Rotork p.l.c.

Audited 2004 accounts restated under International Financial Reporting Standards

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Consolidated Income Statement
for the year ended 31 December 2004

	Notes	£'000
Revenue	2	146,883
Cost of sales		(79,097)
Gross profit		67,786
Other income	4	136
Distribution costs		(1,816)
Administrative expenses		(35,638)
Other expenses	5	(36)
Profit from operations	2	30,432
Financial income	7	4,766
Financial expenses	7	(3,692)
Profit before tax	8	31,506
Tax expense	9	(10,508)
Net profit for the year		20,998
		====
		Pence
Basic earnings per share	17	24.5
Diluted earnings per share	17	24.3

Consolidated Balance Sheet
at 31 December 2004

	Notes	£'000
Assets		
Property, plant and equipment	10	13,877
Intangible assets	11	20,169
Deferred tax assets	12	6,988
Other receivables		489
Total non-current assets		41,523
Inventories	13	21,015
Trade receivables		34,060
Current tax	14	2,176
Other receivables	14	2,525
Cash and cash equivalents	15	25,298
Total current assets		85,074
Total assets		126,597
Equity		
Issued capital		4,300
Preference shares		47
Share premium		4,993
Reserves		425
Retained earnings		58,489
Total equity	16	68,254
Liabilities		
Interest-bearing loans and borrowings	18	268
Employee benefits	19	23,569
Deferred tax liabilities	12	1,155
Provisions	20	521
Total non-current liabilities		25,513
Bank overdraft	15	473
Interest bearing loans and borrowings	18	253
Trade payables	21	15,609
Current tax	21	5,779
Other payables	21	9,674
Provisions	20	1,042
Total current liabilities		32,830
Total liabilities		58,343
Total equity and liabilities		126,597

Consolidated Statement of Cash Flows
for the year ended 31 December 2004

	Notes	£'000	£'000
Cash flows from operating activities			
Profit for the year		20,998	
Adjustments for:			
Amortisation of intangibles		70	
Amortisation of development costs		322	
Depreciation		2,577	
Charge for share schemes		208	
Profit on sale of fixed assets		(72)	
Financial income		(4,766)	
Financial expenses		3,692	
Income tax expense		10,508	
		33,537	
Increase in inventories		(2,600)	
Increase in trade and other receivables		(6,228)	
Increase in trade and other payables		4,130	
Difference between pension charge and cash contribution		(5,633)	
Decrease in provisions		(130)	
Increase in other employee benefits		748	
		23,824	
Income taxes paid		(10,441)	
Cash flows from operating activities			13,383
Investing activities			
Purchase of tangible fixed assets		(3,099)	
Development costs capitalised		(102)	
Sale of tangible fixed assets		295	
Acquisition of subsidiary net of cash acquired		(912)	
Interest received		973	
Cash flows from investing activities			(2,845)
Financing activities			
Issue of ordinary share capital		458	
Purchase of ordinary share capital		(691)	
Purchase of own preference shares		(5)	
Interest paid		(136)	
Repayment of amounts borrowed		188	
Repayment of finance lease liabilities		(58)	
Dividends paid on ordinary shares		(17,751)	
Dividends paid on preference shares		(4)	
Cash flows from financing activities			(17,999)
Net decrease in cash and cash equivalents			(7,461)
Cash and cash equivalents at 1 January 2004			32,134
Effect of exchange rate fluctuations on cash held			152
Cash and cash equivalents at 31 December 2004	15		24,825

Consolidated Statement of Recognised Income and Expense
For the year ended 31 December 2004

	£'000
Foreign exchange translation differences	(1,212)
Actuarial loss in pension scheme	(5,792)
Movement on deferred tax relating to actuarial loss	237
Net loss recognised directly in equity	(6,767)
Net profit for the year	20,998
Total recognised income and expense	14,231

Notes to the Financial Statements
for the year ended 31 December 2004

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 2004 comprise the Company and its subsidiaries (together referred to as the Group).

1. Accounting policies

Basis of preparation
EU law (IAS Regulation EC 1606/2002) requires that the next annual consolidated financial statements of the company, for the year ended 31 December 2005, be prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the EU ("adopted IFRS").

These special purpose consolidated financial statements have been prepared on the basis of the recognition and measurement requirements of IFRS in issue that are either endorsed by the EU and effective (or available for early adoption) at 31 December 2005 or are expected to be endorsed and effective (or available for early adoption) at 31 December 2005, the Group's first annual reporting date at which it is required to use adopted IFRS. Based on these adopted and unadopted IFRS, the directors have made assumptions about the accounting policies expected to be applied, which are set out below, when the first IFRS financial statements are prepared for the year ending 31 December 2005.

In particular, the directors have assumed that the December 2004 amendment to IAS 19 –*Employee Benefits* and the April 2005 amendment to IAS39 – *Cash Flow Hedge Accounting of Intra-group Forecast Transactions* will be adopted by the EU in sufficient time that they will be available for use in the IFRS financial statements for the year ending 31 December 2005. In addition, the adopted IFRS that will be effective (or available for early adoption) in the financial statements are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly the accounting policies for the year ended 31 December 2005 will be determined finally only when the financial statements for that year are prepared.

As permitted by IFRS 1, the following standards: IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*, IAS 32 – *Financial Instruments: Disclosure and Presentation* and IAS 39 – *Financial Instruments: Recognition and Measurement* are not expected to be applied until 1 January 2005 and accordingly have not been applied in these special purpose consolidated IFRS financial statements for the year ended 31 December 2004.

These special purpose consolidated financial statements are not the Group's first consolidated financial statements as defined by IFRS 1. For this reason amounts are presented for the year to 31 December 2004 only and comparative information as would normally be required under IFRS is not given.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in note 28.

Basis of accounting
The financial statements have been prepared under the historical cost convention subject to the items referred to in the derivative financial instruments note below. The accounting policies set out below have been consistently applied in preparing an opening IFRS balance sheet at 1 January 2004 for the purposes of transition to IFRS. The accounting policies have been applied consistently by Group entities.

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

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

Consolidation
The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year to 31 December 2004. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. Intragroup balances and any unrealised gains or losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

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

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

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

Revenue
Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods also 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 I January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Negative goodwill arising on acquisitions would be recognised directly in profit and loss.

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

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

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

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

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

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

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

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

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

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

Inventory and work in progress
Inventory and work in progress is valued at the lower of cost, on a 'first in, first out' basis, and net realisable value. In respect of work in progress and finished goods, cost includes all production overheads and the attributable proportion of indirect overhead expenses which are required to bring inventories to their present location and condition.

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

Share capital
Equity comprises issued capital, share premium and reserves and for the purposes of these accounts, preference shares. IAS32 will be applied from 1 January 2005 and at that time the preference shares will be reclassified as debt.

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

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

Employee benefits

i) Pension plans

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

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

ii) Share-based payment transactions

The Rotork Share Option Scheme allows certain employees to acquire shares in Rotork 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 19. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

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

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

Accruals in respect of scheme years pre-dating the implementation of IFRS2 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.

In these special purpose accounts, since IAS39 has not been applied, forward exchange contracts are held at cost (usually zero). Gains and losses on foreign currency hedges are recognised in the income statement when the hedged transaction is recognised.

As from 1 January 2005 the following policy will apply. Forward exchange contracts are recognised initially at cost and then subsequently re-measured at fair value. Where a forward exchange contract is designated as a hedge of the variability in cash flows of a recognised liability, a firm commitment or a highly probable forecasted transaction, the effective part of any gain or loss on the forward contract is recognised directly in equity. The cumulative gain or loss is removed from equity and recognised in the income statement at the same time as the hedged transaction. The ineffective part of any gain or loss is recognised in the income statement immediately.

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

Notes to the Financial Statements

2. Analysis of turnover, profit and net assets

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

Business segments
The Group comprises the following business segments:
Electrics – the design, manufacture and sale of electric valve actuators
Gears – the design, manufacture and sale of gearboxes, adaption and ancillaries for the valve industry
Fluid system – the design, manufacture and sale of heavy duty pneumatic and hydraulic valve actuators

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

Analysis by operation:

	Electrics	Gears	Fluid system	Eliminations	Consolidated
Revenue from external customers	109,345	13,736	23,802	-	146,883
Inter-segment revenue	-	4,070	-	(4,070)	-
Total revenue	109,345	17,806	23,802	(4,070)	146,883
Segment result	26,054	3,203	3,016	-	32,273
Unallocated expenses					(1,841)
Profit from operations					30,432
Net financing income					1,074
Income tax expense					(10,508)
Net profit for the year					20,998

	Electrics	Gears	Fluid system	Unallocated	Consolidated
Segment assets	60,665	9,927	21,542	34,463	126,597
Segment liabilities	40,451	2,467	7,497	7,928	58,343
Depreciation	1,881	284	412	-	2,577
Non-cash items	39	9	57	332	437
Capital expenditure	2,628	177	294	-	3,099

Analysis by Geographical segment	Europe	Americas	Rest of the World	Unallocated	Consolidated
Revenue from external customers by location of customer	66,036	41,704	39,143	-	146,883
Segment assets by location of assets	63,651	20,146	8,337	34,463	126,597
Capital expenditure by location of assets	2,380	201	518	-	3,099

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

3. Acquisition of subsidiary

Acquisitions

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

Effect of acquisitions and disposals

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

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

4. Other income

Gain on disposal of plant and equipment	80
Other	56
	136

5. Other expenses

Losses on sale of fixed assets	8
Other	28
	36

6. Personnel expenses

Wages and salaries (including bonus and incentive plans)	29,243
Compulsory social security contributions	2,950
Current service cost for defined benefit plans	1,502
Contributions to defined contribution plans	533
Share based payments (note 19)	390
Increase in liability for long-service leave	15
	34,633

A total of £208,000 of the above are equity settled, comprising £41,000 for the share option scheme, £8,000 for the Sharesave plan and £160,000 of the Long-term incentive plan. The cash settled portion (£181,000) all related to the Long-term incentive plan.

	No.
During the year, the average weekly number of employees, analysed by business activity, was:	
Electrics	865
Gears	124
Fluid system	151
	1,140
UK	419
Overseas	721
	1,140

7. Net financing income

Interest income	849
Expected return on assets in the pension schemes	3,477
Net foreign exchange gain	440
	4,766
Interest expense	(136)
Interest charge on pension schemes liabilities	(3,556)
	(3,692)

8. Profit before tax

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

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

The auditors' remuneration in respect of the Company was £34,000.

These costs can be found under the following headings in the Consolidated income statement:

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

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9. Income tax expense
Recognised in the income statement

Current tax:	
UK Corporation tax on profits for the year	6,258
Double tax relief	(1,995)
Adjustment in respect of prior years	156
	4,419
Overseas tax on profits for the year	5,879
Adjustment in respect of prior years	21
	5,900
Total current tax	10,319
Deferred tax:	
Origination and reversal of other timing differences	129
Adjustment to estimated recoverable amounts of deferred tax assets arising in previous periods	60
Total deferred tax	189
Tax charge on profit on ordinary activities	10,508
Effective tax rate (based on profit before tax)	33.4%

Profit before tax	31,506
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	9,452
Effects of:	
Non deductible expenses	150
Unrelieved losses	25
Higher tax rates on overseas earnings	644
Adjustments to tax charge in respect of prior periods	237
Current tax charge for period	10,508

Deferred tax of £175,000 in respect of share based payments has been recognised directly in equity.

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

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

There is an unrecognised deferred tax liability for temporary timing 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 unrecognised deferred tax liability as acknowledged within paragraph 40 of IAS12.

10. Property, plant and equipment

	Land and buildings	Plant and equipment	Total
Cost			
At 1 January 2004	10,490	17,544	28,034
Exchange differences	(158)	(221)	(379)
Additions	939	2,307	3,246
Disposals	(173)	(882)	(1,055)
Acquisition through business combinations	-	32	32
At 31 December 2004	**11,098**	**18,780**	**29,878**
Depreciation			
At 1 January 2004	3,078	11,316	14,394
Exchange differences	(23)	(132)	(155)
Charge for year	333	2,244	2,577
Disposals	(24)	(791)	(815)
At 31 December 2004	**3,364**	**12,637**	**16,001**
Net book value at 31 December 2004	**7,734**	**6,143**	**13,877**

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

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

11. Intangible assets

	Goodwill	Development costs	Acquired intangibles	Total
Cost				
Balance at 1 January	25,919	1,610	-	27,529
Exchange differences	(269)	-	-	(269)
Internally developed during the year	-	102	-	102
Acquisition through business combinations	322	-	349	671
Balance at 31 December	**25,972**	**1,712**	**349**	**28,033**
Amortisation and impairment losses				
Balance at 1 January	6,862	618	-	7,480
Exchange differences	(8)	-	-	(8)
Amortisation for the year	-	322	70	392
Balance at 31 December	**6,854**	**940**	**70**	**7,864**
Carrying amount at 31 December	**19,118**	**772**	**279**	**20,169**
Carrying amount at 1 January	19,057	992	-	20,049

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

Cost of sales	50
Administrative expenses	342
	392

Impairment tests for cash generating units containing goodwill
The following businesses have significant carrying amounts of goodwill:

Rotork Fluid System Srl	6,476
Exeeco Ltd	4,776
Jordan Controls Inc	3,769
Rotork Gears BV	2,014
	17,035
Multiple businesses without significant goodwill	2,083
	19,118

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

12. Recognised deferred tax assets and liabilities

	Assets	Liabilities	Net
Property, plant and equipment	47	(1,054)	(1,007)
Intangible assets	21	(231)	(210)
Employee benefits	6,234	-	6,234
Provisions	897	-	897
Other items	116	(197)	(81)
Net tax assets/ (liabilities)	7,315	(1,482)	5,833
Set off of tax	(327)	327	-
	6,988	(1,155)	5,833

A deferred tax asset of £6,988,000 has been recognised at 31 December 2004. This asset principally relates to other differences in the defined benefit pension schemes. The directors are of the opinion, based on recent and forecast trading that the level profits in the current and future years make it more likely than not that the asset will be recovered. Details of the movement in deferred tax assets and liabilities are shown in note 28.

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

Tax losses	2,259
Tax credits	468
	2,727

A deferred tax asset of £2,727,000 has not been recognised in relation to capital losses and certain tax credits, tax losses and other timing differences. These assets may be recovered if sufficient taxable or capital profits are made in future in the companies concerned.

13. Inventories

Raw materials and consumables	14,590
Work in progress	3,585
Finished goods	2,840
	21,015

14. Trade and other receivables

Current assets:	
Corporation tax	2,176
Current tax	2,176
Other non trade receivables	1,345
Prepayments and accrued income	1,180
Other receivables	2,525

15. Cash and cash equivalents

Bank balances	7,415
Cash in hand	54
Short-term deposits	17,829
Cash and cash equivalents	25,298
Bank Overdrafts	(473)
Cash and cash equivalents in the statement of cash flows	24,825

16. Capital and reserves

	Share capital	Preference shares	Share premium	Translation reserve	Capital redemption reserve	Retained earnings	Total
Balance at 1 January 2004	4,292	50	4,543	-	1,634	60,567	71,086
Profit for the financial year						20,998	20,998
Other items in the statement of recognised income and expense				(1,212)		(5,555)	(6,767)
Equity settled transactions net of tax						228	228
Share options exercised by employees	8		450				458
Own ordinary shares acquired						(691)	(691)
Own ordinary shares awarded under share schemes						702	702
Own preference shares acquired		(3)			3	(5)	(5)
Dividends to shareholders						(17,755)	(17,755)
Balance at 31 December 2004	**4,300**	**47**	**4,993**	**(1,212)**	**1,637**	**58,489**	**68,254**

Share capital and share premium

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

The ordinary shareholders are entitled to receive dividends as declared and are entitled to vote at meetings of the Company. The preference shareholders take priority over the ordinary shareholders when there is a distribution upon winding-up the Company or on a reduction of equity involving a return of capital. The holders of preference shares are entitled to vote at a general meeting of the Company if a preference dividend is in arrears for six months or the business of the meeting includes the consideration of a resolution for winding-up the Company or the alteration of the preference shareholders' rights. When IAS32 is applied for the 2005 year end the preference shares will be reclassified as debt because interest payments cannot be deferred and an ordinary dividend still paid.

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

On 1 May 2004 options over 166,015 shares exercisable after three years (subject to satisfying performance criteria) at 3.87p were granted under The Rotork Employee Share Option Scheme (1995). On 8 October 2004 options over 162,357 shares were granted under the Rotork Sharesave Scheme at 319.6p. Of these options, 63,336 were exercisable after 3 years and 99,021 after 5 years.

There were 528,941 outstanding options under The Rotork Employee Share Option Schemes at 31 December 2004, exercisable at various prices between 192p and 387p per ordinary share and between 2005 and 2014.

Within the retained earnings reserve are own shares held. The investment in own shares represents 130,671 ordinary shares of the Company held in trust for the benefit of directors and employees for future payments under the Share Incentive Plan and Long-Term Incentive Plan. The market value of these shares at 31 December 2004 was £540,000. The dividends on these shares have been waived.

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

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

9.7p per qualifying ordinary share	8,303

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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 85.8 million shares being the weighted average number of ordinary shares in issue for the year.

Net profit attributable to ordinary shareholders	
Net profit for the year	20,998
Dividends on non-redeemable cumulative preference shares	(4)
Net profit attributable to ordinary shareholders	20,994

Weighted average number of ordinary shares

Issued ordinary shares at 1 January	85,832
Effect of own shares held	(127)
Effect of shares issued under options	96
Weighted average number of ordinary shares at 31 December	85,801

Diluted earnings per share
Diluted earnings per share is based on the profit for the year attributable to the ordinary shareholders and 86.4 million shares. The number of shares is equal to the weighted average number of ordinary shares in issue adjusted to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year and contingently issuable shares awarded under the Long-Term Incentive Plan.

Net profit attributable to ordinary shareholders (diluted)

Net profit attributable to ordinary shareholders	20,994
	====

Weighted average number of ordinary shares (diluted)

Weighted average number of ordinary shares at 31 December	85,801
Effect of share options on issue	86
Effect of LTIP shares on issue	482
Weighted average number of ordinary shares (diluted) at 31 December	86,369
	====

18. Interest-bearing loans and borrowings

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

Non-current liabilities

Bank loans	169
Finance lease liabilities	99
	268
	====

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

Current liabilities

Bank loans	165
Finance lease liabilities	88
	253
	====

Finance lease liabilities
Finance lease liabilities are payable as follows:

	Minimum lease payments	Interest	Principal
Less than one year	95	7	88
Between one and five years	105	6	99
More than five years	-	-	-
	200	13	187
	====	====	====

19. Employee benefits

Recognised liability for defined benefit obligations:	
Present value of unfunded obligations	74,486
Fair value of plan assets	(54,650)
	19,836
Defined contribution scheme liabilities	502
Employee bonus and incentive plan	1,663
Long-term incentive plan	1,075
Employee indemnity provision	356
Liability for long-service leave	137
	23,569

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

Movements in the net liability recognised in the balance sheet

	2004
Net liability at 1 January	19,503
Contributions received	(7,040)
Expense recognised in the income statement (see below)	1,581
Actuarial loss	5,792
Net liability at 31 December	19,836

Expense recognised in the income statement

	2004
Current service costs	1,502
Interest on obligation	3,556
Expected return on plan assets	(3,477)
	1,581

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

	2004
Cost of sales	382
Administrative expenses	1,120
Net financing income	79
	1,581
Actual return on plan assets	884

Liability for defined benefit obligations

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

	UK scheme (% per annum)			US scheme (% per annum)			Average (% per annum)		
	2004	2003	2002	**2004**	2003	2002	**2004**	2003	2002
Discount rate	**5.30**	5.45	5.65	**5.66**	6.10	6.60	**5.32**	5.48	5.70
Rate of increase in salaries	**3.9**	3.8	3.3	**4.5**	4.5	5.0	**3.93**	3.84	3.39
Rate of increase in pensions (post May 2000)	**2.9**	2.8	2.3	**0.0**	0.0	0.0	**2.78**	2.66	2.19
Rate of increase in pensions (pre May 2000)	**4.5**	4.5	4.5	**0.0**	0.0	0.0	**4.31**	4.28	4.28
Rate of price inflation	**2.9**	2.8	2.3	**3.5**	3.5	4.0	**2.93**	2.84	2.39

The expected rates of return were:

	Expected rate of return %		
	2004	2003	2002
Equities	**7.90**	8.20	8.30
Bonds	**4.90**	5.10	5.00
Other	**4.90**	4.90	4.44
US deposit administration contract	**6.00**	6.00	6.00
Total			

Volatility assumptions for equity based payments

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

a) Share option scheme

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

Only the 2003 and 2004 grant occurred after 7 November 2002, the start date for recognition under IFRS2. Therefore only charges in respect of these grants have been made to the accounts in accordance with IFRS2 and the relevant disclosures made below. Additionally, six share option arrangements granted before 7 November 2002 exist. The recognition and measurement principles in IFRS2 have not been applied to these grants in accordance with the transitional provisions in IFRS1 and IFSR2.

	2003 grant	2004 grant
Grant date	11 April 03	1 May 2004
Exercise price / Share price at grant date of all options	£2.78	£3.87
Number of employees	20	118
Shares under option	78,045	163,102
Vesting period	3 years	3 years
Expected volatility	23%	23%
Option life taken as expected life	3 – 10 years	3 – 10 years
Risk free rate	4.0%	4.8%
Expected dividends expressed as a dividend yield	4.6%	3.7%
Probability of ceasing employment before vesting	20%	20%
Expectation of meeting performance criteria	100%	100%
Fair value	£0.64	£0.94

Option (exercise price) * exercisable at end of year	Outstanding at start of year	Granted during year	Exercised during year	Lapsed during year	Outstanding at end of year
1996 grant (£1.92)*	12,361	-	(3,645)	-	8,716
1997 grant (£2.59)*	8,480	-	(8,480)	-	-
1998 grant (£3.28)*	14,747	-	(8,992)	-	5,755
1999 grant (£3.62)*	81,274	-	-	-	81,274
2000 grant (£2.85)*	289,093	-	(134,772)	(5,066)	149,255
2001 grant (£2.98)*	22,752	-	(5,248)	-	17,504
2002 grant (£3.72)	17,311	-	-	(2,422)	14,889
2003 grant (£2.78)	78,045	-	-	-	78,045
2004 grant (£3.87)	-	163,102	-	(5,537)	157,565
	524,063	163,102	(161,137)	(13,025)	513,003
Weighted average exercise price	£2.97	£3.87	£2.80	£3.44	£3.29
Weighted average contractual life remaining					7 years

The 2001 grant vested during the year. The intrinsic value of shares vested as at 31 December 2004 is £278,000.

The Group received proceeds of £458,000 in respect of the 161,137 options exercised during the year: £8,000 was credited to share capital and £450,000 to share premium (see note 16). The options were exercised throughout the year at prices between 192p and 328p.

b) Long-term Incentive Plan

Following shareholder approval of the LTIP at the Company's Annual General Meeting on 18 May 2000, awards over shares were made to executive directors and senior managers in each year from 2000 to 2004.

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

The LTIP is a performance share or cash unit plan under which shares or cash units are conditionally allocated to selected members of senior management at the discretion of the Remuneration Committee on an annual basis. No shares or cash units will normally be released to participants unless they are still in the Group's service following completion of four year performance periods and the Company's relative TSR against a comparator group of companies places it in at least the 50th percentile position in the comparator group at the end of the relevant performance period. TSR measures the change in value of a share and reinvested dividends over the period of measurement. The actual number of shares or cash units transferred will be determined by the number of shares or cash units initially allocated multiplied by a vesting percentage which will be 40% at the 50th percentile rising to 100% at the 75th percentile with each percentile position above the 50th adding 2.4% to the vesting percentage. The Company's earnings per share is also monitored during the relevant performance period to ensure it meets a minimum average annual growth equal to the rise in the Retail Price Index plus 2% per annum. Failure to meet the 'RPI' requirement will result in nil vesting.

	Share scheme	
Grant date	29 March 2004	24 March 2003
Share price at grant date	£3.87	£2.68
Number of employees	10	9
Shares / Share equivalents under scheme	223,370	148,174
Vesting period	4 years	4 years
Expected volatility	22%	22%
Risk free rate	4.6%	4.0%
Expected dividends expressed as a dividend yield	4.3%	5.8%
Probability of ceasing employment before vesting	Zero	Zero
Fair value	£2.27	£1.45

	Cash scheme		
Grant date	29 March 2004	24 March 2003	28 March 2002
Share price at grant date	£3.87	£2.68	£3.84
Number of employees	18	20	20
Shares / Share equivalents under scheme	123,091	91,244	54,313
Vesting period	4 years	4 years	4 years
Expected volatility	22%	22%	22%
Risk free rate	4.4%	4.4%	4.5%
Expected dividends expressed as a dividend yield	3.6%	3.6%	3.6%
Probability of ceasing employment before vesting	Zero	Zero	Zero
Fair value	£2.42	£2.35	£2.29

Share based scheme	Outstanding at start of year	Granted during year	Vested during year	Lapsed during year	Outstanding at end of year
2001 Award	112,615	-	-	-	112,615
2002 Award	100,111	-	-	-	100,111
2003 Award	148,174	-	-	-	148,174
2004 Award	-	223,370	-	-	223,370
	360,900	223,370	-	-	584,270

Cash based scheme	Outstanding at start of year	Granted during year	Vested during year	Lapsed during year	Outstanding at end of year
2001 Award	66,970	-	-	-	66,970
2002 Award	54,313	-	-	-	54,313
2003 Award	91,244	-	-	-	91,244
2004 Award	-	123,091	-	-	123,091
	212,527	123,091	-	-	335,618

c) Sharesave plan

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

UK employees are invited to join the Sharesave plan when an offer is made each year. The offer for 2004 was 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.

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

3 year plan	Outstanding at start of year	Granted during year	Vested during year	Lapsed during year	Outstanding at end of year
2004 Award	-	63,336	-	-	63,336

5 year plan	Outstanding at start of year	Granted during year	Vested during year	Lapsed during year	Outstanding at end of year
2004 Award	-	99,021	-	-	99,021

d) Employee expenses

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

Share options granted 2003	13
Share options granted 2004	28
Long-term incentive plan – cash settled	181
Long-term incentive plan – equity settled	160
Sharesave plan – 3 year	4
Sharesave plan – 5 year	4
Total expense recognised as employee costs (note 6)	390

20. Provisions

	Warranty
Balance at 1 January 2004	1,725
Exchange differences	(30)
Provisions used during the year	(362)
Charged in the year	230
Balance at 31 December 2004	1,563
Non-current	521
Current	1,042
	1,563

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

21. Other Payables

Trade creditors	15,363
Bills of exchange	246
Trade payables	15,609
Corporation tax	5,779
Current tax	5,779
Other taxes and social security	1,709
Non trade payables and accrued expenses	7,965
Other payables	9,674

22. Financial instruments

Financial risk and treasury policies
The treasury department maintains liquidity, manages relations with the Group's bankers, identifies and manages foreign exchange risk and provides a treasury service to the Group's businesses. Treasury dealings such as investments, borrowings and foreign exchange are conducted only to support underlying business transactions.

The Group has clearly defined policies for the management of foreign exchange and interest rate risk. Group treasury is not a profit centre and, therefore, does not undertake speculative foreign exchange dealings for which there is no underlying exposure. Exposures resulting from sales and purchases in foreign currency are matched where possible and the net exposure may be hedged by the use of forward exchange contracts.

The numerical disclosures in this note deal with financial assets and financial liabilities as defined in Financial Reporting Standard 13: 'Derivatives and Other Financial Instruments: Disclosures' (FRS13). Certain financial assets such as investments in subsidiary and associated companies are excluded from the scope of these disclosures.

As permitted by FRS13, short-term debtors and creditors have been excluded from the disclosures, other than the currency disclosures.

Interest rate risk profile

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

	Fixed rate of interest	Floating rate of interest	Total
Euro	187	473	660
Yen	102	66	168
Other	-	166	166
	289	705	994

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

The weighted average interest rate of the fixed rate financial liabilities is 3.5% per annum.
The weighted average period for which interest rates on the fixed rate financial liabilities are fixed is 2 years.

Financial assets

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

	Fixed rate cash	Other cash
Sterling	14,314	662
US dollar	2,258	3,264
Euro	940	1,859
Other	317	1,684
	17,829	7,469

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

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

	Fixed rate	
	Weighted average interest rate (%)	Weighted average period for fixed rate (months)
Sterling	4.8	0
US dollar	2.3	1
Euro	2.1	1
Other	-	-
Group	4.5	1

Currency exposures

The table below shows the Group's balance sheet currency exposures that give rise to the net currency gains and losses recognised in the income statement. Such exposures comprise the monetary assets and monetary liabilities of the Group that were not denominated in the operating (or 'functional') currency of the operating unit involved.

At 31 December these exposures were as follows:

Net foreign currency monetary assets / (liabilities)

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

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

Maturity of financial liabilities

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

In one year or less	726
In more than one year but not more than two years	126
In more than two years but not more than five years	142
In more than five years	-
Total	994

The Group had no undrawn committed borrowing facilities at 31 December 2004.

Fair values

The table below shows a comparison by category of book values and fair values of the Group's financial assets and liabilities at 31 December

	Book value	Fair value
Primary financial instruments held or issued to finance the Group's operations:		
Short-term financial liabilities and current proportion of long-term borrowings	(726)	(726)
Long-term borrowings	(268)	(268)
Cash deposits	17,829	17,829
Other cash balances	7,469	7,469
Derivative financial instruments held to manage the currency profile:		
Forward foreign currency contracts	-	277

Gains and losses on hedges

The Group enters into forward foreign currency contracts to eliminate the currency exposures that arise on sales denominated in foreign currencies. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures.

	Gains	Losses	Total
Unrecognised gains and losses on hedges			
At 1 January 2004	684	(54)	630
Amounts arising in previous years that were recognised during the year	(684)	54	(630)
Amounts arising before 1 January 2004 that were not recognised during the year	-	-	-
Amounts arising in the year that were not recognised during the year	373	(96)	277
At 31 December 2004	373	(96)	277
Of which:			
Gains / (losses) expected to be recognised in less than one year	297	(96)	201
Gains / (losses) expected to be recognised in more than one year	76	-	76

23. Operating leases

Non-cancellable operating lease rentals are payable as follows:

Less than one year	177
Between one and five years	1,355
More than five years	170
	1,702

Of the £1.7m, £0.8m relates to property and the balance to plant and equipment. The largest single lease commitment is for less than £0.3m.

24. Capital commitments

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

Contracted	332

25. Contingencies

Performance guarantees and indemnities	3,466

The UK banking arrangements are subject to cross-guarantees between the Company and its UK subsidiaries. These accounts are subject to a right of set-off. The performance guarantees and indemnities have been entered into in the normal course of business. A liability would only arise in the event of the Group failing to fulfil its contractual obligations.

26. Related parties

The Group has a related party relationship with its subsidiaries and with its directors. A list of subsidiaries is shown on pages 63 and 64 of the full 2004 financial statement. Transactions between two subsidiaries for the sale and purchase of products or the subsidiary and parent for management charges are priced on an arms length basis.

Directors' interests
The interests of the directors in the ordinary share capital of the Company according to the register required to be kept by section 325 of the Companies Act 1985, at 31 December were as follows:

	No.
RC Lockwood	-
JW Matthews	10,600
A Walker	5,000
GE Malcolm	29,430
WH Whiteley	87,478
RE Slater	20,911
RH Arnold	14,384

All interests were beneficial and include directors' directly held and family share interests.

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

GE Malcolm	3,693
WH Whiteley	4,159
RE Slater	3,623
*RH Arnold	2,841

*RH Arnold participates in the Rotork Overseas Profit-Linked Share Scheme (OPLSS), and the figures shown for RH Arnold for 2004 and the prior year relate solely to OPLSS.

Details of directors remuneration and allocations to directors in 2004 and further details of the SIP and OPLSS schemes are provided in the remuneration report included in the filed 2004 financial statements.

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

Save as disclosed, no director or his family had any interest in the shares of the Company at 31 December 2004.

27. Subsequent event

Subsequent to the balance sheet date, the Group purchased the trade and assets of PC Intertechnik GmbH. The total consideration for the transaction is €9.8m all payable in cash. A sum of €2m is deferred in tranches with full release over 12 months subject to performance and no relevant warranty claims by the purchaser.

28. Explanation of transition to IFRS

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

Notes to the explanation of transition to IFRS

a) Intangible assets

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

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

b) Deferred tax assets

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

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

c) Acquisition of subsidiary

The acquisition of Deanquip Valve Automation in January 2004 has been restated under IFRS3. As a consequence of applying IFRS3 the acquisition has been re-examined with a view to identifying specific intangibles. As a result intangibles previously treated as goodwill and amortised over 20 years are now being held on the balance sheet and are amortised over their estimated useful lives. The intangible assets identified and the charge to the accounts in 2004 in respect of these intangibles is as follows:

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

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

d) Reserves

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

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

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

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

e) Employee benefits

Rotork adopted FRS17 for the 2004 year end under UK GAAP. Liabilities under the Group defined benefit pension schemes were shown on the face of the balance sheet but were stated net of the associated deferred tax asset. Under IFRS the deferred tax has been transferred to non-current assets (see note b above) and the pension liability shown gross under employee liabilities. At 1 January 2004 the liability was £19,503,000 and at 31 December 2004, £19,836,000.

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

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

f) Deferred taxation liabilities

Under UK GAAP certain properties had been revalued. This revaluation was shown within reserves as a separate reserve but under IFRS this has been consolidated into retained earnings. On transition, following IFRS1 the revaluations have been deemed cost. As a consequence deferred tax of £722,000 has been provided on the balance at 1 January and 31 December 2004. In addition, the capitalisation of development costs has led a reduction in the historic charge to the income statement and requires the creation of a deferred tax liability. The liability at 1 January 2004 was £297,000 reducing by £65,000 during the year to £232,000 at 31 December 2004.

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

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

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

h) Employee share schemes
The Group applied IFRS2 to its active share based payment arrangements at 1 January 2004 except for those granted before 7 November 2002. The effect of accounting for equity settled share based payment transactions at fair value is to increase cost of sales by £17,000 and reduce administration expenses by £29,000. The reduction in administration expenses reflects the reversal of provisions made under UK GAAP for the Long-Term Incentive Plan.

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

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

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