

rotork®

578327

ANNUAL REPORT & ACCOUNTS 2008

FRIDAY



"A99VOAN8"

A20

12/06/2009

378

COMPANIES HOUSE

CONTENTS

07	_FINANCIAL & OPERATIONAL HIGHLIGHTS
08	_GROUP AT A GLANCE
10	_CHAIRMAN'S STATEMENT
12	_CHIEF EXECUTIVE'S Q&A
	BUSINESS REVIEW
14	_INTRODUCTION
17	_ROTORK CONTROLS
18	_ROTORK FLUID SYSTEMS
19	_ROTORK GEARS
20	_FINANCIAL REVIEW
22	_KPIs
24	_RISKS
25	_CORPORATE RESPONSIBILITY
	GOVERNANCE
29	_ROTORK MANAGEMENT BOARD
30	_BOARD OF DIRECTORS
32	_CORPORATE GOVERNANCE
37	_REMUNERATION REPORT
43	_REPORT OF THE DIRECTORS
	FINANCIAL STATEMENTS
45	_INDEPENDENT AUDITORS' REPORT
46	_CONSOLIDATED INCOME STATEMENT
46	_CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
47	_CONSOLIDATED BALANCE SHEET
48	_CONSOLIDATED STATEMENT OF CASH FLOWS
49	_NOTES TO THE GROUP FINANCIAL STATEMENTS
77	_COMPANY BALANCE SHEET
78	_NOTES TO THE COMPANY FINANCIAL STATEMENTS
82	_TEN YEAR TRADING HISTORY
83	_SHAREHOLDER INFORMATION
84	_DIRECTORY

SO...WHAT DOES ALL THIS HAVE TO DO WITH THE VALUE OF OUR COMPANY?

THE DEDICATION AND COMMITMENT OF OUR EMPLOYEES WORLDWIDE HAS ENABLED ROTORK TO EXPERIENCE ANOTHER RECORD BREAKING YEAR.

FINANCIAL HIGHLIGHTS

	2008	2007	% CHANGE
REVENUE	£320.2M	£235.7M	↗35.9%
OPERATING PROFIT	£74.9M	£55.4M	↗35.2%
PROFIT BEFORE TAX	£75.8M	£57.3M	↗32.3%
ADJUSTED* PROFIT BEFORE TAX	£76.9M	£57.3M	↗34.1%
BASIC EARNINGS PER SHARE	62.0P	45.6P	↗36.0%
FINAL DIVIDEND	16.75P	14.0P	↗19.6%

*ADJUSTED FIGURES ADD BACK THE AMORTISATION OF ACQUIRED INTANGIBLE ASSETS

OPERATIONAL HIGHLIGHTS

CONTINUED STRONG PERFORMANCE ACROSS ALL THREE DIVISIONS

RECORD ORDER BOOK

SUCCESSFUL INTEGRATION OF REMOTE CONTROL ACQUISITION

DIVISIONAL MANAGEMENT AND STRUCTURE STRENGTHENED

NEW CONTROL VALVE ACTUATOR LAUNCHED DURING 2008

GROUP AT A GLANCE

NORTH AMERICA AND CANADA

We have two assembly plants in the US and eight distribution and marketing locations in this large, complex and sophisticated market. Our business here supports the Group's three main sectors of water, oil & gas, and power.

SOUTH AMERICA

Each of the three divisional businesses is active in this region, supported by direct presences in both Venezuela and Brazil and by our production facilities in the US. In addition, our strong network of agents across South America gives us total coverage of this area of major potential for infrastructure growth.

GROUP AT A GLANCE

EUROPE

Rotork has a well established presence in Europe with eight assembly locations across the region, supported by six direct customer support centres. Europe continues to have a strong valvemaking base with a powerful engineering and production heritage that is integral to the major infrastructure development projects that are active across the world.

AFRICA

This is a diverse market with some significant project development programmes. Investment in the power industry as well as in oil & gas is supported through our direct presence, local agents and distributors as well as regionally from our European production units.

AUSTRALASIA

Rotork has traditionally been strong throughout Asia and now counts mainland China as the biggest market for Rotork electric valve actuators. We are making progress in bringing these and the Rotork Gears products into the wider and more price competitive areas of infrastructure development in this important market. India has long been core to Rotork's strategy, with two production plants and a further three sales offices.

Australia is supported by three customer support centres, one dedicated to the Fluid Systems products, and one to Rotork Controls products. Australia has a well developed hydrocarbons market, a strong power industry and complex water and irrigation systems across its landmass.

CHAIRMAN'S STATEMENT

I am pleased to report another year of strong growth for the Group during a period of significant volatility in markets generally. Although the progressive strengthening of the US dollar and euro throughout the year has aided performance, nonetheless both revenues and profits advanced substantially in real terms across the Group. The year closed with a record order book and measured optimism across all divisional businesses.

The appointment of Peter France as Chief Executive saw a review of all our business activities, resulting in changes to our operating structure and to the way we target specific geographical regions to further increase our product and market reach. Whilst important to our continued growth, these changes are not intended to be fundamentally revolutionary and we therefore refer to this approach as accelerated evolution. The benefits of these actions are already beginning to be felt progressively throughout the whole Group.

FINANCIAL HIGHLIGHTS

Total sales increased by 35.9% on 2007 to £320.2m and profit before tax (before amortisation of intangible assets arising on acquisitions) was up 34.1% to £76.9m. At £162.0m the closing order book increased by 66% year on year. Due to the nature of our business and the point in the demand cycle when business is placed with Rotork, it is unusual for orders to be cancelled and we have experienced virtually no instances of this during the year.

ROGER LOCKWOOD, CHAIRMAN

"WE WILL CONTINUE TO INCREASE SHAREHOLDER VALUE BY OUR LEADERSHIP POSITION IN WORLDWIDE VALVE ACTUATOR ACTIVITIES"

CHAIRMAN'S STATEMENT

Notwithstanding its positive influence on the business in 2008, the impact of currency extends beyond the conversion of reported figures in that it increases our competitive edge in markets where previously sterling's strength has been a constraining factor.

DIVISIONAL HIGHLIGHTS

Rotork Controls is the market leader in electric valve actuation and is our largest divisional business accounting for 63.9% of Group turnover. In 2008, sales revenue advanced by 24.5% to £204.5m and operating profit increased by 32.0% to £57.5m. Demand for our products remained strong and with growth spread across all sectors and geographical areas we continue to reinforce our position as market leader.

Rotork Fluid Systems ('RFS') continued its expansion, delivering an impressive 84.8% increase in sales and 68.6% in operating profit to new highs of £88.6m and £12.1m respectively. We have won a number of prestigious projects in the year and are now well established in this market. We have grown our market share substantially over the last few years and have brought innovation and technology to a relatively conservative market and product line.

The acquisition of Remote Control Sweden ('RC') in January was an important step for the division and has been well received by our customers. It provides access to market areas that we can develop with these products as well as with the wider RFS portfolio.

Rotork Gears maintained its consistent growth trend with year on year sales up 15.3% to £36.8m and with an operating profit of £8.6m being 18.8% ahead of 2007. We are the largest manufacturer in our field and the market leader in terms of size and product range.

CASH

Cash generation in the year has been strong, resulting in year end net cash balances increasing to £41.4m. During the year we spent a total of £14.0m on the RC acquisition and the intangible asset relating to the Drallim SVM product. A further £10m was paid as an additional dividend to shareholders in July.

The strong order intake in 2008 has required working capital increases in some areas to support the year end order book and the increase in inventory reflects this. As a result, the conversion of profit into cash has been partially suppressed as the Group prepares for what will be strong shipments in the first quarter of 2009.

DIVIDEND

The Board is recommending an increase of 19.6% for the 2008 final dividend. This equates to a payment of 16.75p per share payable on 8 May to shareholders on the register at 14 April 2009.

BOARD PERFORMANCE

One of my principal responsibilities is to ensure Rotork is headed by an effective Board accountable to shareholders for the Company's performance. To this end the Board continues, annually, to evaluate its performance and that of its Committees through a structured process the results of which are then reviewed and, where appropriate, acted upon.

PERFORMANCE AND RISK

Our approach to performance measurement and the assessment and mitigation of risk is dealt with on page 24 and in the Corporate Responsibility section of this Annual Report. There we explain how we ensure that we have correct health & safety and environmental policies, a robust system for dealing with the assessment and management of risk through the organisation, and appropriate KPIs to ensure focus on those performance issues that are really relevant to the business. We take great care to ensure that we deal with these matters responsibly and our reformatted disclosure is intended to bring increased clarity to the underlying issues.

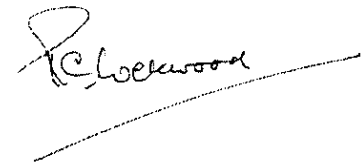
OUTLOOK

Rotork started 2009 with an order book at record levels and a strong balance sheet. We continue to invest in our future and have identified a number of growth opportunities as part of our business development plans.

Rotork is not immune to wider economic trends and we may see some slowing in the growth of order intake. However, quotation activity and project visibility for medium- and long-term projects are up on levels seen one year ago.

In addition, the Group's trading results would be expected to benefit from a continued weakness of sterling against the US dollar and the euro.

Taken together, these factors underpin our confidence in making progress during 2009.



ROGER LOCKWOOD
CHAIRMAN
2 MARCH 2009

**PETER FRANCE, CHIEF EXECUTIVE,
TALKS ABOUT STRATEGY AND GROWTH**

**THE OIL PRICE HAS BEEN VOLATILE DURING THE YEAR;
WHY HAS THIS NOT AFFECTED ROTORK?**

Approximately 50% of our revenue is related to the oil & gas market. Historically this business was concentrated in the downstream sector and particularly in refining and storage. Over recent years we have been expanding our product range across our divisions. New markets have also been developed (such as LNG) and this has led to a lot of different opportunities presenting themselves to us. Add to this the growth in emerging markets and their desire to be self reliant with regard to oil & gas production, and the need for local storage, and you can see increased opportunities presenting themselves to us. Oil companies are continually looking to replenish their depleting reserves and the search for new oil & gas fields will continue. A long-term view is often taken as to the viability of a field and the current oil price is not always a good indicator of the decision making process.

**THERE IS A LOT OF TALK OF CAPITAL PROJECTS BEING REDUCED;
HOW WILL THIS IMPACT ROTORK?**

Whilst there may be a reduction in the amount spent on capital projects, what is clear is that spending will not stop completely. Infrastructure projects will continue to be supported by governments eager to stimulate the economy. Oil companies will continue to look for the next big field! Environmental pressures are still around and production efficiencies sought, so in many areas the volume of spend may not reduce but the particular budget that the spend is allocated to may change. I believe that Rotork is well placed to support our customers on new build projects and on improving their existing facilities.

IS ROTORK'S HISTORIC GROWTH RATE SUSTAINABLE?

Rotork has been involved historically in projects that are classified as infrastructure projects. Power stations or water treatment plants are all big users of actuators. These markets are driven by economic and demographic growth and by the need to replace ageing plant. The world population is still growing and many parts of the developing world as well as the developed world need access to consistent power. The world still needs to find new sources of oil & gas and once found it needs to be treated and transported from the source to the user.

These fundamentals, along with the opportunities that we see to develop new products and enter new markets with our dedicated and committed worldwide employees, provide me with the confidence that we can continue to grow in the long-term.

INPUT COST PRESSURES ARE RISING, WILL MARGINS FALL?

Rotork has an outsourcing production model with most of our manufacturing plants acting as assembly plants of highly finished components sourced from suppliers internationally. This flexible approach allows us to source from the most suitable suppliers anywhere in the world. Whilst we have seen some raw material cost rises in the year and the weakness of the pound affecting the cost of components in some areas, we have been able to mitigate some of the increases by value engineering and sourcing exercises.

IS IT TRUE THAT ROTORK IS A LATE CYCLE BUSINESS?

It really depends what you mean by late cycle. We supply product on many different applications and in many different industries and the time from enquiry to delivery can vary considerably. On some of the larger infrastructure projects we are often involved at a very early stage in the design concept of a plant even before contractors have been asked to bid. The larger infrastructure schemes often have a number of phases with projects within projects and we can supply product for these over a number of years. If you think of an FPSO for instance (floating processing and storage vessel), the hull is often built in one location requiring actuators for ballast control, with the topside processes often added at a later stage in another yard, possibly in another country.

WHAT WOULD YOU SAY DIFFERENTIATES ROTORK FROM OTHER COMPANIES?

I am sure that there are a lot of companies with some of the same attributes that we have in Rotork, but I think Rotork is special for a number of reasons. From the start Rotork has had a number of pillars to support its growth, innovation, global presence (service), quality of product and people, and flexible production techniques. In recent times we have added a diverse product offering.

In our recent global employee satisfaction survey it was clear that our employees have an immense amount of pride in working for Rotork and I believe this translates into superior customer service.

BUSINESS REVIEW: INTRODUCTION

INTRODUCTION

In 2008 Rotork saw a change in leadership for only the 4th time in its history of over 50 years. From its beginnings in 1957, Rotork has been associated with quality and innovative solutions to customer requirements, and from the very early days has been a truly international business with products that are used in a wide variety of industries and applications. Technological leadership has also been instrumental in the growth of its products in the safety critical emergency shut-down market with customers looking for Rotork to provide them with high quality solutions. Rotork is often trusted solely in introducing significant technology change into what are often quite conservative market areas.

Rotork today is a truly global business with direct operations in 29 countries, 14 manufacturing plants and over 1,700 employees. Add to these facilities over 300 sales outlets in a further 47 countries and Rotork's extensive international coverage within the business becomes clear. As operations have grown, so has the range of products within the Group's portfolio. With the addition of new locations this has enabled Rotork to supply into increasingly diverse applications and industries. Rotork supplies actuators, systems and associated products wherever there is a need to control the flow of liquids or gases through pipes or channels, as well as into other specialist applications. Rotork actuators are used for example in a sugar factory to

control the movement of products in the process, and on the world's largest natural gas pipeline where they control the flow of hydrocarbons in their system.

BUSINESS STRATEGY

Rotork aims to increase shareholder value each year by focusing on valve actuation and associated activities, principally wherever there is a need to control the movement of fluids or gases. As world market leader, our aim is to provide high quality, advanced, innovative products and services that constitute superior solutions to customers' requirements in these focused technical areas. We support these operations around the world through our extensive and continually expanding network of offices and manufacturing plants.

We operate an asset-light business model which is highly cash generative. We will also seek to deliver quality margins, consistent year on year growth in revenues, profit and core dividends through organic growth and acquisitions.

The Group provides products and a working environment where health & safety is paramount for the benefit and protection of our employees and customers. We develop and train our people to deliver our strategy and satisfy our customers' requirements while maintaining high ethical and safety standards across the Group and acting as a responsible international corporate entity.

BUSINESS REVIEW: INTRODUCTION

YEAR UNDER REVIEW

The year has seen Rotork achieve strong improvement in performance, setting new records across the business. We experienced growth in each of our three divisions, and all of our markets and territories. A number of our facilities have received infrastructure investment in the year, and this process of development and improvement is continuing into 2009. This investment is impacting each of our operating divisions across our global reach. In addition we have extended our initiatives on cross-divisional co-operation and joint development in specific market areas.

Overall, order intake was £344.2m up 36.8% and revenue increased to £320.2m, up 35.9%. The order book increased to an impressive £162.0m which is 66.0% up on the start of 2008. However this included the impact of currency movements during the year, and the inclusion of the opening order book of Remote Control ('RC') – the acquisition we made in the early part of the year. If these are excluded then the order book at the end of 2008 would have been up 30.7% on the prior year position.

Sales revenue growth was strong across all three divisions, with Controls up 24.5%, Fluid Systems up 84.8% and Gears up 15.3%. Profit before tax and before amortisation of acquired intangibles, was £76.9m, an increase of 34.1% over the prior year. Each of the divisions performed well with operating profits in Controls up 32.0%, Fluid Systems up 68.6% and Gears up 18.8%. Currency had some impact on this as sterling weakened through the latter part of the year, but the underlying performance of the businesses at constant currency was strong.

Overall 60% of our companies achieved sales revenue growth of more than 20% in the year and two thirds achieved profit growth of over 20%.

Return on sales continues to be a key driver of the business and this has slightly reduced from 24.3% to 23.7%. This was partly as a result of currency affecting sales more than profit and the increased proportion of operating profits produced by the Fluid Systems division. At constant currency the rate for 2008 would have been 23.3%. If the impact of currency was removed by restating the 2008 figures at 2007 rates, then sales would have shown an increase of 22.1%, and profit before tax an increase of 17.0%.

ROTORK CONTROLS

Rotork Controls is still our largest division, supplying electric actuator products across a number of sectors. Here we saw investment across the business and we believe that we continued to take market share even when currency rates were not in our favour. The current market makes our products more competitive and this, combined with a strong underlying demand for Rotork quality and technology, is an important fundamental as we go into 2009.

ROTORK FLUID SYSTEMS

Rotork Fluid Systems ('RFS') is our fastest-growing division supplying pneumatic, hydraulic and electrohydraulic actuators and systems. We are undoubtedly now seen as a major force in this field and we have the widest range of products in the market. We also provide a tailored response to customer application issues and a real focus on delivery of a sound commissioned solution with support at all levels of the process.

ROTORK GEARS

Rotork Gears, a supplier of gearboxes, adaptors and ancillaries for the valve industry, has been a consolidator of businesses in this area and is now the world leader in terms of product portfolio and geographic reach. This is a slower growing business than the other divisions, but is involved in closer partnering with its customers and provides high quality outsourcing, giving the customer base real product improvements and cost savings in a long-term relationship.

ROTORK SITE SERVICES

Rotork Site Services operates through each of the three divisions with dedicated teams providing on-site and workshop support to our customers for the complete range of products. This is an important feature in our business strategy going forward as we become the only actuator business to be able to genuinely support our customers across this range of products and the applications that they cover. We are making improvements and structural changes in this business to better enable it to respond to our customers' increasing demands for an outsourcing business model in the fields of site service and plant repair and maintenance.

BUSINESS STRUCTURE

The growth and success of the business in recent times has required that the management structure be strengthened to support the ongoing opportunities of the markets that we serve. The Rotork

Management Board was created at the start of the year to improve our level of co-ordination and control of the three divisions and this, supported by the executive management teams of the divisions, gives us a more responsive and dynamic management structure able to take advantage of the substantial opportunities that we believe are still available to us.

QUALITY

Commitment to product excellence and customer satisfaction is fundamental to Rotork and we ensure that it is embedded into our systems and procedures for both vendor assurance and production.

Rotork manufacturing sites are required to be registered to the international Quality Management System Standard ISO 9001 and also adopt Rotork systems and working practices that are proven and used across the Group. This process is planned and managed from the main production site and Group headquarters in Bath.

Our research and development function has a robust design review process for all new products which ensures that our quality ethos is built in. For example the recently launched Control Valve Actuator ('CVA') has been subject to rigorous review at every stage in its development and can now rely on the robust quality assurance systems in place at our own and our suppliers' facilities.

Our business model requires exact control of component procurement processes and through our global supply chains we have created a mutually supportive network of Rotork supplier quality assurance ('SQA') and procurement teams to ensure that our requirements are achieved.

R&D

Investment in our product portfolio is an important part of Rotork's success, and a major differentiating factor in our competitive landscape. Each of the three divisions has an active programme of research and development aimed at refining the product offering, widening its market appeal across sectors, and bringing technical developments into the product range where they would provide value for our customers.

The main event of the year was the release of the initial size of the control valve actuator. This had been showcased prior to launch at a number of trade exhibitions, and had generated considerable enthusiasm amongst both our sales force and end-users.

BUSINESS REVIEW: INTRODUCTION

This product extends the range of Rotork's electric actuators to cover the demanding process control market. The product range will be augmented with additional sizes and further options during 2009.

2008 also saw the introduction of a new controller family for the ROM series of actuators. This development enables users of small quarter-turn valves to benefit from Rotork's experience in networking and valve diagnostics with the actuator sharing the Bluetooth capability of the CVA. First shipments of this product were despatched to a Turkish customer for shipboard use.

The first field trial of our wireless network was successfully commissioned in the last quarter of the year and this is now providing useful feedback. Further site trials are to be installed during 2009. It is expected that take-up of this technology will occur in 2010 and beyond as standardisation activities are completed and user confidence in wireless technology increases.

The Smart Valve Monitor ('SVM') partial stroking product acquired from Drallim Industries Ltd has now been fully integrated into Rotork's manufacturing system in a joint development between engineers within the Controls and Fluid Power divisions. In addition to ensuring that the product meets Rotork's stringent quality requirements, the opportunity was taken to include additional features such as the ability to gain credit from unscheduled plant shut-downs.

Maintaining technological leadership within the valve actuation industry continues to be our goal and we have further increased our resources in Bath to assist in focusing on the many opportunities available to us. In addition to major developments we continue to focus on reducing material costs through design optimisation and the use of alternate materials such as engineering plastics. We also work with external partners to bring both specialised skills and cost savings to the design process.

During 2008 Process Control, which is part of the Controls division, has undertaken some important projects aimed at widening their products' market appeal in terms of ruggedness and style, bringing some commonality with the IQ actuator and further developing a common image.

Last year we reported on our work with high integrity pressure protection systems ('HIPPS'). This specialist solution which can assist customers in applications where safety integrity is an important issue, and in certain applications the enhanced design can be used to prolong the design life of the valve. The challenging demands of these systems also provide an opportunity for the unique benefits of the SVM technology.

Sub-sea actuator development has been an important feature of our product development across the divisional businesses. In a joint development between the Fluid Systems and Gears divisions, we have brought some innovative products to the market.

Value engineering and development has continued across the RFS high pressure gas pipeline actuator range with the high pressure gas block being optimised for size and assembly, reducing cost and providing a more competitive product whilst maintaining the features differentiating it in the market place.

In the Gears division, the focus for 2009 is to launch a new range of quarter-turn gearboxes focused on water industry specifications in the USA. Following the international growth of this business, a number of smaller projects will look at the strengths of each manufacturing site to create a more comprehensive and effective complete gearbox range.

OUR PEOPLE

Rotork has a good relationship with its employees, with a number of initiatives in place across the world to ensure regular and effective communication of objectives and targets, and to enable feedback from people on issues that really matter to them.

During the year we undertook an employee satisfaction survey for the first time, across the worldwide operations of the business. This was aimed at obtaining input from our people on a wide range of issues including conditions, the reward system, and the sense of fulfilment that people get from their involvement with Rotork. We were pleased with the level of response that we received from our employees and the level of involvement and reward that people generally felt from being a part of the business. We have a number of residual tasks emanating from the results of the survey and we intend to repeat the process again in the next year.

We believe that our reward system is appropriate and fair, and 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 employee issues and suggests improvements in working conditions and practices, with all issues being 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 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. We have permanent full-time training officers in many of our facilities who co-ordinate product training for employees and customers. Our commitment to employee development over the long-term is evidenced by initiatives on four-year apprenticeship programmes, our extended graduate recruitment programme and other training initiatives across the Group.

CORPORATE RESPONSIBILITY

Rotork values its good relationships with its employees and the wider community, and is addressed in part, in the strategy statement on page 14. We adopt an ethical approach to all areas of our business and we strive to be responsible in our dealings with our own people and third parties across the globe. More information on environmental matters and social and community issues can be found on pages 25 to 28.

BUSINESS REVIEW: ROTORK CONTROLS

KEY FACTS

	2008	2007
REVENUE	204.5M	164.2M
OPERATING PROFIT	57.5M	43.5M
ORDER BOOK	99.5M	56.9M

PETER FRANCE
MD ROTORK CONTROLS

"WE HAVE SEEN A
HIGH LEVEL OF
ACTIVITY IN ALL OUR
TRADITIONAL MARKETS"

ROTORK CONTROLS DIVISION

2008 has been another record year across the electric actuator division with excellent performances in all territories and across all the sectors that we serve. We have seen a high level of activity in all our traditional markets, oil & gas, power, water & waste water, but also renewed activity in nuclear and ship board applications where we see some positive movement for us in the next few years.

Revenue increased by 24.5% to £204.5m with second half output also being up 24.5% on the first half. Operating profit rose by 32.0% to £57.5m and the second half was also higher, by 22.3%. At constant currency these increases for the year would have been 12.2% and 19.3% respectively. Currency overall has been a positive for the division and the weakening of sterling against both the euro and the US dollar has made our products generally more attractive against those of our European and US competitors. The order book for the division at the end of the year was up 75% from the position at the beginning of the year, reflecting the strength of trading in the second half where order intake was strong. Predominantly this order book will ship in 2009.

We saw an excellent performance from China where a perceptible slow down in power generation was more than compensated by increased activity in oil & gas, mainly in refineries and pipelines. In addition we have also started to win large projects in water & waste water, the markets that we had originally focused our Shanghai investment on.

The Middle East was very busy and we saw some large projects in all sectors across the region.

Europe saw oil & gas companies investing in modernisation and expansion projects and we have also started to see activity in the power sector which should continue in 2009 especially in the UK. In Iberia, where we provide strong customer support at all levels across projects, we have had some encouraging successes in the year. We have a wide base across sectors here and one of our stronger Site Service businesses.

Our company in Russia has seen positive signs from various market sectors and business there appears to be active.

North America has seen a strong improvement over last year in revenue and profit and activity levels remain strong there across the region. The Rochester plant achieved record output levels and Milwaukee had an excellent performance.

There has been some slowing in oil & gas in South America regionally but business is still generally active there and our companies in Venezuela and Brazil are reporting increased investment.

We continue to grow our Site Service businesses to meet escalating customer demand and have won several very large retrofit projects where we are managing extensive refit. We have also been successful on long-term preventative maintenance contracts as customers look to us to optimise plant uptime with reduced maintenance costs.

CONTRIBUTION TO GROUP REVENUE

63.9%

CONTRIBUTION TO GROUP OPERATING PROFIT*

73.5%

BUSINESS OPPORTUNITIES

- LOWER COST MATERIAL SOURCING
- FOCUSED SALES FORCE
- NEW PRODUCTS AND MARKETS
- COMPETITIVE ADVANTAGE (CURRENCY)
- GREATER ACCESSIBLE MARKET IDENTIFIED
- PROCESS CONTROL

*EXCLUDING UNALLOCATED EXPENSES.
➔ FOR FURTHER INFORMATION
SEE NOTE 2 ON PAGE 53.

BUSINESS REVIEW: ROTORK FLUID SYSTEMS

ALEX BUSBY
MD ROTORK FLUID SYSTEMS

“A KEY STRATEGY HAS BEEN TO SUPPORT CUSTOMERS LOCALLY IN THEIR MARKETS”

CONTRIBUTION TO GROUP REVENUE

27.6%

CONTRIBUTION TO GROUP OPERATING PROFIT*

15.5%

KEY FACTS

	2008	2007
REVENUE	88.6M	47.9M
OPERATING PROFIT	12.1M	7.2M
ORDER BOOK	55.8M	36.5M

ROTORK FLUID SYSTEMS

2008 has been a significant year for Rotork Fluid Systems ('RFS') with input growth across all operating units. Order intake showed notable improvement in Sweden and Italy, and in the USA and Germany it almost doubled over 2007 levels. A key strategy has been to support customers locally in their markets, and with good levels of enquiries in the oil & gas and gas transmission sectors this has worked well for us. The activity within the oil & gas sector remained high throughout 2008 with the last quarter witnessing record enquiry levels in key markets served by the RFS manufacturing plants – Italy, Germany, USA and Sweden, with our German manufacturing plant seeing increased activity in the number of underground gas storage facilities. The Middle East remained our largest end destination market, but we also had increased success in China and refurbishment projects and pipeline construction work in Russia. In North America the gas pipeline industry saw expansion in LNG terminals inserting imported LNG into the existing pipeline system. In the US overall we had real success with American OEMs providing equipment domestically and internationally: the Rochester operation doubled its output over 2007.

The Lucca plant successfully supported valve customers taking advantage of their presence and competitiveness on international projects particularly within the Middle East. In Italy overall we experienced

an exceptional performance with a 56% increase in output. In the second half we began the process of increasing capacity at Lucca and the positive impact of this will be felt in 2009.

We continued to see excellent revenue growth, increasing by 84.8% to £88.6m for the year, (62.2% at constant currency). Second half output was 23.3% higher than the first half. Operating profit rose by 68.6% to £12.1m (34.8% at constant currency) with the second half also higher by 57.1%. Operating margins before amortisation of acquired intangible assets, at 14.8%, were maintained at 2007 levels, absorbing the dilution caused by the Remote Control acquisition. The order book for the division at the end of the year was up 52.9% from the position at the beginning of the year, reflecting the strong order intake throughout the year and the order book relating to the acquisition.

January 2008 saw the acquisition of Remote Control Sweden ('RC') and the product acquisition of the Drallim Smart Valve Monitor ('SVM'). As an independent actuator company with a strong brand well positioned in the market, the RC business supports the RFS divisional and Rotork Group strategy. Their products provide the division with entry to new markets in petrochemical and chemical industries, and have been well received by the RFS international sales team. We successfully integrated the regional offices into the existing RFS structure and sales of the RC product surpassed our expectations.

BUSINESS OPPORTUNITIES

FURTHER DEVELOP THE LATIN AMERICAN MARKET
MIDDLE EAST OFFICE
ROTORK SITE SERVICES
CONTINUED EXPANSION OF CENTRES OF EXCELLENCE
CONTINUED GROWTH OF RC PRODUCT
INCREASE FOCUS ON SUB-SEA

*EXCLUDING UNALLOCATED EXPENSES.

FOR FURTHER INFORMATION
SEE NOTE 2 ON PAGE 53.

BUSINESS REVIEW: ROTORK GEARS

KEY FACTS	2008	2007
REVENUE	36.8M	31.9M
OPERATING PROFIT	8.6M	7.3M
ORDER BOOK	6.6M	4.2M

DAVID LITTLEJOHNS
MD ROTORK GEARS

“OPERATIONAL INITIATIVES WILL ENSURE THAT WE CONTINUE TO OFFER CUSTOMERS THE BEST SOLUTION TO THEIR NEEDS”

ROTORK GEARS DIVISION

Rotork Gears manufacture gearboxes for both manual and automated duty at plants in the UK, the Netherlands, Italy and China, and are now the largest supplier of products of this type globally. The division's sales success is based on securing and retaining large key valve maker accounts and 2008 saw several new customers placing their first orders for Rotork Gears operators. Partnering with customers over the long-term is a fundamental part of the business model in Rotork Gears, and success in bringing new customers into our portfolio has a long-term impact. A key area of growth for the division is based on increased sales in new and emerging markets, and while hitherto growth of the division has been based on traditional European and US markets, 2008 saw increased sales and marketing activity in China, India, Japan and Russia.

Product rationalisation efforts continued and future growth of our specifiable sub-sea and large quarter-turn IW range will be based on products supplied from the Italian manufacturing plant. The year also saw good progress towards establishing a more robust and stable supply chain especially in the area of dual sourcing key components. China remains the medium-term focus for competitive sourcing but the restructured purchasing team is also exploring other low cost regions. We have created an improved Research and Development team which will improve our ability to introduce new and enhanced products to support our drive for increased market share. We introduced a new web-based quality system in the year allowing unification of the systems previously used across the world.

In the coming year we intend to broaden our customer base by continuing our sales and marketing initiatives in countries like China, India, Russia and Japan as well as continued efforts to secure new customers in our traditional strong European and US markets. This will be supported by an expanded product offering and operational initiatives that will ensure that we continue to offer our customers the best solution to their needs; providing high quality products and service at a competitive price.

CONTRIBUTION TO GROUP REVENUE

8.5%

Turnover in the year increased by 15.3% and operating profit increased by 18.8% and we have made important gains across our target territories. Asia showed the largest growth overall with a particularly good result in China where the production facility has made great improvements in the last year. The division also had strong performances from its European sales businesses with Spain and France showing notable gains.

CONTRIBUTION TO GROUP OPERATING PROFIT*

11.0%

BUSINESS OPPORTUNITIES

- PRODUCT RATIONALISATION
- NEW PRODUCTS
- 25,000 VALVE MANUFACTURERS IN THE WORLD
- MANUFACTURING IN INDIA
- SALES FOCUS ON RUSSIA, CHINA, JAPAN AND KOREA
- FURTHER INTER-DIVISIONAL COLLABORATION

*EXCLUDING UNALLOCATED EXPENSES.
➔ FOR FURTHER INFORMATION SEE NOTE 2 ON PAGE 53.

BOB SLATER
FINANCE DIRECTOR

“BEING ASSET-LIGHT,
WITH HIGH NET
RETURNS, WE HAVE
STRONG CASH
GENERATION”

PERFORMANCE

The Group has delivered another strong set of results from across the three divisions, with record performances in terms of revenue, profit and earnings per share. The order book at the end of the year closed at a new high.

The international spread of the business makes currency movement a risk to our performance, particularly in periods of highly volatile exchange rates. During the year under review we saw a reversal of the currency headwind that has been against us for the last few years. As a result, currency movements in 2008 significantly improved the reported figures. This has to some extent masked the underlying performance of the business which has been organically strong. Revenue as reported was up 35.9%. At constant currency, and with the impact of the acquisition removed, this growth was 14.3%. Profit before tax and amortisation as reported was up 34.1%, this was 18.8% at constant currency and 14.9% after removing the impact of the RC acquisition. Net margin in real terms improved over the 2007 figure. The table opposite shows the impact of currency on the key statutory headings.

The KPIs shown in the report on pages 22 to 23 cover a range of measures that we use within the business and increasingly these are being reported in non-financial areas. In addition to the two performance measures shown, we have launched or enhanced a range of initiatives in the year aimed at improving our coverage of wider CR issues. These include employee feedback in a range of areas, succession planning, performance evaluation and putting in place continuous improvement programmes.

Rotork's business model is generally asset-light, and the effectiveness of this can be seen in the return on capital employed performance measure which shows ROCE at 69.7%. In addition to creating an excellent return on the use of assets, this business model enables the Group to be flexible in a number of important ways as we seek to adapt to changes in the cost base created by economic, demographic and financial issues.

ACQUISITION, INTANGIBLE ASSETS AND AMORTISATION

On 30 January we completed the acquisition of Remote Control for £13.3m. This business, based in Sweden, has a successful range of products aimed at the fluid power market. It is a good fit with Rotork's international businesses and has been well received by our sales force across the world.

As required under IFRS, a review of the fair value of the assets and liabilities was undertaken at the date of the acquisition, and this is shown in detail in note 3 to the financial statements. As a result, intangible assets of £4.8m comprising customer relationships, the RC brand and the order book were recognised which will be amortised over their useful lives. Goodwill of £5.7m was also recognised and is attributable to the value of employees' expertise and the assembled workforce. In the income statement there is a charge against profit of £1.0m in the year for amortisation of intangibles relating to this acquisition. In 2009 this is likely to be £0.8m, based on the 2008 balance sheet.

KEY EXCHANGE RATE INFORMATION

	WEIGHTED AVERAGE RATE USED IN INCOME STATEMENT		YEAR END EXCHANGE RATE USED TO RETRANSLATE THE BALANCE SHEET	
	2008	2007	2008	2007
US dollar	1.81	2.01	1.44	1.99
Euro	1.24	1.45	1.03	1.36

BUSINESS REVIEW: FINANCIAL REVIEW

ORGANIC BUSINESS GROWTH

€M	2008 GROUP AS REPORTED	CONSTANT CURRENCY ADJUSTMENT	GROUP AT 2007 EXCHANGE RATES	EXCLUDING RC ACQUISITION	ORGANIC BUSINESS AT 2007 EXCHANGE RATES	2007 GROUP AS REPORTED
Revenue	320.2	(32.5)	287.7	(18.3)	269.4	235.7
Cost of sales	(176.0)	19.1	(156.9)	13.6	(143.3)	(127.8)
Gross profit	144.2	45.0%	130.8	45.5%	126.1	46.8%
Overheads	(68.2)	4.6	(63.6)	2.5	(61.1)	(52.4)
Adjusted operating profit*	76.0	23.7%	67.2	23.4%	65.0	24.1%
		(8.8)		(2.2)		55.5
						23.5%

*OPERATING PROFIT BEFORE THE AMORTISATION OF ACQUIRED INTANGIBLE ASSETS

CASH GENERATION

Being asset-light and with high net returns, Rotork is a cash generative business. The Group has delivered strong growth in cash flow in the year, with cash generated from operations of £51.3m, up substantially on the 2007 figure of £41.0m. The year end cash balance was £41.4m spread across the international businesses. We have debt in only two companies, where this is required for working capital in importing product in the locations. Total debt at the year end was £0.3m.

The conversion of profit into cash is an important measure of performance for management and this is one of the KPIs referred to previously. In the year the conversion figure was 96.6%. This reduction over the prior year number of 99.2% reflects in the most part the increase in inventories required to support the order book, much of which is for shipment in the first half of 2009. Management of receivables continues to be sound with debtor days at the year end being 63.8 days (2007: 59.8 days). We have seen pressure to increase payment terms in a number of areas and active management of this is an important part of working capital control.

TREASURY MANAGEMENT

The Group's treasury function, based in Bath, manages financial risks to the Group resulting from our wide geographical spread. It is not regarded as a profit centre, but rather a risk assessment and management function for the Group. From Bath we manage cash deposits and income for all of our subsidiary companies across the world. With substantial income streams outside of the United Kingdom, the management of our currency exposure is an important part of the treasury function. Overall around one third of our revenues

are in euros, and one third in US dollars or related currencies. Increasingly we buy components in US dollars and euros and this gives opportunities to naturally hedge our exposure through the transactions of the business. Our net exposures are all managed from Bath on behalf of our international businesses and we use simple forward contracts for this cover.

The rates of exchange during the first quarter of 2009 are showing stronger than our average trading rates for 2008.

LOWER EFFECTIVE TAX RATE

The effective tax rate based on profit before tax was 29.5% (2007: 31.4%). This reflects mainly the reduction in the rate of corporation tax payable in the UK from April 2008. Over recent years there has been a trend toward the reduction in tax rates generally around the world and we have seen our effective rate fall over the last three years. However, the international nature of our operations does mean that the mix of profits in a particular year can impact the rate of tax that we pay.

RETIREMENT BENEFITS

The Group has two defined benefit pension plans, in the US and the UK, both of which are closed to new entrants. Across the rest of the Group retirement provision is mainly through state or quasi-state pension schemes that have a defined contribution profile to the Group. The pension note on page 66 shows that on an IFRS basis the present defined benefit schemes are effectively 93% funded, but this valuation is heavily influenced by the impact of bond rates at the year end which effectively devalues liabilities. It is likely that an actuarial valuation would produce a higher assessment of liabilities and a greater underfunded position.

INTERNAL AUDIT

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

DIVIDEND

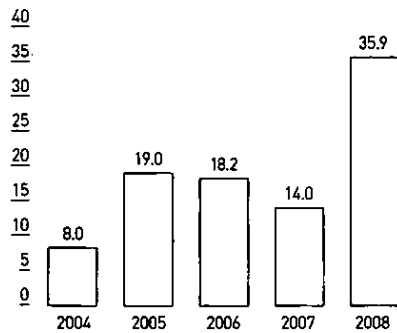
During the calendar year the Group made three dividend payments which in cash terms amounted to £30.0m, equivalent to 56.1% of post tax profit for the year. The proposed final dividend of 16.75p with the interim paid in September would bring the total for the year to 26.0p, giving dividend cover of 2.4 times. The additional dividend of £9.9m was 11.5p per share; taken together with the two other dividends, cover was 1.7 times.

BUSINESS REVIEW: KEY PERFORMANCE INDICATORS

FINANCIAL KPIs

Growth of the business, market penetration and quality of earnings are crucial target areas for Rotork and we have a number of measures of performance used throughout the Rotork organisation aimed at this. The KPIs used to monitor the financial performance of the business are set out below.

SALES REVENUE GROWTH (%)



Reason for choice

This is reported in detail for all operating businesses and is a key driver in the business. This measure enables us to track our success in specific project activity and our progress in increasing our market share by products and region. This is also an important driver in our product development programme.

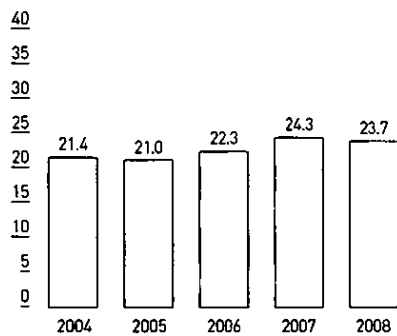
How we calculate

Increase in sales revenue year on year divided by the earlier year sales revenue.

Comment on results

Another good year of growth. At constant currencies the growth is 22.1% and 14.3% if the impact of the RC acquisition is removed.

RETURN ON SALES (%)



Reason for choice

This measure brings together the combined effects of procurement costs and pricing as well as the leverage of our operating assets. It is also a check on the quality of revenue growth. Our overall aim is for continuous improvement over time, notwithstanding the impact of currency.

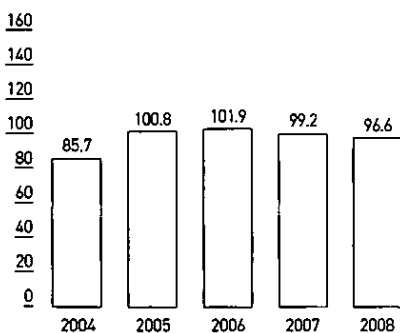
How we calculate

This is calculated as profit before tax (after financing and interest) shown as a percentage of sales revenue.

Comment on results

The decrease was partly as a result of currency affecting sales more than profit and the increased proportion of operating profits produced by the RFS division.

CASH GENERATION (%)



Reason for choice

Cash generation is used internally as a measure of performance where a target of 85% is regarded as a base level of achievement. This also forms one of the constituent parts of the reward system where management is incentivised to achieve a performance beyond this level.

How we calculate

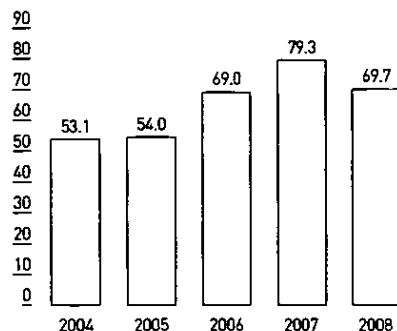
This is calculated as the ratio of operating cash flow to operating profit. Operating cash flow is defined as the movement in

cash and cash equivalents, adjusted to add back cash flows from financing activities, the acquisition of subsidiaries, income taxes paid, exceptional cash outflows and less interest received.

Comment on results

Cash generation is consistent with prior years. In a year that has seen a large growth in throughput, working capital management has been a key area of focus.

RETURN ON CAPITAL EMPLOYED (%)



Reason for choice

Rotork has an asset-light business model by design, and reporting this ratio internally helps management at Group level to monitor our adherence to this philosophy.

How we calculate

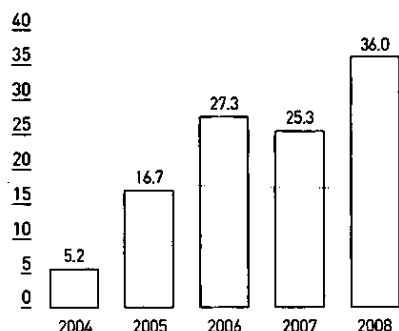
The calculation shows operating profit as a percentage of capital employed. Capital employed is defined as shareholders' funds less net cash held, and the pension deficit net of related deferred tax is added back.

Comment on results

The reduction is a result of year end exchange rates. Excluding the impact of the foreign exchange retranslation reserve on the balance sheet would have given a KPI of 90.7% (2007: 80.6%).

BUSINESS REVIEW: KEY PERFORMANCE INDICATORS

EPS GROWTH (%)



Reason for choice

The measurement of earnings per share ('EPS') reflects all aspects of the income statement including management of the Group's tax rate.

How we calculate

Increase in basic EPS year on year divided by the earlier year EPS.

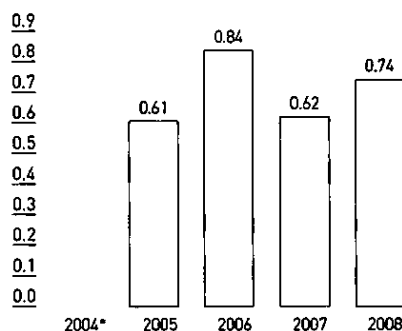
Comment on results

We aim to increase EPS each year.

NON-FINANCIAL KPIS

We monitor the non-financial areas of our businesses particularly in the environmental, health & safety and quality control areas and put strong emphasis within our organisation on improving our performance here.

ACCIDENT FREQUENCY RATE ('AFR')



Reason for choice

The AFR is used as one measure of the effectiveness of our health & safety procedures across the businesses. This information is used as part of the Group's procedure monitoring and audit process.

The AFR is a known measurement, from which comparisons can be made against sector statistics published by the Health & Safety Executive ('HSE').

How we calculate

All subsidiary companies send a monthly report into a central database in Bath of all accidents (over 3 day injuries) for

the period giving follow up information where necessary.

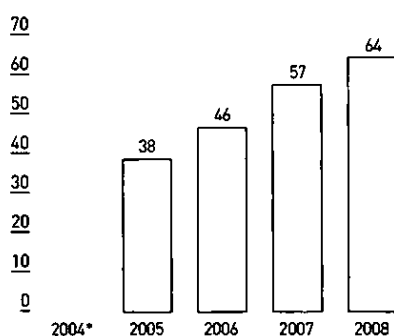
The formula we have used for calculating our AFR is:

$$\frac{\text{No. of reportable injuries}}{\text{No. of hours worked}} \times 100,000$$

Comment on results

The 2008 AFR of 0.74 reportable injuries per 100,000 hours worked is still considerably below the sector standard of 1.01 published by the HSE. We annually assess the health & safety at each subsidiary to strive to continually reduce accidents.

WASTE RECYCLING (%)



Reason for choice

This KPI measures the proportion of total waste produced which is recycled.

How we calculate

This information is collected through regular submissions via our extranet site.

Comment on results

We have an active programme aimed at reducing our environmental footprint throughout the organisation and the ratio has improved this year as our regional businesses improve on their processes implemented over the last few years.

EMPLOYEE SATISFACTION

In 2008 we conducted our first global employee satisfaction survey. The pride and satisfaction of a Rotork employee section scored 4 on a scale from 1 (very dissatisfied) to 5 (very satisfied).

We will be in a position to report comparative data and progress next year.

Reason for choice

The survey as a whole enabled the Group to get feedback from across the businesses on how we relate to our people and what we can do better.

How we calculate

Employees scored their responses directly onto a prepared survey.

Comment on results

This result shows management that the relations between the Company and its employees are generally good and is a validation of our constant efforts to maintain good contact and communication at all levels.

*NO DATA COLLECTED PRE 2005.

BUSINESS REVIEW: RISKS

STATEMENT OF PRINCIPAL RISKS AND UNCERTAINTIES

The Group has an established process for the identification and management of risk across the divisional businesses working within the governance framework set out in our corporate governance statement, see page 32. Ultimately the management of risk is the responsibility of the Board, and the development and execution of a comprehensive and robust system of risk management has a high priority in Rotork.

The Board's role in risk management includes promoting a culture that emphasises integrity at all levels of business operations, embedding risk management within the core processes of the business, approving appetite for risk, determining the principal risks, (and ensuring that these are communicated effectively across the businesses), and setting the overall policies for risk management and control.

These processes of risk management within the businesses involve:

- Identification and assessment of individual risks
- Design of controls
- Testing the controls through internal operational audits
- Forming a conclusion on the effectiveness of the control environment in place.

The major risks affecting the Group are identified by senior management in association with the full Board of Directors and the external Auditor is invited into the process in a support role. This process involves regular risk assessment and a process for ensuring that the Group's approach to dealing with individual risks is robust and timely. These risks are categorised by likely impact on the business and likely probability. Each risk once identified is allocated to one of the Directors of the divisional businesses as appropriate to ensure the correct level of visibility and attention, and update sessions to review progress in dealing with issues at an operational level are conducted regularly through the year.

We identify three main risk areas:

- **Strategic risk** – risks affecting the strategic aims of the business, or those issues that affect the strategic objectives faced by the Group
- **Financial risks** – issues that could affect the finances of the business both externally and from a perspective of internal controls
- **Operational risks** – matters arising out of the operational activities of the Group relating to areas such as procurement, product development and interaction with commercial partners.

The top ten risks identified in the risk management process are listed in the table below in order of severity, and with the categorisation given to them internally shown along side. Mitigation where possible is shown by each identified risk area.

TYPE OF RISK	DESCRIPTION	MITIGATION
1 Strategic	Existing competitor moving to lower cost manufacturing.	Direct presence in terms of production and sales and service support. Constant drive to maintain differentiation from competition.
2 Operational	Political instability in a key market.	True mitigation difficult but as the spread of business increases, so the overall risk to the Group diminishes.
3 Financial	Volatility of exchange rates.	Short-term movements are addressed using forward exchange contracts but this does not mitigate against long-term trends. These can only be covered through a geographical spread of operations, component sourcing and customers.
4 Strategic	Appropriate products, both in terms of cost and features.	Taking cost out and differentiating Rotork products from competitors. Development of products to address lower specification/lower price markets.
5 Strategic	Lower investment in Rotork's traditional market sectors.	Existing product offering into new markets and new products for all markets.
6 Operational	Major in-field product failure – existing products.	Good quality control procedures including supplier audit and scorecard to monitor performance.
7 Strategic	Failure to manage succession planning.	Active succession planning programme in place and regularly reviewed.
8 Strategic	Risk of copy Rotork actuators and gearboxes damaging the businesses.	Legal enforcement of intellectual property rights wherever possible. Take cost out and differentiate our product from copies. Investigate copies to learn their shortcomings.
9 Strategic	Consolidation of competitors and customers.	No mitigation – but offers opportunities as well as risks.
10 Operational	Major in-field product failure on new product launch.	Our extensive product design review process pre-launch reduces the risk of failures happening after the product is launched.

INTRODUCTION

The diagram above sets out the Group's Corporate Social Responsibility structure. This structure has separate Committees covering the environment, health & safety and social issues that report into the Corporate Social Responsibility Committee, which is chaired by the Group Chief Executive.

The Company has considered the guidelines on Social Responsibility published by the Association of British Insurers. It 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 committed to the principles laid down for its inclusion in the FTSE4Good Index and the Ten Principles of the UN Global Compact, of which it is a signatory.

ENVIRONMENTAL ENVIRONMENTAL POLICY

The Group environmental policy includes commitments to the prevention of pollution, compliance with all relevant legal and regulatory requirements and to the continuous improvement of environmental performance. The environmental policy applies globally to all manufacturing sites.

➡ THE COMPLETE POLICY CAN BE FOUND AT WWW.ROTORK.COM IN THE INVESTORS' SECTION UNDER 'ENVIRONMENT'.

ENVIRONMENT REPORTS

Envolve Partnership ('Envolve') was engaged to provide an independent assessment of the most recently published Environmental Report. Environmental performance data is included within the Report from all Rotork's manufacturing sites and major sales and service facilities. The Report also includes qualitative information about environmental improvement programmes, achievements and initiatives.

➡ THE GROUP'S ENVIRONMENTAL REPORTS CAN BE ACCESSED IN FULL AT WWW.ROTORK.COM IN THE INVESTORS' SECTION UNDER 'ENVIRONMENT'.

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

Rotork considers its positive environmental impacts to include its contribution to sustainable development and environmental improvement through the products and services it sells. The Group's products are used around the world to operate industrial valves in all environments, including those which are hazardous. They are used in a range of industries including water purification, sewage, food processing, marine, irrigation, power generation and oil & gas. Rotork products help reduce human error and thus potential environmental disasters, as well as saving energy and resources. 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. Product handbooks include details of the products and materials contained and any specific advice about the disposal.

ENVIRONMENTAL MANAGEMENT SYSTEM

Maintenance of the Group's Environmental Management System ('EMS') is key to monitoring and reducing our environmental impact and measuring our commitment to continuous improvement. Resource Futures undertakes independent verification of the Group's EMS and environmental performance data. Their audit was undertaken in December 2008. The audit highlighted a slight weakness with transparency in relation to identifying ongoing improvement initiatives and objectives. These issues will be addressed to ensure greater transparency of our relevant environmental strategies and how they are implemented. However, these findings did not adversely affect the Group's significant year on year improvement in waste recycling. It has also not affected the Bath manufacturing site's reduction in energy consumption. Since 2005, as a percentage of sales, electricity consumption has reduced by 23% and gas consumption by 27%.

Rotork has identified waste as its most significant environmental impact and as a result is working with its suppliers to improve waste recycling systems. Rotork has increased the amount of waste it recycles from 57% in 2007 to 64% in 2008. Waste recycling is one of the Group's non-financial Key Performance Indicators; see page 23 for more details.

In addition to the above, Rotork's Environmental Management System will:

- 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 Environmental Reports at www.rotork.com, information and data can be accessed about how Rotork manages its key environmental impacts. The data includes information on gas and electricity consumption, CO₂ emissions, water consumption and waste including recycling of waste.

ETHICS AND VALUES

Rotork is a signatory to the United Nations Global Compact and its Ten Universal Principles. These Principles are derived from the Universal Declaration of Human Rights ('UDHR') and incorporate human rights, labour, environment, bribery and corruption. The Group supports the UDHR 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. The rights of every employee are respected and Rotork 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 IN THE INVESTORS' SECTION, UNDER 'RESPONSIBILITY'.

SUPPLIERS

Business integrity and fair dealing is key to the Group's relationships with its suppliers and contractors. The Group is committed to long-term relationships with its supply base. These relationships are reinforced through procurement and supplier quality visits.

Supplier site visits involve observations of safe working methods, correct handling procedures and the correct use of hazardous materials. Any irregularities observed are pointed out to suppliers. Supplier audits also monitor employment ages. We also seek assurance that suppliers uphold all local laws generally applicable to their locality and operations. 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 which is part of ISO 9000.

HEALTH & SAFETY

The Rotork Health & Safety Policy sets out our aim to provide a safe and healthy environment for all our employees, non-employees and visitors to our premises and to keep the number of working hours lost through health & safety incidents to a minimum. The policy includes a requirement to "meet or exceed legislation and other requirements in the countries in which Rotork operates".

► THE POLICY CAN BE VIEWED ON OUR WEBSITE WWW.ROTORK.COM IN THE INVESTORS SECTION UNDER THE HEALTH & SAFETY TAB.

To support our policy aims we have developed a number of separate policies, based on UK Health & Safety law, which together cover the activities and practices undertaken in all our facilities worldwide.

The Group also publishes guidance documents and procedures for safe working for our facilities worldwide. Our increased focus on the auditing of our facilities and site service activities worldwide has led to significant improvements being achieved, particularly within our manufacturing facilities. We will continue to focus on health & safety in 2009 and expect to see further improvements across all our facilities.

Rotork operate a behaviour-based safety programme. This requires managers and supervisors to encourage safe working practices. It also promotes regular safety observations, encourages and holds employees accountable for working safely and regularly and asks employees for their ideas and suggestions for improving safety at their facility. This programme is supported by regular health & safety training, such as manual handling, confined space training and managing safety courses for line management.

We monitor both the number of workplace injuries and illnesses, and the number of 'lost-time' workplace injuries. Our target is to achieve lower than industry averages for our sector. In 2008, the rate at which industrial accidents occurred at all our facilities worldwide was 0.74 injuries per 100,000 hours worked.

► FURTHER DETAIL ON LOST TIME WORKPLACE INJURIES CAN BE SEEN UNDER KEY PERFORMANCE INDICATORS ON PAGE 23.

SHAREHOLDERS

Information on our communication with shareholders, a key stakeholder group, is contained in the Corporate Governance section on page 36.

OUR PEOPLE

Information on our communication with employees is contained in the Business Review Introduction on page 16.

COMMUNITY INVOLVEMENT

Rotork considers it important to contribute and engage positively with stakeholders and in the communities in which it operates, especially where it has substantial sites with relatively large numbers of employees, for example its Bath site.

Rotork's community objectives include being a good community neighbour. The Group regards this as part of its responsibilities as a corporate entity. This also ties in with the Group's corporate values which include producing a positive and beneficial impact in the areas in which it operates.

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, including senior management, considers local community charitable and similar requests at the Bath site. There is a clearly defined level of corporate giving allocated to the Bath site Charity Committee. Projects are then followed up with visits and reports by employees and feedback to the Charity Committee.

Sponsorship is provided 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 group supporting local initiatives for cultural, social and economic development.

Rotork is a member of an initiative of the Engineering Development Trust and sponsors a science project currently being undertaken by pupils in the sixth form of a local Bath school. Rotork has also recently become the industry representative founding member of the Bath Educational Trust, which have its objectives educational advancement in local schools and the promotion of community cohesion.

Individual employees or groups of employees also engage in community activities and the Charity Committee normally matches monies raised by employees who undertake 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.

Following its £35,000 grant to the Research Institute for the Care of the Elderly, in 2008 the Company donated a further £25,000 to the Royal United Hospital charitable fund to build a new neonatal intensive care unit. This is described as a pioneering project which will develop exemplary methods of care for premature babies and support for their families within a holistic neonatal intensive care unit.

During the year employees at the Group's Rotork Shanghai manufacturing plant raised over £1,700 for the Red Cross, China Earthquake Appeal and the Rotork Shanghai company contributed a further £2,000 to that appeal.

In early 2009, employees at the Company's Australian subsidiaries together raised money for the Red Cross Australian Fires Appeal. The local subsidiaries matched this sum providing the appeal with a total of £3,000.

The Company is currently working on a Group-wide community policy, recognising that as an international company its community responsibilities are also international. Already the Company has in place regular corporate charitable giving arrangements in some of its larger manufacturing plants including USA, Sweden and Italy.



PETER FRANCE
CHIEF EXECUTIVE
2 MARCH 2009

BUSINESS REVIEW: CORPORATE RESPONSIBILITY

CHARITABLE DONATIONS

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

Macmillan Cancer Support	NSPCC
Brassmill Open Space Family Fun Afternoon	The Big Heart Bike Ride
Nesa	The Mayor's Christmas Party for Children with Special Needs
St. Philip & St. James Church – South India Fund	York & District Against Motor Neurone Disease
Meningitis UK	Weston Day Club for the Elderly
Juvenile Diabetes Research Foundation	Young & Free
Headway	MS Trust
The Jessie May Trust	Beaumonts Children's Home
Quartet Community Foundation	Friends of the RUH Patients' Handbook
Sing for Life Bath Showcase	Samaritan's Purse
Hop Skip & Jump	Little Sisters of the Poor
Avon Riding Centre for the Disabled	RUH – NICU Space to Grow Campaign
Camerton Church School	Bath Charities Annual Fayre
Bridgemoor	Willows Counselling Service
Friendship Walks	Children's Heart Federation
Barton Training Trust Safety Net Programme	Vision Bath
City of Bath College Voluntary Work Placement in the Gambia	Stepping Stones Pre-School
Bath Junior Gateway Club	Somerset Prostate Support Association
St. Philip's CE VC Primary School	Oldfield Park Baptist Pre-School
Golden-Oldies	The Rainbow Centre for Children
Scout and Guide Jamboree	Samaritans
Hammer Out	HeartLine
Alzheimer's Society	Julian House
Bristol Royal Hospital for Children	BIME
Dyrham & Hinton Cricket Club	Christian Lewis Trust
Cancer Research UK	The Genesis Trust
MIND	MACS Charity
Girlguiding South West Activity Weekend	Children's Hospice South West
Children's Heart Surgery Fund	WaterAid
Rotary Club Charity Golf Day	

ROTORK MANAGEMENT BOARD

The Rotork's Management Board ('RMB') is the executive committee of Rotork directors responsible for ensuring the development, implementation and execution of Group strategy. The RMB meets at least quarterly during the year.

ALEX BUSBY

Alex (49) joined in 1985 and spent four years at Rotork. He then went to a major competitor where he held various management roles in Asia and Europe. On rejoining Rotork in 2003 he became Business Development Manager, then Business Development Director, before taking on the role of Managing Director, Rotork Fluid Systems.

Number of years in industry	24
Number of years at Rotork	10

DAVID LITTLEJOHNS

David (40) joined Rotork in 1985, working in the engineering design department. He moved to the USA in 1996 as an engineer in our plant in Rochester, New York from where he moved into a sales role, initially on the East coast and latterly as Sales Manager in California. In 2006 he returned to the UK as Managing Director of the Rotork Gears Division.

Number of years in industry	24
Number of years at Rotork	24

STEPHEN JONES

Stephen (50) joined Rotork in 1999. He is Group Legal Director and Company Secretary. He is a Solicitor and has held previous positions in industry and private practice.

Number of years in industry	21
Number of years at Rotork	10

ALASTAIR SPURR

Alastair (40) joined Rotork in 2005 as Operations Director of the Rotork Controls division. He is a Chartered Engineer and has previously held positions within the engineering, construction and retail industries.

Number of years in industry	22
Number of years at Rotork	4

CARLOS ELVIRA

Carlos Elvira (52) joined Rotork in 1981 as an engineering graduate, becoming our first graduate trainee in International Sales. He became Middle East and European International Area Manager in 1984 and later International Sales Manager in 1989. He has been Sales and Marketing Director since September 1999.

Number of years in industry	27
Number of years at Rotork	27

BOARD OF DIRECTORS

EXECUTIVE

BOB ARNOLD

Bob (57), 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.

PETER FRANCE (CHIEF EXECUTIVE)

Peter (40) joined Rotork in 1989 and in 2008 was appointed Chief Executive of Rotork p.l.c. Prior to that appointment Peter has had roles within Rotork as Chief Operating Officer, Managing Director of Rotork Fluid Systems, Director of Rotork's Singapore company with responsibility for South East Asia and in International Sales.

GRAHAM OGDEN

Graham (52) holds a PhD and 1st class honours degree in electronic engineering from Bristol University and has been with Rotork since 1985. Since joining Rotork, Graham has been closely involved in product development including our award-winning IQ series. He was appointed to the Rotork Controls Divisional board in 1997 as Research & Development Director and joined the Board of Rotork p.l.c. in January 2005.

BOB SLATER

Bob (57) joined Rotork in 1989 as Finance Director of the Rotork Controls 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.

**THE BOARD OF DIRECTORS
COMPRISES THE
CHAIRMAN, THE
THREE INDEPENDENT
NON-EXECUTIVE
DIRECTORS AND THE FOUR
EXECUTIVE DIRECTORS
ALL SUPPORTED BY THE
COMPANY SECRETARY.**

NON-EXECUTIVE

ROGER LOCKWOOD (CHAIRMAN)

Roger (63) has been a non-executive director of Rotork p.l.c. since joining the Board in 1988 and became non-executive Chairman in November 1998. He is Chairman of The Colston Manufacturing (Engineering) Company Ltd and Hydro International plc and has previously held CEO roles in automotive and engineering businesses. He is Chairman of the Nomination Committee.

IAN KING

Ian (52) joined the Board in February 2005 as a non-executive director. He is Chief Executive of BAE Systems plc. Ian has previously held senior financial and general management positions at Marconi. He is a member of the Audit, Remuneration and Nomination Committees and is the senior independent non-executive director.

JOHN NICHOLAS

John (52) was appointed to the Board in 2008 as a non-executive director. He was previously Group Finance Director of Tate & Lyle plc and Kidde plc. He is also a non-executive director of Ceres Power Holdings plc. He is Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees.

ALEX WALKER

Alex (62) joined the Board as a non-executive director in January 2001. He was previously Chief Executive of Yule Catto & Co. plc until 2006. He is also a non-executive director of Spirent Communications plc. He is Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees.

This section of the Report deals with how the Board and its Committees discharge their duties and how we apply the principles in the UK's Combined Code on Corporate Governance ('the Code'). Here you will find detailed statements concerning our compliance with the provisions of the Code. The role that Board Committees play in UK corporate governance is very significant and certain responsibilities need to be overseen by directors who are independent of the activities they are required to oversee.

The following pages set out how the Company applies the main and supporting principles of the Code applicable to the accounting period applying to this Annual Report & Accounts. Specific disclosures required within the provisions of the Code are also made within this section.

KEY

- [] Combined Code compliant
- [♦] Issue under review

CODE COMPLIANCE STATEMENT

All current serving executive directors now have a one year notice period in their service contracts [B.1.6]. Following the appointment of JE Nicholas as a director in February 2008, currently there are three independent non-executives as accepted by the Code on the Board and the Board Committees. They are IG King, A Walker and JE Nicholas [A.3.1.]. As Rotork p.l.c. is considered a large company by the Code it is recognised that full compliance currently would require one further independent non-executive to be appointed so that half the Board excluding the Chairman comprise independent non-executive directors [♦A.3.2].

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 Board has responsibility for the Group's system of internal control and risk management and reviews its effectiveness annually in accordance with the latest Turnbull guidance and the Code [C.2.1]. The review covers financial, operational, compliance and risk management controls. The role of management is to implement and maintain the internal control and risk management systems. 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. Further details of the Group's internal controls are disclosed

under the Audit Committee and Risk Management headings below.

The processes that are used by the Board to review the effectiveness of this system of internal control include the following [C.2.1]:

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 & safety and environmental issues;
- Discussed with management the range of actions taken on problem areas for the business identified by Board members or in the internal and external audit reports.

Additionally:

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

CORPORATE GOVERNANCE

Prior to the year end the full Board, following detailed consideration by the Audit Committee, formally reviews the effectiveness of the Group's system of internal control.

RISK MANAGEMENT

A continuous process for identifying, evaluating and managing the significant risks faced by the Group continued to be applied and developed during the year under review and operated up to the date of approval of the Annual Report & Accounts.

Senior managers with responsibility across all functions participate in the risk management process that identifies any new key risks facing the Group's businesses, evaluates them and re-evaluates those key risks already identified on a regular basis. 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.

This year the process included separate exercises to identify and evaluate key risks at divisional level by each divisional Board. These divisional key risks were then collated and considered for Group materiality. They were then evaluated formally at a Group risk review exercise attended by all members of the divisional Board and the Rotork Management Board. The Chairman and two of the three non-executive directors also attended. The output of that meeting identified risks with weightings for likelihood and Group impact. The principal risks and uncertainties facing the Group are commented on in the Business Review section of this Annual Report & Accounts on page 24.

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 & 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.

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

	BOARD MEETING	AUDIT COMMITTEE	REMUNERATION COMMITTEE	NOMINATION COMMITTEE
RH Arnold	8	—	—	—
PI France	8	2 ¹	3 ¹	—
GM Ogden	8	—	—	—
RE Slater	8	3 ¹	—	—
WH Whiteley ²	3	1 ¹	1 ¹	2
IG King	6	1	3	2
RC Lockwood	8	3 ¹	3 ¹	2
JW Matthews ²	3	1	1	—
A Walker	7	3	3	2
JE Nicholas ³	6	3	3	—

¹ by invitation.

² WH Whiteley and JW Matthews resigned from the Board on 2 May 2008.

³ JE Nicholas joined the board on 28 February 2008.

THE BOARD

The Board currently has eight members comprising: the Chairman, the three independent non-executive directors as accepted by the Code, and four executive directors.

The Company's Articles of Association provide that one third of the directors shall retire from office by rotation at each Annual General Meeting ('AGM'). Additionally new directors are subject to election by shareholders at the first opportunity after their appointment [A.7.1]. In line with the Code guidance non-executive directors are normally appointed for an initial term of three years, which is then reviewed and extended for up to a further two three year periods [A.7.2]. On appointment directors receive a suitable and tailored induction [A.5.1]. There is a clear division of responsibility approved by the Board in writing between the Chairman, RC Lockwood, and the Chief Executive, PI France, 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 [A.2.1]. JW Matthews was the senior independent non-executive director until his retirement from the Board in May 2008. IG King is the current senior independent non-executive director [A.3.3].

DIRECTORS' ATTENDANCE AT BOARD AND COMMITTEE MEETINGS [A.1.2]

Attendance at Board and scheduled committee meetings is shown above.

There are usually seven meetings of the Board which take place throughout the year [A.1.1].

During the year Board meetings are scheduled at manufacturing sites other than the Company's headquarters and manufacturing site 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 its manufacturing site in Leeds. In May 2009 visits to Spain, Germany and the Netherlands are planned.

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 & 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 and Board and Committee membership. The directors also have powers to issue and buy back the Company's shares conferred annually by the shareholders at the AGM. The Board regularly considers and discusses future strategy, following submissions by

CORPORATE GOVERNANCE

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 [A.1.1].

The Chairman ensures that meetings of non-executives without the executives present are held [A.1.3]. All directors have access to the advice and services of the Company Secretary and through him they can request and obtain independent professional advice at the Company's expense where they judge it necessary to discharge their responsibilities as directors [A.5.2 and A.5.3]. The Company maintains appropriate directors' and officers' insurance cover [A.1.5].

PERFORMANCE EVALUATION

A formal process for performance evaluation of the Board, its Committees and individual directors takes place annually. For 2008, the evaluation took the form of a questionnaire prepared in conjunction with external consultants covering a wide range of Board related matters. This questionnaire was developed and enhanced following feedback in previous evaluations to focus on those matters that the Chairman considered were of most interest to Board members. The results and analysis including the main findings of the evaluation were reported to the Board. Appropriate action will be taken on the findings during the following year and then re-evaluated at the next annual evaluation [A.6.1].

REPORT OF THE NOMINATION COMMITTEE

ROGER LOCKWOOD,
CHAIRMAN

By recommending John Nicholas's appointment to the Board, the Nomination Committee ensured the Audit Committee continues to include a non-executive with significant, recent and relevant financial experience and that all Board Committees have a membership of three independent non-executive directors.

RESPONSIBILITIES

- Reviewing regularly the composition of the Board and making recommendations to the Board on any desired changes;
- Planning for the orderly succession of new directors to the Board including, identifying and nominating for the Board's approval suitable candidates to fill non-executive vacancies;
- Recommending to the Board the membership of Board Committees.

COMPOSITION

The Nomination Committee's members during the year under review were RC Lockwood (who chairs the Committee), A Walker, IG King, JE Nicholas, PI France and JW Matthews and WH Whiteley. Following the appointment of JE Nicholas, for which a search by an external consultancy was undertaken and the resignation during the year of WH Whiteley and JW Matthews, the Nomination Committee now again comprises three independent directors, the Chief Executive and the Chairman. A majority of the members of the Nomination Committee are therefore independent non-executive directors as accepted by the Code [A.4.1].

► THE TERMS OF REFERENCE OF THE NOMINATION COMMITTEE CAN BE ACCESSED ON THE COMPANY'S WEBSITE IN THE INVESTORS' SECTION [A.4.1].

ACTIVITIES OF THE NOMINATION COMMITTEE DURING THE YEAR

A major part of the work of the Committee during the year involved the selection of an additional independent non-executive director, JE Nicholas, and the new senior independent director, IG King [A.3.3]. John Nicholas was appointed following a search by an external search consultancy and interviews with two short-listed candidates involving all members of the Board [A.4.6]. In making the appointment the Board took due account of the balance of skills, knowledge and experience on the Board including the Code requirement that at least one member of the Audit Committee should have recent and relevant financial experience [A.4.2 and C.3.1].

REPORT OF THE AUDIT COMMITTEE

JOHN NICHOLAS
NON-EXECUTIVE DIRECTOR

I am pleased to report to you as Chairman of the Audit Committee and would like to take this opportunity to thank my predecessor, John Matthews, for his contribution during his tenure as Committee Chairman. During 2008 the Audit Committee continued to work to ensure the Group further embedded internal control and risk management into the operations of the business. Regular reviews of key accounting judgements or financial results continued throughout the year.

MAIN RESPONSIBILITIES

- Reviewing the effectiveness of the Company's financial reporting, internal control policies and procedures for the identification, assessment and reporting of risk;
- Monitoring the role and effectiveness of the internal audit function;
- Keeping the relationship with the Auditors under review, including the Terms of Engagement and fees, and their independence;
- Monitoring the integrity of the Company's financial statements;
- Reviewing significant financial reporting issues and judgements.

JW Matthews stepped down as Chairman of and as a member of the Committee on 29 February 2008. JE Nicholas became Chairman of the Committee on 1 March 2008. The other members of the Committee during the year were A Walker and IG King. There were therefore at all times throughout the year three independent non-executive directors who were members of the Audit Committee [C.3.1]. The Board is satisfied that at least one member of the Committee, JE Nicholas, has recent and relevant financial experience having recently served as a Finance Director of a large listed company. 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.

ACTIVITIES OF THE AUDIT COMMITTEE DURING THE YEAR

The Committee meets at least three times a year. An annual rolling Audit Committee Agenda is reviewed at each meeting and ensures that all matters within the Audit Committee's Terms of Reference during the year are appropriately covered. All published financial information is reviewed and recommended for Board approval by the Committee.

During the year the Committee actively reviews the actions and judgements of management in relation to the Group's financial statements, Business Review and preliminary and interim announcements before their submission to the Board with the Committee's recommendations for approval or otherwise.

The internal audit function is undertaken by members of the Group's finance departments who all have other distinct posts. Further detail is provided in the Internal Control section. The Finance Director is also Head of Internal Audit. This method of internal audit is reviewed annually by the Committee. The Committee remains satisfied with the arrangements which ensure a comprehensive audit programme is undertaken across the Group's extensive worldwide operations annually [C.3.5].

The Committee reviews internal control and risk management procedures including fraud risk management during the year. It reviews the annual internal audit plan and resourcing. The results and significant findings of all internal audits are reported to the Committee in detailed narrative and tabular formats. Management's

responsiveness to internal audit recommendations is reviewed. Internal audit performance and effectiveness is reviewed. The key Group risks and mitigating controls are also submitted to the Audit Committee for review.

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.

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 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 are set out in note 8. Tax advice provided by the Auditor substantially relates to compliance matters [C.3.7].

Within the Audit Committee's Terms of Reference is a requirement for the Committee to assess the independence of the external auditor, ensuring lead partners are rotated at appropriate intervals and to ensure that the provision of non-audit services does not impair the external auditor's independence or objectivity. This assessment was undertaken by the Committee during the year.

The Terms of Reference of the Audit Committee which are reviewed at least annually by the Committee are available to view on the Company's website www.rotork.com in the Investors' section [C.3.2 and C.3.3]. The Committee considers the appointment of the Auditor [C.3.6] and recommends to the Board the audit fees for shareholder approval at the AGM.

The work undertaken by the Committee in discharging its internal control responsibilities is described under the Internal Control section above.

CORPORATE GOVERNANCE

REMUNERATION COMMITTEE

The work of the Remuneration Committee is described in the Remuneration Report on pages 37 to 42. The Chairman and Chief Executive were invited to and did attend all meetings but neither was in attendance when their own remuneration and fees respectively 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 comments from analyst meetings and shareholder meetings after both interim and final results [D.1.1] and other updates from its corporate advisers. The Chief Executive reports at each Board meeting upon his meetings with analysts, fund managers and shareholders [D.1.2].

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.

At the AGM all proxy votes are counted and (except in the event of a poll being called) the balance for and against the resolution and the number of votes withheld 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. A separate resolution is prepared on each substantially separate issue [D.2.1].

The Chairman of the Audit, Remuneration and Nomination Committees are available to answer questions at the AGM and all directors attend [D.2.3].

The Notice of AGM and related papers are sent to shareholders at least 20 working days before the meeting [D.2.4].

REMUNERATION REPORT

ALEX WALKER
NON-EXECUTIVE DIRECTOR

I am pleased to report to you as Chairman of the Remuneration Committee. The Remuneration Committee is responsible for formulating the Company's remuneration policy as it applies to senior executives. A core aim of this policy is to ensure pay practice for senior management at Rotork is appropriate for the Company and its shareholders. Below are set out the key responsibilities of the Remuneration Committee.

REMUNERATION COMMITTEE RESPONSIBILITIES

- Formulating a policy for remuneration of the Chairman and executive directors;
- Within the agreed policy, determining individual remuneration packages for the Chairman and executive directors and reviewing level of remuneration for other Rotork Management Board members;
- Agreeing the terms and conditions to be included in service agreements for executive directors, including termination payments.

➡ THE FULL TERMS OF REFERENCE OF THE REMUNERATION COMMITTEE CAN BE FOUND IN THE INVESTORS' SECTION OF THE COMPANY'S WEBSITE, WWW.ROTORK.COM [B.2.1].

KEY

- [] Combined Code compliant
- [+] Issue under review
- [▲] Audited information

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 Auditor is required to report on the information concerning directors' emoluments, Long-term incentive plan and other share awards and pension disclosures.

COMMITTEE MEMBERSHIP

The Remuneration Committee ('the Committee') of the Board is currently comprised of three independent non-executive directors, A Walker, IG King and JE Nicholas [B.2.1]. The Chairman and Chief Executive are invited to attend the meetings of the Committee other than when their own remuneration is considered. 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 [B.2.2]. The Committee determines the terms of any discretionary share schemes in which executive directors may be invited to participate.

REMUNERATION POLICY

For the year under review, the Board continued to consider that it was critical that the Company had remuneration policies that enabled it to motivate, retain and, when required, recruit high quality management. Levels of remuneration should be sufficient to meet these objectives but should not be excessive. 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 revenue and made use of proprietary and other data

supplied by its independent consultant PricewaterhouseCoopers ('PwC'). The Committee considers it important that a significant proportion of executive directors' potential total remuneration is performance related [B.1.1]. This is demonstrated by the percentage of basic salary potentially payable as cash or share awards under the annual cash bonus scheme and Long-term incentive plan ('LTIP'). The Committee confirms that PwC do not have any other connection with the Company. The Committee reviews remuneration policy annually.

ACTIVITIES DURING THE YEAR

During the year the Committee received salary and remuneration advice from their appointed adviser PwC for executive directors and senior management. The Chief Executive provides comment and recommendations on the remuneration of the other executive directors and takes account of the recommendations of the Committee concerning the level and structure of remuneration for the other Rotork Management Board members [B.2.2].

NON-EXECUTIVE DIRECTORS

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 (see table on next page).

The fees of the non-executive directors, other than the Chairman, are determined by a Board Committee of the Chief Executive and Chairman. The fees of the Chairman are determined by the Remuneration Committee.

REMUNERATION REPORT

EXECUTIVE DIRECTORS' CONTRACTS OF EMPLOYMENT

RE Slater, RH Arnold, GM Ogden and PI France's service contracts are all rolling service contracts with a one year notice period [B.1.6]. For future executive director appointments, the Board's intention will be to continue to limit service contracts to one year on a rolling basis.

None of the executive directors has any external directorships with the exception of PI France who is a director of Bath Educational Trust Limited, for which he receives no fee.

EXECUTIVE REMUNERATION

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'), discretionary Rotork Long-term incentive plan 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 2004 all LTIP Awards to executive directors have been 100% of basic salary, being the maximum level of award under the plan rules as approved by shareholders. Following a review by the Committee, for LTIP Awards from 2006 onwards shareholders agreed a reduction to a vesting of 30% of the Award value for median performance within the comparator group. For previous Awards the scheme pays 40% at median performance within the comparator group. A 100% vesting of the Award is made for performance at or above the 75th percentile with a pro-rata vesting scale down to the median. The performance requirements for any and all the award percentage to vest is explained on page 70.

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	2/5/2008	1 year	1 year	6/4/2033
GM Ogden	1/1/2005	1 year	1 year	9/1/2017
RE Slater	1/6/1998	1 year	1 year	10/4/2011

NAME OF NON-EXECUTIVE DIRECTOR	DATE OF LETTER OF APPOINTMENT	NOTICE PERIOD FROM COMPANY	NOTICE PERIOD FROM NON-EXECUTIVE DIRECTOR
IG King	15/2/2008	3 months	3 months
RC Lockwood	1/1/2006	3 months	3 months
JE Nicholas	28/2/2008	3 months	3 months
A Walker	6/1/2006	3 months	3 months

The Committee has recommended and the Board approved a revised executive share retention policy. The policy supports the accumulation of significant shareholdings in the Company by executive directors and other senior executives. The current policy requires executive directors to achieve a minimum holding of ordinary shares in the Company equivalent to 50% of their basic salary. From end of 2009 this minimum holding will be increased to 150% of basic salary for executive directors. Executive directors 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.

In 2007 the Committee reviewed the constituents of the comparator group and brought in additional companies to bring the number back up to 20 for future grants as the number had reduced to seventeen. Certain companies were also replaced with more suitable 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 up to the 2006 grant and following the review described above for the 2007 grant and onwards are set out on pages 39 and 40.

EXECUTIVE BONUS 2008

The executive annual cash bonus plan applying in 2008 rewards increases in profit, when compared with 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. For 2008 the total annual bonus payment was capped at 100% of basic salary earned during the year for the Chief Executive and at 60% of basic salary for other executive directors.

For 2008, for the profit element of bonus, a sum equal to 1% of basic salary will be paid as bonus for each 1% by which adjusted profit exceeds the average adjusted profit of the three prior years. 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; this mechanism will not apply from 2009. Adjustments to profit comprise exceptional items, non-recurring profits/losses and excluding interest receivable/payable. This element of bonus pays up to a maximum of 30% of 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. 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

LONG-TERM INCENTIVE PLANS ('LTIP') [▲]

	OUTSTANDING SHARE OR CASH UNIT AWARDS MADE TO 1 JANUARY 2008	SHARE OR CASH UNIT AWARDS MADE DURING 2008 ¹	SHARE OR CASH UNIT AWARDS VESTING IN 2008 ²	LAPSED IN 2008	OUTSTANDING SHARE OR CASH UNIT AWARDS AT 31 DECEMBER 2008
RH Arnold ³	102,468	16,208	33,106	–	85,570
PI France	56,681	28,817	15,374	–	70,124
GM Ogden	80,887	16,120	15,374	–	81,633
RE Slater	122,252	20,453	38,759	–	103,946

¹ All awards were granted on 29 February 2008 with the exception of 9,674 awards granted to PI France on 29 May 2008. The market price of shares in the Company at the date of Award of 29 February 2008 was £9.93 and at the date of Award of 28 May 2008 was £11.37.

² The 2004 LTIP Award vested at 100%.

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

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 the 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 on page 48. 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.

The Committee approved revisions to the executive bonus scheme during 2008 which will be applicable from 2009. The scheme will continue to be based on the same components and calculation methods described on page 38 for the 2008 scheme. However the profit element of bonus will from 2009 be calculated by reference to the simple average profit in the three immediately preceding years, with no limitation of 130% applying to any of those three years. A sum equal to 1.5% of salary will be awarded for each 1% growth in profit when compared to such average profit in the three preceding years up to a maximum of 50% of basic salary. The EPS element of the 2009 annual bonus will be reduced to a maximum 10% of basic salary.

Following these changes for executive directors other than the Chief Executive their bonus payment shall be limited to an 80% of basic salary opportunity. The Chief Executive's bonus shall be limited to a 100% of basic salary opportunity by applying the fraction 100/80 to the amount of bonus percentage of basic salary calculated for other executive directors in any year.

ROTORK LONG-TERM INCENTIVE PLANS [▲]

Following shareholder approval of the LTIP at the Company's AGM on 18 May 2000, Awards over shares were made to executive directors and senior managers every year from 2000. Executive director LTIP Awards still outstanding at 31 December 2008 are set out in the table above.

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 50th percentile position in the comparator group at the end of the relevant performance period. TSR measures the change in value of a share and reinvested dividends over the period of measurement. The actual number of shares or cash units transferred will be determined by the number of shares or cash units initially allocated multiplied by a vesting percentage which for Awards granted up to and including the year 2005 will be 40% at the 50th percentile rising to 100% at the 75th percentile with each percentile position above the 50th adding 2.4% to the vesting percentage.

From 2006 grants the relevant vesting percentages are 30% at the 50th percentile rising to 100% at the 75th percentile with each percentile position above the 50th adding 2.8% to the vesting percentage.

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.

Following his retirement on 2 May 2008 the Committee, exercising its absolute discretion and after considering the performance of the Company, awarded WH Whiteley shares with respect to outstanding LTIP awards at the time of his retirement, awarded in years 2005, 2006 and 2007, which would otherwise have lapsed.

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 ('RPI') 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 were:

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

REMUNERATION REPORT

FREE SIP SHARE AWARDS TO EXECUTIVE DIRECTORS [▲]

	AWARDS IN		TOTAL AWARDS HELD	
	2008	2007	2008	2007
RH Arnold	763	939	1,778	1,924
PI France	286	352	3,241	2,955
GM Ogden	286	352	3,421	3,135
RE Slater	286	352	3,583	3,297

DIRECTORS' EMOLUMENTS (£000) [▲]

	SALARY AND FEES	BONUS	BENEFITS*	PENSION SUPPLEMENT	2008* TOTAL	2007* TOTAL
Executive directors						
RH Arnold ¹	178	107	16	–	301	254
PI France ^{2,3}	263	243	17	27	550	256
GM Ogden	160	96	17	–	273	256
RE Slater	203	122	17	–	342	320
WH Whiteley ⁴	120	72	6	–	198	512
Non-executive directors						
IG King	33	–	–	–	33	27
RC Lockwood	90	–	–	–	90	75
JW Matthews ⁵	19	–	–	–	19	33
JE Nicholas	26	–	–	–	26	–
A Walker	36	–	–	–	36	27
	1,128	640	73	27	1,868	1,760

¹ RH Arnold is paid in US dollars.

² PI France was promoted to Chief Executive Officer, Rotork p.l.c. during the year and part of his salary relates to this position and the remainder to his previous position as Chief Operating Officer, Rotork p.l.c.

³ PI France is subject to the Rotork p.l.c. Pension and Life Assurance Scheme specific salary cap. In consideration of this limitation on his benefits under the Scheme from 2 May 2008 he receives a monthly cash sum equal to 22.5% of that part of his basic salary which was above the Scheme's specific cap on an annualised basis.

⁴ WH Whiteley retired from the Board on 2 May 2008.

⁵ JW Matthews retired from the Board on 2 May 2008.

* These columns include the cash value on allocation of SIP and OPLSS share Awards as appropriate.

From the 2007 LTIP grant the following comparator companies are used:

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 Her Majesty's Revenue & Customs ('HMRC'). 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 HMRC limits.

The beneficial interests at 31 December included ordinary shares held under the SIP and the OPLSS in trust as shown in the table above. Details of total free share Awards under the SIP and OPLSS and Awards made to executive directors in 2008 and the prior year are also set out above. Free shares awarded to all three UK executive directors under the SIP are subject to the HMRC upper limit of £3,000 by value. This limit will also apply to RH Arnold under the OPLSS from 2009 onwards.

Additionally RE Slater has purchased 'partnership' shares under the SIP. His SIP partnership holdings as at 31 December 2008 were 1,582 ordinary shares.

RH Arnold, in common with other eligible overseas employees, participates in the OPLSS. The scheme trustee is based in Guernsey, Channel Islands. The figure shown for RH 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. RE Slater was granted 5,170 share options on 8 October 2004 at an option price of £3.196 under the Scheme. PI France was granted 3,484 share options on 5 October 2005 at an option price of £4.62. On 1 December 2007 GM Ogden was granted 2,071 share options under the Rotork Sharesave Scheme at an option price of £8.11. These options are all exercisable five years from grant. The exercise period is six months duration after which the options lapse.

The only other changes in the directors' interest 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 2008.

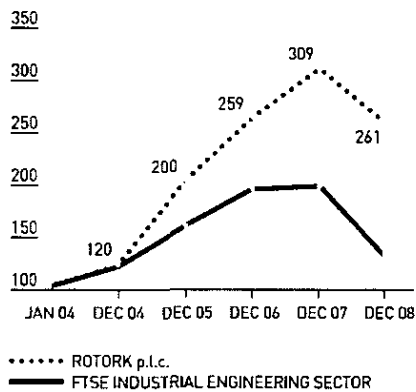
REMUNERATION REPORT

TOTAL SHAREHOLDER RETURN

A graph showing the value, by 31 December 2008, of £100 invested in Rotork p.l.c. on 1 January 2004 compared with the value of £100 invested in the FTSE Industrial Engineering Sector Index is set out below. The other points plotted show values at intervening financial year ends.

The graph measures the Company's performance against other companies in the FTSE Industrial Engineering sector by showing the total shareholder return ('TSR') on a holding of ordinary shares in the Company compared with the average total shareholder return of other companies in its sector being the sector within which the Company is quoted on the London Stock Exchange and which is therefore considered the most appropriate index over the five year period to 31 December 2008.

VALUE (£)



INTERESTS IN SHARES

The interests of the directors in the ordinary share capital of the Company at 31 December are shown in the table.

All interests were beneficial and include directors' directly held and family share interests and in total represent less than 1% (2007: less than 1%) of voting shares of the Company.

INTERESTS IN SHARES

	2008 NUMBER	2007 NUMBER
RH Arnold	18,270	17,460
PI France	20,490	13,134
GM Ogden	18,653	16,613
RE Slater	59,439	42,575
A Walker	8,500	5,000
IG King	-	-
RC Lockwood	-	-
JE Nicholas	-	n/a

REMUNERATION REPORT

PENSION DISCLOSURES REQUIRED UNDER THE LISTING RULES OF THE UK LISTING AUTHORITY [▲]

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

	AGE AT 31 DECEMBER 2008	INCREASE IN ACCRUED PENSION OVER THE YEAR (NOTE 1) £	ACCUMULATED ACCRUED PENSION AT 31 DECEMBER 2008 (NOTE 2) £
RH Arnold	57	32,425	97,622
PI France	40	4,704	37,507
GM Ogden	51	6,449	64,013
RE Slater	57	10,751	115,522
WH Whiteley	60	1,838	198,915

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 2008.
- A lump sum death benefit of four 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's pensionable salary used to calculate benefits in the defined benefit scheme is restricted to a Scheme specific earnings cap which is currently £117,600. In addition PI France receives a cash payment of 22.5% of salary above the earnings cap.
- 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 RH Arnold will provide a pension of 60% of uncapped basic salary at age 65.

PENSION DISCLOSURES REQUIRED UNDER THE DIRECTORS' REMUNERATION REPORT REGULATIONS 2002 [▲]

The 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 DECEMBER 2007 (OLD METHOD) £000	TRANSFER VALUE OF ACCRUED PENSION AT 31 DECEMBER 2007 (NEW METHOD) £000	TRANSFER VALUE OF ACCRUED PENSION AT 31 DECEMBER 2008 (NEW METHOD) £000	INCREASE IN TRANSFER VALUE OVER THE YEAR (NEW METHOD) £000
RH Arnold	34,324	825	825	1,239	414
PI France	5,659	630	410	591	181
GM Ogden	8,126	1,366	1,144	1,517	373
RE Slater	13,803	2,617	2,504	3,240	736
WH Whiteley	4,942	5,381	5,529	5,475	(54)

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 Board for Actuarial Standards. The increases in transfer values over the year are net of directors' contributions (if any).
- The method used to calculate the transfer values has been revised since 31 December 2007. Hence, the transfer values of the accrued pension as at 31 December 2007 have been disclosed on both the previous transfer value method (i.e. that which would have been applicable at the start of the year) and the current method. The increases in transfer values over the year have been calculated consistently using the current method at both the start and the end of the year.
- The increase in accrued pension and the increase in transfer value over the year for RH Arnold are relatively large due to movements in the US dollar relative to sterling. In US dollars, the accrued pension for RH Arnold increased from \$125,991 pa at 31 December 2007 to \$141,276 pa at 31 December 2008 and the transfer value increased from \$1,642,000 at 31 December 2007 to \$1,793,000 at 31 December 2008. The transfer value of accrued pension for RH Arnold reflects the benefits provided by the US scheme together with a US valuation of these benefits and is therefore not directly comparable with the transfer values for directors in the UK scheme.
- WH Whiteley retired from the Scheme on 2 May 2008. The increase in accrued pension for WH Whiteley is based on his pension entitlement at retirement, before cash commutation. The transfer value at 31 December 2008 on the new transfer value method for WH Whiteley is based on his pension entitlement at retirement, before cash commutation, and market conditions at retirement.



ALEX WALKER
CHAIRMAN
REMUNERATION COMMITTEE
2 MARCH 2009

REPORT OF THE DIRECTORS

The directors submit their report and the audited accounts for the year ended 31 December 2008 as set out on pages 46 to 81.

PRINCIPAL ACTIVITIES

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

The 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 Controls, Gears and Fluid Systems divisions. 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 on pages 14 to 28. 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 information about environmental matters, the Company's employees and social and community issues. The review contains analysis using financial and non-financial key performance indicators.

In January 2008 the Group acquired Remote Control Sweden AB; details of the transaction are provided in note 3 to the financial statements.

The principal risks and uncertainties facing the Group and the Group's approach to mitigating those risks are set out on page 24.

DIVIDENDS

The directors recommend a final dividend of £14,490,000 for the year, payable on 8 May 2009 to shareholders on the register on 14 April 2009. This represents 16.75p per ordinary share (2007: 14.0p). An interim dividend of 9.25p per ordinary share (2007: 7.7p) was paid on 26 September 2008, an additional dividend of 11.5p per ordinary share was paid on 11 July 2008 (2007: 9.3p).

SHARE CAPITAL

Details of the ordinary shares issued during 2008 are given in note 16. Details of the Company's share capital including rights and obligations attaching to each class of share are set out in note 16 of the financial statements. 5p ordinary shares represent over 99.9% of the Company's total share capital. £1 preference shares represent less than 0.1% of the Company's total share capital.

The Company's Articles of Association contain customary restrictions on the transfer of shares as applicable only in certain limited circumstances (e.g. in relation to transfers to a minor). Save for those provision there are no restrictions on the transfer of ordinary shares in the capital of the Company other than certain restrictions which may be required from time to time by law, for example, insider trading law. In accordance with the Model Code which forms part of the Listing Rules of the Financial Services Authority (as adopted by the Company) certain directors and employees are required to seek the prior approval of the Company to deal in its shares.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights. The Company's Articles of Association contain limited restrictions on the exercise of voting rights (e.g. in relation to disenfranchised shares following the issue of a notice to shareholders under Section 793 Companies Act 2006).

The Company's Articles of Association may only be amended by special resolution at a general meeting of shareholders.

The Company is not aware of any significant agreements to which it is party that take effect, alter or terminate upon a change of control of the Company following a takeover.

EMPLOYEE SHARE SCHEMES

Shares in the Company's share schemes all contain provisions providing voting rights to the scheme Trustee.

NOTIFICATION OF MAJOR INTEREST IN SHARES

Since the 2007 Directors' Report the Company has been notified of major interests and voting rights (held directly and/or indirectly) by the following:

	% OF VOTING RIGHTS
AXA	5
Blackrock	5
Lion Trust	5
Legal & General	4
Prudential	3

RESEARCH & DEVELOPMENT

Total Group expenditure on research & development in the year was £4,017,000 (2007: £3,375,000) further details of which are contained in the Business Review on pages 15 to 16.

CHARITABLE DONATIONS

During the year the Group made charitable donations of £71,000 (2007: £48,000).

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 pages 30 to 31. 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 37 to 42.

On 28 February 2008 JE Nicholas was appointed as a non-executive director.

WH Whiteley and JW Matthews both retired from the Board on 2 May 2008.

RE Slater, RH Arnold, GM Ogden and PI France have service agreements and details of these are contained in the Remuneration Report on pages 37 to 42.

The Company's procedure with regard to the appointment and replacement of directors and those powers reserved for the Board is described in the Corporate Governance Report on pages 32 to 36.

At the Annual General Meeting ('AGM'), in accordance with the Articles of Association, RC Lockwood and RH Arnold will retire by rotation and, being eligible, will offer themselves for re-election.

REPORT OF THE DIRECTORS

FINANCIAL INSTRUMENTS

An explanation of the Group policies on the use of financial instruments and financial risk management objectives are contained in note 23 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 respective responsibilities of Directors and Auditors 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' RESPONSIBILITY FOR PREPARING THE ANNUAL REPORT & 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 IFRS 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 IFRS as adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Company financial statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing each of the Group and Company financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- For the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;

- For the Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company financial statements;
- 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, 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.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report & Accounts.

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 233 of the Companies Act 2006.

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 AGM.

ANNUAL GENERAL MEETING

The AGM of the Company will be held at the Company's offices at Rotork House, Brassmill Lane, Bath BA1 3JQ on Friday, 24 April 2009 at 12 noon. A separate circular containing the Notice of the Meeting is sent to shareholders with this Annual Report & Accounts.



ON BEHALF OF THE BOARD

STEPHEN RHYS JONES

SECRETARY

2 MARCH 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ROTORK P.L.C.

We have audited the Group and parent company financial statements (the 'financial statements') of Rotork p.l.c. for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated Statement of Cash Flows, the Consolidated Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the 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 European Union, and for preparing the parent company financial statements and the Remuneration Report in accordance with applicable law and UK Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the 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 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 2006 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 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 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 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 European Union, of the state of the Group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent Company's affairs as at 31 December 2008;
- the parent company financial statements and the part of the 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

KPMG AUDIT PLC
CHARTERED ACCOUNTANTS
REGISTERED AUDITOR
BRISTOL
2 MARCH 2009

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	NOTES	2008 £000	2007 £000
Revenue	2	320,207	235,688
Cost of sales		(176,046)	(127,748)
Gross profit		144,161	107,940
Other income	4	42	227
Distribution costs		(3,535)	(2,954)
Administrative expenses		(65,697)	(49,811)
Other expenses	5	(82)	(15)
Operating profit before the amortisation of acquired intangible assets		76,014	55,461
Amortisation of acquired intangible assets		(1,125)	(74)
Operating profit	2	74,889	55,387
Financial income	7	7,073	6,607
Financial expenses	7	(6,211)	(4,741)
Profit before tax	8	75,751	57,253
Income tax expense	9	(22,331)	(17,957)
Profit for the year		53,420	39,296
		PENCE	PENCE
Basic earnings per share	17	62.0	45.6
Diluted earnings per share	17	61.6	45.2

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
FOR THE YEAR ENDED 31 DECEMBER 2008

	2008 £000	2007 £000
Foreign exchange translation differences	23,824	3,855
Actuarial gain/(loss) in pension scheme	1,290	(4,883)
Movement on deferred tax relating to actuarial (gain)/loss	(161)	1,241
Effective portion of changes in fair value of cash flow hedges	(4,719)	(254)
Income and expenses recognised directly in equity	20,234	(41)
Profit for the year	53,420	39,296
Total recognised income for the year	73,654	39,255

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2008

	NOTES	2008 €000	2007 €000
Assets			
Property, plant and equipment	10	23,868	17,549
Intangible assets	11	39,696	23,141
Deferred tax assets	12	10,925	6,614
Other receivables	14	1,137	850
Total non-current assets		75,626	48,154
Inventories	13	59,410	35,993
Trade receivables	14	63,694	44,262
Current tax	14	1,752	1,330
Other receivables	14	5,578	4,745
Cash and cash equivalents	15	41,390	38,253
Total current assets		171,824	124,583
Total assets		247,450	172,737
Equity			
Issued equity capital		4,325	4,323
Share premium		6,666	6,519
Reserves		21,288	2,180
Retained earnings		112,117	89,430
Total equity	16	144,396	102,452
Liabilities			
Interest bearing loans and borrowings	18	190	209
Employee benefits	19	8,637	11,047
Deferred tax liabilities	12	2,806	906
Derivative financial instruments	22	1,686	-
Provisions	20	1,660	1,157
Total non-current liabilities		14,979	13,319
Interest bearing loans and borrowings	18	157	118
Trade payables	21	32,803	21,567
Employee benefits	19	7,001	4,890
Current tax	21	12,197	8,791
Derivative financial instruments	22	5,624	544
Other payables	21	26,781	18,594
Provisions	20	3,512	2,462
Total current liabilities		88,075	56,966
Total liabilities		103,054	70,285
Total equity and liabilities		247,450	172,737

These financial statements were approved by the Board of Directors on 2 March 2009 and were signed on its behalf by:


PI FRANCE
DIRECTOR


RE SLATER
DIRECTOR

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2008

	NOTES	2008 £000	2008 £000	2007 £000	2007 £000
Cash flows from operating activities					
Profit for the year		53,420		39,296	
Adjustments for:					
Amortisation of intangibles		1,125		74	
Amortisation of development costs		352		309	
Depreciation		3,281		2,630	
Equity settled share-based payment expense		718		680	
Loss/(profit) on sale of property, plant and equipment		25		(159)	
Financial income		(7,073)		(6,607)	
Financial expenses		6,211		4,741	
Income tax expense		22,331		17,957	
		80,390		58,921	
Increase in inventories		(8,621)		(5,580)	
Increase in trade and other receivables		(4,293)		(4,873)	
Increase in trade and other payables		5,955		7,001	
Difference between pension charge and cash contribution		(823)		(2,938)	
Increase in provisions		1,554		713	
(Decrease)/increase in other employee benefits		(299)		2,875	
		73,863		56,119	
Income taxes paid		(22,547)		(15,071)	
Cash flows from operating activities			51,316		41,048
Investing activities					
Purchase of property, plant and equipment		(4,353)		(2,762)	
Purchase of intangible assets		(666)		-	
Development costs capitalised		(817)		(687)	
Sale of property, plant and equipment		90		228	
Acquisition of subsidiary, net of cash acquired		(12,714)		(8)	
Interest received		564		932	
Cash flows from investing activities			(17,896)		(2,297)
Financing activities					
Issue of ordinary share capital		149		671	
Purchase of ordinary share capital		(3,518)		(4,249)	
Purchase of preference shares treated as debt		(5)		-	
Interest paid		(294)		(112)	
Repayment of amounts borrowed		(82)		(456)	
Repayment of finance lease liabilities		(87)		(95)	
Dividends paid on ordinary shares		(29,970)		(24,732)	
Cash flows from financing activities			(33,807)		(28,973)
Net (decrease)/increase in cash and cash equivalents			(387)		9,778
Cash and cash equivalents at 1 January			38,253		28,398
Effect of exchange rate fluctuations on cash held			3,524		77
Cash and cash equivalents at 31 December	15		41,390		38,253

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

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 2008 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 27 all relate to the Group financial statements. The Company balance sheet can be found following note 27. As the Company has elected to continue reporting under UK GAAP, the applicable accounting policies are contained in note a, and notes b to k relate to the Company's financial statements.

1. Accounting policies

The accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

BASIS OF PREPARATION

The consolidated financial statements of Rotork p.l.c. have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs' as adopted by the EU), IFRIC Interpretations and the Companies Act 1985 applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared under the historical cost convention subject to the items referred to in the derivative financial instruments accounting policy below.

Interpretations effective in 2008

IFRIC 14 – Recognition of a Defined Benefit Pension Scheme Surplus and IFRIC 11, IFRS 2: Group and Treasury Share Transactions have been applied in the year and they have not had a material effect on the reported results or financial position of the Group for 2007 or 2008.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

IFRS 8 – Operating Segments, IFRIC 13 – Customer loyalty programmes and IAS 1 (revised) – Presentation of financial statements, together with the amendments to IAS 23, IAS 27, IAS 32 and IFRS 3 which are adopted by the European Union but not effective as at 31 December 2008 will be applied in 2009, 2010 or 2011 as applicable. They are not expected to have a material effect on the reported results or financial position of the Group.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year to 31 December 2008. 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 in accordance with the contracted shipping terms. 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

1. Accounting policies (continued)

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 ('CGU'). 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 five 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 one year for order backlog 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 50 years or the expected useful life of the building where less than 50 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
Plant and equipment	10% to 33%

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

LEASES

Where fixed assets are financed by leasing agreements, which give rights approximating to ownership, the assets are treated as if they had been purchased and the capital element of the leasing commitments is shown as obligations under finance leases. Assets acquired under finance leases are initially recognised at the present value of the minimum lease payments. The rentals payable are apportioned between interest, which is charged to the income statement, and liability, which reduces the outstanding obligation so as to give a constant rate of charge on the outstanding lease obligations. Costs in respect of operating leases are charged on a straight-line basis over the term of the lease in arriving at the operating profit.

TAXATION

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

1. Accounting policies (continued)

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 consolidated statement of cash flows.

EQUITY

Equity comprises issued equity capital, share premium, reserves and retained earnings.

When issued equity capital 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 investment plan grants awards of shares to executive directors and senior managers. These awards may vest after a period of three or 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 employee's 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

1. Accounting policies (continued)

EMPLOYEE BENEFITS (CONTINUED)

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.

DIVIDENDS

Interim dividends are recorded in the financial statements when they are paid. Final dividends are recorded in the financial statements in the period which they are approved by the Company's shareholders.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities in the next financial year are listed below.

i) Impairment of goodwill

Determining whether Goodwill is impaired requires an estimation of the value in use of CGUs to which Goodwill has been allocated. The value in use calculation involves an estimation of the future cash flows of CGUs and also the selection of appropriate discount rates, which involves judgement, to calculate present values. Details of the estimates and judgements in respect of the current year are in note 11.

ii) Defined benefit pension scheme liabilities

Determining the value of the future defined benefit obligation requires judgement in respect of the assumptions used to calculate present values. These include future mortality, discount rate inflation and salary increases. Management makes these judgements in consultation with an independent actuary. Details of the estimates and judgements in respect of the current year are in note 19.

NOTES TO THE GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (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. Intragroup trading is determined on an arm's length basis.

Business segments

The Group comprises the following business segments:

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

Fluid Systems – 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 and on pages 84 to 85 of this report.

ANALYSIS BY BUSINESS SEGMENT:

	CONTROLS 2008	FLUID SYSTEMS 2008	GEARS 2008	ELIMINATIONS 2008	CONSOLIDATED 2008
Revenue from external customers	204,510	88,570	27,127	–	320,207
Inter segment revenue	–	–	9,654	(9,654)	–
Total revenue	204,510	88,570	36,781	(9,654)	320,207
Segment result	57,466	12,075	8,621	–	78,162
Unallocated expenses					(3,273)
Operating profit					74,889
Net financing income					862
Income tax expense					(22,331)
Profit for the year					53,420

	CONTROLS 2007	FLUID SYSTEMS 2007	GEARS 2007	ELIMINATIONS 2007	CONSOLIDATED 2007
Revenue from external customers	164,226	47,919	23,543	–	235,688
Inter segment revenue	–	–	8,347	(8,347)	–
Total revenue	164,226	47,919	31,890	(8,347)	235,688
Segment result	43,536	7,164	7,259	–	57,959
Unallocated expenses					(2,572)
Operating profit					55,387
Net financing income					1,866
Income tax expense					(17,957)
Profit for the year					39,296

NOTES TO THE GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

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

	CONTROLS 2008	FLUID SYSTEMS 2008	GEARS 2008	UNALLOCATED 2008	CONSOLIDATED 2008
Segment assets	101,160	74,564	19,707	52,019	247,450
Segment liabilities	58,049	23,734	6,998	14,273	103,054
Depreciation	2,167	867	247	-	3,281
Amortisation:					
Other intangibles	-	1,070	55	-	1,125
Development costs	352	-	-	-	352
Non-cash items: equity settled share-based payments	365	37	51	265	718
Capital expenditure	2,585	2,077	232	-	4,894

	CONTROLS 2007	FLUID SYSTEMS 2007	GEARS 2007	UNALLOCATED 2007	CONSOLIDATED 2007
Segment assets	72,937	37,420	16,183	46,197	172,737
Segment liabilities	40,728	14,002	5,322	10,233	70,285
Depreciation	1,839	553	238	-	2,630
Amortisation:					
Other intangibles	-	27	47	-	74
Development costs	309	-	-	-	309
Non-cash items: equity settled share-based payments	378	45	25	232	680
Capital expenditure	2,052	689	253	-	2,994

ANALYSIS BY GEOGRAPHICAL SEGMENT:

	EUROPE 2008	AMERICAS 2008	REST OF THE WORLD 2008	UNALLOCATED 2008	CONSOLIDATED 2008
Revenue from external customers by location of customer	145,996	84,049	90,162	-	320,207
Segment assets by location of assets	131,330	37,658	26,443	52,019	247,450
Capital expenditure by location of assets	3,634	381	879	-	4,894

	EUROPE 2007	AMERICAS 2007	REST OF THE WORLD 2007	UNALLOCATED 2007	CONSOLIDATED 2007
Revenue from external customers by location of customer	110,679	56,298	68,711	-	235,688
Segment assets by location of assets	86,538	22,307	17,695	46,197	172,737
Capital expenditure by location of assets	2,197	275	522	-	2,994

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 2008 (CONTINUED)

3. Acquisition of subsidiaries

On 30 January 2008 the Group acquired 100% of the share capital of Remote Controls Sweden AB ('RC') a designer and manufacturer of valve actuators based in Falun, Sweden. The acquisition was accounted for using the purchase method of consolidation.

In the 12 months to 31 December 2008 the subsidiary contributed £18,261,000 to Group revenue and £2,208,000 to consolidated operating profit before the £985,000 amortisation charge from the acquired intangible assets. It is not practicable to disclose profit before tax as the Group manages its Treasury function on a Group basis. Similarly it is not practicable to disclose profit attributable to equity shareholders, as acquired businesses have been merged with existing Group companies in the period since the acquisition. If the acquisition had occurred on 1 January 2008 the results would not have been materially different.

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 Fluid Systems division.

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

	PRE ACQUISITION CARRYING AMOUNTS £000	FAIR VALUE ADJUSTMENTS £000	CARRYING AMOUNTS £000
Property, plant and equipment	1,115	–	1,115
Intangible assets	–	4,755	4,755
Inventories	2,905	–	2,905
Trade and other receivables	2,335	–	2,335
Cash and cash equivalents	587	–	587
Trade and other payables	(2,616)	–	(2,616)
Deferred tax liabilities	(105)	(1,331)	(1,436)
Borrowings	(55)	–	(55)
	4,166	3,424	7,590
Goodwill on acquisition			5,711
Consideration paid, satisfied in cash (including £162,000 expenses)			13,301
Purchase consideration settled in cash			13,301
Cash and cash equivalents in subsidiary acquired			(587)
Cash outflow on acquisition			12,714

The intangible assets identified comprise customer relationships, brand and acquired order book.

4. Other income

	2008	2007
Gain on disposal of property, plant and equipment	32	171
Non-executive fees receivable	10	25
Other	–	31
	42	227

5. Other expenses

	2008	2007
Loss on disposal of property, plant and equipment	57	12
Other	25	3
	82	15

NOTES TO THE GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

6. Personnel expenses

	2008	2007
Wages and salaries (including bonus and incentive plans)	55,654	43,473
Social security costs	6,167	4,426
Pension costs – for defined benefit plans	1,954	1,728
Pension costs – for defined contribution plans	1,469	1,030
Share-based payments (note 19)	1,582	2,054
Increase in liability for long service leave	41	30
	66,867	52,741

A total of £718,000 (2007: £680,000) of the above share-based payments are equity settled, comprising £nil (2007: £22,000) for the share option scheme, £89,000 (2007: £80,000) for the Sharesave plan and £629,000 (2007: £578,000) for the Long-term incentive plan. The cash settled portion £864,000 (2007: £1,374,000) all related to the Long-term incentive plan.

	2008 NUMBER	2007 NUMBER
During the year, the average weekly number of employees, analysed by business segment was:		
Controls	1,063	983
Fluid Systems	409	267
Gears	191	165
	1,663	1,415
UK	475	447
Overseas	1,188	968
	1,663	1,415

7. Net financing income

	2008	2007
Recognised in the income statement		
Interest income	562	958
Expected return on assets in the pension schemes	5,896	5,574
Foreign exchange gains	615	75
	7,073	6,607
Interest expense	296	112
Interest charge on pension scheme liabilities	5,538	4,541
Foreign exchange losses	377	88
	6,211	4,741
Recognised in equity		
Effective portion of changes in fair value of cash flow hedges	(5,263)	(544)
Fair value of cash flow hedges transferred to income statement	544	290
Foreign currency translation differences for foreign operations	23,824	3,855
	19,105	3,601
Recognised in:		
Hedging reserve	(4,719)	(254)
Translation reserve	23,824	3,855
	19,105	3,601

NOTES TO THE GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

8. Profit before tax

	NOTES	2008	2007
Profit before tax is stated after charging the following:			
Depreciation of property, plant and equipment:			
owned assets	i	3,142	2,534
assets held under finance lease contracts	i	139	96
Amortisation:			
Other intangibles	i	1,125	75
Development costs	i	352	308
Inventory write downs recognised in the year	i	2,890	875
Hire of plant and machinery	i	720	677
Other operating lease rentals	i	970	664
Research & development expenditure	ii	3,552	2,997
Exchange differences realised (income)/expense	iii	(238)	13

Auditors – audit fees and expenses paid to:

KPMG			
– In respect of Company reporting		58	69
– In respect of Group reporting of subsidiaries		172	170
– In respect of local statutory reporting of subsidiaries		75	40
		305	279
Other auditors of Group reporting subsidiaries		99	73
Total audit fees and expenses		404	352

Other fees paid to KPMG Audit Plc and its associates analysed between:

Taxation		90	134
Acquisition and disposals		13	–
Other		8	5
		111	139

In addition to the above, the Rotork Pension & Life Assurance Scheme paid KPMG LLP £46,500 (2007: £32,000) in respect of investment advice.

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

- i) Both within cost of sales and administrative expenses;
- ii) Within administrative expenses;
- iii) Within financing income and expenses.

NOTES TO THE GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

9. Income tax expense

	2008	2008	2007	2007
Current tax:				
UK corporation tax on profits for the year	17,570		12,670	
Double tax relief	(8,789)		(5,122)	
Adjustment in respect of prior years	(152)		(187)	
		8,629		7,361
Overseas tax on profits for the year	15,921		10,487	
Adjustment in respect of prior years	(15)		(24)	
		15,906		10,463
Total current tax		24,535		17,824
Deferred tax:				
Origination and reversal of other temporary differences	(2,354)		115	
Adjustment in respect of prior years	150		18	
		(2,204)		133
Total tax charge for year		22,331		17,957
Effective tax rate (based on profit before tax)		29.5%		31.4%
Profit before tax		75,751		57,253
Profit before tax multiplied by standard rate of corporation tax in the UK of 28.5% (2007: 30.0%)		21,589		17,176
Effects of:				
Non deductible items		1,640		349
Utilisation of overseas tax holidays and losses		(1,154)		-
Different tax rates on overseas earnings		273		625
Adjustments to tax charge in respect of prior years		(17)		(193)
Total tax charge for year		22,331		17,957

A tax expense of £471,000 (2007: credit £577,000) in respect of share based payments has been recognised directly in equity in the year.

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, Japan 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

10. Property, plant and equipment

	LAND AND BUILDINGS 2008	PLANT AND EQUIPMENT 2008	TOTAL 2008	LAND AND BUILDINGS 2007	PLANT AND EQUIPMENT 2007	TOTAL 2007
Cost						
At 1 January	15,639	24,078	39,717	15,003	21,424	36,427
Exchange differences	3,411	4,407	7,818	599	676	1,275
Additions	425	4,469	4,894	37	2,957	2,994
Disposals	(79)	(1,343)	(1,422)	–	(979)	(979)
Acquisition through business combinations	620	495	1,115	–	–	–
At 31 December	20,016	32,106	52,122	15,639	24,078	39,717
Depreciation						
At 1 January	4,702	17,466	22,168	4,152	15,659	19,811
Exchange differences	791	3,310	4,101	118	519	637
Charge for year	520	2,761	3,281	432	2,198	2,630
Disposals	(41)	(1,255)	(1,296)	–	(910)	(910)
At 31 December	5,972	22,282	28,254	4,702	17,466	22,168
Net book value at 31 December	14,044	9,824	23,868	10,937	6,612	17,549
Net book value at 31 December 2006				10,851	5,765	16,616

The net book value of the Group's plant and equipment includes £242,000 (2007: £255,000) in respect of assets held under finance leases.

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

	2008	2007
Land	1,925	1,509
Buildings	12,119	9,428
Net book value at 31 December	14,044	10,937

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 2008 (CONTINUED)

11. Intangible assets

	GOODWILL 2008	DEVELOPMENT COSTS 2008	OTHER INTANGIBLES 2008	TOTAL 2008	GOODWILL 2007	DEVELOPMENT COSTS 2007	OTHER INTANGIBLES 2007	TOTAL 2007
Cost								
Balance at 1 January	21,527	3,062	805	25,394	20,947	2,375	737	24,059
Exchange differences	5,554	-	715	6,269	901	-	68	969
Internally developed during the year	-	817	-	817	-	687	-	687
Reduction in deferred consideration	-	-	-	-	(321)	-	-	(321)
Additions	-	-	666	666	-	-	-	-
Acquisition through business combinations	5,711	-	4,755	10,466	-	-	-	-
Balance at 31 December	32,792	3,879	6,941	43,612	21,527	3,062	805	25,394
Amortisation								
Balance at 1 January	-	1,801	452	2,253	-	1,492	342	1,834
Exchange differences	-	-	186	186	-	-	36	36
Amortisation for the year	-	352	1,125	1,477	-	309	74	383
Balance at 31 December	-	2,153	1,763	3,916	-	1,801	452	2,253
Net book value at 31 December	32,792	1,726	5,178	39,696	21,527	1,261	353	23,141
Net book value at 31 December 2006					20,947	883	395	22,225

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

IMPAIRMENT TESTS FOR GOODWILL

Goodwill is allocated to the Group's cash generating units ('CGUs') identified according to business segment. A segment level summary of goodwill allocation is presented below.

	2008	2007
Controls	7,240	5,839
Fluid Systems	17,490	8,513
Gears	8,062	7,175
	32,792	21,527

The recoverable amounts of all CGUs 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 2% 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 discount rate of 11.0%, being the Group's current weighted average cost of capital ('WACC'), has been used in discounting the projected cash flows. The WACC has been used as management believe this to be the most appropriate and prudent rate for a market participant at the current date. The discount rate of each business segment is not materially different to 11.0%. On this basis each business segment has sufficient headroom and therefore no impairment write downs are required.

NOTES TO THE GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

12. Recognised deferred tax assets and liabilities

	ASSETS 2008	LIABILITIES 2008	NET 2008	ASSETS 2007	LIABILITIES 2007	NET 2007
Property, plant and equipment	216	(386)	(170)	170	(300)	(130)
Intangible assets	-	(1,206)	(1,206)	-	-	-
Employee benefits	3,585	-	3,585	4,794	-	4,794
Provisions	2,166	-	2,166	1,226	-	1,226
Other items	4,958	(1,214)	3,744	916	(1,098)	(182)
Net tax assets/(liabilities)	10,925	(2,806)	8,119	7,106	(1,398)	5,708
Set off of tax	-	-	-	(492)	492	-
	10,925	(2,806)	8,119	6,614	(906)	5,708

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

	2008	2007
Balance at 1 January	5,708	4,514
Credited/(charged) to the income statement	2,204	(133)
(Charged)/credited directly to equity in respect of share based payments	(795)	111
(Charged)/credited in the statement of recognised income and expense	(161)	1,241
Credited directly to hedging reserve in respect of forward exchange contracts	2,046	-
Deferred tax liability acquired as part of business combination	(1,436)	-
Exchange differences	553	(25)
Balance at 31 December	8,119	5,708

A deferred tax asset of £10,925,000 (2007: £6,614,000) has been recognised at 31 December 2008. 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 these assets will be recovered.

A deferred tax asset of £2,379,000 (2007: £2,254,000) has not been recognised in relation to capital losses and certain tax credits, tax losses and other temporary differences. These assets may be recovered if sufficient taxable or capital profits are made in future in the companies concerned.

13. Inventories

	2008	2007
Raw materials and consumables	31,937	20,419
Work in progress	18,411	10,521
Finished goods	9,062	5,053
	59,410	35,993

Included in cost of sales was £134,769,000 (2007: £97,055,000) in respect of inventories consumed in the year.

NOTES TO THE GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

14. Trade and other receivables

	2008	2007
Non-current assets:		
Insurance policy	976	754
Other	161	96
Other receivables	1,137	850
Current assets:		
Trade receivables	65,062	44,870
Less provision for impairment of receivables	(1,368)	(608)
Trade receivables – net	63,694	44,262
Corporation tax	1,752	1,330
Current tax	1,752	1,330
Other non-trade receivables	3,714	3,306
Prepayments and accrued income	1,864	1,439
Other receivables	5,578	4,745

15. Cash and cash equivalents

	2008	2007
Bank balances	23,654	14,125
Cash in hand	92	70
Short-term deposits	17,644	24,058
Cash and cash equivalents	41,390	38,253
Bank overdrafts	–	–
Cash and cash equivalents in the consolidated statement of cash flows	41,390	38,253

16. Capital and reserves

	ISSUED EQUITY CAPITAL	SHARE PREMIUM	TRANSLATION RESERVE	CAPITAL REDEMPTION RESERVE	HEDGING RESERVE	RETAINED EARNINGS	TOTAL
Balance at 31 December 2006	4,314	5,857	(2,770)	1,639	(290)	80,386	89,136
Profit for the year	–	–	–	–	–	39,296	39,296
Other items in the statement of recognised income and expense	–	–	3,855	–	(254)	(3,642)	(41)
Equity settled share based payment transactions net of tax	–	–	–	–	–	364	364
Share options exercised by employees	9	662	–	–	–	–	671
Own ordinary shares acquired	–	–	–	–	–	(4,249)	(4,249)
Own ordinary shares awarded under share schemes	–	–	–	–	–	2,007	2,007
Dividends	–	–	–	–	–	(24,732)	(24,732)
Balance at 31 December 2007	4,323	6,519	1,085	1,639	(544)	89,430	102,452
Profit for the year	–	–	–	–	–	53,420	53,420
Other items in the statement of recognised income and expense	–	–	23,824	–	(4,719)	1,129	20,234
Equity settled share based payment transactions net of tax	–	–	–	–	–	(2,419)	(2,419)
Share options exercised by employees	2	147	–	–	–	–	149
Own ordinary shares acquired	–	–	–	–	–	(3,518)	(3,518)
Own ordinary shares awarded under share schemes	–	–	–	–	–	4,050	4,050
Preference shares redeemed	–	–	–	3	–	(5)	(2)
Dividends	–	–	–	–	–	(29,970)	(29,970)
Balance at 31 December 2008	4,325	6,666	24,909	1,642	(5,263)	112,117	144,396

NOTES TO THE GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

16. Capital and reserves (continued)

Share capital and share premium

	5P ORDINARY SHARES AUTHORISED 2008	5P ORDINARY SHARES ISSUED AND FULLY PAID UP 2008	£1 NON- REDEEMABLE PREFERENCE SHARES 2008	5P ORDINARY SHARES AUTHORISED 2007	5P ORDINARY SHARES ISSUED AND FULLY PAID UP 2007	£1 NON- REDEEMABLE PREFERENCE SHARES 2007
At 1 January	5,449	4,323	45	5,449	4,314	45
Issued under employee share schemes	–	2	(3)	–	9	–
At 31 December	5,449	4,325	42	5,449	4,323	45
Number of shares (000)	108,990	86,510		108,990	86,469	

The ordinary shareholders are entitled to receive dividends as declared and are entitled to vote at meetings of the Company.

Ordinary shares issued during the year were 18,835 (2007: 142,173) under the Share option scheme, at prices between 285p and 387p (2007: 285p and 387p) and 21,951 (2007: 44,905) under the Sharesave plan at 462p (2007: 320p).

The Group received proceeds of £149,000 (2007: £671,000) in respect of the 40,786 (2007: 187,078) Ordinary shares issued during the year: £2,000 (2007: £9,000) was credited to share capital and £147,000 (2007: £662,000) to share premium.

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.

Within the retained earnings reserve are own shares held. The investment in own shares represents 413,302 (2007: 445,396) 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.

Dividends

The following dividends were paid in the year per qualifying ordinary share:

	2008	2007
14.0p final dividend (2007: 11.65p)	12,075	10,051
9.25p interim dividend (2007: 7.7p)	7,979	6,645
2008 additional interim dividend 11.5p	9,916	–
2007 additional interim dividend 9.3p	–	8,036
	29,970	24,732

NOTES TO THE GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

16. Capital and reserves (continued)

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

	2008	2007
Final proposed dividend per qualifying ordinary share		
16.75p	14,490	
14.00p		12,116
Additional interim dividends per qualifying ordinary share proposed for 2009		
11.5p		10,000

17. Earnings per share

Basic earnings per share

Earnings per share is calculated for both the current and previous years using the profit attributable to the ordinary shareholders for the year. The earnings per share calculation is based on 86.1m shares (2007: 86.1m shares) being the weighted average number of ordinary shares in issue (net of own ordinary shares held) for the year.

	2008	2007
Net profit attributable to ordinary shareholders	53,420	39,296
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	86,024	85,999
Effect of own shares held	21	54
Effect of shares issued under Share option schemes/Sharesave plans	99	93
Weighted average number of ordinary shares for the year ended 31 December	86,144	86,146

Diluted earnings per share

Diluted earnings per share is based on the profit for the year attributable to the ordinary shareholders and 86.7m shares (2007: 86.9m shares). The number of shares is equal to the weighted average number of ordinary shares in issue (net of own ordinary shares held) adjusted to assume conversion of all potentially dilutive ordinary shares. The Company has three categories of potentially dilutive 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.

	2008	2007
Net profit attributable to ordinary shareholders	53,420	39,296
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares for the year ended 31 December	86,144	86,146
Effect of share options in issue	17	30
Effect of Sharesave options in issue	116	113
Effect of LTIP shares in issue	416	604
Weighted average number of ordinary shares (diluted) for the year ended 31 December	86,693	86,893

NOTES TO THE GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (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 23.

	2008	2007
Non-current liabilities		
Preference shares classified as debt	42	45
Bank loans	-	27
Finance lease liabilities	148	137
	190	209

	2008	2007
Current liabilities		
Bank overdraft	-	-
Bank loans	27	27
Finance lease liabilities	130	91
	157	118

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

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

	CURRENCY	INTEREST RATES	YEAR OF MATURITY	FACE VALUE 2008	CARRYING AMOUNT 2008	FACE VALUE 2007	CARRYING AMOUNT 2007
Secured loan	Other	9.5% – 11.0%	2009	30	27	63	54
Non-redeemable preference shares	Sterling	9.5%	-	45	42	45	45
Finance lease liabilities	Euro	2.6% – 10.0%	2008-11	296	278	246	228
				371	347	354	327

Finance lease liabilities

Finance lease liabilities are payable as follows:

	MINIMUM LEASE PAYMENTS 2008	INTEREST 2008	PRINCIPAL 2008	MINIMUM LEASE PAYMENTS 2007	INTEREST 2007	PRINCIPAL 2007
Less than one year	138	8	130	100	9	91
Between one and five years	158	10	148	146	9	137
	296	18	278	246	18	228

NOTES TO THE GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

19. Employee benefits

	2008	2007
Recognised liability for defined benefit obligations:		
Present value of funded obligations	81,994	93,799
Fair value of plan assets	(76,277)	(86,215)
	5,717	7,584
Defined contribution scheme liabilities	850	544
Employee bonus and incentive plan	5,437	3,731
Long-term incentive plan	2,371	3,039
Employee indemnity provision	1,029	846
Liability for long service leave	234	193
	15,638	15,937
Non-current	8,637	11,047
Current	7,001	4,890
	15,638	15,937

(i) DEFINED BENEFIT PENSION LIABILITIES

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

Movements in the present value of defined benefit obligations

	2008	2007
Liabilities at 1 January	93,799	87,394
Current service costs	1,924	1,708
Member contributions	477	481
Interest cost	5,534	4,541
Benefits paid	(2,776)	(2,214)
Past service costs	30	20
Actuarial (gains)/losses	(19,133)	1,953
Currency losses/(gains)	2,139	(84)
Liabilities at 31 December	81,994	93,799

Movements in fair value of plan assets

	2008	2007
Assets at 1 January	86,215	80,745
Expected return on scheme assets	5,896	5,574
Employer contributions	2,776	4,643
Member contributions	477	481
Benefits paid	(2,776)	(2,214)
Actuarial losses	(17,843)	(2,954)
Currency gains/(losses)	1,532	(60)
Assets at 31 December	76,277	86,215

Expense recognised in the income statement

	2008	2007
Current service costs	1,924	1,708
Past service costs	30	20
Interest on obligation	5,534	4,541
Expected return on plan assets	(5,896)	(5,574)
	1,592	695

NOTES TO THE GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

19. Employee benefits (continued)

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

	2008	2007
Cost of sales	648	556
Administrative expenses	1,306	1,172
Net financing income	(362)	(1,033)
	1,592	695

Amounts recognised in the Consolidated Statement of Recognised Income and Expense

	2008	2007
Actuarial losses on plan assets	(17,843)	(2,954)
Actuarial gains/(losses) from liabilities	19,133	(1,953)
Currency (losses)/gains	(607)	24
Net actuarial gains/(losses) recognised in Consolidated Statement of Recognised Income and Expense	683	(4,883)

Cumulative actuarial losses recognised in Consolidated Statement of Recognised Income and Expense **(6,701)** (7,384)

	2008	2007	2006	2005	2004
Defined benefit obligation	(81,994)	(93,799)	(87,394)	(89,501)	(74,486)
Scheme assets	76,277	86,215	80,745	69,125	54,650
Deficit	(5,717)	(7,584)	(6,649)	(20,376)	(19,836)
Experience adjustments on liabilities	19,133	(1,953)	6,729	(9,930)	(6,783)
Experience adjustments on assets	(17,843)	(2,954)	(199)	6,693	884
Experience adjustments on currency	(607)	24	213	(215)	107

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)	
	2008	2007	2008	2007	2008	2007
Discount rate	6.7	5.8	5.5	5.9	6.6	5.8
Rate of increase in salaries	4.5	4.8	4.5	4.5	4.5	4.8
Rate of increase in pensions (post May 2000)	3.0	3.3	0.0	0.0	2.7	3.2
Rate of increase in pensions (pre May 2000)	4.5	4.5	0.0	0.0	4.1	4.3
Rate of price inflation	3.0	3.3	3.5	3.5	3.1	3.3

The split of the schemes' assets and expected rates of return were:

	2008 %	2008	2007 %	2007
Equities	8.5	37,820	7.8	47,016
Bonds	5.2	27,244	5.1	29,092
Property	7.5	5,501	7.5	6,977
Cash	3.4	143	3.4	73
US deposit administration contract	6.0	5,569	6.0	3,057
Total		76,277		86,215

Actual return on the schemes' assets **(10,415)** 2,560

The individual return assumptions for each asset class are based on market conditions at 31 December 2008 and represent a best estimate of future returns for that class allowing for risk premiums where appropriate. No scheme assets are invested in the Group's own equity.

The Group estimates that contributions to the Group's defined benefit pension schemes payable during 2009 will be approximately £3,074,000.

The mortality assumptions used are the PNXA00 year of birth tables with future improvements in mortality based on the CMI medium cohort projections subject to a minimum improvement of 1.5% per annum (2007:1.5%).

By way of example the respective mortality tables indicate the following life expectancy:

CURRENT AGE	2008 LIFE EXPECTANCY AT AGE 65		2007 LIFE EXPECTANCY AT AGE 65	
	MALE	FEMALE	MALE	FEMALE
65	22.8	25.4	22.7	25.3
45	25.9	28.8	25.7	28.2

NOTES TO THE GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

19. Employee benefits (continued)

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 £1,469,000 (2007: £1,030,000).

(iii) 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 five 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 grants 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. The recognition and measurement principles in IFRS 2 have not been applied to the 2000 and 2001 grants in accordance with the transitional provisions in IFRS 1 and IFRS 2.

OPTION (EXERCISE PRICE)	OUTSTANDING AT START OF YEAR	EXERCISED DURING YEAR	LAPSED DURING YEAR	OUTSTANDING AT END OF YEAR
2000 grant (£2.85)*	19,651	(9,298)	–	10,353
2001 grant (£2.98)*	3,799	–	–	3,799
2003 grant (£2.78)*	2,533	(2,533)	–	–
2004 grant (£3.87)*	20,574	(7,004)	–	13,570
	46,557	(18,835)	–	27,722
Weighted average exercise price	£3.31	£3.22	–	£3.37
Weighted average contractual life remaining				3 years

* exercisable at end of year

No grants have been made under the scheme in the year. The intrinsic value of vested share options is £126,000 (2007: £296,000).

The Group received proceeds of £60,000 (2007: £528,000) in respect of the 18,835 (2007: 142,173) options exercised during the year: £1,000 was credited to share capital and £59,000 to share premium (see note 16). The options were exercised throughout the year at prices between 285p and 387p.

NOTES TO THE GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

19. Employee benefits (continued)

b) Sharesave plan

Following shareholder approval of the Sharesave plan at the Company's Annual General Meeting ('AGM') 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.

	3 YEAR SCHEME		5 YEAR SCHEME	
	2008	2007	2008	2007
Grant date	1 December	1 December	1 December	1 December
Share price at grant date	£7.80	£9.83	£7.80	£9.83
Exercise price	£7.72	£8.11	£7.72	£8.11
Shares/Share equivalents under scheme	36,485	28,499	46,804	13,906
Vesting period	3 years	3 years	5 years	5 years
Expected volatility	35%	25%	30%	24%
Risk free rate	2.8%	4.5%	3.4%	4.6%
Expected dividends expressed as a dividend yield	2.8%	1.8%	2.8%	1.8%
Probability of ceasing employment before vesting	20%	20%	20%	20%
Fair value	£1.74	£2.79	£1.88	£3.20

3 year scheme

	OUTSTANDING AT START OF YEAR	GRANTED DURING YEAR	EXERCISED DURING YEAR	LAPSED DURING YEAR	OUTSTANDING AT END OF YEAR
2004 Award	9,304	-	(9,304)	-	-
2005 Award	15,797	-	(12,647)	(282)	2,868
2006 Award	19,743	-	-	(892)	18,851
2007 Award	28,499	-	-	(3,591)	24,908
2008 Award	-	36,485	-	(994)	35,491
	73,343	36,485	(21,951)	(5,759)	82,118

The 2005 awards vested in the year at a cost of £4.62 each and on that day the market value of each award was £9.96. The weighted average remaining life of awards outstanding at the year end is two years. The Group received proceeds of £89,000 (2007: £143,000) in respect of the 21,951 (2007: 44,905) options exercised during the year: £1,000 (2007: £2,000) was credited to share capital and £88,000 (2007: £141,000) to share premium (see note 16).

5 year scheme

	OUTSTANDING AT START OF YEAR	GRANTED DURING YEAR	EXERCISED DURING YEAR	LAPSED DURING YEAR	OUTSTANDING AT END OF YEAR
2004 Award	92,612	-	-	(2,068)	90,544
2005 Award	25,003	-	-	-	25,003
2006 Award	36,623	-	-	(1,659)	34,964
2007 Award	13,906	-	-	(414)	13,492
2008 Award	-	46,804	-	-	46,804
	168,144	46,804	-	(4,141)	210,807

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

NOTES TO THE GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

19. Employee benefits (continued)

c) Long-term incentive plan

The Long-term incentive plan ('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 total shareholder return ('TSR') against a comparator group of companies places it in at least the 50th percentile position in the comparator group at the end of the relevant performance period. 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 50th percentile rising to 100% at the 75th percentile with each percentile position above the 50th 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 50th percentile rising to 100% at the 75th percentile with each percentile position above the 50th 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 ('RPI') 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 AGM on 18 May 2000, awards over shares were made to executive directors and senior managers in each year from 2000 to 2008.

The performance period for the 2004 award ended on 31 December 2007. Messrs. PricewaterhouseCoopers LLP as independent actuaries certified to the Remuneration Committee that there was a 100% vesting of this award as the Company's position relative to the comparator group at the end of the relevant performance period was above the 75th percentile and the Group's earnings per share growth has exceeded the minimum average annual growth in the RPI plus 2% per annum. The awards vested during 2008.

The performance period for the 2005 and 2006 awards ended on 31 December 2008. Messrs. PricewaterhouseCoopers LLP as independent actuaries certified to the Remuneration Committee that there was a 100% vesting of these awards as the Company's position relative to the comparator group at the end of the relevant performance period was above the 75th percentile and the Group's earnings per share growth has exceeded the minimum average annual growth in the RPI plus 2% per annum. The awards will vest during 2009.

	SHARE SCHEME	
	2008	2007
Grant date	29 February 2008	2 March 2007
Share price at grant date	£9.92	£8.05
Shares/share equivalents under scheme	112,702	145,754
Vesting period	3 years	3 years
Expected volatility	28%	21%
Risk free rate	4.0%	5.1%
Expected dividends expressed as a dividend yield	2.0%	2.3%
Probability of ceasing employment before vesting	3% p.a.	3% p.a.
Fair value	£5.96	£4.34

	CASH SCHEME	
	2008	2007
Grant date	29 February 2008	2 March 2007
Share price at grant date	£9.92	£8.05
Shares/share equivalents under scheme	75,318	84,961
Vesting period	3 years	3 years
Expected volatility	40%	28%
Risk free rate	1.4%	4.3%
Expected dividends expressed as a dividend yield	2.9%	2.0%
Probability of ceasing employment before vesting	3% p.a.	3% p.a.
Fair value	£6.24	£6.59

NOTES TO THE GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

19. Employee benefits (continued)

Share based scheme

	OUTSTANDING AT START OF YEAR	GRANTED DURING YEAR	VESTED DURING YEAR	FORFEITED DURING YEAR	OUTSTANDING AT END OF YEAR
2004 Award	166,075	-	(166,075)	-	-
2005 Award	169,547	-	(52,524)	(4,779)	112,244
2006 Award	122,998	-	(28,865)	(9,515)	84,618
2007 Award	145,754	-	(17,641)	(22,051)	106,062
2008 Award	-	112,702	-	-	112,702
	604,374	112,702	(265,105)	(36,345)	415,626

Cash based scheme

	OUTSTANDING AT START OF YEAR	GRANTED DURING YEAR	VESTED DURING YEAR	FORFEITED DURING YEAR	OUTSTANDING AT END OF YEAR
2004 Award	119,123	-	(119,123)	-	-
2005 Award	124,723	-	(1,052)	(6,469)	117,202
2006 Award	83,139	-	(674)	(4,033)	78,432
2007 Award	84,961	-	(383)	(4,147)	80,431
2008 Award	-	75,318	(171)	(513)	74,634
	411,946	75,318	(121,403)	(15,162)	350,699

At the date of vesting the 2004 awards were valued at £9.67. The weighted average remaining life of awards outstanding at the year end is one year.

d) Employee expenses

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

	2008	2007
Share options granted 2004	-	22
Long-term incentive plan – cash settled	864	1,374
Long-term incentive plan – equity settled	629	578
Sharesave plan – three year	42	40
Sharesave plan – five year	47	40
Total expense recognised as employee costs (note 6)	1,582	2,054

20. Provisions

	WARRANTY 2008	DEFERRED CONSIDERATION 2008	TOTAL 2008
Balance at 1 January 2008	3,472	147	3,619
Exchange differences	1,058	46	1,104
Provisions used during the year	(1,227)	-	(1,227)
Charged in the year	1,676	-	1,676
Balance at 31 December 2008	4,979	193	5,172
Maturity at 31 December 2008			
Non-current	1,660	-	1,660
Current	3,319	193	3,512
	4,979	193	5,172
Maturity at 31 December 2007			
Non-current	1,157	-	1,157
Current	2,315	147	2,462
	3,472	147	3,619

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 12 months, the typical warranty period is now 18 months.

The deferred consideration arose on the acquisition of PC Intertechnik during 2005. Payment or release of the final tranche of this provision is still subject to negotiation and is expected to be settled in 2009.

NOTES TO THE GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

21. Trade and other payables

	2008	2007
Trade payables	32,096	21,448
Bills of exchange	707	119
Trade payables	32,803	21,567
Corporation tax	12,197	8,791
Current tax	12,197	8,791
Other taxes and social security	3,636	2,767
Non-trade payables and accrued expenses	23,145	15,827
Other payables	26,781	18,594

22. Derivative financial instruments

	2008 ASSETS	2008 LIABILITIES	2007 ASSETS	2007 LIABILITIES
Forward foreign exchange contracts – cash flow hedges				
Current	–	5,624	–	544
Non-current	–	1,686	–	–
	–	7,310	–	544

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedge item is less than 12 months.

There was no ineffectiveness to be recorded from the use of forward contracts.

The hedged forecast transactions denominated in foreign currency are expected to occur at various dates during the next two years. Gains and losses recognised in the hedging reserve in equity (note 16) on forward foreign exchange contracts as of 31 December 2008 are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement.

23. 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. The Group treasury department 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.

(i) CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and monies on deposit with financial institutions.

Management has a credit policy in place and exposure to credit risk is both monitored on an ongoing basis and reduced through the use of credit insurance covering 60%-75% of trade receivables at any time. 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 the sale. At the balance sheet date there were no significant concentrations of credit risk.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim.

The Group establishes an allowance for impairment in respect of non-insured receivables where recoverability is considered doubtful.

NOTES TO THE GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

23. Financial instruments (continued)

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	CARRYING AMOUNT	
	2008	2007
Trade receivables	63,694	44,262
Other receivables	6,715	5,595
Cash and cash equivalents	41,390	38,253
Currency swap deposit	2,175	2,975
Forward exchange contracts used for hedging:		
Assets	239	95
Total	114,213	91,180

The maximum exposure to credit risk for trade receivables at the reporting date by currency was:

	CARRYING AMOUNT	
	2008	2007
Sterling	7,138	4,658
US dollar	14,444	7,408
Euro	31,248	24,444
Other	10,864	7,752
Total	63,694	44,262

Provisions against trade receivables

The aging of trade receivables and associated provision for impairment at the reporting date was:

	GROSS 2008	PROVISION 2008	GROSS 2007	PROVISION 2007
Not past due	42,778	(88)	31,366	(13)
Past due 0-30 days	11,394	(173)	9,296	(48)
Past due 31-60 days	5,860	(53)	2,520	(47)
Past due 61-90 days	1,938	(60)	889	(25)
Past due more than 91 days	3,092	(994)	799	(475)
	65,062	(1,368)	44,870	(608)

(iii) LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group is highly cash generative, and uses monthly cash flow forecasts to monitor cash requirements and to optimise its return on investments. Typically the Group ensures that it has sufficient cash on hand to meet foreseeable operational expenses, but it maintains a £2m overdraft facility (2007: £2m) on which interest would be payable at LIBOR plus 100 basis points.

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

31 DECEMBER 2008	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	ANALYSIS OF CONTRACTUAL CASH FLOW MATURITIES			
			LESS THAN 12 MONTHS	1-2 YEARS	2-5 YEARS	MORE THAN 5 YEARS
Secured bank loans	27	30	30	-	-	-
Finance lease liabilities	278	296	139	92	65	-
Trade and other payables	59,584	59,584	59,584	-	-	-
Forward exchange contracts	7,310	7,310	5,624	1,686	-	-
Non-redeemable preference shares	42	42	-	-	-	42
	67,241	67,262	65,377	1,778	65	42

The forward exchange contracts will be settled on a gross basis and the undiscounted gross outflow in respect of these contracts is £55,802,000 (2007: 19,796,000) and the gross inflow is £47,277,000 (2007: £8,542,000).

31 DECEMBER 2007	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	ANALYSIS OF CONTRACTUAL CASH FLOW MATURITIES			
			LESS THAN 12 MONTHS	1-2 YEARS	2-5 YEARS	MORE THAN 5 YEARS
Secured bank loans	54	63	33	30	-	-
Finance lease liabilities	228	246	100	74	72	-
Trade and other payables	40,161	40,161	40,161	-	-	-
Forward exchange contracts	544	544	544	-	-	-
Non-redeemable preference shares	45	45	-	-	-	45
	41,032	41,059	40,838	104	72	45

NOTES TO THE GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

23. Financial instruments (continued)

(iii) MARKET RISKS

Market risk is the risk that changes in market prices, such as currency rates and interest rates, will affect the Group's results. The objective of market risk management is to manage and control market risk within suitable parameters.

a) 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 2008 was a £7,310,000 liability (2007: £544,000 liability) comprising an asset of £239,000 (2007: £95,000) and a liability of £7,549,000 (2007: £639,000).

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.

Forward exchange contracts in place at 31 December 2008 mature in 2009 and 2010.

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 €9.0m was paid to Rotork Controls (Deutschland) GmbH in a form of redeemable equity as this company purchased the assets of PC Intertechnik. This swap was entered into to protect the Group from currency movements on the repayment of equity from Germany.

Sensitivity analysis

It is estimated that, with all other variables held equal (in particular other exchange rates), a general change of one cent in the value of the US dollar against sterling would have had a £250,000 impact on the Group's profit before tax and a one euro cent movement against sterling would have had a £250,000 impact on the Group's profit before tax for the year ended 31 December 2008. The method of estimation, which has been applied consistently, involves assessing the transaction impact of US dollar and euro cash flows and the translation impact of US dollar and euro profits.

The following significant exchange rates applied during the year:

	AVERAGE RATE		CLOSING RATE	
	2008	2007	2008	2007
US dollar	1.80	2.01	1.44	1.99
Euro	1.24	1.45	1.03	1.36

b) 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 one 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 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 4.6% (2007: 3.9%) per annum. The weighted average period for which interest rates on the fixed rate financial liabilities are fixed is one year.

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

	2008	2007
In one year or less	157	118
In more than one year but not more than two years	86	98
In more than two years but not more than five years	62	66
In more than five years	42	45
Total	347	327

At the reporting date the interest rate profile of the Group's interest bearing financial instruments was as follows:

Fixed rate instruments

	CARRYING AMOUNT	
	2008	2007
Financial assets	17,643	24,058
Financial liabilities	(278)	(228)
	17,365	23,830

All foreign currency cash deposits are held on fixed rates of interest in the UK. All other cash amounts are on floating rates or overnight rates based on the relevant LIBOR or equivalent rate.

NOTES TO THE GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

23. Financial instruments (continued)

(iv) CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure.

In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The Group's net funds at the balance sheet date were:

	2008	2007
Total borrowings	(347)	(327)
Cash and cash equivalents (note 15)	41,390	38,253
Group net funds	41,043	37,926

(v) FAIR VALUES

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, were as follows:

	CARRYING AMOUNT 2008	FAIR VALUE 2008	CARRYING AMOUNT 2007	FAIR VALUE 2007
Loans and receivables				
Trade receivables	63,694	63,694	44,262	44,262
Other receivables	6,715	6,715	5,595	5,595
Financial assets				
Cash and cash equivalents	41,390	41,390	38,253	38,253
Currency swap deposit*	2,175	2,175	2,975	2,975
Designated cash flow hedges				
Forward exchange contracts:				
Assets	239	239	95	95
Liabilities	(7,549)	(7,549)	(639)	(639)
Financial liabilities at amortised cost				
Trade and other payables	(59,584)	(59,584)	(40,161)	(40,161)
Secured loans	(27)	(27)	(54)	(54)
Preference shares	(42)	(42)	(45)	(45)
Finance lease liabilities	(278)	(278)	(228)	(228)
Currency swap loan*	(2,175)	(2,175)	(2,975)	(2,975)
	44,558	44,558	47,078	47,078

* 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.

Basis for determining fair values

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

Designated cash flow hedges

Forward exchange contracts are valued at year end spot rates adjusted for the forward points to the contract's value date, and gains and losses taken to equity.

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

NOTES TO THE GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

24. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2008	2007
Less than one year	1,517	326
Between one and five years	4,202	2,110
More than five years	2,005	147
	7,724	2,583

Of the £7,724,000 (2007: £2,583,000), £6,051,000 (2007: £1,527,000) relates to property and the balance to plant and equipment.

25. Capital commitments

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

	2008	2007
Contracted	522	323

26. Contingencies

	2008	2007
Performance guarantees and indemnities	5,725	4,680

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.

27. 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 84 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 subsidiaries and associates of BAE Systems plc, a related party by virtue of non-executive director IG King's directorship of that company, totalled £32,000 during the year (2007: £20,000) and there are no amounts outstanding at 31 December 2008 (2007: £nil).

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 were:

	2008	2007
Emoluments including social security costs	2,535	2,331
Post employment benefits	388	316
Share based payments	760	898
	3,683	3,545

ROTORK P.L.C. COMPANY BALANCE SHEET
AT 31 DECEMBER 2008

	NOTES	2008 £000	2007 £000
Fixed assets			
Tangible assets	c	1,174	1,202
Investments	d	2,668	2,311
		3,842	3,513
Current assets			
Debtors	f	51,284	37,730
Cash at bank and in hand	e	12,479	20,753
		63,763	58,483
Creditors:			
Amounts falling due within one year	g	(8,779)	(7,853)
Net current assets		54,984	50,630
Total assets less current liabilities		58,826	54,143
Creditors:			
Amounts falling due after more than one year	h	(42)	(45)
Net assets		58,784	54,098
Capital and reserves			
Called up share capital	j	4,325	4,323
Share premium account	j	6,666	6,519
Translation reserve	j	(2)	(2)
Capital redemption reserve	j	1,642	1,639
Profit and loss account	j	46,153	41,619
Equity shareholders' funds		58,784	54,098

These Company financial statements were approved by the Board of Directors on 2 March 2009 and were signed on its behalf by:


PI FRANCE
DIRECTOR


RE SLATER
DIRECTOR

NOTES TO THE COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

a. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements. Notes a to k relate to the Company rather than the Group.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK GAAP.

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 Group financial statements contain financial instruments disclosures which comply with FRS 29 'Financial Instruments: Disclosures'. Consequently, the Company has taken advantage of the exemption in FRS 29 not to present separate financial instrument disclosures for the Company.

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 intragroup 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 payments 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 50 years or the expected useful life of the building where less than 50 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
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 the presentation elements of FRS 25, Financial instruments, the cumulative redeemable preference shares issued by the Company are classified as long-term debt. The preference dividends are charged within interest payable.

Share-based payments

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

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.

Dividends

Interim dividends are recorded in the financial statements when they are paid. Final dividends are recorded in the financial statements in the period which they are approved by the Company's shareholders.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

b. Personnel expenses in the Company Profit and Loss Account

	2008	2007
Wages and salaries (including bonus and incentive plans)	2,679	1,662
Social security costs	192	194
Pension costs	235	138
Share-based payments	361	209
	3,467	2,203

There are five (2007: four) employees of Rotork p.l.c. plus the four (2007: five) executive directors. The personnel costs accounted for within the Company include the full costs of the employees and the Group Finance Director but not the full costs of other executive directors. Half of the salary costs of the Group Chief Executive are reported within the Company but the balance of the costs and those of the other two executive directors are reported within the subsidiary where they are based as this approximates the basis on which their time is split.

Share-based payments

The share-based payment charge relates to employees of the Company participating in the Long-term incentive plan. The disclosures required under FR5 20 can be found in note 19 to the Group financial statements. The table below sets out the movement of share options under the Long-term incentive plan for employees of the Company.

	OUTSTANDING AT START OF YEAR	GRANTED DURING YEAR	VESTED DURING YEAR	FORFEITED DURING YEAR	OUTSTANDING AT END OF YEAR
2004 Award	70,212	-	(70,212)	-	-
2005 Award	86,078	-	(23,877)	(4,775)	57,426
2006 Award	55,369	-	(14,432)	(4,124)	36,813
2007 Award	62,278	-	(8,820)	(11,026)	42,432
2008 Award	-	42,761	-	-	42,761
	273,937	42,761	(117,341)	(19,925)	179,432

At the date of vesting the 2004 awards were valued at £9.67. The weighted average remaining life of awards outstanding at the year end is one year.

c. Tangible assets in the Company Balance Sheet

	LAND AND BUILDINGS	PLANT AND EQUIPMENT	TOTAL
Cost			
At 1 January 2008 and 31 December 2008	1,468	13	1,481
Depreciation			
At 1 January 2008	266	13	279
Charge for year	28	-	28
At 31 December 2008	294	13	307
Net book value			
at 31 December 2008	1,174	-	1,174
at 31 December 2007	1,202	-	1,202

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

	2008	2007
Freehold land	60	60
Freehold buildings	1,114	1,142
Net book value at 31 December	1,174	1,202

NOTES TO THE COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

d. Investments in the Company Balance Sheet

Shares in Group companies

	2008	2007
At 1 January	2,311	1,835
Additions arising from share schemes	357	476
At 31 December	2,668	2,311

A listing of the principal subsidiaries is included in the directory on pages 84 to 85.

e. Cash at bank and in hand in the Company Balance Sheet

	2008	2007
Bank balances	34	41
Short-term deposits	12,445	20,712
Cash at bank and in hand	12,479	20,753

f. Debtors due within one year in the Company Balance Sheet

	2008	2007
Amounts owed by Group undertakings	50,399	37,213
Other debtors	29	98
Prepayments and accrued income	49	44
Corporation tax	639	298
Deferred taxation	168	77
	51,284	37,730

A deferred tax asset of £168,000 (2007: £77,000) has been recognised. This asset principally relates to other timing differences in respect of share-based payments. The directors are of the opinion, based on recent and forecast trading that the level of future and current profits make it more likely than not that the asset will be recovered.

g. Creditors: amounts falling due within one year in the Company Balance Sheet

	2008	2007
Bank loans and overdrafts	5,606	5,412
Trade creditors	110	39
Amounts owed to Group undertakings	1,053	1,053
Other taxes and social security	22	11
Other creditors	1,557	1,050
Accruals and deferred income	431	288
	8,779	7,853

The Company has a £6m gross overdraft facility and is part of a UK banking arrangement, see note i.

h. Creditors: amounts falling due after more than one year in the Company Balance Sheet

	2008	2007
Preference shares classified as debt	42	45

This debt is not redeemable at any fixed future date.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

i. Contingencies in the Company

	2008	2007
Guarantees for bank overdrafts of UK subsidiary undertakings	-	-

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.

j. Capital and reserves in the Company Balance Sheet

	SHARE CAPITAL	SHARE PREMIUM	TRANSLATION RESERVE	CAPITAL REDEMPTION RESERVE	RETAINED EARNINGS	EQUITY SHAREHOLDERS FUNDS
Balance at 1 January 2008	4,323	6,519	(2)	1,639	41,619	54,098
Profit for the year	-	-	-	-	33,259	33,259
Equity settled share-based payment transactions net of tax	-	-	-	-	718	718
Share options exercised by employees	2	147	-	-	-	149
Own ordinary shares acquired	-	-	-	-	(3,518)	(3,518)
Own ordinary shares awarded under share schemes	-	-	-	-	4,050	4,050
Purchase of preference shares	-	-	-	3	(5)	(2)
Dividends	-	-	-	-	(29,970)	(29,970)
Balance at 31 December 2008	4,325	6,666	(2)	1,642	46,153	58,784

Details of the number of ordinary shares authorised and in issue and dividends paid in the year are given in note 16 to the Group financial statements.

Profit for the financial year in the accounts of the Company is £33,259,000 (2007: £27,514,000).

k. Capital risk management in the Company

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure.

In order to maintain or adjust the capital structure the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The Company's net funds at the balance sheet date were:

	2008	2007
Total borrowings	(5,648)	(5,457)
Cash at bank and in hand	12,479	20,753
Company net funds	6,831	15,296

TEN YEAR TRADING HISTORY
FOR THE YEAR ENDED 31 DECEMBER 2008

	2008 £000 IFRS	2007 £000 IFRS	2006 £000 IFRS	2005 £000 IFRS	2004 £000 IFRS	2003 £000 UK GAAP	2002 £000 UK GAAP	2001 £000 UK GAAP	2000 £000 UK GAAP	1999 £000 UK GAAP
Continuing operations	320,207	235,688	206,709	174,839	146,883	135,964	129,677	119,322	103,945	112,937
Discontinued operations	-	-	-	-	-	-	3,783	4,367	3,935	4,598
Revenue	320,207	235,688	206,709	174,839	146,883	135,964	133,460	123,689	107,880	117,535
Cost of sales	(176,046)	(127,748)	(115,603)	(95,358)	(79,097)	(72,046)	(71,875)	(65,877)	(59,021)	(63,626)
Gross profit	144,161	107,940	91,106	79,481	67,786	63,918	61,585	57,812	48,859	53,909
Overheads	(69,272)	(52,553)	(46,017)	(42,951)	(37,354)	(36,808)	(35,863)	(33,532)	(29,108)	(27,949)
Operating profit	74,889	55,387	45,089	36,530	30,432	27,110	25,722	24,280	19,751	25,960
Continuing operations	76,014	55,461	45,089	36,530	30,432	28,415	26,553	24,733	20,478	26,358
Discontinued operations	-	-	-	-	-	-	474	574	309	497
Operating profit before amortisation of goodwill	76,014	55,461	45,089	36,530	30,432	28,415	27,027	25,307	20,787	26,855
Amortisation of acquired intangible assets	(1,125)	(74)	-	-	-	-	-	-	-	-
Amortisation of goodwill	-	-	-	-	-	(1,305)	(1,305)	(1,027)	(1,036)	(895)
Operating profit	74,889	55,387	45,089	36,530	30,432	27,110	25,722	24,280	19,751	25,960
Exceptional items	-	-	-	-	-	597	-	-	-	-
Net interest receivable	862	1,866	972	127	1,074	461	440	563	831	987
Profit before taxation	75,751	57,253	46,061	36,657	31,506	28,168	26,162	24,843	20,582	26,947
Tax expense	(22,331)	(17,957)	(14,728)	(12,043)	(10,508)	(9,469)	(8,868)	(8,539)	(7,110)	(9,477)
Profit for the year	53,420	39,296	31,333	24,614	20,998	18,699	17,294	16,304	13,472	17,470
Dividends	(29,970)	(24,732)	(24,140)	(13,437)	(17,751)	(12,592)	(11,959)	(11,147)	(10,504)	(10,546)
Basic earnings per share	62.0p	45.6p	36.4p	28.6p	24.5p	21.8p	20.1p	18.9p	15.6p	20.3p
Basic earnings per share before acquired intangible assets amortisation	63.0p	45.7p	-	-	-	-	-	-	-	-
Basic earnings per share before goodwill amortisation	-	-	-	-	-	23.3p	21.6p	20.1p	16.8p	21.3p
Diluted earnings per share	61.6p	45.2p	36.1p	28.4p	24.3p	21.7p	20.0p	18.9p	15.6p	20.3p

The above ten year history has not been restated to apply IFRS to all periods. Had this exercise been undertaken the major changes would have been the removal of amortisation of goodwill and the introduction of amortisation of separable intangibles, capitalisation and amortisation of development costs and charges for share-based payments. Dividends shown in the IFRS columns are on a paid basis but in the UK GAAP columns are on an accrued basis.

SHAREHOLDER INFORMATION

SHARE REGISTER INFORMATION

The tables below show the split of shareholder and size of shareholding in Rotork p.l.c.

RANGE	NUMBER OF SHAREHOLDERS	%	NUMBER OF SHARES	%
1 – 1,000	1,250	49.6	517,431	0.6
1,001 – 2,000	412	16.3	623,512	0.7
2,001 – 5,000	359	14.2	1,147,899	1.3
5,001 – 10,000	149	5.9	1,058,074	1.2
10,001 – 50,000	178	7.1	4,120,384	4.8
50,001 – 100,000	63	2.5	4,532,332	5.3
100,001 +	110	4.4	74,514,366	86.1

ORDINARY SHAREHOLDER BY TYPE	NUMBER OF HOLDINGS	%	NUMBER OF SHARES	%
Individuals	1,722	68.3	3,082,106	3.5
Bank or nominees	731	29.0	82,341,916	95.2
Pension fund	1	0.1	3,256	0.1
Other company	44	1.7	707,080	0.8
Other corporate body	23	0.9	379,640	0.4

Source: Equiniti

CORPORATE DIRECTORY

Company Secretary

Stephen Rhys Jones

Registered Office

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

Company Number

578327

Registrars

Equiniti
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

DIVIDEND INFORMATION

The table below details the amounts of interim, final and additional dividends declared in respect of each of the last five years.

	INTERIM DIVIDEND (P)	FINAL DIVIDEND (P)	ADDITIONAL INTERIM DIVIDEND (P)	TOTAL DIVIDEND (P)
2008	9.25	16.75	11.50	37.50
2007	7.70	14.00	9.30	31.00
2006	6.50	11.65	11.60	29.75
2005	5.90	9.90	–	15.80
2004	5.35	9.70	5.85	20.90

FINANCIAL CALENDAR

3 March 2009

Preliminary announcement of annual results for 2008

8 April 2009

Ex-dividend date for final proposed 2008 dividend

14 April 2009

Record date for final proposed 2008 dividend

24 April 2009

Annual General Meeting held at Rotork House, Brassmill Lane, Bath, BA1 3JQ.

8 May 2009

Payment date for final proposed 2008 dividend

4 August 2009

Announcement of interim financial results for 2009

DIRECTORY

UNITED KINGDOM

Rotork p.l.c., England

Holding company
Roger Lockwood
Chairman (non-executive)
Peter France
Chief Executive
Tel: +44 1225 733200
Fax: +44 1225 733381
Email: peter.france@rotork.com

Rotork Controls Ltd, England

100% owned by Rotork p.l.c.
Peter France
Managing Director
Tel: +44 1225 733200
Fax: +44 1225 733381
Email: peter.france@rotork.com

Valvekits, England

A division of Exeeco Ltd
David Littlejohns
Managing Director
Tel: +44 1623 440211
Fax: +44 1623 440214
Email: david.littlejohns@rotork.com

Rotork Overseas Ltd, England

100% owned by Rotork p.l.c.
Robert Slater
Director
Tel: +44 1225 733200
Fax: +44 1225 733381
Email: robert.slater@rotork.com

Exeeco Ltd, England

100% owned by Rotork Controls Ltd
David Littlejohns
Managing Director
Tel: +44 113 256 7922
Fax: +44 113 256 3556
Email: david.littlejohns@rotork.com

AMERICAS

Rotork Inc, USA

100% owned by Rotork Overseas Ltd
Robert Arnold
Director
Tel: +1 585 247 2304
Fax: +1 585 247 2308
Email: bob.arnold@rotork.com

Rotork Process Control, USA

A division of Rotork Controls Inc.
Derek Olson
General Manager
Tel: +1 414 461 9200
Fax: +1 414 461 1024
Email: DOlson@jordancontrols.com

Rotork Controls de Venezuela SA, Venezuela

100% owned by Rotork Overseas Ltd
Edgar Vina
General Manager
Tel: +58 212 762 6706
Fax: +58 212 762 9382
Email: edgar.vina@rotork.com.ve

Rotork Controls Inc, USA

100% owned by Rotork Inc.
Robert Arnold
President
Tel: +1 585 247 2304
Fax: +1 585 247 2308
Email: bob.arnold@rotork.com

Rotork Controls (Canada) Ltd, Canada

100% owned by Rotork Overseas Ltd
Chris Bone
President
Tel: +1 403 569 9455
Fax: +1 403 569 9414
Email: chris.bone@rotork.ca

Rotork Do Brazil, Brazil

100% owned by Rotork Overseas Ltd
Emilio Osterling
Director
Tel: +55 21 2221 7400
Email: emilio.osterling@rotork.com

EUROPE

Rotork Motorisation SAS, France

100% owned by Rotork Overseas Ltd
Bruno Deverly
General Manager
Tel: +33 143 11 15 50
Fax: +33 148 35 42 54
Email: bruno.deverly@rotork.com

RFS Melle, Germany

A division of Rotork Controls (Deutschland) GmbH
Dr Wolfgang Funk
General Manager
Tel: +49 5422 94140
Fax: +49 5422 941410
Email: wolfgang.funk@rotork.com

Rotork Gears BV, Netherlands

100% owned by Rotork Gears (Holdings) BV
Johan Mostert
General Manager
Tel: +31 53 538 8677
Fax: +31 53 538 3939
Email: johan.mostert@rotork.com

Rotork Controls (Italia) Srl, Italy

100% owned by Rotork Overseas Ltd
Renato Vezzoli
General Manager
Tel: +39 0245 703300
Fax: +39 0245 703301
Email: renato.vezzoli@rotork.com

Rotork Fluid System Srl, Italy

100% owned by Rotork Overseas Ltd
Stefan Davis
Director
Tel: +39 0583 93061
Fax: +39 0583 934612
Email: stefan.davis@rotork.com

Rotork Rus, Russia

100% owned by Rotork Overseas Ltd
Simon Brown
General Sales Manager
Tel: +7 495 645 2147
Fax: +7 495 645 2147
Email: simon.brown@rotork.com

Rotork Controls (Deutschland) GmbH, Germany

100% owned by Rotork Overseas Ltd
Jürgen Vogel
General Manager
Tel: +49 2103 95876
Fax: +49 2103 54090
Email: jurgen.vogel@rotork.de

Rotork BV, Netherlands

100% owned by Rotork Overseas Ltd
Frank Koopmans
General Manager
Tel: +31 10 4146911
Fax: +31 10 4144750
Email: frank.koopmans@rotork.com

Rotork Gears (Holdings) BV, Netherlands

100% owned by Rotork Overseas Ltd
Johan Mostert
General Manager
Tel: +31 53 538 8677
Fax: +31 53 538 3939
Email: johan.mostert@rotork.com

Rotork Gears (Italia) Srl, Italy

100% owned by Rotork Controls (Italia) Srl
Roberto Boldorini
General Manager
Tel: +39 033 155 2128
Fax: +39 033 155 3147
Email: roberto.boldorini@rotork.com

Rotork Controls (Iberia) SL, Spain

100% owned by Rotork Overseas Ltd
Joaquin Pastor-Velasquez
General Manager
Tel: +34 94 676 6011
Fax: +34 94 676 6018
Email: joaquin.pastor@rotork.com

Remote Control Sweden AB, Sweden

100% owned by Rotork Overseas Ltd
Lars Ersson
General Manager
Tel: +46 23 587 00
Fax: +46 23 587 45
Email: lars.ersson@rotork.com

DIRECTORY
CONTINUED

REST OF THE WORLD

Rotork Africa (Pty) Ltd, South Africa

100% owned by Rotork Overseas Ltd
Karl Rautenbach
General Manager
Tel: +27 11 4539741
Fax: +27 11 4539894
Email: karl.rautenbach@rotork.co.za

Rotork (Thailand) Ltd, Thailand

100% owned by Rotork Inc.
Chaitawat Chotikawanish
Manager
Tel: +66 2 530 2420
Fax: +66 2 530 2106
Email: chaitawc@rotork.co.th

Rotork (Actuation) Sdn Bhd, Malaysia

100% owned by Rotork Overseas Ltd
Aaron Ow
General Manager
Tel: +60 3 5191 3936
Fax: +60 3 5191 3937
Email: pkow@rotork.com.my

Rotork Ltd, Hong Kong

100% owned by Rotork Overseas Ltd
Steven Xu
General Manager
Tel: +852 2 5202390
Fax: +852 2 5289746
Email: steven.xu@rotork.com.cn

Rotork Trading (Shanghai) Co. Ltd, China

100% owned by Rotork Controls Ltd
Steven Xu
General Manager
Tel: +86 21 544 52910
Fax: +86 21 544 52912
Email: steven.xu@rotork.com.cn

Rotork Japan Co. Ltd, Japan

100% owned by Rotork Overseas Ltd
Shinichi Araki
General Manager
Tel: +81 3 5632 2941
Fax: +81 3 5632 2942
Email: s-araki@rotork.co.jp

Rotork Fluid System Pty Ltd, Australia

100% owned by Rotork Overseas Ltd
Lyndon Dean
General Manager
Tel: +61 3 9729 8882
Fax: +61 3 9729 8884
Email: lyndon@rfsaustralia.com

Rotork Controls (India) Ltd, India

100% owned by Rotork Controls Ltd
P Ravindranath
President
Tel: +91 44 2625 4219
Fax: +91 44 2625 7108
Email: ravi.p@rotork.co.in

Rotork (Malaysia) Sdn Bhd, Malaysia

100% owned by Rotork Overseas Ltd
Aaron Ow
General Manager
Tel: +60 3 5192 8812
Fax: +60 3 5192 8821
Email: pkow@rotork.com.my

Rotork Controls (Singapore) Pte Ltd, Singapore

100% owned by Rotork Overseas Ltd
Richard Hudd
General Manager
Tel: +65 64571233
Fax: +65 64576011
Email: richard.hudd@rotork.com

Rotork Actuation (Shanghai) Co. Ltd, China

100% owned by Rotork Controls Ltd
Bruce Wang
General Manager
Tel: +86 21 6434 8388
Fax: +86 21 6434 8266
Email: bruce.wang@rotork.com

Rotork Controls (Korea) Co. Ltd, South Korea

100% owned by Rotork Overseas Ltd
S W Chun
General Manager
Tel: +82 31 768 8151
Fax: +82 31 768 8156
Email: swchun@rotork.co.kr

Rotork Australia Pty Ltd, Australia

100% owned by Rotork Overseas Ltd
Lee Howard
General Manager
Tel: +61 353 381566
Fax: +61 353 381570
Email: lee.howard@rotork.com.au



Era Silk (Cover and pages 1–32) is an FSC mixed sources certified product, which is produced using 50% post-consumer waste and 50% virgin fibre at a mill that has achieved ISO 14001 and is EMAS certified. The pulp has been bleached using an Elemental Chlorine Free (ECF) process.

Take Two Offset (pages 33–84) is an FSC recycled certified product, which is produced using 100% post-consumer waste at a mill that has achieved ISO 9001, ISO 14001 and is EMAS certified. The pulp has been bleached using a chlorine free process (PCF).

Designed and produced by Merchant in collaboration with Ammunition.
Typeset origination by Bettina Brux. Printed by The Midas Press.