings	(872)	–	(872)
	4,978	151	5,129
Goodwill on acquisition			1,672
Consideration paid, satisfied in cash (including £281k expenses)			6,801

On 13 January 2004 the Group acquired all of the business and assets of Deanquip Valve Automation Pty Ltd for £818,000 from Deanquip Sales Pty Ltd. £692,000 was paid on completion and the remaining £126,000 was paid in January 2005. Deanquip Valve Automation Pty Ltd was renamed Rotork Fluid System Pty Ltd in January 2005. The company markets and sells pneumatic and hydraulic actuators, controls and associated products in Australia. The acquisition was accounted for using the purchase method of consolidation. In the 12 months to 31 December 2004 the subsidiary contributed £1,622,000 to Group revenue and £43,000 to the consolidated net profit for the year. The value of intangibles is based on an assessment by management. Goodwill has arisen on this acquisition as a result of the synergies Rotork will derive from the business being part of the Group rather than an independent distributor.

The acquisition had the following effect on the Group's assets and liabilities.

Rotork Fluid System Pty Ltd	Recognised values	Fair value adjustments	Carrying amounts
Property, plant and equipment	32	–	32
Intangible assets	–	349	349
Deferred tax assets	17	–	17
Inventories	248	–	248
Employee liabilities	(56)	–	(56)
	241	349	590
Goodwill on acquisition			322
Consideration paid, satisfied in cash (including £94k expenses)			912

4. Other income

	2005	2004
Gain on disposal of plant and equipment	**37**	80
Other	**42**	56
	79	136

5. Other expenses

	2005	2004
Losses on sale of fixed assets	**59**	8
Other	**10**	28
	69	36

6. Personnel expenses

	2005	2004
Wages and salaries (including bonus and incentive plans)	**32,632**	29,243
Social security costs	**3,516**	2,950
Pension costs - for defined benefit plans	**1,378**	1,502
Pension costs - for defined contribution plans	**519**	533
Share based payments (note 19)	**1,387**	390
Increase in liability for long-service leave	**9**	15
	39,441	34,633

A total of £576,000 *(2004: £208,000)* of the above share based payments are equity settled, comprising £54,000 *(2004: £41,000)* for the share option scheme, £40,000 *(2004: £8,000)* for the Sharesave plan and £482,000 *(2004: £160,000)* for the Long-term incentive plan. The cash settled portion £811,000 *(2004: £181,000)* all related to the Long-term incentive plan.

During the year, the average weekly number of employees, analysed by business activity, was:

	2005 No.	2004 No.
Electrics	**882**	865
Gears	**118**	124
Fluid system	**207**	151
	1,207	1,140
UK	**418**	419
Overseas	**789**	721
	1,207	1,140

7. Net financing income

	2005	2004
Interest income	**599**	849
Expected return on assets in the pension schemes	**3,770**	3,477
Foreign exchange gains	**110**	528
	4,479	4,854
Interest expense	**221**	136
Interest charge on pension schemes liabilities	**4,048**	3,556
Foreign exchange losses	**83**	88
	4,352	3,780

8. Profit before tax

Profit before tax is stated after charging / (crediting) the following:

	Notes	2005	2004
Depreciation and other amounts written off tangible fixed assets:			
owned assets	a	**2,576**	2,497
assets held under finance lease contracts	a	**95**	80
Amortisation of intangibles	a	**472**	392
Research and development expenditure	b	**2,668**	2,332
Hire of plant and machinery	a	**570**	538
Other operating lease rentals	a	**646**	619
Exchange differences realised	c	**(27)**	(411)
Auditors:	b		
audit fees and expenses		**324**	206
other fees paid to KPMG Audit Plc and its associates analysed between:			
further assurance services		**–**	15
taxation services		**61**	41
other		**52**	61

The auditors' remuneration in respect of the Company was £49,000 *(2004: £34,000)*.

These costs can be found under the following headings in the Consolidated Income Statement:

a) Both within cost of sales and administrative expenses
b) Within administrative expenses
c) Within financing income and expenses

9. Income tax expense – Recognised in the income statement

	2005	**2005**	2004	2004
Current tax:				
UK Corporation tax on profits for the year	**8,976**		6,258	
Double tax relief	**(5,441)**		(1,995)	
Adjustment in respect of prior years	**70**		156	
		3,605		4,419
Overseas tax on profits for the year	**7,470**		5,879	
Adjustment in respect of prior years	**22**		21	
		7,492		5,900
Total current tax		**11,097**		10,319
Deferred tax:				
Origination and reversal of other temporary differences	**1,089**		129	
Adjustment to estimated recoverable amounts of deferred tax assets arising in previous periods	**(143)**		60	
Total deferred tax		**946**		189
Tax charge on profit on ordinary activities		**12,043**		10,508
Effective tax rate (based on profit before tax)		**32.9%**		33.4%
Profit before tax		**36,657**		31,506
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%		**10,997**		9,452
Effects of:				
Non deductible expenses		**577**		150
Unrelieved losses		**(38)**		25
Higher tax rates on overseas earnings		**558**		644
Adjustments to tax charge in respect of prior periods		**(51)**		237
Current tax charge for period		**12,043**		10,508

Deferred tax of £342,000 *(2004: £175,000)* in respect of share based payments has been recognised directly in equity in the period.

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

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.

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

10. Property, plant and equipment

	Land and buildings 2005	**Plant and equipment 2005**	**Total 2005**	Land and buildings 2004	Plant and equipment 2004	Total 2004
Cost						
At 1 January	**11,098**	**18,780**	**29,878**	10,490	17,544	28,034
Exchange differences	**269**	**430**	**699**	(158)	(221)	(379)
Additions	**55**	**1,462**	**1,517**	939	2,307	3,246
Disposals	**(44)**	**(461)**	**(505)**	(173)	(882)	(1,055)
Acquisition through business combinations	**4,117**	**156**	**4,273**	–	32	32
At 31 December	**15,495**	**20,367**	**35,862**	11,098	18,780	29,878
Depreciation						
At 1 January	**3,364**	**12,637**	**16,001**	3,078	11,316	14,394
Exchange differences	**46**	**318**	**364**	(23)	(132)	(155)
Charge for year	**416**	**2,255**	**2,671**	333	2,244	2,577
Disposals	**(23)**	**(365)**	**(388)**	(24)	(791)	(815)
At 31 December	**3,803**	**14,845**	**18,648**	3,364	12,637	16,001
Net book value at 31 December	**11,692**	**5,522**	**17,214**	7,734	6,143	13,877
Net book value at 31 December 2003				7,412	6,228	13,640

The net book value of the Group's plant and machinery includes £166,000 *(2004: £186,000)* in respect of assets held under finance leases.

On conversion to IFRS the fair value of fixed assets held at a valuation was deemed to be their cost. The aggregate of adjustments from carrying value under previous GAAP was nil.

Net book value of land and buildings can be analysed between:

	2005	2004
Freehold land	**1,826**	1,095
Freehold buildings	**8,550**	5,195
Long leasehold	**1,311**	1,439
Short leasehold	**5**	5
Net book value at 31 December	**11,692**	7,734

11. Intangible assets

	Goodwill 2005	**Development costs 2005**	**Acquired intangibles 2005**	**Total 2005**	Goodwill 2004	Development costs 2004	Acquired intangibles 2004	Total 2004
Cost								
Balance at 1 January	**25,972**	**1,712**	**349**	**28,033**	25,919	1,610	–	27,529
Exchange differences	**187**	**–**	**6**	**193**	(269)	–	–	(269)
Internally developed during the year	**–**	**291**	**–**	**291**	–	102	–	102
Acquisition through business combinations	**1,672**	**–**	**151**	**1,823**	322	–	349	671
Balance at 31 December	**27,831**	**2,003**	**506**	**30,340**	25,972	1,712	349	28,033
Amortisation and impairment losses								
Balance at 1 January	**6,854**	**940**	**70**	**7,864**	6,862	618	–	7,480
Exchange differences	**(39)**	**–**	**5**	**(34)**	(8)	–	–	(8)
Amortisation for the year	**–**	**293**	**179**	**472**	–	322	70	392
Balance at 31 December	**6,815**	**1,233**	**254**	**8,302**	6,854	940	70	7,864
Carrying amount at 31 December	**21,016**	**770**	**252**	**22,038**	19,118	772	279	20,169
Carrying amount at 31 December 2003					19,057	992	–	20,049

The amortisation charge is recognised in the following lines of the income statement:

	2005	2004
Cost of sales	**–**	50
Administrative expenses	**472**	342
	472	392

11. Intangible assets (continued)

Impairment tests for cash generating units containing goodwill

	2005	2004
Electric	**6,420**	5,973
Gears	**6,321**	6,380
Fluid system	**8,275**	6,765
	21,016	19,118

The recoverable amounts of all cash-generating units are based on value in use calculations. These calculations use cash flow projections and are based on actual operating results and the latest Group three-year plan. The three-year plan is based on management's view of the future and experience of past performance. Cash flows for the remainder of the next twenty years are extrapolated using a two per cent growth rate which reflects the long-term nature of many of the markets the Group serves. This rate has been consistently bettered in the past so is believed to represent a prudent estimate. A pre-tax discount rate of 9%, being the Group's weighted average cost of capital, has been used in discounting the projected cash flows. On this basis no impairment write downs are required.

12. Recognised deferred tax assets and liabilities

	Assets 2005	**Liabilities 2005**	**Net 2005**	Assets 2004	Liabilities 2004	Net 2004
Property, plant and equipment	**200**	**(340)**	**(140)**	47	(1,054)	(1,007)
Intangible assets	**–**	**(231)**	**(231)**	21	(231)	(210)
Employee benefits	**8,032**	**–**	**8,032**	6,234	–	6,234
Provisions	**682**	**(14)**	**668**	897	–	897
Other items	**394**	**(772)**	**(378)**	116	(197)	(81)
Net tax assets / (liabilities)	**9,308**	**(1,357)**	**7,951**	7,315	(1,482)	5,833
Set off of tax	**(193)**	**193**	**–**	(327)	327	–
	9,115	**(1,164)**	**7,951**	6,988	(1,155)	5,833

A deferred tax asset of £9,115,000 *(2004: £6,988,000)* has been recognised at 31 December 2005. This asset principally relates to other temporary differences in the defined benefit pension schemes. The directors are of the opinion, based on recent and forecast trading that the level of profits in the current and future years make it more likely than not that the asset will be recovered.

Deferred tax assets have not been recognised in respect of the following items:

	2005	2004
Tax losses	**2,389**	2,652
Tax credits	**326**	468
	2,715	3,120

A deferred tax asset of £2,715,000 *(2004: £3,120,000)* has not been recognised in relation to capital losses and certain tax credits, tax losses and other temporary differences. These assets may be recovered if sufficient taxable or capital profits are made in future in the companies concerned.

13. Inventories

	2005	2004
Raw materials and consumables	**16,592**	14,590
Work in progress	**6,856**	3,585
Finished goods	**3,249**	2,840
	26,697	21,015

14. Other receivables

	2005	2004
Non-current assets:		
Insurance policy	**532**	343
Other	**101**	146
Other receivables	**633**	489
Current assets:		
Corporation tax	**2,225**	2,176
Current tax	**2,225**	2,176
Other non trade receivables	**1,382**	1,345
Prepayments and accrued income	**1,178**	1,180
Other receivables	**2,560**	2,525

15. Cash and cash equivalents

	2005	2004
Bank balances	**8,846**	7,415
Cash in hand	**43**	54
Short-term deposits	**18,989**	17,829
Cash and cash equivalents	**27,878**	25,298
Bank overdrafts	**(698)**	(473)
Cash and cash equivalents in the statement of cash flows	**27,180**	24,825

16. Capital and reserves

	Issued equity capital	Preference shares	Share premium	Translation reserve	Capital redemption reserve	Hedging reserve	Retained earnings	Total
Balance at 1 January 2004	4,292	50	4,543	–	1,634	–	60,567	71,086
Profit for the financial year	–	–	–	–	–	–	20,998	20,998
Other items in the statement of recognised income and expense	–	–	–	(1,212)	–	–	(5,555)	(6,767)
Equity settled transactions net of tax	–	–	–	–	–	–	228	228
Share options exercised by employees	8	–	450	–	–	–	–	458
Own ordinary shares acquired	–	–	–	–	–	–	(691)	(691)
Own ordinary shares awarded under share schemes	–	–	–	–	–	–	702	702
Own preference shares acquired	–	(3)	–	–	3	–	(5)	(5)
Dividends to shareholders	–	–	–	–	–	–	(17,755)	(17,755)
Balance at 31 December 2004	4,300	47	4,993	(1,212)	1,637	–	58,489	68,254
Adoption of IAS 32 & IAS 39	–	(47)	–	–	–	277	–	230
Restated opening balance	4,300	–	4,993	(1,212)	1,637	277	58,489	68,484
Profit for the financial year	–	–	–	–	–	–	24,614	24,614
Other items in the statement of recognised income and expense	–	–	–	2,190	–	(487)	(900)	803
Equity settled transactions net of tax	–	–	–	–	–	–	562	562
Share options exercised by employees	10	–	616	–	–	–	–	626
Own ordinary shares acquired	–	–	–	–	–	–	(2,236)	(2,236)
Own ordinary shares awarded under share schemes	–	–	–	–	–	–	1,149	1,149
Dividends to shareholders	–	–	–	–	–	–	(13,437)	(13,437)
Balance at 31 December 2005	**4,310**	**–**	**5,609**	**978**	**1,637**	**(210)**	**68,241**	**80,565**

Share capital and share premium

	5p Ordinary shares Authorised 2005	**5p Ordinary shares Issued & fully paid up 2005**	5p Ordinary shares Authorised 2004	5p Ordinary shares Issued & fully paid up 2004	£1 Non-redeemable 9.5% Preference shares 2004
On issue at 1 January	**5,449**	**4,300**	5,449	4,292	50
Purchased for cash and cancelled	**–**	**–**	–	–	(3)
Issued under employee share schemes	**–**	**10**	–	8	–
On issue at 31 December	**5,449**	**4,310**	5,449	4,300	47
Number of shares (000)	**108,990**	**86,192**	108,990	85,944	

16. Capital and reserves (continued)

The ordinary shareholders are entitled to receive dividends as declared and are entitled to vote at meetings of the Company. The preference shareholders take priority over the ordinary shareholders when there is a distribution upon winding-up the Company or on a reduction of equity involving a return of capital. The holders of preference shares are entitled to vote at a general meeting of the Company if a preference dividend is in arrears for six months or the business of the meeting includes the consideration of a resolution for winding-up the Company or the alteration of the preference shareholders' rights. In these accounts IAS 32 has been applied from 1 January 2005 and the preference shares have been reclassified as debt because interest payments cannot be deferred and an ordinary dividend still paid.

The only ordinary shares issued during the year were 198,634 *(2004: 161,137)* under The Rotork Employee Share Option Schemes at prices between 192p and 372p *(2004: 192p and 328p)*. No shares were issued under The Rotork Share Incentive Plan or under The Overseas Profit-Linked Share Scheme during 2004.

On 1 May 2004 options over 166,015 shares exercisable after three years (subject to satisfying performance criteria) at 387p were granted under The Rotork Employee Share Option Scheme (1995). No shares were issued under this scheme during 2005. On 5 October 2005 options over 46,553 *(2004: 162,357)* shares were granted under the Rotork Sharesave Scheme at 462p *(2004: 320p)*. Of these options, 19,113 *(2004: 63,336)* were exercisable after 3 years and 27,440 *(2004: 99,021)* after 5 years.

There were 314,926 *(2004: 528,941)* outstanding options under The Rotork Employee Share Option Schemes at 31 December, exercisable at various prices between 278p and 387p per ordinary share between 2006 and 2014.

Within the retained earnings reserve are own shares held. The investment in own shares represents 240,460 *(2004: 130,671)* 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 2005 was £1,609,000 *(2004: £540,000)* and a nominal value of £12,000 *(2004: £7,000)*. The dividends on these shares have been waived.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations that are not integral to the operations of the Company.

Dividends

The following dividends were paid in the year:	**2005**	2004
9.7p *(2004: 9.5p)* per qualifying ordinary share	**8,342**	8,143
5.9p *(2004: 5.35p)* per qualifying ordinary share	**5,095**	4,594
2004 additional interim dividend 5.85p per qualifying ordinary share	**–**	5,014
	13,437	17,751

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

	2005	2004
Final proposed dividend		
9.9p per qualifying ordinary share	**8,521**	
9.7p per qualifying ordinary share		8,303
Additional interim dividends proposed for 2006		
5.8p per qualifying ordinary share	**5,000**	
5.8p per qualifying ordinary share	**5,000**	
	10,000	

17. Earnings per share

Basic earnings per share

Earnings per share is calculated for both the current and previous years using the profit attributable to the ordinary shareholders for the year. The earnings per share calculation is based on 86.1 million shares *(2004: 85.8 million shares)* being the weighted average number of ordinary shares in issue for the year.

	2005	2004
Net profit attributable to ordinary shareholders		
Profit for the year	**24,614**	20,998
Dividends on non-redeemable cumulative preference shares	**–**	(4)
Net profit attributable to ordinary shareholders	**24,614**	20,994
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	**85,867**	85,832
Effect of own shares held	**62**	(127)
Effect of shares issued under options	**130**	96
Weighted average number of ordinary shares for the year ended 31 December	**86,059**	85,801

Diluted earnings per share

Diluted earnings per share is based on the profit for the year attributable to the ordinary shareholders and 86.7 million shares *(2004: 86.4 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.

	2005	2004
Net profit attributable to ordinary shareholders (diluted)		
Net profit attributable to ordinary shareholders	**24,614**	20,994
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares for the year ended 31 December	**86,059**	85,801
Effect of share options on issue	**108**	86
Effect of LTIP shares on issue	**545**	482
Weighted average number of ordinary shares (diluted) for the year ended 31 December	**86,712**	86,369

18. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and currency risk, see note 22.

Non-current liabilities	**2005**	2004
Preference shares	**47**	–
Bank loans	**107**	169
Finance lease liabilities	**82**	99
	236	268

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

Current liabilities	**2005**	2004
Bank loans	**932**	165
Finance lease liabilities	**84**	88
	1,016	253

Finance lease liabilities
Finance lease liabilities are payable as follows:

	Minimum lease payments 2005	**Interest 2005**	**Principal 2005**	Minimum lease payments 2004	Interest 2004	Principal 2004
Less than one year	**93**	**9**	**84**	95	7	88
Between one and five years	**88**	**6**	**82**	105	6	99
	181	**15**	**166**	200	13	187

19. Employee benefits

	2005	2004
Recognised liability for defined benefit obligations:		
Present value of unfunded obligations	**89,501**	74,486
Fair value of plan assets	**(69,125)**	(54,650)
	20,376	19,836
Defined contribution scheme liabilities	**543**	502
Employee bonus and incentive plan	**2,113**	1,663
Long-term incentive plan	**1,542**	1,075
Employee indemnity provision	**357**	356
Liability for long-service leave	**147**	137
	25,078	23,569

Defined benefit pension liabilities

The Group makes a contribution to three defined benefit plans to provide benefits for employees upon retirement.

Movements in the present value of defined benefit obligations

	2005	2004
Liabilities at 1 January	**74,486**	64,203
Current service costs	**1,378**	1,502
Member contributions	**506**	440
Interest cost	**4,048**	3,556
Benefits paid	**(1,339)**	(1,731)
Actuarial loss	**9,930**	6,783
Currency losses / (gains)	**492**	(267)
Liabilities at 31 December	**89,501**	74,486

Movements in fair value of plan assets

	2005	2004
Assets at 1 January	**54,650**	44,700
Expected return on scheme assets	**3,770**	3,477
Employer contributions	**4,568**	7,040
Member contributions	**506**	440
Benefits paid	**(1,339)**	(1,731)
Actuarial gains	**6,693**	884
Currency gains / (losses)	**277**	(160)
Assets at 31 December	**69,125**	54,650

19. Employee benefits (continued)

Expense recognised in the income statement

	2005	2004
Current service costs	**1,378**	1,502
Interest on obligation	**4,048**	3,556
Expected return on plan assets	**(3,770)**	(3,477)
	1,656	1,581

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

	2005	2004
Cost of sales	**351**	382
Administrative expenses	**1,027**	1,120
Net financing income	**278**	79
	1,656	1,581

Actuarial gain on plan assets	**6,693**	884
Actuarial loss from liabilities	**(9,930)**	(6,783)
Currency (losses) / gains	**(215)**	107
Net actuarial loss recognised in Consolidated Statement of Recognised Income and Expense	**(3,452)**	(5,792)
Cumulative actuarial loss recognised in Consolidated Statement of Recognised Income and Expense	**(3,452)**	

	2005	2004	2003	2002	2001
Defined benefit obligation	**(89,501)**	(74,486)	(64,203)	(54,400)	(50,300)
Scheme assets	**69,125**	54,650	44,700	37,800	44,400
Deficit	**(20,376)**	(19,836)	(19,503)	(16,600)	(5,900)
Experience adjustments on liabilities	**(9,930)**	(6,783)	(6,750)	(1,100)	
Experience adjustments on assets	**6,693**	884	3,700	(10,300)	
Experience adjustments on currency	**(215)**	107	50	100	

19. Employee benefits (continued)

Liability for defined benefit obligations

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

	UK scheme (% per annum)			US scheme (% per annum)			Average (% per annum)		
	2005	2004	2003	**2005**	2004	2003	**2005**	2004	2003
Discount rate	**4.70**	5.30	5.45	**5.40**	5.66	6.10	**4.74**	5.32	5.48
Rate of increase in salaries	**4.0**	3.9	3.8	**4.5**	4.5	4.5	**4.03**	3.93	3.84
Rate of increase in pensions (post May 2000)	**3.0**	2.9	2.8	**0.0**	0.0	0.0	**2.85**	2.78	2.66
Rate of increase in pensions (pre May 2000)	**4.5**	4.5	4.5	**0.0**	0.0	0.0	**4.27**	4.31	4.28
Rate of price inflation	**3.0**	2.9	2.8	**3.5**	3.5	3.5	**3.03**	2.93	2.84

The expected rates of return were:

	Expected rate of return %		
	2005	2004	2003
Equities	**7.40**	7.90	8.20
Bonds	**4.40**	4.90	5.10
Other	**4.40**	4.90	4.90
US deposit administration contract	**6.00**	6.00	6.00

The mortality assumption used is PA92 c2004 with an adjustment to the discount rate of -0.1% per annum to allow for future improvements in mortality.

Defined contribution pension liabilities

The Group makes a contribution to a number of defined contribution plans around the world to provide benefits for employees upon retirement. Total expense relating to these plans in the year was £519,000 *(2004: £533,000)*.

Share based payments

Volatility assumptions for equity based payments

The expected volatility of all equity compensation benefits is based on the historic volatility (calculated based on the weighted average remaining life of each benefit), adjusted for any expected changes to future volatility due to publicly available information.

a) Share option scheme

At 1 January 1995 the Group established a share option programme for employees. The allocation of options was linked to the completion of 5 years service. In accordance with the programme, once vested the options grant the right to purchase shares at the market price they were at the date of grant. Exercise prices range from 192p to 387p. Options vest after three years and expire ten years after being granted.

Only the 2003 and 2004 grant occurred after 7 November 2002, the start date for recognition under IFRS 2. Therefore only charges in respect of these grants have been made to the accounts in accordance with IFRS 2 and the relevant disclosures made below. Additionally, six share option arrangements granted before 7 November 2002 exist. The recognition and measurement principles in IFRS 2 have not been applied to these grants in accordance with the transitional provisions in IFRS 1 and IFRS 2.

19. Employee benefits (continued)

	2004 grant	2003 grant
Grant date	1 May 2004	11 April 2003
Exercise price / Share price at grant date of all options	£3.87	£2.78
Shares under option	163,102	78,045
Vesting period	3 years	3 years
Expected volatility	23%	23%
Option life taken as expected life	3 – 10 years	3 – 10 years
Risk free rate	4.8%	4.0%
Expected dividends expressed as a dividend yield	3.7%	4.6%
Probability of ceasing employment before vesting	20%	20%
Expectation of meeting performance criteria	100%	100%
Fair value	£0.94	£0.64

Option (exercise price) * exercisable at end of year	Outstanding at start of year	Exercised during year	Lapsed during year	Outstanding at end of year
1996 grant (£1.92)*	8,716	(8,716)	–	–
1998 grant (£3.28)*	5,755	(5,755)	–	–
1999 grant (£3.62)*	81,274	(72,600)	(1,653)	7,021
2000 grant (£2.85)*	149,255	(84,148)	(2,533)	62,574
2001 grant (£2.98)*	17,504	(11,519)	–	5,985
2002 grant (£3.72)*	14,889	(6,684)	(2,422)	5,783
2003 grant (£2.78)	78,045	–	–	78,045
2004 grant (£3.87)	157,565	–	(2,047)	155,518
	513,003	(189,422)	(8,655)	314,926
Weighted average exercise price	£3.29	£3.31	£3.63	£3.37
Weighted average contractual life remaining				7 years

The 2002 grant vested during the year. The intrinsic value of shares vested as at 31 December 2005 is £301,000 *(2004: £278,000)*.

The Group received proceeds of £626,000 in respect of the 189,422 options exercised during the year: £10,000 was credited to share capital and £616,000 to share premium (see note 16). The options were exercised throughout the year at prices between 192p and 372p.

19. Employee benefits (continued)

b) Long-term Incentive Plan

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 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.

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 each year from 2000 to 2004.

The performance period for the 2001 Award ended at 31 December 2004. Messrs Hewitt Bacon and Woodrow as independent actuaries have certified to the Remuneration Committee that there was a 100% vesting of this Award as the Company's position relative to the comparator group at the end of the relevant performance period was above the 75th percentile position and the Company's earnings per share growth has exceeded the growth in the Retail Price Index plus 2% per annum. The awards vested during 2005.

The performance period for the 2002 Award ended at 31 December 2005. Messrs Hewitt Bacon and Woodrow as independent actuaries have certified to the Remuneration Committee that there was a 74% vesting of this Award as the Company's position relative to the comparator group at the end of the relevant performance period was on the 64th percentile and the Company's earnings per share growth has exceeded the growth in the Retail Price Index plus 2% per annum. The awards will vest during 2006.

		Share scheme	
Grant date	4 March 2005	29 March 2004	24 March 2003
Share price at grant date	£4.45	£3.87	£2.68
Shares / Share equivalents under scheme	183,861	223,370	148,174
Vesting period	4 years	4 years	4 years
Expected volatility	22%	22%	22%
Risk free rate	4.7%	4.6%	4.0%
Expected dividends expressed as a dividend yield	3.4%	4.3%	5.8%
Probability of ceasing employment before vesting	Zero	Zero	Zero
Fair value	£2.41	£2.27	£1.45

		Cash scheme		
Grant date	4 March 2005	29 March 2004	24 March 2003	28 March 2002
Share price at grant date	£4.45	£3.87	£2.68	£3.84
Shares / Share equivalents under scheme	128,846	123,091	91,244	54,313
Vesting period	4 years	4 years	4 years	4 years
Expected volatility	22%	20%	21%	22%
Risk free rate	4.1%	4.1%	4.2%	4.7%
Expected dividends expressed as a dividend yield	2.3%	2.3%	2.3%	2.3%
Probability of ceasing employment before vesting	Zero	Zero	Zero	Zero
Fair value	£4.56	£5.17	£5.33	£5.24

19. Employee benefits (continued)

Share based scheme	Outstanding at start of year	Granted during year	Vested during year	Forfeited during year	Outstanding at end of year
2001 Award	112,615	–	(112,615)	–	–
2002 Award	100,111	–	(8,104)	(11,008)	80,999
2003 Award	148,174	–	(8,568)	(20,193)	119,413
2004 Award	223,370	–	(12,058)	(29,682)	181,630
2005 Award	–	183,861	–	–	183,861
	584,270	183,861	(141,345)	(60,883)	565,903

Cash based scheme	Outstanding at start of year	Granted during year	Vested during year	Forfeited during year	Outstanding at end of year
2001 Award	66,970	–	(66,970)	–	–
2002 Award	54,313	–	–	–	54,313
2003 Award	91,244	–	–	–	91,244
2004 Award	123,091	–	–	–	123,091
2005 Award	–	128,846	–	–	128,846
	335,618	128,846	(66,970)	–	397,494

c) Sharesave plan

Following shareholder approval of the Sharesave plan at the Company's Annual General Meeting on 18 May 2000, the first offer was made to employees in 2004.

UK employees are invited to join the Sharesave plan when an offer is made each year. The offers for both 2004 and 2005 were made at a 20% discount to market price at the time. There are no performance criteria for the Sharesave plan. Employees are given the option of joining either the 3 year plan or the 5 year plan.

	2005 Award		**2004 Award**	
	3 year scheme	5 year scheme	3 year scheme	5 year scheme
Grant date	5 October 2005	5 October 2005	8 October 2004	8 October 2004
Share price at grant date	£5.72	£5.72	£4.00	£4.00
Exercise price	£4.62	£4.62	£3.20	£3.20
Shares / Share equivalents under scheme	19,113	27,440	63,336	99,021
Vesting period	3 years	5 years	3 years	5 years
Expected volatility	22%	22%	23%	23%
Risk free rate	4.2%	4.2%	4.6%	4.6%
Expected dividends expressed as a dividend yield	2.7%	2.7%	3.5%	3.5%
Probability of ceasing employment before vesting	20%	20%	20%	20%
Fair value	£1.49	£1.64	£1.06	£1.13

19. Employee benefits (continued)

3 year plan	Outstanding at start of year	Granted during year	Vested during year	Lapsed during year	Outstanding at end of year
2004 Award	63,336	–	–	(237)	63,099
2005 Award	–	19,113	–	–	19,113
	63,336	19,113	–	(237)	82,212

5 year plan	Outstanding at start of year	Granted during year	Vested during year	Lapsed during year	Outstanding at end of year
2004 Award	99,021	–	–	(1,447)	97,574
2005 Award	–	27,440	–	–	27,440
	99,021	27,440	–	(1,447)	125,014

d) Employee expenses

The employee expense included in the income statement can be analysed as follows:

	2005	2004
Share options granted 2003	**13**	13
Share options granted 2004	**41**	28
Long-term incentive plan – cash settled	**811**	181
Long-term incentive plan – equity settled	**482**	160
Sharesave plan – 3 year	**20**	4
Sharesave plan – 5 year	**20**	4
Total expense recognised as employee costs (note 6)	**1,387**	390

20. Provisions

	Warranty 2005	Deferred Consideration 2005	Total 2005	Warranty and total 2004
Balance at 1 January	**1,563**	**–**	**1,563**	1,725
Exchange differences	**82**	**–**	**82**	(30)
Provisions used during the year	**(543)**	**–**	**(543)**	(362)
Charged in the year	**861**	**446**	**1,307**	230
Balance at 31 December	**1,963**	**446**	**2,409**	1,563
Non-current	**654**	**–**	**654**	521
Current	**1,309**	**446**	**1,755**	1,042
	1,963	**446**	**2,409**	1,563

The warranty provision is based on estimates made from historical warranty data associated with similar products and services. The provision relates mainly to products sold during the last twelve months, the typical warranty period is now eighteen months.

The deferred consideration has arisen on the acquisition of PC Intertechnik during 2005. Payment or release of this provision will be determined during 2006 and is dependent on the satisfaction of certain warranties and achievement of sales related targets.

21. Trade and other Payables

	2005	2004
Trade creditors	**14,763**	15,363
Bills of exchange	**174**	246
Trade payables	**14,937**	15,609
Corporation tax	**5,620**	5,779
Current tax	**5,620**	5,779
Other taxes and social security	**2,303**	1,709
Non trade payables and accrued expenses	**10,826**	7,965
Other payables	**13,129**	9,674

22. 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.

Credit risk

Management has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. Credit evaluations are carried out on all customers requiring credit above a certain threshold, with varying approval levels set above this depending on the value of sale. At the balance sheet date there were no significant concentrations of credit risk.

Interest rate risk

The Group does not undertake any hedging activity in this area. All foreign currency cash deposits are made at prevailing interest rates and where rates are fixed the period of the fix is generally no more than 1 month. The main element of interest rate risk concerns sterling deposits which are made on a floating LIBOR based rate and short term overdrafts in foreign currencies which are also on a floating rate.

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

	Interest Rates	**Fixed rate of interest 2005**	**Floating rate of interest 2005**	Fixed rate of interest 2004	Floating rate of interest 2004
US dollar	**6.4%**	**–**	**31**	–	–
Euro	**2.6% - 5.6%**	**166**	**1,388**	187	473
Yen	**1.9% - 2.5%**	**148**	**35**	102	66
Other	**9.5% - 11.0%**	**47**	**135**	–	166
		361	**1,589**	289	705

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

The weighted average interest rate of the fixed rate financial liabilities is 3.0% per annum.
The weighted average period for which interest rates on the fixed rate financial liabilities are fixed is 1 year.

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

	2005	2004
In one year or less	**1,717**	726
In more than one year but not more than two years	**101**	126
In more than two years but not more than five years	**85**	142
In more than five years	**47**	–
Total	**1,950**	994

The Group had no undrawn committed borrowing facilities at 31 December 2005.

22. Financial instruments (continued)

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

	Interest Rates	**Fixed rate cash 2005**	**Other cash 2005**	Fixed rate cash 2004	Other cash 2004
Sterling	**4.1% - 4.6%**	**–**	**15,121**	14,314	662
US dollar	**4.1%**	**2,071**	**2,696**	2,258	3,264
Euro	**2.2% - 2.3%**	**2,016**	**3,080**	940	1,859
Other	**0.01% - 4.0%**	**189**	**2,705**	316	1,685
		4,276	**23,602**	17,828	7,470

All foreign currency 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:

	2005 Fixed rate		2004 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	**4.6**	**1**	4.8	0
US dollar	**4.1**	**0**	2.3	1
Euro	**2.2**	**0**	2.1	1
Group	**4.4**	**1**	4.5	1

Foreign currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than sterling. The currencies giving rise to this risk primarily are US dollar and related currencies and the euro. The Group hedges up to 80% of forecast US dollar or euro foreign currency exposures using forward exchange contracts. In respect of other monetary assets and liabilities held in currencies other than sterling, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

The Group classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value. The fair value of forward exchange contracts at 1 January 2005 was adjusted against the opening balance of the hedging reserve at that date. The net fair value of forward exchange contracts used as hedges at 31 December 2005 was a £241,000 loss *(2004: £277,000 gain)* comprising a £43,000 asset *(2004: £373,000)* and a £284,000 liability *(2004: £96,000)*. No fair value adjustment was made in 2004 but a prior year adjustment was made at 1 January 2005 under IAS.

Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognised in the income statement.

22. Financial instruments (continued)

	Gains	Losses	Total
Carrying Value at 31 December 2004	–	–	–
Prior year adjustment at 1 January 2005	373	(96)	277
Amounts arising in previous years that were recognised during the year	(373)	96	(277)
Amounts arising before 1 January 2005 that were not recognised during the year	–	–	–
Amounts recognised in the income statement during the year	–	(32)	(32)
Amounts arising in the year that were recognised directly in equity	43	(252)	(209)
At 31 December 2005	43	(284)	(241)

All forward exchange contracts in place at 31 December 2005 mature within one year.

The Group entered into a currency swap in February 2005 when €9.0m was borrowed to finance the acquisition of PC Intertechnik, linked to a deposit of £6.2m, at an exchange rate of €1.444 / £1.000. The €9m was paid to Rotork Controls (Deutschland) GmbH in a form of redeemable equity as this company purchased the assets of PC Intertechnik. This swap was entered into to protect the Group from currency movements on the repayment of equity from Germany.

Sensitivity analysis

It is estimated that a general change of one percentage point in the value of either the US dollar or euro against sterling would have had a £150k impact on the Group's profit before tax for the year ended 31 December 2005. The impact of forward exchange contracts have been included in this calculation.

Currency exposures

The table below shows the Group's balance sheet currency exposures that give rise to the net currency gains and losses recognised in the income statement. 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)

		2005 Functional currency of Group operation			
	Sterling	**US dollar**	**Euro**	**Other**	**Total**
Sterling	**–**	**(4,505)**	**(2,193)**	**(2,723)**	**(9,421)**
US dollar	**1,096**	**–**	**(6)**	**2,518**	**3,608**
Euro	**1,165**	**(232)**	**–**	**(17)**	**916**
Other	**232**	**–**	**–**	**849**	**1,081**
Total	**2,493**	**(4,737)**	**(2,199)**	**627**	**(3,816)**

22. Financial instruments (continued)

	2004 Functional currency of Group operation				
	Sterling	US dollar	Euro	Other	Total
Sterling	–	(1,585)	(434)	(2,644)	(4,663)
US dollar	588	–	18	3,689	4,295
Euro	1,415	165	–	(55)	1,525
Other	503	–	(1)	529	1,031
Total	2,506	(1,420)	(417)	1,519	2,188

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

Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows:

	Carrying Amount 2005	**Fair Value 2005**	Carrying Amount 2004	Fair Value 2004
Trade and other receivables	**41,277**	**41,277**	38,761	38,761
Cash and cash equivalents	**27,878**	**27,878**	25,298	25,298
Currency swap deposit*	**5,298**	**5,298**	–	–
Forward exchange contracts				
Assets	**43**	**43**	–	373
Liabilities	**(252)**	**(252)**	–	(96)
Currency swap loan*	**(5,298)**	**(5,298)**	–	–
Secured loans	**(1,039)**	**(1,039)**	(334)	(334)
Preference shares	**(47)**	**(47)**	–	–
Finance lease liabilities	**(166)**	**(166)**	(187)	(187)
Trade and other payable	**(34,601)**	**(34,601)**	(31,062)	(31,062)
Bank overdrafts	**(698)**	**(698)**	(473)	(473)
	32,395	**32,395**	32,003	32,280
Unrecognised gain		**–**		277

* As the elements of the currency swap can legally be offset, although the values of the loan and deposit are shown above they have been offset in the consolidated balance sheet.

Estimation of fair values

Derivatives

Forward exchange contracts are valued at year end spot adjusted for the forward points to the contract's value date, and gains and losses taken to equity. No contract's value date is greater than one year from the year end.

Secured loans

As the loans have a flexible repayment schedule, and may be paid down in less than one year, the notional amount is deemed to reflect the fair value.

Trade and other receivables / payables

As the receivables / payables have a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

23. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2005	2004
Less than one year	**409**	177
Between one and five years	**1,213**	1,355
More than five years	**215**	170
	1,837	1,702

Of the £1.8m *(2004: £1.7m)*, £1.0m *(2004: £0.8m)* relates to property and the balance to plant and equipment. The largest single lease commitment is for less than £0.5m *(2004: £0.3m)*.

24. Capital commitments

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

	2005	2004
Contracted	**1,466**	332

25. Contingencies

	2005	2004
Performance guarantees and indemnities	**3,955**	3,466

The UK banking arrangements are subject to cross-guarantees between the Company and its UK subsidiaries. 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.

26. Related parties

The Group has a related party relationship with its subsidiaries and with its directors. A list of subsidiaries is shown on pages 85 to 87 of these financial statements. Transactions between two subsidiaries for the sale and purchase of products or the subsidiary and parent for management charges are priced on an arms length basis.

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:

	2005 No.	2004 No.
RC Lockwood	**–**	–
JW Matthews	**10,600**	10,600
A Walker	**5,000**	5,000
IG King	**–**	–
WH Whiteley	**106,990**	87,478
RE Slater	**33,753**	20,911
RH Arnold	**15,368**	14,384
GM Ogden	**12,750**	–

All interests were beneficial and include directors' directly held and family share interests and in total represent less than 1% *(2004: less than 1%)* of voting shares of the Company.

26. Related parties (continued)

The beneficial interests at 31 December included the following ordinary shares held under the Rotork Share Incentive Plan (SIP), and the Rotork Overseas Profit-Linked Share Plan (OPLSS) in trust:

	2005	2004
WH Whiteley	**3,303**	4,159
RE Slater	**3,596**	3,623
RH Arnold*	**2,179**	2,841
GM Ogden	**2,357**	–

* RH Arnold participates in the Rotork Overseas Profit-Linked Share Scheme (OPLSS), and the figures shown for RH Arnold for 2005 and the prior year relate solely to OPLSS.

Details of directors remuneration and allocations to directors in 2005 and further details of the SIP and OPLSS schemes are provided in the remuneration report on pages 26 to 32 of these financial statements.

The only changes in the 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 2005.

Key management emoluments

The emoluments of those members of the management team, including directors, who are responsible for planning, directing and controlling the activities of the Group are:

	2005	2004
Emoluments including social security costs	**1,987**	1,493
Post employment benefits	**219**	250
Share based payments	**569**	155
	2,775	1,898

27. Subsequent event

Subsequent to the balance sheet date, the Group purchased the business and assets of Omag Snc through the acquisition of 100% of the shares in a new company into which the Omag business was transferred. The consideration for the business is £1.1m all payable in cash. The new business has been renamed Rotork Gears (Italy) Srl.

28. Explanation of transition to IFRS

BALANCE SHEETS

	Notes	1 January 2004 Previous GAAP	1 January 2004 Effect of transition to IFRS	1 January 2004 IFRS	**31 December 2004 Previous GAAP**	**31 December 2004 Effect of transition to IFRS**	**31 December 2004 IFRS**
ASSETS							
Property, plant and equipment		13,640	–	13,640	**13,877**	**–**	**13,877**
Intangible assets	a, c	19,057	992	20,049	**18,174**	**1,995**	**20,169**
Deferred tax assets	b	–	6,605	6,605	**–**	**6,988**	**6,988**
Other receivables		486	–	486	**489**	**–**	**489**
Total non-current assets		33,183	7,597	40,780	**32,540**	**8,983**	**41,523**
Inventories		18,570	–	18,570	**21,015**	**–**	**21,015**
Trade receivables		28,973	–	28,973	**34,060**	**–**	**34,060**
Current tax receivable		1,226	–	1,226	**2,176**	**–**	**2,176**
Other receivables	b	2,767	(954)	1,813	**3,442**	**(917)**	**2,525**
Cash and cash equivalents		32,253	–	32,253	**25,298**	**–**	**25,298**
Total current assets		83,789	(954)	82,835	**85,991**	**(917)**	**85,074**
Total assets		116,972	6,643	123,615	**118,531**	**8,066**	**126,597**
EQUITY							
Issued equity capital		4,292	–	4,292	**4,300**	**–**	**4,300**
Preference shares		50	–	50	**47**	**–**	**47**
Share premium		4,543	–	4,543	**4,993**	**–**	**4,993**
Reserves	d	4,039	(2,405)	1,634	**4,042**	**(3,617)**	**425**
Retained earnings		49,569	10,998	60,567	**44,753**	**13,736**	**58,489**
Total equity		62,493	8,593	71,086	**58,135**	**10,119**	**68,254**
LIABILITIES							
Interest-bearing loans and borrowings		129	–	129	**268**	**–**	**268**
Employee benefits	e	13,653	9,113	22,766	**13,885**	**9,684**	**23,569**
Deferred tax liabilities	f	128	665	793	**275**	**880**	**1,155**
Provisions	e	1,612	(1,037)	575	**1,159**	**(638)**	**521**
Total non-current liabilities		15,522	8,741	24,263	**15,587**	**9,926**	**25,513**
Bank overdraft		119	–	119	**473**	**–**	**473**
Interest-bearing loans and borrowings		118	–	118	**253**	**–**	**253**
Trade payables		12,460	–	12,460	**15,609**	**–**	**15,609**
Current tax payable		5,020	–	5,020	**5,779**	**–**	**5,779**
Other payables	e, g	20,090	(10,691)	9,399	**21,653**	**(11,979)**	**9,674**
Provisions		1,150	–	1,150	**1,042**	**–**	**1,042**
Total current liabilities		38,957	(10,691)	28,266	**44,809**	**(11,979)**	**32,830**
Total liabilities		54,479	(1,950)	52,529	**60,396**	**(2,053)**	**58,343**
Total equity and liabilities		116,972	6,643	123,615	**118,531**	**8,066**	**126,597**

28. Explanation of transition to IFRS (continued)

Notes to the explanation of transition to IFRS

a) Intangible assets

No amortisation of goodwill is charged to the income statement in the year under IFRS. Under UK GAAP £1,293,000 was charged during the year so this has been reversed.

Development costs of £992,000 at 1 January 2004 and £772,000 at 31 December 2004 that qualified for recognition as an intangible asset under IFRSs had not been recognised under UK GAAP. They are recognised under IFRS at the date of transition and at 31 December 2004 respectively. During 2004 £322,000 of development expenditure was amortised and £102,000 of costs expensed under UK GAAP were capitalised.

b) Deferred tax assets

Under UK GAAP the defined benefit pension scheme liability was reflected in the financial statements net of deferred taxation. On transition to IFRS this has been shown in the accounts as a deferred tax asset. The deferred tax asset on accumulated actuarial gains and losses at 1 January 2004 was £5,850,000, the tax charge in the year was £101,000 resulting in an asset of £5,951,000 at 31 December 2004. All other deferred tax assets which were shown within debtors have been transferred to non-current assets and deferred tax has been provided on the share based payments:

	1 January 2004	Movement	31 December 2004
Deferred tax asset			
Previously in pension liabilities	5,850	101	5,951
Previously in debtors	954	(37)	917
Previously in deferred tax liabilities	–	253	253
Amortisation of intangibles	–	21	21
Share based payments	155	18	173
Set off of tax	(354)	27	(327)
Total	6,605	383	6,988

c) Acquisition of subsidiary

The acquisition of Deanquip Valve Automation in January 2004 has been restated under IFRS 3. As a consequence of applying IFRS 3 the acquisition has been re-examined with a view to identifying specific intangibles. As a result intangibles previously treated as goodwill and amortised over 20 years are now being held on the balance sheet and are amortised over their estimated useful lives. The intangible assets identified and the charge to the accounts in 2004 in respect of these intangibles is as follows:

	Intangible at acquisition	Amortisation charge in 2004
Company name	31	21
Customer relationships	233	15
Order backlog at acquisition	25	25
Agency agreements	60	12
Currency adjustment	–	(3)
	349	70
Goodwill	322	–
	671	70

The intangible amortisation for the year has been charged partly in cost of sales (£50,000) and partly in administration expenses (£20,000).

28. Explanation of transition to IFRS (continued)

d) Reserves

A number of reserves are required under IFRS which were not recorded under UK GAAP. The breakdown of this movement at 31 December 2004 is as follows:

	UK GAAP	Adjustment	IFRS
Capital redemption reserve	1,637	–	1,637
Revaluation reserve	2,405	(2,405)	–
Translation reserve	–	(1,212)	(1,212)
Total	4,042	(3,617)	425

The revaluation reserve is eliminated under IFRS as on first time adoption the value at which the assets are held is deemed to be cost.

The translation reserve historically under UK GAAP has been included in the retained earnings reserve.

e) Employee benefits

Rotork adopted FRS 17 for the 2004 year end under UK GAAP. Liabilities under the Group defined benefit pension schemes were shown on the face of the balance sheet but were stated net of the associated deferred tax asset. Under IFRS the deferred tax has been transferred to non-current assets (see note b above) and the pension liability shown gross under employee liabilities. At 1 January 2004 the liability was £19,503,000 and at 31 December 2004, £19,836,000.

Under IFRS certain liabilities have been reclassified as employee benefits from payables and provisions. These are:

	1 January 2004	Movement	31 December 2004
UK GAAP employee liabilities	13,653	232	13,885
Transfer to deferred tax assets (see note b)	5,850	101	5,951
Transfer from provisions	1,037	(399)	638
Transfer from other payables – non share based payment accruals	1,447	573	2,020
Transfer from other payables – share based payment accruals	1,102	516	1,618
Adjustment of share based payments to IFRS	(323)	(220)	(543)
Total	22,766	803	23,569

28. Explanation of transition to IFRS (continued)

f) Deferred taxation liabilities

Under UK GAAP certain properties had been revalued. This revaluation was shown within reserves as a separate reserve but under IFRS this has been consolidated into retained earnings. On transition, following IFRS 1 the revaluations have been deemed cost. As a consequence deferred tax of £722,000 has been provided on the balance at 1 January and 31 December 2004. In addition, the capitalisation of development costs has led to a reduction in the historic charge to the income statement and requires the creation of a deferred tax liability. The liability at 1 January 2004 was £297,000 reducing by £65,000 during the year to £232,000 at 31 December 2004.

	1 January 2004	Movement	31 December 2004
Deferred tax liability			
UK GAAP deferred tax liabilities	128	147	275
Previously in deferred tax assets	–	253	253
Revaluation reserve tax liability	722	–	722
Capitalised development costs liability	297	(65)	232
Set off of tax	(354)	27	(327)
Total	793	362	1,155

g) Other payables

Under UK GAAP dividends are accounted for once proposed but IFRS only reports dividends as a charge to the accounts once paid. Reversal of the proposed dividend has reduced other payables by £8,341,000. Together with the £3,638,000 transfer in respect of UK GAAP employee benefits noted above this accounts for the £11,979,000 reduction in other payables.

INCOME STATEMENT

For the year ended 31 December 2004	Notes	Previous GAAP	Effect of transition to IFRS	IFRS
Revenue		146,883	–	146,883
Cost of sales	c, h	(79,030)	(67)	(79,097)
Gross profit		67,853	(67)	67,786
Other income	j	631	(495)	136
Distribution expenses		(1,816)	–	(1,816)
Administrative expenses	a, c, h	(36,720)	1,082	(35,638)
Other expenses	j	(91)	55	(36)
Operating profit		29,857	575	30,432
Net financing income	j	634	440	1,074
Profit before tax		30,491	1,015	31,506
Tax expense	i	(10,591)	83	(10,508)
Profit for the year		19,900	1,098	20,998
Basic earnings per share		23.2p	1.3p	24.5p
Diluted earnings per share		23.0p	1.3p	24.3p

28. Explanation of transition to IFRS (continued)

h) Employee share schemes

The Group applied IFRS 2 to its active share based payment arrangements at 1 January 2004 except for those granted before 7 November 2002. The effect of accounting for equity settled share based payment transactions at fair value is to increase cost of sales by £17,000 and reduce administrative expenses by £29,000. The reduction in administrative expenses reflects the reversal of provisions made under UK GAAP for the Long-Term Incentive Plan as these were higher than the charges under IFRS 2.

i) Income tax expense

The income tax charge in the income statement has changed as a result of some of the UK GAAP to IFRS adjustments.
The analysis of the net change is:

Amortisation of intangibles (see note b)	21
Cash settled share based payments (see note b)	18
Capitalised development costs (see note f)	65
Equity settled share based payments	(21)
	83

j) Exchange gains and losses

Under UK GAAP exchange gains and losses were reported in operating profit. Under IFRS any gains and losses resulting from retranslation of currency deposits are shown in net financing income which has resulted in Other income being reduced by £495,000 and other expenses being reduced by £54,000, the net result of £440,000 now being presented as a credit in net financing income.

ROTORK p.l.c. COMPANY BALANCE SHEET

At 31 December 2005

	Notes	**2005** £'000	2004 *restated (see note 39)* £'000
Fixed assets			
Tangible assets	31	**1,259**	1,287
Investments	32	**1,057**	1,057
		2,316	2,344
Current assets			
Debtors due within one year	33	**41,816**	36,136
Cash at bank and in hand	34	**13,970**	13,776
		55,786	49,912
Creditors:			
Amounts falling due within one year	35	**(3,570)**	(7,984)
Net current assets		**52,216**	41,928
Total assets less current liabilities		**54,532**	44,272
Creditors:			
Amounts falling due after more than one year	36	**(47)**	–
Provisions for liabilities and charges	37	**(277)**	(277)
Net assets		**54,208**	43,995
Capital and reserves			
Called up share capital	38	**4,310**	4,300
Preference shares	38	**–**	47
Share premium account	38	**5,609**	4,993
Translation reserve	38	**–**	1
Capital redemption reserve	38	**1,637**	1,637
Profit and loss account	38	**42,652**	33,017
Rotork shareholders' funds		**54,208**	43,995
Equity		**54,208**	43,948
Non-equity		**–**	47
Shareholders' funds		**54,208**	43,995

These Company financial statements were approved by the Board of Directors on 27 February 2006 and were signed on its behalf by **WH Whiteley** and **RE Slater**, Directors.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2005

29. 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 Company with the exception of FRS 25 paragraphs 15 to 50 which were applied from 1 January 2005 as explained below. Notes 30 to 40 relate to the Company rather than the Group. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

In these financial statements the following new standards have been adopted for the first time, FRS 20 Share-based payments, FRS 21 Events after the balance sheet date, FRS 22 Earnings per share, FRS 23 Changes in forex rates, the presentation requirements of FRS 25 Financial instruments: presentation and disclosure and FRS 28 Corresponding amounts. The accounting policies under these new standards are set out below together with an indication of the effects of their adoption. FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as the Companies Act 1985. The corresponding amounts in these financial statements are restated in accordance with the new policies and the impact of this change is shown in note 39.

Basis of accounting

The financial statements have been prepared under the historical cost convention and have been prepared in accordance with applicable accounting standards. Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account. Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the Group includes the Company in its own published consolidated financial statements.

The Company has taken advantage of the exemption available under FRS 8 and has not disclosed transactions with entities which are subsidiaries of the Group.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

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 33%

Post retirement benefits

The Company participates in a Group wide pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 Retirement benefits, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Reclassification of preference shares

Following the adoption of FRS 25, Financial instruments, the cumulative redeemable preference shares issued by the Company have been re-classified as long term debt. The preference dividends have been presented within interest payable. The Company has taken advantage of the transitional arrangements of FRS 25 not to restate corresponding amounts in accordance with the above policy. The adjustments necessary to implement this policy have been made as at 1 January 2005 with the adjustment to net assets taken though the current year reconciliation of movements in shareholders' funds. Corresponding amounts for 2004 are presented and disclosed in accordance with the requirements of FRS 4 (as applicable in 2004).

29. Accounting policies (continued)

Share based payments

The Company has adopted FRS 20 in the year and the accounting policies followed are in all material regards the same as the Group's policy under IFRS 2. This policy is shown in note 1 to these accounts.

Deferred taxation

Deferred tax is provided in full, without discounting, 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 items 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.

30. Personnel expenses in the Company income statement

	2005	2004
Wages and salaries (including bonus and incentive plans)	**644**	460
Social security costs	**63**	53
Pension costs	**200**	121
Share based payments	**184**	50
	1,091	684

There are 4 *(2004: 5)* employees of Rotork p.l.c. plus the 4 *(2004: 4)* Executive Directors. The personnel costs accounted for within the Company include the full costs of the employees but not the full costs of the Executive Directors. Half of the salary costs, bonus and benefits of the Group Chief Executive and Group finance Director are reported within the Company but the balance of their costs and those of the other two Executive Directors are reported within the subsidiary where they are based as this approximates the basis on which their time is split.

31. Tangible assets in the Company balance sheet

	Land and buildings	Plant and equipment	Total
Cost			
At 1 January 2005 and 31 December 2005	**1,468**	**13**	**1,481**
Depreciation			
At 1 January 2005	181	13	194
Charge for year	28	–	28
At 31 December 2005	**209**	**13**	**222**
Net book value at 31 December 2005	**1,259**	**–**	**1,259**
Net book value at 31 December 2004	1,287	–	1,287

31. Tangible assets in the Company balance sheet (continued)

	2005	2004
Net book value of land and buildings can be analysed between:		
Freehold land	**60**	60
Freehold buildings	**1,199**	1,227
Net book value at 31 December	**1,259**	1,287

32. Investments in the Company balance sheet

Shares in group undertakings	
At 1 January 2005 and 31 December 2005	**1,057**

A listing of the major investments is included in the directory on pages 85 to 87.

33. Debtors due within one year in the Company balance sheet

	2005	2004
Amounts owed by group undertakings	**40,642**	34,991
Other debtors	**20**	297
Prepayments and accrued income	**26**	9
Corporation tax	**724**	414
Deferred taxation	**404**	425
	41,816	36,136

A deferred tax asset £440,000 *(2004: £425,000)* has been recognised. This asset principally relates to other timing differences. The directors are of the opinion, based on recent and forecast trading that the level of future and current profits make it more than likely that the asset will be recovered.

34. Cash at bank and in hand in the Company balance sheet

	2005	2004
Bank balances	**40**	45
Short-term deposits	**13,930**	13,731
Cash at bank and in hand	**13,970**	13,776

35. Creditors amounts falling due within one year in the Company balance sheet

	2005	2004
Bank loans and overdrafts	**145**	4,941
Trade creditors	**69**	110
Amounts owed to group undertakings	**1,055**	1,058
Corporation tax	**2**	14
Other taxes and social security	**18**	11
Other creditors	**2,184**	1,721
Accruals and deferred income	**97**	129
	3,570	7,984

36. Creditors amounts falling due after more than one year in the Company balance sheet

	2005	2004
Preference shares (see note 39)	**47**	–
	47	–

37. Provisions in the Company balance sheet

	2005	2004
Other provisions		
Balance at 1 January and 31 December	**277**	277

The above provision is held against the carrying value of an investment in a dormant subsidiary.

38. Capital and reserves in the Company balance sheet

	Share capital	Preference shares	Share premium	Translation reserve	Capital redemption reserve	Retained earnings	Total
Balance at 1 January 2005	4,300	47	4,993	1	1,637	24,297	35,275
Prior year adjustment (see note 39)	–	–	–	–	–	8,720	8,720
	4,300	47	4,993	1	1,637	33,017	43,995
Preference share adjustment (see note 39)	–	(47)	–	–	–	–	(47)
Restated opening balance	4,300	–	4,993	1	1,637	33,017	43,948
Profit for the financial year	–	–	–		–	24,032	24,032
Other items in the statement of recognised income and expense	–	–	–	(1)	–	–	(1)
Equity settled transactions net of tax	–	–	–	–	–	127	127
Share options exercised by employees	10	–	616	–	–	–	626
Own ordinary shares acquired	–	–	–	–	–	(2,236)	(2,236)
Own ordinary shares awarded under share schemes	–	–	–	–	–	1,149	1,149
Dividends to shareholders	–	–	–	–	–	(13,437)	(13,437)
Balance at 31 December 2005	**4,310**	**–**	**5,609**	**–**	**1,637**	**42,652**	**54,208**

Details of the number of ordinary shares authorised and in issue are given in note 16. The disclosures required under FRS 20 relating to share based payments can be found in note 19.

Profit for the financial year in the accounts of the Company is £24,032,000 *(2004: £24,308,000)*.

39. Prior year adjustments – impact on Rotork p.l.c. Company balance sheet

As set out in note 1, Accounting policies, the Company continues to report under UK GAAP. In accordance with the introduction of FRS 21, Events after the balance sheet date, and FRS 20, Share based payments, the 2004 balance sheet of the Company has been restated. This has had the following impact on these accounts:

	2004
Reversal of dividend accrual 31 December 2004	8,341
Implementation of FRS 20 on accounting for LTIP 31 December 2004	379
Reduction in creditors amounts falling due within one year and increase in retained reserves as at 31 December 2004	8,720

Following the implementation of FRS 25, the preference share capital of the Company has been reclassified as debt with effect from 1 January 2005. As a result, equity has reduced by £47,000 and long-term liabilities have increased by the same figure.

Under FRS 20 a charge of £94,000 *(2004: £49,000)* has been made in the year and this is the only impact on the results of the Company.

40. Contingencies in the Company

	2005	2004
Performance guarantees and indemnities	**–**	464
Guarantees for bank overdrafts of UK subsidiary undertakings	**2**	2

The UK banking arrangements are subject to cross-guarantees between the Company and its UK subsidiaries. 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.

TEN YEAR TRADING HISTORY

	2005	2004	2004	2003	2002
	£'000	£'000	£'000	£'000	£'000
	IFRS	IFRS	UK GAAP	UK GAAP	UK GAAP
Continuing operations	**174,839**	146,883	146,883	135,964	129,677
Discontinued operations	**–**	–	–	–	3,783
Revenue	**174,839**	146,883	146,883	135,964	133,460
Cost of sales	**(95,358)**	(79,097)	(79,030)	(72,046)	(71,875)
Gross profit	**79,481**	67,786	67,853	63,918	61,585
Overheads	**(42,951)**	(37,354)	(37,996)	(36,808)	(35,863)
Operating profit	**36,530**	30,432	29,857	27,110	25,722
Continuing operations	**36,530**	30,432	31,150	28,415	26,553
Discontinued operations	**–**	–	–	–	474
Operating profit before amortisation of goodwill	**36,530**	30,432	31,150	28,415	27,027
Amortisation of goodwill	**–**	–	(1,293)	(1,305)	(1,305)
Operating profit	**36,530**	30,432	29,857	27,110	25,722
Exceptional items	**–**	–	–	597	–
Net interest receivable	**127**	1,074	634	461	440
Profit on ordinary activities before taxation	**36,657**	31,506	30,491	28,168	26,162
Taxation	**(12,043)**	(10,508)	(10,591)	(9,469)	(8,868)
Profit for the financial year	**24,614**	20,998	19,900	18,699	17,294
Dividends			(17,955)	(12,592)	(11,959)
Retained profit for the financial year			1,945	6,107	5,335
Basic earnings per share	**28.6p**	24.5p	23.2p	21.8p	20.1p
Basic earnings per share before goodwill amortisation	**–**	–	24.7p	23.3p	21.6p
Diluted earnings per share	**28.4p**	24.3p	23.0p	21.7p	20.0p

The above ten year history has not been restated to apply IFRS to all periods. Had this exercise been undertaken the major changes would have been the removal of amortisation of goodwill and the introduction of amortisation of separable intangibles, capitalisation and amortisation of development costs and charges for share based payments.

	2001 £'000 UK GAAP	2000 £'000 UK GAAP	1999 £'000 UK GAAP	1998 £'000 UK GAAP	1997 £'000 UK GAAP	1996 £'000 UK GAAP
Continuing operations	119,322	103,945	112,937	98,103	87,766	82,123
Discontinued operations	4,367	3,935	4,598	3,337	5,083	8,694
Revenue	123,689	107,880	117,535	101,440	92,849	90,817
Cost of sales	(65,877)	(59,021)	(63,626)	(54,311)	(50,043)	(48,731)
Gross profit	57,812	48,859	53,909	47,129	42,806	42,086
Overheads	(33,532)	(29,108)	(27,949)	(23,567)	(22,607)	(24,563)
Operating profit	24,280	19,751	25,960	23,562	20,199	17,523
Continuing operations	24,733	20,478	26,358	23,822	20,811	18,308
Discontinued operations	574	309	497	59	(427)	(626)
Operating profit before amortisation of goodwill	25,307	20,787	26,855	23,881	20,384	17,682
Amortisation of goodwill	(1,027)	(1,036)	(895)	(319)	(185)	(159)
Operating profit	24,280	19,751	25,960	23,562	20,199	17,523
Exceptional items	–	–	–	–	–	(1,390)
Net interest receivable	563	831	987	1,845	1,935	1,364
Profit on ordinary activities before taxation	24,843	20,582	26,947	25,407	22,134	17,497
Taxation	(8,539)	(7,110)	(9,477)	(9,063)	(8,111)	(7,075)
Profit for the financial year	16,304	13,472	17,470	16,344	14,023	10,422
Dividends	(11,147)	(10,504)	(10,546)	(9,456)	(8,213)	(7,160)
Retained profit for the financial year	5,157	2,968	6,924	6,888	5,810	3,262
Basic earnings per share	18.9p	15.6p	20.3p	18.9p	15.9p	11.7p
Basic earnings per share before goodwill amortisation	20.1p	16.8p	21.3p	19.3p	16.1p	11.9p
Diluted earnings per share	18.9p	15.6p	20.3p	18.9p	15.9p	11.7p

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Company Secretary
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Notable Dates

28 February 2006
Preliminary announcement of annual results for 2005

3 May 2006
Ex-dividend date for final proposed 2005 dividend

5 May 2006
Record date for final proposed 2005 dividend

21 April 2006
Annual General Meeting held at Rotork House, Brassmill Lane, Bath

26 May 2006
Payment date for final proposed 2005 dividend

14 June 2006
Ex-dividend date for first additional interim dividend

16 June 2006
Record date for first additional interim dividend

27 July 2006
Payment date for first additional interim dividend

2 August 2006
Announcement of interim financial results for 2006

6 September 2006
Ex-dividend date for "core" interim dividend

8 September 2006
Record date for "core" interim dividend

28 September 2006
Payment date for "core" interim dividend

29 November 2006
Ex-dividend date for second additional interim dividend

1 December 2006
Record date for second additional interim dividend

21 December 2006
Payment date for second additional interim dividend

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