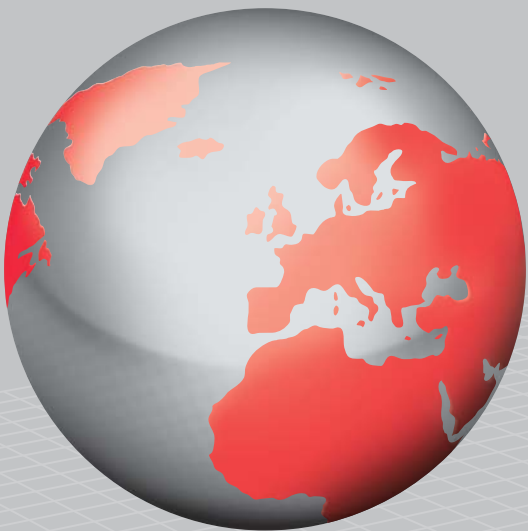


**rotork**



Global Actuation Solutions

## Rotork at a glance

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

**rotork**

## Gears

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

## Electric

This, the largest of Rotork's activities, supplies latest, state of the art electric valve actuators for controlling the opening and closing of pipeline valves. 30% of these are supplied with digital control systems developed in-house. Manufacture is based in the UK, USA, Malaysia and India.



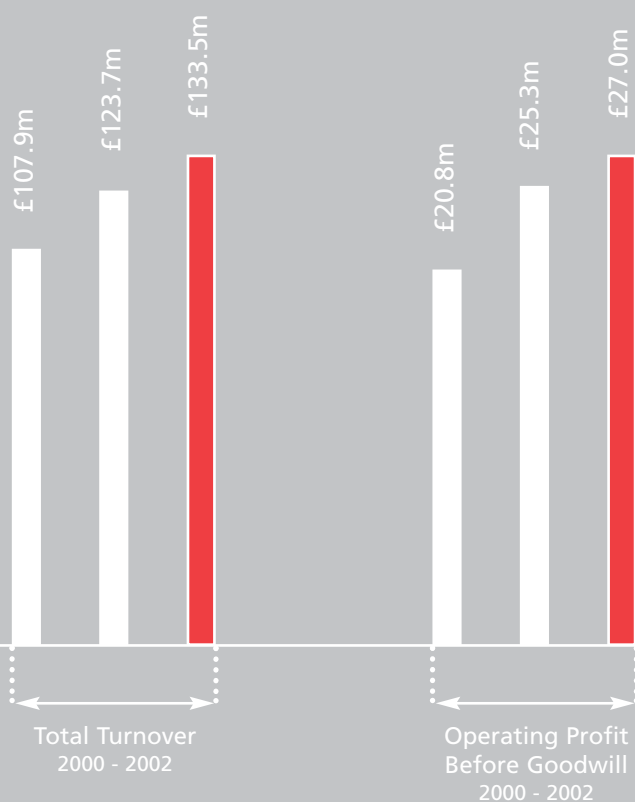
## Process Control

Actuators for mainstream and specialist process control and other positioning applications are produced in our facilities in the USA and UK.

## Fluid System

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

We are pleased to report another year of growth for Rotork during a period in which a number of our markets experienced difficult trading conditions. Total Group sales have increased 8% to £133.5m. The operating profit margins of the continuing operations have increased from 20.7% in 2001 to 21.4%



- ⊗ Turnover up 8% to £133.5m
- ⊗ Earnings per share before goodwill up 7%
- ⊗ Dividend up 7% to 13.9p per share
- ⊗ New Malaysian actuator production facility successfully commenced production on time in December 2002

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Performance in the second half saw an improvement on the first with a better level of electric and, especially, fluid power product sales.



**Roger Lockwood**  
Chairman

### Introduction

I am pleased to report another year of growth for Rotork during a period in which a number of our markets experienced difficult trading conditions. Overall sales grew by 8% to £133.5m, pre-tax, pre-goodwill profit increased by 6% to £27.5m and pre-goodwill earnings per share advanced by 7%. The closing order book was similar to that at the prior year-end when adjusted for acquisitions and disposals.

### Business Review

Our overall business is being structured around four major business areas - electric actuators, fluid power actuators, valve gearboxes & ancillaries and process control actuators. Jordan Controls, based in Milwaukee and acquired in January 2002, has met our expectations for the year and enabled us to develop further our process control activities. It will continue to participate in joint product development initiatives and to benefit from access to Rotork's international sales network.

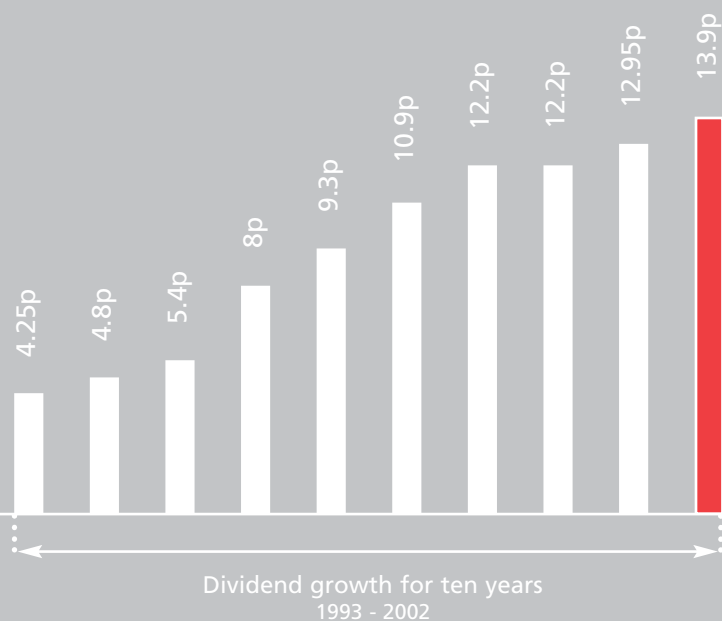
New electric actuator product R&D was focused on the development of a new specification quarter turn actuator, the IQT, and a new non-hazardous area product, the AWT, the latter being produced in Malaysia. In addition to this, further development of our actuator control system offerings took place. The IQT will be launched in the second half of 2003, while the AWT was launched as planned in the final quarter of 2002. Our new electric actuator facility in Malaysia is now in production with first orders having shipped in December. The product manufactured there is new and is receiving positive

comment from our sales force and customers alike. We are also increasing our sourcing of Far East components for our UK and US assembled products. While the effect of this is gradual, based on replacement cycles of product and new product introduction, it does represent an inexorable movement towards lower production costs, better cost effective support for customers, and protection of margins across our product ranges.

The Fluid System business is now benefiting from the structural changes that we put in place in 2000, and as a result, registered strong growth in the year contributing 12% of Group turnover and 7% of profit. The Lucca operation moved into its new larger premises in February 2003 and now has much greater capacity and flexibility to respond to its markets. We have also introduced important new products recently and further rationalised some of the existing ranges, allowing us to offer complete solutions to our customers. We feel confident that we can further build on the successes of the past two years both in terms of sales growth and increased return on sales.

The result of the Gears operation, which performed well at its main Leeds location, was held back by poor market conditions for Valvekits and some operational issues in its Dutch subsidiary.

The sale of the Luton based Control and Safety business in November represents the final disposal of non-core businesses and leaves the Group focused entirely on Actuation products, which has been a long-term strategic objective. Our aim now



is to extend our product offerings to customers through organic product development and niche acquisition, and to identify new areas in which to promote our actuators. The development of our process control business is an important part of this strategy.

Group performance overall in the second half saw an improvement on the first with a better level of electric and, especially, fluid power product sales, although the effect of this mix towards fluid power products dilutes margin slightly. A modest reduction in underlying order book from the half year reflects the higher shipments in the second half. Our markets were mixed with excellent conditions in the US and Canada and some regional strong points in the Far East and Europe. The UK and some other worldwide markets were slightly weaker than expected. Venezuela was the most troublesome market which started the year with a major devaluation and deteriorated from there.

Working capital management has been a focus of attention during the year. As our product ranges have extended and our sourcing becomes more global we have adjusted some of our processes to maintain an appropriate balance between working capital level and operational requirements. Debtor days are down again from 75 to 70 days and inventory fell slightly in a period of greater throughput. The net cash balance reduced by £1.9m to £20.0m, notwithstanding the £7.8m purchase of Jordan Controls in January 2002, reflecting strong cash generation in the year.

This year we have extended the Chief Executive's Report to incorporate an Operating and Financial Review.

#### Dividend

A final dividend of 8.9p is proposed which gives a 7% increase to 13.9p for the year. Over the last five years our rate of dividend increase has been in excess of earnings growth. Cover has been maintained at 1.5 times which the Directors consider is appropriate at the present time.

#### Outlook

Our commitment to investment in product development and lower cost manufacturing facilities will allow us to continue offering high quality, cost effective solutions to our customer base around the world. We are planning for another year of growth and for further strengthening of Rotork's position within its chosen markets. There are, however, economic and political uncertainties in a number of our markets which may impact the current year's results.

**Roger Lockwood**

Chairman

# The key drivers for the business are related to the investment in oil and gas, water and waste water and power generation facilities around the world.

### Overview

We were encouraged by a strong order intake at the start of the year and by a healthy level of project work in our forecasts. This was not however sustained, as an increased level of caution towards energy and infrastructure investment in many of our markets became evident. Despite this background we are pleased to report a robust performance illustrated by an increase in sales and profits.

Total Group sales, including a full year contribution from Jordan Controls and Rotork Control & Safety (up to the point of disposal), increased by 8% to £133.5m. Sales from continuing operations increased 2% to £122.2m. This improvement would have been 7% had it not been for exchange rate fluctuations.

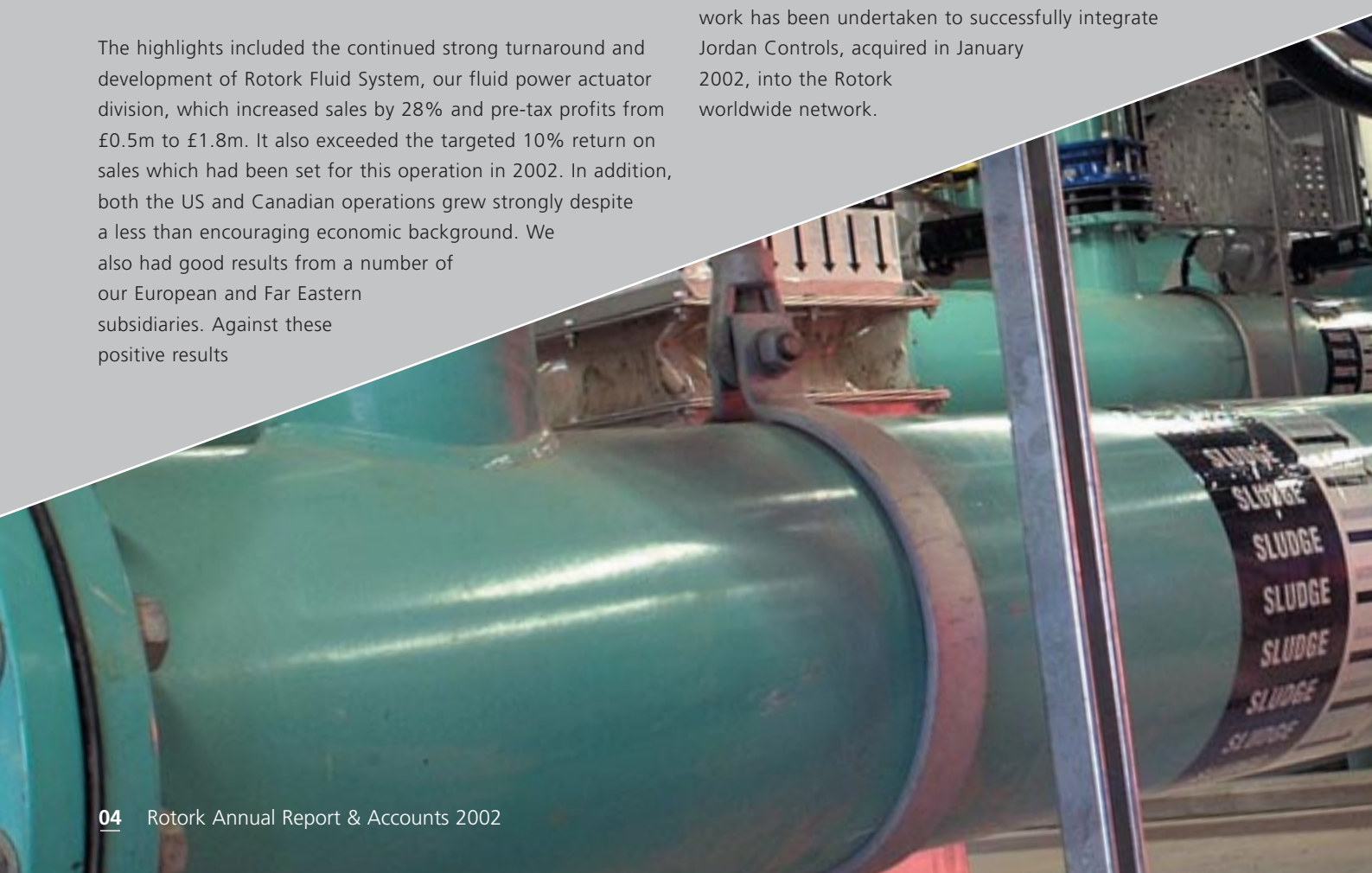
Operating profit before goodwill of £27.0m represents a 7% increase over 2001. Operating profits from continuing operations increased 6% to £26.1m. The operating profit margins of the continuing operations have increased from 20.7% in 2001 to 21.4%. As in the prior year output was oriented toward the second half with 51% of sales being in H2 (2001: 53%).

The highlights included the continued strong turnaround and development of Rotork Fluid System, our fluid power actuator division, which increased sales by 28% and pre-tax profits from £0.5m to £1.8m. It also exceeded the targeted 10% return on sales which had been set for this operation in 2002. In addition, both the US and Canadian operations grew strongly despite a less than encouraging economic background. We also had good results from a number of our European and Far Eastern subsidiaries. Against these positive results

we recorded a loss at our Venezuelan subsidiary and two of our Gears operations registered reduced profits. There were also a number of operations including the UK, Spain and Korea where project activity was less than originally anticipated. Higher pension costs resulting partly from the funding rate increase in the UK from April increased overheads by £1.1m.

Important steps were taken in developing our worldwide leadership position in all aspects of valve automation. A Malaysian manufacturing plant has been set up and has commenced assembling actuators for certain less demanding applications in the water and power markets. This operation commenced production in December but will not reach its initial intended capacity until late 2003. During the year under review it therefore added overhead cost to the Group without any appreciable sales contribution.

The important IQT, a quarter turn variant of the very successful IQII actuator, will be introduced in the second half of 2003. This will also incorporate Malaysian sourced components, although it will be assembled in the UK. A great deal of work has been undertaken to successfully integrate Jordan Controls, acquired in January 2002, into the Rotork worldwide network.





# Comprehensive Support

## Daldowie, Waste Water Treatment, UK

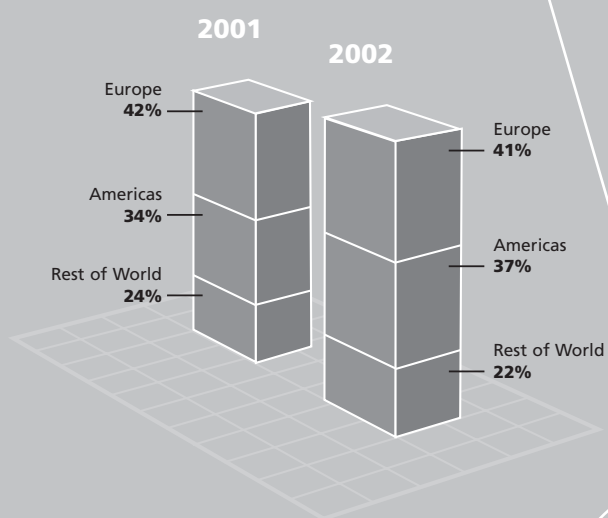
Mark Neilson Rotork Sales engineer carrying out final commissioning checks on some of the IQ valve actuators installed at Daldowie near Glasgow. Nearly 100 actuators, the majority of which are IQ have been installed by West of Scotland Water at Daldowie, providing greater Glasgow with the most up to date waste water treatment.



Bill Whiteley  
Chief Executive



**Geographical Turnover  
by Destination  
(continuing operations)**



The Rotork Control & Safety business, the only remaining non-actuator related activity, was disposed of in November.

The key drivers for the business are related to the investment in oil and gas, water and waste water and power generation facilities around the world with demand generated by new and expanded facilities, upgrades to existing facilities and replacements. This is often linked to projects which are aimed at improving the efficiency, safety and the environmental performance of plants. Valve actuators are critical components and their long term reliability and performance is of importance to users. They also act as an important interface between plant control systems and related hardware. Rotork's reputation for quality, worldwide support and technical innovation is crucial to its leadership position in its field. The broad geographic spread of our operations and applications means that we have a large number of repeat customers around the world and no one customer accounts for more than 5% of our turnover in any year.



## Extreme Environments

### Druzhba, Crude Oil Storage, Odessa, Ukraine

Operation in the harshest of environments is essential for the crude oil storage plant at Odessa, a main oil export port for Russian oil. The site owned by Druzhba, is operated and controlled using a Modbus network, comprising 120 Intelligent IQ actuators, with Modbus connectivity.





**The investment and restructuring exercise undertaken (in Rotork Fluid System) over the past two years began to pay off in 2002.**

**Electric Actuators**

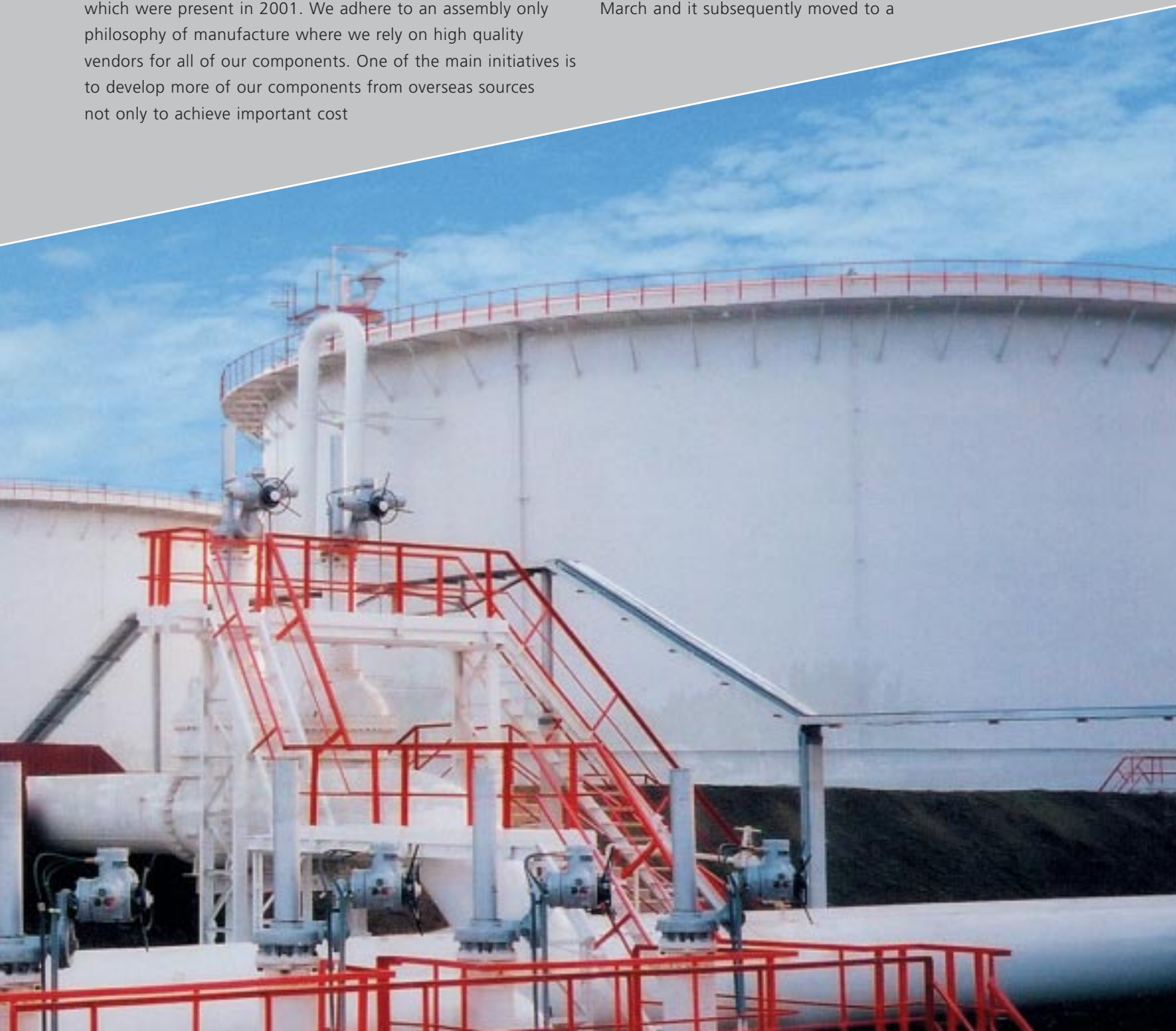
**UK Operations**

The majority of our UK business derives from the water companies. Most suppliers were disappointed at the levels of business emanating from this sector under the AMP3 guidelines in 2002. Although general levels of business were disappointing, our UK retrofit department was busy and had a successful year. The Bath plant, which is our main electric actuator assembly plant, coped well with inconsistent order intake patterns and did not suffer from any of the constraints which were present in 2001. We adhere to an assembly only philosophy of manufacture where we rely on high quality vendors for all of our components. One of the main initiatives is to develop more of our components from overseas sources not only to achieve important cost

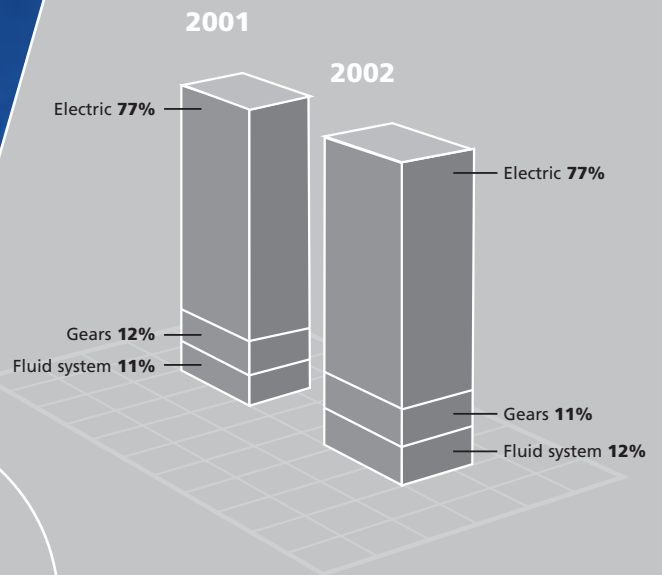
reductions, but to mitigate currency swings between our input costs and output revenues. Progress was made in this area which enabled us to achieve further reductions in the costs of our important IQ range of actuators. Ongoing activities should see further progress on this front in the current year.

**Europe**

Our European subsidiaries on the whole traded successfully. France's results were up 42% on the prior year due to a number of profitable contracts. Our Dutch subsidiary suffered a fire in March and it subsequently moved to a



**Turnover by  
Business Segment  
(continuing operations)**



## Highest Quality

### Glenmore, Water Treatment Plant, Canada

Twenty two IQ intelligent actuators with Foundation Fieldbus connectivity installed on the clear well plant and pump station at Glenmore water treatment plant serving Calgary, Western Canada.

new facility nearer to its customer base in the Europoort area of Rotterdam - insurance payments compensated for the resultant loss of property and business. The results from our important Spanish operation were lower than anticipated due to project deferrals in that country. Our German subsidiary continued its long history of growth and our Italian subsidiary made progress in a very competitive environment.

### **The Americas**

Rotork Controls Inc., based in Rochester, NY, with the benefit of a strong second half, recorded an excellent result with 21% growth over the prior year's impressive result. Encouraged by the success of our Californian service and support facility we have opened a similar operation in Houston, Texas, which will allow us to expand our business in the important Gulf Coast market.

The Canadian company had an outstanding year across its operations increasing sales by 34%. The West benefited from oil and gas projects while the East experienced good general business levels.

After having had a successful year in 2001 our Venezuelan subsidiary suffered from a deteriorating situation throughout the year which culminated in the PDVSA strike at the end of the year. This created a very difficult trading environment which, when combined with a fall in value of the Venezuelan bolivar, resulted in the subsidiary recording a loss in the year. Compared with the profit in 2001 this represented a reduction in profit to the Group of about £1.3m. Although there is a substantial demand for our equipment in Venezuela the near term future is very uncertain and we have put in place measures to limit our exposure in this country until the situation improves.

In January 2002 we acquired Jordan Controls Inc., based in Milwaukee, to broaden our product range and, in particular, to provide us with a comprehensive range of positioning duty actuators for process control applications. The markets for its products were subdued in the early part of the year

but the second half saw a much improved order intake with the company ending the year with a substantial increase in orders. The sales of \$11.4m and profits of \$0.6m would have been greater had not the PDVSA strike in Venezuela prevented shipments just prior to the year-end. The main emphases of the business are to increase its international sales through the Rotork outlets, continue the introduction of its new modulating product line, and improve its internal operating performance. It is our intention to invest in the expansion and updating of its product range.

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

The results for this region were generally good with excellent business levels being achieved in China and Malaysia. Singapore, Thailand, Japan, Australia and Africa all showed profit growth over 2001. Korea suffered from project deferrals while our manufacturing operations in India suffered from the lack of oil and gas business in the country.

The new actuator production facility in Malaysia started operations on target in December. Small quantities of product will be shipped in the first quarter of 2003 but it will be some time before we achieve critical mass there. Total investment in this business is in the order of £1m.

### **Rotork Fluid System**

Rotork Fluid System design, manufacture and market fluid power valve actuators which are powered either pneumatically or hydraulically. The investment and restructuring exercise undertaken over the past two years began to pay off in 2002. Sales were up 28% and profits were up over 250% and exceeded the 10% return on sales target we set for ourselves for the year. This division now contributes 12% to the Group's turnover and has targets for further growth in the coming year.

The manufacturing locations at Lucca in Italy and Rochester NY both exceeded their budgets, with the Rochester operation recovering from a loss in 2001 and first half of 2002. The main stocking and packaging centres in Leeds, Calgary, Toronto, California and Singapore all performed well. A number of the other Rotork sales subsidiaries are gearing up their efforts in this field to broaden our marketing effort in 2003. In addition to these, new stocking and packaging facilities are being set up in Aberdeen and Houston.



Following the rationalisation of the Italian and US product ranges the priority was to design an effective new range of small quarter-turn pneumatic actuators. The CP was launched in the latter part of the year and will enhance our product offering. A gas over oil product range aimed at the gas transmission pipeline market was also launched during the year, and has received initial orders. The production capacity at the Lucca facility was reaching capacity and therefore a lease on a much larger plant was taken on. Following refurbishment of this plant the business was relocated in the first quarter of 2003 and has enhanced our ability to take on larger and more complex projects with confidence.

### Rotork Gears

By extending its range of products and its markets the main gearbox operation at Leeds expanded both its sales and profits despite poor market conditions. The division as a whole suffered from disappointing results from Gears BV in the Netherlands and from Valvekits. Gears BV sales were similar to the prior year, but material and overhead costs increased. A new management structure has been introduced which will co-ordinate activities much more closely with those of Leeds. Purchasing initiatives put in place in 2002 should also have a beneficial effect on margins in the current year. Valvekits' business continued to suffer from a depressed domestic market although considerable improvements in its operations were achieved.

Readers who wish to have a more comprehensive view of our products and services should visit our updated web site at [www.rotork.com](http://www.rotork.com).

### Research and Development

Rotork's growth strategy is dependent upon it continuing to be the technical leader in its industry. Accordingly Rotork continues to undertake R&D to introduce innovative ranges of products which it can competitively offer to its customers. In the year under review R&D expenditure was £2.4m representing an increase of 15%.

Electric actuator R&D expenditure in 2002 was primarily focused on the technological development of the IQT and the AWT actuator ranges. Extensive R&D will result in the new IQT range which will bring IQII features and technology to quarter turn actuators. This range will be launched in the third quarter of 2003. The AWT is a new non-hazardous area actuator which is being built in our new Malaysian facility. In addition to these two ranges considerable research has advanced the breadth





# Complete Solutions

## Mahkesis, Cold Lake, Alberta, Canada

Installation work at Cold Lake in Alberta on the Imperial Oil Processes Ltd., Mahkesis project, one of the largest in-situ oil sands operations in the world.

There are 161 actuators comprising IQ electric actuators together with P, SP, GP, LP and rack and pinion actuators, supplied from Rotork Fluid System. All units have been installed on valves and tested at the Rotork Calgary centre of excellence. Rotork Calgary also designed and built the pneumatic control packages.



# Rotork has subsidiaries in more than 20 countries around the world, and over 60% of our earnings are made outside the UK.

and capability of our remote actuator control system offerings, solar powered applications, communication network interfaces and safety enhancements. R&D expenditure also included the work within Rotork Fluid System aimed at extending the range of pneumatic and hydraulic actuators.

Initiatives are in place to ensure that adequate time and resources continue to be set aside for research into groundbreaking technologies and their application to the field of valve actuation.

### Rotork Control and Safety

This business was sold to a subsidiary of Serck Controls Ltd. in November 2002. The sale excluded 'Pakscan' the actuator control system, production of which had earlier in the year been transferred to Rotork's Bath plant. It was considered that this mission critical control and safety systems division was no longer core to Rotork's actuator business and would fit better in a group dedicated to developing its systems capabilities.

The disposal gave Rotork a net cash inflow of £1.3m and a marginal gain on disposal. The sale was of the trade and assets of the business excluding the building that the Company occupied in Luton which we anticipate disposing of during 2003 at more than its carrying value. The results for the period prior to disposal for 2002 taken into the Group accounts were sales and profits of £3.8m and £0.5m respectively.

### Quality

Rotork is committed to providing its customers with products and services which meet or exceed their expectations. Quality initiatives and achievements were prominent in the year under review. The main Bath plant and Rotork Controls India were in the vanguard of those achieving registration to the new international Management System ISO 9001:2000, which places increased emphasis on customer focus and continual improvement. Within operations we have developed an improved, more visual means of indicating business performance – The Business Score Card. This is formulated from the Company's strategy and considers

customer and business critical success factors and translates them into key performance indicators and objectives for each department.

An all new web-based quality performance monitoring system was developed during the year and went live on 1 January 2003. This system has already proved to be a major asset with very positive feedback regarding its capability and ease of use.

### Taxation

Rotork has subsidiary companies in more than 20 countries around the world, and over 60% of our earnings are made outside the UK. In addition, a significant amount of our earnings come from the Americas and Canada, high tax jurisdictions. The effect of this on the tax payable is explained in note 5 to the accounts. The effective tax rate for the year on profits before non deductible goodwill amortisation, was 32.3% (2001: 33.0%).

### Treasury

The Group treasury function operates as a largely centralised service managing cash and interest rate and foreign exchange risk across all of our businesses. We operate a treasury policy, which provides a prudent approach to hedging currency exposure using forward exchange contracts. We hedge against movements on known income streams between our companies and do not engage in any speculative dealings for which there is no underlying exposure. We have natural currency hedging on part of our dollar cash flows through overseas sourcing and dollar income. The most significant transactional exposures are with the US dollar, 33% of income streams, and the euro, 22% of income streams. The weighted average exchange rates for translation of Group results

during the year for dollar and euro were:

- US dollar 2002 \$1.52 (2001: \$1.43)
- Euro 2002 €1.58 (2001: €1.62)

Net interest received decreased in the year as a result of the Jordan Controls acquisition in January.

#### Pensions

As with many companies, the cost of providing a defined benefit promise to employees has increased significantly in the last few years. The effects of increased longevity, loss of ACT relief, LPI and of course the fall in equity valuations recently, have led to us re-evaluating our present scheme offerings. We have consequently decided not to offer membership of the defined benefit scheme to new employees from January 2003, and will introduce a new occupational contribution based scheme in addition to the stakeholder plan that has been in place for some time.

Recent stock market volatility has led to a deterioration in the value of the UK scheme's assets since the last annual report. The post tax pension scheme deficit when assessed as required under FRS 17 has increased during the year from £4.1m last year to £11.6m at 31 December 2002. This represents a relatively small proportion of Rotork's current market capitalisation.

## Intelligent Control



### BP Borealis North Slope, Alaska, USA

**Mike Joslin** – Rotork Service and Commissioning Engineer demonstrates the user friendliness of non-intrusive IQ actuator setting in the freezing conditions of Alaska on BP Borealis.

A total of 200 IQ actuators virtually all fitted with Rotork Gears gearboxes, together with a number of Rotork Fluid System P Range pneumatic actuators. The IQs make use of Rotork's Pakscan two wire control and supervisory system, enabling remote monitoring and diagnostics.







## Technical Innovation

### Glevering Mill, Flood defences, UK

**Ivan Nichols**, Environment Agency Flood Defence Engineer, demonstrates a DC powered actuator installation at Glevering Mill.

Automatic river level management for Norfolk & Suffolk, has been provided using IQ intelligent actuators, linked to a network of sensors and controlled via a Programmable Logic Controller.



## Working capital

Following the £7.8m acquisition of Jordan Controls, net cash funds have only reduced by £1.9m during the year to £20.0m. Cash generated from operating activities was £25.8m compared with £25.5m last year. Of this cash inflow, 44% is spent on dividends and a further 35% on tax. The value of stock held has reduced in the year despite our broadening product range. This year has also seen a reduction in component stock both in absolute terms and as a proportion of total stock. Trade debtors have reduced by £1.5m compared with the previous year and debtor days have decreased by five to 70 days at the year-end.

## Environmental Issues

Actively pursuing global expansion by organic growth and acquisition, Rotork is committed to caring for the environment and to ethical employment and trading practices. The Rotork Corporate Social Responsibility infrastructure includes a board level CSR Committee where policy decisions are made and top-level objectives agreed. The Environmental and Social Responsibility Committees report to CSR Committee and are each overseen by a board director.

Rotork products are extensively used around the world in projects that greatly enhance or protect the environment. We also recognise and acknowledge our responsibility to minimise our impact on the environment in our day to day activities and global operations. As a FTSE250 company listed in the FTSE4Good Index with a medium impact rating, Rotork is committed to the principles laid down for inclusion. A Group environmental policy has been developed and is included in the Company's 2002 Environmental Report. Work on an Environmental Management System (EMS) modelled on ISO14001 will continue throughout 2003. A gap analysis, identifying our compliance status against the requirements of the standard, will be managed with a view to formal registration at our Bath plant. In addition, a feasibility study to extend the EMS to all manufacturing sites, with associated time scales, will be undertaken during 2003.

Setting of detailed objectives, key performance indicators and targets will be an early priority during the implementation of an ISO14001 based EMS.

Improvements in recording environmental data have identified areas for development and during 2003 new systems are planned for the reduction of waste. External consultants have been asked to help us achieve a planned programme for recycling on the basis of best practice. In addition, our investment in an energy monitoring system continues to pay dividends. Since it was installed at the Bath assembly plant, a 41% reduction in natural gas consumption has been realised since 1998. Saving energy leads to less depletion of fossil fuels, lower emission of greenhouse gases such as carbon dioxide and a cleaner environment. We will continue, where practicable, to improve energy efficiency and reduce emissions of greenhouse gases in our global operations.

The 2002 review confirmed Rotork's compliance with all relevant regulations. All acquisitions are subject to systematic due diligence and will be included in the global reporting infrastructure.

## Employees

In dynamic and demanding markets around the world our performance continues to be dependent upon the quality and commitment of our employees and their dedication to serving our customers. We are committed to train our people and to provide support and the necessary tools to help develop our business and implement our strategies. The Group also recognises the importance of investing time and resources to developing future leaders at all levels of the organisation.



**Bill Whiteley**  
Chief Executive

## Board of Directors



**WH Whitely**  
Chief Executive

Bill (54) joined Rotork in 1974 and was President of Rotork's North American operations from 1979 until he became Managing Director of Rotork Actuation in 1988. He has been a member of the Rotork p.l.c. board since 1984 and was appointed Group Chief Executive in 1996. He is a member of the Nomination committee. Bill is a non-executive director of Roxboro Group PLC, and since 2002 of Spirax-Sarco Engineering plc.



**RE Slater**

Bob (51) joined Rotork in 1989 as Finance Director of the Actuation Division, and joined the board of Rotork p.l.c. as Group Finance Director in July 1998. He has previously held finance positions in mining, building controls and the engineering industry.



**GE Malcolm**

Since joining Rotork in 1984, George (57) had been Engineering Director of the Actuation Division prior to joining the Rotork p.l.c. board in 1997. He is currently Operations Director of the Actuation Division. His previous appointments were in industrial controls, aerospace and shipbuilding companies.



**RH Arnold**

Bob (51), who became a member of the Rotork p.l.c. board in August 2001, is a graduate engineer. Previously with Westinghouse where he was a design engineer, he joined Rotork Controls Inc. as Engineering Manager subsequently becoming Vice President, Engineering and since 1988 President of Rotork Controls Inc. Bob has responsibility for all Rotork's interests in the Americas.



**RC Lockwood**  
Chairman

Roger (57) has been a director of Rotork since 1988 and became Chairman in November 1998. He is a member of the Audit, Remuneration and Nomination committees. He is Chairman of Colston Engineering Co and Hydro International plc and has previously held CEO roles in automotive and engineering businesses.



**JW Matthews**

John (58) has been a director of Rotork since November 1998. He is Chairman of Crest Nicholson plc and Regus plc. He has previously held senior positions in banking and industrial companies. He is a member of the Audit, Remuneration and Nomination committees, and is the senior independent non-executive director.



**A Walker**

Alex (56), who joined the board in January 2001, has been Chief Executive of Yule Catto & Co. plc since 1986. He is a member of the Audit and Remuneration committees.

# Report of the Directors

## Report of the Directors

The directors submit their report and the audited accounts for the year ended 31 December 2002 as set out on pages 28 to 56.

## Activities

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

Rotork Actuation provides a range of products, systems and services for the motorisation and manual operation of and adaption to industrial valves and dampers for isolation duty and process control applications. It does this through its Electric Actuator, Gears and Fluid System operations. Actuated valves are major control elements in refineries, pipelines, power stations, water distribution systems and effluent treatment plants and in all industries in which liquids or gases are transported through pipes.

Reviews of the Group's activities and operations including the disposal in November 2002 of the Rotork Control & Safety business and the acquisition in January 2002 of Jordan Controls Inc., (reported on as a post year-end event in the 2001 Directors' Report) are set out on pages 2 to 15.

## Dividends

The directors recommend a final dividend of £7,664,000 for the year, payable on 28 May 2003 to shareholders on the register on 28 March 2003. This represents 8.90p per share (2001: 8.30p) which, with the interim dividend of 5.00p per share (2001: 4.65p) will produce a total dividend per ordinary share of 13.90p (2001: 12.95p).

## Substantial shareholdings

As at 1 March 2003 the Company had been formally notified that the following have material interests in 3% or more of the issued ordinary share capital of the Company:

	No.	%
Aviva plc	3,966,344	4.61
Legal & General Investment Management Ltd.	3,386,725	3.93
Prudential plc	3,033,373	3.52

## Shares issued or repurchased

Details of the ordinary shares issued and the preference shares purchased during 2002 are given in note 19 on page 47.

## Research and development

Total Group expenditure on research and development in the year was £2,367,000 (2001: £2,057,000) further details of which are contained in the Operating and Financial Review on pages 2 to 15.

## Charitable donations

During the year the Group made charitable donations of £28,000 (2001: £32,026).

## Directors

The names of the directors in office at the date of this report and their biographical details are as shown on page 16. The interests of the directors in office at the end of the financial year in the shares of the Company are as shown in note 9 to the financial statements on page 39.

WH Whiteley, GE Malcolm, RE Slater and RH Arnold have service agreements and details of these are contained in the Remuneration Report on pages 21 to 26.

At the Annual General Meeting, in accordance with the Articles of Association, GE Malcolm and JW Matthews will retire by rotation and, being eligible, will offer themselves for re-election.

## Corporate governance

The board considers that the Company has complied with the provisions set out in section 1 of the Combined Code on corporate governance (the Code) throughout the year ended 31 December 2002 apart from those relating to the length of directors' service contracts (Code provision B.1.7), which are commented on in the Remuneration Report.

The Company now complies with the Code provisions on internal control having during the year continued to embed procedures necessary to implement the guidance issued in the "Turnbull Report", and by reporting in accordance with that guidance.

The board has ultimate responsibility for the Company's system of internal control and is required to set appropriate policies and to review its effectiveness. The role of management is to implement board policies.

The system of internal control is designed to reduce but cannot eliminate the risks of failure to meet business objectives. Internal control therefore can only provide reasonable but not absolute assurance in meeting such business objectives or against material mis-statement or loss.

A continuous process for identifying, evaluating and managing the significant risks faced by the Company continued to be applied and developed during the year under review and operated up to the date of approval of the annual report and accounts. Senior managers with responsibility across all functions participate in the risk management process that identifies and evaluates the key risks (including social and environmental) facing the Company's businesses. Their deliberations are reported to the Audit Committee and board. This process is based on senior managers' detailed knowledge and understanding of key risks within and external to the business based on formal management information and reports and their interaction and daily dealings with those reporting directly to them, their colleagues and external parties. Internal financial audits are undertaken on a regular basis by the head office accounting function. Work will continue to further embed internal control and risk management into the operations of the business and to further enhance and add to the relevant processes including consideration of social and environmental risks.

The processes that are used by the board to review the effectiveness of this system of internal control include the following:

During the year the Audit Committee

- Reviews the external and internal financial audit work plans;
- Considers reports from management, internal and external audit on the system of internal financial control and any material control weaknesses;
- Considers reports on health and safety, social and environmental issues with reference to FTSE4Good criteria and relevant Association of British Insurers Guidelines;
- Discusses 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;
- 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 discussion at the Audit Committee formally reviews the effectiveness of the Group's system of internal control.

The board currently has seven members comprising three non-executive directors, including the Chairman, and four executive directors. There is a clear division of responsibility between the Chairman and the Chief Executive that ensures that there is a balance of power and authority. JW Matthews is the senior independent non-executive director.

The board is expected to meet eight times during the course of the year and additional meetings will be convened as necessary; there is a formal schedule of matters reserved for the decision of the board; the terms of reference of the board and its committees are regularly reviewed. To enable the board to perform its duties all directors have full and timely access to all relevant information.

The board has three standing committees;

The Audit Committee is comprised of the non-executive directors, RC Lockwood (Chairman), JW Matthews and A Walker. It usually



meets three times a year to review published financial information, the effectiveness of both external and internal audit and internal financial and other controls. The Finance Director and the external auditors normally attend meetings and there is a meeting at least once a year between the Committee and the external auditors at which management is not present.

The matter of auditor independence is considered by the Committee. During the year the UK tax consulting advisory work was transferred from KPMG to Deloitte & Touche. For significant general consulting projects more than one service delivery provider is considered.

The Remuneration Committee is described in the Remuneration Report on pages 21 to 26.

The Nomination Committee is primarily responsible for making recommendations to the board for the appointment or re-appointment and removal of directors. It has three members, RC Lockwood (who chairs the committee), JW Matthews and WH Whiteley.

Communication with shareholders is given high priority. There is regular dialogue with institutional shareholders and an opportunity for individual shareholders to put questions to the Chairman at the AGM. Individual shareholder enquiries are dealt with throughout the year by the Company Secretary's department.

### **Corporate Social Responsibility**

The Company's environmental policy is stated within the 2002 Environmental Report published on the Company's web site.

The 2002 Environmental Report sets out the key indicators for measurement of environmental performance within the Bath manufacturing site. A strategy to introduce global environmental reporting of all Rotork assembly plants is in place. The first global Group environmental report is targeted for publication in 2004. The strategy also includes plans for the implementation during 2003 of a formal environmental management system compliant with ISO 14001 at the Bath plant and thereafter to other manufacturing sites on a progressive basis. During 2003-2004 audits of the Group's main suppliers will include supplier environmental audits. The Environmental Report references the Group's corporate social responsibility infrastructure including the standing Environmental Committee; Social Committee and the

over-arching Corporate and Social Responsibility Committee chaired by the Chief Executive.

The Company has awareness of the UN backed International Labour Core Labour Standards. The Company's policy is not to discriminate on grounds of colour, race, gender, age, ethnicity or religious beliefs or ever operate with unacceptable worker treatment such as the use of child or forced labour. The Group aims to uphold and support human rights wherever it operates respecting local laws and regulations. Generally the Company's overseas offices are managed and operated by nationals of the relevant country.

The Company's 'doing the right thing' publication available on the Company's web site sets out the way in which the Group encourages employees to become shareholders through its employee share schemes and to make available to employees opportunities for training and development including direct financial support related to job roles within the Company. Two full-time training officers are available at the Bath site where four year apprenticeships are offered. The 'doing the right thing' publication also highlights how employee communication is fostered through employee committees and makes reference to the Group's involvement with the wider community through charitable donations.

The Group has health and safety policies in place. The Group is working toward a global health and safety policy compliant with occupational health and safety management system (ohsas) for the benefit of employees and those they interact with worldwide.

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

### **Statement of directors' responsibility for preparing the financial statements**

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

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for that period.

The directors consider that in preparing the financial statements on pages 28 to 56, the Company has selected suitable accounting policies which have been consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed subject to any explanations and any material departures disclosed in the notes to the financial statements. The directors are required to use a going concern basis in preparing the financial statements unless this is inappropriate. After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors 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.

### **Creditor payment policy**

While there is no formal code or standard, it is Company and Group policy to settle terms of payment with creditors when agreeing the terms of each transaction and to abide by creditors' terms of payment provided that the supplier is also complying with all relevant terms and conditions. There are no creditors subject to special arrangements outside suppliers' terms and conditions. The Company does not have any trade suppliers so that a creditor day payment period is not appropriate.

### **Auditors**

Resolutions to re-appoint KPMG Audit Plc as auditors and to authorise the directors to determine their remuneration are to be proposed at the forthcoming Annual General Meeting.

### **Annual General Meeting**

The Annual General Meeting of the Company will be held at the Company's offices at Rotork House, Brassmill Lane, Bath BA1 3JQ on Friday, 23 May 2003 at 12 noon. A separate circular containing the Notice of the Meeting is sent to shareholders with this Annual Report.

On behalf of the board



**SR Jones**, Secretary  
20 March 2003  
Bath

# Remuneration Report

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This report is presented to shareholders by the board and sets out the board's remuneration policy and details of the remuneration of each director.

The Remuneration Committee of the board is comprised of the three non-executive directors, RC Lockwood, JW Matthews and A Walker. During the year under review JW Matthews chaired the Committee. The Committee makes recommendations to the board on the Company's framework of executive remuneration, and determines the individual salaries and other terms and conditions of employment for the executive directors. The Committee also determines the terms of any discretionary share schemes in which executive directors may be invited to participate.

During the year the Committee received salary remuneration advice from Hewitt Bacon & Woodrow (HBW). The Committee also considered remuneration data supplied by Executive Remuneration Review Limited, a joint venture company formed by HBW and New Bridge Street Consultants. After successfully winning an engagement organised by the Committee, HBW were also appointed by the Committee to review existing executive bonus arrangements. The Committee Chairman consults the Chief Executive on remuneration of the other executive directors and is informed by the Chief Executive of his recommendations for remuneration of other senior managers. The Company Secretary participates in Remuneration Committee discussions and advises the Committee.

For the year under review, the board considered that it was critical that the Group had remuneration policies that enabled it to retain, motivate and, when required, recruit high quality management. In recommending the level of remuneration for executive directors, the Remuneration Committee considered the Company's pay levels with a broad cross-section of UK-based companies from various sectors with financial dimensions broadly similar to those of the Company based on data provided by external professional remuneration consultants referred to above. For the year 2003 and subsequent years the directors' current intention is to continue with the remuneration policy referred to above.

WH Whiteley (service contract commencement date: 1 February 1996) and GE Malcolm (service contract commencement date: 20 March 1997) have rolling service contracts with two years notice. Following a decision of the Remuneration Committee in

1994, the then executive directors, which included WH Whiteley, voluntarily and without compensation agreed to reduce their notice periods to two years from three years. RE Slater (service contract commencement date: 1 June 1998) and RH Arnold (service contract commencement date: 28 May 2002) have rolling service contracts with a one year notice period. For future executive director appointments, the board's intention will be to continue to limit service contracts to one year's notice on a rolling basis.

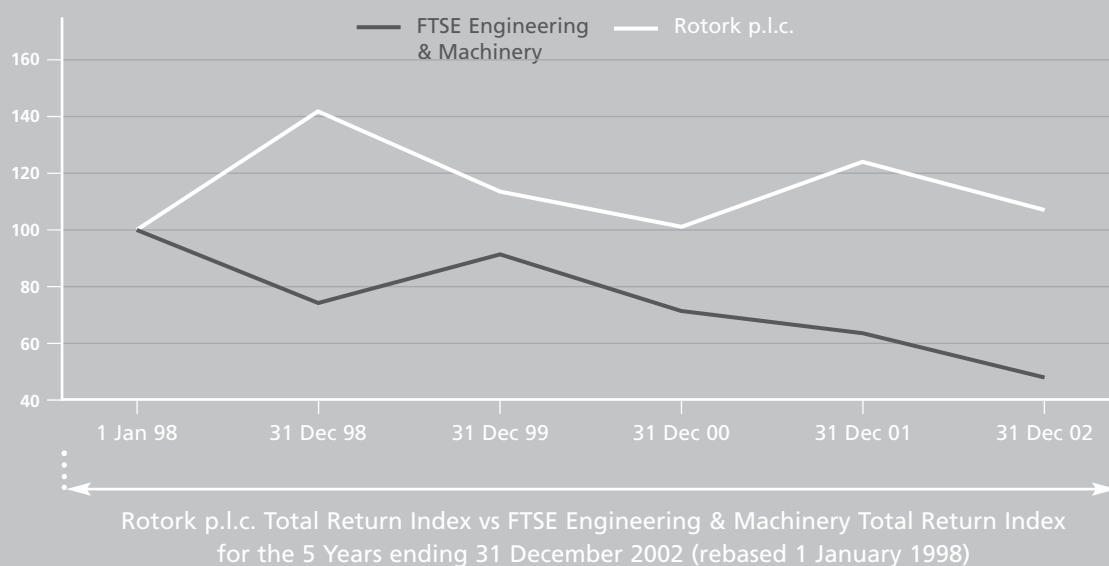
Non-executive directors are offered engagement agreements of three years duration, subject to earlier termination by either party on three months notice, with no provision for any compensation payment on termination.

None of the executive directors has any external directorships with the exception of WH Whiteley, who is a non-executive director of Roxboro Group PLC and Spirax-Sarco Engineering plc and a director of the British Valve and Actuator Manufacturers Association Limited.

The Remuneration Committee has considered what compensation commitments the executive directors' contracts would entail in the event of early termination. In particular, they considered the advantages of providing explicitly in executive directors' service contracts for such compensation commitments. After taking specialist advice, the Remuneration Committee decided it would not recommend any such changes to executive directors' service contracts.

The remuneration packages of each individual director currently include basic salary, an annual bonus, benefits in kind (car and fuel, or car and fuel allowance, and private medical insurance), membership of a Rotork Profit-Linked Share Scheme (see below), discretionary Rotork Long-Term Incentive Plan (LTIP) and participation in a Rotork Group pension scheme. Further details of all elements of each individual director's remuneration package are set out elsewhere in this report. Salary and benefits including pension and car and fuel, or car and fuel allowance, constitute fixed pay. Currently the LTIP plan provides an annual opportunity for shares to vest to a maximum 50% of salary for executive directors and a minimum of zero dependent on performance as described below. Additionally, an annual cash bonus provides an opportunity to earn a cash payment which is substantially dependent on increased profits over the prior year based on a scale. The annual bonus payment is capped at 50% of basic salary.

# Remuneration Report



The above graph measures the Company's performance against other companies in its sector by showing the total shareholder return (TSR) on a holding of ordinary shares in the Company compared with the average total shareholder return of other companies in the FTSE Engineering & Machinery 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 2002.

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

## Directors' emoluments

	Salary and fees	Bonus	Benefits <sup>1</sup>	2002 Total	2001 <sup>2</sup> Total
Executive directors					
GE Malcolm	126	17	16	159	153
RE Slater	130	17	16	163	152
WH Whiteley	205	20	18	243	236
RH Arnold	138	19	7	164	63*
Non-executive directors					
A Walker**	24	–	–	24	19
RC Lockwood	50	–	–	50	40
JW Matthews	27	–	–	27	20
	700	73	57	830	683

\* total emoluments shown in 2001 for RH Arnold are from August 2001.

\*\* fees for the provision of Mr. Walker's services are payable to Yule Catto & Co. plc.

<sup>1</sup> This column includes the cash value on allocation of profit-linked share awards. For further details see page 24.

<sup>2</sup> The 2001 emoluments total has been restated to include the cash value of the 2001 profit-linked share awards allocation for comparative purposes.



### Rotork Long-Term Share Incentive Plan (LTIP)

Following shareholder approval of the LTIP at the Company's Annual General Meeting on 18 May 2000, awards over shares were made to executive directors and senior managers in June 2000, March 2001 and March 2002. Those awards made to executive directors are set out below.

	Awards made to 1 January 2002	Awards made during 2002	Awards at 31 December 2002
GE Malcolm	42,366	16,427	58,793
RE Slater	41,309	16,949	58,258
WH Whiteley	67,872	26,727	94,599
RH Arnold*	30,735	19,227	49,962

\*RH Arnold, a United States citizen and resident, is awarded cash units of a monetary value equivalent to share awards under the LTIP. Following his appointment to the board in 2001, RH Arnold's discretionary annual LTIP award as a percentage of salary for 2002 was increased to 50%.

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 (rather than on performance) 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 in line with best practice requirements. Failure to meet the 'RPI' requirement will result in nil vesting. Any shares which vest are subject to a minimum one year holding period by the executive. The performance conditions described above were in line with best practice contained in the guidelines on Executive Remuneration issued by the Association of British Insurers and selected to provide challenging and demanding financial performance targets over appropriately long (four year)

performance periods. The method of performance measurement was considered appropriate in delivering scaled vesting based on at least the 50th percentile performance against the comparator group.

The comparator companies used for the LTIP are listed below:

AGA Foods plc	Renishaw plc
Babcock International plc	Senior plc
Brammer plc	Smith Group plc
BSS plc	Spectris plc
Delta plc	Spirax-Sarco Engineering plc
FKI plc	TT Electronics plc
IMI plc	Volex plc
Invensys plc	Weir Group plc
Meggitt plc	

### Employee share options

The Rotork Employee Share Option Scheme, which was introduced in 1985 (the 1985 scheme), enabled all UK employees to acquire a grant of options to the value of 50% of their salaries. That scheme has now closed. The Rotork 1995 Employee Share Option Scheme (the 1995 scheme), which is also an all UK employee scheme was approved by the members on 26 May 1994. The executive directors and senior managers who were offered participation in the LTIP as a condition of participation do not participate where eligible in the 1995 scheme referred to above.

During the year Mr. Slater exercised his remaining 6,312 options in the 1985 scheme. Those options were granted on 13 April 1994 and were exercised at 182p per ordinary share on 3 April 2002 when the market price per ordinary share was 383.5p. The grant of such option was subject to completion of five years service with the Company. No other performance conditions were applicable to those options which were granted to all eligible employees within the Company. Following the exercise of those options no directors held options in either the 1985 or 1995 schemes.

### Interests in shares and Profit-Linked Share Scheme

The interests of the directors in the ordinary share capital of the Company are set out on page 39. In common with all employees with two complete calendar years of service, all UK based executive directors received an entitlement to ordinary shares under The Rotork Profit-Linked Share Scheme (PLSS) which was approved by the Inland Revenue. Under PLSS up to 5% of profits were distributed to employees each year in the form of ordinary shares. The distribution was calculated by reference to years of service and salary. Following the 2000 Finance Act, the final allocation of shares under PLSS took place in 2002. From 2003 onwards eligible employees will participate in a replacement Share Incentive Plan (SIP), which received shareholder approval at the May 2002 Annual General Meeting. Details of share allocations under PLSS made to UK based executive directors in 2002 are set out below.

GE Malcolm	1,002
RE Slater	932
WH Whiteley	1,556
RH Arnold*	1,085

\*RH Arnold, in common with other North American employees, participates in the Rotork Overseas Profit-Linked Share Scheme (OPLSS). The Scheme Trustee is based in Guernsey, Channel Islands. The OPLSS scheme will continue to be offered to eligible overseas employees in 2003.

### Pensions

All the UK based executive directors participate in the Rotork Pension and Life Assurance Scheme (the Scheme). The Scheme is a defined benefit scheme approved by the Inland Revenue. It provides benefits based on basic salary only, with a maximum of two-thirds of final pensionable salary payable at normal retirement age (60). All Scheme benefits are within, and subject to, Inland Revenue limits. The Company contributes to the Scheme at the level agreed with the trustees of the Scheme on the advice of the Scheme actuary. None of the UK based executive directors is required to contribute to the Scheme.

### Pension disclosures required under the Listing Rules of the UK Listing Authority

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

	Age at 31 December 2002	Increase in accrued pension over the year (Note 1) £	Accumulated accrued pension at 31 December 2002 (Note 2) £
GE Malcolm	57	9,501	67,945
RE Slater	51	8,442	48,939
WH Whiteley	54	7,232	117,208
RH Arnold	51	1,944	39,117

#### Notes:

- The figures shown for the increase in accrued pension over the year exclude any increase for inflation. As a result the figures shown under the same heading below (as required by the Directors' Remuneration Report Regulations 2002) are slightly higher than those under the Listing Rules. The accumulated accrued pension is that which would be paid annually from retirement from normal pension age, based on service to 31 December 2002.
- A lump sum death benefit of 4 times basic annual salary is payable on death in service.
- A dependant's pension of one-half of prospective pension is payable on death in service, and of one-half of pre-commutation pension on death in retirement.
- Post-retirement increases are applied at the rate of increase of the Index of Retail Prices up to a maximum of 5% per annum, except that for pension benefits in respect of pensionable service up to 15 May 2000 the minimum inflationary increase is 4.5%.
- In the event of WH Whiteley retiring at age 55 he would be entitled to an immediate pension of two-thirds of final pensionable salary. To the extent that the payment of such pension from the Scheme is restricted Inland Revenue limits, the Company will pay the shortfall under a separate pension promise.
- The figures shown for RH Arnold are in respect of his membership of the Rotork Controls Inc. pension scheme, which is a defined benefit scheme. Additionally, and to alleviate the effect of the pension salary cap applicable in the United States, RH Arnold benefits from funded split dollar life insurance plans which are targeted to supplement his pension such that, in aggregate, the pension arrangements for RH Arnold will deliver a pension of at least 60% of uncapped basic salary at age 65.

# Remuneration Report

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

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

	Increase in accrued pension during the year (Note 1)	Transfer value of accrued pension at 31.12.01 (Start of year assumptions)	Transfer value of accrued pension at 31.12.01 (Current assumptions)	Transfer value of accrued pension at 31.12.02 (Current assumptions)	Increase in transfer value over the year (Current assumptions)
	£	£'000	£'000	£'000	£'000
GE Malcolm	10,982	911	1,072	1,264	192
RE Slater	9,468	491	596	598	2
WH Whiteley	10,019	2,165	2,572	2,691	119
RH Arnold	2,152	187	187	223	36

### Notes:

1. The figures shown for the increase in accrued pension over the year make no adjustment for inflation.
2. The transfer values have been calculated in accordance with the Actuarial Guidance Note GN 11 published by the Institute of Actuaries and the Faculty of Actuaries. The increases in transfer values over the year are net of directors' contributions (if any).
3. The assumptions used to calculate transfer values have been revised since 31 December 2001. Hence, the transfer values of the accrued pension as at 31 December 2001 have been disclosed on both the previous transfer value assumptions (i.e. those that would have been applicable at the start of the year) and the current assumptions. The increases in transfer values over the year have been calculated consistently using the current assumptions at both the start and end of year.



**JW Matthews**, Chairman  
Remuneration Committee  
20 March 2003





We have audited the financial statements on pages 28 to 56. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 19, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on page 18 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement and the unaudited

part of the directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

#### **Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited.

#### **Opinion**

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

#### **KPMG Audit Plc**

Bristol

Chartered Accountants  
Registered Auditor

20 March 2003

# Consolidated Profit and Loss Account

for the year ended 31 December 2002

	Notes	2002 £'000	2001 £'000
<b>Turnover</b>			
Continuing operations		122,173	119,322
Acquisitions		7,504	–
Discontinued operations		3,783	4,367
	2	133,460	123,689
Cost of sales		(71,875)	(65,877)
<b>Gross profit</b>		61,585	57,812
Distribution costs		(1,748)	(2,077)
Administrative expenses		(35,348)	(31,185)
Other operating income / (expenses)		1,233	(270)
<b>Operating profit</b>			
Continuing operations		25,109	23,706
Acquisitions		139	–
Discontinued operations		474	574
	2	25,722	24,280
Continuing operations before amortisation of goodwill		26,136	24,733
Acquisitions before amortisation of goodwill		417	–
Discontinued operations		474	574
Operating profit before amortisation of goodwill		27,027	25,307
Amortisation of goodwill		(1,305)	(1,027)
Operating profit	2	25,722	24,280
Interest receivable and similar income	3	530	793
Interest payable and similar charges	3	(90)	(230)
<b>Profit on ordinary activities before taxation</b>	4	26,162	24,843
Tax on profit on ordinary activities	5	(8,868)	(8,539)
<b>Profit for the financial year</b>	6	17,294	16,304
Dividends – including non-equity	7	(11,959)	(11,147)
<b>Retained profit for the financial year</b>	20	5,335	5,157
		<b>pence</b>	pence
Basic earnings per share	8	20.1	18.9
Basic earnings per share before goodwill amortisation	8	21.6	20.1
Diluted earnings per share	8	20.0	18.9

# Balance Sheets

at 31 December 2002

	Notes	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
<b>Fixed assets</b>					
Intangible assets	10	20,886	16,637	–	–
Tangible assets	11	14,816	14,095	669	660
Investments	12	958	578	2,015	2,135
		<b>36,660</b>	31,310	<b>2,684</b>	2,795
<b>Current assets</b>					
Stocks	13	17,687	18,048	–	–
Debtors due within one year	14	32,421	33,409	14,856	23,606
Debtors due after more than one year	14	409	317	201	4,283
Cash at bank and in hand	15	20,371	22,162	12,199	12,943
		<b>70,888</b>	73,936	<b>27,256</b>	40,832
<b>Creditors:</b>					
Amounts falling due within one year	16	(33,603)	(34,877)	(9,678)	(12,706)
<b>Net current assets</b>		<b>37,285</b>	39,059	<b>17,578</b>	28,126
<b>Total assets less current liabilities</b>		<b>73,945</b>	70,369	<b>20,262</b>	30,921
<b>Creditors:</b>					
Amounts falling due after more than one year	17	(197)	(150)	–	–
<b>Provisions for liabilities and charges</b>	18	<b>(2,038)</b>	(2,322)	<b>(337)</b>	(530)
<b>Net assets</b>	2	<b>71,710</b>	67,897	<b>19,925</b>	30,391
<b>Capital and reserves</b>					
Called up share capital	19	4,358	4,357	4,358	4,357
Share premium account	20	4,036	3,944	4,036	3,944
Revaluation reserve	20	2,400	2,397	–	–
Capital redemption reserve	20	1,609	1,608	1,609	1,608
Profit and loss account	20	59,307	55,591	9,922	20,482
<b>Rotork shareholders' funds</b>		<b>71,710</b>	67,897	<b>19,925</b>	30,391
Equity		<b>71,658</b>	67,844	<b>19,873</b>	30,338
Non-equity		<b>52</b>	53	<b>52</b>	53
Shareholders' funds		<b>71,710</b>	67,897	<b>19,925</b>	30,391

These financial statements were approved by the board of directors on 20 March 2003 and were signed on its behalf by **WH Whiteley** and **RE Slater**, Directors.

# Statement of Group Cash Flow

for the year ended 31 December 2002

	Notes	2002 £'000	2001 £'000
<b>Net cash inflow from operating activities</b>	15	<b>25,771</b>	25,542
<b>Returns on investments and servicing of finance</b>			
Interest and similar income received		478	920
Interest paid		(90)	(230)
Dividends paid on non-equity preference shares		(5)	(5)
		<b>383</b>	685
<b>Taxation</b>			
UK corporation tax paid		(4,032)	(4,438)
Overseas tax paid		(4,958)	(4,315)
		<b>(8,990)</b>	(8,753)
<b>Capital expenditure and financial investments</b>			
Purchase of tangible fixed assets		(2,649)	(1,503)
Sale of tangible fixed assets		706	918
Purchase of own equity shares held as investments		(380)	(248)
		<b>(2,323)</b>	(833)
<b>Acquisitions and disposals</b>			
Sale of business	22	1,306	–
Purchase of business	22	(7,781)	–
Cash acquired with business	22	202	–
Deferred consideration on sale of business		77	103
Deferred consideration on purchase of business		–	(171)
		<b>(6,196)</b>	(68)
<b>Dividends paid on equity ordinary shares</b>		<b>(11,423)</b>	(10,728)
<b>Net cash (outflow) / inflow before management of liquid resources and financing</b>		<b>(2,778)</b>	5,845
<b>Management of liquid resources</b>			
(Increase) in term deposits		(1,752)	(3,792)
<b>Financing</b>			
Issue of ordinary share capital		94	576
Purchase of own preference shares		(2)	(11)
Increase / (decrease) in amounts borrowed		46	(938)
Increase / (decrease) in capital element of finance lease		31	(49)
		<b>169</b>	(422)
<b>(Decrease) / increase in cash in the year</b>	15	<b>(4,361)</b>	1,631



## Statement of the Group's Total Recognised Gains and Losses

for the year ended 31 December 2002

	<b>2002</b>	2001
	<b>£'000</b>	£'000
Profit for the financial year	<b>17,294</b>	16,304
Exchange differences	<b>(1,614)</b>	(278)
<b>Total recognised gains and losses for the year</b>	<b>15,680</b>	16,026

## Note on the Group's Historical Cost Profits and Losses

for the year ended 31 December 2002

Reported profit on ordinary activities before taxation	<b>26,162</b>	24,843
Revaluation element of depreciation charge	<b>88</b>	65
<b>Historical cost profit on ordinary activities before taxation</b>	<b>26,250</b>	24,908
<b>Historical cost retained profit for the financial year</b>	<b>5,423</b>	5,222

## Reconciliation of Movements in Rotork Shareholders' Funds

for the year ended 31 December 2002

Profit for the financial year	<b>17,294</b>	16,304
Preference dividends on non-equity shares	<b>(5)</b>	(5)
Ordinary dividends on equity shares	<b>(11,954)</b>	(11,142)
Retained profit for the financial year	<b>5,335</b>	5,157
Exchange differences	<b>(1,614)</b>	(278)
New ordinary share capital issued	<b>94</b>	576
Purchase of own preference shares	<b>(2)</b>	(11)
Net additions to shareholders' funds	<b>3,813</b>	5,444
<b>Shareholders' funds at beginning of the year</b>	<b>67,897</b>	62,453
<b>Shareholders' funds at end of the year</b>	<b>71,710</b>	67,897

# Notes to the Financial Statements

for the year ended 31 December 2002

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

## 1. Accounting policies

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements of the Group and of the Company.

### *Changes in presentation of financial information*

The Group has changed its accounting policy in respect of distribution costs, to disclose only outward carriage within distribution costs. As a result, prior year distribution costs have been reduced, and administration expenses increased, by £572,000.

### *Basis of accounting*

The financial statements have been prepared under the historical cost convention supplemented by the revaluations explained in note 11 to the financial statements and have been prepared in accordance with applicable accounting standards. The Group is implementing FRS17 Retirement Benefits in accordance with transitional arrangements set out in the standard. The disclosures required for the financial year ended 31 December 2002 are set out in note 23.

### *Consolidation*

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary undertakings together with the Group's share of the results and net assets of its associated undertakings for the year to 31 December 2002. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired in the year are included in the consolidated profit and loss account from the date of acquisition.

A separate profit and loss account dealing with the results of the Company only has not been presented, as permitted by section 230(4) of the Companies Act 1985.

### *Goodwill*

Goodwill arising on consolidation represents the difference between the fair value of the consideration given and the fair value of the separable net assets acquired. Goodwill arising on the acquisition of subsidiaries is amortised on a straight line basis over its estimated economic life, which is not expected to exceed 20 years.

### *Foreign currencies*

Assets and liabilities of subsidiary undertakings in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year and the results and cashflows of foreign subsidiary undertakings are translated at the average rate of exchange for the year. Differences on exchange arising from the retranslation of the opening net investment in subsidiary undertakings, and from the translation of the results of those undertakings at average rate, are taken to reserves and are reported in the statement of total recognised gains and losses. All other foreign exchange differences are taken to the profit and loss account in the year in which they arise.

### *Depreciation and amortisation*

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

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

#### *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. The rentals payable are apportioned between interest, which is charged to the profit and loss account, and capital, 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 in arriving at the operating profit.

#### *Stocks and work in progress*

Stocks and work in progress are 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.

#### *Deferred taxation*

Deferred tax is provided in full 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. 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.

#### *Turnover*

Turnover represents gross sales made and services supplied in engineering, excluding value added tax and returns and allowances.

#### *Research and development*

Expenditure on research and development of the Group's products is written off against profits in the year in which it is incurred.

#### *Pensions*

The Group operates a number of pension schemes and contributes to these schemes in accordance with qualified actuaries' recommendations. Contributions are charged to the profit and loss account so as to spread the cost over the remaining working lives of the employees within the schemes. Further details are given in note 23 to the financial statements.

#### *Derivative financial instruments*

The Group uses forward exchange contracts to reduce its exposure to foreign exchange risk. The Group does not hold or issue derivative financial instruments for speculative purposes. For a forward exchange contract to be treated as a hedge, the instrument must be related to actual foreign currency assets or liabilities or to a probable commitment. It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign currency exchange movements on the Group's operations.

Gains and losses on foreign currency hedges are recognised in the profit and loss account when the hedged transaction is recognised.

# Notes to the Financial Statements

for the year ended 31 December 2002

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

	2002			2001		
	Turnover	Operating profit	Net assets	Turnover	Operating profit	Net assets
Analysis by geographical origin:						
Europe	62,491	14,238	44,355	61,828	15,525	46,660
Americas	45,391	6,710	16,802	38,180	5,381	12,902
Rest of world	21,795	4,300	10,153	19,314	2,800	7,817
Continuing operations	129,677	25,248	71,310	119,322	23,706	67,379
Discontinued operations	3,783	474	400	4,367	574	518
	<b>133,460</b>	<b>25,722</b>	<b>71,710</b>	123,689	24,280	67,897

Analysis by operation:						
Electrics	102,296	20,904	61,182	95,381	20,169	59,211
Gears	14,476	2,578	5,839	14,613	3,045	4,786
Fluid system	16,706	1,766	4,289	13,036	492	3,382
Inter segmental elimination	(3,801)	–	–	(3,708)	–	–
Continuing operations	129,677	25,248	71,310	119,322	23,706	67,379
Discontinued operations	3,783	474	400	4,367	574	518
	<b>133,460</b>	<b>25,722</b>	<b>71,710</b>	123,689	24,280	67,897

	2002	2001
Analysis of turnover by destination:		
Europe	52,785	50,047
Americas	47,812	40,901
Rest of world	29,080	28,374
Continuing operations	129,677	119,322
Discontinued operations	3,783	4,367
	<b>133,460</b>	123,689



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

	Continuing operations 2002	Acquisitions 2002	Discontinued operations 2002	Total 2002
Analysis of continuing and discontinued operations:				
Turnover	122,173	7,504	3,783	133,460
Cost of sales	(65,389)	(4,131)	(2,355)	(71,875)
Gross profit	56,784	3,373	1,428	61,585
Distribution costs	(1,728)	(14)	(6)	(1,748)
Administrative expenses	(31,165)	(3,220)	(963)	(35,348)
Other operating (expenses) / income	1,218	–	15	1,233
Operating profit	25,109	139	474	25,722

	Continuing operations 2001	Acquisitions 2001	Discontinued operations 2001	Total 2001
Turnover	119,322	–	4,367	123,689
Cost of sales	(63,372)	–	(2,505)	(65,877)
Gross profit	55,950	–	1,862	57,812
Distribution costs	(2,069)	–	(8)	(2,077)
Administrative expenses	(29,884)	–	(1,301)	(31,185)
Other operating (expenses) / income	(291)	–	21	(270)
Operating profit	23,706	–	574	24,280

## 3. Interest and similar items

	Group 2002	Group 2001
Interest receivable and similar income		
Short term deposits	383	762
Other	147	31
	530	793
Interest payable and similar charges		
Bank loans and overdrafts	31	139
Other	59	91
	90	230
Net interest receivable and similar items	440	563

# Notes to the Financial Statements

for the year ended 31 December 2002

## 4. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging or (crediting) the following:

	<b>Group 2002</b>	Group 2001
Depreciation and other amounts written off tangible fixed assets:		
owned assets	<b>2,174</b>	1,996
assets held under finance lease contracts	<b>16</b>	16
Amortisation of goodwill	<b>1,305</b>	1,027
Research and development expenditure	<b>2,367</b>	2,057
Hire of plant and machinery	<b>722</b>	630
Other operating lease rentals	<b>422</b>	391
Exchange differences realised	<b>(559)</b>	513
Auditors:		
audit fees and expenses	<b>247</b>	231
taxation and consultancy fees paid to KPMG Audit Plc and its associates	<b>112</b>	115

The auditors' remuneration in respect of the Company was £31,000 (2001: £27,920).

## 5. Tax on profit on ordinary activities

Current tax		
UK Corporation tax on profits for the year	<b>3,653</b>	4,119
Adjustment in respect of prior years	<b>452</b>	336
	<b>4,105</b>	4,455
Overseas tax on profits for the year	<b>5,782</b>	4,558
Adjustment in respect of prior years	<b>(165)</b>	(87)
	<b>5,617</b>	4,471
Total current tax	<b>9,722</b>	8,926
Deferred tax		
Origination and reversal of timing differences	<b>(224)</b>	(387)
Adjustment to estimated recoverable amounts of deferred tax assets arising in previous periods	<b>(630)</b>	–
Total deferred tax	<b>(854)</b>	(387)
Tax charge on profit on ordinary activities	<b>8,868</b>	8,539

## 5. Tax on profit on ordinary activities (continued)

	<b>Group 2002</b>	Group 2001
Effective tax rate (based on profit before tax and goodwill)	<b>32.3%</b>	33.0%
Profit on ordinary activities before tax	<b>26,162</b>	24,843
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	<b>7,849</b>	7,453
Effects of:		
Timing differences	<b>219</b>	(113)
Non deductible expenses	<b>251</b>	104
Utilisation of losses / no relief for losses	<b>(68)</b>	83
Higher tax rates on overseas earnings	<b>785</b>	842
Goodwill amortisation	<b>399</b>	308
Adjustments to tax charge in respect of prior periods	<b>287</b>	249
Current tax charge for period	<b>9,722</b>	8,926

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.

No provision has been made for deferred tax for gains recognised on revaluation of property or on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would only become payable if property was sold without it being possible to claim rollover relief or utilise existing capital losses. At present, it is not envisaged that any tax will become payable in respect of the revalued properties in foreseeable future.

## 6. Profit for the financial year

Dealt with in the financial statements of the Company	<b>1,414</b>	21,693
Retained by subsidiary undertakings	<b>15,880</b>	(5,389)
	<b>17,294</b>	16,304

# Notes to the Financial Statements

for the year ended 31 December 2002

## 7. Dividends

	<b>Group 2002</b>	Group 2001
Interim paid 5.00p per ordinary share (2001: 4.65p)	<b>4,290</b>	4,008
Final proposed 8.90p per ordinary share (2001: 8.30p)	<b>7,664</b>	7,134
<hr/>		
Ordinary dividends on equity shares	<b>11,954</b>	11,142
9.5% cumulative preference dividend on non-equity shares	<b>5</b>	5
<hr/>		
	<b>11,959</b>	11,147

## 8. Earnings per share

Earnings per share is calculated for both the current and previous years using the profit attributable to the ordinary shareholders for the year. The earnings per share calculation is based on 86.1 million shares (2001: 86.0 million shares) being the weighted average number of ordinary shares in issue for the year.

The adjusted earnings per share is based on the profit for the year attributable to the ordinary shareholders before the amortisation of goodwill. The adjusted numbers provide a more consistent measure of operating performance.

Diluted earnings per share is based on the profit for the year attributable to the ordinary shareholders and 86.5 million shares (2001: 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.

Profit for the financial year attributable to ordinary shareholders	<b>17,289</b>	16,299
Amortisation of goodwill	<b>1,305</b>	1,027
<hr/>		
Adjusted profit	<b>18,594</b>	17,326
<hr/>		
Basic earnings per share based on profit for the financial year	<b>20.1p</b>	18.9p
Basic earnings per share based on adjusted profit	<b>21.6p</b>	20.1p
Diluted earnings per share	<b>20.0p</b>	18.9p

Supplementary basic EPS has been calculated to exclude the effect of goodwill amortisation.

## 9. Directors and employees

	<b>Group 2002 No.</b>	Group 2001 No.
During the year, the average weekly number of employees, analysed by business activity, was:		
Actuation	<b>1,085</b>	985
Control & Safety	<b>58</b>	57
Rotork p.l.c.	<b>5</b>	6
	<b>1,148</b>	1,048
UK	<b>482</b>	480
Overseas	<b>666</b>	568
	<b>1,148</b>	1,048
	<b>£'000</b>	£'000
Staff costs during the year were:		
Wages and salaries	<b>27,346</b>	23,548
Social security costs	<b>2,606</b>	2,506
Pension costs	<b>1,991</b>	893
	<b>31,943</b>	26,947

### 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:

	<b>No.</b>	No.
RC Lockwood	–	–
JW Matthews	<b>10,000</b>	10,000
A Walker	<b>5,000</b>	5,000
GE Malcolm	<b>24,489</b>	22,691
WH Whiteley	<b>84,875</b>	83,319
RE Slater	<b>17,996</b>	13,586
RH Arnold	<b>11,306</b>	10,227

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 Profit-Linked Share Scheme (PLSS) in trust:

GE Malcolm	<b>2,876</b>	2,678
WH Whiteley	<b>4,742</b>	4,616
RE Slater	<b>2,627</b>	2,440
RH Arnold*	<b>2,064</b>	2,332

\*RH Arnold participates in the Rotork Overseas Profit-Linked Share Scheme (OPLSS).

Allocations to directors in 2002 and further details of the PLSS and OPLSS schemes are provided in the remuneration report at page 24.

Save as disclosed, no director or his family had any interest in the shares of the Company at 31 December 2002.



# Notes to the Financial Statements

for the year ended 31 December 2002

## 10. Intangible fixed assets

	<b>Group</b>
	Goodwill
Cost	
at 1 January 2002	34,045
Goodwill arising on acquisition	5,554
Disposal of subsidiary	(13,203)
<hr/>	
at 31 December 2002	<b>26,396</b>
Aggregate amortisation	
at 1 January 2002	17,408
Charge for the year	1,305
Disposal of subsidiary	(13,203)
<hr/>	
at 31 December 2002	<b>5,510</b>
<hr/>	
Net book amount at 31 December 2002	<b>20,886</b>
<hr/>	
Net book amount at 31 December 2001	16,637

The acquisition of Jordan Controls Inc. in the year is further described in note 22.

## 11. Tangible fixed assets

	<b>Group</b>			<b>Company</b>		
	Land and buildings	Machinery plant and equipment	Total	Land and buildings	Machinery plant and equipment	Total
Cost or valuation						
at 1 January 2002	11,284	14,254	25,538	790	13	803
Exchange differences	(164)	(256)	(420)	28	–	28
Additions	11	2,608	2,619	1	–	1
Disposals	–	(1,760)	(1,760)	–	–	–
Acquisition of subsidiary	645	1,251	1,896	–	–	–
<hr/>						
<b>At 31 December 2002</b>	<b>11,776</b>	<b>16,097</b>	<b>27,873</b>	<b>819</b>	<b>13</b>	<b>832</b>
<hr/>						
Depreciation						
At 1 January 2002	2,397	9,046	11,443	138	5	143
Exchange differences	(6)	(143)	(149)	3	–	3
Charge for year	331	1,859	2,190	15	2	17
Disposals	–	(1,540)	(1,540)	–	–	–
Acquisition of subsidiary	177	936	1,113	–	–	–
<hr/>						
<b>At 31 December 2002</b>	<b>2,899</b>	<b>10,158</b>	<b>13,057</b>	<b>156</b>	<b>7</b>	<b>163</b>
<hr/>						
<b>Net book value</b>						
<b>at 31 December 2002</b>	<b>8,877</b>	<b>5,939</b>	<b>14,816</b>	<b>663</b>	<b>6</b>	<b>669</b>
<hr/>						
At 31 December 2001	8,887	5,208	14,095	652	8	660

### 11. Tangible fixed assets (continued)

The net book value of the Group's plant and machinery includes £101,000 (2001: £50,000) in respect of assets held under finance leases and hire purchase contracts.

Land and buildings stated in accordance with the historical cost convention were:

	<b>Group 2002</b>	Group 2001
Cost	<b>10,102</b>	9,613
Depreciation	<b>(2,345)</b>	(1,908)
<hr/>		
Net book value at 31 December	<b>7,757</b>	7,705
<hr/>		
Net book value included:		
Freehold land	<b>1,534</b>	1,465
Freehold buildings	<b>5,636</b>	5,577
Long leasehold	<b>1,702</b>	1,839
Short leasehold	<b>5</b>	6
<hr/>		
Net book value at 31 December	<b>8,877</b>	8,887
<hr/>		

The cost or valuation figure of £11,776,000 (2001: £11,284,000) included the following properties at the revalued amounts shown. The year of revaluation is also given.

Bath freehold, 1991	<b>105</b>	105
Bath leasehold, 1991	<b>2,245</b>	2,245
Spain freehold, 1997	<b>284</b>	284
<hr/>		
	<b>2,634</b>	2,634
<hr/>		

The revaluation of the Bath properties was based on the market value for the existing use.

Under a statutory option the Spanish property was revalued at the retail price index on 1 January 1997.

# Notes to the Financial Statements

for the year ended 31 December 2002

## 12. Investments (held as fixed assets)

	<b>Group 2002</b>	Group 2001
Investment in own shares	<b>958</b>	578

The investment in own shares represents 352,006 (2001: 206,008) 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 2002 was £1,033,000 (2001: £690,127). The dividends on these shares have been waived.

	Investment in subsidiary undertakings	Investment in own shares	<b>Company Total</b>
At 1 January 2002	1,557	578	<b>2,135</b>
Written off in the year	(500)	–	<b>(500)</b>
Purchased in the year	–	380	<b>380</b>
<b>At 31 December 2002</b>	<b>1,057</b>	<b>958</b>	<b>2,015</b>

A listing of the major investments is included in the directory on page 59.

## 13. Stocks and work in progress

	<b>Group 2002</b>	Group 2001
Raw materials and purchased components	<b>11,472</b>	12,670
Work in progress	<b>3,742</b>	3,796
Finished stocks	<b>2,473</b>	1,582
	<b>17,687</b>	18,048

#### 14. Debtors

	<b>Group 2002</b>	Group 2001	<b>Company 2002</b>	Company 2001
Amounts falling due within one year:				
Trade debtors	<b>28,835</b>	30,314	–	–
Amounts owed by subsidiary undertakings	–	–	<b>14,371</b>	22,698
Other debtors	<b>1,010</b>	795	<b>34</b>	18
Prepayments and accrued income	<b>946</b>	1,110	<b>64</b>	331
Corporation tax	<b>687</b>	1,053	<b>260</b>	422
Deferred taxation	<b>883</b>	–	<b>67</b>	–
Deferred consideration	<b>60</b>	137	<b>60</b>	137
	<b>32,421</b>	33,409	<b>14,856</b>	23,606
Amounts falling due after more than one year:				
Amounts owed by subsidiary undertakings	–	–	<b>201</b>	4,283
Other debtors	<b>409</b>	317	–	–
	<b>409</b>	317	<b>201</b>	4,283
	<b>32,830</b>	33,726	<b>15,057</b>	27,889

A deferred tax asset of £883,000 has been recognised at 31 December 2002 (2001: nil). This asset principally relates to other timing differences in the US of £697,000. The directors are of the opinion, based on recent and forecast trading that the level of US profits in the current and future years make it more likely than not that the asset will be recovered.

A deferred tax asset of £2.3m (2001: £1.1m) has not been recognised in relation to losses and timing differences. This asset would be recovered if sufficient profits were made in future in the companies concerned.

#### 15. Cash at bank and in hand

Cash at bank and in hand	<b>4,176</b>	7,533	<b>349</b>	36
Term deposits	<b>16,195</b>	14,629	<b>11,850</b>	12,907
	<b>20,371</b>	22,162	<b>12,199</b>	12,943

#### Cash flow analysis

	<b>Group 2002</b>	Group 2001
Reconciliation of operating profit to net cash flow from operating activities		
Operating profit	<b>25,722</b>	24,280
Goodwill amortisation	<b>1,305</b>	1,027
Depreciation	<b>2,190</b>	2,012
(Profit) / loss on sale of fixed assets	<b>(557)</b>	117
(Profit) on sale of business	<b>(11)</b>	–
Decrease / (increase) in stocks	<b>837</b>	(3,689)
(Increase) in debtors	<b>(1,215)</b>	(1,227)
(Decrease) / increase in creditors and provisions	<b>(2,500)</b>	3,022
Net cash inflow from operating activities	<b>25,771</b>	25,542

# Notes to the Financial Statements

for the year ended 31 December 2002

## 15. Cash at bank and in hand (continued)

### Reconciliation of net cash flow to movement in net funds

	<b>Group 2002</b>	Group 2001
(Decrease) / increase in cash in the period	<b>(4,361)</b>	1,631
Cash (inflow) / outflow from change in debt and lease financing	<b>(77)</b>	987
Cash outflow from change in short term deposits	<b>1,752</b>	3,792
<hr/>		
Change in net funds resulting from cash flows	<b>(2,686)</b>	6,410
Other non-cash items:		
Translation difference	<b>817</b>	284
<hr/>		
Movement in net funds in the period	<b>(1,869)</b>	6,694
Net funds at 1 January	<b>21,912</b>	15,218
<hr/>		
Net funds at 31 December	<b>20,043</b>	21,912

### Analysis of net funds

	At 1 January 2002	Cash flow	Exchange movement	<b>At 31 December 2002</b>
Cash at bank and in hand	7,533	(4,361)	1,004	<b>4,176</b>
Overdrafts	–	–	–	–
<hr/>				
	7,533	(4,361)	1,004	<b>4,176</b>
Debt due within one year	(73)	(26)	1	<b>(98)</b>
Debt due after one year	(137)	(20)	1	<b>(156)</b>
Finance leases	(40)	(31)	(3)	<b>(74)</b>
Term deposits	14,629	1,752	(186)	<b>16,195</b>
<hr/>				
Total	21,912	(2,686)	817	<b>20,043</b>

**16. Creditors: amounts falling due within one year**

	<b>Group 2002</b>	Group 2001	<b>Company 2002</b>	Company 2001
Bank loans and overdrafts	<b>98</b>	73	–	3,496
Net obligations under finance leases	<b>37</b>	27	–	–
<hr/>				
Borrowings	<b>135</b>	100	–	3,496
<hr/>				
Trade creditors	<b>9,668</b>	11,497	<b>82</b>	179
Bills of exchange	<b>84</b>	175	–	–
Amounts owed to subsidiary undertakings	–	–	<b>969</b>	969
Corporation tax	<b>4,161</b>	3,986	–	–
Other taxes and social security	<b>1,267</b>	1,532	<b>59</b>	7
Other creditors	<b>2,285</b>	943	<b>723</b>	395
Accruals and deferred income	<b>8,330</b>	9,502	<b>172</b>	518
Dividends payable	<b>7,673</b>	7,142	<b>7,673</b>	7,142
<hr/>				
	<b>33,603</b>	34,877	<b>9,678</b>	12,706
<hr/>				

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

Obligations under operating leases are shown under note 21.

**17. Creditors: amounts falling due after more than one year**

	<b>Group 2002</b>	Group 2001
Bank loans	<b>156</b>	137
Finance lease obligations	<b>37</b>	13
Other creditors	<b>4</b>	–
<hr/>		
	<b>197</b>	150
<hr/>		

Bank loans are for overseas subsidiaries and are secured by accepted letters of credit.



# Notes to the Financial Statements

for the year ended 31 December 2002

## 18. Provisions for liabilities and charges

	Group					Company		
	Deferred taxation	Warranty	Pensions	Other	Total	Deferred taxation	Other	Total
Balance at 1 January 2002	120	1,404	421	377	2,322	120	410	530
Exchange differences	41	(24)	(43)	18	(8)	–	–	–
Acquisition of subsidiary	(63)	–	–	–	(63)	–	–	–
Utilised during the year	–	(489)	(243)	(127)	(859)	–	(73)	(73)
Transfer to current assets	883	–	–	–	883	67	–	67
Charged / (credited) in the profit and loss account	(854)	172	211	234	(237)	(187)	–	(187)
<b>Balance at 31 December 2002</b>	<b>127</b>	<b>1,063</b>	<b>346</b>	<b>502</b>	<b>2,038</b>	<b>–</b>	<b>337</b>	<b>337</b>

Provisions should be utilised over a period not exceeding five years.

The amounts provided for deferred taxation are:

	Group 2002	Group 2001	Company 2002	Company 2001
Difference between accumulated depreciation and capital allowances	304	202	68	70
Other timing differences	(1,060)	(82)	(135)	50
	<b>(756)</b>	120	<b>(67)</b>	120
Analysed between				
Debtors	(883)	–	(67)	–
Provisions for liabilities and charges	127	120	–	120
	<b>(756)</b>	120	<b>(67)</b>	120

The majority of the pensions provision related to projected obligations under Rotork Controls Inc.'s Employee Benefit Plan.

## 19. Share capital

	Authorised		Issued and fully paid-up	
	2002	2001	2002	2001
Non-equity 9.5% cumulative preference shares of £1 each	52	53	52	53
Equity ordinary shares of 5p each	5,449	5,449	4,306	4,304
	<b>5,501</b>	5,502	<b>4,358</b>	4,357

The preference shareholders take priority over the ordinary shareholders on a distribution in the winding-up of the Company or on a reduction of capital 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.

Following ordinary and preference shareholder approval given in May 2002, 1,120 preference shares were bought in during 2002 at an average price of 175p.

The only ordinary shares issued during the year were 48,670 (2001: 46,029) under The Rotork Employee Share Option Schemes at prices between 145p and 361.5p. No shares were issued under The Rotork Profit-Linked Share Scheme during the year (2001: 155,840).

On 15 April 2002 options over 19,691 shares exercisable after three years (subject to satisfying performance criteria) at 371.5p were granted under The Rotork Employee Share Option Scheme (1995).

Outstanding options under the Rotork Employee Share Option Schemes at 31 December 2002, exercisable at various prices between 162p and 371.5p per ordinary share, were 710,297 (2001: 803,210).

## 20. Equity reserves

	Group				Company		
	Share premium account	Capital redemption reserve	Revaluation reserve	Profit and loss account	Share premium account	Capital redemption reserve	Profit and loss account
At 1 January 2002	3,944	1,608	2,397	55,591	3,944	1,608	20,482
Profit retained	–	–	–	5,335	–	–	(10,545)
Premium on new shares issued	92	–	–	–	92	–	–
Purchase of own shares	–	1	–	(2)	–	1	(2)
Exchange differences	–	–	3	(1,617)	–	–	(13)
<b>At 31 December 2002</b>	<b>4,036</b>	<b>1,609</b>	<b>2,400</b>	<b>59,307</b>	<b>4,036</b>	<b>1,609</b>	<b>9,922</b>

# Notes to the Financial Statements

for the year ended 31 December 2002

## 21. Commitments

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

			<b>Group 2002</b>	Group 2001
Contracted			<b>671</b>	449
<hr/>				
			Land and buildings	Machinery, plant and equipment
	<b>2002</b>	2001	<b>2002</b>	2001
Operating lease rentals payable during the next year are as follows:				
Commitments expiring:				
Within one year	<b>42</b>	37	<b>86</b>	95
Between two and five years	<b>461</b>	282	<b>479</b>	482
After five years	<b>37</b>	–	–	–
	<b>540</b>	319	<b>565</b>	577

## 22. Acquisition and disposal of businesses

Acquisition of Jordan Controls Inc.

	Book value	Accounting policy alignment	Fair value
Fixed assets	798	(15)	783
Stock	1,692	(203)	1,489
Debtors	1,119	(239)	880
Creditors and provisions	(1,193)	66	(1,127)
Bank and cash balances	202	–	202
	2,618	(391)	2,227
<hr/>			
Goodwill added to the balance sheet			5,554
<hr/>			
Consideration paid – cash			7,781
<hr/>			
Bank and cash balances			(202)
<hr/>			
Net cash outflow in respect of acquisition			7,579

## 22. Acquisition and disposal of businesses (continued)

On 7 January 2002, the entire share capital of Jordan Controls Inc was acquired. Of the £7.8 million cash consideration, £7.2 million paid on completion with a further £0.6 million paid into escrow until January 2003. Once a satisfactory level of orders for the calendar year 2002 had been confirmed, this money was released to the vendors.

### Disposal of Rotork Control and Safety Limited

	Net assets disposed of
Fixed assets	77
Stock	267
Debtors	2,029
Creditors and provisions	(1,078)
	<hr/>
	1,295
Profit on disposal	11
	<hr/>
Net cash inflow in respect of disposal	1,306
	<hr/>

The trade and assets of Rotork Control and Safety were sold on 19 November 2002. The cash consideration, net of costs, was paid in full on completion.

## 23. Pensions

The Group operates a number of pension plans in the UK and overseas, devised in accordance with local conditions and practices. Just over half of the Group's employees are members of funded defined benefit schemes. The assets of these schemes are held in separate trustee administered funds.

The total pension cost for the Group was £1,991,000 (2001: £893,000) of which £591,000 (2001: £85,000) related to the overseas schemes.

The pension cost relating to the principal scheme that covers the majority of UK employees is assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The latest actuarial valuation of the principal UK scheme was as at 31 March 2001. The assumptions that have the most significant effect on the results of the valuations are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 5.85%, that salary increases would average 3.5% per annum and that present and future pensions would increase at a rate of 4.5% on service accrued until May 2000 and at 2.5% for service after that date.

At the date of the latest actuarial valuation, the market value of the assets of the principal UK scheme was £44,052,000 (excluding members' Additional Voluntary Contributions). The actuarial value of the assets was sufficient to cover 97% of the benefits that had accrued to members, after allowing for expected future increases in earnings. This deficiency should be eliminated by 2006 by increasing the employer's contribution rate by 3.2% of pensionable earnings. The pension costs of the other defined benefit scheme that covers US employees have been determined in accordance with advice from an independent qualified actuary.

An amount of £346,000 (2001: £421,000) is included in provisions, which represents the excess of the accumulated pension costs over the payment of contributions to the US fund.

# Notes to the Financial Statements

for the year ended 31 December 2002

## 23. Pensions (continued)

The disclosures required under the transitional arrangements within FRS17 'Retirement Benefits' have been calculated by independent actuaries based on the most recent full actuarial valuation at 31 March 2001 updated to 31 December 2002 for the UK Scheme, and 1 January 2001 updated to 31 December 2002 for the US Scheme. The financial assumptions used were:

	UK scheme (% per annum)		US scheme (% per annum)		Average	
	2002	2001	2002	2001	2002	2001
Discount rate	<b>5.65</b>	5.75	<b>6.60</b>	7.15	<b>5.70</b>	5.81
Rate of increase in salaries	<b>3.3</b>	3.5	<b>5.0</b>	5.0	<b>3.39</b>	3.56
Rate of increase in pensions (post May 2000)	<b>2.3</b>	2.5	<b>0.0</b>	0.0	<b>2.19</b>	2.39
Rate of increase in pensions (pre May 2000)	<b>4.5</b>	4.5	<b>0.0</b>	0.0	<b>4.28</b>	4.31
Rate of price inflation	<b>2.3</b>	2.5	<b>4.0</b>	4.0	<b>2.39</b>	2.56

The assets in the Schemes and the expected rates of return were:

	Expected rate of return %		Market value £m	
	2002	2001	2002	2001
Equities	<b>8.30</b>	7.75	<b>25.6</b>	32.7
Bonds	<b>5.00</b>	5.00	<b>7.7</b>	7.5
Other	<b>4.44</b>	4.50	<b>3.1</b>	2.8
US deposit administration contract	<b>6.00</b>	6.00	<b>1.4</b>	1.4
<b>Total</b>			<b>37.8</b>	44.4

The amounts charged to the profit and loss account for the year ended 31 December 2002 under FRS17 would have been:

	<b>£m</b>
Analysis of amounts charged to operating profit:	
Current service cost	1.5
<b>Total charged to operating profit</b>	<b>1.5</b>
Analysis of other amounts charged to the profit and loss account:	
Gain on curtailment	(0.3)
<b>Net gain charged to the profit and loss account</b>	<b>(0.3)</b>
Analysis of the amount charged to other finance income:	
Interest on pension scheme liabilities	2.9
Expected return on assets in the pension scheme	(3.1)
<b>Net credit to other finance income</b>	<b>(0.2)</b>
<b>Total profit and loss charge before deduction for taxation</b>	<b>1.0</b>

### 23. Pensions (continued)

The amounts included in the statement of total recognised gains and losses for the year ended 31 December 2002 under FRS17 would have been:

	<b>£m</b>
Loss on assets	10.3
Experience loss on liabilities	0.7
Loss on change of assumptions	0.4
Currency gain	(0.1)
<hr/>	
Total loss included in the statement of total recognised gains and losses before adjustment for tax	11.3

History of experience gains and losses as a percentage of the schemes' assets / liabilities at end of year

	<b>Year ended</b>	
	<b>31 December 2002</b>	
	<b>£m</b>	<b>%</b>
Loss on schemes' assets	10.3	27
Loss on schemes' liabilities	0.7	1
Total actuarial loss included in the statement of total recognised gains and losses	11.3	21

The following amounts were measured in accordance with the requirements of FRS17:

	<b>At 31</b>	At 31
	<b>December</b>	December
	<b>2002</b>	2001
	<b>£m</b>	£m
Total market value of schemes' assets	<b>37.8</b>	44.4
Present value of the schemes' liabilities	<b>(54.4)</b>	(50.3)
<hr/>		
Deficit in the schemes	<b>(16.6)</b>	(5.9)
Related deferred tax	<b>5.0</b>	1.8
<hr/>		
Net pension liability	<b>(11.6)</b>	(4.1)

The assets and liabilities disclosed above are the combined total of the UK and US schemes. The US scheme accounts for approximately 7.8% of the total liability.

The Company has a subsidiary in The Netherlands, the employees of which are members of an industry-wide pension scheme and any surplus or deficit cannot be associated with a particular employer. Therefore, this has not been included in the results. The total contribution to this scheme over the year was £40,000.



# Notes to the Financial Statements

for the year ended 31 December 2002

## 23. Pensions (continued)

Analysis of the movement in deficit in the Schemes during the year:

	Year ended 31 December 2002 £m
Deficit in the schemes at beginning of year	(5.9)
Contributions paid	1.6
Current service cost	(1.5)
Curtailed cost	0.3
Other finance income	0.2
Actuarial loss	(11.4)
Currency gain	0.1
<hr/>	
Deficit in the schemes at end of year	(16.6)

## 24. Contingent liabilities

	Group 2002	Group 2001	Company 2002	Company 2001
Performance guarantees and indemnities	3,570	5,116	554	612
Guarantees for bank overdrafts of UK subsidiary undertakings	–	–	243	–

The UK banking arrangements are subject to cross-guarantees between the company and its UK subsidiary undertakings. 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.

## 25. Derivatives and other 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.

## 25. Derivatives and other financial instruments (continued)

### Interest rate risk profile

#### Financial liabilities

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

	2002			Total	2001			Total
	Fixed rate of interest	Floating rate of interest	Nil interest		Fixed rate of interest	Floating rate of interest	Nil interest	
Euro	74	–	–	74	40	–	–	40
Yen	–	235	10	245	38	157	15	210
Other	9	–	–	9	–	–	–	–
	<b>83</b>	<b>235</b>	<b>10</b>	<b>328</b>	<b>78</b>	<b>157</b>	<b>15</b>	<b>250</b>

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

The financial liabilities on which no interest is payable have a weighted average period to maturity of 2 years (2001: 3 years).

The weighted average interest rate of the fixed rate financial liabilities is 2.5% per annum (2001: 2.4%).

The weighted average period for which interest rates on the fixed rate financial liabilities are fixed is 2 years (2001: 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:

	2002		2001	
	Fixed rate cash	Other cash	Fixed rate cash	Other cash
Sterling	11,892	1,420	12,908	918
US Dollar	2,453	494	335	2,911
Euro	1,006	1,150	229	1,947
Other	844	1,112	1,157	1,757
	<b>16,195</b>	<b>4,176</b>	<b>14,629</b>	<b>7,533</b>

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.

There is no interest applied on the debtors and the weighted average period until maturity is 1 year (2001: 1 year).

# Notes to the Financial Statements

for the year ended 31 December 2002

## 25. Derivatives and other financial instruments (continued)

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

	2002		2001	
	Fixed rate		Fixed rate	
	Weighted average interest rate (%)	Weighted average period for fixed rate (months)	Weighted average interest rate (%)	Weighted average period for fixed rate (months)
Sterling	4.1	0	4.0	0
US Dollar	1.3	0	1.8	1
Euro	2.8	0	3.3	1
Other	5.1	1	6.9	2
<b>Group</b>	<b>3.9</b>	<b>0</b>	<b>4.1</b>	<b>0</b>

## Currency exposures

The table below shows the Group's currency exposures that give rise to the net currency gains and losses recognised in the profit and loss account. 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)

	2002				Total
	Functional currency of Group operation				
	Sterling	US Dollar	Euro	Other	
<b>Sterling</b>	–	(1,231)	(682)	(2,619)	(4,532)
<b>US Dollar</b>	308	–	685	2,228	3,221
<b>Euro</b>	(61)	(176)	–	(603)	(840)
<b>Other</b>	(12)	–	(12)	1	(23)
<b>Total</b>	<b>235</b>	<b>(1,407)</b>	<b>(9)</b>	<b>(993)</b>	<b>(2,174)</b>

	2001				Total
	Functional currency of Group operation				
	Sterling	US Dollar	Euro	Other	
Sterling	–	(2,006)	(5,811)	(2,437)	(10,254)
US Dollar	3,523	–	153	(1,599)	2,077
Euro	586	(76)	–	(112)	398
Other	(17)	(3)	(25)	–	(45)
<b>Total</b>	<b>4,092</b>	<b>(2,085)</b>	<b>(5,683)</b>	<b>(4,148)</b>	<b>(7,824)</b>

## 25. Derivatives and other financial instruments (continued)

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:

	2002	2001
In one year or less	135	100
In more than one year but not more than two years	105	82
In more than two years but not more than five years	88	68
In more than five years	–	–
Total	328	250

The Group had no undrawn committed borrowing facilities at 31 December 2002.

### 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.

	2002		2001	
	Book value	Fair value	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	(135)	(135)	(100)	(100)
Long-term borrowings	(193)	(193)	(150)	(150)
Cash deposits	16,195	16,195	14,629	14,629
Other cash balances	4,176	4,176	7,533	7,533
Derivative financial instruments held to manage the currency profile:				
Forward foreign currency contracts	–	205	–	666

At 31 December 2002 the Group also held open various forward contracts that the Group had taken out to hedge expected future foreign currency sales.

There is no material difference between book values and fair values for the primary financial instruments shown above.

# Notes to the Financial Statements

for the year ended 31 December 2002

## 25. Derivatives and other financial instruments (continued)

### 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			
<b>At 1 January 2002</b>	<b>666</b>	<b>–</b>	<b>666</b>
Amounts arising in previous years that were recognised during the year	(422)	–	(422)
Amounts arising in previous years that have lapsed during the year	(244)	–	(244)
<hr/>			
Amounts arising before 1 January 2002 that were not recognised during the year	–	–	–
Amounts arising in the year that were not recognised during the year	336	(131)	205
<hr/>			
<b>At 31 December 2002</b>	<b>336</b>	<b>(131)</b>	<b>205</b>
<hr/>			
Of which:			
Gains / (losses) expected to be recognised in less than one year	336	(131)	205

## Five Year Trading History

	2002	2001	2000	1999	1998
<b>Profit and loss for the year</b>					
Continuing operations	<b>129,677</b>	119,322	103,945	112,937	98,103
Discontinued operations	<b>3,783</b>	4,367	3,935	4,598	3,337
Turnover	<b>133,460</b>	123,689	107,880	117,535	101,440
Cost of sales	<b>(71,875)</b>	(65,877)	(59,021)	(63,626)	(54,311)
Gross profit	<b>61,585</b>	57,812	48,859	53,909	47,129
Overheads	<b>(35,863)</b>	(33,532)	(29,108)	(27,949)	(23,567)
Operating profit	<b>25,722</b>	24,280	19,751	25,960	23,562
Continuing operations	<b>26,553</b>	24,733	20,478	26,358	23,822
Discontinued operations	<b>474</b>	574	309	497	59
Operating profit before amortisation of goodwill	<b>27,027</b>	25,307	20,787	26,855	23,881
Amortisation of goodwill (continuing operations)	<b>(1,305)</b>	(1,027)	(1,036)	(895)	(319)
Operating profit	<b>25,722</b>	24,280	19,751	25,960	23,562
Net interest receivable	<b>440</b>	563	831	987	1,845
Profit on ordinary activities before taxation	<b>26,162</b>	24,843	20,582	26,947	25,407
Taxation	<b>(8,868)</b>	(8,539)	(7,110)	(9,477)	(9,063)
Profit for the financial year	<b>17,294</b>	16,304	13,472	17,470	16,344
Dividends	<b>(11,959)</b>	(11,147)	(10,504)	(10,546)	(9,456)
Retained profit for the financial year	<b>5,335</b>	5,157	2,968	6,924	6,888
Basic earnings per share	<b>20.1p</b>	18.9p	15.6p	20.3p	18.9p
Basic earnings per share before goodwill amortisation	<b>21.6p</b>	20.1p	16.8p	21.3p	19.3p
Diluted earnings per share	<b>20.0p</b>	18.9p	15.6p	20.3p	18.9p



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**Solicitors**

Messrs. Osborne Clarke  
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**Notable Dates**

20 March 2003  
Preliminary announcement of annual results for 2002

26 March 2003  
Ex-dividend date for final 2002 dividend

28 March 2003  
Record date for final 2002 dividend

23 May 2003  
Annual General Meeting held at Rotork House,  
Brassmill Lane, Bath

28 May 2003  
Dividend payment date

6 August 2003  
Announcement of interim financial results for 2003

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