

**rotork**



**Celebrating fifty years of innovation**



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rotork

## Financial Highlights

- Order intake up 19% at £223m
- Revenue up 18% at £206.7m
- Operating profit up 23% at £45.1m
- Recommended final dividend of 11.65p, up 18%
- £8m additional interim dividend during 2007

## Operational Highlights

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

## Order Intake

**£223m**  
up 19%

## Order book

**£76m**  
up 19%



The fifties: page 05



The sixties: page 07



The seventies: page 08



The eighties: page 11



The nineties: page 12



The Noughties: page 15

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# Fifty years as innovators

*Rotork reports record revenue and profits as we celebrate our 50th anniversary.*



The first electric actuators were little more than an assemblage of motor, gearing and rudimentary valve position measurement. By the early 1960s we had added a self contained terminal enclosure that enabled on site installation without compromising the internally mounted control gear. With the terminal cover removed this compartment was still sealed from the control gear within and the phrase “double sealing” was coined.



The origins of our current non-intrusive actuators can be traced back to the 1970s with the development of technology for a universal, stockable actuator. The early 1980s saw the move away from simple electro-mechanical controls through the introduction of low cost, low power electronics robust enough to survive the environmental extremes experienced by the typical actuator. Diagnostic features to indicate the availability of the actuator were introduced.



In the 1990s Rotork introduced the World's first non-intrusive actuator. Combining this with electronic position sensing halved the mechanical complexity of the actuator and allowed it to be adjusted using a hand held infra-red device. In 2001 Rotork launched its second generation of non-intrusive IQ actuators. These employed "system on chip" technology whereby the processor, control logic, interface components and even the power supply and infra-red interface were integrated onto a single piece of silicon.



# Chairman's Statement



**RC Lockwood**  
Chairman

*In 2006 Rotork saw further strong growth in its main end user markets. We continue to increase investment in the development of our products and services.*

### Financial highlights

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

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

impacted by adverse currency movements of £4.8m – closed up 19.2% at £76.0m.

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

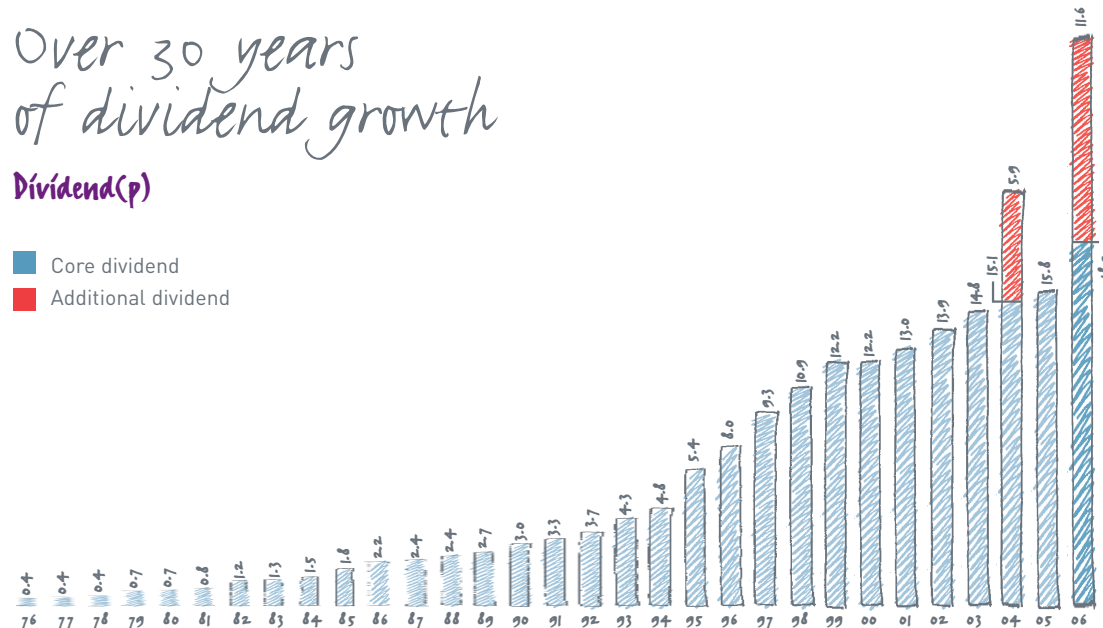
### Divisional highlights

The Electric actuator business had another good year achieving a 19.8% year on year increase in operating profit. Our US businesses traded well and most of the Europe, Middle East and Asia sales operations met or exceeded our expectations. The main Bath assembly plant performed well meeting higher than anticipated

*Over 30 years of dividend growth*

### Dividend(p)

■ Core dividend  
■ Additional dividend



demand levels whilst reducing delivery lead times. The new Shanghai production facility commenced shipping product to customers in China during the second half of the year as planned.

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

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

#### Performance measurement

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

#### Dividend

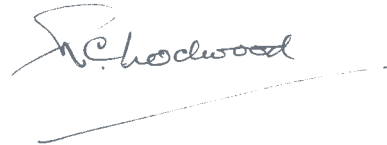
The Board reviews dividend policy regularly and acknowledges a correlation between improvements in earnings and dividend increases. Recognising the very strong earnings growth in the year, and that cash generation has been good, the Board is recommending both an increase in the final dividend for the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

#### 50th Anniversary

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

#### Outlook

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



**Roger Lockwood**

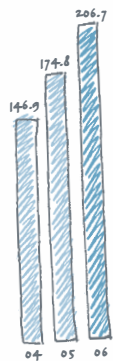
Chairman  
27 February 2006

## Business Review



**WH Whiteley**  
Chief Executive

Group revenue (£m)



*Active end user markets, a world beating product portfolio and sales and marketing organisation resulted in a particularly strong financial performance for 2006.*

### Business overview

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

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

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

The key drivers for the Group's businesses relate to global investment in oil and gas, water and waste water and power generation installations with demand being generated by new and expanded capacity, upgrades to existing facilities and replacements. This is often linked to projects which are aimed at improving the efficiency, safety and environmental performance of plants. Valve actuators are critical components and their long-term reliability and performance is extremely important to users. They also act as a key interface between plant control systems and related hardware. Rotork's reputation for quality, worldwide support and technical

innovation is crucial to its leadership position in the field. We have a large number of repeat customers around the world but the broad geographic spread of our operations and applications means that no one customer accounts for more than 5% of our revenue in any year.

### Business strategy

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

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

### Year under review

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

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





Decades of innovation -

# the fifties

a synopsis by Graham Ogden

**Innovation has been the cornerstone of Rotork's business strategy since the company was founded in 1957 and entrepreneurial spirit and style are embedded within its corporate DNA.**

The first electric actuators were little more than an assemblage of motor, gearing and rudimentary valve position measurement. Environmental sealing was basic and as a result motor controls were located some distance away from the actuator in dedicated motor control centres. Heavy duty cabling ran between the actuator and the motor control centre accompanied by lighter gauge wires bringing back limit signals indicating when the end of travel had been reached. Where local controls were required at the actuator, further wires had to be run back to the motor control centre. In this arrangement the actuator was just a

component with little opportunity for differentiation.

Rotork actuators were amongst the first to use oil filled gearboxes at a time when the majority were still grease filled. Our enclosure sealing expertise ensured that the oil stayed within the actuator and the harsh external environment remained on the outside. The resulting improved lubrication provided greater efficiency and extended product life and so heralded the maintenance free and sealed for life concept which has become one of our basic design philosophies. Our early use of cylindrical spigot joints, now a distinctive

Rotork feature, provided a design uniquely suitable for use within hazardous areas as well as facilitating improved sealing.

This early sealing success, prompted the engineers of the time to integrate the motor control gear within the basic actuator housing. Adding switches to enable local operation of the actuator transformed the product from a component to a self contained system. In addition to simplifying the installation by reducing cabling, it enabled Rotork to take responsibility for the correct operation of the valve and to catalogue and market a system rather than a component.

*Chris Lovegrove has been with Rotork for 6 years, and is one of the people responsible for training operators to build our award winning IQ actuators, a key position in our quality assurance programme. In addition Chris is part of the employee forum, and the health & safety team. Chris really threw himself into this photo shoot: "The fifties, what an era. I just love that Teddy boy stuff!"*



# Business Review continued



*Andy Garnett, later to become sales director, set off in his Morris Minor to France and his trip led to one of the companies largest ever orders for 1000 actuators from the French Atomic Energy Authority and subsequently the establishment of Rotork's first service company in France.*



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

### Key performance indicators

The Board use a range of financial and non financial indicators to assess performance within the Group and discuss these regularly as part of our analysis of operations and progress towards our strategic aims.

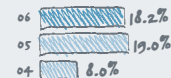
Rotork has a philosophy of product assembly only, with sub contract manufacture of components. We prefer to focus attention on what we regard as the high value added activities of design, marketing and management control. As such our approach to measuring performance is orientated toward the development and profitability of our products, a desire for a high return on capital, and strong cash generation. It can be seen from the statistics shown here that we have produced consistent improvements in performance over the period of the review.

The top key performance indicators used by Rotork are:

- Sales revenue growth
- Profit to sales ratio
- Cash generation
- Return on capital employed
- EPS growth
- Waste recycling

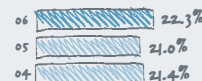
### Sales revenue growth

We aim for growth in sales revenue year on year and have seen strong double digit growth for the last two years:



### Profit to sales ratio

This is calculated as profit before tax (after financing and interest) shown as a percentage of sales revenue. Our overall aim is for continuous improvement over time, notwithstanding the impact of currency. The current year's performance and comparative is:

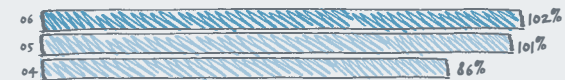


### Electric Actuators

Order intake for the electric business was up 14.7%, sales revenue up 15.0% and operating profit up 19.8%. As a percentage of unit actuator order input the principal markets for electric actuators were; oil and gas 40% (37%); water 19% (24%); power 32% (31%) and miscellaneous 9% (8%) with the prior year's figures in brackets. There were high levels of investment in oil and gas facilities around the world due to the sustained high demand for crude oil, natural gas and refined

### Cash generation

The focus here is on turning the operating profit made by the Group into cash. This is defined as operating profit (before financing and interest issues) adjusted to remove non operational outflows/inflows such as acquisitions, major asset sale/purchases, share repurchase programmes, dividends etc. The last two years have seen:



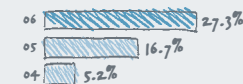
### Return on capital employed

This is profit before tax as a percentage of capital employed. Capital employed is defined as shareholders' funds less net cash held and the pension deficit net of related deferred tax.



### EPS growth

Earnings per share (EPS) reflects all aspects of the income statement including management of the Group's tax rate. We aim to increase EPS each year.



### Waste recycling

We have an active programme of reducing our environmental footprint which is being rolled out across the jurisdictions in which we operate. This KPI measures the proportion of total waste produced which is recycled. We are seeing improvements in this measure which has a positive environmental impact, and reduces cost in the businesses.



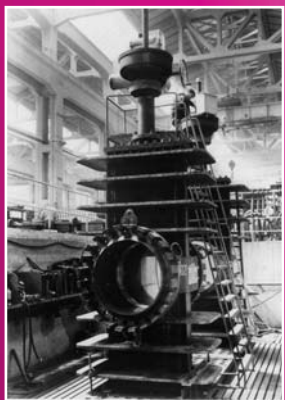
Decades of innovation -

# the sixties

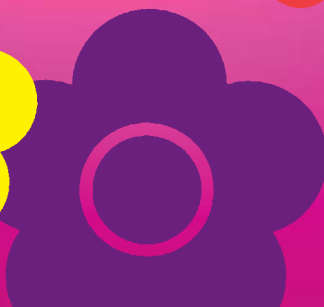
By the early 1960s we had added a self contained terminal enclosure that enabled on site installation without compromising the internally mounted control gear. With the terminal cover removed this compartment was still sealed from the control gear within and the phrase "double sealing" was coined. This feature rapidly became another Rotork design principle and has now become a de-facto standard amongst premium actuators.

With the ability to package electromechanical controls in harsh environments now proven, their complexity increased with interlocks and special purpose controls were included on a regular basis. At this stage most electric actuators used 3-phase induction motors to provide the motive power, the direction of rotation being determined by reversing the phase sequence of the electrical supply. One of the most frequent causes of damage to a valve during commissioning

was connecting the electrical supply with the incorrect rotation such that the actuator operated in the wrong direction when commanded to move. This problem was eliminated when Rotork introduced a phase rotation detection device that prevented operation if the actuator was incorrectly connected to the supply.



*As part of her duties as p.a. to the Chief Executive and Group Finance Director Susie Newell is no stranger to publicity and was very pleased to have the opportunity to be involved in the photo shoot. "I was a bit surprised to be asked to represent the swinging sixties, but it was an era that I loved, and I am very pleased with the result."*





## Decades of innovation - the seventies

The origins of our current non-intrusive actuators can be traced back to the 1970s with the development of technology for a universally adaptable actuator. Prototype devices were produced providing adjustable speed and electronic torque control with adjustment possible through the terminal compartment. A counter style switch mechanism enabled even the end of travel position limits to be adjusted without access to the main enclosure.



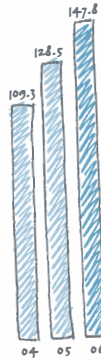
**Ian Elliot** is a Sales Engineer for the Exeeco Actuation Products and Service division based in Leeds. He has been with the company for 29 years starting as an apprentice Actuator Technician in 1978. He sings and plays guitar in his spare time and has been known to do a song or two at company parties. Ian stated "I found the photo shoot great fun, (especially the wig), one of the assistants lent me a guitar and that made me feel at ease! - it was a lot more exciting than climbing round a power station boiler."

## Business Review continued



*Order intake for the electric business was up 14.7%, sales revenue up 15.0% and operating profit up 19.8%. There were high levels of investment in oil and gas facilities around the world due to the sustained high demand for crude oil, natural gas and refined products.*

Electric revenue (£m)



products. In addition to upstream investment there was also an increase in units going into downstream facilities. It is in these areas, i.e. refinery offsites, storage and distribution, that the majority of our electric actuators are used within this sector. Particularly high levels of activity were seen in the Middle East. The construction of new LNG (Liquefied Natural Gas) facilities has also led to increased demand for our products in recent years. Within the power sector, our actuators are used extensively in coal, oil, combined cycle gas and nuclear generation. China and India again dominated the demand within this sector with the increase in business in India being particularly evident. The water market, where we supply actuators for both potable and waste water treatment plants, was also active with increased levels of business in the important North American and UK markets. However the total number of actuators going into this market was down due to an unusually large Asian order won in 2005.

### UK Operations

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

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

### Europe

Most of our European sales companies had reported improving activity levels in late 2005, which led us to higher expectations for 2006. These expectations were largely met with higher sales and profits being generated in most companies with particularly strong results from Italy. Input accounted for 13% of the total electric actuator unit input by destination compared with 15% in 2005. There were two different elements to their growth. European

valvemakers were active in worldwide energy projects, in particular Italian valvemakers had very high levels of business from the Middle East. In addition to this there was an increase in motorisation projects on existing refineries, tank farms and other oil and gas installations within their domestic markets.

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

### The Americas

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

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

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

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



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

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

**Service and Support**

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

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

**Rotork Fluid System Division**

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

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

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

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

**Rotork Gears Division**

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

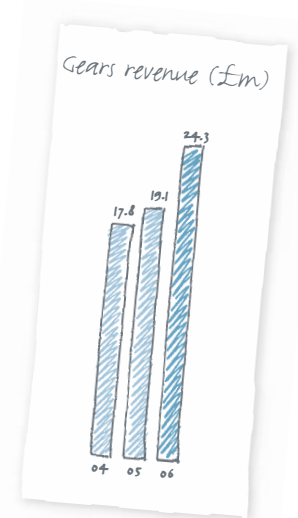
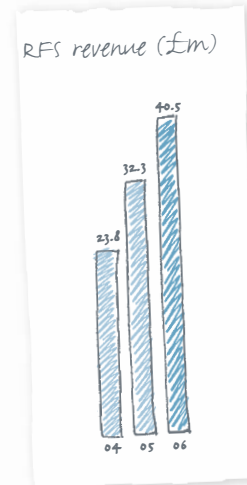
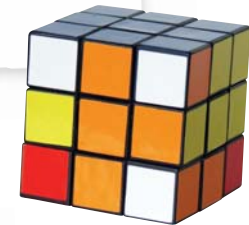
We benefited from an active market and an expanding infrastructure which allowed Gears to win some significant new business. Order intake for the year was up 40.1% (20.6%) while output was up 27.4% (14.6%) and operating profit up 21.3% (12.9%). The figures in brackets exclude the acquisition of Omag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

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

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

**Business Review** continued

*The Rotork Fluid System business is closing in on its objective of accounting for 20% of total Group turnover reaching 19.6% up from 18.5% in 2005. Rotork Gears benefited from an active market and an expanding infrastructure which allowed them to win some significant new business.*



# Decades of innovation - the eighties

The early 1980s saw the move away from simple electro-mechanical controls through the introduction of low cost, low power CMOS electronics robust enough to survive the environmental extremes experienced by the typical actuator.

They brought with them the opportunity to design an all purpose valve actuator controller that could replace the many variants that then existed and enhance valve protection further, whilst at the same time improving manufacturing efficiency.

Earlier features such as the phase rotation detector were enhanced so that they would correct the phase sequence instead of simply preventing operation. Changes to the required control strategy now became a matter of flicking a few switches rather than

completely re-wiring the controls. The introduction of diagnostic features to indicate the availability of the actuator meant that the number of connections between the control room and the actuator had increased over time. The cost of these connections coupled with the widespread availability of microprocessors meant that by the mid-1980s serial data control was possible. Rotork led the way with the introduction of its Pakscan two wire system. So advanced was this communications technology that it is still at the heart of

the third generation derivative introduced this year.

Within a decade the drive for simplicity and reliability saw the first generation "actuator on a chip" when Rotork introduced an Application Specific Integrated Circuit (ASIC) that replaced a complete electronic assembly with a single device. This was such a successful device that it is still in use today in many of Rotork's actuators.



*Vanessa Li is a graduate trainee working in the UK, holding degrees from both Chinese and British Universities. She is studying Accountancy while working in the Bath Finance department. "This was an interesting experience for me, and I wasn't quite sure about the imagery when I first saw it, but it was great fun, and the results look excellent."*



Decades of innovation-

# the nineties

**In the 1990s Rotork introduced the World's first non-intrusive actuator. A patented method of processing motor signals enabled the actuator torque to be calculated electronically and combined with position data derived from a magnetic encoder.**

Until then actuator torque had been measured using mechanisms that needed manual adjustment for calibration and to match the valve seating requirements.

Combining this with electronic position sensing halved the mechanical complexity of the actuator and allowed it to be adjusted using a hand held infra-red device. Recognising that the future lay in obtaining diagnostic information, the communications interface was made bi-directional enabling data to be extracted from the actuator and Rotork was awarded a further patent covering electromagnetic data transfer to actuators. Maintenance free and sealed for life had finally become a reality. The IQ generation of actuators was born. For the first time, in addition to its function, the form of the actuator was given equal consideration with industrial designers considering

ergonomics and appearance. The result was a distinctive market leading product that has transformed the breadth of functionality available to our customers.

It was becoming clear that as subsea oil completions became further distanced from their parent platforms there would be a need for electric actuation to replace the existing hydraulic solutions. The characteristic of this application is that the actuators need to be failsafe such that they will close the valve in the event of an emergency. As a solution to this problem Rotork engineers designed and patented a differential drive mechanism with a simple clutch that enabled the substantial spring thrust to be held at bay with only minimal electrical power. Ten years on this concept is still generating interest amongst companies engaged in sub-sea systems.



*Shelley Pike is part of the design engineering team at Rotork Controls in Bath. She joined Rotork at 16 as part of the apprentice training programme. Having completed her university course she now works on the design of actuator communication systems and is part of the conceptual thinking of how actuators will behave in the 21st century. "When I was asked if I wanted to be part of this report & accounts I thought – well why not – and you know, I really enjoyed it."*



## Business Review continued

*Rotork is cash generative, and aims to return funds to shareholders where they are not required for reinvesting in the business immediately. For the current year the directors propose a final dividend of 11.65p and recognising the strong cash balances at the year end, an additional dividend of 9.30p as a distribution of excess cash.*



market opportunities such as subsea gearboxes where we have seen increased demand.

### Dividends

Rotork is cash generative, and aims to return funds to shareholders where they are not required for reinvesting in the business in the immediately foreseeable future. The Board aims for total dividend distribution to be generally in line with increases in earnings per share. In recent years cash generation has been strong and it has therefore been possible to make dividend increases significantly beyond increases in earnings per share. We have referred to 'core' and 'additional' dividend to address the concept of a growing basic annual dividend stream that could be considered supportable in the medium term as a base for future increases, and then further 'additional' dividend that represents the distribution of excess cash. For the current year the directors propose a final dividend of 11.65p payable on 11 May to shareholders on the register on 20 April. This represents an increase of 17.7% over the prior year final dividend and brings the total core dividend for 2006 to 18.15p, 14.9% increase year on year. Furthermore, recognising the strong cash balances at the year end, we are proposing an additional dividend of 9.30p (£8 million in total) to be paid on 22 June to shareholders on the register on 1 June 2007.

### Treasury

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

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

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

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

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

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

### Research & development

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

Extensive efforts have been focused on the proprietary Pakscan networking system with the development of a new master station product. This product was launched at the end of 2006 and first shipments are expected in early 2007. In addition to being compatible with the earlier series, the integration of embedded web server

technology will enable remote monitoring and diagnosis. Work will take place in 2007 to extend the scope of this new platform including assessment of other network and wireless technology.

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

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

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

### Quality

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

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

As Rotork expands its global operations, great emphasis is placed on the rapid transfer of knowledge and core principles to the new

manufacturing sites. SQA and systems specialists from the Bath QA Team, alongside key staff from other departments, visit periodically to guide their implementation of World Class methods and processes. A key ingredient in this approach is establishing overseas supply chains, providing components to the local Rotork sites and offering the additional benefit of cost effective component supplies to the Bath factory.

### Environment

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

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

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

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

## Business Review continued

### Rotork community

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



**Bill Whiteley**

Chief Executive  
27 February 2007



Decades of innovation -

# the noughties



In 2001 Rotork launched its second generation of non-intrusive IQ actuators. These employed “system on chip” technology where all functionality was integrated onto a single piece of silicon, with improved torque measurement and datalogging. In 2003 this technology was successfully introduced into the quarter turn actuator, something which had been difficult to achieve with the previous generation technology.

Throughout this period Rotork had been actively engaged in simplifying the installation of its products, facilitating their control and the feedback of information. In addition to the market leading Pakscan communications system, a wide variety of other industrial networks is offered. For the latest series of IQ actuators even the control software and

language modules can be updated non-intrusively using web downloads.

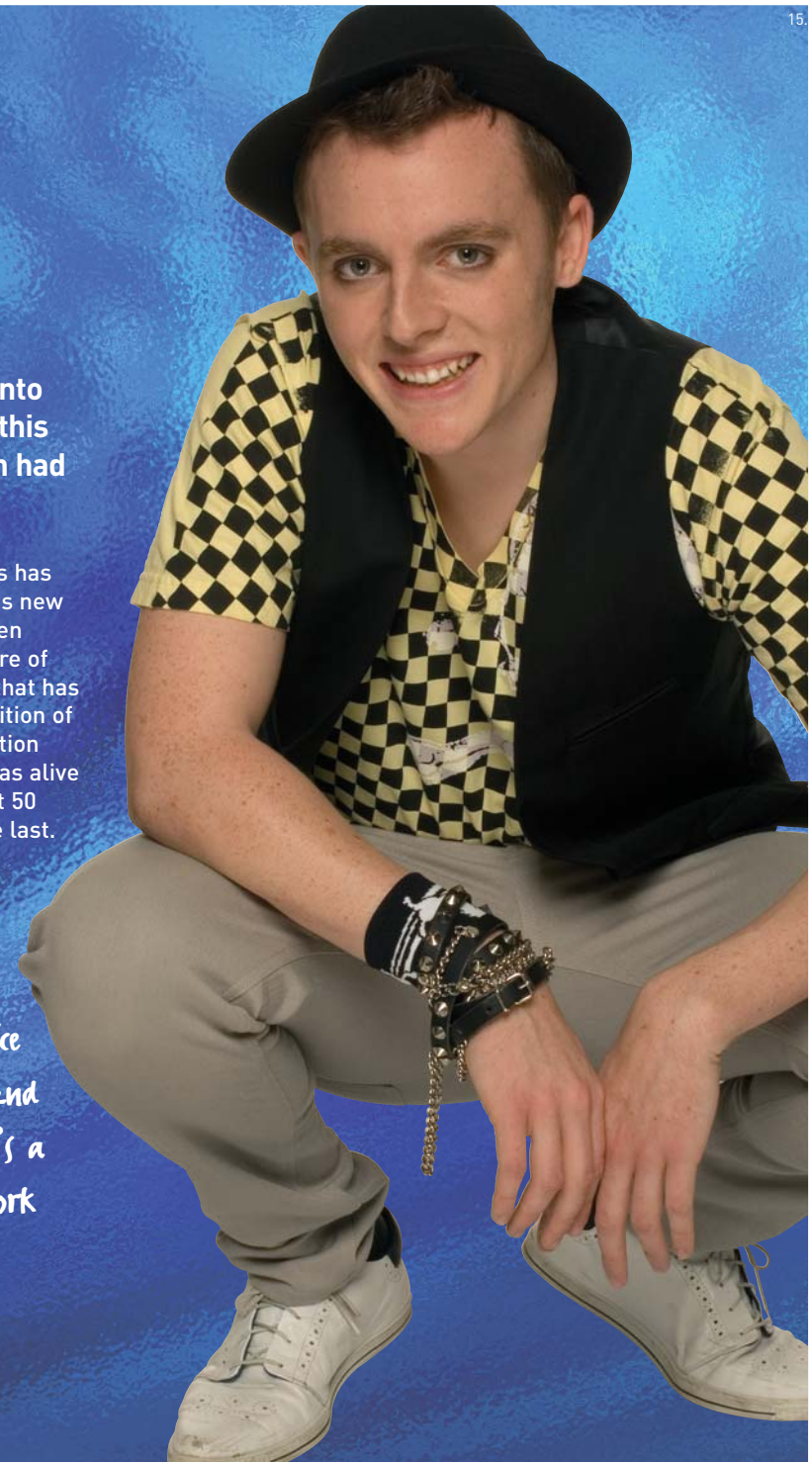
Reliability is critical to Rotork’s customers. Any advance introduced must be tested rigorously under all operating extremes from arctic to desert conditions and even whilst temporarily submerged. Rotork’s laboratory in Bath has equipment able to simulate

the conditions anywhere an actuator is required to operate.

Rotork was the recipient of a Queen’s Award for Enterprise (Innovation) for its non-intrusive actuator, and the IQT product development was rewarded in 2006 with an Innovation and Design Excellence Award for Business to Business Innovation.

Rotork’s first 50 years has seen many changes as new technologies have been introduced. The culture of innovation in Rotork that has brought us to the position of world leader in actuation solutions is every bit as alive as we go into the next 50 years, as it was in the last.

*“This is my decade really, and I relate to the imagery”. Dave Godfrey, formerly an apprentice with Rotork (and apprentice of the year for the whole of the South West region in both his 2nd and 3rd years) is part of the International Sales team for the Electric Actuator business, “It’s a great company to work for and getting involved in things like this is typical of the way Rotork involves people in the organisation at all levels”.*



## Europe

Rotork has a well established presence in the European market with eight 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.



*a pleasure to deal with*

*first for service...*

*Il primo nei servizi*

*the best products available*

*Premier pour le service...*

*Travailler avec eux est un plaisir*

*Los primeros en servicios El mejor trato*

*令人愉快的合作伙伴*

## 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.



*Esokugala emsebenzini*

*El mejor trato*

*I migliori prodotti disponibili*

服务第一

*Bestest Kundenservice...*

*Die besten verfügbaren Antriebe...*

*il primo nei servizi*

最佳的产品

## Rotork Marketing



### Chris Warnett

**Chris Warnett is Vice President of After Sales at Rotork Controls Inc. He has 30 years of service with Rotork. Starting as a Design Engineer in the UK, he moved to the US in 1980 as a product manager then VP of Sales and Marketing.**

Since Rotork was founded in 1957 it has had a strong international bias and has always looked beyond its original UK base for business development. Over the past fifty years, Rotork has created a powerful global marketing and selling organisation, with growth built on a symbiotic relationship with the international valve industry.

Marketing valve actuators is complex, and internationally it can be a challenge. Not only are there multiple areas of influence in the selection of valve actuators, but also the locations of influencing parties span the globe. Rotork successfully coordinates its approach to international projects and an important part of the business is made up of new plant construction. Occasionally projects can represent thousands of valve actuators, so an understanding of the mechanisms of influence and procurement is essential to the successful pursuit of this business.

Because of the size and complexity of many capital projects, the time spent working on these by Rotork sales personnel often spans months or years. From the initial announcement of a project, the Rotork sales organisation must work with the end-user, engineering consultants and subcontractors throughout the design, specification, procurement and installation of the capital equipment.

It is fundamental in a product such as Rotork's, with advanced technology, that the benefits of this technology are fully understood by customers. For that reason, marketing and selling communication is critically important throughout the gestation period of a project, not just during the final flurry of purchasing activity. We need to show the significant cost benefit to an end-user of the Rotork actuator, explaining how the Rotork product requires less maintenance during its life and is easier to install and commission than that of its' competitors. End-users need to comprehend the capabilities of our non-intrusive smart actuators so that they can interface predictive maintenance and asset management systems. These yield significant benefits in reducing down time and improving reliability in plant operations.

The points of contact during the life of the project are, in chronological order, the end-user, the engineering consultant, the construction and procurement contractor and the subcontracting equipment suppliers. Sometimes the end-user leaves the decision making on the design of the plant to the consultant although often the consultant will be directed by the preferences of the end-user. If the end-user for example is an international oil company, then there may be logic for standardisation of equipment in their plants throughout the world. For this reason it is essential that Rotork's sales and marketing efforts be geared to providing clear and comprehensive information to all of the parties involved in the design, procurement and installation process to ensure the user's preferences are satisfied.

One of the main functions of the Rotork sales and marketing organisation is to provide our end-user customers with up to date information on the latest capabilities of our products. This could include the ability to communicate with control computers more efficiently, the capacity of our actuators to withstand hostile environments more effectively or diagnostic capabilities that enhance the operational reliability of the automated valve.

Similar information is communicated to consultant engineers whose reputation is dependant on specifying sound and reliable equipment. The construction and procurement contractor is driven by the desire to build the plant on time, under budget and in compliance with the specification. For that reason they will issue requests for bid to find the lowest cost and fastest delivery of equipment that satisfies the requirements of the specification. They may also consider the ease with which equipment can be installed and commissioned. With multiple sub vendors, equipment that is easy to work with has a benefit.

In the global marketplace bidding for contracts can be fierce, and the valve industry, despite consolidation over the last decade, is still very diverse.

Rotork's business philosophy has been to maintain our independence and therefore our neutrality in the valve industry. Should Rotork become associated with or part of one of the many valve conglomerates, then barriers to working with the other valve entities would become a significant impediment to future business through loss of that position of independence.

The interface with the consultant engineer is also critical to our success. Within the consultant engineering organisation the Rotork sales force has to communicate on several levels with multiple disciplines. This is one of the fascinating aspects of our product line and the one that necessitates a high degree of technical expertise from our sales force.

These interfaces include instrument and control engineers who work with the automated control of the plant and the systems and communication equipment that is associated with sending commands from the control room to the field element – in our case the actuator or actuated valve. With the extensive use of Rotork's data

communication system, Pakscan, as well as other systems such as Foundation Field bus, Profibus and others, this aspect of our technical dialogue with the consultant takes on significant weight.

The electrical engineer who designs the power distribution for electric actuators or the fluid power distribution for fluid system actuators is another important interface. The power demands of our actuator products need to be communicated to design engineers so that the correct power distribution capacity can be accommodated.

The piping and process engineers will specify the type of valve required for a specific application and often by inference the type of actuator and its characteristics. This could range from a standard electric actuator to a failsafe electro hydraulic or pneumatic actuator or to one of the many variations of product that Rotork can supply. The physical size and weight of the actuator needs to be known so that pipeline supports and surrounding walkways can be designed appropriately. In order to do this some estimate of the size of the actuator has to be done in advance and for this, the torque demand of the valve is a prerequisite.

To accomplish these communication tasks, a significant amount of coordination is needed within our sales and marketing organisation. We need to deliver detailed information and specialised documentation packages to the appropriate people at the right time. Rotork was the first actuator manufacturer to introduce a global project coordination system from the inception of our international marketing efforts and over the years this coordination system has developed and grown, particularly after the adoption of PC based tracking systems and networking.

The development of this customer focused approach to business has been fundamental to our business philosophy, instrumental in the growth of Rotork over the last 50 years, and takes on increasing importance as we rise to the challenge of developing the business further over the next 50 years.

*Marketing valve actuators is complex, and internationally it can be a challenge. Not only are there multiple areas of influence in the selection of valve actuators, but also the locations of influencing parties span the globe.*

## Board of Directors



**WH Whiteley, Chief Executive**  
Bill (58) 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.



**RC Lockwood, Chairman (above)**  
Roger (61) 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 (below)**  
Bob (55) 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.



**RH Arnold (above)**  
Bob (55), 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.



**GM Ogden (below)**  
Graham (50) 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 & Development Director and joined the Board of Rotork p.l.c. in January 2005.



**PI France (above)**  
Peter (38) joined Rotork in 1989. In 2001 he was appointed Managing Director of Rotork Fluid System. Prior to that appointment Peter has had roles within Rotork as a Director of Rotork's Singapore company with responsibility for South East Asia and in International Sales.



**JW Matthews (below)**  
John (62) 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 (60) joined the Board as a non-executive director in January 2001. He retired as Chief Executive of Yule Catto & Co. plc in 2006. He is a member of the Audit, Remuneration and Nomination Committees.



**IG King (below)**  
Ian (50) joined the Board in February 2005 as a non-executive director. He is an executive director of BAe Systems plc and its Chief Operating Officer UK and Rest of World. Ian has previously held senior financial and general management positions at Marconi. He is a member of the Audit, Remuneration and Nomination Committees.



# Report of the Directors

The directors submit their report and the audited accounts for the year ended 31 December 2006 as set out on pages 36 to 79.

## 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 Group 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.

The Business Review of the Group is set out here and on pages 4 to 14. It provides a balanced and comprehensive analysis of the development and performance of the business during the year under review and the position at the end of the year, including future development of the business and research and development activities. To enable a full understanding of the analysis of the Group's business, financial and other key performance indicators are included in the Business Review. The Business Review includes the acquisition in January 2006 of the business and assets of the Italian gears business, Omag Snc, now contained within Rotork Gears Srl.

The Business Review also outlines the principal risks and uncertainties facing the Group. These are identified below together with the Group's approach to mitigating the risks:

- Failure to respond to the competitive landscape and setting product and marketing initiatives in place to maintain our world leading position has been identified as the major risk area by management. Our approach to this has always been to continue to differentiate our products through design innovation while continuing to seek improved and cost effective supply sources for components. In addition, our development of products specifically focused at particular markets, such as the AWT actuator, will continue to position our product range at the forefront of our markets.
- Political instability in a key market could lead to financial and market loss. This is a difficult area to mitigate in full, but we remain alert to potential areas of loss. In increasing our geographic and sectoral spread of product penetration the overall risk to the Group this becomes diluted.
- Failure to maintain Rotork's reputation for product quality and customer support. Our emphasis on product quality and the continuous development of quality control procedures is a fundamental part of our business management systems. Improvements through design, and our vendor assessment programme, ensure regular and incremental development of product quality across our product ranges.
- The possibility of loss of our market leadership position in actuator control systems is a risk to the business. We now have the ability to connect to all leading open systems in current use, and have developed new products, such as Pakscan 3, to ensure that the latest available functionality is available to our customers. Through constant design reviews and product improvement in communications technology we aim to position Rotork products as the solution of choice in enabling the end user customer to control his processes.
- As an international business, adverse movements in world currency markets can impact Rotork at a transaction and translation level. Long term this is a structural issue that businesses have to adapt to and we handle this through developing our supply chain around the world enabling us to create some natural hedging matching supply with sales exposures. Current trading exposures are hedged through the forward currency markets. Much of our currency exposure is triggered through sales between our own companies. Therefore we have visibility of the income streams underpinning the forward contracts, which reduces the overall risk.

## Dividends

The directors recommend a final dividend of £10,019,000 for the year, payable on 11 May 2007 to shareholders on the register on 20 April

2007. This represents 11.65p per ordinary share (2005: 9.9p) which with the interim dividend of 6.5p (2005: 5.9p) paid on 28 September 2006 and the additional interim dividends of 5.8p paid on 27 July 2006 and 5.8p paid on 21 December 2006 will produce a total dividend per ordinary share of 29.75p (2005: 15.8p).

## Shares issued or purchased

Details of the ordinary shares issued during 2006 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 2005 Annual Report and Accounts that Capital Group had a non-material interest of 4.97% of the issued ordinary share capital of the Company being 4,281,401 ordinary shares. The Company has been notified in accordance with the relevant Disclosure and Transparency Rules sourcebook pursuant to the Transparency Obligations Directive that Prudential plc group of companies had a notifiable interest in the total voting rights of the Company of 5.56% of the issued ordinary share capital of the Company being 4,805,362 ordinary shares.

## Research and development

Total Group expenditure on research and development in the year was £2,759,000 (2005: £2,666,000) further details of which are contained in the Business Review on pages 4 to 14.

## Charitable donations

During the year the Group made charitable donations of £44,000 (2005: £44,000).

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 20. On 26 June 2006, PI France was appointed an executive director. The interests of the directors in office at the end of the financial year in the shares of the Company are as shown in the Remuneration Report on pages 28 to 34.

WH Whiteley, RE Slater, RH Arnold, GM Ogden and PI France have service agreements and details of these are contained in the Remuneration Report on pages 28 to 34.

## Report of Directors

### continued

At the Annual General Meeting ('AGM'), in accordance with the Articles of Association, A Walker and RH Arnold will retire by rotation and, being eligible, will offer themselves for re-election. PI France will offer himself for election it being his first opportunity since appointment.

#### 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 they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group financial statements are required by law and IFRSs 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 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 IFRSs 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.

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. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

#### 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.

#### Directors' and officers' indemnity insurance

Subject to the provisions of the Companies Acts the Company's Articles of Association provide for the directors and officers of the Company to be appropriately indemnified. The Company purchases and maintains insurance for the directors and officers of the Company, in undertaking their duties, in accordance with section 309(A) of the Companies Act 1985.

#### Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

#### 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, 20 April 2007 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 2007

## 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 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 currently would require a further two independent non-executives to be appointed so that half the Board excluding the Chairman comprise non-executive directors. The appointment of IG King is considered by the Board to be a significant step towards full compliance in respect of the relevant Code provisions, 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 complies with the provisions of the Code.

### 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. The principal risks and uncertainties facing the Group are commented on in the Business Review section of this Annual Report.

Internal financial audits are undertaken on a regular basis by a selected group of accountants drawn from head office and 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.

## Corporate Governance continued

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 nine members comprising the Chairman, the three independent non-executive directors as accepted by the Code, and five 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 eight meetings spread appropriately over the course of the year under review. During the year RC Lockwood, A Walker, JW Matthews, WH Whiteley, RE Slater and GM Ogden attended every Board meeting. IG King attended seven meetings and RH Arnold, a United States resident and national, attended five Board

meetings in person and two by video-link. 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 Board visited and held a Board meeting at the recently established (manufacturing plant) in Shanghai, China and at the Leeds plant.

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 the final proposed dividend and decisions for interim dividends and dividend policy, approval of the Annual Report and Accounts 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

A formal process for performance evaluation of the Board, its Committees and individual directors takes place annually. In 2006 the evaluation took the form of individual interviews by the Chairman with all the directors using as a framework for the discussion a list of pre-notified points for discussion. After due consideration the Chairman then delivered an overall summary of the evaluation results to the Board at a Board meeting. JW Matthews, the senior independent director led the performance evaluation of the Chairman.

For year 2007 the Board evaluation was conducted by use of a detailed questionnaire prepared in conjunction with external consultants who also provided analysis of the responses to the Chairman for consideration prior to him briefing the Board on the main results of the evaluation.

### Nomination Committee

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.

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.

The Committee meets regularly to undertake its duties. There were two formally minuted meetings of the Committee in the year under review. IG King attended one of these formal meetings, the other members of the Committee attended both.

Succession planning discussions continued in the year and there was consideration in particular of the development of a formal CEO succession process mindful that WH Whiteley's contractual retirement date is in 2008.

During the year the Committee recommended the appointment of PI France as an executive director. In making this recommendation the Committee took due account of the composition and balance of skills,

knowledge and experience of the Board. The appointment of PI France, as an executive director, recognised the growth and increasing significance of the Fluid System division within the Group during the five years of his leadership.

#### **Audit Committee**

The Audit Committee was during the year under review comprised of the three independent non-executive directors, JW Matthews (Chairman), A Walker and IG King. 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. The Audit Committee has approved a written policy for non-audit work conducted by the auditor. Whenever a non-audit work instruction (excluding tax advice) exceeds £10,000 in fee value the Group Finance Director must clear the instruction in advance with the Audit Committee Chairman. If non-audit instructions in aggregate exceed £40,000 in any year then the excess must be approved on an item by item basis by the Audit Committee Chairman. For significant general consulting projects more than one service delivery provider is normally considered. Categories of non-audit work provided by the auditor with fees are set out in note 8. Tax advice provided by the auditor substantially relates to compliance matters. 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 are available to view on the Company's website in the Investors' section.

All of the members of the Audit Committee, during 2006 being, JW Matthews, A Walker and IG King attended all three meetings of the Committee. RE Slater, WH Whiteley and RC Lockwood 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, business 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 discusses 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 28 to 34. JW Matthews and A Walker attended all four of the formal meetings of the Remuneration Committee during the year under review. IG King attended three. The Chairman and Chief Executive were invited to attend formal meetings but the Chief Executive was not in attendance when his own remuneration and benefits were considered.

#### **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 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](http://www.rotork.com) under 'Environment'.

The Group's 2006 Environmental Report ("the Report") can be accessed in full at [www.rotork.com](http://www.rotork.com) under 'Environment'. Envolve Partnership ("Envolve") were engaged to provide an independent assessment of the Report and this assessment is included within it. For the first time environmental performance data is included within the Report from all Rotork's major sales, warehouse and service facilities around the world in addition to manufacturing sites. The Report also includes qualitative information about environmental improvement programmes, achievements and initiatives.

The Group has identified its key negative environmental impacts to include the use of energy, water and the 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.

Wherever possible new products and components are marked with the appropriate EU recycling symbols or labels. Information has also been included in product handbooks about the materials the products contain and any specific advice about disposal.

Examples of how Rotork products have a direct and positive impact on the environment can be seen in the Report.

### Environmental Management System

A major milestone was reached in the development of the environment management system when the main Bath site achieved independent verification of compliance with ISO 14001:2004. As a result of complying with this standard waste sent to landfill from Bath reduced substantially. This reduction was achieved by minimising waste generation and by increased recycling especially of wood and cardboard. A project was also launched to improve the Group's reporting of environmental performance data. This project is well advanced and the number of subsidiaries reporting their environmental data had increased from 10 to 29 when it was independently audited by Envolve for sustainability. 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 its aims and achievements;
- Foster open communication with employees, customers, suppliers and other stakeholders via both electronic publishing and face-to-face discussion.

Within the 2006 Environmental Report at [www.rotork.com](http://www.rotork.com) information and data can be accessed about how Rotork managed its key environmental impacts. The data includes information on gas and electricity consumption, CO<sub>2</sub> emissions, water consumption, hazardous waste and recycled waste.

### 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 supports and the International Labour Organisation's Declaration of Fundamental Principles and Rights at Work. 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](http://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

Rotork considers it important to contribute and engage positively in the communities in which it operates and particularly where it has substantial sites with relatively large numbers of employees, for example its Bath site. Rotork's objectives include being a good community neighbour as well as a responsible corporate entity.

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, providing transport for charitable events in the area. In Bath a representative of the Company sits on a local group supporting local initiatives for cultural, social and economic development.

Individual employees or groups of employees also engage in community activities and the Charity Committee normally matches monies raised by employees who undertake appropriate charitable events personally. During the year the Charity Committee paid the entry fee for employees participating in the Bath half marathon and matched sponsorship sums raised by employees for their selected charities.

The Charity Committee has agreed to a grant of £35,000 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. Half of the award has been paid in 2006 as the project progresses. 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.

The Charity Committee also awarded during the year £5,000 to Dorothy House, a hospice in Bath. Whilst the Committee regularly supports this charity, this particular sum was paid to assist in funding an 'education wing'. Separately the Committee also during the year matched funds raised by a group of employees taking part on a sponsored cycle ride on behalf of this charity.



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

Royal United Hospital ("RUH") Bath Forever Friends  
 Bath Open Christmas  
 Medical Assessment Unit RUH  
 Charter Trustees of the City of Bath  
 Foundation for East African Development  
 The Big Heart Ride  
 Bath Charities Annual Fayre  
 Bath Institute of Medical Engineering  
 Weston Day Club for the Elderly  
 Bath & Wansdyke Society for the Blind  
 Friends of Peasedown St. John Primary School  
 Drugs & Homeless Initiative  
 Bath Cats & Dogs Home\*  
 Childrens' Hospice South West  
 Race for Life\*  
 Little Sisters of the Poor  
 Julian House, Bath  
 Prince's Trust  
 Samaritans of Bath  
 Youth Action Wiltshire  
 Bath Junior Gateway  
 Heartline Association  
 Muscular Dystrophy Campaign  
 Breast Cancer Campaign\*  
 Focus Counselling  
 Royal Hospital for Rheumatic Diseases  
 MENCAP  
 Percy Community Centre  
 Willows Counselling Service  
 MacMillan Cancer Relief  
 Jeans for Genes\*  
 Childrens' Heart Foundation  
 British Heart Foundation\*  
 Barnardos

\*Organisations who received matched funds from the Charity Committee following fund raising by employees.

## 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. The Chairman and Chief Executive are invited to attend the meetings of the Committee. The Company Secretary participates in the Committee discussions and advises the Committee. The Committee makes recommendations as required 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's 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 Chief Executive also provides comment and recommendations on the remuneration of the other executive directors and senior managers.

For the year under review, the Board continued to consider 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 Committee took account of the size and nature of the Company, including, in particular, its market capitalisation, as well as its international scope and turnover 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 basic salary potentially payable as cash or share awards 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 2007 and subsequent years the directors' current intention is to continue with the remuneration policy referred to above.

As previously reported, 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, GM Ogden and PI France'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	Contractual retirement date
RH Arnold	28/5/2002	1 year	1 year	18/8/2016
PI France	26/6/2006	1 year	1 year	6/4/2028
GM Ogden	1/1/2005	1 year	1 year	9/1/2017
RE Slater	1/6/1998	1 year	1 year	10/4/2011
WH Whiteley	1/2/1996	1 year	6 months	25/10/2008

Name of non-executive director	Date of letter of appointment	Notice period from Company	Notice period from non-executive director
IG King	14/2/2005	3 months	3 months
RC Lockwood	1/1/2006	3 months	3 months
JW Mathews	14/10/2004	3 months	3 months
A Walker	6/1/2006	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.), Spirax-Sarco Engineering plc (fees for this directorship, which are £40,000 per annum are payable to Mr. Whiteley) and is also 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 for employee only), 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 following the then requisite four year performance period to the maximum Award then made being 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. Following a review by the Committee for LTIP Awards from 2006 onwards shareholders agreed a reduction in the median vesting percentage of the LTIP to 30% of the Award value. For previous Awards the scheme pays 40% at median performance. A 100% vesting of the Award remains for performance at or above the 75<sup>th</sup> percentile with a pro-rata vesting scale down to the median. In making these changes the Committee took due account of shareholder feedback following the increase in Awards from 2004. Additionally and to bring the LTIP incentive performance period in line

with market norms shareholder approval was obtained to introduce a three year performance period for Awards granted from 2006.

The Committee has 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 as supported by the Association of British Insurers in its latest 'Principles and Guidelines on Remuneration' document.

During the year the Committee reviewed the constituents of the comparator group. It was noted that there were now 17 comparator companies left from the 20 included at the Scheme's inception. The Committee decided to bring in new companies to the comparator group applicable for future grants, i.e. 2007 awards and onwards and also to replace with more suitable companies certain existing comparator group companies where the nature of those companies' businesses had changed over time so as to no longer make them suitable comparators. The comparator groups used for the 2006 grant and following the review described above for the 2007 grant are set out below.

The Committee has given consideration to the implications of the legislative changes to pensions in the UK which came 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 potential alternative offers to current pension provision for executive directors affected by the legislative changes referred to above and who may request such alternative provision would only be considered on the basis that they do not increase the benefit cost to the employer.

The Committee approved a revised annual cash bonus plan from 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 continue to be capped at 60% of basic salary for executive directors.

For the bonus applicable to 2006 a sum equal to one per cent of basic salary will be paid as bonus for each one per cent by which adjusted operating profit exceeds the average adjusted profit of the three preceding years. Adjustments to profit comprise excluding interest receivable/payable, exceptional items or non-recurring profits/losses. This element of bonus pays to a maximum of 30% of basic salary.

The earnings per share ('EPS') element of bonus pays 1% of basic salary for each 1% growth in basic EPS to a maximum payment of 20% of basic salary.

A further maximum 10% of basic salary is payable as bonus based on free cash generation as a percentage of earnings before interest and tax ('EBIT'). Free cash generation being net increase in cash and cash equivalents, excluding adjustments for interest or tax receipts or payments, acquisitions or disposals of businesses, cash flows from financing activities or exceptional cash payments. These cash adjustments, where relevant, are disclosed in the Consolidated Statement of Cash Flows at page 38. The maximum 10% bonus is achieved where free cash generation equals 110% of EBIT.

Up to a maximum 10% of basic salary will be payable on achievement of Group budget EBIT. This reduces by 1% for each 1% less than budget EBIT is achieved down to 90% of budget EBIT from when there is a nil payment.

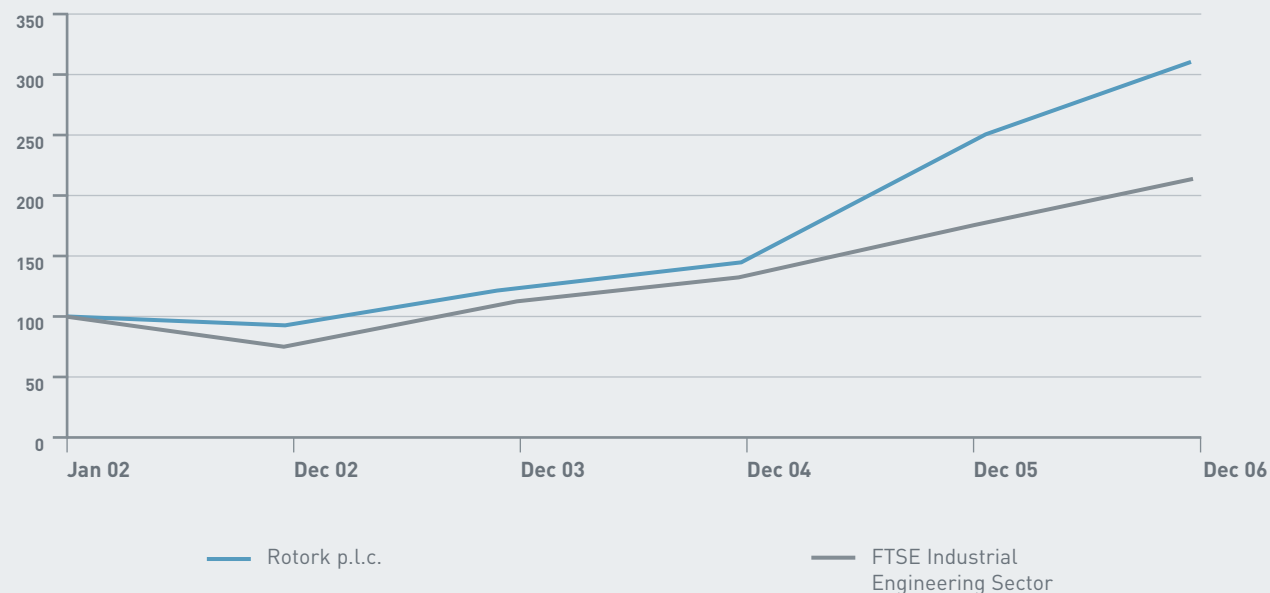
From 2007 the profit element of bonus will still compare the actual year's adjusted profit with the average of the three prior years save that in any year where growth in profit equals or exceeds 30% of that average profit, the profit figure to be used in respect of that year as part of any future year's average profit calculation shall be 130% of the average profit used to determine that year's bonus, i.e. the figure equivalent to achieving the profit element bonus maximum for that year. Where EPS growth equals or exceeds 20% in a year, the EPS figure equal to 20% growth shall be termed 'the EPS maximum' and the base point for comparison of the next year's EPS bonus shall be the prior year's EPS maximum.

## Remuneration Report

continued

The graph opposite 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 2006.

Rotork p.l.c. Total Return Index vs the Total Return Index of the FTSE Industrial Engineering Sector for the 5 Financial Years ending 31 December 2006 (rebased as at 1 January 2002)



### Interests in shares

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:

	2006 No.	2005 No.
RC Lockwood	—	—
JW Matthews	10,600	10,600
A Walker	5,000	5,000
IG King	—	—
WH Whiteley	119,069	106,990
RE Slater	36,720	33,753
RH Arnold	16,361	15,368
GM Ogden	16,261	12,750
PI France	6,736	—

All interests were beneficial and include directors' directly held and family share interests and in total represent less than 1% (2005: less than 1%) of voting shares of the Company.

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

### Directors' emoluments

	Salary and fees	Bonus	Benefits*	2006* Total	2005* Total
<b>Executive directors</b>					
RH Arnold <sup>1</sup>	149	89	7	245	229
PI France <sup>2</sup>	63	27	6	96	—
GM Ogden	135	81	13	229	215
RE Slater	172	103	13	288	271
WH Whiteley	275	165	13	453	423
<b>Non-executive directors</b>					
IG King	27	—	—	27	25
RC Lockwood	60	—	—	60	60
JW Matthews	33	—	—	33	33
A Walker	27	—	—	27	27
	941	465	52	1,458	1,283

1 RH Arnold is paid in US dollars.  
2 PI France joined the Board on 26 June 2006. For year 2006 Mr. France's bonus was calculated using the bonus scheme applicable to his position as Managing Director of Rotork Fluid System. The bonus figure stated is the pro-rata amount of that annual bonus payment applicable to the period from 26 June 2006.

\* These columns include the cash value on allocation of SIP and OPLSS share Awards as appropriate. For further details see page 32.

### Rotork Long-Term Share Incentive Plans (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 2006	Share or cash unit Awards made during 2006 <sup>1</sup>	Share or cash unit Awards vesting in 2006 <sup>2</sup>	Lapsed in 2006	Outstanding share or cash unit Awards at 31 December 2006
RH Arnold <sup>3</sup>	108,248	20,168	14,151	5,076	109,189
PI France	46,704	9,068	4,970	1,783	49,019
GM Ogden	61,238	18,218	5,238	1,880	72,338
RE Slater	117,978	23,211	12,474	4,475	124,240
WH Whiteley	185,354	37,112	19,671	7,056	195,739

1 The market price of shares in the Company at the date of Award was £7.41.

2 The 2002 LTIP Award vested 73.6%. The market price at the vesting date was £7.30.

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

## Remuneration Report

### continued

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 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 the relevant full performance period and the Company's relative TSR against a comparator group of companies places it in at least the 50<sup>th</sup> 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 50<sup>th</sup> percentile rising to 100% at the 75<sup>th</sup> percentile with each percentile position above the 50<sup>th</sup> adding 2.4% to the vesting percentage. From 2006 grants the relevant vesting percentages are 30% at the 50<sup>th</sup> percentile rising to 100% at the 75<sup>th</sup> percentile with each percentile position above the 50<sup>th</sup> adding 2.8% to the vesting percentage.

The Company's EPS 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 this 'RPI' plus 2% per annum requirement will result in nil vesting. The relative TSR against a comparator group performance measure was chosen as it enabled the 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 up to and including grants in 2006 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

For the 2007 LTIP grant the comparator companies to be used are as follows:

Bodycote plc  
Brammer plc  
BSS plc  
Charter plc  
Cookson plc  
FKI plc  
Halma plc  
IMI plc  
Invensys plc  
Laird plc  
Meggitt plc  
Morgan Crucible plc  
Renishaw plc  
Senior plc  
Smith Group plc  
Spectris plc  
Spirax-Sarco Engineering plc  
TT Electronics plc  
Volex plc  
Weir Group plc

### Share awards to executive directors

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.

The beneficial interests at 31 December included the following ordinary shares held under the SIP and the OPLSS in trust.

Details of total free share Awards under the SIP and OPLSS and Awards made to executive directors in 2006 and the prior year are set out below.

	Awards in		Total Awards held	
	2006	2005	2006	2005
RH Arnold	894	1,015	1,909	2,179
PI France	426	—	2,603	—
GM Ogden	426	620	2,783	2,357
RE Slater	426	620	4,207	3,596
WH Whiteley	426	620	3,794	3,303

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

Additionally Mr. Slater and Mr. Whiteley have purchased 'partnership' shares under the SIP. Their current SIP partnership total holdings are 1,262 shares and 849 shares respectively.

Mr. Arnold, in common with other eligible overseas employees, participates in the OPLSS. The Scheme Trustee is based in Guernsey, Channel Islands. The figures shown for Mr. Arnold relate solely to OPLSS.

UK based executive directors, in common with other eligible UK employees, have the opportunity to invest in the Rotork Sharesave Scheme. RE Slater, GM Ogden and PI France participate in the Scheme. Mr. Slater was granted 5,170 share options on 8 October 2004 at an option price of £3.196 under the Scheme, Mr. Ogden was granted 2,964 share options on that date at the same option price. Mr. France was granted 3,484 share options on 5 October 2005 at an option price of £4.62. These options are exercisable five years from grant for Mr. Slater and Mr. France and three years from grant for Mr. Ogden. The exercise period is 6 months duration after which the options lapse.

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 2006.

#### 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 31/12/2006	Increase in accrued pension over the year (Note 1) £	Accumulated accrued pension at 31/12/2006 (Note 2) £
RH Arnold	55	11,387	57,056
P France	38	1,739	31,056
GM Ogden	49	7,772	44,426
RE Slater	55	9,930	89,315
WH Whiteley	58	8,259	182,226

#### Notes:

- The figures shown for the increase in accrued pension over the year exclude any increase for inflation.
- The accumulated accrued pension is that which would be paid annually on retirement from normal pension age, based on service to 31 December 2006.
- A lump sum death benefit of 4 times basic annual salary is payable on death in service.
- 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.
- 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.
- PI France joined the Board of Directors on 26 June 2006.
- 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.
- For WH Whiteley, the accrued pension as at 31 December 2006 above allows for his six month notice period.
- The figures shown for RH Arnold are in respect of his membership of the Rotork Controls Inc. pension scheme and a supplemental executive retirement plan so that, in aggregate, the pension arrangements for Mr. Arnold will provide a pension of at least 60% of uncapped basic salary at age 65. The supplemental executive retirement plan was formally established in 2006 and so the benefit from this plan is included in the above table for the first time.

# Remuneration Report

continued

## Pension disclosures required under the Directors' Remuneration Report Regulations 2002

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

	Increase in accrued pension during the year (Note 1) £	Transfer value of accrued pension at 31/12/2005 £'000	Transfer value of accrued pension at 31/12/2006 £'000	Increase in transfer value over the year £'000
RH Arnold	13,101	304	754	450
P France	2,840	422	444	22
GM Ogden	9,148	874	1,049	175
RE Slater	12,911	1,999	2,243	244
WH Whiteley	14,790	5,162	5,206	44

### Notes:

- The figures shown for the increase in accrued pension over the year incorporate the increase for inflation.
- 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).
- The transfer value of accrued pension for RH Arnold reflects the benefits provided by the US schemes together with a US valuation of these benefits and is therefore not directly comparable with the transfer values for directors in the UK scheme.



**JW Matthews**, Chairman  
Remuneration Committee  
27 February 2007

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



We have audited the group and company financial statements (the 'financial statements') of Rotork p.l.c. for the year ended 31 December 2006 which comprise the Consolidated Income Statement, the Consolidated and 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 the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the 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 page 22.

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, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Business Review that is cross referred from the Principal Activities section of the Directors' Report.

In addition we report to you if, in our opinion, 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 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 the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. 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 2006 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 company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006;
- the 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; and
- the information given in the Directors' Report is consistent with the financial statements.

### KPMG Audit Plc

Chartered Accountants  
Registered Auditor  
Bristol  
27 February 2007

# Consolidated Income Statement

for the year ended 31 December 2006

	Notes	2006 £'000	2005 £'000
<b>Revenue</b>	2	<b>206,709</b>	174,839
Cost of sales		<b>(115,603)</b>	(95,358)
<b>Gross profit</b>		<b>91,106</b>	79,481
Other income	4	<b>98</b>	79
Distribution costs		<b>(2,287)</b>	(1,959)
Administrative expenses		<b>(43,735)</b>	(41,002)
Other expenses	5	<b>(93)</b>	(69)
<b>Operating profit</b>	2	<b>45,089</b>	36,530
Financial income	7	<b>5,568</b>	4,479
Financial expenses	7	<b>(4,596)</b>	(4,352)
<b>Profit before tax</b>	8	<b>46,061</b>	36,657
Tax expense	9	<b>(14,728)</b>	(12,043)
<b>Profit for the year</b>		<b>31,333</b>	24,614
		<b>Pence</b>	Pence
Basic earnings per share	17	<b>36.4</b>	28.6
Diluted earnings per share	17	<b>36.1</b>	28.4



# Consolidated Balance Sheet

at 31 December 2006

	Notes	2006 £'000	2005 £'000
<b>ASSETS</b>			
Property, plant and equipment	10	16,616	17,214
Intangible assets	11	22,225	22,038
Deferred tax assets	12	5,739	9,115
Other receivables	14	735	633
<b>Total non-current assets</b>		<b>45,315</b>	49,000
Inventories	13	29,027	26,697
Trade receivables		37,385	36,492
Current tax	14	1,219	2,225
Other receivables	14	4,104	2,560
Cash and cash equivalents	15	28,460	27,878
<b>Total current assets</b>		<b>100,195</b>	95,852
<b>Total assets</b>		<b>145,510</b>	144,852
<b>EQUITY</b>			
Issued equity capital		4,314	4,310
Share premium		5,857	5,609
Reserves		(1,421)	2,405
Retained earnings		80,386	68,241
<b>Total equity</b>	16	<b>89,136</b>	80,565
<b>LIABILITIES</b>			
Interest-bearing loans and borrowings	18	180	236
Employee benefits	19	8,186	21,736
Deferred tax liabilities	12	1,225	1,164
Provisions	20	941	654
<b>Total non-current liabilities</b>		<b>10,532</b>	23,790
Bank overdraft	15	62	698
Interest-bearing loans and borrowings	18	526	1,016
Trade payables	21	16,835	14,937
Employee benefits		3,941	3,342
Current tax	21	6,236	5,620
Other payables	21	15,923	13,129
Provisions	20	2,319	1,755
<b>Total current liabilities</b>		<b>45,842</b>	40,497
<b>Total liabilities</b>		<b>56,374</b>	64,287
<b>Total equity and liabilities</b>		<b>145,510</b>	144,852

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

# Consolidated Statement of Cash Flows

for the year ended 31 December 2006

	Notes	2006 £000	2006 £000	2005 £000	2005 £000
<b>Cash flows from operating activities</b>					
Profit for the year		31,333		24,614	
Adjustments for:					
Amortisation of intangibles		98		179	
Amortisation of development costs		259		293	
Depreciation		2,554		2,671	
Equity settled share based payment expense		496		312	
(Profit) / loss on sale of fixed assets		(33)		22	
Financial income		(5,568)		(4,479)	
Financial expenses		4,596		4,352	
Income tax expense		14,728		12,043	
		48,463		40,007	
Increase in inventories		(3,610)		(3,359)	
Increase in trade and other receivables		(3,786)		(685)	
Increase in trade and other payables		6,691		1,325	
Difference between pension charge and cash contribution		(6,801)		(3,243)	
Increase in provisions		731		709	
Increase in other employee benefits		776		1,509	
		42,464		36,263	
Income taxes paid		(11,247)		(11,296)	
<b>Cash flows from operating activities</b>			<b>31,217</b>		<b>24,967</b>
<b>Investing activities</b>					
Purchase of tangible fixed assets		(2,425)		(1,396)	
Development costs capitalised		(372)		(291)	
Sale of tangible fixed assets		116		94	
Acquisition of subsidiary net of cash acquired		(1,589)		(7,227)	
Interest received		876		776	
<b>Cash flows from investing activities</b>			<b>(3,394)</b>		<b>(8,044)</b>
<b>Financing activities</b>					
Issue of ordinary share capital		252		626	
Purchase of ordinary share capital		(2,047)		(2,236)	
Purchase of preference shares treated as debt		(4)		—	
Interest paid		(147)		(232)	
New loans		—		1,515	
Repayment of amounts borrowed		(467)		(838)	
Repayment of finance lease liabilities		(212)		(100)	
Dividends paid on ordinary shares		(24,140)		(13,437)	
<b>Cash flows from financing activities</b>			<b>(26,765)</b>		<b>(14,702)</b>
Net increase in cash and cash equivalents			<b>1,058</b>		<b>2,221</b>
Cash and cash equivalents at 1 January			<b>27,180</b>		<b>24,825</b>
Effect of exchange rate fluctuations on cash held			<b>160</b>		<b>134</b>
<b>Cash and cash equivalents at 31 December</b>	15		<b>28,398</b>		<b>27,180</b>

# Consolidated Statement of Recognised Income and Expense

for the year ended 31 December 2006

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

# Notes to the Group Financial Statements

for the year ended 31 December 2006

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 2006 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 26 all relate to the Group statements. The Company balance sheet can be found following note 26. As the Company has elected to continue reporting under UK GAAP, the applicable accounting policies are contained in note 27 and notes 28 to 37 relate to the Company's financial statements.

## 1. Accounting policies

### Basis of preparation

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

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

### Basis of accounting

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

The preparation of consolidated financial statements in conformity with IFRSs requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the

basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The key areas where estimates have been used and the assumption applied are in the impairment testing of goodwill (note 11), in assessing the defined benefit pension scheme liabilities (note 19), the net realisable value of inventory (note 13) and the level of warranty provisions required (note 20).

### Consolidation

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

### 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 the income statement.

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 & 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 based on discussions with the management of the acquired business and takes account of the differing natures of each of the intangibles acquired. The assessed useful lives of intangibles acquired so far range from 1 year for order back log at acquisition to 15 years for long standing customer relationships. Amortisation is charged on a straight-line basis over the estimated useful life of the assets.

#### 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.

# Notes to the Group Financial Statements

for the year ended 31 December 2006  
(continued)

## 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 substantively 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. The net realisable value in respect of old and slow moving inventory is assessed by reference to historic usage patterns and forecast future usage.

## 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 except where forfeiture is due only to share prices not achieving the threshold for vesting.

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 except where forfeiture is due only to share prices not achieving the threshold for vesting.

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. In the case of the cash awards, the liability is re-measured at each balance sheet date and at settlement date and any changes in fair value recognised in the income statement, spread equally over the vesting period.

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.

**Derivative financial instruments**

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. Any effective 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.

# Notes to the Group Financial Statements

for the year ended 31 December 2006  
(continued)

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

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

### Business segments

The Group comprises the following business segments:

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

### Geographic segments

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

Analysis by operation:	Electrics 2006	Fluid system 2006	Gears 2006	Eliminations 2006	Consolidated 2006
Revenue from external customers	147,795	40,504	18,410	—	206,709
Inter-segment revenue	—	—	5,872	(5,872)	—
<b>Total revenue</b>	<b>147,795</b>	<b>40,504</b>	<b>24,282</b>	<b>(5,872)</b>	<b>206,709</b>
<b>Segment result</b>	<b>37,024</b>	<b>5,374</b>	<b>4,638</b>	<b>—</b>	<b>47,036</b>
Unallocated expenses					(1,947)
Operating profit					45,089
Net financing income					972
Income tax expense					(14,728)
<b>Profit for the year</b>					<b>31,333</b>
	Electrics 2005	Fluid system 2005	Gears 2005	Eliminations 2005	Consolidated 2005
Revenue from external customers	128,535	32,321	13,983	—	174,839
Inter-segment revenue	—	—	5,080	(5,080)	—
<b>Total revenue</b>	<b>128,535</b>	<b>32,321</b>	<b>19,063</b>	<b>(5,080)</b>	<b>174,839</b>
<b>Segment result</b>	<b>30,912</b>	<b>3,669</b>	<b>3,825</b>	<b>—</b>	<b>38,406</b>
Unallocated expenses					(1,876)
Operating profit					36,530
Net financing income					127
Income tax expense					(12,043)
<b>Profit for the year</b>					<b>24,614</b>



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

	Electrics 2006	Fluid system 2006	Gears 2006	Unallocated 2006	Consolidated 2006
Segment assets	67,969	29,796	12,325	35,420	145,510
Segment liabilities	34,557	9,442	4,146	8,229	56,374
Depreciation	1,776	563	313	—	2,652
Non-cash items	625	85	87	56	853
Capital expenditure	1,949	496	161	—	2,606

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

**Analysis by Geographical segment:**

	Europe 2006	Americas 2006	Rest of the World 2006	Unallocated 2006	Consolidated 2006
Revenue from external customers by location of customer	89,992	58,398	58,319	—	206,709
Segment assets by location of assets	72,810	21,849	15,431	35,420	145,510
Capital expenditure by location of assets	1,500	268	838	—	2,606

	Europe 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

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

# Notes to the Group Financial Statements

for the year ended 31 December 2006  
(continued)

## 3. Acquisition of subsidiaries

### Acquisitions

On 13 January 2006 Rotork Italia Srl acquired all of the business and assets of Omag Snc when it acquired a newly set up company for up to £1,061,000. £924,000 was paid on completion and a further £137,000 was paid during 2006. The company manufactures and sells heavy duty quarter-turn and multi-turn gearboxes. The acquisition was accounted for using the purchase method of consolidation. In the 11 months to 31 December 2006 the subsidiary contributed £2,439,000 to Group revenue and £320,000 to the consolidated net profit for the year before the £71,000 amortisation of intangible

charge. Goodwill has arisen on this acquisition as a result of the value attributed to staff expertise and the assembled workforce which did not meet the recognition criteria for an intangible asset and post acquisition synergies within the Gears division. Due to a lack of reliable information for the part month prior to acquiring the assets, full year proforma financial results are not given in these financial statements although they would not be expected to differ significantly from the results post acquisition.

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

	Pre acquisition carrying amounts	Fair value adjustments	Carrying amounts
Omag Snc			
Property, plant and equipment	101	—	101
Intangible assets	—	258	258
Inventories	284	—	284
Trade and other receivables	1,045	—	1,045
Trade and other payables	(668)	—	(668)
Provisions	(102)	—	(102)
Borrowings	(464)	—	(464)
	196	258	454
Goodwill on acquisition			671
Consideration paid, satisfied in cash (including £64k expenses)			1,125

### 3. Acquisition of subsidiaries (continued)

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 2006 may be paid in 2007 subject to satisfaction of certain warranties and achievement of sales related targets in 2005 but a final negotiated settlement has yet to be agreed. 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.

	Pre acquisition carrying amounts	Fair value adjustments	Carrying amounts
PC Intertechnik			
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

### 4. Other income

	2006	2005
Gain on disposal of plant and equipment	41	37
Non-executive fees receivable	25	23
Other	32	19
	98	79

# Notes to the Group Financial Statements

for the year ended 31 December 2006  
(continued)

## 5. Other expenses

	2006	2005
Losses on sale of fixed assets	8	59
Other	85	10
	<b>93</b>	69

## 6. Personnel expenses

	2006	2005
Wages and salaries (including bonus and incentive plans)	37,174	32,632
Social security costs	4,022	3,516
Pension costs - for defined benefit plans	2,117	1,378
Pension costs - for defined contribution plans	1,135	519
Share based payments (note 19)	1,535	1,387
Increase in liability for long-service leave	12	9
	<b>45,995</b>	39,441

A total of £439,000 (2005: £576,000) of the above share based payments are equity settled, comprising £51,000 (2005: £54,000) for the share option scheme, £56,000 (2005: £40,000) for the Sharesave plan and £332,000 (2005: £482,000) for the Long-term incentive plan. The cash settled portion £1,096,000 (2005: £811,000) all related to the Long-term incentive plan.

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

	2006 No.	2005 No.
Electrics	920	882
Gears	140	118
Fluid system	243	207
	<b>1,303</b>	1,207
UK	417	418
Overseas	886	789
	<b>1,303</b>	1,207

**7. Net financing income**

	2006	2005
Interest income	982	599
Expected return on assets in the pension schemes	4,518	3,770
Foreign exchange gains	68	110
	<b>5,568</b>	4,479
Interest expense	121	221
Interest charge on pension schemes liabilities	4,309	4,048
Foreign exchange losses	166	83
	<b>4,596</b>	4,352

**8. Profit before tax**

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

	Notes	2006	2005
Depreciation and other amounts written off tangible fixed assets:			
owned assets	a	2,445	2,576
assets held under finance lease contracts	a	109	95
Amortisation of intangibles	a	357	472
Inventory write downs recognised in the year	a	1,115	1,136
Hire of plant and machinery	a	584	570
Other operating lease rentals	a	669	646
Research and development expenditure	b	2,646	2,668
Exchange differences realised	c	97	(27)
Auditors (audit fees and expenses paid to):	b		
KPMG in respect of Company reporting		53	49
KPMG in respect of Group reporting of subsidiaries		149	185
KPMG in respect of local statutory reporting of subsidiaries		43	39
Other auditors		64	51
		<b>309</b>	324
other fees paid to KPMG Audit Plc and its associates analysed between:			
taxation		105	58
litigation support / advice		—	8
pension scheme fees		—	14
other		2	6
		<b>107</b>	86

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

# Notes to the Group Financial Statements

for the year ended 31 December 2006  
(continued)

## 9. Income tax expense – Recognised in the income statement

	2006	2006	2005	2005
Current tax:				
UK Corporation tax on profits for the year	10,486		8,976	
Double tax relief	(6,023)		(5,441)	
Adjustment in respect of prior years	(182)		70	
		4,281		3,605
Overseas tax on profits for the year	8,787		7,470	
Adjustment in respect of prior years	41		22	
		8,828		7,492
Total current tax		13,109		11,097
Deferred tax:				
Origination and reversal of other temporary differences	1,585		1,089	
Adjustment to estimated recoverable amounts of deferred tax assets arising in previous periods	34		(143)	
Total deferred tax		1,619		946
Tax charge on profit on ordinary activities		14,728		12,043
Effective tax rate (based on profit before tax)		32.0%		32.9%
Profit before tax		46,061		36,657
Profit before tax multiplied by standard rate of corporation tax in the UK of 30%		13,818		10,997
Effects of:				
Non deductible expenses		267		577
Unrelieved losses		(45)		(38)
Higher tax rates on overseas earnings		795		558
Adjustments to tax charge in respect of prior periods		(107)		(51)
Total tax charge for period		14,728		12,043

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

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

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

**10. Property, plant and equipment**

	Land and buildings 2006	Plant and equipment 2006	Total 2006	Land and buildings 2005	Plant and equipment 2005	Total 2005
<b>Cost</b>						
At 1 January	15,495	20,367	35,862	11,098	18,780	29,878
Exchange differences	(507)	(745)	(1,252)	269	430	699
Additions	15	2,501	2,516	55	1,462	1,517
Disposals	—	(800)	(800)	(44)	(461)	(505)
Acquisition through business combinations	—	101	101	4,117	156	4,273
<b>At 31 December</b>	<b>15,003</b>	<b>21,424</b>	<b>36,427</b>	15,495	20,367	35,862
<b>Depreciation</b>						
At 1 January	3,803	14,845	18,648	3,364	12,637	16,001
Exchange differences	(95)	(577)	(672)	46	318	364
Charge for year	444	2,110	2,554	416	2,255	2,671
Disposals	—	(719)	(719)	(23)	(365)	(388)
<b>At 31 December</b>	<b>4,152</b>	<b>15,659</b>	<b>19,811</b>	3,803	14,845	18,648
<b>Net book value at 31 December</b>	<b>10,851</b>	<b>5,765</b>	<b>16,616</b>	11,692	5,522	17,214
Net book value at 31 December 2004				7,734	6,143	13,877

The net book value of the Group's plant and machinery includes £198,000 (2005: £166,000) in respect of assets held under finance leases.

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

	2006	2005
Land	1,441	1,826
Buildings	9,410	9,866
<b>Net book value at 31 December</b>	<b>10,851</b>	11,692

It is the Group's policy to test assets for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable.

# Notes to the Group Financial Statements

for the year ended 31 December 2006  
(continued)

## 11. Intangible assets

	Goodwill	Development costs	Acquired intangibles	Total	Goodwill	Development costs	Acquired intangibles	Total
	2006	2006	2006	2006	2005	2005	2005	2005
<b>Cost</b>								
Balance at 1 January	21,016	2,003	506	23,525	19,118	1,712	349	21,179
Exchange differences	(740)	—	(27)	(767)	226	—	6	232
Internally developed during the year	—	372	—	372	—	291	—	291
Acquisition through business combinations	671	—	258	929	1,672	—	151	1,823
<b>Balance at 31 December</b>	<b>20,947</b>	<b>2,375</b>	<b>737</b>	<b>24,059</b>	21,016	2,003	506	23,525
<b>Amortisation and impairment losses</b>								
Balance at 1 January		1,233	254	1,487		940	70	1,010
Exchange differences		—	(10)	(10)		—	5	5
Amortisation for the year		259	98	357		293	179	472
<b>Balance at 31 December</b>		<b>1,492</b>	<b>342</b>	<b>1,834</b>		1,233	254	1,487
<b>Carrying amount at 31 December</b>	<b>20,947</b>	<b>883</b>	<b>395</b>	<b>22,225</b>	21,016	770	252	22,038
Carrying amount at 31 December 2004					19,118	772	279	20,169

The amortisation charge in both years is recognised within administrative expenses in the income statement. Acquired intangibles include customer relationships, order books, agency agreements and trading names of acquired companies.

### Impairment tests for cash-generating units containing goodwill

Recoverable amounts of cash-generating units by division

	2006	2005
Electric	5,717	6,420
Fluid system	8,102	8,275
Gears	7,128	6,321
	<b>20,947</b>	21,016

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 10%, 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 2006	Liabilities 2006	Net 2006	Assets 2005	Liabilities 2005	Net 2005
Property, plant and equipment	206	(472)	(266)	200	(340)	(140)
Intangible assets	—	(265)	(265)	—	(231)	(231)
Employee benefits	4,200	—	4,200	8,032	—	8,032
Provisions	1,103	—	1,103	682	(14)	668
Other items	492	(750)	(258)	394	(772)	(378)
Net tax assets / (liabilities)	6,001	(1,487)	4,514	9,308	(1,357)	7,951
Set off of tax	(262)	262	—	(193)	193	—
	<b>5,739</b>	<b>(1,225)</b>	<b>4,514</b>	9,115	(1,164)	7,951

Movements in the net deferred tax asset during the period are as follows:

	<b>2006</b>
Balance at 31 December 2005	<b>7,951</b>
Charged to income statement	<b>(1,619)</b>
Charged to equity in the statement of recognised income and expense	<b>(2,023)</b>
Charged to equity in respect of share based payments	<b>285</b>
Exchange differences	<b>(80)</b>
Balance at 31 December 2006	<b>4,514</b>

A deferred tax asset of £5,739,000 (2005: £9,115,000) has been recognised at 31 December 2006. 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:

	2006	2005
Tax losses	2,915	2,389
Tax credits	326	326
	<b>3,241</b>	2,715

A deferred tax asset of £3,241,000 (2005: £2,715,000) 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.

# Notes to the Group Financial Statements

for the year ended 31 December 2006  
(continued)

## 13. Inventories

	2006	2005
Raw materials and consumables	16,815	16,592
Work in progress	8,366	6,856
Finished goods	3,846	3,249
	<b>29,027</b>	26,697

Included in cost of sales was £84,713,000 (2005: £69,484,000) in respect of inventories consumed in the period.

## 14. Trade and other receivables

	2006	2005
<b>Non-current assets:</b>		
Insurance policy	632	532
Other	103	101
Other receivables	<b>735</b>	633
<b>Current assets:</b>		
Trade receivables	37,933	37,445
Less provision for impairment of receivables	(548)	(953)
Trade receivables - net	<b>37,385</b>	36,492
Corporation tax	1,219	2,225
Current tax	1,219	2,225
Other non trade receivables	2,738	1,382
Prepayments and accrued income	1,366	1,178
Other receivables	<b>4,104</b>	2,560

## 15. Cash and cash equivalents

	2006	2005
Bank balances	7,986	8,846
Cash in hand	39	43
Short-term deposits	20,435	18,989
Cash and cash equivalents	<b>28,460</b>	27,878
Bank overdrafts	(62)	(698)
Cash and cash equivalents in the statement of cash flows	<b>28,398</b>	27,180

**16. Capital and reserves**

	Issued equity capital	Share premium	Translation reserve	Capital redemption reserve	Hedging reserve	Retained earnings	Total
Balance at 1 January 2005	4,300	4,993	(1,212)	1,637	277	58,489	68,484
Profit for the financial year	—	—	—	—	—	24,614	24,614
Other items in the statement of recognised income and expense	—	—	2,190	—	(487)	(900)	803
Equity settled transactions net of tax	—	—	—	—	—	562	562
Share options exercised by employees	10	616	—	—	—	—	626
Own ordinary shares acquired	—	—	—	—	—	(2,236)	(2,236)
Own ordinary shares awarded under share schemes	—	—	—	—	—	1,149	1,149
Dividends to shareholders	—	—	—	—	—	(13,437)	(13,437)
<b>Balance at 31 December 2005</b>	<b>4,310</b>	<b>5,609</b>	<b>978</b>	<b>1,637</b>	<b>(210)</b>	<b>68,241</b>	<b>80,565</b>
Profit for the financial year	—	—	—	—	—	<b>31,333</b>	<b>31,333</b>
Other items in the statement of recognised income and expense	—	—	<b>(3,748)</b>	—	<b>(80)</b>	<b>4,720</b>	<b>892</b>
Equity settled transactions net of tax	—	—	—	—	—	<b>915</b>	<b>915</b>
Share options exercised by employees	<b>4</b>	<b>248</b>	—	—	—	—	<b>252</b>
Own ordinary shares acquired	—	—	—	—	—	<b>(2,047)</b>	<b>(2,047)</b>
Own ordinary shares awarded under share schemes	—	—	—	—	—	<b>1,368</b>	<b>1,368</b>
Purchase of preference shares	—	—	—	<b>2</b>	—	<b>(4)</b>	<b>(2)</b>
Dividends to shareholders	—	—	—	—	—	<b>(24,140)</b>	<b>(24,140)</b>
<b>Balance at 31 December 2006</b>	<b>4,314</b>	<b>5,857</b>	<b>(2,770)</b>	<b>1,639</b>	<b>(290)</b>	<b>80,386</b>	<b>89,136</b>

**Share capital and share premium**

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

# Notes to the Group Financial Statements

for the year ended 31 December 2006  
(continued)

## 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.

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

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

### Dividends

The following dividends were paid in the year:

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

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

### Final proposed dividend

	<b>2006</b>	2005
11.65p per qualifying ordinary share	<b>10,019</b>	
9.9p per qualifying ordinary share		8,521

### Additional interim dividends proposed for 2007

9.3p per qualifying ordinary share	<b>8,000</b>	
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There were 200,973 (2005: 314,926) outstanding options under The Rotork Employee Share Option Schemes at 31 December, exercisable at various prices between 278p and 387p per ordinary share between 2007 and 2014.

Within the retained earnings reserve are own shares held. The investment in own shares represents 283,045 (2005: 240,460) ordinary shares of the Company held in trust for the benefit of directors and employees for future payments under the Share Incentive Plan and Long-term incentive plan. The dividends on these shares have been waived.

### Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

### Capital redemption reserve

The capital redemption reserve arises when the Company redeems shares wholly out of distributable profits.

### Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments that are determined to be an effective hedge.

## 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 (2005: 86.1 million shares) being the weighted average number of ordinary shares in issue for the year.

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

### Diluted earnings per share

Diluted earnings per share is based on the profit for the year attributable to the ordinary shareholders and 86.9 million shares (2005: 86.8 million shares). The number of shares is equal to the weighted average number of ordinary shares in issue adjusted to assume conversion of all dilutive potential ordinary shares. The Company has three categories of dilutive potential ordinary shares: those share options granted to employees under the share option scheme and Sharesave plan 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.

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

# Notes to the Group Financial Statements

for the year ended 31 December 2006  
(continued)

## 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.

<b>Non-current liabilities</b>	<b>2006</b>	2005
Preference shares classified as debt	45	47
Bank loans	54	107
Finance lease liabilities	81	82
	<b>180</b>	236

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

<b>Current liabilities</b>	<b>2006</b>	2005
Bank overdraft	62	698
Bank loans	447	932
Finance lease liabilities	79	84
	<b>526</b>	1,016

### Finance lease liabilities

Finance lease liabilities are payable as follows:

	<b>Minimum lease payments 2006</b>	<b>Interest 2006</b>	<b>Principal 2006</b>	Minimum lease payments 2005	Interest 2005	Principal 2005
Less than one year	87	8	79	93	9	84
Between one and five years	86	5	81	88	6	82
	<b>173</b>	<b>13</b>	<b>160</b>	181	15	166

**19. Employee benefits**

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

**Defined benefit pension liabilities**

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

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

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

**Movements in fair value of plan assets**

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

# Notes to the Group Financial Statements

for the year ended 31 December 2006  
(continued)

## 19. Employee benefits (continued)

### Expense recognised in the income statement

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

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

	2006	2005
Cost of sales	663	351
Administrative expenses	1,454	1,027
Net financing (income) / expense	(209)	278
	<b>1,908</b>	1,656

Actuarial (losses) / gains on plan assets	(199)	6,693
Actuarial gains / (losses) from liabilities	6,729	(9,930)
Currency gains / (losses)	213	(215)

Net actuarial gains / (losses) recognised in Consolidated Statement of Recognised Income and Expense **6,743** (3,452)

Cumulative actuarial losses recognised in Consolidated Statement of Recognised Income and Expense **(2,501)** (9,244)

	2006	2005	2004	2003	2002
Defined benefit obligation	(87,394)	(89,501)	(74,486)	(64,203)	(54,400)
Scheme assets	80,745	69,125	54,650	44,700	37,800
Deficit	<b>(6,649)</b>	(20,376)	(19,836)	(19,503)	(16,600)
Experience adjustments on liabilities	6,729	(9,930)	(6,783)	(6,750)	(1,100)
Experience adjustments on assets	(199)	6,693	884	3,700	(10,300)
Experience adjustments on currency	213	(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)		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Discount rate	<b>5.10</b>	4.70	5.30	<b>5.72</b>	5.40	5.66	<b>5.13</b>	4.74	5.32
Rate of increase in salaries	<b>4.0</b>	4.0	3.9	<b>4.5</b>	4.5	4.5	<b>4.02</b>	4.03	3.93
Rate of increase in pensions (post May 2000)	<b>3.0</b>	3.0	2.9	<b>0.0</b>	0.0	0.0	<b>2.85</b>	2.85	2.78
Rate of increase in pensions (pre May 2000)	<b>4.5</b>	4.5	4.5	<b>0.0</b>	0.0	0.0	<b>4.28</b>	4.27	4.31
Rate of price inflation	<b>3.0</b>	3.0	2.9	<b>3.5</b>	3.5	3.5	<b>3.02</b>	3.03	2.93

The expected rates of return were:

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

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

**Total** **80,745** 69,125

Actual return on the scheme's assets **3,935** 10,740

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

**Defined contribution pension liabilities**

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

# Notes to the Group Financial Statements

for the year ended 31 December 2006  
(continued)

## 19. Employee benefits (continued)

### 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 278p 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, four 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.

Option (exercise price) * exercisable at end of year	Outstanding at start of year	Exercised during year	Lapsed during year	Outstanding at end of year
1999 grant (£3.62)*	7,021	(1,106)	(4,262)	1,653
2000 grant (£2.85)*	62,574	(19,591)	(2,533)	40,450
2001 grant (£2.98)*	5,985	(2,186)	-	3,799
2002 grant (£3.72)*	5,783	-	(1,836)	3,947
2003 grant (£2.78)*	78,045	(65,378)	(6,934)	5,733
2004 grant (£3.87)	155,518	-	(10,127)	145,391
	314,926	(88,261)	(25,692)	200,973
Weighted average exercise price	£3.37	£2.81	£3.42	£3.61
Weighted average contractual life remaining				6 years

The 2003 grant vested during the year. The intrinsic value of shares vested as at 31 December 2006 is £163,000 (2005: £301,000).

The Group received proceeds of £247,000 in respect of the 88,261 options exercised during the year: £4,000 was credited to share capital and £243,000 to share premium (see note 16). The options were exercised throughout the year at prices between 278p and 362p.

**19. Employee benefits (continued)****b) 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. All the offers to date 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. None of the current plans is exercisable at the year end.

Grant date	3 year scheme		5 year scheme	
	6 October 2006	5 October 2005	6 October 2006	5 October 2005
Share price at grant date	£7.72	£5.72	£7.72	£5.72
Exercise price	£5.92	£4.62	£5.92	£4.62
Shares / Share equivalents under scheme	21,402	19,113	36,623	27,440
Vesting period	3 years	3 years	5 years	5 years
Expected volatility	19%	22%	17%	22%
Risk free rate	4.8%	4.2%	4.7%	4.2%
Expected dividends expressed as a dividend yield	2.1%	2.7%	2.1%	2.7%
Probability of ceasing employment before vesting	20%	20%	20%	20%
Fair value	£2.27	£1.49	£2.44	£1.64

3 year scheme	Outstanding at start of year	Granted during year	Vested during year	Lapsed during year	Outstanding at end of year
2004 Award	63,099	—	(1,465)	(6,537)	55,097
2005 Award	19,113	—	—	(1,617)	17,496
2006 Award	—	21,402	—	—	21,402
	82,212	21,402	(1,465)	(8,154)	93,995

The 2004 awards vested in the year at a cost of £3.20 each and on that day the market value of each award was £7.99. The weighted average remaining life of awards outstanding at the year end is 1 year. The Group received proceeds of £5,000 in respect of the 1,465 options exercised during the year: £73 was credited to share capital and the balance to share premium (see note 16).

5 year scheme	Outstanding at start of year	Granted during year	Vested during year	Lapsed during year	Outstanding at end of year
2004 Award	97,574	—	—	(4,136)	93,438
2005 Award	27,440	—	—	(1,044)	26,396
2006 Award	—	36,623	—	—	36,623
	125,014	36,623	—	(5,180)	156,457

No awards vested in the year. The weighted average remaining life of awards outstanding at the year end is 3 years.

# Notes to the Group Financial Statements

for the year ended 31 December 2006  
(continued)

## 19. Employee benefits (continued)

### c) 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 for awards made up to and including 2005 and the Company's relative TSR against a comparator group of companies places it in at least the 50<sup>th</sup> percentile position in the comparator group at the end of the relevant performance period. The performance period for 2006 and future awards under the plan has been reduced to three years. 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. For the awards made up to and including 2005 this will be 40% at the 50<sup>th</sup> percentile rising to 100% at the 75<sup>th</sup> percentile with each percentile position above the 50<sup>th</sup> adding 2.4% to the vesting percentage. From the 2006 award onwards, the actual number of shares or cash units transferred will be 30% at the 50<sup>th</sup> percentile rising to 100% at the 75<sup>th</sup> percentile with each percentile position above the 50<sup>th</sup> adding 2.8% 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 2006.

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 73.6% 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 64<sup>th</sup> percentile position and the Company's earnings per share growth has exceeded the minimum average annual growth in the Retail Price Index plus 2% per annum. The awards vested during 2006.

The performance period for the 2003 award ended at 31 December 2006. 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 75<sup>th</sup> percentile and the Company's earnings per share growth has exceeded the minimum average annual growth in the Retail Price Index plus 2% per annum. The awards will vest during 2007.

Grant date	Share scheme		Cash scheme	
	4 May 2006	4 March 2005	4 May 2006	4 March 2005
Share price at grant date	£7.40	£4.45	£7.40	£4.45
Shares / Share equivalents under scheme	122,998	183,861	83,139	128,846
Vesting period	3 years	4 years	3 years	4 years
Expected volatility	23%	22%	23%	23%
Risk free rate	4.7%	4.7%	5.1%	5.1%
Expected dividends expressed as a dividend yield	3.7%	3.4%	3.4%	3.4%
Probability of ceasing employment before vesting	3% p.a.	3% p.a.	3% p.a.	3% p.a.
Fair value	£4.07	£2.41	£5.11	£6.27

**19. Employee benefits** (continued)

<b>Share based scheme</b>	Outstanding at start of year	Granted during year	Vested during year	Forfeited during year	Outstanding at end of year
2002 Award	80,999	—	(59,611)	(21,388)	—
2003 Award	119,413	—	(8,936)	(1,787)	108,690
2004 Award	181,630	—	(9,074)	(6,481)	166,075
2005 Award	183,861	—	(4,771)	(9,543)	169,547
2006 Award	—	122,998	—	—	122,998
	565,903	122,998	(82,392)	(39,199)	567,310

<b>Cash based scheme</b>	Outstanding at start of year	Granted during year	Vested during year	Forfeited during year	Outstanding at end of year
2002 Award	54,313	—	(39,968)	(14,345)	—
2003 Award	91,244	—	—	—	91,244
2004 Award	123,091	—	—	—	123,091
2005 Award	128,846	—	—	—	128,846
2006 Award	—	83,139	—	—	83,139
	397,494	83,139	(39,968)	(14,345)	426,320

At the date of vesting the 2002 awards were valued at £7.30. The weighted average remaining life of awards outstanding at the year end is 2 years.

**d) Employee expenses**

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

	<b>2006</b>	2005
Share options granted 2003	<b>10</b>	13
Share options granted 2004	<b>41</b>	41
Long-term incentive plan – cash settled	<b>1,096</b>	811
Long-term incentive plan – equity settled	<b>332</b>	482
Sharesave plan – 3 year	<b>28</b>	20
Sharesave plan – 5 year	<b>28</b>	20
Total expense recognised as employee costs (note 6)	<b>1,535</b>	1,387

## Notes to the Group Financial Statements

for the year ended 31 December 2006  
(continued)

### 20. Provisions

	Warranty 2006	Deferred Consideration 2006	Total 2006
Balance at 1 January	1,963	446	2,409
Exchange differences	(103)	(8)	(111)
Provisions used during the year	(937)	—	(937)
Charged in the year	1,899	—	1,899
<b>Balance at 31 December</b>	<b>2,822</b>	<b>438</b>	<b>3,260</b>
Non-current	941	—	941
Current	1,881	438	2,319
	<b>2,822</b>	<b>438</b>	<b>3,260</b>

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 was provisionally determined during 2006 but final settlement is still subject to negotiation.

### 21. Trade and other Payables

	<b>2006</b>	2005
Trade creditors	<b>16,467</b>	14,763
Bills of exchange	<b>368</b>	174
<b>Trade payables</b>	<b>16,835</b>	14,937
Corporation tax	<b>6,236</b>	5,620
Current tax	<b>6,236</b>	5,620
Other taxes and social security	<b>2,410</b>	2,303
Non trade payables and accrued expenses	<b>13,513</b>	10,826
<b>Other payables</b>	<b>15,923</b>	13,129

## 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 2006	Floating rate of interest 2006	Fixed rate of interest 2005	Floating rate of interest 2005
US dollar	—	—	—	—	31
Euro	2.6% - 3.1%	160	350	166	1,388
Yen	1.9% - 2.5%	129	4	148	35
Other	9.5% - 11.0%	125	—	47	135
		<b>414</b>	<b>354</b>	361	1,589

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 3.2% 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:

	2006	2005
In one year or less	589	1,717
In more than one year but not more than two years	68	101
In more than two years but not more than five years	66	85
In more than five years	45	47
Total	<b>768</b>	1,950

The Group had no undrawn committed borrowing facilities at 31 December 2006.

# Notes to the Group Financial Statements

for the year ended 31 December 2006  
(continued)

## 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 2006	Other cash 2006	Fixed rate cash 2005	Other cash 2005
Sterling	3.9% – 5.1%	17,567	984	—	15,121
US dollar	1.9% – 5.2%	1,838	2,005	2,071	2,696
Euro	1.4%	800	2,928	2,016	3,080
Other	0.01% – 6.3%	230	2,108	189	2,705
		<b>20,435</b>	<b>8,025</b>	4,276	23,602

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:

	2006 Fixed rate		2005 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	5.1	0	4.6	1
US dollar	3.9	0	4.1	0
Euro	1.4	0	2.2	0
Group	4.8	0	4.4	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 net fair value of forward exchange contracts used as hedges at 31 December 2006 was a £290,000 asset (2005: £241,000 liability) comprising a £291,000 asset (2005: £43,000) and a £1,000 liability (2005: £284,000).

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.

All forward exchange contracts in place at 31 December 2006 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.



**22. Financial instruments** (continued)**Sensitivity analysis**

It is estimated that a general change of one cent in the value of the US dollar against sterling would have a £150k impact on Group profits and a one euro cent movement against sterling would have had a £200k impact on the Group's profit before tax for the year ended 31 December 2006. The impact of forward exchange contracts have been included in this calculation.

At 31 December these exposures were as follows:

Net foreign currency monetary assets / (liabilities)

	2006 Functional currency of Group operation				Total
	Sterling	US dollar	Euro	Other	
Sterling	—	(912)	(2,243)	(2,805)	(5,960)
US dollar	992	—	(1,117)	1,603	1,478
Euro	1,118	(162)	—	(356)	600
Other	—	—	(2)	(20)	(22)
<b>Total</b>	<b>2,110</b>	<b>(1,074)</b>	<b>(3,362)</b>	<b>(1,578)</b>	<b>(3,904)</b>

	2005 Functional currency of Group operation				Total
	Sterling	US dollar	Euro	Other	
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
<b>Total</b>	<b>2,493</b>	<b>(4,737)</b>	<b>(2,199)</b>	<b>627</b>	<b>(3,816)</b>

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

**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.

# Notes to the Group Financial Statements

for the year ended 31 December 2006  
(continued)

## 22. Financial instruments (continued)

### Fair values

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

	Carrying Amount 2006	Fair Value 2006	Carrying Amount 2005	Fair Value 2005
Trade and other receivables	42,708	42,708	41,277	41,277
Cash and cash equivalents	28,460	28,460	27,878	27,878
Currency swap deposit *	3,638	3,638	5,298	5,298
Forward exchange contracts				
Assets	291	291	43	43
Liabilities	(1)	(1)	(252)	(252)
Currency swap loan *	(3,638)	(3,638)	(5,298)	(5,298)
Secured loans	(501)	(501)	(1,039)	(1,039)
Preference shares	(45)	(45)	(47)	(47)
Finance lease liabilities	(160)	(160)	(166)	(166)
Trade and other payable	(38,994)	(38,994)	(34,601)	(34,601)
Bank overdrafts	(62)	(62)	(698)	(698)
	<b>31,696</b>	<b>31,696</b>	32,395	32,395

\* 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:

	<b>2006</b>	2005
Less than one year	<b>316</b>	409
Between one and five years	<b>2,075</b>	1,213
More than five years	<b>136</b>	215
	<b>2,527</b>	1,837

Of the £2.5m (2005: £1.8m), £1.7m (2005: £1.0m) relates to property and the balance to plant and equipment. The largest single lease commitment is for less than £0.5m (2005: £0.5m).

**24. Capital commitments**

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

	<b>2006</b>	2005
Contracted	<b>542</b>	1,466

**25. Contingencies**

	<b>2006</b>	2005
Performance guarantees and indemnities	<b>3,580</b>	3,955

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

# Notes to the Group Financial Statements

for the year ended 31 December 2006  
(continued)

## 26. Related parties

The Group has a related party relationship with its subsidiaries and with its directors and key management. A list of subsidiaries is shown on pages 83 to 85 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.

Sales to Fleet Support Limited, a joint venture company of BAE Systems plc and a related party by virtue of non executive director IG King's directorship of that company, totalled £15,000 during the year and there are no amounts still outstanding at 31 December 2006.

### 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:

	2006	2005
Emoluments including social security costs	2,068	1,987
Post employment benefits	214	219
Share based payments	610	569
	<b>2,892</b>	<b>2,775</b>

# Rotork p.l.c.

## Company Balance Sheet

at 31 December 2006

	Notes	2006 £'000	2005 restated (see note 38) £'000
<b>Fixed assets</b>			
Tangible assets	29	1,231	1,259
Investments	30	1,835	1,484
		<b>3,066</b>	2,743
<b>Current assets</b>			
Debtors due within one year	31	37,695	41,219
Cash at bank and in hand	32	16,548	13,970
		<b>54,243</b>	55,189
<b>Creditors:</b>			
Amounts falling due within one year	33	(5,056)	(2,502)
<b>Net current assets</b>		<b>49,187</b>	52,687
<b>Total assets less current liabilities</b>		<b>52,253</b>	55,430
<b>Creditors:</b>			
Amounts falling due after more than one year	34	(45)	(47)
<b>Net assets</b>		<b>52,208</b>	55,383
<b>Capital and reserves</b>			
Called up share capital	35	4,314	4,310
Share premium account	35	5,857	5,609
Translation reserve	35	(2)	-
Capital redemption reserve	35	1,639	1,637
Profit and loss account	35	40,400	43,827
<b>Rotork shareholders' funds</b>		<b>52,208</b>	55,383

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

# Notes to the Company Financial Statements

for the year ended 31 December 2006

## 27. 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. Notes 28 to 37 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.

### 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.

The UK subsidiaries of the Company have adopted FRS 20 Share based payments, during the year. The Company adopted FRS 20 during 2005. The impact of this on the carrying value of investments in subsidiaries and opening reserves of the Company is explained in note 37.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee. The Company continues to account for intra-group cross guarantees under FRS 12.

### 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.

### Investments

Investments are measured at cost less any provision for impairment and adjusted where equity settled share based payment are made to the subsidiary company's employees. They comprise investments in subsidiary companies.

### 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.

### Classification of preference shares

Following the adoption of FRS 25, Financial instruments, the cumulative redeemable preference shares issued by the Company have been classified as long term debt. The preference dividends have been presented within interest payable.

### Share based payments

The Company has adopted FRS 20 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.

**28. Personnel expenses in the Company income statement**

	2006	2005
Wages and salaries (including bonus and incentive plans)	719	644
Social security costs	60	63
Pension costs	434	200
Share based payments	127	184
	<b>1,340</b>	1,091

There are 4 (2005: 4) employees of Rotork p.l.c. plus the 5 (2005: 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 three executive directors are reported within the subsidiary where they are based as this approximates the basis on which their time is split.

**29. Tangible assets in the Company balance sheet**

	Land and buildings	Plant and equipment	Total
<b>Cost</b>			
At 1 January 2006 and 31 December 2006	1,468	13	1,481
<b>Depreciation</b>			
At 1 January 2006	209	13	222
Charge for year	28	—	28
At 31 December 2006	237	13	250
<b>Net book value</b>			
at 31 December 2006	1,231	—	1,231
Net book value at 31 December 2005	1,259	—	1,259
		2006	2005
Net book value of land and buildings can be analysed between:			
Freehold land		60	60
Freehold buildings		1,171	1,199
Net book value at 31 December		<b>1,231</b>	1,259

# Notes to the Company financial statements

for the year ended 31 December 2006  
(continued)

## 30. Investments in the Company balance sheet

Shares in Group companies

At 1 January 2006	1,057
Prior year adjustment (see note 38)	427
	1,484
Additions arising from share schemes	351
	1,835
At 31 December 2006	1,835

A listing of the major investments is included in the directory on pages 83 to 85.

## 31. Debtors due within one year in the Company balance sheet

	2006	2005 restated
Amounts owed by Group undertakings	36,882	40,365
Other debtors	367	20
Prepayments and accrued income	29	26
Corporation tax	381	724
Deferred taxation	36	84
	37,695	41,219

A deferred tax asset of £36,000 (2005: £84,000) 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.

The amounts owed by Group undertakings is reported net of £277,000 in respect of a provision against the carrying value of an investment in a dormant subsidiary. This was previously shown separately under provisions.

## 32. Cash at bank and in hand in the Company balance sheet

	2006	2005
Bank balances	36	40
Short-term deposits	16,512	13,930
	16,548	13,970
Cash at bank and in hand	16,548	13,970



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

	<b>2006</b>	2005 restated
Bank loans and overdrafts	<b>2,849</b>	145
Trade creditors	<b>79</b>	69
Amounts owed to Group undertakings	<b>1,053</b>	1,055
Corporation tax	<b>—</b>	2
Other taxes and social security	<b>11</b>	18
Other creditors	<b>868</b>	1,116
Accruals and deferred income	<b>196</b>	97
	<b>5,056</b>	2,502

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

	<b>2006</b>	2005
Preference shares classified as debt	<b>45</b>	47
	<b>45</b>	47

This debt is not redeemable at any fixed future date.

## Notes to the Company financial statements

for the year ended 31 December 2006  
(continued)

### 35. Capital and reserves in the Company balance sheet

	Share capital	Share premium	Translation reserve	Capital redemption reserve	Retained earnings	Total
Balance at 1 January 2006	4,310	5,609	—	1,637	42,652	54,208
Prior year adjustment (see note 38)	—	—	—	—	1,175	1,175
	4,310	5,609	—	1,637	43,827	55,383
Profit for the year	—	—	—	—	21,032	21,032
Other items in the statement of total recognised gains and losses	—	—	(2)	—	—	(2)
Equity settled transactions net of tax	—	—	—	—	496	496
Share options exercised by employees	4	248	—	—	—	252
Own ordinary shares acquired	—	—	—	—	(2,047)	(2,047)
Own ordinary shares awarded under share schemes	—	—	—	—	1,236	1,236
Purchase of preference shares	—	—	—	2	(4)	(2)
Dividends to shareholders	—	—	—	—	(24,140)	(24,140)
<b>Balance at 31 December 2006</b>	<b>4,314</b>	<b>5,857</b>	<b>(2)</b>	<b>1,639</b>	<b>40,400</b>	<b>52,208</b>

Details of the number of ordinary shares authorised and in issue and dividends paid in the year 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 £21,032,000 (2005: £24,157,000).

### 36. Contingencies in the Company

	2006	2005
Guarantees for bank overdrafts of UK subsidiary undertakings	—	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.

**37. Prior year adjustment**

The Company's accounting policies for share based payments were changed during the year in order to implement FRS 20 Share based payments. The comparative figures in the Company primary statements and notes have been restated to reflect the new policies. The effects of the changes are as follows:

	2006	2005
<b>Income statement</b>		
Administrative expenses		
- exclude charge for overseas LTIP scheme	800	514
- add FRS 20 charge for PLC employees	(145)	(69)
Income tax	(240)	(320)
Increase in profit for the year	415	125
<b>Balance sheet</b>		
Investments	778	427
Deferred tax	(560)	(320)
Creditors – other creditors	1,868	1,068
Increase in net assets	2,086	1,175
<b>Reserves</b>		
Profit and loss account	2,086	1,175

## Ten Year Trading History

	2006 £'000 IFRS	2005 £'000 IFRS	2004 £'000 IFRS	2004 £'000 UK GAAP	2003 £'000 UK GAAP
Continuing operations	206,709	174,839	146,883	146,883	135,964
Discontinued operations	-	-	-	-	-
Revenue	206,709	174,839	146,883	146,883	135,964
Cost of sales	(115,603)	(95,358)	(79,097)	(79,030)	(72,046)
Gross profit	91,106	79,481	67,786	67,853	63,918
Overheads	(46,017)	(42,951)	(37,354)	(37,996)	(36,808)
Operating profit	45,089	36,530	30,432	29,857	27,110
Continuing operations	45,089	36,530	30,432	31,150	28,415
Discontinued operations	-	-	-	-	-
Operating profit before amortisation of goodwill	45,089	36,530	30,432	31,150	28,415
Amortisation of goodwill	-	-	-	(1,293)	(1,305)
Operating profit	45,089	36,530	30,432	29,857	27,110
Exceptional items	-	-	-	-	597
Net interest receivable	972	127	1,074	634	461
Profit before taxation	46,061	36,657	31,506	30,491	28,168
Taxation	(14,728)	(12,043)	(10,508)	(10,591)	(9,469)
Profit for the financial year	31,333	24,614	20,998	19,900	18,699
Dividends	(24,140)	(13,437)	(17,751)	(17,955)	(12,592)
Basic earnings per share	36.4p	28.6p	24.5p	23.2p	21.8p
Basic earnings per share before goodwill amortisation	-	-	-	24.7p	23.3p
Diluted earnings per share	36.1p	28.4p	24.3p	23.0p	21.7p

The above ten year history has not been restated to apply IFRSs 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. Dividends shown in the IFRS columns are on a paid basis but in the UK GAAP columns are on an accrued basis.

	2002 £'000 UK GAAP	2001 £'000 UK GAAP	2000 £'000 UK GAAP	1999 £'000 UK GAAP	1998 £'000 UK GAAP	1997 £'000 UK GAAP
Continuing operations	129,677	119,322	103,945	112,937	98,103	87,766
Discontinued operations	3,783	4,367	3,935	4,598	3,337	5,083
Revenue	133,460	123,689	107,880	117,535	101,440	92,849
Cost of sales	(71,875)	(65,877)	(59,021)	(63,626)	(54,311)	(50,043)
Gross profit	61,585	57,812	48,859	53,909	47,129	42,806
Overheads	(35,863)	(33,532)	(29,108)	(27,949)	(23,567)	(22,607)
Operating profit	25,722	24,280	19,751	25,960	23,562	20,199
Continuing operations	26,553	24,733	20,478	26,358	23,822	20,811
Discontinued operations	474	574	309	497	59	(427)
Operating profit before amortisation of goodwill	27,027	25,307	20,787	26,855	23,881	20,384
Amortisation of goodwill	(1,305)	(1,027)	(1,036)	(895)	(319)	(185)
Operating profit	25,722	24,280	19,751	25,960	23,562	20,199
Exceptional items	-	-	-	-	-	-
Net interest receivable	440	563	831	987	1,845	1,935
Profit before taxation	26,162	24,843	20,582	26,947	25,407	22,134
Taxation	(8,868)	(8,539)	(7,110)	(9,477)	(9,063)	(8,111)
Profit for the financial year	17,294	16,304	13,472	17,470	16,344	14,023
Dividends	(11,959)	(11,147)	(10,504)	(10,546)	(9,456)	(8,213)
Basic earnings per share	20.1p	18.9p	15.6p	20.3p	18.9p	15.9p
Basic earnings per share before goodwill amortisation	21.6p	20.1p	16.8p	21.3p	19.3p	16.1p
Diluted earnings per share	20.0p	18.9p	15.6p	20.3p	18.9p	15.9p

# Corporate Directory

## Company Secretary

Stephen Rhys Jones

## Registered Office

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

## Company Number

578327

## Registrars

Lloyds TSB Registrars  
The Causeway  
Worthing  
West Sussex BN99 6DA

## Stockbrokers

UBS Investment Bank  
1 Finsbury Avenue  
London EC2M 2PP

## Financial Advisers

UBS Investment Bank  
1 Finsbury Avenue  
London EC2M 2PP

## Auditors

KPMG Audit Plc  
100 Temple Street  
Bristol BS1 6AG

## Financial Public Relations

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

## Solicitors

Messrs. Osborne Clarke  
No. 2 Temple Back East  
Temple Quay  
Bristol BS1 6EG

## Notable Dates

### 28 February 2007

Preliminary announcement of annual results for 2006

### 18 April 2007

Ex-dividend date for final proposed 2006 dividend

### 20 April 2007

Annual General Meeting held at Rotork House, Brassmill Lane, Bath

### 20 April 2007

Record date for final proposed 2006 dividend

### 11 May 2007

Payment date for final proposed 2006 dividend

### 30 May 2007

Ex-dividend date for additional interim dividend

### 1 June 2007

Record date for additional interim dividend

### 22 June 2007

Payment date for additional interim dividend

### 31 July 2007

Announcement of interim financial results for 2007

# Directory

## United Kingdom

### Rotork p.l.c., England

Holding company  
 Roger Lockwood  
 Chairman (non-executive)  
 Bill Whiteley  
 Chief Executive  
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