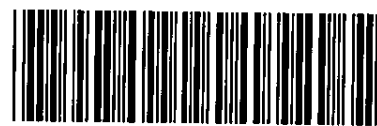


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Annual Report & Accounts **2009**

# rotork

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## Making our mark

# About

We design and build actuators. Actuators are used in many applications all over the world and are an important part of the control equipment that keeps liquids and gases flowing across the industrial landscape.

In our daily lives, when we turn on a tap for a drink of water, switch on the lights, boil a kettle or put fuel in the car, an actuator will have been used somewhere in the process of delivering that service. We are the only UK listed company with a global presence that is dedicated to this and nothing else.

## ROTORK P L C.

### Rotork Management Board

#### Controls

Rotork Controls is Rotork's electric valve actuator division, offering an electrical solution to industrial valve control and actuation applications of virtually any size, description and complexity.

#### Fluid Systems

Rotork Fluid Systems is dedicated to the design, manufacture, sale and support of powerful and dependable fluid power valve actuators on a global scale.

#### Gears

Rotork Gears offers an unrivalled service for valve gearboxes and accessories, completing Rotork's status as the 'one-stop-shop' for valve actuation and control equipment for applications of all sizes and complexity.

#### Site Services

- 01 About Rotork
- 02 Group Highlights
- 03 Divisional Highlights
- 04 Global Opportunities
- 06 Chairman's Statement

- 08 Business Review
  - 12 Rotork Controls
  - 14 Rotork Fluid Systems
  - 16 Rotork Gears
- 18 Financial Review
- 20 Key Performance Indicators
- 22 Statement of Principal Risks and Uncertainties
- 24 Corporate Social Responsibility

- 29 Rotork Management Board
- 30 Board of Directors
- 32 Corporate Governance
- 37 Remuneration Report
- 43 Report of the Directors
- 45 Independent Auditors' Report

- 46 Consolidated Income Statement
- 46 Consolidated Statement of Comprehensive Income
- 47 Consolidated Balance Sheet
- 48 Consolidated Statement of Changes in Equity
- 49 Consolidated Statement of Cash Flows
- 50 Notes to the Group Financial Statements
- 85 Rotork Company Balance Sheet
- 86 Notes to the Company Financial Statements

- 91 Ten Year Trading History
- 92 Share Register Information
- 93 Corporate Directory
- 94 Directory

Group

Business Review

Governance

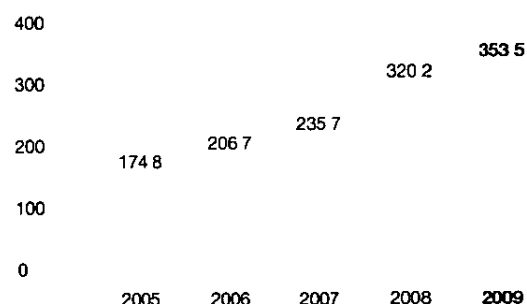
Financial Statements

Information

# Group Highlights

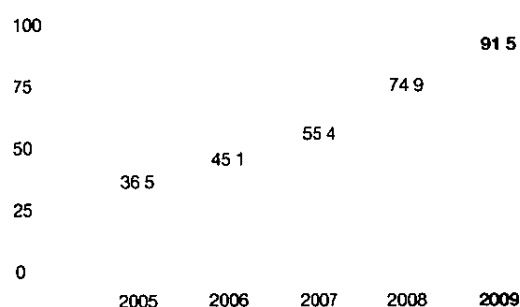
## Financial highlights

### Revenue (£m)



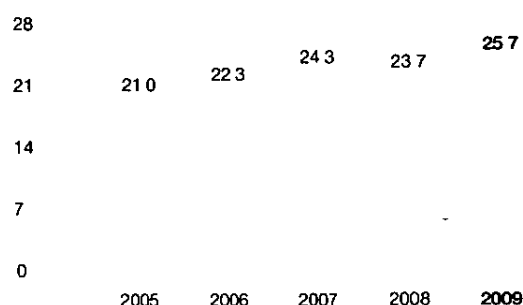
**+10.4%** £353.5m  
2008 £320.2m

### Operating profit (£m)



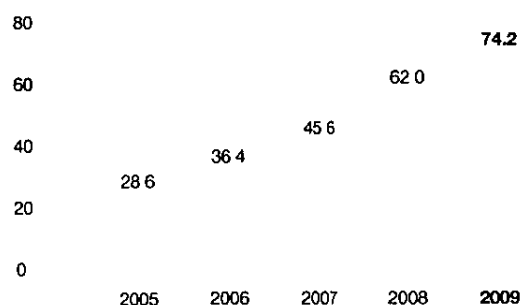
**+22.2%** £91.5m  
2008 £74.9m

### Return on sales (%)



**+2.0pp** 25.7%  
2008 23.7%

### Basic earnings per share (p)



**+19.7%** 74.2p  
2008 62.0p

## Operational highlights

- ▶ Strong growth in Rotork Controls
- ▶ Acquisition of Flow-Quip
- ▶ Opening of new Indian factory in Bangalore
- ▶ New Middle East office established
- ▶ Disciplined management with focused investment
- ▶ Improved working capital management

# Divisional Highlights

## Operating divisions

### Controls

Group Revenue\*

62.5% Controls

#### Financial Performance

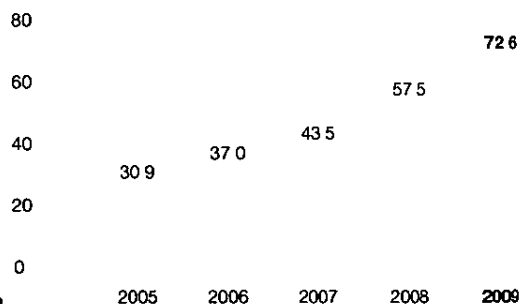
#### Operating profit (£m)

**+11.2%**

Revenue

**+26.4%**

Operating profit



Operating margin 31.9% up from 28.1% in 2008

### Fluid Systems

#### Financial Performance

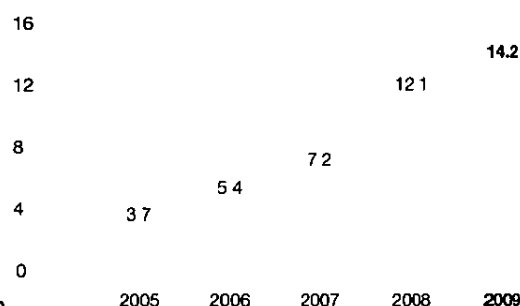
#### Operating profit (£m)

**+12.6%**

Revenue

**+17.8%**

Operating profit



Operating margin 14.3% up from 13.6% in 2008

27.4% Fluid Systems

### Gears

#### Financial Performance

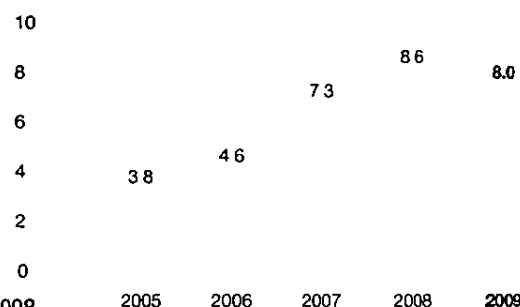
#### Operating profit (£m)

**+0.1%**

Revenue

**-6.9%**

Operating profit



Operating margin 21.8% down from 23.4% in 2008

10.1% Gears

Divisional revenue as a percentage of Group gross revenue before inter segmental elimination

# Global Opportunities

**rotork** is the only UK listed company committed to developing, selling and supporting the best valve actuators to rapidly growing markets across the globe. Rotork currently has approximately 1800 employees in 29 countries.

## Key

- Assembly Plant
- Customer Service Centre

## North America and Canada

We have three 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

Subsidiary offices in Brazil and Venezuela and a strong network of agents across the whole of South America provides us with total coverage of this huge and varied market. Industrial growth and issues of water scarcity are driving market growth in the power and water sectors whilst recent offshore discoveries provide future business potential for all divisions.

## Global revenue (£m)

|              | Americas    | Europe       | ROW          | Total        |
|--------------|-------------|--------------|--------------|--------------|
| Revenue 2009 | <b>98.4</b> | <b>146.4</b> | <b>108.7</b> | <b>353.5</b> |
| Revenue 2008 | 84.0        | 146.0        | 90.2         | 320.2        |

**UK**

We continue to maintain and defend our strong position in the water and waste water industry and oil and petrochemical industries. We are actively working on the future of the new nuclear programme.

**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.

**Middle East**

Oil & gas revenue has driven high levels of investment. Our offices and service centres in the region make us well placed to provide comprehensive support to local customers.

**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.

**Asia**

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 is core to Rotork's strategy and this has been underlined by the opening of the new factory in Bangalore. This and further development of our sales and service networks strengthens our position to take advantage of the forecast growth in this region.

**Australia**

Australia is supported by three customer support centres, one specifically dedicated to the Fluid Systems products, and one to the 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

2009 saw Rotork achieve further significant revenue and profit growth - despite a subdued trading environment in a number of our markets. General market conditions are showing signs of improvement with increasing project activity and encouraging levels of quotations. We serve long term growth industries, and are targeting the Group wide opportunities that these present. We have continued to invest in our production facilities and product development programmes and are therefore well positioned to capitalise internationally on the improving market conditions through the delivery of high quality competitively presented products and services.

**Roger Lockwood Chairman**

## Financial Highlights

For the year, revenue at £353.5m was up 10.4% on the prior year and profit before tax increased by 20.0% to £90.9m. We improved Group operating margin from 23.4% to 25.9%, and closed the year with strong cash balances and a good order book.

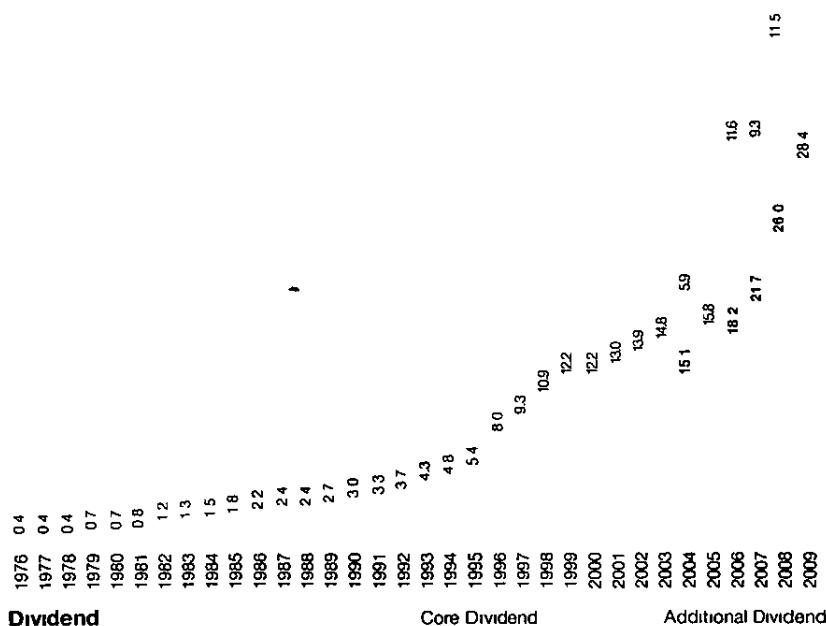
Currency has certainly been a positive influence in the year, both in terms of our competitive position internationally and in the translation of results of our international businesses although the volatility that we saw in the first half settled later in the year. At constant currency the increase in profit before tax was 5.1% on revenue that was up less than 1%.

## Divisional Highlights

Rotork Controls, our largest division accounting for 64.3% of Group revenue, is the market leader in electric valve actuation. Sales revenue grew in the year by 11.2% to £227.3m and operating profit increased by 26.4% to £72.6m. While there have been project delays in a number of sectors and markets, the level of project activity and quotations made, show that the medium term demand for our products remains strong across all sectors and geographies that we support. We continue to reinforce our position as market leader.

Rotork Fluid Systems ('RFS') has been the division most impacted by delays in activity with around 95% of its business exposed to the oil & gas sector. Nevertheless revenue grew by 12.6% and operating profit by 17.8%, and improved operating margin to 14.3% (2008: 13.6%). We are now starting to see operational gains from the restructuring of some of our production facilities and this should benefit the current year. We believe that 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 Flow-Quip in November is a positive step for us, giving access to improved product application offerings in some new geographic markets, and we expect to see the benefit of this in 2010.

Rotork Gears performed well in a difficult market although revenue at £36.8m showed no increase over the prior year and operating profit slipped back. Higher costs of material were experienced during the year and this is taking some time to be resolved. However, opportunities for growth continue to be good and our strong position with international valvemakers, supported by our wide product range and technical excellence, give us confidence for the coming year. Our new facility in India will begin production in the second quarter and this is an important development for us in what is an important market that is increasingly difficult to access through imports.



An additional dividend of 11.5p will be paid in July 2010

### Cash

Cash generation in the year has again been strong with year end net cash balances increasing to £78.7m which represented cash conversion of 117.1% of profit in terms of our key performance indicator, see page 20. Working capital management has been helped by our inventory reduction programme and good receivables management. The cash balance was of course after the purchase of Flow-Quip in November which was settled for £4.9m.

### Dividend

The Board is recommending a final dividend of 17.25p, which together with the interim dividend paid in May represents an increase of 9.2% over the 2008 equivalent. This will be payable on 7 May to shareholders on the register on 9 April 2010. In addition the Directors are intending paying a special dividend of 11.5p per share on 23 July to shareholders on the register on 25 June 2010. This represents a further cash distribution of £10.0m.

### Corporate governance

Our stakeholders rightly expect us to act in a fair and responsible manner both inside and outside our companies, and our commitment to high standards of conduct and performance across our businesses is as strong as ever. We keep Corporate and Social Responsibility ('CSR') issues high on the agenda at management meetings and have an ongoing process of refreshing all of our policies and procedures in these areas. This is dealt with comprehensively in the business review under Corporate Governance.

### Board Changes

Bob Slater joined Rotork in 1989 and has served as Group Finance Director for the last 12 years. Having aided the recent successful CEO transition Bob has expressed his wish to retire and consequently will be leaving at the end of March. On behalf of the Board I would like to thank Bob for his contribution over many years to the Group's success and wish him well for the future.

Bob will be succeeded by Jonathan Davis who we welcome to the Board. Jonathan has gained considerable experience of the business initially as Group Financial Controller and currently as Finance Director of Rotork Controls.

Alex Walker has been a non-executive director since 2001 and for the last few years has chaired the Remuneration Committee. Having now completed nine years on the Board Alex will retire at the forthcoming AGM. He leaves with our best wishes and appreciation of his valued advice and support.

### Outlook

Rotork benefits from a focused long term strategy. Our breadth of product offering, strong balance sheet and international presence provide us with a solid platform for growth.

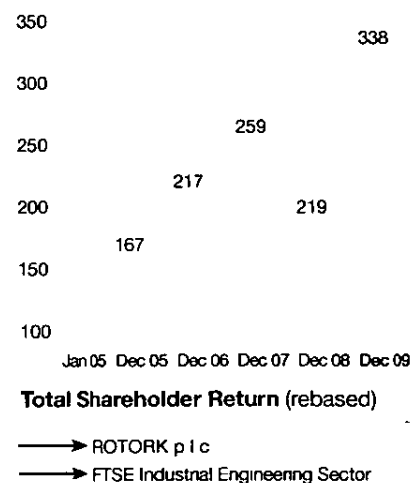
Although market conditions remain unsettled we continue to benefit from investment in product development, new facilities, expanded service capabilities and improved market penetration.

Quotation activity and the number of projects on our internal tracking system remain at high levels and whilst uncertainty remains on the timing of projects, we anticipate continued improvement in infrastructure and energy related markets.

The board expects to continue to make progress in 2010.

**Roger Lockwood**  
Chairman  
1 March 2010

We serve long term growth industries, and are targeting the Group wide opportunities that these present.





# Business Review *by Peter France*

Rotork is an international business with operations which span the globe. We supply 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. The end-user industries that we support are diverse and while we broadly categorise them into the general headings of Oil & Gas, Water and Power, this does not totally define the very wide range of engineering applications for our products. Rotork actuators are used in chemical, energy & power, food, transport and many other industries across the world and can be broadly classed as being related to infrastructure development and management.

1

We have a direct presence in 29 countries, with 15 manufacturing plants, 96 direct service and marketing outlets, and around 1800 staff. In addition to these facilities we have over 300 sales outlets in a further 59 countries where we operate through agents and distributors. This network enables Rotork to give direct local support to customers across the world and is an important facet of our approach to our markets.

As our operations have grown, both organically and by acquisition, 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, industries and geographies.

2

## Year under review

During the past year we have seen disruption in many of our markets as companies and governments have adopted strategies to deal with the financial issues left by the financial crisis. As the year unfolded we saw initiatives in many geographical areas being taken to address this in the form of stimulus packages. For Rotork, the first quarter was buoyant with order intake ahead of the prior year, but by the half year we saw some slowing, influenced by project delays and funding issues in a number of areas. Order intake continued to be slow through the second half, failing to reflect the buoyant project activity and good level of sales quotations that we had seen in the various businesses. By the year end we started to see improved optimism in many areas and indications of projects being released into live status.

Overall, order intake was £326.3m, down approximately 5% on the 2008 figure. A number of our businesses reported order intake higher than the prior year, including Iberia (up 20%), Russia (up 35%) and Malaysia (up 25%). Asia generally was the least affected with all but one company showing order intake growth in the year.

Shipments were strong and at £353.5m, Group revenue was up 10.4% on the prior year and with operating margin increasing in the year by 2.5 points. Profit before tax was up 20.0% to £90.9m, a new record level. The closing order book was lower than at the start of the year (which itself had been heavily flattered by currency) but at £129.1m it represents a strong position going into 2010. These figures include the acquisition of Flow-Quip made in November, although its contribution to the year was modest.

We continue to see medium and long term growth opportunities in all of the markets that we serve and our margin resilience reflects our competitive position in many of these markets. Our strengths continue to be in product design, approach to market and above all close contact with and support of our customers everywhere. Our growing site service operations are particularly important to us, not only in growing our direct income streams, but also in maintaining close customer contact enabling us to also influence future investment decisions. Our site service businesses continue to be deeply imbedded within our divisional businesses and we therefore report on them within the context of each division's performance.

## Rotork Controls

This is our largest division accounting for 64.3% of sales revenue. It reported sales of £227.3m in the year, up 11.2% on the prior year. Order intake was 1.7% down on the prior year figure, and at the end of the year Controls made up nearly 66% of our order book. Both project activity and the level of sales quotations was good in 2009 and many of the projects that we are working on with our customers already have engineering clearance and operational support, and where there

- 1 Rotork Thailand's Site Services team installing a RFS Gas/Oil actuator on a natural gas pipeline
- 2 IQ Intelligent actuator gearbox combination installed on a new activated sludge plant, improving final effluent quality for return to river in line with the European Fresh Water Fish Directive

have been holdups, this has in most cases been due to issues relating to the release of funding

During the year we have invested in our UK, India and Russia businesses in terms of facilities, systems and people. We are continuing to invest and ensure that we create further capacity to support our markets in the future. The site services business in Controls has continued to prosper and we see this as an important part of our business going forward enabling deeper partnerships with customers to give them greater on site technical support and visibility of the performance of their processes

This is a business that is well established in most of its industrial markets. The operating margin of the business continues to improve due to operational gearing as our throughput increases, product mix and attention to cost control

#### **Rotork Fluid Systems**

Supplying pneumatic and hydraulic actuators and systems, Rotork Fluid Systems ('RFS') has been our fastest growing division in recent years. In the year under review we grew sales revenue by 12.6% to £99.7m. Over the last three years RFS' revenue has grown from £40.5m to £99.7m, an increase of 146%. This has been achieved in a growing market, but we have undoubtedly made great progress in building the business through market share gains due to our customer-oriented approach and increased variety of product offering through organic product development, and latterly by acquisition.

The business is largely aimed at supporting the oil & gas market, which has been the most impacted by project delays in 2009. Our order intake into this division was down 11.9% over the prior year and while there are a number of large projects available to us, the delays here were worse than in the other parts of the Group. We have been able to maintain margins during this period and have improved our engineering and production processes at the major plants in Italy and Germany, and are able to demonstrate

to customers that we have market leading technology, and the capability and capacity to handle even the largest projects in the industry.

The site services business within RFS is now gaining critical mass and we are successfully weaving this into our core product offerings to our customers internationally. Despite the recent slowing of order intake, we have a high degree of confidence in this business and the opportunities for us in the medium term.

#### **Rotork Gears**

Rotork Gears is a supplier of gearboxes, adaptors and ancillaries for the valve industry worldwide and is now the world leader in terms of product portfolio and geographic reach across many industrial sectors. The division is often a sole original equipment supplier to major industrial groups. It has created close partnering arrangements with customers and provides a high quality Original Equipment Manufacturer ('OEM') service, giving the customer base real product improvements and cost savings in a long term relationship. We saw softening in valvemaking activity across the world during the year, and additionally the division was negatively impacted by the strengthening of the Chinese currency which affected material costs. As a result operating margin fell by 1.6 points to 21.8% on sales revenue of £36.8m. Going forward, we are very positive about our new production facility in India where we see good growth prospects and production costs which will support our margin in 2010.

#### **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 including essential repair, maintenance, factory fit and outsource maintenance programmes tailored to the customer's requirements. This business is an important feature in our strategy going forward and we can demonstrate that we are able to genuinely support customers across the range of products and the applications that they cover. We are continually making improvements and structural changes

#### **Controls**

- ▶ Strong growth in core business
- ▶ Positive material cost management
- ▶ New Indian factory in Bangalore

#### **Fluid Systems**

- ▶ Improved operating margins
- ▶ Successful product development
- ▶ Acquisition of Flow-Quip for £4.9m

#### **Gears**

- ▶ Improved profitability of Chinese plant
- ▶ Margin pressure
- ▶ Strengthen R&D team, introduction of 5 new products

## Business Review *continued*

1

Within the Group strategy the following key objectives have been identified for our business in 2010

- 1 Sales growth – to continue efforts to ensure that all divisions and subsidiaries sell actively and grow market share
- 2 New products – increased investment in product development
- 3 Acquisitions – execute acquisition of identified suitable targets
- 4 Health & safety – continue to drive improvements in safety performance Group wide
- 5 Material cost reduction – leverage global supply chain
- 6 Development of Rotork Site Services ('RSS') – continue progress with RSS offering worldwide and further develop our site service capability under a recognisable global brand
- 7 IT – implement a management system for subsidiary sales & service offices
- 8 Nuclear – expand resource and product portfolio
- 9 People development – identify and develop key talent
- 10 Processes and ethics – continue to embed a high performance culture including delivery of our Corporate Social Responsibility agenda

2

- 1 250 IQ Intelligent actuators with Profibus installed at a major new waste water treatment plant as part of a scheme to significantly improve water quality returned to the local river
- 2 Some of the 350 IQT actuators installed in a membrane filtration plant, producing discharge to the sea, cleaner than the seawater itself

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

### Strategy

Rotork focuses 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, technically advanced, innovative products and services that support our customers' activities around the world through our extensive and continually expanding network of offices and manufacturing plants

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

innovation award from an influential US magazine. The range is not yet fully developed and remains an active part of our development programme into 2010. During 2009 we also widened our network offering to include the HART protocol which has become the de-facto standard in the process control industry and have continued our development of a wireless interface to complement our proprietary Pakscan system. A second wireless trial site, located in the US, has also been installed and a product launch is anticipated during the coming year.

We have continued to increase our development resources within the Bath facility where we are focussing on developing technology for future generation electric products whilst working with our international supply chain to advance our current products from both a cost and features perspective.

This has been an important year within the Fluid Systems division where a Technical Director has been appointed to provide focus for the successful and growing range of current and planned product developments. A product and technology roadmap is being put in place to ensure a longer term focus on both existing products within the portfolio and new products. RFS has also supplied the largest sub-sea rack and pinion actuator ever built at the Lucca factory. Measuring over two metres high and five metres in length, the single-acting spring-return actuator is designed to operate a 24 inch, ANSI class 900 sub-sea safety isolation ball valve ('SSIV') for the Tuna Gas Gathering Project, off the coast of Egypt. This project is a continuation of the work with the Gears division and the hydraulically operated package incorporates a special gearbox and de-clutch system which enables the actuator's output drive to the valve to be automatically disconnected and reconnected when maintenance is required.

Following the acquisition in 2008 of the Smart Valve Monitor ('SVM') product consolidation has been completed and we now look towards building the brand

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 revenue, profit and core dividends through organic growth and acquisitions.

### 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 year saw the initial launch of the Control Valve Actuator ('CVA') which has achieved accolades in many quarters including receiving a flow control

and additional sales. Further significant developments for the SVM range are now planned.

The product offering of the Gears division has also been extended with the development of gearboxes for the American water industry. This project was completed during 2009 and the product range is now in production. A complete range of quarter-turn gearboxes has also been designed for building fire-protection systems and these are now at the product testing and approval stage. Other gearbox ranges have also benefited from continuous improvement and design optimisation programmes.

#### Quality

Commitment to product excellence and customer satisfaction is fundamental to Rotork and we ensure that it is embedded into our business processes across design, vendor assurance and production. Rotork manufacturing sites are required to be registered to the international Quality Management System Standard ISO9001 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 at our own and our suppliers' facilities. Our business model requires exact control of our 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.

#### Our people

Rotork strives to maintain good relationships with all employees through regular briefings, open communications and Chief Executive newsletters and briefings to all staff internationally.

During the year we undertook our second employee satisfaction survey, which was improved after the feedback from the

first survey in 2008. We were pleased with the level of response and the level of involvement and reward that people generally felt from being a part of the business. The results again showed a good relationship between Rotork and its employees and there are a small number of tasks which we are following up on.

We believe that our reward system is appropriate and fair, and employees in the UK and many overseas subsidiaries enjoy participation in long-standing Rotork profit sharing and share schemes. At the Bath plant, an Employee Committee sits regularly to discuss staff issues and suggests improvements in working conditions and practices 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 staff 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 Social Responsibility

At Rotork we take seriously our responsibilities to our employees, customers, vendors and the wider community. I address this in part in my strategy statement (above and also on our website at [www.rotork.com](http://www.rotork.com)). 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, health and safety, the Group's employees and social and community issues can be found on pages 24 to 28.

1

2

- 1 RFS GP actuators installed on a manne jetty importing LNG, Chile
- 2 Rotork site services inspecting IQ actuators installed as part of a recent upgrade to a Power station

Peter France MD Rotork Controls

into orders has been difficult at times. This project activity has been supported by an increased level of sales order quotations across the division which – with feedback from customers generally, gives us encouragement that what we have seen are delays that will be resolved and that order intake will follow quotations that we are seeing. We are increasing our focus in several market related areas including production in India, product for nuclear and ship board applications, and sector specific product for Asia, all areas where we see opportunities for us in the next few years.

During the year revenue increased by 11.2% to £227.3m with second half output being down 2.9% on the first half. Operating profit rose by 26.4% to £72.6m and the second half was up 5.0%. Restated at 2008 exchange rates operating profit would have increased by 11.3% for the year and 27.4% on the first half. Currency overall has been a positive for

the division and a weakening of sterling against the euro and the US dollar has made our products generally more attractive against those of our European and US competitors. Order intake was slightly down (by 1.7%) on the prior year, and this, coupled with a currency movement since last year end meant that the closing order book for the division was down 14.9% year on year. Predominantly this order book will ship in 2010.

We saw good performances from the Americas, and across Asia with China continuing to post strong double digit revenue and profit growth. Europe was generally flat although we had an excellent performance from our businesses in Spain and Portugal. The impact of stimulus packages was seen in a number of locations in the area of water, waste water and power, although oil & gas was selectively strong also. We are making good progress in the Chinese water markets where we have strategically aimed both product development and marketing resource. The Middle East

continues to be busy and we are now increasing our direct customer facing presence there to support strong project activity across the region.

Europe saw oil & gas companies continuing to invest, although there is no doubt that it has become more difficult to predict the timing of order placement here. The power sector remains active and we are enhancing our product offering to take advantage of capital investment in the coming few years. In Iberia, where we provide strong customer support at all levels across projects through our Rotork Site Services offering, we have had good growth in the year and see this continuing. Our site service businesses are making an impact across our regions and we see this as an important area of growth going forward.

In Russia we have a growing direct presence and we have seen positive signs from across market sectors.

North America has seen a strong improvement over last year in revenue (up 13%) and profit (up over 30%) and activity levels remain strong.

There has been some slowing in South America regionally although our companies in both Venezuela and Brazil improved their performance over the prior year and are reporting increased investment in oil & gas infrastructure projects.

# Controls

2009 has been another record year in the electric actuator division with excellent performances in all territories and across most of the sectors that we serve. The Process Control business saw both order intake and sales revenue at lower than 2008 levels, but the core electric actuator business had a strong performance in revenue and profit with margins again improving over the prior year. We have seen strong project activity in all our traditional markets, oil & gas, power, water and waste water although converting this

Revenue  
**+11.2%**  
£227.3m (2008 £204.5m)

Operating Profit  
**+26.4%**  
£72.6m (2008 £57.5m)

We have seen strong project activity in all our traditional markets.

## Business Opportunities

- ▶ Nuclear
- ▶ Brazil, Russia, India, China and the Middle East
- ▶ Continued investment in new products and markets
- ▶ Rotork Process Controls including CVA

In this picture  
*Lee Jones Service Engineer*

Business Review *continued*

### **Business Opportunities**

- ▶ Transmission and Distribution
- ▶ Increased investment by National Oil Companies
- ▶ Expected increase in Upstream capex
- ▶ New products and broader market focus
- ▶ Nuclear
- ▶ Safety and information diagnostics

**A key strategy has been to support customers locally in their markets.**

In this picture  
**Shane Hunter** *Apprentice*

The RFS focus on upstream oil & gas markets and projects has been responsible for the strong growth in the division over the last few years and our products have been oriented toward this market. It has been a divisional strategy to maintain a high presence in upstream whilst developing products for the downstream oil & gas market where there has been significant investment in recent years.

The strategy has been successful for the division in that it provided opportunity for growth in new markets and targeted geographic areas whilst reducing the overall dependency on one market sector.

Products such as gas-over-oil and high-pressure gas actuators have allowed the division to participate in downstream areas such as LNG, gas transmission and compressor station pipeline projects. Along with the development of these products and relevant industry approvals, acquisitions have added to the product portfolio providing growth and increasing the markets the division can participate in, such as petrochemical and pulp & paper.

During 2009 we saw a reduction in global oil & gas investment, both upstream and downstream, with financial and investment constraints in many countries. This had an effect on project activity generally and whilst enquiry levels remained high, decisions on project awards were protracted, and the size of the projects were smaller than had been seen in previous years. All of this had an impact on the order intake across the division.

Overall, we feel that the divisional input performance, although down by 11.9% in value against a record and market peak in 2008, represents a solid result in current market conditions. The breadth of our product range and reduced dependency on one market allowed us to receive more orders in number than in 2008,

albeit for smaller values. Our approach to the markets we serve having sales offices supporting local customers was a significant part of the success and this will position us well in the future.

Sales revenue was strong in the year and at £99.7m it was up 12.6% on the prior year and establishes a new record for the division. The Lucca plant had a difficult year as it dealt with the relocation and restructuring issues begun in 2008, which are now behind us. However we saw good growth in the UK, the US, Canada and Spain, and the Melle (Germany) production facility had a strong trading performance. Profitability improved in most of our companies, and margin overall increased to 14.3% from 13.6%.

# Fluid Systems

A key strategy has been to support customers locally in their markets, and our Sales, Rotork Site Services and support systems are focussed on this. Oil & gas sector activity remains strong at engineering design level and we are confident of some large projects being released during 2010. 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.

In November we completed the acquisition of Flow-Quip, a producer and distributor of pneumatic actuators and valves focussed on the US and South American markets. While its current year contribution to the division was modest, its medium and long

**Alex Busby MD Rotork Fluid Systems**

term significance to us in these markets is important in delivering our strategy in the Americas, from both a product and a geographical perspective.

Product development continues to be a major focus and the appointment of a Technical Director for the division has been an important step in both this and the ongoing advancement and co-ordination of what is now a wide range of international products. A common

approach to technical issues across the range and the development of an RFS 'look and feel' will benefit from this strengthening of the team.

Revenue  
**+12.6%**  
£99.7m (2008 £88.6m)

Operating Profit  
**+17.8%**  
£14.2m (2008 £12.1m)



David Littlejohns MD Rotork Gears

Rotork Gears manufacture gearboxes for both manual and automated duty at their plants in the UK, the Netherlands, Italy and China, and are now the largest supplier of products of this type globally. The products can be broadly split into three areas, gearboxes for motorised operation, which are fitted to an actuator to improve mechanical advantage, gearboxes for manual operation used by global valve OEM customers to allow manual operation of their valves and gearboxes for specialist sub-sea and large pipeline applications. The Division's sales success is based on securing and retaining large key valve maker accounts and we have recently been able to attract new customers – often in new markets – who we expect to work with beyond

# Gears

the current year. 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 growth of the division has so far been based on traditional European and US markets, in the last few years we have seen increased sales and marketing activity in China and more recently, India, Japan and Russia.

The wider market conditions facing our customers had an impact on us in 2009, and although sales revenue was flat, our margins were eroded by cost pressures in part caused by the strengthening of the Chinese currency. Revenue in the year was stable but operating profit fell with the margin reducing from 23.4% to 21.8%. Europe was down with all countries that we operate in showing reduced performances compared with the prior year. Asia however was the least affected, and profit here increased materially over the comparative. The production facility in China has made substantial improvements in the last few years and we are now widening our

supplier base there which will give us greater security of supply alongside cost savings. We have recently begun the process of establishing production in India, and early signs are that component quality is good and that the market is receptive to our products and methodology.

We have created an improved research and development team which through 2009 made good progress on several projects that will benefit the division in 2010. This function will receive continued investment as we focus on our ability to introduce new and enhanced products to support our drive for increased market share. Our new web-based quality system allows unification of the systems previously used across the world and is showing results in our constant drive for improvements in quality, consistency and reliability.

We expect to see increased demand for our specifiable sub-sea and large ¼-turn products that are often designed to customers' exacting specifications, and supplied from the Italian manufacturing plant. The Indian project provides both sales and supply chain opportunities with India representing a growth market that contains a number of high quality OEM valvemakers who are competing successfully on international projects and who are keen to partner with a quality gearbox manufacturer that is capable of providing them with international support.

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.

Revenue  
**+0.1%**  
£36.8m (2008: £36.8m)

Operating Profit  
**-6.9%**  
£8.0m (2008: £8.6m)

A key area of growth for the division is based on increased sales in new and emerging markets.

## Business Opportunities

- ▶ Russia, India and China
- ▶ America Water Works Association market
- ▶ European and USA Fire Safety FM/UL market (Fireball)
- ▶ Safety override market
- ▶ Trend for larger gearboxes
- ▶ Acquisition(s)

In this picture

# Financial Review

In the year under review, the Group has shown record performance in terms of revenue, profit and earnings per share growth, while delivering good conversion of profit into cash. This has been achieved while improving net operating margin. Working capital management has been good with improvements in most areas.

The international spread of the business makes currency movement a risk to our performance, particularly in periods of highly volatile exchange rates as we have seen in the last couple of years. The first half of the year saw sterling continue the fall that had started in 2008, although this did stabilise in the second half. Overall currency was a positive influence on us in the period and had the effect of converting a year of steady profit growth into good double digit improvement. The exchange rates applicable to us in terms of weighted average rate (Income Statement) and year end rate (Balance Sheet) are shown in the table below. The current spot rates suggest that currency may have a small positive impact in 2010.

**Bob Slater Finance Director**

Turnover as reported was up 10.4%. At constant currency, and with the impact of the acquisition removed, turnover would have shown no growth over the prior year. Profit before tax as reported was up 20.0%, and this would have been 5.1% at constant currency and without the acquisition included. Return on sales was 25.7%, an improvement of 2.0 points over the 2008 figure of 23.7%. The impact of currency however goes beyond the transaction and translation numbers reported here, with Rotork currently very competitively placed internationally against manufacturers overseas.

The table on page 19 shows the impact of currency (transaction and translation) on the key statutory headings.

We have had a programme of inventory reduction across our businesses through the year and this has successfully impacted the carrying value of stock in working capital. Targeted receivables reductions also enabled us to improve cash generation with debtor days at the year end showing 60.0 days (2008: 64.6). Cash generation is an important metric to Rotork, and our conversion of profit into cash shows 117.1% (2008: 98.6%), further details of the KPIs are shown on pages 20 and 21. The KPIs cover a range of measures that we use within the business and we are increasingly reporting on non-financial areas. For example we are aiming to target carbon reduction as part of this process during the current year. Rotork's business model is generally asset-light, something which applies to each of the three divisions. This can be seen in the Return on Capital Employed KPI which shows an increase to 90.1% (2008: 69.7%).

## Acquisition, intangible assets and amortisation

On 6 November we completed the acquisition of Flow-Quip for £4.9m. This business, based in Tulsa, Oklahoma, USA, has a successful range of products aimed at the fluid power market with a good presence in a number of South American markets where we have wanted better coverage. It is a good fit with our RFS division and the process of integration is well advanced.

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 accounts. As a result an asset of £2.1m for goodwill has been recorded in the balance sheet, and an acquired intangible of £1.5m is recorded under intangible assets. In the income statement there is a charge against profit of £235,000 in the year for amortisation of intangibles relating to this acquisition. Together with the amortisation of previously capitalised intangibles, the total charge against income for the year for amortisation of acquired intangible assets is £1.2m. In the full year 2010 this charge is likely to be broadly similar based on the 2009 balance sheet.

## Key exchange rate information

|           | Weighted average rate<br>used in the Income Statement |      |      | Year end exchange rate<br>used to retranslate<br>the Balance Sheet |      |      |
|-----------|-------------------------------------------------------|------|------|--------------------------------------------------------------------|------|------|
|           | 2009                                                  | 2008 | 2007 | 2009                                                               | 2008 | 2007 |
| US dollar | 1.54                                                  | 1.81 | 2.01 | 1.61                                                               | 1.44 | 1.99 |
| Euro      | 1.13                                                  | 1.45 | 1.45 | 1.13                                                               | 1.03 | 1.36 |

## Organic business growth

| £M                         | 2009 Group<br>as reported | Constant<br>currency<br>adjustment | Group at 2008<br>exchange rates | Remove<br>Flow-Quip<br>acquisition | Organic business<br>at 2008<br>exchange rates | 2008 Group<br>as reported |
|----------------------------|---------------------------|------------------------------------|---------------------------------|------------------------------------|-----------------------------------------------|---------------------------|
| Revenue                    | 353.5                     | (31.8)                             | 321.7                           | (1.4)                              | 320.3                                         | 320.2                     |
| Cost of sales              | (187.6)                   | 14.9                               | (172.7)                         | 1.1                                | (171.6)                                       | (176.0)                   |
| Gross profit               | 165.9    46.9%            | (16.9)                             | 149.0    46.3%                  | (0.3)                              | 148.7    46.4%                                | 144.2    45.0%            |
| Overheads                  | (73.8)                    | 5.6                                | (68.2)                          | 0.1                                | (68.1)                                        | (68.2)                    |
| Adjusted operating profit* | 92.1    26.1%             | (11.3)                             | 80.8    25.1%                   | (0.2)                              | 80.6    25.2%                                 | 76.0    23.7%             |

\*Adjusted operating profit is before the amortisation of acquired intangible assets and profit on disposal of property

## Cash generation

We have had strong cash generation this year due to our record operating performance, and reduced investment in working capital. The ratio of working capital to sales revenue, which has historically been in the range of 24% to 28%, was 21% at the end of the year reflecting the effort put in to reducing inventory and receivables across the Group. Major cash outflows in the year were on dividends £24.1m, taxation £27.5m and the acquisition of Flow-Quip for £4.9m. Capital expenditure was £4.2m slightly ahead of the depreciation charge of £3.5m. The Group closed the year with cash balances of £78.7m.

## Taxation

The headline charge of £26.9m represented an effective tax rate for the year of 29.6%, marginally up on the prior year (2008 29.5%). During the year we saw the full impact of the UK rate of corporation tax falling and a positive mix of profits from lower tax jurisdictions. This was offset by profits in China where we are coming to the end of our tax holiday available for new start-ups there. We are now in a transitional marginal rate phase and will move to full tax paying status in China from 2011. The fundamental principles of the Group's approach to taxation are to mitigate the burden of taxation where possible, in a responsible manner while managing our relationships with tax authorities on the basis of full disclosure, co-operation and legal compliance.

## Treasury

The Group has a Treasury Risk Management Policy which governs the activities of both Group Treasury and subsidiary treasury functions, against an agreed financial risk profile.

A monthly report on treasury issues is submitted to the board covering banking, money market investments, interest, and currency hedge management and exposure. All currency transaction management across the Group is controlled from the centre.

The Group uses appropriate financial instruments to hedge material sales and purchases, principally forward exchange contracts and swaps. The Group's objective is to reduce volatility to cash flow, margins and earnings.

## Dividend

We paid an interim dividend of 11.15p in September, and the directors are proposing a final dividend of 17.25 pence per share payable in May. We also intend paying an additional dividend of 11.5p in July and taken together this will bring the total for the year of 39.9p and give dividend cover of 1.86.

## Financial Controls and Internal Audit

Rotork has a generally decentralised management structure delegating day to day control to the three divisional businesses. However we have comprehensive control systems in place and regularly update and communicate our procedures and systems instructions across the management teams. The Group has a well developed and effective internal audit function. This work is performed by key senior finance staff within the Group, with occasional assistance from outside audit firms who are independent of the subsidiary being audited at the time the work is done. We have evolved a common methodology across the Group with staff trained specifically for this work. Regular updates of procedures and training are undertaken in order to keep the audit programme

current and relevant, and for staff to undertake continuous development for the role. This methodology provides feedback through regular reviews and allows members of the team to experience the control environment in different business areas which brings benefits across the divisional companies. The audit programme has built into it key performance indicators which are reported on to each Audit Committee meeting together with summaries of work performed and issues raised.

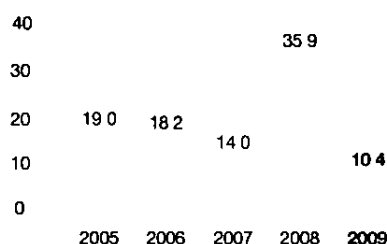
## Retirement benefits

As required by IFRS the balance sheet reflects the net surplus or deficit in retirement benefit plans taking assets at their market value at 31 December 2009 and evaluating liabilities at year end AA corporate bond rates. We have taken action to reduce the Company's liabilities in respect of retirement benefits by closing the UK scheme to new entrants in 2002, and in 2009 we closed the US schemes to new entrants also. The retirement benefit position at the year end showed the schemes overall only 82% funded compared with 93% at the prior year end. While there have undoubtedly been issues with equity values during the year, the major cause of the increase is the reduction in discount rate of nearly one percentage point in the year. The triennial valuation of the major scheme, the UK defined benefit scheme, is due during 2010 and the trustee and the Company will at that time address the timing of clearing the deficit.

# 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 (%)



Sales Revenue Growth reduced to **10.4%**

### Reason for choice

This is reported in detail for operating segments and is a key driver in the business. These measures enable us to track our success in specific project activity and our progress in increasing our market share by products and region.

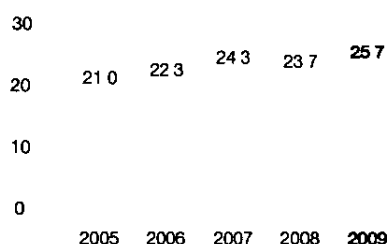
### How we calculate

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

### Comment on results

We grew revenue by 10.4% in a difficult year for the global economy.

## Return on Sales (%)



Return on Sales **25.7%** up from 23.7%

### 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.

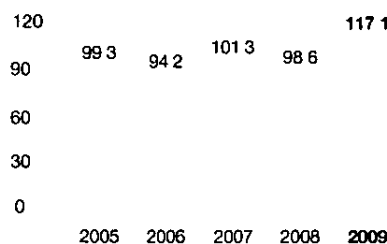
### How we calculate

Profit before tax (after financing and interest) shown as a percentage of sales revenue.

### Comment on results

Good margin improvement due to operational gearing and product mix, aided by currency benefits.

## Cash Generation (%)



Cash Generation improved to **117.1%**

### Reason for choice

This is used 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 senior management reward system.

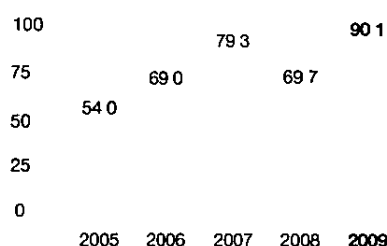
### How we calculate

Cash flow from operating activities before tax outflows as a percentage of operating profit.

### Comment on results

Cash generation has been very good as a result of active working capital management.

## Return on Capital Employed (%)



Return on Capital Employed up to **90.1%**

### Reason for choice

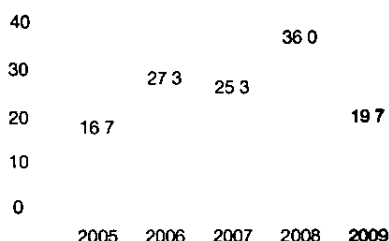
Rotork has an asset-light business model by design, and reporting this ratio internally helps management at Group level to monitor our adherence to this philosophy.

### How we calculate

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

With increased operating profit and capital employed reducing by approximately 5% from 2008 there has been significant increase in the Return on Capital Employed.

**EPS Growth (%)**

EPS Growth **19.7%** a good rate of 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

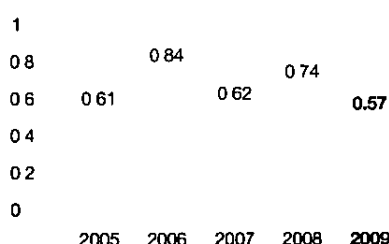
**How we calculate**

Increase in basic eps year on year divided by the earlier year eps

**Comment on results**

Basic eps has increased in line with PBT

**Non-financial KPIs.** We monitor non-financial areas in 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**

Accident Frequency Rate improved to **0.57**

**Reason for choice**

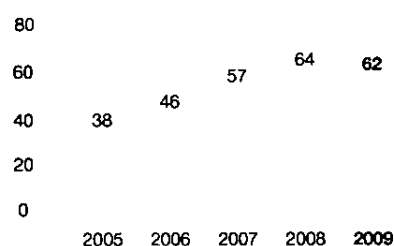
The Accident Frequency Rate ('AFR') is used as one measure of the effectiveness of our health and safety procedures

**How we calculate**

The formula we have used for calculating our AFR is the number of reportable injuries divided by the number of hours worked multiplied by 100,000

**Comment on results**

An 11% reduction in accidents is offset by an increase in reported near misses. We believe this to be a positive outcome to our safety awareness programmes

**Waste Recycling (%)**

Waste Recycling **62%** down from 64%

**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 into our main UK site in Bath

**Comment on results**

Given the growth of the business we have done well to reduce our total waste by 5.5%, but recycled waste has slightly reduced as a percentage of total waste

**Employee Satisfaction**

Survey commenced in 2008



Employee Satisfaction consistent at **3.5**

**Reason for choice**

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

**How we calculate**

Employees scored their responses directly into a prepared survey with 1 being very dissatisfied and 5 being very satisfied

**Comment on results**

More employees participated in the survey's second year. Rotork has a good relationship with its employees illustrated by communication and corporate values improvements. Rotork endeavours to improve communication at all levels.

# Statement of Principal Risks and Uncertainties

The assessment and 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. This is based on an established enterprise wide process for the identification and management of risk – first at divisional business level – and then in terms of the Group as a whole, working within the governance framework set out in our Corporate Governance Statement, see page 32. The Board's role in risk management involves promoting a culture that emphasises integrity at all levels of business operations. This includes ensuring that risk management is embedded within the core processes of the Group, determining the principle risks, (and ensuring that these are communicated effectively across the businesses) and setting the overall policies for risk management and control. The Group Finance Director is specifically tasked with risk management for the Group, and chairs a committee made up of functional heads at divisional director level to manage this process, each of whom has access to all officers across the Group tasked with risk management. The Board approves appetite for risk at both Group and Divisional level and the consequential actions in terms of mitigation where possible and appropriate.

These processes of risk management within the businesses involve

- ▶ Identification and regular assessment of individual risks
- ▶ Reviewing previously identified risks and the effectiveness of mitigation where appropriate
- ▶ Design of controls
- ▶ Testing the controls through management review, and ultimately 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 is an ongoing process involving regular risk assessment, with clear and consistent procedures for monitoring updating and implementing appropriate controls to manage the identified risks. We are therefore confident that we have a methodology for ensuring that the Group's approach to dealing with individual risks is robust and timely.

Identified risks are categorised by likely impact on the business and likely probability, and once the assessment matrix is complete the top risks are then

re-evaluated in relation to the Group overall. 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 during the year.

We identify three main risk areas

- ▶ **Strategic** – risks that potentially could affect the strategic aims of the business, or those issues that could affect the strategic objectives that the Group is addressing
- ▶ **Operational** – risks arising out of the operational activities of the Group relating to areas such as logistics, procurement, product development and interaction with commercial partners
- ▶ **Financial** – issues that could affect the finances of the business both externally from matters initially outside of our control, and from the perspective of internal controls and processes

The top 12 risks identified in the risk management process are listed in the table opposite. These are categorised by the three main risk areas identified above and listed in order of severity as identified in the risk assessment process. Mitigation, where possible, is shown by each identified risk area.

| Type of risk | Description                                                                                        | Mitigation                                                                                                                                                                                                                           |
|--------------|----------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Strategic    | Existing competitor moving to lower cost manufacturing                                             | Direct presence in terms of production, sales & service support<br>Constant drive to maintain differentiation from competition                                                                                                       |
| Strategic    | Appropriate products, both in terms of cost and features                                           | Taking cost out and differentiate Rotork product from competitors<br><br>Development of products to address lower specification/lower price markets                                                                                  |
| Strategic    | Risk of copy Rotork actuators and gearboxes damaging the businesses                                | Legal enforcement of intellectual property rights wherever possible<br>Take cost out and differentiate our product from copies Investigate copies to learn their shortcomings                                                        |
| Strategic    | Lower investment in Rotork's traditional market sectors                                            | Existing product offering into new markets and new products for all markets                                                                                                                                                          |
| Strategic    | Failure to manage acquisitions effectively                                                         | Careful consideration of management team following acquisition and monitoring of existing management if they remain post completion<br>Identify cultural, communication and resource needs                                           |
| Operational  | Quality and applications failures in hazardous areas or causing an environmental impact            | Quality control procedures including supplier visit and checks Product design and development supported by life/performance tests                                                                                                    |
| Operational  | Major in field product failure - existing products                                                 | Good quality control procedures including supplier audit and scorecard to monitor performance                                                                                                                                        |
| 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                                                                                                                        |
| Operational  | Exposing employees to danger through working in parts of the world where conflict and unrest occur | Following advice from Foreign consulate and International SOS ('ISOS') helps reduce risk ISOS provides support in the event of an employee being in a place as trouble starts                                                        |
| Operational  | Failure of a key supplier or tooling failure at a supplier                                         | Dual sourcing wherever possible and product engineering                                                                                                                                                                              |
| 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      |
| Financial    | Failure to secure cost reductions limiting profit growth and growth in existing and new markets    | Investigate new suppliers and utilise new suppliers in competitive bids with existing suppliers Maximise purchasing leverage by combining divisional requirements and offering increased volumes of business to leverage lower price |



# Corporate Social Responsibility

## ENVIRONMENT

### Environmental Committee

Chaired by a Divisional Director, meetings are formally held at least once a year  
The Environmental Committee has responsibility for

- The Environmental Management System
- Review of all incident reports
- Review of Environment Audit Report
- Reviewing legislative change
- The committee uses Resource Futures as the Group's Environmental Consultant

## SOCIAL ISSUES

### Social Issues Committee

Chaired by a Divisional level Director, the Social Issues Committee has responsibility for

- Social issue policies
- HR policies

## CORPORATE SOCIAL RESPONSIBILITY COMMITTEE (CSR)

Chaired by the Group Chief Executive,  
the CSR Committee has the following sub-committees covering  
health & safety, the environment, ethics and social issues

## HEALTH & SAFETY

### Health & Safety Committee

Chaired by a Divisional Director, meetings are formally held four times a year  
The Health & Safety Committee has responsibility for

- Reviewing all accident and incident reports
- Management of Group health & safety
- Reviewing legislative change
- The Committee includes a qualified health & safety professional

## ETHICS

### Ethics Committee

Chaired by the Group Legal Director, the Ethics Committee has responsibility for the development of Group Ethics policies and procedures

The diagram above, sets out the Group's Corporate Social Responsibility structure. The Group Chief Executive chairs the CSR Committee which reports to the Rotork Management Board and through the Group Chief Executive to the Board of Rotork plc.

The Committees act as a focal point for further development of the subject matter within their remit. Underlying all their work is a determination to embed the Group's Corporate Social Responsibility values within all its activities. These values are contained in our vision and mission statement which can be accessed at [www.rotork.com](http://www.rotork.com) under 'investors/strategy'.

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

The Group's Environmental Policy applies to the Company and all its subsidiaries worldwide. The 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 group environmental policy can be found at [www.rotork.com](http://www.rotork.com) in the investors section under Corporate Responsibility-Environment.

In support of the above policy, 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 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.

### Environmental performance

Rotork has developed an improved data collection tool during the year which will assist in evaluating the data used in its Environmental Reports. These enhancements will improve the accuracy and completeness of the data collected.

### Greenhouse gas emissions

The Group's greenhouse gas emissions derive from the use of energy, electricity, gas, LPG and oil. We record our emissions of greenhouse gases in accordance with the Greenhouse Gas Protocol ('GHG Protocol'), developed jointly by the World Business Council for Sustainable Development and the World Resources Institute. This standard differentiates between direct ('Scope 1 emissions') and indirect emissions from the generation of supplied electricity and supplied heat (e.g. district heating) ('Scope 2 emissions'). Certain other indirect emissions known as 'Scope 3 emissions' are currently not part of our carbon data collection.

### Waste management

The majority of the waste generated by the Group is non-hazardous waste. Hazardous waste accounts for only 5% of the total waste generated. Hazardous waste is usually defined to include items such as batteries and electronic equipment. Non-hazardous waste typically includes materials such as paper, card, plastic and metal. Rotork has identified waste as its most significant environmental impact and is therefore working with its suppliers to improve its waste recycling systems. As well as reducing the Group's environmental impact, there is a cost benefit to reducing and recycling the waste.

Waste recycling is one of the Group's non-financial key performance indicators ('KPI'), which is measured as a percentage of total waste generated by the Group. Last year, there was a 5% reduction in total waste generated, which in part resulted in a 2% reduction in the amount of recycled waste (see page 21 for more details of this KPI).

### Water use

Water consumption has been measured by the Group throughout the year to monitor water efficiency. For the majority of sites, water consumption derives from normal operational and sanitary water use. The Group's water is supplied by local utility providers, except in Rotork's facilities in Lucca, Italy and Chennai, India, where water is metered and extracted direct from boreholes.

### Ethics and values

The Board of Directors is committed to ensuring high levels of ethical practice and conduct by all Rotork employees in all their dealings.

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. At Rotork the rights of every employee are respected. The Company acts in ways that ensure all employees are treated with openness, mutual trust, dignity and respect. Everyone working at Rotork will be treated fairly and without discrimination on the basis of race, gender, language or religion.

Rotork's ethics and values policies which are applicable to all employees regardless of seniority have recently been updated and can be accessed at rotork's website [www.rotork.com](http://www.rotork.com) in the Investors section under Corporate Responsibility - Ethics & Values.

The Ethics and Values policies specifically state that Rotork will never offer pay, solicit or accept bribes in any form. Group internal audits are being expanded to include Ethics policy compliance monitoring.

**The Board of Directors is committed to ensuring high levels of ethical practice and conduct by all Rotork employees.**

At the beginning of 2010, Rotork formed an Ethics Committee whose members include the Group Finance Director and Group Legal Director. The Committee's remit includes review of the Group Ethics Policy and further development of systems and procedures for appropriate monitoring of the policies together with provision of suitable training for employees. The Ethics Committee reports into the CSR Committee whose Chair, the Chief Executive, reports into the RMB and Board on ethical matters. General Managers of all Group subsidiaries worldwide have recently received training on the Group's current ethical policies to enable them to ensure their staff are all aware of and understand the policies.

The Group's Whistleblowing Policy was further reviewed during the year by the Audit Committee.

This policy can be viewed on our website [www.rotork.com](http://www.rotork.com) in the Investors' section under Corporate Responsibility - Workplace & Community.

### 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.

## Rotork aims to provide a safe and healthy environment for all employees and visitors to its premises.

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 visits monitor employment ages. Supplier audits are distributed internally within the Group. The intention is to roll out these methods Group wide. Assurance is also sought 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 and safety

Rotork aims to provide a safe and healthy environment for all employees and visitors to its premises and will not compromise the health and safety of any individual. The Group Health and Safety Policy, endorsed by the Chief Executive, sets out the Company's 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](http://www.rotork.com) in the investors section under Corporate Responsibility – Workplace & Community.

Effective management of our Health and Safety Programme enables us to

- ▶ Minimise the risk of injury to our employees, customers and suppliers and damage to property
- ▶ Reduce costs associated with employee illness, injury and loss of physical assets
- ▶ Reduce the risk of legislative breaches
- ▶ Protect our reputation

The Company operates a behaviour-based safety programme. This requires managers and supervisors to encourage safe working practices by

- ▶ Promoting regular safety observations
- ▶ Regularly asking employees for their suggestions for improving safety at their facility
- ▶ Holding employees accountable for observing these practices
- ▶ Providing managing safety courses for line management
- ▶ Regular Health & Safety training on subjects such as manual handling and confined spaces

In all our sites, the safety of people and property in relation to our operations is paramount. Rotork employees' are engaged in activities which include manual handling of heavy objects, mechanical lifting, operating machinery and driving to suppliers and customers locations. In addition to working in the Company's facilities, Rotork's Site Service Engineers work on customer sites, which are often inherently more hazardous.

The Group focuses on ensuring practices are aligned around the Group so that data is collected in a consistent format and to enable identification of efficiency improvements. During the year, an internet-based data site has been established to facilitate cost-effective communication in different time zones and to support the Group's objective to continue to improve health and safety performance across our operations. These enhancements will

help us to understand the accuracy and completeness of the health and safety data collected by our businesses and will be used to improve our data analysis and reporting in future publications. It enables us to benchmark performance within all businesses in the Group and over time will be a sound basis for assessing progress and trends.

Three key measures are monitored across the Group: accident frequency rate, lost time rate and incident frequency rate. By monitoring the results of these measures we will be able to identify areas of strong performance which can then be shared across the Group; it will also enable identification of areas of weakness and consequently activities that may benefit from additional resources and training. We continually seek to identify areas for improvement and share good practices across the Group.

The Company's target is to achieve lower than industry averages in health and safety performance for our sector. In 2009, the rate at which industrial accidents occurred across all our facilities was 0.57 injuries per 100,000 hours worked. The Company undertakes to keep the number of working hours lost through health and safety incidents to a minimum. Whilst the number of near misses reported has increased, the number of actual accidents has fallen. The increase in near misses during the year is regarded as a positive indicator that safety awareness is improving throughout our businesses due to the improved accuracy in our reporting.

The Accident Frequency Rate over the last five years is shown on page 21.

### Shareholders

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

### Community involvement

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

Rotork's community objectives include being a good community neighbour. The Group regards this as part of its ongoing responsibilities as a corporate entity. We seek to be regarded as a good corporate citizen. This links into the Group's corporate values which include producing a positive and beneficial impact in the areas in which we operate.

Rotork pursues a policy of community involvement through financial support and fostering partnerships with local charitable and voluntary organisations, trusts and local support groups.

For many years, a Charity Committee made up of employees and management representatives has considered local community charitable and similar requests at the Bath site. Projects are then followed up with visits and reports by employees and feedback to the Charity Committee. An example in 2009 was Rotork's visit to the Great Western Air Ambulance following our £5,000 donation this year.

Whilst a number of worldwide subsidiaries are already engaged in local charitable giving, in a new initiative all worldwide subsidiaries have been provided with guidance and support to set up Charity Committees on a similar basis to the one run in Bath. The charity funding previously annually accessed largely by the Bath Charity Committee will now be shared around the Group subsidiaries based on their pro-rata contributions to Group profit.

The Group has also launched a new annual charitable cause initiative. For 2010, the chosen charity is WaterAid. Employees will be able to choose other causes in future years.

Maya at a water point, Indira Colony, Sheopur district, Madhya Pradesh, India

Photograph courtesy of WaterAid/Marco Betti

## Corporate Social Responsibility *continued*

In 2010 Rotork employees will be invited to fundraise for a WaterAid project in the Mysore district of Karnataka state, Southern India which aims to provide safe water, sanitation and hygiene through training and building relationships between the community and local government as well as construction of water points and latrines. Rotork Group has undertaken to match employee fundraising Group wide for this project as well as making its own contribution. Rotork will be the sole funder of this project in 2010, when it is scheduled to be completed.

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. The Company is the industry member of the Bath Educational Trust, which has as its objectives educational advancement in local schools and the promotion of community cohesion. Other members of Bath Education Trust are Bath University, Bath City College and two local Bath schools. Since the Trust's launch in 2008/9 work has already begun to offer children exposure and understanding of industry by undertaking programmes at the Bath site. Bath Education Trust has

provided the Group with an opportunity to further develop links with Bath University and to form links with Bath City College in addition to the local schools. A Company representative is a member of the Industrial Advisory Board for the Mechanical Engineering Department of Bath University. Rotork is also 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.

Individual employees or groups of employees also engage in community activities and the Charity Committees will normally match monies raised by employees who undertake charitable events personally. During the year the Bath Charity Committee paid the entry fee for employees participating in the Bath Half Marathon and matched sponsorship sums raised by employees for their selected charities. The Company has made a contribution to the Haiti Earthquake Disaster Appeal.

**Peter France**  
Chief Executive  
1 March 2010

# 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** *MD Rotork Fluid Systems*

Alex (50) 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 at Rotork Fluid Systems.

|                             |    |
|-----------------------------|----|
| Number of years in industry | 25 |
| Number of years at Rotork   | 11 |

## **David Littlejohns** *MD Rotork Gears*

David (41) 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 | 25 |
| Number of years at Rotork   | 25 |

## **Stephen Jones** *Group Legal Director*

Stephen (51) joined Rotork plc 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 | 22 |
| Number of years at Rotork   | 11 |

Governance

## **Alastair Spurr** *Operations Director Rotork Controls*

Alastair (41) joined Rotork in 2005 as Operations Director of the Rotork Controls Division and is a member of the Rotork Management Board. He is a Chartered Engineer and has previously held positions within the engineering, construction and retail industries.

|                             |    |
|-----------------------------|----|
| Number of years in industry | 23 |
| Number of years at Rotork   | 5  |

## **Carlos Elvira** *Sales & Marketing Director Rotork Controls*

Carlos (53) 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 1999.

|                             |    |
|-----------------------------|----|
| Number of years in industry | 28 |
| Number of years at Rotork   | 28 |

## **Biographies for the following appear on page 31**

**Peter France**  
*Chief Executive*

**Bob Slater**  
*Finance Director*

**Bob Arnold**  
*President, Rotork Controls Inc*

**Graham Ogden**  
*R&D Director*

# Board of Directors

The Board of Directors comprises the Chairman, the three independent non-executive directors and the four executive directors all supported by the company secretary

## Executive

### **Peter France ●** *Chief Executive*

Peter (41) 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

### **Bob Arnold** *President Of Rotork Controls Inc*

Bob (58), who was appointed to 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

### **Graham Ogden** *Research & Development Director*

Graham (53) holds a PhD and 1st class honours degree in electronic engineering from Bristol University and has been with Rotork since 1985. Graham has been closely involved in product development including our award winning IQ series. He was appointed to the Rotork Actuation Divisional Board in 1997 as Research & Development Director and joined the Board of Rotork p l c in January 2005

### **Bob Slater** *Finance Director*

Bob (58) joined Rotork in 1989 as Finance Director of the Rotork Actuation Division, and was appointed to the Board of Rotork p l c as Group Finance Director in 1998. He has previously held finance positions in mining, building controls and the engineering industry

**Key**

- ★ Audit Committee  
*JE Nicholas (Chairman), A Walker, IG King*
- Nomination  
*RC Lockwood (Chairman), A Walker, IG King, JE Nicholas, PI France*
- Remuneration  
*A Walker (Chairman), IG King, JE Nicholas*

**Non-executive**
**Roger Lockwood ●**  
*Chairman*

Roger (64) has been a non-executive director of Rotork since joining the Board in 1988 and became non-executive Chairman in November 1998. He is Chairman of the Nomination Committee. He is Chairman of Colston Engineering Services Limited and Hydro International plc and has previously held CEO roles in automotive and engineering businesses.

**Ian King ★ ● ■**  
*Non-executive Director*

Ian (53) joined the Board in February 2005 as a non-executive director. He is Chief Executive of BAE Systems plc having held other senior general management positions at BAE Systems and previously at Marconi. He is a member of the Audit, Remuneration and Nomination Committees and is the senior independent non-executive director.

**John Nicholas ★ ● ■**  
*Non-executive Director*

John (53) 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 Mondi plc, Hunting plc and Ceres Power Holdings plc and is a member of the Financial Reporting Review Panel of the Financial Reporting Council ('FRC'). He is Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees.

**Alex Walker ★ ● ■**  
*Non-executive Director*

Alex (63) 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.



# Corporate Governance

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 June 2008 edition ('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.

Set out below is a commentary on how the Company applies the main and supporting principles of the Code, copies of which are available from the FRC website [www.frc.org.uk](http://www.frc.org.uk), applicable to the accounting period applying to this Report and Accounts. Specific disclosures required within the provisions of the Code are also made within this section.

## Code Compliance Statement

All current serving executive directors have a one year notice period in their service contracts (Code provision B 1.6). 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 plc is considered a large company by the Code it is recognised that full compliance (A 3.2) currently would require one further independent non-executive to be appointed so that half the Board excluding the Chairman comprise independent non-executive directors. 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

Board members recognise their responsibilities to ensure that the statutory requirements to deliver balanced and understandable assessments of the Company's position are achieved. The Board is satisfied that these responsibilities are met by using the financial systems and applying the regulations described below, supported by our system of internal control.

This was achieved by

- using an appropriate system of accounting records, capable of operating with reasonable accuracy and in compliance with local and international financial and legal reporting requirements. The basis used to prepare our Group financial statements is International Financial Reporting Standards ('IFRS') as adopted by the European Union. The Company financial statements and Directors' Remuneration Report are prepared in accordance with applicable law and United Kingdom Generally Accepted Accounting Standards,
- using IFRSs to ensure a true and fair view of the state of affairs of the Group is given, including our profit or loss for the period,

- deploying appropriate accounting policies within the framework of IFRS and ensuring these are consistently applied,
- making judgements and preparing estimates that are reasonable and prudent,
- operating within the guidelines of all the disclosure advice provided by UK and international statute,
- disclosing the business is a going concern,
- maintaining robust assurance processes and controls over our financial reporting procedures
- extending these principles to half yearly reports and other reports in the public domain.

The Board reviews the effectiveness of the system of internal control and risk management annually (C 2.1) in accordance with the latest Turnbull guidance and the Code. 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.

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

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 by the Group Finance Director who is responsible for the risk management matrix. The process is based on senior managers' detailed knowledge and understanding of key risks within and external to the business based on formal management information and reports and their interaction and daily dealings with those reporting directly to them, their colleagues and external parties. The process includes separate exercises to identify and evaluate key risks at divisional level by each Divisional Board. These divisional key risks are then collated and considered for Group materiality. They are then evaluated formally at a Group risk review exercise attended by all members of the Divisional Boards and the Rotork Management Board. The non-executive directors are also invited to attend. The output of that meeting identifies 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

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.

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.

#### 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). IG King is the current senior independent non-executive director (A.3.3). A sub-committee of the Nomination Committee comprising of the Chairman and Chief Executive is currently undertaking a search selection process for an additional non-executive director with the assistance of an external search consultant. Prior to the search process, the Committee gave consideration to the balance of skills,

#### Directors' Attendance at Board and Committee Meetings (A.1.2)

| Director       | Board Meeting | Audit Committee | Remuneration Committee | Nomination Committee |
|----------------|---------------|-----------------|------------------------|----------------------|
| Peter France   | 8             | 3 <sup>1</sup>  | 3 <sup>1</sup>         | 1                    |
| Robert Slater  | 8             | 3 <sup>1</sup>  | N/A                    | N/A                  |
| Graham Ogden   | 7             | N/A             | N/A                    | N/A                  |
| Robert Arnold  | 8             | N/A             | N/A                    | N/A                  |
| Roger Lockwood | 8             | 3 <sup>1</sup>  | 3 <sup>1</sup>         | 1                    |
| John Nicholas  | 8             | 3               | 3                      | 1                    |
| Ian King       | 8             | 3               | 3                      | 1                    |
| Alex Walker    | 6             | 2               | 2                      | -                    |

<sup>1</sup> by invitation

Attendance at Board and scheduled committee meetings is shown above

## Corporate Governance *continued*

knowledge and competence on the Board and in the light of this settled on a description of the role and capabilities for the appointment

There are usually at least 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 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 Board meetings at its manufacturing sites in Melle, Germany and Losser, Holland. The Board also visited the Spanish sales and service facilities in Bilbao.

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 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).

### Share Capital

Information on the Company's share capital is provided on page 43 of the Director's Report.

### Performance Evaluation

A formal process for performance evaluation of the Board, its Committees and individual directors takes place annually. For 2009, the evaluation took the form of an initial questionnaire prepared in conjunction with external consultants covering a wide range of Board related matters. The responses to the questionnaire were then considered by the Chairman, who then conducted individual interviews with the Directors taking

account of trends in the questionnaire responses as well as individual points. 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 following previous comment. The results and analysis including the main findings of the evaluation were, following the questionnaire and interviews, reported to the Board by the Chairman. Appropriate action will be taken on the findings during the following year and then re-evaluated at the next annual evaluation (A.6 1).

### Nomination Committee 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, and PI France. The Nomination Committee 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 under Corporate Governance Committees (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 appointment of a new Group Finance Director to take effect from 1st April 2010. Having identified a suitable internal candidate

the Nomination Committee arranged appropriate external assessments to be undertaken of his suitability for the post as well as face to face meetings with all members of the Nomination Committee (A 3 3 and A.4 6) In making the appointment the Board took due account of the balance of skills, knowledge and experience on the Board (A 4 2 and C 3 1)

#### **Audit Committee**

##### **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

JE Nicholas was Chairman of the Committee throughout the year. 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. He is also a member of the Financial Reporting Review Panel of the Financial Reporting Council. 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, 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 internal 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 considers Group health & safety performance data at each Committee meeting and receives regular reports from the Rotork Management Board Divisional Director responsible for implementation of health & safety practice and procedures.

The Committee discusses the nature and scope of the audit with the external auditor before the audit commences 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, on page 61. Tax advice provided by the Auditor substantially relates to compliance matters (C 3 7). During the year under review the Committee whilst reviewing the non-audit work of the auditor policy added a provision requiring any tax project with a value in excess of £50,000 to be submitted to the Audit Committee for approval.

During the year the Committee introduced a new policy on employment of external auditor staff. Under the policy no member of the external audit team (including partners, directors, managers and staff) may be recruited for a period of two years following association with the Company's audit.

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

## Corporate Governance *continued*

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](http://www.rotork.com) in the Investors section under Corporate Governance - Committees (C 3 2 and C 3 3).

There were no changes to the Terms of Reference in the year under review. 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.

### **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 both were not in attendance when their own remuneration and fees respectively were considered (B 2).

### **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

▲ Audited Information

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 the 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 on the Company's website, [www.rotork.com](http://www.rotork.com) in the Investors Section under corporate Governance - Committees.

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 (Code provision 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. The Committee's Terms of Reference are available on the Company's website (B 2.1).

## Remuneration Policy

The Committee reviews remuneration policy annually. 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 remuneration consultant and advisor PricewaterhouseCoopers ('PwC').

PwC's other connections with the Company are limited to the provision of actuarial advice for the Long Term Incentive Plan ('LTIP') calculations, associated LTIP accounting advice and a limited amount of other corporate advice, the majority of which in the year under review, was due diligence work for the Flow-Quip acquisition.

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 LTIP respectively.

## 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 (B 2.2).

## Non-Executive Directors

Non-executive directors are offered engagement agreements of usually three years duration, subject to earlier termination by either party on three months' notice, with no provision for any compensation payment on termination.

## Non-Executive Directors

| 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 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 *continued*

### Executive Directors

| 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                   |

### Executive Directors' Contracts of Employment

RE Slater, RH Arnold, GM Ogden and PI France all have rolling service contracts with a one year notice period (**B 1 6**). The most recent executive director service contract contains provisions which limit payments on termination to basic salary with employer rights to require phased payments. 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 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 LTIP and participation in a Rotork Group pension scheme. Further details of all elements of each individual director's remuneration package are set out elsewhere in this report. Salary and benefits including pension, car and fuel, or car and fuel allowance, constitute fixed pay.

LTIP Awards to executive directors in the year under review were 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. 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 39.

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 the 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.

For the year under review, 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 raise the number back up to twenty 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 group used for awards is set out on the page opposite.

### Executive Bonus 2009

The executive annual cash bonus plan applying in 2009 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 2009 the total annual bonus payment was capped at 100% of basic salary earned during the year for the Chief Executive and at 80% of basic salary for other executive directors.

The profit element of bonus will be calculated by reference to the simple average profit in the three immediately preceding 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 earnings per share ('EPS') element of bonus pays 1% of basic salary for each 1% growth in basic EPS to a maximum payment of 10% of basic salary. Where EPS growth equals or exceeds 10% in a year, the EPS figure equal to 10% 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.

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 49. 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.

Following these changes for executive directors other than the Chief Executive their bonus payment shall be limited to 80% of basic salary. The Chief Executive's bonus shall be limited to 100% of basic salary 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 ▲

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 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. 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 from 2006 is 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.

#### Rotork Long Term Incentive Plans ▲

|                        | Outstanding share or cash unit Awards made to 1 January 2009 | Share or cash unit Awards made during 2009 <sup>1</sup> | Share or cash unit Awards vesting in 2009 <sup>2</sup> | Lapsed in 2009 | Outstanding share or cash unit Awards at 31 December 2009 |
|------------------------|--------------------------------------------------------------|---------------------------------------------------------|--------------------------------------------------------|----------------|-----------------------------------------------------------|
| RH Arnold <sup>3</sup> | 85,570                                                       | 31,530                                                  | (49,606)                                               | –              | 67,494                                                    |
| PI France              | 70,124                                                       | 46,113                                                  | (23,382)                                               | –              | 92,855                                                    |
| GM Ogden               | 81,633                                                       | 23,057                                                  | (46,307)                                               | –              | 58,383                                                    |
| RE Slater              | 103,946                                                      | 28,986                                                  | (59,166)                                               | –              | 73,766                                                    |

<sup>1</sup> All awards were granted on 4th March 2009. The market price of shares in the Company used to calculate the award was £7.56.

<sup>2</sup> The 2005 and 2006 LTIP Awards vested at 100%.

<sup>3</sup> RH Arnold, a United States citizen and resident, was awarded shares in the 2009 award and cash units of a monetary value equivalent to share awards under the LTIP in previous awards.

A three year performance period applies to Awards granted from 2006.

(LTIP Awards still outstanding at the time of publication of this report made to executive directors are set out above).

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 LTIP grant comparator group of companies used are:

Bodycote plc  
Brammer plc  
BSS plc  
Charter plc  
Cookson 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



## Remuneration Report *continued*

### Free SIP and OPLSS Share Awards to Executive Directors ▲

|           | Awards in |      | Total Awards held |       |
|-----------|-----------|------|-------------------|-------|
|           | 2009      | 2008 | 2009              | 2008  |
| RH Arnold | 350       | 763  | 1,161             | 1,778 |
| PI France | 350       | 286  | 3,591             | 3,241 |
| GM Ogden  | 350       | 286  | 3,771             | 3,421 |
| RE Slater | 350       | 286  | 3,933             | 3,583 |

### Directors' Emoluments (£000) for Directors in office at 31/12/09 ▲

|                                | Salary and fees | Bonus | Benefits* | Pension Supplement | 2009 Total | 2008* Total |
|--------------------------------|-----------------|-------|-----------|--------------------|------------|-------------|
| <b>Executive directors</b>     |                 |       |           |                    |            |             |
| RH Arnold <sup>1</sup>         | 209             | 166   | 17        | –                  | 392        | 301         |
| PI France <sup>2</sup>         | 350             | 348   | 17        | 51                 | 766        | 550         |
| GM Ogden                       | 175             | 139   | 17        | –                  | 331        | 273         |
| RE Slater                      | 220             | 175   | 17        | –                  | 412        | 342         |
| <b>Non-executive directors</b> |                 |       |           |                    |            |             |
| IG King                        | 40              | –     | –         | –                  | 40         | 33          |
| RC Lockwood                    | 100             | –     | –         | –                  | 100        | 90          |
| JE Nicholas                    | 38              | –     | –         | –                  | 38         | 26          |
| A Walker                       | 38              | –     | –         | –                  | 38         | 36          |
|                                | 1,170           | 828   | 68        | 51                 | 2,117      | 1,651       |

1 RH Arnold is paid in US dollars

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

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

### 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 and 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 the beneficial interests of the executive directors at 31 December included ordinary shares held under the SIP and the OPLSS in trust as shown in the table below. Details of total free share Awards under the SIP and OPLSS and Awards made to executive directors in 2009 and the prior year are 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 also applies 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 2009 were 1,746 ordinary shares.

RH Arnold, in common with other eligible overseas employees, participates in the OPLSS. The scheme trustee is based in Jersey, Channel Islands. The figure shown for RH Arnold relates solely to OPLSS.

UK based executive directors, in common with other eligible UK employees, have the opportunity to invest in the HMRC approved 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

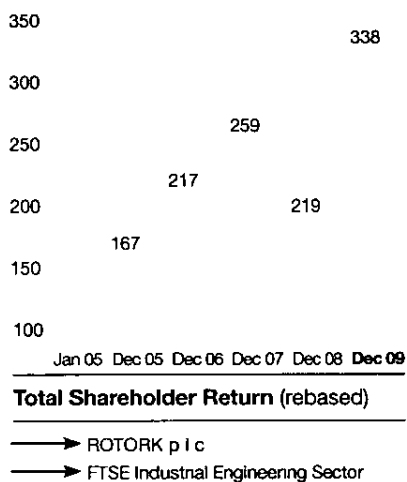
the Scheme, which he exercised on 30 November 2009. PI France was granted 3,484 share options on 5 October 2005 at an option price of £4.62. On 1 December 2007 GM Ogden was granted 2,071 share options under the Rotork Sharesave Scheme at an option price of £8.11. These options are all exercisable five 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 2009.

### Total Shareholder Return

A graph showing the value, by 31 December 2009, of £100 invested in Rotork plc on 1 January 2005 compared with the value of £100 invested in the FTSE Industrial Engineering Sector Index is shown 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 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 2009.



### Interests in Shares

The interests of the directors in the ordinary share capital of the Company, at 31 December were as follows, see table below.

All interests were beneficial and include directors' directly held and family share interests and in total represent less than 1% (2008 less than 1%) of voting shares of the Company.

| Interests in Shares |                |                |
|---------------------|----------------|----------------|
|                     | 2009<br>Number | 2008<br>Number |
| RH Arnold           | 18,659         | 18,270         |
| PI France           | 34,635         | 20,490         |
| GM Ogden            | 17,249         | 18,653         |
| RE Slater           | 93,585         | 59,439         |
| A Walker            | 8,500          | 8,500          |
| IG King             | 5,000          | —              |
| RC Lockwood         | —              | —              |
| JE Nicholas         | —              | —              |

## Remuneration Report *continued*

### Pension Disclosures required under The Listing Rules of The Financial Services Authority

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

### Pension disclosures required under the Companies Act 2006 ▲

|           | Age at<br>31 12.2009 | Increase in<br>accrued<br>pension over<br>the year<br>(Note 1)<br>£ | Accumulated<br>accrued<br>pension at<br>31 12 2009<br>(Note 2)<br>£ |
|-----------|----------------------|---------------------------------------------------------------------|---------------------------------------------------------------------|
| GM Ogden  | 52                   | 9,220                                                               | 73,425                                                              |
| RE Slater | 58                   | 15,365                                                              | 131,234                                                             |
| PI France | 41                   | 3,303                                                               | 40,923                                                              |
| RH Arnold | 58                   | (1,335)                                                             | 96,580                                                              |

#### Notes

- 1 The figures shown for the increase in accrued pension over the year exclude any increase for inflation
- 2 The accumulated accrued pension is that which would be paid annually on retirement from normal pension age, based on service to 31 December 2009
- 3 A lump sum death benefit of 4 times basic annual salary is payable on death in service
- 4 A dependant's pension of one-half of prospective pension is payable on death in service, and of one-half of pre-commutation pension on death in retirement
- 5 Post-retirement increases are applied at the rate of increase of the Index of Retail Prices up to a maximum of 5% per annum, except that for pension benefits in respect of pensionable service up to 15 May 2000 the minimum inflationary increase is 4.5% per annum
- 6 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
- 7 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 at least 60% of uncapped basic salary at age 65

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

### Pension disclosures required under the Companies Act 2006 ▲

|           | Increase in<br>accrued<br>pension<br>during<br>the year<br>(Note 1)<br>£ | Transfer<br>value of<br>accrued<br>pension at<br>31 12 08<br>£'000 | Transfer<br>value of<br>accrued<br>pension at<br>31 12.09<br>£'000 | Increase in<br>transfer<br>value over<br>the year<br>£'000 |
|-----------|--------------------------------------------------------------------------|--------------------------------------------------------------------|--------------------------------------------------------------------|------------------------------------------------------------|
| GM Ogden  | 9,412                                                                    | 1,517                                                              | 1,672                                                              | 155                                                        |
| RE Slater | 15,712                                                                   | 3,240                                                              | 3,543                                                              | 303                                                        |
| PI France | 3,416                                                                    | 591                                                                | 616                                                                | 25                                                         |
| RH Arnold | (1,042)                                                                  | 1,239                                                              | 1,238                                                              | (1)                                                        |

#### Notes

- 1 The figures shown for the increase in accrued pension over the year incorporate the increase for inflation
- 2 The transfer values have been calculated in accordance with the Actuarial Guidance Note GN 11 published by the Board for Actuarial Standards
- 3 The decrease in accrued pension and the decrease in transfer value over the year for RH Arnold are due to movements in the US dollar relative to sterling. In US dollars, the accrued pension for RH Arnold increased from \$141,276 pa at 31 December 2008 to \$155,975 pa at 31 December 2009 and the transfer value increased from \$1,793,000 at 31 December 2008 to \$1,999,000 at 31 December 2009. 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

# Report of the Directors

The directors submit their report which incorporates the management report required under the Disclosure and Transparency rules for listed companies and the audited accounts for the year ended 31 December 2009 as set out on pages 46 to 90. In compiling this report, the directors have consulted with the management of the Group.

## Principal Activities

Rotork plc 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. A summary of the principal subsidiaries and branch offices of the Group are set out on pages 94 and 95.

The Business Review of the Group is set out on pages 8 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 the 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 November 2009, the Group acquired the business and assets of Flow-Quip Controls, Inc ('Flow-Quip'). Details of the transaction are provided in note 3 to the Accounts.

The principal risks and uncertainties facing the Group and the Group's approach to mitigating those risks are set out on pages 22 and 23.

## Dividends

The directors recommend a final dividend of £14,943,000 for the year, payable on 7 May 2010 to shareholders on the register on 9 April 2010. This represents 17.25p

per ordinary share (2008 16.75p). An interim dividend of 11.15p per ordinary share (2008 9.25p) was paid on 25 September 2009.

## Share Capital

Details of the ordinary shares issued during 2009 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 provisions 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 2008 Directors' Report the Company has been notified of major interests and voting rights (held directly and/or indirectly) by the following:

|                             | % of Voting Rights |
|-----------------------------|--------------------|
| Legal & General             | 3                  |
| Aegon UK Group of Companies | 5                  |
| BlackRock Investments       | 10                 |

## Research & Development

Total Group expenditure on research & development in the year was £3,557,000 (2008 £3,552,000) further details of which are contained in the Business Review on pages 10 and 11.

## Charitable Donations

During the year the Company made charitable donations of £87,000 (2008 £71,000).

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

## Directors

The names of the directors in office during the year end and their biographical and other details including the other significant commitments of the Chairman are as shown on pages 30 and 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.

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, IG King and PI France will retire by rotation and, being eligible, will offer themselves for re-election. JM Davis will also be subject to election at the AGM, it being the first opportunity to do so following his appointment as a director on 1 April 2010. As previously announced, RE Slater will resign his directorship on 31 March 2010.

## Report of the Directors *continued*

### Financial Instruments

An explanation of the Group policies on the use of financial instruments and financial risk management objectives are contained in note 25 to the accounts

### Statement of Directors' Responsibility for Preparing the Annual Report and The Financial Statements

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

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of their profit or loss for that period. 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 judgments and estimates that are reasonable and prudent,
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU,
- for the Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities

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

### Directors Statement Pursuant to the Disclosure and Transparency Rules

Each of the directors, whose names and functions are listed on pages 30 and 31 confirm that, to the best of each person's knowledge and belief

- the financial statements, prepared in accordance with the applicable set of the accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company, and
- the directors' report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

### Going Concern

The Company has considerable financial resources, together with business operations across a number of different sectors and geographic areas. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully. Therefore the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual financial statements

For further information regarding the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk, see note 25

### 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 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, 23 April 2010 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



# Independent Auditors' Report

to the members of Rotork plc

We have audited the financial statements of Rotork plc for the year ended 31 December 2009 set out on pages 46 to 90. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditors' 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

As explained more fully in the Directors' Responsibilities Statement set out on page 44, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ('APB's') Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/UKP](http://www.frc.org.uk/apb/scope/UKP).

## Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2009 and of the Group's profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice,
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- the information given in the Corporate Governance Statement set out on pages 32 to 36 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following

- Under the Companies Act 2006 we are required to report to you if, in our opinion
- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us, or

- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review

- the directors' statement, set out on page 44, in relation to going concern, and
- the part of the Corporate Governance Statement on page 32 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.



AC Campbell-Orde  
(Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc,  
Statutory Auditor

Chartered Accountants  
100 Temple Street  
Bristol  
BS1 6AG

1 March 2010

Governance

# Consolidated Income Statement

for the year ended 31 December 2009

|                                                                                                     | Notes | 2009<br>£000   | 2008<br>£000   |
|-----------------------------------------------------------------------------------------------------|-------|----------------|----------------|
| <b>Revenue</b>                                                                                      | 2     | <b>353,521</b> | <b>320,207</b> |
| Cost of sales                                                                                       |       | (187,600)      | (176,046)      |
| <b>Gross profit</b>                                                                                 |       | <b>165,921</b> | <b>144,161</b> |
| Other income                                                                                        | 4     | 688            | 42             |
| Distribution costs                                                                                  |       | (3,428)        | (3,535)        |
| Administrative expenses                                                                             |       | (71,585)       | (65,697)       |
| Other expenses                                                                                      | 5     | (59)           | (82)           |
| Operating profit before the amortisation of acquired intangible assets and the disposal of property |       | <b>92,103</b>  | <b>76,014</b>  |
| Amortisation of acquired intangible assets                                                          |       | (1,153)        | (1,125)        |
| Disposal of property                                                                                |       | 587            | -              |
| <b>Operating profit</b>                                                                             | 2     | <b>91,537</b>  | <b>74,889</b>  |
| Financial income                                                                                    | 7     | 5,784          | 7,073          |
| Financial expenses                                                                                  | 7     | (6,405)        | (6,211)        |
| <b>Profit before tax</b>                                                                            | 8     | <b>90,916</b>  | <b>75,751</b>  |
| Income tax expense                                                                                  | 9     | (26,884)       | (22,331)       |
| <b>Profit for the year</b>                                                                          |       | <b>64,032</b>  | <b>53,420</b>  |
|                                                                                                     |       | <b>Pence</b>   | <b>Pence</b>   |
| Basic earnings per share                                                                            | 17    | <b>74.2</b>    | 62.0           |
| Diluted earnings per share                                                                          | 17    | <b>73.9</b>    | 61.6           |

# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2009

|                                                                            | 2009<br>£000    | 2008<br>£000  |
|----------------------------------------------------------------------------|-----------------|---------------|
| <b>Profit for the year</b>                                                 | <b>64,032</b>   | <b>53,420</b> |
| <b>Other comprehensive income</b>                                          |                 |               |
| Foreign exchange translation differences                                   | (11,928)        | 23,824        |
| Actuarial (loss)/gain in pension scheme                                    | (15,547)        | 1,290         |
| Movement on deferred tax relating to actuarial loss/(gain)                 | 4,257           | (161)         |
| Effective portion of changes in fair value of cash flow hedges, net of tax | 5,046           | (4,719)       |
| <b>Income and expenses recognised directly in equity</b>                   | <b>(18,172)</b> | <b>20,234</b> |
| <b>Total comprehensive income for the year</b>                             | <b>45,860</b>   | <b>73,654</b> |

# Consolidated Balance Sheet

at 31 December 2009

|                                       | Notes | 2009<br>£000   | 2008<br>£000   |
|---------------------------------------|-------|----------------|----------------|
| <b>Non-current assets</b>             |       |                |                |
| Property, plant and equipment         | 10    | 23,521         | 23,868         |
| Intangible assets                     | 11    | 40,780         | 39,696         |
| Deferred tax assets                   | 12    | 11,631         | 10,925         |
| Other receivables                     | 14    | 1,119          | 1,137          |
| <b>Total non-current assets</b>       |       | <b>77,051</b>  | <b>75,626</b>  |
| <b>Current assets</b>                 |       |                |                |
| Inventories                           | 13    | 46,712         | 59,410         |
| Trade receivables                     | 14    | 53,791         | 63,694         |
| Current tax                           | 14    | 1,818          | 1,752          |
| Derivative financial instruments      | 22    | 942            | -              |
| Other receivables                     | 14    | 6,197          | 5,578          |
| Cash and cash equivalents             | 15    | 78,676         | 41,390         |
| <b>Total current assets</b>           |       | <b>188,136</b> | <b>171,824</b> |
| <b>Total assets</b>                   |       | <b>265,187</b> | <b>247,450</b> |
| <b>Equity</b>                         |       |                |                |
| Issued equity capital                 | 16    | 4,330          | 4,325          |
| Share premium                         |       | 7,033          | 6,666          |
| Reserves                              |       | 14,406         | 21,288         |
| Retained earnings                     |       | 140,402        | 112,117        |
| <b>Total equity</b>                   |       | <b>166,171</b> | <b>144,396</b> |
| <b>Non-current liabilities</b>        |       |                |                |
| Interest bearing loans and borrowings | 18    | 162            | 190            |
| Employee benefits                     | 19    | 22,549         | 8,637          |
| Deferred tax liabilities              | 12    | 1,970          | 2,806          |
| Derivative financial instruments      | 22    | 127            | 1,686          |
| Provisions                            | 20    | 1,664          | 1,660          |
| <b>Total non-current liabilities</b>  |       | <b>26,472</b>  | <b>14,979</b>  |
| <b>Current liabilities</b>            |       |                |                |
| Interest bearing loans and borrowings | 18    | 104            | 157            |
| Trade payables                        | 21    | 26,350         | 32,803         |
| Employee benefits                     | 19    | 7,252          | 7,001          |
| Current tax                           | 21    | 9,768          | 12,197         |
| Derivative financial instruments      | 22    | 1,130          | 5,624          |
| Other payables                        | 21    | 24,690         | 26,781         |
| Provisions                            | 20    | 3,250          | 3,512          |
| <b>Total current liabilities</b>      |       | <b>72,544</b>  | <b>88,075</b>  |
| <b>Total liabilities</b>              |       | <b>99,016</b>  | <b>103,054</b> |
| <b>Total equity and liabilities</b>   |       | <b>265,187</b> | <b>247,450</b> |

Financial Statements

These financial statements were approved by the Board of Directors on 1 March 2010 and were signed on its behalf by  
PI France and RE Slater, Directors



# Consolidated Statement of Changes in Equity

|                                                                | Issued<br>equity<br>capital | Share<br>premium | Translation<br>reserve | Capital<br>redemption<br>reserve | Hedging<br>reserve | Retained<br>earnings | Total    |
|----------------------------------------------------------------|-----------------------------|------------------|------------------------|----------------------------------|--------------------|----------------------|----------|
| 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   |
| <i>Other comprehensive income</i>                              |                             |                  |                        |                                  |                    |                      |          |
| Foreign exchange translation differences                       | -                           | -                | 23,824                 | -                                | -                  | -                    | 23,824   |
| Effective portion of changes in fair value of cash flow hedges | -                           | -                | -                      | -                                | (4,719)            | -                    | (4,719)  |
| Actuarial gains on defined benefit pension plans net of tax    | -                           | -                | -                      | -                                | -                  | 1,129                | 1,129    |
| <i>Total other comprehensive income</i>                        | -                           | -                | 23,824                 | -                                | (4,719)            | 1,129                | 20,234   |
| <b>Total comprehensive income</b>                              | -                           | -                | 23,824                 | -                                | (4,719)            | 54,549               | 73,654   |
| <i>Transactions with owners, recorded directly in equity</i>   |                             |                  |                        |                                  |                    |                      |          |
| 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  |
| Profit for the year                                            | -                           | -                | -                      | -                                | -                  | 64,032               | 64,032   |
| <i>Other comprehensive income</i>                              |                             |                  |                        |                                  |                    |                      |          |
| Foreign exchange translation differences                       | -                           | -                | (11,928)               | -                                | -                  | -                    | (11,928) |
| Effective portion of changes in fair value of cash flow hedges | -                           | -                | -                      | -                                | 5,046              | -                    | 5,046    |
| Actuarial losses on defined benefit pension plans net of tax   | -                           | -                | -                      | -                                | -                  | (11,290)             | (11,290) |
| <i>Total other comprehensive income</i>                        | -                           | -                | (11,928)               | -                                | 5,046              | (11,290)             | (18,172) |
| <b>Total comprehensive income</b>                              | -                           | -                | (11,928)               | -                                | 5,046              | 52,742               | 45,860   |
| <i>Transactions with owners, recorded directly in equity</i>   |                             |                  |                        |                                  |                    |                      |          |
| Equity settled share-based payment transactions net of tax     | -                           | -                | -                      | -                                | -                  | 48                   | 48       |
| Share options exercised by employees                           | 5                           | 367              | -                      | -                                | -                  | -                    | 372      |
| Own ordinary shares acquired                                   | -                           | -                | -                      | -                                | -                  | (3,700)              | (3,700)  |
| Own ordinary shares awarded under share schemes                | -                           | -                | -                      | -                                | -                  | 3,297                | 3,297    |
| Dividends                                                      | -                           | -                | -                      | -                                | -                  | (24,102)             | (24,102) |
| Balance at 31 December 2009                                    | 4,330                       | 7,033            | 12,981                 | 1,642                            | (217)              | 140,402              | 166,171  |

Detailed explanations for equity capital, translation reserve, capital redemption reserve and hedging reserve can be seen in note 16

# Consolidated Statement of Cash Flows

for the year ended 31 December 2009

| Notes                                                   | 2009<br>£000 | 2009<br>£000 | 2008<br>£000 | 2008<br>£000 |
|---------------------------------------------------------|--------------|--------------|--------------|--------------|
| <b>Cash flows from operating activities</b>             |              |              |              |              |
| Profit for the year                                     | 64,032       |              | 53,420       |              |
| <i>Adjustments for:</i>                                 |              |              |              |              |
| Amortisation of intangibles                             | 1,153        |              | 1,125        |              |
| Amortisation of development costs                       | 402          |              | 352          |              |
| Depreciation                                            | 3,549        |              | 3,281        |              |
| Equity settled share-based payment expense              | 872          |              | 718          |              |
| (Profit)/loss on sale of property, plant and equipment  | (598)        |              | 25           |              |
| Financial income                                        | (5,784)      |              | (7,073)      |              |
| Financial expenses                                      | 6,405        |              | 6,211        |              |
| Income tax expense                                      | 26,884       |              | 22,331       |              |
|                                                         | 96,915       |              | 80,390       |              |
| Decrease/(increase) in inventories                      | 9,680        |              | (8,621)      |              |
| Decrease/(increase) in trade and other receivables      | 5,967        |              | (4,293)      |              |
| (Decrease)/increase in trade and other payables         | (4,032)      |              | 5,955        |              |
| Difference between pension charge and cash contribution | (1,350)      |              | (823)        |              |
| (Decrease)/increase in provisions                       | (257)        |              | 1,554        |              |
| Increase/(decrease) in other employee benefits          | 272          |              | (299)        |              |
|                                                         | 107,195      |              | 73,863       |              |
| Income taxes paid                                       | (27,548)     |              | (22,547)     |              |
| <b>Cash flows from operating activities</b>             |              | 79,647       |              | 51,316       |
| <b>Investing activities</b>                             |              |              |              |              |
| Purchase of property, plant and equipment               | (4,238)      |              | (4,353)      |              |
| Purchase of intangible assets                           | -            |              | (666)        |              |
| Development costs capitalised                           | (768)        |              | (817)        |              |
| Sale of property, plant and equipment                   | 908          |              | 90           |              |
| Acquisition of businesses, net of cash acquired         | (4,892)      |              | (12,714)     |              |
| Interest received                                       | 270          |              | 564          |              |
| <b>Cash flows from investing activities</b>             |              | (8,720)      |              | (17,896)     |
| <b>Financing activities</b>                             |              |              |              |              |
| Issue of ordinary share capital                         | 372          |              | 149          |              |
| Purchase of ordinary share capital                      | (3,700)      |              | (3,518)      |              |
| Purchase of preference shares treated as debt           | -            |              | (5)          |              |
| Interest paid                                           | (176)        |              | (294)        |              |
| Repayment of amounts borrowed                           | (27)         |              | (82)         |              |
| Repayment of finance lease liabilities                  | (94)         |              | (87)         |              |
| Dividends paid on ordinary shares                       | (24,102)     |              | (29,970)     |              |
| <b>Cash flows from financing activities</b>             |              | (27,727)     |              | (33,807)     |
| Net increase/(decrease) in cash and cash equivalents    |              | 43,200       |              | (387)        |
| Cash and cash equivalents at 1 January                  |              | 41,390       |              | 38,253       |
| Effect of exchange rate fluctuations on cash held       |              | (5,914)      |              | 3,524        |
| <b>Cash and cash equivalents at 31 December</b>         | 15           | 78,676       |              | 41,390       |

# Notes to the Group Financial Statements

## for the year ended 31 December 2009

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

Rotork plc is a Company domiciled in England. The consolidated financial statements of the Company for the year ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as the 'Group'). The accounting policies contained below in note 1 and the disclosures in notes 2 to 29 all relate to the Group financial statements. The Company balance sheet can be found following note 29. 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 plc 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 2006 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.

#### *New, revised or changes to existing standards in 2009 which have been adopted by the Group*

IAS1 (revised) 'Presentation of financial statements' became effective on 1 January 2009. The revision has resulted in minor changes to the presentation of the primary statements.

IFRS 8 'Operating segments', became effective on 1 January 2009. The new standard has not required any significant changes to segmental reporting from that reported in 2008.

IAS23 'Borrowing costs' amendment became effective on 1 January 2009 and requires borrowing costs which meet certain criteria to be capitalised. The Group does not currently have any material borrowings or interest costs.

Amendments to IAS32 'Presentation', IAS39 'Financial instruments', IFRS2 'Share-based payment', IFRS7 'Financial instruments Disclosures' and IAS27 'Consolidated and separate financial statements' became effective in 2009 and did not have a material impact on the Group.

#### *Interpretations which became effective in 2009*

No interpretations which became effective in 2009 were relevant to the Group.

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

IFRS3 'Business combinations (revised)', will be adopted from 1 January 2010 and will result in future acquisition costs being expensed. The policy up until 31 December 2009 was to include the acquisition costs in the cost of the investment. The change is not expected to have a material impact on the financial statements.

#### *Recent accounting developments*

Standards, amendments or interpretations which have been issued by the International Accounting Standards Board or by the IFRIC which have not yet been adopted are not expected to have a material impact on the Group. Subject to endorsement by the European Union, these standards, amendments or interpretations will be adopted in future periods.

#### *Going concern*

The Group has considerable financial resources together with a significant order book, with customers across different geographic areas and industries. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

## 1 Accounting policies (continued)

### Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year to 31 December 2009. 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.

### 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 CGU 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.

# Notes to the Group Financial Statements

for the year ended 31 December 2009 *continued*

## 1 Accounting policies (continued)

### 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.

### 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.

## 1 Accounting policies (continued)

### 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 through the income statement. 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 plc. This scheme is now closed and the last grant of new options took place in 2004. Details of the scheme are given in note 24. 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 plc at a discounted price compared with the market price at the time of grant. Details of the scheme are given in note 24. 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 Incentive 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 24. 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.

#### 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.

# Notes to the Group Financial Statements

for the year ended 31 December 2009 *continued*

## **1 Accounting policies (continued)**

### **Derivative financial instruments (continued)**

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 is still 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 23.

## 2 Operating segments

The management structure and reporting of financial information to the chief operating decision maker is the basis used to define operating segments

The Group comprises the following operating 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

Unallocated expenses comprise corporate expenses

Rotork has a worldwide presence in all three operating segments through its subsidiary selling offices and through an agency network  
A full list of locations can be found at [www.rotork.com](http://www.rotork.com) or on pages 94 and 96 of this report

### Analysis by Operating Segment

|                                 | Controls<br>2009 | Fluid<br>Systems<br>2009 | Gears<br>2009 | Eliminations<br>2009 | Consolidated<br>2009 |
|---------------------------------|------------------|--------------------------|---------------|----------------------|----------------------|
| Revenue from external customers | 227,344          | 99,726                   | 26,451        | –                    | 353,521              |
| Inter segment revenue           | –                | –                        | 10,373        | (10,373)             | –                    |
| Total revenue                   | 227,344          | 99,726                   | 36,824        | (10,373)             | 353,521              |
| Segment result                  | 72,620           | 14,220                   | 8,026         | –                    | 94,866               |
| Unallocated expenses            |                  |                          |               |                      | (3,329)              |
| Operating profit                |                  |                          |               |                      | 91,537               |
| Net financing expense           |                  |                          |               |                      | (621)                |
| Income tax expense              |                  |                          |               |                      | (26,884)             |
| Profit for the year             |                  |                          |               |                      | 64,032               |

|                                 | Controls<br>2008 | Fluid<br>Systems<br>2008 | Gears<br>2008 | Eliminations<br>2008 | Consolidated<br>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               |



# Notes to the Group Financial Statements

for the year ended 31 December 2009 *continued*

## 2 Operating segments (continued)

|                                                                 | Controls<br>2009 | Fluid<br>Systems<br>2009 | Gears<br>2009 | Unallocated<br>2009 | Consolidated<br>2009 |
|-----------------------------------------------------------------|------------------|--------------------------|---------------|---------------------|----------------------|
| Depreciation                                                    | 2,262            | 1,040                    | 247           | -                   | 3,549                |
| Amortisation                                                    |                  |                          |               |                     |                      |
| - Other intangibles                                             | -                | 1,093                    | 60            | -                   | 1,153                |
| - Development costs                                             | 402              | -                        | -             | -                   | 402                  |
| Non-cash items equity settled<br>share-based payments           | 508              | 72                       | 51            | 117                 | 748                  |
| Net financing expense                                           | -                | -                        | -             | 621                 | 621                  |
| Intangible assets acquired as part<br>of a business combination | -                | 3,595                    | -             | -                   | 3,595                |
| Capital expenditure                                             | 3,083            | 1,094                    | 135           | -                   | 4,312                |

|                                                                 | Controls<br>2008 | Fluid<br>Systems<br>2008 | Gears<br>2008 | Unallocated<br>2008 | Consolidated<br>2008 |
|-----------------------------------------------------------------|------------------|--------------------------|---------------|---------------------|----------------------|
| Depreciation                                                    | 2,167            | 867                      | 247           | -                   | 3,281                |
| Amortisation                                                    |                  |                          |               |                     |                      |
| - Other intangibles                                             | -                | 1,070                    | 55            | -                   | 1,125                |
| - Development costs                                             | 352              | -                        | -             | -                   | 352                  |
| Non-cash items equity settled<br>share-based payments           | 365              | 37                       | 51            | 265                 | 718                  |
| Net financing income                                            | -                | -                        | -             | (862)               | (862)                |
| Intangible assets acquired as part<br>of a business combination | -                | 10,466                   | -             | -                   | 10,466               |
| Capital expenditure                                             | 2,585            | 2,077                    | 232           | -                   | 4,894                |

Balance sheets are reviewed by operating subsidiary and operating segment balance sheets are not prepared, as such no further analysis of operating segments assets and liabilities are presented

### Geographical analysis

|                                                            | UK<br>2009 | Rest of<br>Europe<br>2009 | USA<br>2009 | Other<br>Americas<br>2009 | Rest of the<br>World<br>2009 | Consolidated<br>2009 |
|------------------------------------------------------------|------------|---------------------------|-------------|---------------------------|------------------------------|----------------------|
| Revenue from external customers<br>by location of customer | 29,314     | 117,098                   | 65,370      | 33,081                    | 108,658                      | 353,521              |
| Non-current assets                                         |            |                           |             |                           |                              |                      |
| - Intangible assets                                        | 6,869      | 19,217                    | 10,207      | 213                       | 4,274                        | 40,780               |
| - Property, plant and equipment                            | 5,200      | 11,060                    | 3,360       | 220                       | 3,681                        | 23,521               |

|                                                            | UK<br>2008 | Rest of<br>Europe<br>2008 | USA<br>2008 | Other<br>Americas<br>2008 | Rest of the<br>World<br>2008 | Consolidated<br>2008 |
|------------------------------------------------------------|------------|---------------------------|-------------|---------------------------|------------------------------|----------------------|
| Revenue from external customers<br>by location of customer | 28,966     | 117,030                   | 58,070      | 25,979                    | 90,162                       | 320,207              |
| Non-current assets                                         |            |                           |             |                           |                              |                      |
| - Intangible assets                                        | 6,503      | 21,073                    | 7,477       | 213                       | 4,430                        | 39,696               |
| - Property, plant and equipment                            | 5,340      | 12,170                    | 3,174       | 156                       | 3,028                        | 23,868               |

### 3 Acquisitions

#### 2009

On 6 November 2009 the Group acquired the trade and assets of Flow-Quip, a designer and manufacturer of valve actuators based in Tulsa, USA. The acquisition was accounted for using the purchase method.

In the 2 months to 31 December 2009 the business contributed £1,378,000 to Group revenue and £163,000 to consolidated operating profit before the £235,000 amortisation charge from the acquired intangible assets. If the acquisition had occurred on 1 January 2009 the business would have contributed £9,274,000 to Group revenue and £1,145,000 to Group operating profit. It is not practicable to disclose profit before tax or profit attributable to equity shareholders as the Group manages its Treasury function on a Group basis.

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.

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

|                                                | Pre<br>acquisition<br>carrying<br>amounts | Fair value<br>adjustments | Carrying<br>amounts |
|------------------------------------------------|-------------------------------------------|---------------------------|---------------------|
| Property, plant and equipment                  | 550                                       | –                         | 550                 |
| Intangible assets                              | –                                         | 1,487                     | 1,487               |
| Inventories                                    | 955                                       | –                         | 955                 |
| Trade and other receivables                    | 1,293                                     | –                         | 1,293               |
| Trade and other payables                       | (1,501)                                   | –                         | (1,501)             |
|                                                | 1,297                                     | 1,487                     | 2,784               |
| Goodwill on acquisition                        |                                           |                           | 2,108               |
| Consideration paid, satisfied in cash          |                                           |                           | 4,892               |
| Purchase consideration settled in cash         |                                           |                           | 4,892               |
| Cash and cash equivalents in business acquired |                                           |                           | –                   |
| Cash outflow on acquisition                    |                                           |                           | 4,892               |

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

# Notes to the Group Financial Statements

for the year ended 31 December 2009 *continued*

## 3 Acquisitions (continued)

### 2008

On 30 January 2008 the Group acquired 100% of the share capital of Remote Controls Sweden AB 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<br>acquisition<br>carrying<br>amounts | Fair value<br>adjustments | Carrying<br>amounts |
|---------------------------------------------------------------------|-------------------------------------------|---------------------------|---------------------|
| 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

|                                                   | 2009 | 2008 |
|---------------------------------------------------|------|------|
| Gain on disposal of property, plant and equipment | 654  | 32   |
| Non-executive fees receivable                     | –    | 10   |
| Other                                             | 34   | –    |
|                                                   | 688  | 42   |

Included in gain on disposal of property, plant and equipment is a profit of £587,000 in relation to the sale of a Spanish building.

**5 Other expenses**

|                                                   | 2009 | 2008 |
|---------------------------------------------------|------|------|
| Loss on disposal of property, plant and equipment | 56   | 57   |
| Other                                             | 3    | 25   |
|                                                   | 59   | 82   |

**6 Personnel expenses**

|                                                          | 2009   | 2008   |
|----------------------------------------------------------|--------|--------|
| Wages and salaries (including bonus and incentive plans) | 64,877 | 55,654 |
| Social security costs                                    | 7,197  | 6,167  |
| Pension costs (note 23)                                  | 4,217  | 3,423  |
| Share-based payments (note 24)                           | 1,785  | 1,582  |
| Increase in liability for long service leave             | 60     | 41     |
|                                                          | 78,136 | 66,867 |

A total of £872,000 (2008 £718,000) of the above share-based payments are equity settled, comprising £124,000 (2008 £89,000) for the Sharesave plan and £748,000 (2008 £629,000) for the Long Term Incentive Plan. The remaining £913,000 (2008 £864,000) relates to the cash Long Term Incentive Plan.

|                                                                                          | 2009<br>Number | 2008<br>Number |
|------------------------------------------------------------------------------------------|----------------|----------------|
| During the year, the average weekly number of employees analysed by business segment was |                |                |
| Controls                                                                                 | 1,089          | 1,063          |
| Fluid Systems                                                                            | 460            | 409            |
| Gears                                                                                    | 215            | 191            |
|                                                                                          | 1,764          | 1,663          |
| UK                                                                                       | 499            | 475            |
| Overseas                                                                                 | 1,265          | 1,188          |
|                                                                                          | 1,764          | 1,663          |

# Notes to the Group Financial Statements

for the year ended 31 December 2009 *continued*

## 7 Net financing income

|                                                                 | 2009           | 2008          |
|-----------------------------------------------------------------|----------------|---------------|
| <b>Recognised in the income statement</b>                       |                |               |
| Interest income                                                 | 226            | 562           |
| Expected return on assets in the pension schemes                | 5,408          | 5,896         |
| Foreign exchange gains                                          | 150            | 615           |
|                                                                 | <b>5,784</b>   | <b>7,073</b>  |
| Interest expense                                                | 167            | 296           |
| Interest charge on pension scheme liabilities                   | 5,449          | 5,538         |
| Foreign exchange losses                                         | 789            | 377           |
|                                                                 | <b>6,405</b>   | <b>6,211</b>  |
| <b>Recognised in equity</b>                                     |                |               |
| Effective portion of changes in fair value of cash flow hedges  | (217)          | (5,263)       |
| Fair value of cash flow hedges transferred to income statement  | 5,263          | 544           |
| Foreign currency translation differences for foreign operations | (11,928)       | 23,824        |
|                                                                 | <b>(6,882)</b> | <b>19,105</b> |
| <b>Recognised in</b>                                            |                |               |
| Hedging reserve                                                 | 5,046          | (4,719)       |
| Translation reserve                                             | (11,928)       | 23,824        |
|                                                                 | <b>(6,882)</b> | <b>19,105</b> |

**8 Profit before tax**

Profit before tax is stated after charging the following

|                                                                       | Notes | 2009  | 2008  |
|-----------------------------------------------------------------------|-------|-------|-------|
| Depreciation of property, plant and equipment                         |       |       |       |
| - owned assets                                                        | i     | 3,417 | 3,142 |
| - assets held under finance lease contracts                           | i     | 132   | 139   |
| Amortisation                                                          |       |       |       |
| - Other intangibles                                                   | i     | 1,153 | 1,125 |
| - Development costs                                                   | i     | 402   | 352   |
| Inventory write downs recognised in the year                          | i     | 2,190 | 2,890 |
| Hire of plant and machinery                                           | i     | 849   | 720   |
| Other operating lease rentals                                         | i     | 1,382 | 970   |
| Research & development expenditure                                    | ii    | 2,789 | 2,735 |
| Exchange differences realised expense/(income)                        | iii   | 639   | (238) |
| Auditors - audit fees and expenses paid to KPMG                       |       |       |       |
| - In respect of Company reporting                                     |       | 60    | 58    |
| - In respect of Group reporting of subsidiaries                       |       | 180   | 172   |
| - In respect of local statutory reporting of subsidiaries             |       | 88    | 75    |
|                                                                       |       | 328   | 305   |
| Other auditors of Group reporting subsidiaries                        |       | 109   | 99    |
| Total audit fees and expenses                                         |       | 437   | 404   |
| Other fees paid to KPMG Audit Plc and its associates analysed between |       |       |       |
| - Taxation                                                            |       | 111   | 90    |
| - Acquisition and disposals                                           |       | -     | 13    |
| - Other                                                               |       | -     | 8     |
|                                                                       |       | 111   | 111   |

In addition to the above, the Rotork Pension & Life Assurance Scheme paid KPMG LLP £75,000 (2008 £46,500) 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 2009 *continued*

## 9 Income tax expense

|                                                                                                   | 2009    | 2009   | 2008    | 2008    |
|---------------------------------------------------------------------------------------------------|---------|--------|---------|---------|
| <b>Current tax</b>                                                                                |         |        |         |         |
| UK corporation tax on profits for the year                                                        | 13,757  |        | 17,570  |         |
| Double tax relief                                                                                 | (6,074) |        | (8,789) |         |
| Adjustment in respect of prior years                                                              | (146)   |        | (152)   |         |
|                                                                                                   |         | 7,537  |         | 8,629   |
| Overseas tax on profits for the year                                                              | 18,560  |        | 15,921  |         |
| Adjustment in respect of prior years                                                              | (9)     |        | (15)    |         |
|                                                                                                   |         | 18,551 |         | 15,906  |
| <b>Total current tax</b>                                                                          |         | 26,088 |         | 24,535  |
| <b>Deferred tax</b>                                                                               |         |        |         |         |
| Origination and reversal of other temporary differences                                           | 704     |        | (2,354) |         |
| Adjustment in respect of prior years                                                              | 92      |        | 150     |         |
| <b>Total deferred tax</b>                                                                         |         | 796    |         | (2,204) |
| <b>Total tax charge for year</b>                                                                  |         | 26,884 |         | 22,331  |
| Effective tax rate (based on profit before tax)                                                   |         | 29.6%  |         | 29.5%   |
| Profit before tax                                                                                 |         | 90,916 |         | 75,751  |
| Profit before tax multiplied by standard rate of corporation tax in the UK of 28.0% (2008: 28.5%) |         | 25,456 |         | 21,589  |
| Effects of                                                                                        |         |        |         |         |
| Non deductible items                                                                              |         | 1,468  |         | 1,640   |
| Utilisation of overseas tax holidays and losses                                                   |         | (898)  |         | (1,154) |
| Different tax rates on overseas earnings                                                          |         | 921    |         | 273     |
| Adjustments to tax charge in respect of prior years                                               |         | (63)   |         | (17)    |
| <b>Total tax charge for year</b>                                                                  |         | 26,884 |         | 22,331  |

A tax credit of £670,000 (2008: expense £471,000) 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 plc controls the dividend policies of its subsidiaries and subsequently the timing of the reversal of the temporary differences. It is not practical to quantify the unprovided temporary differences as acknowledged within paragraph 40 of IAS 12.

## 10 Property, plant and equipment

|                                           | Land and<br>buildings<br>2009 | Plant and<br>equipment<br>2009 | Total<br>2009 | Land and<br>buildings<br>2008 | Plant and<br>equipment<br>2008 | Total<br>2008 |
|-------------------------------------------|-------------------------------|--------------------------------|---------------|-------------------------------|--------------------------------|---------------|
| <b>Cost</b>                               |                               |                                |               |                               |                                |               |
| At 1 January                              | 20,016                        | 32,106                         | 52,122        | 15,639                        | 24,078                         | 39,717        |
| Exchange differences                      | (1,120)                       | (1,558)                        | (2,678)       | 3,411                         | 4,407                          | 7,818         |
| Additions                                 | 459                           | 3,853                          | 4,312         | 425                           | 4,469                          | 4,894         |
| Disposals                                 | (402)                         | (649)                          | (1,051)       | (79)                          | (1,343)                        | (1,422)       |
| Acquisition through business combinations | 540                           | 10                             | 550           | 620                           | 495                            | 1,115         |
| <b>At 31 December</b>                     | <b>19,493</b>                 | <b>33,762</b>                  | <b>53,255</b> | <b>20,016</b>                 | <b>32,106</b>                  | <b>52,122</b> |
| <b>Depreciation</b>                       |                               |                                |               |                               |                                |               |
| At 1 January                              | 5,972                         | 22,282                         | 28,254        | 4,702                         | 17,466                         | 22,168        |
| Exchange differences                      | (271)                         | (1,057)                        | (1,328)       | 791                           | 3,310                          | 4,101         |
| Charge for year                           | 501                           | 3,048                          | 3,549         | 520                           | 2,761                          | 3,281         |
| Disposals                                 | (173)                         | (568)                          | (741)         | (41)                          | (1,255)                        | (1,296)       |
| <b>At 31 December</b>                     | <b>6,029</b>                  | <b>23,705</b>                  | <b>29,734</b> | <b>5,972</b>                  | <b>22,282</b>                  | <b>28,254</b> |
| <b>Net book value at 31 December</b>      | <b>13,464</b>                 | <b>10,057</b>                  | <b>23,521</b> | <b>14,044</b>                 | <b>9,824</b>                   | <b>23,868</b> |
| Net book value at 31 December 2007        |                               |                                |               | 10,937                        | 6,612                          | 17,549        |

The net book value of the Group's plant and equipment includes £218,000 (2008 £242,000) in respect of assets held under finance leases

Net book value of land and buildings can be analysed between

|                                      | 2009          | 2008          |
|--------------------------------------|---------------|---------------|
| Land                                 | 1,741         | 1,925         |
| Buildings                            | 11,723        | 12,119        |
| <b>Net book value at 31 December</b> | <b>13,464</b> | <b>14,044</b> |

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 2009 *continued*

## 11 Intangible assets

|                                           | Development   |              | Other        | Total         | Development   |              | Other        | Total         |
|-------------------------------------------|---------------|--------------|--------------|---------------|---------------|--------------|--------------|---------------|
|                                           | Goodwill      | costs        | intangibles  |               | Goodwill      | costs        | intangibles  |               |
|                                           | 2009          | 2009         | 2009         | 2009          | 2008          | 2008         | 2008         | 2008          |
| <b>Cost</b>                               |               |              |              |               |               |              |              |               |
| Balance at 1 January                      | 32,792        | 3,879        | 6,941        | 43,612        | 21,527        | 3,062        | 805          | 25,394        |
| Exchange differences                      | (1,696)       | -            | (19)         | (1,715)       | 5,554         | -            | 715          | 6,269         |
| Internally developed during the year      | -             | 768          | -            | 768           | -             | 817          | -            | 817           |
| Additions                                 | -             | -            | -            | -             | -             | -            | 666          | 666           |
| Acquisition through business combinations | 2,108         | -            | 1,487        | 3,595         | 5,711         | -            | 4,755        | 10,466        |
| <b>Balance at 31 December</b>             | <b>33,204</b> | <b>4,647</b> | <b>8,409</b> | <b>46,260</b> | <b>32,792</b> | <b>3,879</b> | <b>6,941</b> | <b>43,612</b> |
| <b>Amortisation</b>                       |               |              |              |               |               |              |              |               |
| Balance at 1 January                      | -             | 2,153        | 1,763        | 3,916         | -             | 1,801        | 452          | 2,253         |
| Exchange differences                      | -             | -            | 9            | 9             | -             | -            | 186          | 186           |
| Amortisation for the year                 | -             | 402          | 1,153        | 1,555         | -             | 352          | 1,125        | 1,477         |
| <b>Balance at 31 December</b>             | <b>-</b>      | <b>2,555</b> | <b>2,925</b> | <b>5,480</b>  | <b>-</b>      | <b>2,153</b> | <b>1,763</b> | <b>3,916</b>  |
| <b>Net book value at 31 December</b>      | <b>33,204</b> | <b>2,092</b> | <b>5,484</b> | <b>40,780</b> | <b>32,792</b> | <b>1,726</b> | <b>5,178</b> | <b>39,696</b> |
| Net book value at 31 December 2007        |               |              |              |               | 21,527        | 1,261        | 353          | 23,141        |

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 operating segment. A segment level summary of goodwill allocation is presented below.

|               | 2009          | 2008          |
|---------------|---------------|---------------|
| Controls      | 6,687         | 7,240         |
| Fluid Systems | 18,753        | 17,490        |
| Gears         | 7,764         | 8,062         |
|               | <b>33,204</b> | <b>32,792</b> |

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 20 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. The discount rate used is 9.8% (2008: 11%), this represents a reasonable rate for a market participant in this sector. The discount rate of each operating segment is not materially different to 9.8%. For the goodwill to become impaired in the CGU with the smallest headroom, the discount rate would have to increase by 40%. On this basis each operating segment has sufficient headroom and therefore no impairment write downs are required.

**12 Recognised deferred tax assets and liabilities**

|                               | Assets<br>2009 | Liabilities<br>2009 | Net<br>2009 | Assets<br>2008 | Liabilities<br>2008 | Net<br>2008 |
|-------------------------------|----------------|---------------------|-------------|----------------|---------------------|-------------|
| Property, plant and equipment | 185            | (272)               | (87)        | 216            | (386)               | (170)       |
| Intangible assets             | -              | (967)               | (967)       | -              | (1,206)             | (1,206)     |
| Employee benefits             | 7,320          | -                   | 7,320       | 3,585          | -                   | 3,585       |
| Provisions                    | 2,381          | -                   | 2,381       | 2,166          | -                   | 2,166       |
| Other items                   | 2,317          | (1,303)             | 1,014       | 4,958          | (1,214)             | 3,744       |
| Net tax assets/(liabilities)  | 12,203         | (2,542)             | 9,661       | 10,925         | (2,806)             | 8,119       |
| Set-off of tax                | (572)          | 572                 | -           | -              | -                   | -           |
|                               | 11,631         | (1,970)             | 9,661       | 10,925         | (2,806)             | 8,119       |

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

|                                                                                | 2009    | 2008    |
|--------------------------------------------------------------------------------|---------|---------|
| Balance at 1 January                                                           | 8,119   | 5,708   |
| (Charged)/credited to the income statement                                     | (796)   | 2,204   |
| Credited/(charged) directly to equity in respect of share-based payments       | 249     | (795)   |
| Credited/(charged) directly to equity in respect of pension scheme             | 4,257   | (161)   |
| (Charged)/credited directly to hedging reserves in respect of cash flow hedges | (1,962) | 2,046   |
| Deferred tax liability acquired as part of business combinations               | -       | (1,436) |
| Exchange differences                                                           | (206)   | 553     |
| Balance at 31 December                                                         | 9,661   | 8,119   |

A deferred tax asset of £11,631,000 (2008 £10,925,000) has been recognised at 31 December 2009. 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 £2,109,000 (2008 £2,379,000) 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 the future by the companies concerned.

**13 Inventories**

|                               | 2009   | 2008   |
|-------------------------------|--------|--------|
| Raw materials and consumables | 26,998 | 31,937 |
| Work in progress              | 13,692 | 18,411 |
| Finished goods                | 6,022  | 9,062  |
|                               | 46,712 | 59,410 |

Included in cost of sales was £140,728,000 (2008 £134,769,000) in respect of inventories consumed in the year.

# Notes to the Group Financial Statements

for the year ended 31 December 2009 *continued*

## 14 Trade and other receivables

|                                              | 2009    | 2008    |
|----------------------------------------------|---------|---------|
| <b>Non-current assets</b>                    |         |         |
| Insurance policy                             | 995     | 976     |
| Other                                        | 124     | 161     |
| Other receivables                            | 1,119   | 1,137   |
| <b>Current assets</b>                        |         |         |
| Trade receivables                            | 55,384  | 65,062  |
| Less provision for impairment of receivables | (1,593) | (1,368) |
| Net trade receivables                        | 53,791  | 63,694  |
| Corporation tax                              | 1,818   | 1,752   |
| Current tax                                  | 1,818   | 1,752   |
| Other non-trade receivables                  | 3,729   | 3,714   |
| Prepayments and accrued income               | 2,468   | 1,864   |
| Other receivables                            | 6,197   | 5,578   |

## 15 Cash and cash equivalents

|                                                                       | 2009   | 2008   |
|-----------------------------------------------------------------------|--------|--------|
| Bank balances                                                         | 29,704 | 23,654 |
| Cash in hand                                                          | 89     | 92     |
| Short term deposits                                                   | 48,883 | 17,644 |
| Cash and cash equivalents                                             | 78,676 | 41,390 |
| Bank overdrafts                                                       | -      | -      |
| Cash and cash equivalents in the Consolidated Statement of Cash Flows | 78,676 | 41,390 |

## 16 Capital and reserves

### Share capital and share premium

|                                        | 5p<br>Ordinary<br>shares<br>Authorised<br>2009 | 5p<br>Ordinary<br>shares issued<br>and fully<br>paid up<br>2009 | £1<br>Non-<br>redeemable<br>preference<br>shares<br>2009 | 5p<br>Ordinary<br>shares<br>Authorised<br>2008 | 5p<br>Ordinary<br>shares issued<br>and fully<br>paid up<br>2008 | £1<br>Non-<br>redeemable<br>preference<br>shares<br>2008 |
|----------------------------------------|------------------------------------------------|-----------------------------------------------------------------|----------------------------------------------------------|------------------------------------------------|-----------------------------------------------------------------|----------------------------------------------------------|
| At 1 January                           | 5,449                                          | 4,325                                                           | 42                                                       | 5,449                                          | 4,323                                                           | 45                                                       |
| Preference shares redeemed             | -                                              | -                                                               | -                                                        | -                                              | -                                                               | (3)                                                      |
| Issued under employee<br>share schemes | -                                              | 5                                                               | -                                                        | -                                              | 2                                                               | -                                                        |
| At 31 December                         | 5,449                                          | 4,330                                                           | 42                                                       | 5,449                                          | 4,325                                                           | 42                                                       |
| Number of shares (000)                 | 108,990                                        | 86,613                                                          |                                                          | 108,990                                        | 86,510                                                          |                                                          |

**16 Capital and reserves (continued)****Share capital and share premium (continued)**

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

The Group issued 12,246 Ordinary shares during the year under the Share option scheme (2008 18,835) at prices between 285p and 387p (2008 285p and 387p) The Group issued 90,615 (2008 21,951) under the Sharesave plan at prices between 320p and 592p (2008 462p)

The Group received proceeds of £372,000 (2008 £149,000) in respect of the 102,861 (2008 40,786) Ordinary shares issued during the year £5,000 (2008 £2,000) was credited to share capital and £367,000 (2008 £147,000) 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 363,196 (2008 413,302) 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

|                                        | 2009   | 2008   |
|----------------------------------------|--------|--------|
| 16 75p final dividend (2008 14 0p)     | 14,470 | 12,075 |
| 11 15p interim dividend (2008 9 25p)   | 9,632  | 7,979  |
| 2008 additional interim dividend 11 5p | -      | 9,916  |
|                                        | 24,102 | 29,970 |

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

|                                                                                    | 2009   | 2008   |
|------------------------------------------------------------------------------------|--------|--------|
| <b>Final proposed dividend per qualifying ordinary share</b>                       |        |        |
| 17 25p                                                                             | 14,943 |        |
| 16 75p                                                                             |        | 14,490 |
| <b>Additional interim dividend per qualifying ordinary share proposed for 2010</b> |        |        |
| 11 5p                                                                              | 9,960  |        |

# Notes to the Group Financial Statements

for the year ended 31 December 2009 *continued*

## 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 86.3m shares (2008: 86.1m shares) being the weighted average number of ordinary shares in issue (net of own ordinary shares held) for the year.

|                                                                                  | 2009          | 2008   |
|----------------------------------------------------------------------------------|---------------|--------|
| <b>Net profit attributable to ordinary shareholders</b>                          | <b>64,032</b> | 53,420 |
| <b>Weighted average number of ordinary shares</b>                                |               |        |
| Issued ordinary shares at 1 January                                              | 86,096        | 86,024 |
| Effect of own shares held                                                        | 172           | 99     |
| Effect of shares issued under Share option schemes/Sharesave plans               | 13            | 21     |
| <b>Weighted average number of ordinary shares for the year ended 31 December</b> | <b>86,281</b> | 86,144 |
| <b>Basic earnings per share</b>                                                  | <b>74.2p</b>  | 62.0p  |

### 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 (2008: 86.7m 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 ('LTIP').

|                                                                                            | 2009          | 2008   |
|--------------------------------------------------------------------------------------------|---------------|--------|
| <b>Net profit attributable to ordinary shareholders</b>                                    | <b>64,032</b> | 53,420 |
| <b>Weighted average number of ordinary shares (diluted)</b>                                |               |        |
| Weighted average number of ordinary shares for the year ended 31 December                  | 86,281        | 86,144 |
| Effect of share options in issue                                                           | 11            | 17     |
| Effect of Sharesave options in issue                                                       | 68            | 116    |
| Effect of LTIP shares in issue                                                             | 327           | 416    |
| <b>Weighted average number of ordinary shares (diluted) for the year ended 31 December</b> | <b>86,687</b> | 86,693 |
| <b>Diluted earnings per share</b>                                                          | <b>73.9p</b>  | 61.6p  |

### 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 25

|                                      | 2009       | 2008       |
|--------------------------------------|------------|------------|
| <b>Non-current liabilities</b>       |            |            |
| Preference shares classified as debt | 42         | 42         |
| Finance lease liabilities            | 120        | 148        |
|                                      | <b>162</b> | <b>190</b> |
|                                      |            |            |
|                                      | 2009       | 2008       |
| <b>Current liabilities</b>           |            |            |
| Bank loans                           | –          | 27         |
| Finance lease liabilities            | 104        | 130        |
|                                      | <b>104</b> | <b>157</b> |

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 2009 | Carrying amount 2009 | Face value 2008 | Carrying amount 2008 |
|----------------------------------|----------|----------------|------------------|-----------------|----------------------|-----------------|----------------------|
| Secured loan                     | Other    | 9.5% - 11.0%   | 2009             | –               | –                    | 30              | 27                   |
| Non-redeemable preference shares | Sterling | 9.5%           | –                | 45              | 42                   | 45              | 42                   |
| Finance lease liabilities        | Euro     | 2.6% - 10.0%   | 2010-13          | 240             | 224                  | 296             | 278                  |
|                                  |          |                |                  | <b>285</b>      | <b>266</b>           | <b>371</b>      | <b>347</b>           |

#### Finance lease liabilities

Finance lease liabilities are payable as follows

|                            | Minimum lease payments 2009 | Interest 2009 | Principal 2009 | Minimum lease payments 2008 | Interest 2008 | Principal 2008 |
|----------------------------|-----------------------------|---------------|----------------|-----------------------------|---------------|----------------|
| Less than one year         | 113                         | 9             | 104            | 138                         | 8             | 130            |
| Between one and five years | 127                         | 7             | 120            | 158                         | 10            | 148            |
|                            | <b>240</b>                  | <b>16</b>     | <b>224</b>     | <b>296</b>                  | <b>18</b>     | <b>278</b>     |

# Notes to the Group Financial Statements

for the year ended 31 December 2009 *continued*

## 19 Employee benefits

|                                                      | 2009     | 2008     |
|------------------------------------------------------|----------|----------|
| Recognised liability for defined benefit obligations |          |          |
| - Present value of funded obligations                | 108,514  | 81,994   |
| - Fair value of plan assets                          | (88,906) | (76,277) |
|                                                      | 19,608   | 5,717    |
| Defined contribution scheme liabilities              | 799      | 850      |
| Employee bonus and incentive plan                    | 6,290    | 5,437    |
| Long term incentive plan                             | 1,825    | 2,371    |
| Employee indemnity provision                         | 985      | 1,029    |
| Liability for long service leave                     | 294      | 234      |
|                                                      | 29,801   | 15,638   |
| Non-current                                          | 22,549   | 8,637    |
| Current                                              | 7,252    | 7,001    |
|                                                      | 29,801   | 15,638   |

Defined benefit pension scheme disclosures are detailed in note 23

## 20 Provisions

|                                    | Warranty<br>2009 | Deferred<br>consideration<br>2009 | Total<br>2009 |
|------------------------------------|------------------|-----------------------------------|---------------|
| Balance at 1 January               | 4,979            | 193                               | 5,172         |
| Exchange differences               | (371)            | -                                 | (371)         |
| Provisions used during the year    | (1,133)          | (193)                             | (1,326)       |
| Charged in the year                | 1,439            | -                                 | 1,439         |
| <b>Balance at 31 December</b>      | <b>4,914</b>     | <b>-</b>                          | <b>4,914</b>  |
| <b>Matunty at 31 December 2009</b> |                  |                                   |               |
| Non-current                        | 1,664            | -                                 | 1,664         |
| Current                            | 3,250            | -                                 | 3,250         |
|                                    | 4,914            | -                                 | 4,914         |
| <b>Matunty at 31 December 2008</b> |                  |                                   |               |
| Non-current                        | 1,660            | -                                 | 1,660         |
| Current                            | 3,319            | 193                               | 3,512         |
|                                    | 4,979            | 193                               | 5,172         |

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, this amount was settled during 2009.

**21 Trade and other payables**

|                                         | 2009   | 2008   |
|-----------------------------------------|--------|--------|
| Trade payables                          | 26,031 | 32,096 |
| Bills of exchange                       | 319    | 707    |
| Trade payables                          | 26,350 | 32,803 |
| Corporation tax                         | 9,768  | 12,197 |
| Current tax                             | 9,768  | 12,197 |
| Other taxes and social security         | 3,627  | 3,636  |
| Non-trade payables and accrued expenses | 21,063 | 23,145 |
| Other payables                          | 24,690 | 26,781 |

**22. Derivative financial instruments**

|                                                       | 2009<br>Assets | 2009<br>Liabilities | 2008<br>Assets | 2008<br>Liabilities |
|-------------------------------------------------------|----------------|---------------------|----------------|---------------------|
| Forward foreign exchange contracts – cash flow hedges |                |                     |                |                     |
| - Current                                             | 942            | 1,130               | -              | 5,624               |
| - Non-current                                         | -              | 127                 | -              | 1,686               |
|                                                       | 942            | 1,257               | -              | 7,310               |

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 foreign exchange 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 2009 are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement



# Notes to the Group Financial Statements

for the year ended 31 December 2009 *continued*

## 23 Pension schemes

### (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

|                            | 2009    | 2008     |
|----------------------------|---------|----------|
| Liabilities at 1 January   | 81,994  | 93,799   |
| Current service costs      | 1,659   | 1,924    |
| Member contributions       | 480     | 477      |
| Interest cost              | 5,449   | 5,534    |
| Benefits paid              | (2,624) | (2,776)  |
| Past service costs         | 97      | 30       |
| Actuarial losses/(gains)   | 22,567  | (19,133) |
| Currency (gains)/losses    | (1,108) | 2,139    |
| Liabilities at 31 December | 108,514 | 81,994   |

#### Movements in fair value of plan assets

|                                  | 2009    | 2008     |
|----------------------------------|---------|----------|
| Assets at 1 January              | 76,277  | 86,215   |
| Expected return on scheme assets | 5,408   | 5,896    |
| Employer contributions           | 3,056   | 2,776    |
| Member contributions             | 480     | 477      |
| Benefits paid                    | (2,624) | (2,776)  |
| Actuarial gains/(losses)         | 7,020   | (17,843) |
| Currency (losses)/gains          | (711)   | 1,532    |
| Assets at 31 December            | 88,906  | 76,277   |

#### Expense recognised in the Consolidated Income Statement

|                                | 2009    | 2008    |
|--------------------------------|---------|---------|
| Current service costs          | 1,659   | 1,924   |
| Past service costs             | 97      | 30      |
| Interest on obligation         | 5,449   | 5,534   |
| Expected return on plan assets | (5,408) | (5,896) |
|                                | 1,797   | 1,592   |

The expense is recognised in the following line items in the Consolidated Income Statement

|                                | 2009  | 2008  |
|--------------------------------|-------|-------|
| Cost of sales                  | 525   | 648   |
| Administrative expenses        | 1,231 | 1,306 |
| Net financing expense/(income) | 41    | (362) |
|                                | 1,797 | 1,592 |

### 23 Pension schemes (continued)

#### (i) Defined benefit pension liabilities (continued)

##### Amounts recognised in the Consolidated Statement of Comprehensive Income

|                                                                                    | 2009     | 2008     |
|------------------------------------------------------------------------------------|----------|----------|
| Actuarial gains/(losses) on plan assets                                            | 7,020    | (17,843) |
| Actuarial (losses)/gains from liabilities                                          | (22,567) | 19,133   |
|                                                                                    | (15,547) | 11,290   |
| Currency gains/(losses)                                                            | 397      | (607)    |
| Net (losses)/gains                                                                 | (15,150) | 683      |
| Cumulative losses recognised in the Consolidated Statement of Comprehensive Income | (21,851) | (6,701)  |

|                                       | 2009      | 2008     | 2007     | 2006     | 2005     |
|---------------------------------------|-----------|----------|----------|----------|----------|
| Defined benefit obligation            | (108,514) | (81,994) | (93,799) | (87,394) | (89,501) |
| Scheme assets                         | 88,906    | 76,277   | 86,215   | 80,745   | 69,125   |
| Deficit                               | (19,608)  | (5,717)  | (7,584)  | (6,649)  | (20,376) |
| Experience adjustments on liabilities | (2,760)   | (2,006)  | (1,953)  | 6,729    | (9,930)  |
| Experience adjustments on assets      | 7,020     | (17,843) | (2,954)  | (199)    | 6,693    |
| Experience adjustments on currency    | 397       | (607)    | 24       | 213      | (215)    |

#### Liability for defined benefit obligations

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

|                                              | UK Scheme<br>(% per annum) |      | US Scheme<br>(% per annum) |      | Average<br>(% per annum) |      |
|----------------------------------------------|----------------------------|------|----------------------------|------|--------------------------|------|
|                                              | 2009                       | 2008 | 2009                       | 2008 | 2009                     | 2008 |
| Discount rate                                | 5.7                        | 6.7  | 6.0                        | 5.5  | 5.7                      | 6.6  |
| Rate of increase in salaries                 | 4.1                        | 4.5  | 4.5                        | 4.5  | 4.2                      | 4.5  |
| Rate of increase in pensions (post May 2000) | 3.6                        | 3.0  | 0.0                        | 0.0  | 3.3                      | 2.7  |
| Rate of increase in pensions (pre May 2000)  | 4.5                        | 4.5  | 0.0                        | 0.0  | 4.1                      | 4.1  |
| Rate of price inflation                      | 3.6                        | 3.0  | 3.5                        | 3.5  | 3.6                      | 3.1  |

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

|                                      | %   | 2009   | %   | 2008     |
|--------------------------------------|-----|--------|-----|----------|
| Equities                             | 8.2 | 43,946 | 8.5 | 37,820   |
| Bonds                                | 5.2 | 33,241 | 5.2 | 27,244   |
| Property                             | 7.5 | 5,819  | 7.5 | 5,501    |
| Cash                                 | 3.4 | 156    | 3.4 | 143      |
| US deposit administration contract   | 6.0 | 5,744  | 6.0 | 5,569    |
| Total                                |     | 88,906 |     | 76,277   |
| Actual return on the schemes' assets |     | 11,717 |     | (10,415) |

# Notes to the Group Financial Statements

for the year ended 31 December 2009 *continued*

## 23 Pension schemes (continued)

### (i) Defined benefit pension liabilities (continued)

The individual return assumptions for each asset class are based on market conditions at 31 December 2009 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 2010 will be approximately £3,000,000.

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 (2008 1.5%).

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

|             | 2009                      |        | 2008                      |        |
|-------------|---------------------------|--------|---------------------------|--------|
|             | Life expectancy at age 65 |        | Life expectancy at age 65 |        |
|             | Male                      | Female | Male                      | Female |
| Current Age |                           |        |                           |        |
| 65          | 23.0                      | 25.6   | 22.8                      | 25.4   |
| 45          | 26.0                      | 28.5   | 25.9                      | 28.8   |

### (ii) Other pension plans

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 £2,461,000 (2008 £1,469,000).

## 24 Share-based payments

The Group issues shares and cash under Long Term Incentive Plans ('LTIP') and shares under the Save As You Earn scheme. The share-based payment expense included in the income statement for each of the schemes can be analysed as follows:

|                                                     | 2009  | 2008  |
|-----------------------------------------------------|-------|-------|
| LTIP – cash settled                                 | 913   | 864   |
| LTIP – equity settled                               | 748   | 629   |
| Sharesave plan                                      | 124   | 89    |
| Total expense recognised as employee costs (note 6) | 1,785 | 1,582 |

### 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 £2.78 to £3.87. Options vest after three years and expire ten years after being granted.

Only the 2004 grant occurred after 7 November 2002, the start date for recognition under IFRS 2. Therefore only charges in respect of these grants have been made to the accounts in accordance with IFRS 2 and the relevant disclosures made below. 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.

## 24 Share-based payments (continued)

### a) Share option scheme (continued)

| Option (exercise price)<br>* exercisable at end of year | Outstanding<br>at start of<br>year | Exercised<br>during year | Lapsed<br>during year | Outstanding<br>at end of<br>year |
|---------------------------------------------------------|------------------------------------|--------------------------|-----------------------|----------------------------------|
| 2000 grant (£2 85)*                                     | 10,353                             | (7,304)                  | -                     | 3,049                            |
| 2001 grant (£2 98)*                                     | 3,799                              | -                        | -                     | 3,799                            |
| 2004 grant (£3 87)*                                     | 15,637                             | (4,942)                  | -                     | 10,695                           |
|                                                         | 29,789                             | (12,246)                 | -                     | 17,543                           |
| Weighted average exercise price                         | £3 37                              | £3 26                    | -                     | £3 50                            |
| Weighted average contractual life remaining             |                                    |                          |                       | 2 years                          |

No new grants have been made under the scheme since 2004

The Group received proceeds of £40,000 (2008 £60,000) in respect of the 12,246 (2008 18,835) options exercised during the year £1,000 was credited to share capital and £39,000 to share premium (see note 16) The options were exercised throughout the year at prices between £2 85 and £3 87

### 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 |            |
|--------------------------------------------------|---------------|------------|---------------|------------|
|                                                  | 2009          | 2008       | 2009          | 2008       |
| Grant date                                       | 1 December    | 1 December | 1 December    | 1 December |
| Share price at grant date                        | £11 05        | £7 80      | £11 05        | £7 80      |
| Exercise price                                   | £7 92         | £7 72      | £7 92         | £7 72      |
| Shares/Share equivalents under scheme            | 39,492        | 36,485     | 43,003        | 46,804     |
| Vesting period                                   | 3 years       | 3 years    | 5 years       | 5 years    |
| Expected volatility                              | 38.0%         | 35.0%      | 33.0%         | 30.0%      |
| Risk free rate                                   | 1.9%          | 2.8%       | 2.7%          | 3.4%       |
| Expected dividends expressed as a dividend yield | 2.5%          | 2.8%       | 2.5%          | 2.8%       |
| Probability of ceasing employment before vesting | 20%           | 20%        | 20%           | 20%        |
| Fair value                                       | £3 92         | £1 74      | £4 06         | £1 88      |

# Notes to the Group Financial Statements

for the year ended 31 December 2009 *continued*

## 24 Share-based payments (continued)

### b) Sharesave plan (continued)

|                      | Outstanding<br>at start of<br>year | Granted<br>during year | Exercised<br>during year | Lapsed<br>during year | Outstanding<br>at end of<br>year |
|----------------------|------------------------------------|------------------------|--------------------------|-----------------------|----------------------------------|
| <b>3 year scheme</b> |                                    |                        |                          |                       |                                  |
| 2005 Award           | 2,868                              | -                      | (2,868)                  | -                     | -                                |
| 2006 Award           | 18,851                             | -                      | (14,100)                 | (1,115)               | 3,636                            |
| 2007 Award           | 24,908                             | -                      | -                        | (2,174)               | 22,734                           |
| 2008 Award           | 35,491                             | -                      | -                        | (3,104)               | 32,387                           |
| 2009 Award           | -                                  | 39,492                 | -                        | -                     | 39,492                           |
|                      | 82,118                             | 39,492                 | (16,968)                 | (6,393)               | 98,249                           |

The 2006 awards vested in the year at a cost of £5.92 and on that day the market value of each award was £11.05. The weighted average remaining life of awards outstanding at the year end is two years. The Group received proceeds of £96,000 (2008: £89,000) in respect of the 16,968 (2008: 21,951) options exercised during the year. £1,000 (2008: £1,000) was credited to share capital and £95,000 (2008: £88,000) to share premium (see note 16).

|                      | Outstanding<br>at start of<br>year | Granted<br>during year | Exercised<br>during year | Lapsed<br>during year | Outstanding<br>at end of<br>year |
|----------------------|------------------------------------|------------------------|--------------------------|-----------------------|----------------------------------|
| <b>5 year scheme</b> |                                    |                        |                          |                       |                                  |
| 2004 Award           | 90,544                             | -                      | (73,380)                 | -                     | 17,164                           |
| 2005 Award           | 25,003                             | -                      | (267)                    | (359)                 | 24,377                           |
| 2006 Award           | 34,964                             | -                      | -                        | -                     | 34,964                           |
| 2007 Award           | 13,492                             | -                      | -                        | (165)                 | 13,327                           |
| 2008 Award           | 46,804                             | -                      | -                        | (3,078)               | 43,726                           |
| 2009 Award           | -                                  | 43,003                 | -                        | -                     | 43,003                           |
|                      | 210,807                            | 43,003                 | (73,647)                 | (3,602)               | 176,561                          |

The 2004 awards vested in the year at a cost of £3.20 and on that day the market value of each award was £11.05. The weighted average remaining life of awards outstanding at the year end is three years. The Group received proceeds of £236,000 in respect of the 73,647 options exercised during the year. £3,000 was credited to share capital and £233,000 to share premium (see note 16).

## 24 Share-based payments (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 2009. In 2009, awards were only made under the share-based scheme.

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 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 2009.

The performance period for the 2007 awards ended on 31 December 2009. 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 2010.

### i) Share-based scheme

|                                                  | 2009          | 2008             |
|--------------------------------------------------|---------------|------------------|
| Grant date                                       | 04 March 2009 | 29 February 2008 |
| Share price at grant date                        | £7.56         | £9.92            |
| Shares granted under scheme                      | 220,302       | 112,702          |
| Vesting period                                   | 3 years       | 3 years          |
| Expected volatility                              | 35.0%         | 28.0%            |
| Risk free rate                                   | 1.7%          | 4.0%             |
| Expected dividends expressed as a dividend yield | 3.4%          | 2.0%             |
| Probability of ceasing employment before vesting | 1% p.a.       | 3% p.a.          |
| Fair value                                       | £4.31         | £5.96            |

|            | Outstanding at start of year | Granted during year | Vested during year | Forfeited during year | Outstanding at end of year |
|------------|------------------------------|---------------------|--------------------|-----------------------|----------------------------|
| 2005 Award | 112,244                      | -                   | (112,244)          | -                     | -                          |
| 2006 Award | 84,618                       | -                   | (84,618)           | -                     | -                          |
| 2007 Award | 106,062                      | -                   | -                  | -                     | 106,062                    |
| 2008 Award | 112,702                      | -                   | -                  | -                     | 112,702                    |
| 2009 Award | -                            | 220,382             | -                  | -                     | 220,382                    |
|            | 415,626                      | 220,382             | (196,862)          | -                     | 439,146                    |

At the date of vesting the 2005 and 2006 awards were valued at £7.59. The weighted average remaining life of awards outstanding at the year end is one year.

# Notes to the Group Financial Statements

for the year ended 31 December 2009 *continued*

## 24 Share-based payments (continued)

### c) Long Term Incentive Plan (continued)

#### ii) Cash based scheme

|            | Outstanding<br>at start of<br>year | Granted<br>during year | Vested<br>during year | Forfeited<br>during year | Outstanding<br>at end of<br>year |
|------------|------------------------------------|------------------------|-----------------------|--------------------------|----------------------------------|
| 2005 Award | 117,202                            | -                      | (117,202)             | -                        | -                                |
| 2006 Award | 78,432                             | -                      | (78,432)              | -                        | -                                |
| 2007 Award | 80,431                             | -                      | -                     | (6,292)                  | 74,139                           |
| 2008 Award | 74,634                             | -                      | -                     | (7,069)                  | 67,565                           |
|            | 350,699                            | -                      | (195,634)             | (13,361)                 | 141,704                          |

At the date of vesting the 2005 and 2006 awards were valued at £7 90. The weighted average remaining life of awards outstanding at the year end is one year.

## 25 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.

### (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% to 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.

## 25 Financial instruments (continued)

### (I) CREDIT RISK (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 |                |
|------------------------------------------------------|-----------------|----------------|
|                                                      | 2009            | 2008           |
| Trade receivables                                    | 53,791          | 63,694         |
| Other receivables                                    | 7,316           | 6,715          |
| Cash and cash equivalents                            | 78,676          | 41,390         |
| Currency swap deposit                                | 400             | 2,175          |
| Forward exchange contracts used for hedging - assets | 942             | 239            |
| <b>Total</b>                                         | <b>141,125</b>  | <b>114,213</b> |

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

|              | Carrying amount |               |
|--------------|-----------------|---------------|
|              | 2009            | 2008          |
| Sterling     | 6,179           | 7,138         |
| US dollar    | 13,134          | 14,444        |
| Euro         | 25,604          | 31,248        |
| Other        | 8,874           | 10,864        |
| <b>Total</b> | <b>53,791</b>   | <b>63,694</b> |

#### *Provisions against trade receivables*

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

|                            | Gross<br>2009 | Provision<br>2009 | Gross<br>2008 | Provision<br>2008 |
|----------------------------|---------------|-------------------|---------------|-------------------|
| Not past due               | 36,923        | (41)              | 42,778        | (88)              |
| Past due 0-30 days         | 9,438         | (49)              | 11,394        | (173)             |
| Past due 31-60 days        | 4,417         | (62)              | 5,860         | (53)              |
| Past due 61-90 days        | 2,386         | (277)             | 1,938         | (60)              |
| Past due more than 91 days | 2,220         | (1,164)           | 3,092         | (994)             |
|                            | <b>55,384</b> | <b>(1,593)</b>    | <b>65,062</b> | <b>(1,368)</b>    |



# Notes to the Group Financial Statements

for the year ended 31 December 2009 *continued*

## 25 Financial instruments (continued)

### (II) 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 (2008: £2m) on which interest would be payable at LIBOR plus 150 basis points.

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

#### 31 December 2009

|                                  | 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               | -               | -                      | -                                            | -         | -         | -                 |
| Finance lease liabilities        | 224             | 240                    | 113                                          | 74        | 53        | -                 |
| Trade and other payables         | 51,040          | 51,040                 | 51,040                                       | -         | -         | -                 |
| Forward exchange contracts       | 1,257           | 1,257                  | 1,130                                        | 127       | -         | -                 |
| Non-redeemable preference shares | 42              | 42                     | -                                            | -         | -         | 42                |
|                                  | 52,563          | 52,579                 | 52,283                                       | 201       | 53        | 42                |

The forward exchange contracts will be settled on a gross basis and the undiscounted gross outflow in respect of these contracts is £59,410,000 (2008: £55,802,000) and the gross inflow is £59,185,000 (2008: £47,277,000).

#### 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                |

## 25 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 primarily giving rise to this risk are the US dollar and related currencies and the euro. The Group hedges up to 75% of forecast US dollar or euro foreign currency exposures using forward exchange contracts. In respect of other non-sterling monetary assets and liabilities the exposures are maintained and hedged up to 75% where this is deemed appropriate.

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 2009 was a £315,000 liability (2008: £7,310,000 liability) comprising an asset of £942,000 (2008: £239,000) and a liability of £1,257,000 (2008: £7,549,000). Forward exchange contracts in place at 31 December 2009 mature in 2010 and 2011.

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.

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 and this swap will expire in February 2010.

#### 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 2009. 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 |      |
|-----------|--------------|------|--------------|------|
|           | 2009         | 2008 | 2009         | 2008 |
| US dollar | 1.54         | 1.81 | 1.61         | 1.44 |
| Euro      | 1.13         | 1.24 | 1.13         | 1.03 |

# Notes to the Group Financial Statements

for the year ended 31 December 2009 *continued*

## 25 Financial instruments (continued)

### (III) MARKET RISKS (continued)

#### b) Interest rate risk

The Group does not undertake any hedging activity in this area. All cash deposits are made at prevailing interest rates for terms of generally no more than one month. The main element of interest rate risk concerns sterling deposits and short term overdrafts in foreign currencies both of which are on a floating rate.

The floating rate financial liabilities comprise finance leases, bank loans and 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 4.1% (2008: 4.6%) 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:

|                                                     | 2009       | 2008       |
|-----------------------------------------------------|------------|------------|
| In one year or less                                 | 104        | 157        |
| In more than one year but not more than two years   | 69         | 86         |
| In more than two years but not more than five years | 51         | 62         |
| In more than five years                             | 42         | 42         |
| <b>Total</b>                                        | <b>266</b> | <b>347</b> |

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

### (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. The Group defines capital as net funds and equity attributable to shareholders (see note 16). There are no external imposed restrictions on the Group's capital structure.

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

|                                     | 2009          | 2008          |
|-------------------------------------|---------------|---------------|
| Total borrowings                    | (266)         | (347)         |
| Cash and cash equivalents (note 15) | 78,676        | 41,390        |
| <b>Group net funds</b>              | <b>78,410</b> | <b>41,043</b> |

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.

## 25 Financial instruments (continued)

## (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<br>amount<br>2009 | Fair<br>value<br>2009 | Carrying<br>amount<br>2008 | Fair<br>value<br>2008 |
|------------------------------------------------|----------------------------|-----------------------|----------------------------|-----------------------|
| <b>Loans and receivables</b>                   |                            |                       |                            |                       |
| Trade receivables                              | 53,791                     | 53,791                | 63,694                     | 63,694                |
| Other receivables                              | 7,316                      | 7,316                 | 6,715                      | 6,715                 |
| <b>Financial assets</b>                        |                            |                       |                            |                       |
| Cash and cash equivalents                      | 78,676                     | 78,676                | 41,390                     | 41,390                |
| Currency swap deposit *                        | 400                        | 400                   | 2,175                      | 2,175                 |
| <b>Designated cash flow hedges</b>             |                            |                       |                            |                       |
| Forward exchange contracts                     |                            |                       |                            |                       |
| - Assets                                       | 942                        | 942                   | 239                        | 239                   |
| - Liabilities                                  | (1,257)                    | (1,257)               | (7,549)                    | (7,549)               |
| <b>Financial liabilities at amortised cost</b> |                            |                       |                            |                       |
| Trade and other payables                       | (51,040)                   | (51,040)              | (59,584)                   | (59,584)              |
| Secured loans                                  | -                          | -                     | (27)                       | (27)                  |
| Preference shares                              | (42)                       | (42)                  | (42)                       | (42)                  |
| Finance lease liabilities                      | (224)                      | (224)                 | (278)                      | (278)                 |
| Currency swap loan *                           | (400)                      | (400)                 | (2,175)                    | (2,175)               |
|                                                | <b>88,162</b>              | <b>88,162</b>         | <b>44,558</b>              | <b>44,558</b>         |

\* As the elements of the currency swap can legally be off-set, although the values of the loan and deposit are shown above they have been off-set 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 2009 *continued*

## 26 Operating leases

Non-cancellable operating lease rentals are payable as follows

|                            | 2009  | 2008  |
|----------------------------|-------|-------|
| Less than one year         | 1,357 | 1,517 |
| Between one and five years | 6,128 | 4,202 |
| More than five years       | 1,261 | 2,005 |
|                            | 8,746 | 7,724 |

Of the £8,746,000 (2008 £7,724,000), £6,804,000 (2008 £6,051,000) relates to property and the balance to plant and equipment

## 27 Capital commitments

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

|            | 2009 | 2008 |
|------------|------|------|
| Contracted | 714  | 522  |

## 28 Contingencies

|                                        | 2009  | 2008  |
|----------------------------------------|-------|-------|
| Performance guarantees and indemnities | 8,592 | 5,725 |

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.

## 29 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 94 to 96 of these financial statements. Transactions between two subsidiaries for the sale and purchase of products or the subsidiary and parent Company 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 £20,000 during the year (2008 £32,000) and £19,000 was outstanding at 31 December 2009 (2008 £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

|                                            | 2009  | 2008  |
|--------------------------------------------|-------|-------|
| Emoluments including social security costs | 2,455 | 2,535 |
| Post employment benefits                   | 424   | 388   |
| Share-based payments                       | 843   | 760   |
|                                            | 3,722 | 3,683 |

# Rotork p.l.c. Company Balance Sheet

at 31 December 2009

|                                              | Notes | 2009<br>£000  | 2008<br>£000  |
|----------------------------------------------|-------|---------------|---------------|
| <b>Fixed assets</b>                          |       |               |               |
| Tangible assets                              | c     | 1,146         | 1,174         |
| Investments                                  | d     | 43,205        | 2,668         |
|                                              |       | <b>44,351</b> | <b>3,842</b>  |
| <b>Current assets</b>                        |       |               |               |
| Debtors                                      | f     | 20,458        | 51,284        |
| Cash at bank and in hand                     | e     | 15,351        | 12,479        |
|                                              |       | <b>35,809</b> | <b>63,763</b> |
| <b>Creditors</b>                             |       |               |               |
| Amounts falling due within one year          | g     | (3,888)       | (8,779)       |
| <b>Net current assets</b>                    |       | <b>31,921</b> | <b>54,984</b> |
| <b>Total assets less current liabilities</b> |       | <b>76,272</b> | <b>58,826</b> |
| <b>Creditors</b>                             |       |               |               |
| Amounts falling due after more than one year | h     | (42)          | (42)          |
| <b>Net assets</b>                            |       | <b>76,230</b> | <b>58,784</b> |
| <b>Capital and reserves</b>                  |       |               |               |
| Called up share capital                      | j     | 4,330         | 4,325         |
| Share premium account                        | j     | 7,033         | 6,666         |
| Translation reserve                          | j     | –             | (2)           |
| Capital redemption reserve                   | j     | 1,642         | 1,642         |
| Profit and loss account                      | j     | 63,225        | 46,153        |
| <b>Equity shareholders' funds</b>            |       | <b>76,230</b> | <b>58,784</b> |

These Company financial statements were approved by the Board of Directors on 1 March 2010 and were signed on its behalf by  
**PI France** and **RE Slater**, Directors




# Notes to the Company Financial Statements

for the year ended 31 December 2009 *continued*

## **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 408(3) of the Companies Act 2006 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.

**a Accounting policies (continued)****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.

**b Personnel expenses in the Company Profit and Loss Account**

|                                                          | 2009         | 2008         |
|----------------------------------------------------------|--------------|--------------|
| Wages and salaries (including bonus and incentive plans) | 1,449        | 2,679        |
| Social security costs                                    | 206          | 192          |
| Pension costs                                            | 264          | 235          |
| Share-based payments                                     | 263          | 361          |
|                                                          | <b>2,182</b> | <b>3,467</b> |

There are seven (2008: five) employees of Rotork plc plus the four (2008: four) 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 ('LTIP').

The disclosures required under FRS 20 can be found in note 24(c) to the Group Financial Statements. The table below sets out the movement of share options under the LTIP for employees of the Company.

|            | Outstanding<br>at start of<br>year | Granted<br>during year | Vested<br>during year | Forfeited<br>during year | Outstanding<br>at end of<br>year |
|------------|------------------------------------|------------------------|-----------------------|--------------------------|----------------------------------|
| 2005 Award | 57,426                             | –                      | (57,426)              | –                        | –                                |
| 2006 Award | 36,813                             | –                      | (36,813)              | –                        | –                                |
| 2007 Award | 42,432                             | –                      | –                     | –                        | 42,432                           |
| 2008 Award | 42,761                             | –                      | –                     | –                        | 42,761                           |
| 2009 Award | –                                  | 64,722                 | –                     | –                        | 64,722                           |
|            | <b>179,432</b>                     | <b>64,722</b>          | <b>(94,239)</b>       | <b>–</b>                 | <b>149,915</b>                   |

At the date of vesting the 2005 and 2006 awards were valued at £7.59. The weighted average remaining life of awards outstanding at the year end is one year.



# Notes to the Company Financial Statements

for the year ended 31 December 2009 *continued*

## c Tangible assets in the Company Balance Sheet

|                                        | Land and buildings | Plant and equipment | Total        |
|----------------------------------------|--------------------|---------------------|--------------|
| <b>Cost</b>                            |                    |                     |              |
| At 1 January 2009 and 31 December 2009 | 1,468              | 13                  | 1,481        |
| <b>Depreciation</b>                    |                    |                     |              |
| At 1 January 2009                      | 294                | 13                  | 307          |
| Charge for year                        | 28                 | -                   | 28           |
| <b>At 31 December 2009</b>             | <b>322</b>         | <b>13</b>           | <b>335</b>   |
| <b>Net book value</b>                  |                    |                     |              |
| <b>at 31 December 2009</b>             | <b>1,146</b>       | <b>-</b>            | <b>1,146</b> |
| at 31 December 2008                    | 1,174              | -                   | 1,174        |

Net book value of land and buildings can be analysed between

|                                      | 2009         | 2008         |
|--------------------------------------|--------------|--------------|
| Freehold land                        | 60           | 60           |
| Freehold buildings                   | 1,086        | 1,114        |
| <b>Net book value at 31 December</b> | <b>1,146</b> | <b>1,174</b> |

## d Investments in the Company Balance Sheet

### Shares in Group companies

|                                                 | 2009          | 2008         |
|-------------------------------------------------|---------------|--------------|
| At 1 January                                    | 2,668         | 2,311        |
| Additions arising from share schemes            | 537           | 357          |
| Increased investment in subsidiary undertakings | 40,000        | -            |
| <b>At 31 December</b>                           | <b>43,205</b> | <b>2,668</b> |

A listing of the principal subsidiaries is included in the directory on pages 94 to 96

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

|                                 | 2009          | 2008          |
|---------------------------------|---------------|---------------|
| Bank balances                   | 340           | 34            |
| Short term deposits             | 15,011        | 12,445        |
| <b>Cash at bank and in hand</b> | <b>15,351</b> | <b>12,479</b> |

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

|                                    | 2009   | 2008   |
|------------------------------------|--------|--------|
| Amounts owed by Group undertakings | 20,184 | 50,399 |
| Other debtors                      | 32     | 29     |
| Prepayments and accrued income     | 56     | 49     |
| Corporation tax                    | 49     | 639    |
| Deferred taxation                  | 137    | 168    |
|                                    | 20,458 | 51,284 |

A deferred tax asset of £137,000 (2008: £168,000) 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**

|                                    | 2009  | 2008  |
|------------------------------------|-------|-------|
| Bank loans and overdrafts          | –     | 5,606 |
| Trade creditors                    | 163   | 110   |
| Amounts owed to Group undertakings | 1,052 | 1,053 |
| Other taxes and social security    | 25    | 22    |
| Other creditors                    | 1,985 | 1,557 |
| Accruals and deferred income       | 663   | 431   |
|                                    | 3,888 | 8,779 |

The Company has a £10m 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**

|                                      | 2009 | 2008 |
|--------------------------------------|------|------|
| Preference shares classified as debt | 42   | 42   |

This debt is not redeemable at any fixed future date.

**i Contingencies in the Company**

|                                                              | 2009 | 2008 |
|--------------------------------------------------------------|------|------|
| 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.

# Notes to the Company Financial Statements

for the year ended 31 December 2009 *continued*

## 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 2009                                  | 4,325         | 6,666         | (2)                 | 1,642                      | 46,153            | 58,784                     |
| Profit for the year                                        | -             | -             | 2                   | -                          | 42,199            | 42,201                     |
| Equity settled share-based payment transactions net of tax | -             | -             | -                   | -                          | (622)             | (622)                      |
| Share options exercised by employees                       | 5             | 367           | -                   | -                          | -                 | 372                        |
| Own ordinary shares acquired                               | -             | -             | -                   | -                          | (3,700)           | (3,700)                    |
| Own ordinary shares awarded under share schemes            | -             | -             | -                   | -                          | 3,297             | 3,297                      |
| Dividends                                                  | -             | -             | -                   | -                          | (24,102)          | (24,102)                   |
| <b>Balance at 31 December 2009</b>                         | <b>4,330</b>  | <b>7,033</b>  | <b>-</b>            | <b>1,642</b>               | <b>63,225</b>     | <b>76,230</b>              |

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 £42,199,000 (2008 £33,259,000)

## 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

|                          | 2009          | 2008         |
|--------------------------|---------------|--------------|
| Preference shares        | (42)          | (42)         |
| Bank overdraft           | -             | (5,606)      |
| Cash at bank and in hand | 15,351        | 12,479       |
| <b>Company net funds</b> | <b>15,309</b> | <b>6,831</b> |

# Ten Year Trading History

|                                            | 2009<br>£000<br>IFRS | 2008<br>£000<br>IFRS | 2007<br>£000<br>IFRS | 2006<br>£000<br>IFRS | 2005<br>£000<br>IFRS | 2004<br>£000<br>IFRS | 2003<br>£000<br>UK GAAP | 2002<br>£000<br>UK GAAP | 2001<br>£000<br>UK GAAP | 2000<br>£000<br>UK GAAP |
|--------------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Continuing operations                      | 353,521              | 320,207              | 235,688              | 206,709              | 174,839              | 146,883              | 135,964                 | 129,677                 | 119,322                 | 103,945                 |
| Discontinued operations                    | -                    | -                    | -                    | -                    | -                    | -                    | -                       | 3,783                   | 4,367                   | 3,935                   |
| Revenue                                    | 353,521              | 320,207              | 235,688              | 206,709              | 174,839              | 146,883              | 135,964                 | 133,460                 | 123,689                 | 107,880                 |
| Cost of sales                              | (187,600)            | (176,046)            | (127,748)            | (115,603)            | (95,358)             | (79,097)             | (72,046)                | (71,875)                | (65,877)                | (59,021)                |
| Gross profit                               | 165,921              | 144,161              | 107,940              | 91,106               | 79,481               | 67,786               | 63,918                  | 61,585                  | 57,812                  | 48,859                  |
| Overheads                                  | (74,384)             | (69,272)             | (52,553)             | (46,017)             | (42,951)             | (37,354)             | (36,808)                | (35,863)                | (33,532)                | (29,108)                |
| Operating profit                           | 91,537               | 74,889               | 55,387               | 45,089               | 36,530               | 30,432               | 27,110                  | 25,722                  | 24,280                  | 19,751                  |
| Continuing operations                      | 92,103               | 76,014               | 55,461               | 45,089               | 36,530               | 30,432               | 28,415                  | 26,553                  | 24,733                  | 20,478                  |
| Discontinued operations                    | -                    | -                    | -                    | -                    | -                    | -                    | -                       | 474                     | 574                     | 309                     |
| Adjusted* operating profit                 | 92,103               | 76,014               | 55,461               | 45,089               | 36,530               | 30,432               | 28,415                  | 27,027                  | 25,307                  | 20,787                  |
| Amortisation of acquired intangible assets | (1,153)              | (1,125)              | (74)                 | -                    | -                    | -                    | -                       | -                       | -                       | -                       |
| Disposal of property                       | 587                  | -                    | -                    | -                    | -                    | -                    | -                       | -                       | -                       | -                       |
| Amortisation of goodwill                   | -                    | -                    | -                    | -                    | -                    | -                    | (1,305)                 | (1,305)                 | (1,027)                 | (1,036)                 |
| Operating profit                           | 91,537               | 74,889               | 55,387               | 45,089               | 36,530               | 30,432               | 27,110                  | 25,722                  | 24,280                  | 19,751                  |
| Exceptional items                          | -                    | -                    | -                    | -                    | -                    | -                    | 597                     | -                       | -                       | -                       |
| Net interest                               | (621)                | 862                  | 1,866                | 972                  | 127                  | 1,074                | 461                     | 440                     | 563                     | 831                     |
| Profit before taxation                     | 90,916               | 75,751               | 57,253               | 46,061               | 36,657               | 31,506               | 28,168                  | 26,162                  | 24,843                  | 20,582                  |
| Tax expense                                | (26,884)             | (22,331)             | (17,957)             | (14,728)             | (12,043)             | (10,508)             | (9,469)                 | (8,868)                 | (8,539)                 | (7,110)                 |
| Profit for the year                        | 64,032               | 53,420               | 39,296               | 31,333               | 24,614               | 20,998               | 18,699                  | 17,294                  | 16,304                  | 13,472                  |
| Dividends                                  | (24,102)             | (29,970)             | (24,732)             | (24,140)             | (13,437)             | (17,751)             | (12,592)                | (11,959)                | (11,147)                | (10,504)                |
| Basic earnings per share                   | 74 2p                | 62 0p                | 45 6p                | 36 4p                | 28 6p                | 24 5p                | 21 8p                   | 20 1p                   | 18 9p                   | 15 6p                   |
| Adjusted* earnings per share               | 75 5p                | 63 3p                | 45 7p                | 36 4p                | 28 6p                | 24 5p                | -                       | -                       | -                       | -                       |
| Diluted earnings per share                 | 73 9p                | 61 6p                | 45 2p                | 36 1p                | 28 4p                | 24 3p                | 21 7p                   | 20 0p                   | 18 9p                   | 15 6p                   |

\* Adjusted is before amortisation of acquired intangible assets and the disposal of property

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.

# Share Register Information

The tables below show the split of shareholder and size of shareholding in Rotork plc

| Ordinary shareholder by type | Number of holdings | %     | Number of shares | %     |
|------------------------------|--------------------|-------|------------------|-------|
| Individuals                  | 1,784              | 67.5  | 3,026,259        | 3.5   |
| Bank or nominees             | 778                | 29.5  | 82,650,741       | 95.4  |
| Pension fund                 | 1                  | 0.1   | 3,256            | 0.1   |
| Other company                | 49                 | 1.9   | 510,034          | 0.5   |
| Other corporate body         | 28                 | 1.0   | 426,408          | 0.5   |
|                              | 2,640              | 100.0 | 86,616,698       | 100.0 |

| Range            | Number of shareholders | %     | Number of shares | %      |
|------------------|------------------------|-------|------------------|--------|
| 1 – 1,000        | 1,332                  | 50.5  | 550,430          | 0.6    |
| 1,001 – 2,000    | 422                    | 16.0  | 630,029          | 0.7    |
| 2,001 – 5,000    | 367                    | 13.8  | 1,147,973        | 1.4    |
| 5,001 – 10,000   | 149                    | 5.6   | 1,043,530        | 1.2    |
| 10,001 – 50,000  | 173                    | 6.6   | 3,887,334        | 4.5    |
| 50,001 – 100,000 | 76                     | 2.9   | 5,394,406        | 6.2    |
| 100,001 +        | 121                    | 4.6   | 73,962,996       | 85.4   |
|                  | 2,640                  | 100.0 | 86,616,698       | 100.00 |

Source: Equiniti

## 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) |
|------|----------------------|--------------------|---------------------------------|--------------------|
| 2009 | 11.15                | 17.25              | –                               | 28.40              |
| 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              |

## Financial calendar

|               |                                                                            |
|---------------|----------------------------------------------------------------------------|
| 2 March 2010  | Preliminary announcement of annual results for 2009                        |
| 7 April 2010  | Ex-dividend date for final proposed 2009 dividend                          |
| 9 April 2010  | Record date for final proposed 2009 dividend                               |
| 23 April 2010 | Annual General Meeting held at Rotork House, Brassmill Lane, Bath, BA1 3JQ |
| 7 May 2010    | Payment date for final proposed 2009 dividend                              |
| 3 August 2010 | Announcement of interim financial results for 2010                         |
| 23 June 2010  | Ex-dividend date for additional interim dividend                           |
| 25 June 2010  | Record date for additional interim dividend                                |
| 23 July 2010  | Payment date for additional interim dividend                               |

# Corporate Directory

**Company Secretary**

Stephen Rhys Jones

**Registered Office**

Rotork plc  
Brassmill Lane  
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**Company Number**

578327

**Registrars**

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**Stockbrokers**

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**Financial Advisers**

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**Auditors**

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**Financial Public Relations**

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**Solicitors**

Messrs Osborne Clarke  
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# Directory

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